

**MINUTES¹ OF MEETING NO. 78 OF
THE CENTRAL BANK COMMISSION
OF 24 MARCH 2017**

In attendance: Governor, Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery, John FitzGerald, Derek Moran, Cyril Roux (Items 12,13) Michael Soden, Neil Whoriskey (Secretary).

Apologies: Des Geraghty.

Also present²: Gerry Quinn (Chief Operations Officer), Paschal Finn (Head of Function, Legal Division), Gabriel Fagan (Chief Economist – Item 5); Mary Elizabeth McMunn (Head of Supervisory Risk Division – Item 5); Gina Fitzgerald (Head of Function, Financial Risks and Governance Policy Division – Item 5); Ellen Ryan (Financial Stability Division – Item 5); Maurice McGuire (Director Financial Operations – Item 9); Peter Sinnott (Head of Financial Markets Division – Item 9); Daragh Cronin (Head of Payments and Securities Settlements Division – Item 9); John Coyle (Director Corporate Affairs – Item 10); Siobhan Conneely (Consumer Protection Division: Policy & Authorisations – Item 11); Andrew Whitty (Legal Division – Item 11); Bernie Keppel (Head of Function, General Secretariat Division – Items 12,13).

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 the published 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. 77 (28 February 2017)

The Commission approved the minutes of its meeting held on 28 February 2017 (Meeting No. 77).

3. Matters Arising

It was noted that, on 13 March 2017, the Commission approved by written procedure the Statement of Accounts for the year ended 31 December 2016. The Commission had delegated to the Governor, Deputy Governor (Central Banking) and Chair of the Audit Committee, any non-material final changes to the accounts. Mr Whoriskey confirmed some final amendments had been made and noted these had been circulated to members. He also confirmed the Comptroller & Auditor General had given clearance for the 2016 Annual Accounts to be signed.

It was noted that, on 21 March 2017, the Commission had, by written procedure, provided its consent to the appointment of Mr Bernard Sheridan as Acting Deputy Governor (Financial Regulation) from 8 April 2017; approved with effect from 8 April 2017 a proposed arrangement to apply for the period during which the Acting Deputy Governor was in place; and noted the appointment of Mr Sheridan on a lateral transfer basis to the role of Director of Corporate Affairs once he was no longer performing the role of Acting Deputy Governor.

4. Governor's Report

The Governor introduced this item. He updated members on some recent international meetings. Among the themes emerging from these meetings was the significant change in the expectations around oil prices, with downward revisions being made and the impact this might have on inflation. He also noted increasing pessimism in the United States, reflected in stock prices and investment activity. He informed members that he had been appointed to the position of Chair of the Advisory Technical Committee of the European Systemic Risk Board (ESRB), to commence in August 2017.

The Commission noted the Governor's Report.

5. Brexit Update

This minute is partially omitted as it contains supervisory material and material that is subject to a deliberative process.

Ms Ryan introduced this item. She provided a summary of the latest quarterly report from the Brexit Taskforce, which provided updated information regarding political, economic and financial market developments, alongside examination of the risks arising for firms supervised by the Bank and issues arising for the Bank itself, in particular with respect to authorisations. Communication from the UK government continued to point towards a hard Brexit, with the UK seeking a free trade agreement with the EU as opposed to continued membership of the single market or the customs union. The Bank of England's near term macroeconomic outlook for the UK, for the period 2017-2019, had improved slightly since the previous report and was substantially improved since the immediate aftermath of the referendum. Drivers of this improvement included the fiscal and monetary policy responses, the weaker exchange rate, stronger global growth and the relative resilience of the UK consumer. However, particularly given the role of rising credit growth, it remained to be seen whether these factors could be sustained over the medium term. The Central Bank of Ireland's most recent set of forecasts maintained a broadly positive macroeconomic outlook, although Brexit remained a noted external risk. There had been no material effects on funding or credit quality, although a number of banks had highlighted longer-term concerns regarding more exposed sectors of the Irish economy. The report also provided updates on developments in the insurance and asset management sectors along with discussion of proposals regarding future settlement of Irish equities; and set the latest quantitative and qualitative information regarding applications for authorisations across all sectors.

