

**MINUTES¹ OF MEETING NO. 77 OF
THE CENTRAL BANK COMMISSION
OF 28 FEBRUARY 2017**

In attendance: Governor (Items 1-16, 18-28), Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery (Items 1-16, 18-28), John FitzGerald, Des Geraghty, Derek Moran, Cyril Roux (Items 1-16, 18-28), Michael Soden, Neil Whoriskey (Secretary).

Also present²: Gerry Quinn (Chief Operations Officer – Items 1-5, 7, 8, 10, 13-20, 22-28), Bernard Sheridan (Director Consumer Protection – Items 9 and 21); Colm Kincaid (Head of Consumer Protection Division: Policy & Authorisations – Items 9 and 21), Mary McEvoy (Head of Function, Consumer Protection: Supervision – Items 9 and 21); Kevin Garland (Chief Information Officer – Item 10); Peter Hopkins (Payments & Securities Settlements Division – Items 11 and 12); Alison Molloy (Consumer Protection Division: Policy & Authorisations – Items 11 and 12); Margaret Devaney (Legal Division – Items 11 and 12); Bernie Keppel (Head of Function, General Secretariat Division – Item 13); Liz Joyce (Director Human Resources – Item 17); Fergal Power (Head of Financial Control Division – Item 16); Paul Molumby (Director Facilities and Currency – Items 18 and 19); Harry Murphy (Head of Security – Item 19); Cormac Mangan (Head of Corporate Security, Policy & Relations – Item 19); Tom Meade (Head of Function, Organisational Risk Division – Item 25).

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. It was noted the Governor and Deputy Governor Donnery would be absent for Item 17, FEMPI – Remuneration, as it included consideration of the remuneration applying to their roles. The Governor proposed Mr Ahearne chair the meeting for that item. This was agreed.

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.

The Governor informed the meeting that he had received notice from Mr Roux of his intention to tender his resignation as Deputy Governor. The Governor conveyed his and the Commission's regret and gratitude, and wished him all the very best in the future. He noted Mr Roux's strong contribution to the work of the Bank, in particular developments in regulation over recent years. Mr Roux in turn thanked the Governor and the Commission for their unstinting support and said it was a difficult decision to stand down at this time. He referenced the dedication of the staff in the Bank and the strong team he would leave behind.

The Commission adopted the agenda, with some re-ordering of items to facilitate those attending.

2. Minutes of Commission Meeting No. 76 (30 January 2017)

The Commission approved the minutes of its meeting held on 30 January 2017 (Meeting No. 76) with an agreed amendment.

3. Matters Arising

The follow-up items from the January 2017 meeting were noted.

4. Governor's Report

The Governor introduced this item. He noted the forthcoming ECB Governing Council meeting and the publication on the same day of the latest ECB staff macroeconomic projections for the euro area. He informed the Commission that he was due to appear before the Oireachtas Committee on Budgetary Oversight later that day in his capacity as Chair of the Economic Statistics Review Group (ESRG), which had been formed to provide guidance to the Central Statistics Office (CSO) on how best to meet user needs for greater insight into Irish economic activity. A core recommendation of the ESRG was the development of an adjusted level indicator, GNI*, which, in the first instance, would exclude the depreciation of foreign-owned domestic capital assets in measuring economic activity. This would also be directly relevant to the Bank and its macroeconomic work. The Governor also referenced his recent speech in University College Cork (UCC) which focused on consumer protection.

He thanked the Fusion team for the landmark stage of the Dockland Campus project which had seen 300 staff members move in to the new North Wall Quay building earlier that week. The Commission members also expressed their compliments to all involved in the project.

The Governor updated members on the recent establishment of the Financial Stability Group (FSG), which comprised top level membership from the Bank, Department of Finance, and the National Treasury Management Agency (NTMA). Its forerunner was the Principals' Group. The FSG's terms of reference included: assessments of risks and emerging risks to the financial system and economy; systemic crisis management coordination, including contingency planning and implementation of financial sector crisis management measures; and, discussions of economic and financial system policies which have repercussions for financial stability in order to achieve optimal policy outcomes. Mr Moran said it was a positive development. The Governor said he would keep the Commission apprised of relevant FSG issues as they arise.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

Ms Donnery introduced this item. She noted that the technical issues that had emerged the previous month on the Bank's Whistleblower phone line had since been fully resolved. The Bank's web information had been expanded to set out service levels offered to those making contact with the Bank. For the calendar year 2016, a total of 49 reports were received to the Whistleblower Desk of which six were received via the phone lines. For January 2017, seven reports were received of which one was received by phone. It was noted that the January contacts were higher than normal. She also updated members in relation to the Bank's leased premises for Administrative Sanctions Procedure (ASP) Inquiries, and to legal developments around the Central Credit Register.

