

**MINUTES¹ OF MEETING NO. 82 OF
THE CENTRAL BANK COMMISSION
OF 25 JULY 2017**

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

Apologies: Derek Moran.

Also present²: Gerry Quinn (Chief Operations Officer), Eadaoin Rock (General Counsel), Gerry Cross (Director Policy and Risk – Item 9), Mary Burke (Head of Financial Risks and Governance Policy Division – Item 9), Martin Moloney (Special Advisor, Policy and Risk – Item 9), Mary-Elizabeth McMunn (Head of Supervisory Risk Division – Item 9), Louise Carpendale (Head of Regulatory Decisions Unit – Item 10), Seana Cunningham (Head of Enforcement Advisory – Item 10), Fergal Power (Head of Financial Control Division – Items 11 and 12), Anne Millar (Financial Control Division – Item 11), Brian Gallagher (Head of Function Human Resources Division – Item 11), Karen O’Leary (Financial Control Division – Item 12), Rosemary Hanna (Head of Function Securities and Markets Supervision Division – Item 13), Paschal Finn (Head of Function Legal Division – Item 14), Grace O’Mahony (Head of Function Legal Division – Item 14), Paul Molumby (Director Currency and Facilities Management – Items 15 and 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.

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. 81 (23 June 2017)

The Commission approved the minutes of its meeting held on 23 June 2017 (Meeting No. 81), subject to some minor amendments.

3. Matters Arising

The Commission noted it had approved, by written procedure on 18 July 2017, the appointment of Ed Sibley as Deputy Governor, Prudential Regulation and Derville Rowland as Director General, Financial Conduct. The follow-up items from the June 2017 meeting were noted.

4. Governor's Report

The Governor introduced this item. He noted the recent ECB monetary policy considerations and the statement from President Draghi regarding discussions that will take place at Governing Council level in the autumn. He also informed the meeting that President Draghi was due to speak at an event in Dublin on 22 September 2017.

He had recently forwarded the 'pre-Budget' letter to the Minister for Finance. It would be published by the Bank on 8 September 2017. He had also recently held meetings with the Minister and the Taoiseach in which he discussed the Bank's views on the economy and related risks.

The new financial regulatory structures, recently approved by the Commission, would be implemented from 1 September 2017; preparatory work was underway to ensure the structures bed-in and operate successfully

The Commission noted the Governor's Report.

5. Brexit Update

The Governor introduced this item. There was a steady flow of enquiries from, and engagements with, financial service providers regarding potential authorisations and expansions of activity.

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. The Department of Finance was due to issue a statement, inviting firms to make an application to the Bank to establish a Central Securities Depository in Ireland. The Bank would have to consider how best to manage this process and how to ensure that its various responsibilities, in particular authorisation and the business requirements aspect of the Bank's payments division, could be discharged in an appropriate manner.

Following approval at the Financial Stability Committee meeting in May 2017, the updated internal governance arrangements for managing financial crises (the draft Financial Crisis Management Protocol) would be tested in two internal simulation exercises in July and September 2017.

The Central Credit Register formally commenced operations on 30 June 2017 with the first phase of Credit Information Providers now able to submit data. This was the first milestone in a phased implementation of the Register after a long period of preparation.

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

7. Financial Regulation Report

This item is partially omitted as it contains supervisory information

Mr Sheridan introduced this item. In relation to Brexit, a Roundtable with consultants and legal experts was held in the past week. The Bank continued to be closely involved in discussions at the level of the European Supervisory Authorities (ESAs) in relation to the ESAs' overall strategy on Brexit.

One member noted the prevalence of problem firms emerging from Gibraltar. Mr Sheridan said the Bank's pro-active engagement with EIOPA was leading to greater attention on such matters at European level.

He updated members on the Tracker Mortgage Examination which continued to progress with about 12,500 customers in total having been identified by lenders as being impacted as at end June 2017, of which 92 per cent of accounts requiring rate rectification have had their rate rectified.

The Commission noted the Financial Regulation Report.