Ms Fitzgerald provided a summary of two special topics in the report; assessing the potential impact of a hard Brexit on Irish financial services channels; and examining the impact of Brexit on the widespread use of English law contracts for EU financial transactions. Ms McMunn summarised the third special topic which examined the implications of the potential establishment of a broker-dealer in Ireland post Brexit. Members welcomed the paper.

The Commission noted the Brexit Update.

6. Deputy Governor's Report (Central Banking)

This minute is partially omitted as it contains material that is subject to a deliberative process.

Ms Donnery introduced this item. She informed members that there was likely to be a further disposal of Floating Rate Notes (FRNs) in the coming days, with a view to attaining a reasonable rate of disposal for the year.

The process of recruiting a new Director of Financial Operations was nearing conclusion. As the premises the Bank was leasing for Administrative Sanctions Inquiry hearings had been sold, a process was now underway in collaboration with Facilities Management Division to identify suitable new premises, most likely in the Bank's Spencer Dock building. She informed members that the Scenario Analysis paper circulated to the Commission at its meeting in January 2017 was currently subject to a Freedom of Information request.

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

7. Financial Regulation Report

The Governor introduced this item. He noted there were ongoing enquiries regarding potential authorisations; there would likely be a contingency staffing request brought to the Commission in the coming months in order to deal with this. The Bank's messaging in relation to its approach to authorisations remained consistent and this would be further reinforced in the coming weeks through various speeches to international audiences. The Bank's stance was also in line with that of the Supervisory Board of the Single Supervisory Mechanism (SSM) which had recently stressed the necessity of ensuring any banks licensed must have adequate local risk management, sufficient local staff and operational independence.

One member commended the recent work undertaken in the Bank on diversity and the comprehensive research published.

The Commission noted the Financial Regulation Report.

8. Chief Operations Officer's Report

This minute is partially omitted as it contains material relating to industrial relations matters.

Mr Quinn introduced this item. He reported that the move to the new Dockland Campus was well advanced and had proceeded very smoothly to date. There had been good engagement with divisions on the preparations for moves, and the initial response from staff members who had moved to the new North Wall Quay building had been very positive. The Bank was working with the purchaser of the Dame Street/College Green premises to agree handover protocols, and was progressing options for auction/disposal of building contents. The project was also engaging with the Iveagh Court landlord to determine the most cost effective way of completing contractual obligations on exit of the lease. Members commended the Fusion team on the success of the move to date.

The customer communications plan to deal with the Eileen Gray coin issue had been implemented and all customers had been written to with invitation to contact with queries. Approximately 90 customers of about 500 written to had made contact; 10 replacement coins had been requested to date; with zero refunds requested to date; the eight dealers who received bulk orders had been contacted.

In relation to funding, 4,888 levy notices had issued with a value of €78.9m in October 2016, with €77.8m of cash collected up to 23 February 2017 (98.6%). Reminder letters had been issued to all those who had not paid to date. Additionally, legal judgements had been secured against two retail intermediaries who had not paid older levies.

In relation to resourcing, he noted ongoing pressures and said a more detailed report would be brought to the Commission at its meeting next month.

The Commission noted the Chief Operations Officer's Report.

9. Financial Operations

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

Mr McGuire introduced this item which focused on the current and future work and priorities of the Financial Operations Directorate. In relation to monetary policy operations, he noted the further standard and non-standard accommodation that prevailed over the past year.

In order to address the low yield challenges, the Bank had taken a proactive approach to new instruments and had also widened its investment scope. He noted that this had been set out in the Statement of Investment Policy Principles (SIPP), which had been approved by the Commission earlier this year. Total Special Portfolio disposals were approximately €3.17bn in 2016 compared to €3.03bn in 2015. The commitment remained to dispose of the Floating Rate Notes (FRNs) as quickly as possible, provided conditions of financial stability permit.

The Directorate manages the Deposit Guarantee Scheme (DGS). In 2016 the DGS was invoked following the liquidation of Rush Credit Union, with 98 per cent of eligible depositors paid within seven days. A new DGS fund was established with risk-based contributions, based on the individual risk profile and covered deposits of each institution, and introduced in December 2016 to support a DGS funding target of 0.8 per cent of covered deposits by 2024. In the coming year, the Directorate would also coordinate the development and implementation of new Bank wide procedures and policies following the transfer of the administration of the Insurance Compensation Fund (ICF) to the Bank. A key focus of the Payments and Securities Settlements Division was around the implications of Brexit, in particular the impact of financial market infrastructures (FMIs) re-locating to Ireland. A cross-divisional Task Force had been established to manage any future applications for a Central Securities Depository (CSD) licence. Some structural changes in the Payments and Securities Settlement Division were also noted that had further enhanced both efficiency and security.