It was noted that her report referenced the outcome of the European Systemic Risk Board (ESRB) assessment of the relevant Recommendation around intermediate objectives and instruments which was recently published. Ireland was found to be fully compliant, across all aspects of the Recommendation arising from the framework for macroprudential policy established by the Bank.

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

6. Deputy Governor's Report (Financial Regulation)

This minute is partially omitted as it references a matter under deliberation and it contains supervisory information.

Mr Roux introduced this item. He first updated members on activity relating to potential authorisations and potential expansions of activity in Ireland arising from Brexit. As previously signalled to the Commission, there would be resource implications arising from this work and from any subsequent supervision of newly authorised firms.

Mr Roux also updated members on banking developments. One member sought information in relation to a credit union which Mr Roux said would be provided at the next meeting.

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. He noted that headcount had remained largely flat over recent months. Headcount at the end of January 2017 was 1,600 full time equivalents (FTEs) compared with the forecast of 1,630 FTEs. Developments in the employment market and associated labour supply was getting more competitive; a net increase of circa 200 FTEs for 2017 would be a significant challenge in the current market.

On the IT front, there was positive feedback from those who had moved to the new North Wall Quay building with the core technology deployed there. He also updated members on IT process and controls developments.

He informed members that the Director of Currency and Facilities Management, Paul Molumby, had been appointed by the Minister for Housing, Planning, Community and Local Government to the Docklands Oversight & Consultative Forum. He also updated members on some currency related matters.

The Commission noted the Chief Operations Officer's Report.

8. Brexit Update

The Governor introduced this item. He noted ongoing communications from the Bank in relation to authorisations, and the fact that the Bank's process had been clearly outlined on many occasions, including the expectation that there be a substantive presence here in Ireland. This was now also referenced across other jurisdictions, which was not surprising as financial services in the EU operated under a common framework for regulation and supervision. One member noted this would be a good juncture for the Bank to summarise its latest thinking on Brexit in the Quarterly Bulletin through a box or article. This was agreed.

The Commission noted the Brexit Update.

9. Consumer Protection

Mr Sheridan introduced this item. He first set out the consumer protection operating environment. As a post-financial crisis 'back to business' attitude re-emerged in industry, it was necessary to emphasise the importance of regulation and the need to continue to drive a consumer-focused culture with regulated firms and with those applying for authorisation. There was also an ongoing need to clarify the Bank's consumer protection mandate in the public domain, on items from redress to price control to consumer advocacy, and the distinction between the Bank's role and that of legislators, both EU and domestic. The sustained low interest rate environment, changing demographics, and the fragmentation of how services were provided to consumers, together with changes in how financial services were delivered through technology and new consumer behaviour in using that technology, all meant that the risks faced by consumers were changing in nature and complexity. Finally, there was a continuing need to devote resources to ensuring a strong consumer protection framework in a wider EU and international environment, while also engaging domestic Irish legislative initiatives.

Mr Sheridan noted some key achievements and ongoing work. The major focus had been, and continued to be, the tracker mortgage examination. This was the most significant supervisory review undertaken in the context of the Bank's consumer protection mandate. The update

published in December 2016 highlighted that 8,200 impacted accounts had been identified at that time. Based on current progress it was expected that relevant lenders would have identified and commenced engagement with impacted customers by mid-2017. Other current priorities and significant pieces of work included the development and roll out of a Consumer Protection Risk Assessment Model, to enable supervisors to assess both the design and effectiveness of a firm's consumer risk management processes and controls; an increasing on-site presence in low impact firms; and a continued focus on stakeholder engagement. In relation to policy developments; new measures relating to transparency around standard variable rate (SVR) mortgage products came into effect on 1 February 2017; a number of enhancements were being proposed for minimum competency requirements; and the Bank's role as gatekeeper was being enhanced via new authorisation process models for the sectors of firms authorised by the Consumer Protection Directorate. Mr Sheridan concluded by noting the recent publication of the Consumer Protection Outlook Report for 2017.

