MINUTES[1] OF MEETING NO. 83 OF THE CENTRAL BANK COMMISSION OF 29 SEPTEMBER 2017

In attendance: Governor, Alan Ahearne, Blanaid Clarke, Sharon Donnery, John FitzGerald, Des Geraghty, Derek Moran, Ed Sibley, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Patricia Byron.

Also present[2]: Eadaoin Rock (General Counsel), Gerry Quinn (Chief Operations Officer – Items 4-19), Derville Rowland (Director General, Financial Conduct – Items 4-19), Mark Cassidy (Head of Financial Stability Division – Item 5), Ellen Ryan (Financial Stability Division – Item 5), Eoin Battigan (Supervisory Risk Division – Item 5), Michael Hodson (Director Asset Management Supervision – Item 10), Denise Murray (Head of Asset Management: Authorisations and Inspections Division – Item 10), Claire Lanigan (Head of Asset Management Supervision Division – Item 10), Kevin Garland (Chief Information Officer – Items 11 and 12), Gabriel Fagan (Director Economics and Statistics – Item 11), Grainne McEvoy (Head of Securities and Markets Authorisations Division – Item 11), Sheila O'Sullivan (Project Management Office – Item 11), David Shaw (Head of Information Security – Item 12), Martin Langan (Head of Function Payment and Security Settlements Division – Item 12), Shane Daniel (Technology Delivery and Operations Division – Item 12), John Geelon (Head of Function Payments and Securities Settlements Division – Item 13), Suzanne Power (Asset Management Supervision Division – Item 13), Deirdre Walsh (Head of Central Credit Register – Item 14), Con Christofides (Organisational Risk 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.

[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.

He welcomed Mr Sibley who was attending his first meeting as a member of the Commission following his appointment as Deputy Governor, Prudential Regulation.

He noted the Commission had recently discussed the attendance arrangements for meetings. The Commission would meet in Commission composition only, including attendance by the Secretary and General Counsel, for certain items at the start and towards the end of the meeting. For other items, the Chief Operations Officer and the Director General, Financial Conduct would attend. Other members of staff would also attend as necessary to present on specific items. Decisions would only be taken when the meeting was in Commission composition.

2. Minutes of Commission Meeting No. 82

The Commission approved the minutes of its meeting held on 25 July 2017 (Meeting No. 82), subject to a minor amendment.

3. Matters Arising

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

The Governor then welcomed Ms Rowland who was attending the next part of the meeting in her new capacity as Director General, Financial Conduct.

4. Governor's Report

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

The Governor updated members on a number of items. From the international perspective, there was a generally positive economic outlook for the euro area, although this had been somewhat influenced by the appreciation of the euro in recent times.

On the domestic front, the Bank would be publishing its Quarterly Bulletin in the coming weeks; while the economic data remained strong, there were also risks identified. The Governor addressed the Bank's recent Economics Roundtable on the subject of Macro-Financial Risk Management, which focused on current issues relating to macro-prudential policy and fiscal policy. He noted that Frances Ruane would deliver the Bank's 2017 Whitaker Lecture on 17 October 2017.

The Governor noted the recent approval by the Minister for Finance of the appointment of the current Head of Resolution, Patrick Casey, as Registrar of Credit Unions. Mr Casey would take up his position on 23 October 2017. Wesley Murphy would take up the role of Acting Head of Resolution at that time.

ECB President Draghi visited the Bank on 22 September 2017 as part of a series of engagements in Dublin on that date. In an address to staff, President Draghi referenced the very strong performance of staff from the Bank at Eurosystem and ESCB committees and related working groups and task forces. Mr Ahearne said he had recently attended a policy research conference in Slovenia on the subject of 'Evaluating the Effectiveness of Macroprudential Policies'. He noted the excellent quality of papers presented by Bank staff at the conference.

The Commission noted the Governor's Report.

5. Brexit Update

This minute is partially omitted as it contains supervisory information.

Mr Cassidy presented the fifth quarterly report of the Brexit Task Force (BTF). In terms of the political backdrop, he noted that Prime Minister May delivered her Brexit speech in Florence over the past week in which she accepted that Britain would operate within EU rules during a transition or implementation period of at least two years after Brexit. The response from the EU was cautiously favourable.

A notable development since the previous Report had been the relatively sizable fluctuations in the euro/sterling exchange rate. This was now broadly in line with where it was at the time of the June Report, which was 15 per cent weaker than before the referendum. The impact of the weaker sterling had been mainly reflected in Ireland through weaker consumer price inflation, which would have impacted favourably on real disposable incomes and personal consumption. One of the special features in the Report looked in more detail at the issue of the impact of sterling depreciation on Irish consumer prices. In terms of exports and growth, the analysis pointed to little or no indication of any Brexit effects as yet.