The Commission noted the update on Financial Operations.

10. Corporate Affairs

This minute is partially omitted as it contains material that is subject to a deliberative process.

Mr Coyle introduced this item. The Corporate Affairs Directorate supported the Bank's strategic objectives through providing advice and services across all three pillars of the Bank. Its mission was to deliver the highest standards of risk management, governance, transparency and accountability. His presentation focused on a number of current strategic initiatives.

A new Non-Financial Risk (NFR) Programme had been established which aimed to enable the Bank to progressively meet and exceed relevant regulatory and industry standards over the forthcoming two to three years. Four discrete work-streams had been established to progress and mobilise the programme in the following areas: General Data Protection Regulation; Three Lines of Defence Target Operating Model; Direct Risk Remediation; and, Risk Management Standards.

A Governance Framework Project was underway which aimed to deliver a clear, well defined governance framework accessible to staff in the Bank. A number of key activities were already in progress, specifically around: a review of the new Code of Practice for the Governance of State Bodies; mapping of Strategy, strategic risks and delegations; and the development of a 'straw man' governance model to cover key internal committees.

The Directorate was currently responsible for the development of the Central Credit Register (CCR), which would shortly transfer to the newly-established Financial Stability Directorate. The CCR was a major new function assigned to the Bank which would establish a national mandatory database of credit intelligence contributing to financial stability and consumer protection.

The Bank's Regulatory Decisions Unit (RDU) provided administrative support, and acted as registrar, to Administrative Sanctions Procedures (ASP) Inquiries. There were currently two 'live' Inquiries, relating to Irish Nationwide Building Society and Quinn Insurance.

As part of its communications strategy, the Bank was expanding its outreach function. This included the development of an exhibition space at the North Wall Quay building which gave the Bank a new forum to engage with stakeholders and promoted awareness of the organisation

and its mandate to new audiences. The Outreach team was currently developing a rotating multi-year programme, to be in place from 2018 onwards. In the interim, two complementary exhibitions would be displayed: the Euro Exhibition, developed by the European Central Bank (ECB); and an exhibition to mark the 90th anniversary of the Currency Commission, developed in-house.

Mr Coyle noted that the Resolution function, which currently formed part of the Directorate, would transfer to the newly established Financial Stability Directorate. He also recalled that the Commission had recently been separately updated on Resolution.

The Governor noted this was the first presentation from the Corporate Affairs Directorate. The construct of the Directorate, combining a broad range of corporate services with specialist and general management skills, was a very effective way to organise such functions. In the discussion that followed members noted the importance of enhancing risk and governance in order to ensure the Bank was at the forefront in these areas. The importance of ensuring all staff understood the relevant processes was also mentioned.

The Commission noted the update on Corporate Affairs.

11. Delegation of Regulatory Powers – European Union (Payment Accounts) Regulations

The European Union (Payment Accounts) Regulations 2016 (S.I. No. 482 of 2016) transposed Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features into Irish law and established the Bank as the competent authority for the purposes of the Payment Accounts Directive.

The Regulations came into effect on 18 September 2016 with the exception of Regulations 4 - 7 which would come into operation nine months after the adoption by the European Commission of the regulatory technical standards referred to in Article 3(4) of the Payment Accounts Directive.

The powers and functions of the Bank under the Regulations were limited and had not been exercised since the coming into effect of the Regulations. Apart from the power to issue a Switching Code (which had already been delegated), the main functions of the Bank under

these Regulations were outlined in Regulation 3 and Regulation 27(1). The function outlined in Regulation 3 cannot be exercised until EU standardised terminology on payment account services had been published by the European Commission. Regulation 27(1) outlined that the Bank was responsible for the collection of certain supervisory and statistical data which it must supply to the Minister on a two-yearly basis.

The delegation of powers envisaged in the decision proposed was consistent with the previous decisions of the members of the Commission on the Delegations Framework in Commission Paper No. 22 of 2011.