In the discussion that followed, members welcomed the update, noted the progress made and raised a number of points and questions. One member asked about the extent of the Bank's ability to intervene in relation to products that might be deemed risky to consumers. Another member questioned the length of time the tracker mortgage examination was taking. In relation to products, it was noted that there were changes at European level aimed at improving overall the nature of products offered to consumers. These included requirements in relation to product oversight and governance, that would give a new role to supervisors in overseeing the development of products from a suitability perspective, and forthcoming powers for the Bank and other national competent authorities (NCAs) to intervene in the sale of certain classes of products on a range of grounds, including investor protection. The Bank had already examined a number of different products through thematic work including health insurance, structured retail products and contracts for difference. As regards the tracker examination; this was a significant piece of work which was being progressed as quickly as possible and, while it was taking time, it was necessary that it was done in a robust and complete manner to ensure the right consumer outcomes. By mid-year it was expected that all relevant lenders would have identified and commenced engagement with most impacted customers. The Bank had been providing public updates on progress with the next update due to be published within a few weeks.

The Commission noted the update on Consumer Protection.

10. Cyber Security

This minute is omitted as it contains security information.

11. Delegation of Regulatory Powers – Inter-change Fees

Mr Hopkins introduced this item. The European Union (Interchange Fees for Card-Based Payment Transactions) Regulations 2015 gave effect in Ireland to Regulation (EU) No. 751/2015 and designated the Bank as the competent authority in respect of payment service providers and payment card schemes.

Interchange fees were applied between the bank of a retailer accepting a card payment from a customer and the bank that issued the payment card to the customer that used it to pay the retailer. Interchange fees were just one part of the overall fee (or ‘merchant service charge’) paid by a retailer to its bank in respect of the processing of card payments.

The legislation was introduced with the aim of reducing and standardising interchange fees across the EU by imposing caps on the level of the fees that can be charged; it also provided for common technical standards and business rules for payment card transactions in the EU. The Regulations covered a range of measures in this regard and the hoped-for outcome would be an increase in the acceptance of payment cards by retailers generally and easier provision of payment card services on a cross-border basis, thereby improving the lot of both consumers and retailers.

The divisions with responsibility for carrying out the Bank’s ‘competent authority’ role at a practical level were Payments and Securities Settlements Division (PSSD) and Consumer Protection Supervision (CPSU) – the need for this split in responsibilities arose from the fact that the former was responsible for the oversight of payment systems and payment card schemes while the role of the latter was focussed on individual payment services providers and their customers.

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 under Articles 8(2), 9, 10 (role limited to application of Article to

payment service providers only), 11 (role limited to application of Article to payment service providers only) and 12 of the Interchange Fee Regulation, together with the functions and powers of the Bank under the 2015 Regulations insofar as they relate to the aforementioned Articles; the Governor of all other functions and powers of the Bank under the Interchange Fee Regulation and the 2015 Regulations; 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; and, ratified the functions and powers of the Bank which were exercised under the Interchange Fee Regulation or the 2015 Regulations.

12. Delegation of Regulatory Powers – Credit Transfers and Direct Debits

Mr Hopkins introduced this item. The European Union (Requirements for Credit Transfers and Direct Debits in Euro) Regulations 2013, as amended by the European Union (Requirements for Credit Transfers and Direct Debits in Euro) (Amendment) Regulations 2016 gave effect in Ireland to Regulation (EU) No. 260/2012, which set out common technical standards and business rules for the processing of euro-denominated credit transfer and direct debit payments in the countries covered by the Single Euro Payments Area (SEPA) initiative, which had created an integrated EU-wide market for retail electronic payments in the single currency.

In summary, banks had to ensure that any account that could previously have been used for making credit transfer and direct debit payments in euro domestically could also be used for sending or receiving such payments throughout the EU. In addition, payees could no longer impose any restriction on payers with regard to the country in which their account must be held. Finally, payment schemes being used by payment service providers for processing credit transfers and direct debits had to be made fully interoperable and had to apply the same rules to national and cross-border transactions.

The expectation of the European authorities was that, by making cross-border payments easier, SEPA would help to complete the 'single market', facilitating competition in the provision of

payment services and thereby increasing cross-border trade and improving choice for consumers.

At a practical level, PSSD was responsible for carrying out the Bank's 'competent authority' role vis-à-vis this legislation.

The Commission approved, in accordance with section 18F of the Central Bank Act 1942, the delegation to the Governor of the functions and powers of the Bank under the SEPA Regulation and the 2013 Regulations; 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; and, ratified the functions and powers of the Bank which were exercised under the SEPA Regulation or the 2013 Regulations.