In relation to the financial sector, the level of new engagements with banks potentially seeking approval had levelled off in the period since the last Report. The Bank's Director of Insurance

Supervision had recently written to all insurance companies requesting that they submit details of the potential impact of Brexit on their business and what plans they had made to cover the consequences. There was also significant activity in terms of potential authorisation in the asset management area. In relation to market infrastructure post-Brexit, the Minister for Finance had issued a statement in July 2017 encouraging applications for authorisation to establish a central securities depository (CSD) in Ireland; the Bank subsequently issued its own statement noting that of the Minister.

There had also been an increasing focus on Brexit implications at a range of European fora at which the Bank participated.

In the discussion that followed the presentation, one member asked about the Bank's preparedness and capacity to absorb new large banking entities within its supervisory structures. Another member queried the incentive for a large banking entity to establish a branch here with a subsidiary in another Member State. Mr Sibley responded that the supervision of any new bank entities, either on a branch basis or otherwise, would be in the context of the Single Supervisory Mechanism (SSM) which ensured a level playing field in terms of supervision. There were likely to be other factors involved when it came to deciding on location. The Bank had prioritised its work in relation to Brexit-related supervisory work and the Commission had recently approved additional staffing to meet the demands.

One member noted the preparedness of banks for Brexit in contrast to that of insurance firms. Mr Sibley agreed that the level of preparedness within the insurance sector was not where it should be. The Bank would be communicating publically on this.

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. Since the Commission last met, there had been a further two disposals of €500m each to the NTMA of the Floating Rate Notes (FRNs). This brought to six the number of disposals this year, totalling €3bn.

With regard to the Central Credit Register (CCR), Credit Information Providers (CIPs) had continued to submit data. There had been ongoing enquiries regarding the exact fees or levies

that might be charged and it was considered timely to make some further additional information available to interested stakeholders. In relation to the Bank's preparedness for the EU General Data Protection Regulation (GDPR), the initial phase of the project, to assess the level of personal data being processed across the Bank and to compile an organisational register, was now completed and had identified significant levels of personal data being processed. The Risk Committee would be updated in due course.

In relation to some public engagements, the Bank's presence at the National Ploughing Championships attracted 20,000 visitors over three days, while the Bank also participated in Culture Night for the first time on 22 September 2017.

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

7. Deputy Governor's Report, Prudential Regulation

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

Mr Sibley introduced this item. He noted the new Prudential Regulation pillar, along with that of Financial Conduct, had been established in recent weeks. There had been a significant amount of staff engagement and, together with Ms Rowland, it was planned to hold a 'town hall' meeting with staff on the afternoon of 29 September 2017.

Intensive work continued on Brexit related matters, including engagement with Financial Conduct colleagues, across the European structures and bilaterally with the UK's Prudential Regulatory Authority, and with many individual firms. Authorisation activity continued apace, as set out in the Brexit Report earlier.

Other recent discussions at European level had focused on non-performing loans and provisioning; 2018 stress testing; and the setting of capital, liquidity and remediation requirements as part of the 2017 Supervisory Review and Evaluation Process (SREP).

Work was continuing on the implementation of MiFID II, which remained on track. Two Consultation Papers (CP) had issued with respect to Client Asset protections and to changes to

the Fitness and Probity regime for Credit Unions. There were approximately 70 submissions on the now closed CP on Credit Union investments.

The Bank was engaging with representative bodies and individual firms regarding the industry-funding levy, which incorporated some changes previously consulted on, and subject to agreement from the Minister for Finance, including the move to 65 per cent funding from most regulated firms in 2017.

Mr Sibley also updated the Commission on some firm specific items. These included ongoing developments around Charleville Credit Union.

One member requested an update on any Brexit-related issues there might be for certain credit unions. Mr Sibley confirmed that he would update the Commission on these matters.

The Commission noted the Deputy Governor's Report, Prudential Regulation.

8. Director General's Report, Financial Conduct

Ms Rowland introduced this item. There had been a strong level of staff engagement in her first weeks as Director General of the new Financial Conduct pillar. She had also initiated a process of detailed engagement with senior management across the financial conduct directorates in order to assess the best approach to enhance senior management coordination across financial conduct regulatory work. The aim was to use the reorganisation to deliver additional synergies across financial conduct regulation and to establish mechanisms for further development and alignment of the contribution of the Financial Conduct Pillar to the strategy of the Bank.

On the international front, she had attended her first meeting of the Board of Supervisors of the European Securities and Markets Authority (ESMA) on 27 September 2017. The European Commission had announced new proposals for significantly restructuring ESMA and giving it an oversight role in setting the strategic direction of member national competent authorities.