8. Chief Operations Officer's Report

Mr Quinn introduced this item. Headcount at the end of June 2017 was 1,628 full-time equivalents (FTEs) representing a month on month increase of 9.8 and a year to date increase of 29.2 FTEs. The Financial Regulation pillar saw the largest headcount growth of 10.2 in June 2017. A number of campaigns were open, the most notable being a broad Supervision campaign, which had more than 600 applicants. In addition to an existing graduate recruitment programme, the Bank was currently planning for the launch of a 2018 graduate campaign.

The detailed plan for Phase 1 of the data strategy - Unity programme - covering a secure portal for use by regulated entities and Bank staff and master data management was complete. The programme would be presented to the Commission in September 2017 for approval. The Bank had also recently appointed a new Head of IT Security and Risk.

The NWQ building was awarded first place in the Best Universal Design category at the Royal Institute of Architects in Ireland 2017 Annual Awards. This was in recognition of the accessibility design of the building.

The Commission noted the Chief Operations Officer's Report.

9. Policy and Risk

Mr Cross introduced this item. He highlighted a number of priority issues for the Policy and Risk Directorate. There was strong engagement at European level in relation to the various systemic risk issues that face the funds sector. This involved active participation within, and chairing of working groups of, key international fora such as the International Organisation of Securities Commissions (IOSCO), where the Bank was leading on liquidity risk; the European Systemic Risk Board (ESRB); and the European Securities and Markets Authority (ESMA). The Bank had also recently issued a discussion paper to seek to stimulate debate regarding Exchange Traded Funds, for which Ireland was Europe's leading domicile.

The Policy and Risk Directorate was also heavily involved in the Bank's response to Brexit. This included engagement with the various supervisory divisions on authorisations; policy development and analysis; influencing the Brexit discussions in Europe and supporting

supervisory convergence across the EU; and setting out the Bank's position through transparent and clear communications.

The Policy and Risk Directorate had a key role in assuring the quality of the Bank's supervisory approach in order to ensure rigour in the risk-based approach to supervision and to ensure effective supervisory outcomes. It did this through various deep-dive exercises, thematic reviews, and an internal challenge process. There was also a focus on enhancing the Bank's effectiveness and consistency of supervisory approach to IT risk and cyber-security across all regulated sectors.

Another important role was around developing and promoting various OneBank initiatives. This included the roll out of the OneBank Curriculum programme; and the Policy Network, which enabled staff to engage with, and share information on, various policy areas.

In the discussion that followed, one member noted the importance of the Policy and Risk Directorate linking in with the Organisational Risk (ORD) and Internal Audit Divisions (IAD) to ensure there was appropriate awareness of any relevant matters identified from their work. Ms McMunn responded that the Directorate operated as a second line of defence and did liaise closely with ORD and IAD. The same member also asked what types of issues were arising through external stakeholder engagement. Mr Cross said that Brexit was the current predominant theme. The Bank's position had been strongly communicated and was well understood within industry. Ms Burke said it was somewhat surprising, however, that some UK-based firms were not fully cognisant of the various European supervisory mechanisms. Another member asked about the significance of Fintech to Ireland and how the Bank was addressing this. A briefing on Fintech at some future point was also requested. Mr Cross said it was a significant development and that the Bank was playing a leading coordination role including the issuance of cross-industry guidance on cyber security and IT risk. Another member noted the overall downward trend reported in the assessed quality of supervision as recorded on the PRISM system. Ms McMunn said that there were some deficiencies identified, however, there were also some very positive patterns. An action plan had been compiled and there was also an awareness raising exercise underway with the supervisory areas. Another member requested that any serious issues arising be reported to the Commission, similar to how audits or risks are reported. Mr Cross agreed to the suggestion.

The Commission noted the Policy and Risk Update.