13. Balanced Scorecard – Review of 2016

Ms Keppel introduced this item. The 2016 Balanced Scorecard (BSC) followed the structure of the Bank's Strategic Plan 2016-2018 (the Plan), in that it set out in detail the tasks and activities that had been identified when the Plan was developed and which were identified for 2016. During the past year, quarterly reports on progress on the BSC were considered by the Senior Leadership Committee (SLC) and a six-monthly report was presented to the Budget and Remuneration Committee (BRC) at its meeting on 25 July 2016. A report was also sent to the BRC at the end of the third quarter (Paper No. 264 of 2016) as it was considered prudent to advise the Committee of some risks identified at that time. This report was also forwarded to the Commission on the recommendation of the BRC.

The Governor's Committee considered the outcome of the 2016 BSC at its meeting on 10 February 2017. This took account of the outcomes under each of the objectives, the commitment of staff to the work, the quality of the outputs, and the overall impact of the delivery of the objective. A small number of objectives were considered to represent significant achievements for the Bank and to have made a major impact to the ongoing progress in fulfilling the Bank's mandate. The majority of objectives were considered to represent high quality work and to have substantially achieved the targeted outcome. Some were considered

to have largely been achieved while recognising that further improvements were required. There were also a small number of objectives where progress or output was less than expected and where significant improvement would be required in terms of quality of work, timeliness of delivery and impact both internally and externally.

The Governor's Committee recommended an achievement rate of 86 per cent reflecting its assessment of the overall outcome for the year. This was further considered by the Budget and Remuneration Committee. The Committee chair noted that the Budget and Remuneration Committee considered the report and was recommending to the Commission that it note the overall score and, consequently, under the Bank's Performance Management Development Process, approve the awarding of merit leave to those staff whose performance during the year met or was above expectations. It was noted at the meeting that certain objectives were not met likely due to extenuating circumstances, in particular around resourcing. The Governor confirmed that this had been considered as part of the overall assessment. It was also noted by one member that it would be useful in future such reports that the risks were called out more clearly in certain areas. This was agreed.

The Commission noted the outcome on the 2016 Organisational Balanced Scorecard and the assessment by the Governor's Committee of an overall score of 86 per cent; and the consequent award of merit leave to staff whose performance during the year met or was above expectations.

14. Annual Statement on System of Internal Financial Controls

This item was previously considered by the Audit Committee at its meeting on 30 January 2017. The Committee Chair noted the Committee had agreed to the recommendation to the Commission.

The Commission approved the Annual Statement on System of Internal Financial Controls.

15. Provisional Statement of Accounts 2016

This item was previously considered by the Audit Committee at its meeting on 27 February 2017. The Committee Chair noted the Committee had agreed to the recommendation to the Commission.

The Commission approved the provisional statement of accounts 2016.

16. Funding – Accounting Treatment of ASP Inquiry Costs

Mr Power introduced this item. The appropriate treatment of Administrative Sanctions Procedure (ASP) inquiry costs with regard to the annual industry funding levy first arose in November 2016 in the context of the submission of the 2017 Statement of Estimated Income and Expenditure in respect of financial regulation activities (2017 Budget) to the Minister for Finance (in accordance with the statutory requirement).

The accompanying paper (Paper No. 65 of 2017) set out the treatment adopted in relation to the 2017 Budget and proposed a treatment for costs incurred in 2016 to ensure consistency with the 2017 agreed methodology. It was agreed that further consideration would be given in due course to whether or not the proposed decision would form the basis for the treatment of similar costs in the future.

The Commission approved that: external costs incurred in relation to an Administrative Sanctions Procedure Inquiry in 2016 be fully funded by the Bank via subvention; external costs incurred in 2015 and previous years in relation to an Administrative Sanctions Procedure Inquiry will not be retrospectively adjusted in levy calculations; and, internal costs incurred in relation to an Administrative Sanctions Procedure Inquiry will be included in the funding levy calculations, and not funded by the Bank via subvention.

17. FEMPI - Remuneration

Mr Ahearne assumed the Chair of the meeting. The Governor and Deputy Governors Donnery and Roux were not present for this item.

Ms Joyce introduced this item. The Bank was covered by the Financial Emergency Measures in the Public Interest (FEMPI) legislation. The FEMPI Acts (2009, 2010 and 2013) provided for reductions in salaries, deferral of incremental progression and the application of the pension related deduction. The FEMPI Act 2015 provided for some amelioration of these elements.

In April 2016 the Governor's Committee noted the provisions of the FEMPI Act 2015 as it applied to staff of the Bank and agreed to recommend for approval to the Governor the application of the relevant provisions for all staff employed, including those on off scale salary amounts employed before July 2013, at the dates of restoration. The provisions would not apply to staff employed on off-scale arrangements post July 2013 whose salary levels would remain above the maximum on the scale post-restoration.