The Tracker Mortgage examination continued to identify issues in lenders' redress processes and to fix these through firm-by-firm engagement. Where engagement was not satisfactory, all options were being considered. Issues tended to relate to methodological weaknesses in how affected customers were identified, levels of compensation and appeals procedures. This work

should be completed by end-2017. An update would be published in October 2017. She noted she would be appearing on the issue, alongside the Governor and Deputy Governor, Prudential Regulation, before the Joint Committee on Finance, Public Expenditure and Reform on 19 October 2017.

She noted that Ms Anne Butterly, the former manager of Rush Credit Union (in liquidation), was prohibited by the Bank on 16 June 2017 for misconduct involving misappropriation of member funds. A public statement about the outcome was issued on 18 September 2017.

The Commission noted the Director General's Report, Financial Conduct.

9. Chief Operations Officer's Report

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

Mr Quinn introduced this item. A current focus of the pillar was on remediation programmes in scope and underway in order to achieve the necessary risk profile across all Operational areas. This included a focus on policies, processes, controls and assurance.

In relation to some individual areas, there was a significant demand profile facing the IT area against a backdrop of resourcing challenges and key programmes that were commencing or already underway. Work was also underway on alignment of the desk occupancy and density policy for the Bank, due to the projected growth in staff numbers. There was a continued focus on the funding levy process.

The Commission noted the Chief Operations Officer's Report.

10. Asset Management Supervision

This minute is partially omitted as it contains supervisory information

Mr Hodson introduced this item, which updated the Commission on the main risks the asset management firms operating in Ireland presented to the Central Bank's objectives; and provided insights into the Asset Management Supervision (AMS) Directorate's work in 2017 and the planned 2018 programme of work aimed at mitigating those risks.

The AMS Directorate was responsible for the regulation of Ireland's asset management industry, including MiFID investment firms, fund service providers and market infrastructure providers. It applied a supervisory approach that primarily comprised of onsite, offsite and thematic inspections with a substantial emphasis on capital, liquidity, client assets/investor monies, operational and governance issues. The key objective was to ensure that regulated firms served the needs of their markets and the economy; and that at all times client assets were protected.

The asset management sector was dominated on the investment firm side by the implementation of MiFID II, which goes live on 3 January 2018; and the implications of Brexit on both new authorisations and existing business models.

Looking forward to 2018, AMS Directorate expected to see a sizeable increase in the number of firms seeking authorisation because of Brexit. In relation to MiFID II, compliance with new requirements would be a key focus in 2018. Ongoing management of the existing portfolio remained a focus for supervisors within this changing environment.

One member asked if there any provisions in MiFID II that were particular to the Central Bank of Ireland rather than all Member States. Mr Hodson said that, while there was some Ministerial discretion, the provisions generally applied to all Member States. The Bank's own client asset rules, which had been in place for some time, were already over and above the minimum MiFID II requirements.

Another member asked for further details on the challenges arising from Brexit. Mr Hodson said that a large number of firms were expressing interest in locating in Ireland. These included new types of firms to the jurisdiction and the potential for a central securities depository to be established. Another member asked if the Directorate was adequately staffed to meet these demands. Mr Hodson said that there would always be challenges in attracting and retaining staff. He noted that the Directorate was currently at about 85 per cent complement. There were some recent successes in attracting high calibre staff but it remained a challenge. Mr Sibley added that recruitment and retention was a key focus across the prudential regulation pillar.

The Commission noted the Asset Management Supervision Update.

11. Unity Programme Proposal

This minute is partially omitted as it contains information security-related material.

Mr Garland introduced this item. The Bank's systems architecture was reviewed in early 2016 to define a future model to facilitate anticipated regulatory and statistical data requirements. The Unity Programme was designed to address the multi-year design and implementation of a new target data architecture. It would incorporate all the required alignment with dependent projects. The programme would be in three phases; approval was being sought from the Commission for Phase 1, which included the Master Data Management Platform and a portal for secure communications with regulated entities, and the Define element of Phase 2.

Ms McEvoy and Mr Fagan both outlined the various benefits that they saw the Programme delivering for the financial regulation and central banking pillars. These included providing deeper insights leading to better-informed policy; greater quality, more accessible and targeted data; improving the Bank's analytical and statistical output; operational risk reduction; enhanced employee engagement; and various operational improvements. The Governor, while recognising the significant spend required, noted that this was partly down to replacement costs. He said, overall the project was intended to deliver across the organisation, leading to better regulation at the macro and micro levels.

In the discussion that followed, various members, while recognising the requirement for such improvements, raised a number of questions. These included the timing of the project at a juncture when there were other significant projects with an IT dimension underway and the capacity of the organisation to deliver on the project at this time. Other members asked for further specific detail on costings and on assurances around some of the risks involved. Another member asked about the ability of the Bank to share relevant data internally and potentially externally.