10. ASP Inquiry Update

This item is omitted as it contains supervisory information

The Commission noted the update in relation to ASP Inquiries

11. Pension Fund Contributions

Mr Power introduced this item. The Bank's pension scheme actuary was currently carrying out a triennial valuation of the Scheme as at 31 December 2016. The two previous triennial valuations resulted in no change to the contributions paid to the Scheme by the Bank. The draft valuation results included a recommendation that the Bank's contribution rate to the Scheme increase from 15.9 per cent to 19.8 per cent, which primarily resulted from falls in prevailing bond yields.

These results were presented to the Budget and Remuneration Committee at its meeting on 29 May 2017, and were subsequently noted by the Commission at its meeting on 23 June 2017. At the time, the Commission decided not to finalise its considerations until the impact of the recent Workplace Relations Commission Public Service Stability Agreement 2018-2020 was more fully understood. The Agreement provided for the conversion of pension related deductions paid by staff into permanent additional superannuation contributions to be paid directly into the Scheme from 2019. Additionally, the Agreement confirmed that pension restoration to pre FEMPI levels would only apply to pensions up to €60,000 per annum.

Having considered the recommendation from the Scheme Actuary, and the stability of the Scheme, the Bank was recommending that the current funding rate of 15.9 per cent remain unchanged. However, the Commission noted that in the event that the assumptions on which this funding rate are based do not come to pass, then the Bank will revert with an updated funding request.

The Governor noted that the recommendation flowed directly from the fact that the Bank aligned its approach to managing its Scheme with wider public sector pension policy, the only difference being that the Bank self-funded its own Scheme.

The Commission approved the retention of the current employer contribution rate of 15.9 per cent of salaries, payable by the Bank to the Bank's Pension Scheme.

12. 2017 Industry Funding Levy

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

13. Charging Application Fees for Investment Funds

Ms Hanna introduced this item. Section 32D of the Central Bank Act 1942, provided that the Commission may make regulations prescribing levies to be paid by persons who are subject to regulation under the designated enactments and designated statutory instruments. As in recent years, it was proposed that such regulations be finalised by the Deputy Governor, Financial Regulation, and signed by the Deputy Governor on behalf of the Commission.

It was proposed that, in addition to the Industry Funding Levy Regulations for 2017, a separate Additional Levy Regulation would also be issued prescribing an Additional Supervisory Levy to be paid by investment funds following authorisation by the Bank. The Additional Supervisory Levy was a once off fee payable by the investment fund following its authorisation. The Additional Supervisory Levy related to the increased supervision activity undertaken by the Bank in the first year of operation of the investment fund.

The Commission approved the introduction of the Additional Supervisory Levy to be applied in the first year of operation of the investment fund; and approved various delegated authorities to the Deputy Governor, Financial Regulation as set out in Paper No. 191 of 2017.

14. Plan of Assignment of Responsibility

Ms O'Mahony introduced this item. She noted that, at its meeting on 30 May 2017, the Commission had approved a restructuring of the Financial Regulation pillar of the Bank. Consequent on that decision, and as noted at the time, it was necessary to propose an updated Plan of the Assignment of Responsibility within the Bank in order to document the assignment of certain of the Bank's functions to the new role of the Director General, Financial Conduct.

The accompanying paper (Paper No. 193 of 2017) set out a proposal by the Governor for an updated Plan of the Assignment of Responsibility within the Bank for the purposes of Section 32A of the Central Bank Act 1942 so as to give effect, by way of internal governance arrangements, to *inter alia*, the restructuring of the financial regulation pillar of the Bank. It was proposed that this updated Plan of the Assignment of Responsibility would replace the existing plan, without prejudice to anything done or decided pursuant to such existing plan. It was also proposed that the Commission would replace the delegations it had previously made with the delegations contained in Paper No. 193 of 2017.

One member requested that the Plan include a more explicit reference to the Commission being notified of any ratifications as soon as reasonably practicable. It was also requested that the Commission be informed at an appropriate future point concerning the methodology to be used when reviewing the Plan.

The Commission approved the updated Plan of the Assignment of Responsibility and made the decisions sought at Paragraph 11 of Paper No. 193 of 2017.