The purpose of the accompanying paper was to advise the Commission of a change to the effective date of one section of the FEMPI 2015 Act; confirm the restoration of increments for staff on salary scales with a minimum starting point in excess of €100,000; and to seek approval from the Committee on the application of the FEMPI Act 2015 to the salaries of the Governor and Deputy Governor.

As the Governor was employed post-July 2013 on the approved salary scale and given the general decision to apply the provision of the FEMPI 2015 Act across the Bank it was proposed that Governor Lane's salary increase to €261,476 (from €254,048) with effect from April 2017. In order to maintain the previously approved salary ratio of 1.00 to 1.15 it was proposed that Deputy Governor Donnery's salary increase to €227,370 (from €220,911) with effect from April 2017. Mr Ahearne noted the Budget and Remuneration Committee had considered this item at its meeting on 27 February 2017 and was recommending to the Commission that it approve the proposal.

The Commission noted the accelerated payment of €1,000 per annum for staff earning less than €65,000 per annum; noted the restoration of increments for staff on salary scales with a minimum starting point in excess of €100,000; and, approved the 2017 salary level and effective date for Governor Lane and Deputy Governor Donnery (which were reviewed in line with their terms of employment and FEMPI Act 2015).

18. Sale of Dame Street – Accounting Treatment

This minute is partially omitted as it references matters under deliberation and contains commercial information.

The Governor re-assumed the Chair. Ms Donnery and Mr Roux re-joined the meeting.

The Commission noted the sale of the Dame Street Properties to Dame Plaza Property Trading DAC for €67m was completed on 16 January 2017.

19. Annual Report on Security

The Commission noted the annual report on Security.

20. Budget Outturn 2016

This item was previously considered by the Budget and Remuneration Committee at its meeting on 27 February 2017.

The Commission noted the Budget Outturn 2016.

21. Consumer Advisory Group – Annual Update

The Commission noted the annual update on the work of the Consumer Advisory Group.

22. Statement of Investment Policy Principles for the Investment Assets

This item was previously considered by the Risk Committee at its meeting on 21 February 2017. The Committee Chair noted the Committee had agreed to the recommendation to the Commission.

The Commission approved the statement of investment principles for the investment assets of the Bank.

23. Annual Review of Superannuation Fund

This item was previously considered by the Risk Committee at its meeting on 21 February 2017.

The Commission noted the annual review of the Superannuation Fund.

24. Review of Investment Performance 2016

This item was previously considered by the Risk Committee at its meeting on 21 February 2017.

The Commission noted the Review of Investment Performance 2016

25. Annual Report on Staff Code of Ethics

The Commission noted the annual report on the Staff Code of Ethics.

26. Financial Risk Information Pack

This item was previously considered by the Risk Committee at its meeting on 21 February 2017.

The Commission noted the Financial Risk Information Pack.

27. Minutes of Sub Committees

The Commission noted the minutes of the Risk Committee meeting of 22 November 2016; the Budget and Remuneration Committee meeting of 22 November 2016; the Joint Audit and Risk Committees meeting of 23 January 2017; and the Audit Committee meeting of 30 January 2017.

28. Any Other Business

Assignment of Responsibility - Update

The Governor introduced this item. As referenced at the start of the meeting, the Deputy Governor (Financial Regulation) had indicated his intention to resign from the position of Deputy Governor (Financial Regulation). A paper (Paper No. 82 of 2017) was circulated to the meeting which contained a proposed update to the Commission approved Paper No. 45 of 2012 entitled Central Bank Plan of Assignment of Responsibility, in order to ensure the continued effective and efficient management of the functions of the Bank.

The Commission:

- (a) approved, the interim reporting and accountability arrangements whereby the regulatory Directors which previously reported and were accountable to the Deputy Governor (Financial Regulation) will now report and be accountable to the Governor with respect to the powers and functions of the Bank delegated under the Delegations. As a consequence, the Deputy Governor (Financial Regulation) will no longer be responsible for performing such powers and functions, provided however that the Governor, at his discretion, may assign a particular responsibility to the Deputy**

Governor (Financial Regulation) where the Governor wishes to do so and he is satisfied that no conflict of interest will arise as a result; and

(b) noted, the Governor implementing, at such times as the Governor considers appropriate, the changes to the Bank's representative at the Supervisory Board, European Insurance and Occupational Pensions Authority, European Banking Authority, European Systemic Risk Board and European Securities and Markets Authority.

The meeting concluded.