The Governor suggested that, before the Commission finalised a decision on the proposal, the various questions raised be covered in a revised paper to be submitted for the November 2017 meeting. This was agreed.

The Commission noted the Unity Programme Proposal and deferred its decision until the next meeting.

This decision was taken under Item 20 – Record of Decisions.

12. SWIFT Assurance Proposal

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

Mr Garland introduced this item. In response to fraud and cybersecurity threats that had grown more sophisticated and global, the Society for Worldwide Interbank Financial Telecommunications (SWIFT) developed a new Customer Security Programme (CSP) in late 2016. This programme included the SWIFT Customer Security Controls Framework (CSF) that was aimed at enhancing local user controls around the SWIFT environment to avoid potential exploitation by hackers. All SWIFT user organisations, including the Bank, were required to implement the mandatory controls on their local SWIFT infrastructure.

Mr Langan added that SWIFT was a critical payment and securities settlement infrastructure in use by the Bank to exchange messages securely with counterparties to facilitate the settlement of all monetary policy related transactions, payment processing, securities transactions and related treasury activities. The proposed SWIFT Assurance would deliver compliance with this new CSF security standard by upgrading infrastructure and further strengthen business processes and controls. This investment would minimise potential operational risks and fraudulent processing of electronic payments.

Commission approval was required in order to proceed with the project due to the envisaged expenditure.

The Commission approved the SWIFT Assurance Proposal.

This decision was taken under Item 20 – Record of Decisions.

13. Delegation of Functions – Central Securities Depositories Regulation

Mr Geelon introduced this item. The European Union (Central Securities Depositories) Regulations 2016 (S.I. No 481 of 2016) designated the Bank as the competent authority for the purposes of Regulation (EU) no 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on Central Securities

Depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) no 236/2012 (the EU CSD Regulation). The Regulations were focussed on the activities of Central Securities Depositaries (CSDs) and their participants. The EU CSD Regulation established a legal framework for the authorisation and supervision of CSDs and provided a mechanism to passport CSD activities in Member States.

The Commission approved the Delegation of Functions, Central Securities Depositories Regulation, and related proposals, as set out in Paper No. 219 of 2017.

This decision was taken under Item 20 – Record of Decisions.

14. Delegation of Functions – Credit Reporting Act 2013

Ms Walsh introduced this item. The Credit Reporting Act 2013 (the CRA) designated the Bank as the legal person with the function of establishing, maintaining and operating the Central Credit Register (CCR). While a project team had been working on the implementation of the CCR over the last number of years, this work had now advanced to the stage where Credit Information Providers (CIPs) had commenced the submission of data in respect of consumer loans. CIPs had until the end of 2017 to complete their submissions, and subject to this, and appropriate data quality, it was intended to give access to data, i.e. to produce credit reports, from early 2018 onwards. The project team had moved to the newly formed Financial Stability Directorate in Q2 2017. An organisational design process had also been undertaken to ensure the CCR function was best placed to support delivery of key objectives and to provide assurance on the management of operational risks.

The Commission had, to date, noted or approved all of the major decisions associated with the development of the CCR such as the entering into the contract with CRIF Ireland Limited to establish, maintain and operate the CCR, and the approval of various regulations that underpinned the operation of the CCR. It was proposed that such matters would continue to be reserved to the Commission going forward.

The Commission approved the Delegation of Functions, Credit Reporting Act 2013, and related proposals, as set out in Paper No. 220 of 2017.

This decision was taken under Item 20 – Record of Decisions.

15. Annual Review of Prudential Investment Limits 2017

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

Mr Christofides introduced this item. The annual review of the prudential limits framework was used, in conjunction with the risk budgeting approach, to define the credit risk appetite for the Bank's investment activities. The prudential limits framework ensured that credit risk was diversified over a large number of entities. It also established the minimum standard of creditworthiness the Bank would accept, based predominantly on credit ratings.

The Commission approved the Annual Review of Prudential Investment Limits 2017, as set out in Paper No. 221 of 2017.

This decision was taken under Item 20 – Record of Decisions.

16. Commission Schedule of Meetings 2018

The Commission approved the Commission Schedule of Meetings 2018.

This decision was taken under Item 20 – Record of Decisions.

17. Review of Investment Performance to 30 June 2017

The Commission noted the Review of Investment Performance to 30 June 2017.

18. IT Security – Quarterly Update

The Commission noted the IT Security – Quarterly Update.

19. Minutes of Sub Committees

The Commission noted the Minutes of the meeting of the Budget and Remuneration Committee of 29 May 2017.

20. Record of Decisions for Items 11-16

The Commission considered and finalised its decisions on items 11-16. The decisions are recorded under the relevant items.

21. Any Other Business

On the suggestion of one member it was agreed to bring forward a paper on cryptocurrency to a future meeting of the Commission.

The meeting concluded.