15. Proposal to Participate in Europafi

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

Mr Molumby introduced this item. The aim of the Europafi Project was to retain ownership of a paper mill for the benefit of the Eurosystem, and to produce high quality banknote paper efficiently at commercially competitive prices for the benefit of shareholder National Central Banks (NCBs). The legal structure would permit the award of direct contracts for the supply of banknote paper directly to Europafi by its shareholder NCBs and ensure compliance with the relevant Public Procurement Directive.

The Banque de France had confirmed that the shareholders' agreement in relation to the project would be formally signed in September 2017.

The Commission approved: that the Bank becomes a shareholder in Europafi and participates in the Europafi arrangement; that the Governor seeks Ministerial consent, as required by law, to permit the Bank to become a shareholder in Europafi; and that, on behalf of the Bank, the Governor or Deputy Governor Donnery sign all documentation required to effect the Bank in becoming a shareholder and participant in Europafi.

16. Corporate Safety Statement

Mr Molumby introduced this item. The annual report on Environmental Health and Safety (EHS) detailed all relevant performance related achievements. Among the items highlighted were the implementation of the new central EHS structure, including a dedicated environmental resource; the achievement of external certification of the Bank's integrated management systems for Spencer Dock; and, preparations for the mobilisation of the new Dockland Campus. The Bank remained 8.6 per cent ahead of target on the National Energy Efficiency Action Plan that was aimed towards a 33 per cent reduction of overall energy usage by 2020, despite using 1.2 per cent more energy accommodating an increase in staff numbers in an older estate of buildings.

The proposed changes to the Bank's 2017 Corporate Safety Statement related to the post holders in its appendices.

The Commission was informed that Fire Safety Engineers were specifically re-consulted regarding links with any products utilised in the cladding structures of the Grenfell Tower building in London with products utilised in Bank premises in NWQ, and they reconfirmed the buildings compliance with all national fire safety standards and that there was no cause for concern with fire safety matters. The Commission also noted that a recent fire drill exercise resulted in a complete evacuation of the NWQ building within eight minutes.

The Commission noted the annual report on Environmental Health and Safety, and approved the revised Corporate Safety Statement for the Bank.

17. Budget Outturn to 30 June 2017

This item was also due to be considered by the Budget and Remuneration Committee at its meeting on 25 July 2017.

The Commission noted the Budget Outturn to 30 June 2017.

18. Statement of Accounts to 30 June 2017

This item was considered by the Audit Committee at its meeting on 24 July 2017.

The Commission noted the Statement of Accounts to 30 June 2017

19. Superannuation Fund Performance Report to 30 June 2017

The Commission noted the Superannuation Fund Performance Report to 30 June 2017.

20. Balance Sheet Bi-annual Update

This item was considered by the Risk Committee at its meeting on 17 July 2017.

The Commission noted the Balance Sheet Bi-annual Update.

21. Governor's Quarterly Report on Expenses

The Commission noted the Governor's Quarterly Report on Expenses.

22. Credit Institution Resolution Fund Statutory Accounts and Letter of Representation 2016

The Commission noted the 2016 Credit Institutions Resolution Fund Statutory Accounts and Letter of Representation.

23. Banking and Investment Firm Resolution Fund Non-Statutory Accounts and Letter of Representation 2015

The Commission noted the 2015 Banking and Investment Firm Resolution Fund Non-Statutory Accounts and Letter of Representation.

24. Banking and Investment Firm Resolution Fund Non-Statutory Accounts and Letter of Representation 2016

The Commission noted the 2016 Banking and Investment Firm Resolution Fund Non-Statutory Accounts and Letter of Representation.

25. Minutes of Sub Committees

The Commission noted the Minutes of the meetings of the Risk Committee of 28 April 2017 and of the Audit Committee of 29 May 2017.

26. Any Other Business

The Governor expressed his and the Commission's gratitude to Mr Sheridan in his role as Acting Deputy Governor, Financial Regulation over recent months and for his participation in that capacity in the Commission meetings.

The meeting concluded.