The Commission:

- **approved in accordance with section 18F of the Central Bank Act 1942 the delegation to the Deputy Governor (Financial Regulation) of the functions and powers of the Bank as competent authority for the purposes of the Regulations;**
- **approved the further delegation by the Deputy Governor (Financial Regulation) of the statutory functions and powers delegated under the above to a committee of officers/employees of the Bank or individual officers/employees of the Bank as he sees fit, to ensure effective, efficient and economic resource allocation within the Bank;**
- **confirmed that the foregoing delegations shall be ‘Delegations’ for the purposes of minute no. 9 of meeting no. 19 of the Commission of 28 March 2012 and that the decision in that minute no. 9 shall apply to the foregoing delegations.**

12. Annual Report 2016

13. Annual Performance Statement 2016-2017

These items were taken together.

Ms Keppel introduced the Annual Report, a draft of which had circulated. The format for the Report this year was based around the strategic objectives and it also included a progress update on the Bank’s 2016-2018 Strategic Plan. The Annual Report would be submitted to the Minister for Finance in the coming weeks and, along with the statement of accounts, it was planned to publish the Report in early May 2017. Members made some suggestions on some elements of the text, which was in final editing stage.

Mr Roux introduced the Annual Performance Statement (APS), a draft of which had also circulated. It followed the same format as the previous year. The APS would also be submitted to the Minister shortly and published at the same time as the Annual Report.

The Commission:

- **approved the 2016 Annual Report, and delegated approval of any final changes to the Annual Report to the Governor; and,**
- **approved the 2016-2017 Annual Performance Statement, and delegated approval of any final changes to the Deputy Governor (Financial Regulation).**

14. Annual Statement of System of Internal Financial Controls – Credit Institutions Resolutions Fund

This item had also been considered by the Audit Committee at its meeting on 30 January 2017.

The Committee Chair noted the Committee had agreed to the recommendation of approval to the Commission.

The Commission noted the current system of internal controls that is in place in relation to the operation of the Credit Institutions Resolution Fund; and, approved the draft Statement on Internal Financial Controls for the Credit Institutions Resolution Fund for inclusion in the forthcoming Annual Statement of Accounts.

15. Operational Risk Framework

This item had also been considered by the Risk Committee at its meeting on 21 February 2017.

The Committee Chair noted the Committee had agreed to the recommendation of approval to the Commission.

The Commission approved the update to the Operational Risk Framework.

16. Code of Practice for the Governance of State Bodies

Mr Whoriskey introduced this item. The accompanying paper (Paper No. 94 of 2017) detailed the individual provisions of the Code, along with indicating whether the Bank should: apply certain provisions; apply certain provisions, but adapted to take account of the Bank's particular governance framework and the statutory requirements of the Central Bank Acts and the ESCB Treaties, including the requirement for the Bank to be independent; and not apply certain provisions because they were not applicable to the legal framework under which the Bank operated. Where it was proposed the Bank should apply provisions, any actions required to do so were highlighted against each provision with a date for implementation. He noted that Legal was undertaking a further review of each of the provisions in terms of the proposed approach to the Bank's application of the Code. In the meantime, the Commission's views were being sought in advance of a finalised version to be presented for approval following the Legal review and pending Commission comments.

In the discussion that followed, members welcomed the work already undertaken. There were a number of suggestions around certain provisions, particularly with a view to the Bank complying with the relevant provisions or adapting the provisions to its own governance and legislative framework. It was agreed that an updated version be prepared for the next meeting, including taking consideration of any further legal considerations.

The Commission noted the proposed approach to the Code of Practice for the Governance of State Bodies.

17. Any Other Business

Tracker Mortgage Report

The Governor noted the Bank had published, on the previous day, a detailed update report on its continuing examination of Tracker Mortgage issues. A significant amount of work was progressing on this which was also resulting in redress for impacted consumers. The Governor was due to appear before the Oireachtas Committee on Finance the following week to set out the work of the Bank to date on this and to discuss the issue with members of the Committee.

Paul Hannon RIP

The Governor told the Commission that he had been informed during the course of the meeting of the death earlier that morning of a staff member, Mr Paul Hannon. The Commission held a minute's silence as a mark of respect and expressed their condolences to Mr Hannon's family.

The meeting concluded.