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MINUTES OF MEETING NO. 53 OF

THE CENTRAL BANK COMMISSION

OF 27 JANUARY 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Stefan Gerlach.

1. Minutes of Meetings of 12 December 2014 and of 13 January 2015

The minutes of the meetings of 12 December 2014 (Meeting No. 51) and of 13 January 2015 (Meeting No. 52) were agreed.

2. Matters Arising

Minutes – Meeting of 28 November 2014

The Governor noted that the revised minutes of the meeting of 28 November 2014 (Meeting No. 50) were approved by written procedure on 23 December 2014.

Balanced Scorecard 2015

The Governor noted that the slightly revised version of the Balanced Scorecard 2015 was approved by written procedure on 23 December 2014.

Paper Procurement

The Governor informed the Commission that, as referenced at the meeting on 12 December 2014, the Bank had been examining its options around banknote paper procurement. [redacted]

[redacted]

[redacted]

[redacted]

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He noted that the European Central Bank had recently announced details of its planned Expanded Assets Purchase Programme, otherwise known as Quantitative Easing (QE). The ECB had, however, indicated that the QE programme in relation to sovereign bonds would be restricted to those bonds with a remaining maturity of greater than two but less than 30 years. It had also indicated limits on the Eurosystem's holdings of any one issuer's bonds, taking into account existing holdings. Holdings within the two to 30 year remaining maturity window would not exceed 33 per cent of an issuer's tradable bonds within the same window. The majority of the bonds acquired by the Bank in exchange for the Promissory Notes had more than 30 years remaining. Therefore, the Bank had ample room for participation in the QE programme.

Ms Clarke noted that this had also been briefly discussed at the Joint Audit and Risk Committee meeting on 26 January 2015 and that the Organisational Risk Division was to prepare a note on this.

The Commission noted the Euro Area Developments Update.

4. Credit Institutions

Sharon Donnery, Director Credit Institutions; Ed Sibley, Head of Banking Supervision; Dwayne Price, Head of Banking Supervision – Analysis; and Fiona McMahon, Head of Banking Supervision - Inspections, joined the meeting.

The Commission considered Paper No. 13 of 2015.

Ms Donnery introduced this item, which was to update the Commission on the work of the Banking Supervision divisions. In the past year Banking Supervision was reorganised entirely to ensure that it was set-up for highly effective delivery of its changing responsibilities, arising from the implementation of the Single Supervisory Mechanism (SSM). The Comprehensive Assessment exercise was completed to an extremely tight deadline dealing with sizeable demands of multiple stakeholders and continually changing requirements. While risks remained elevated and the banking system remained vulnerable, the work of Banking Supervision continued to drive material improvements in many aspects of the banks' risk profiles. The new organisational structure was now operational and ready to commence delivery of the 2015 priorities; recognising the considerable challenges the banks and the Central Bank faced. The divisions had adopted a collective philosophy statement – 'Outstanding People, Safe Banks, Influential in Europe' – which summarised their intent.

Ms McMahon summarised the key work and priorities of the Inspections Division. Under SSM, the inspection tasks were now much more intensive than those previously performed under PRISM, with a larger breadth and depth in terms of scope. The purpose of inspections was, through the performance of in-depth investigations, to assess the level, nature and features of the inherent risks and the risk culture; appropriateness and quality of a bank's corporate governance and internal control framework; the control

systems and risk management processes, focusing on detecting weaknesses or vulnerabilities that may have an impact on the capital and/or liquidity adequacy of the bank; the quality of balance sheet items and the financial situation of the bank; and compliance with banking regulations.

The past year had seen an improvement in the operating conditions for Irish banks with reductions in non-performing loans and overall governance improvements. However, despite these improvements, there was still a high level of distressed loans, and conditions remained challenging, including various firm specific issues. To date the new approach under SSM, such as that around the Joint Supervisory Teams (JSTs), was working well. There had, however, been a very significant increase in the more bureaucratic elements of the work, including decision-making timelines, and a huge amount of travel between Frankfurt and Dublin had to be undertaken.

Mr Price summarised the key work of the Analysis Division, which was structured to create clear linkages, relationships, organisational workflows and seniority of engagement between the Bank and the ECB/SSM. For the Analysis Division, the SSM type approaches that had already been articulated by the ECB required further strengthening of the Bank's analytics capability, backed by robust data, and resulting in insightful analysis and, where required, decisive action. The division would play a crucial role in assessing risks across the Irish banking system, engaging with macro-prudential risk assessment and ensuring emerging risks were understood and proactively addressed.

The division was organised across a series of teams covering: internal models, supervisory policies and planning, crisis management, stress testing, risk analysis, and prudential reporting. The overall approach was around challenging the banks on their own analysis and assumptions, supporting the work of the other Banking Supervision divisions and impacting and influencing at the SSM level. A focus in 2015 would be on further developing the stress testing capabilities and approach, although there was not going to be any significant stress test this year. He noted that it was also important from a risk profile perspective to be cognisant of the wider environment, in particular the unique monetary policy landscape that banks found themselves operating within.

Ms Donnery concluded by setting out the key challenges for the year ahead. The post SSM implementation period had seen a major change to the banking landscape, including the Bank's role in supervising banks. While the majority of the work would still be undertaken by Bank employees, decisions for the SI banks was now the responsibility of the Supervisory Board in Frankfurt. The embedding of the resultant changes was a priority and would take time. It was also necessary to embed the new Banking Supervision organisation structures that had been implemented in response to the creation of SSM. In light of the additional demands arising from SSM, including ensuring that the Bank was able to make a wider contribution to the development of methodologies and decision-making within the ECB, it was necessary to both recruit significant levels of resource and address retention issues to the extent possible through maintaining and improving staff engagement and motivation.

Mr Soden asked were the structures and approach that had now been introduced been in place eight years ago, would the same type of crisis have emerged. He also asked if the

approach that was now in place, with such a strong focus on risk management, was in fact removing the risk-taking judgements that would normally be the preserve of investors. Ms Donnery said that exercises such as the recent Comprehensive Assessment, were designed to provide transparency, including for investors. However, there was also an onus that remained with the boards and management of the banks to make the right decisions; supervision could call out risks and challenges and ensure a level of prudence, but decision making remained with the institutions. Mr Sibley added that there was now a direct engagement at board level and there were healthy degrees of challenge and tension in that. Ms Donnery said that the depth of analysis was now much greater than in earlier years, and a best practice approach was being adopted across the SSM network of supervisors which would make the repeat of the recent crisis a much less likely event.

Mr FitzGerald said he recognised the significant enhancements that had been made to the supervisory approach but he remained concerned about the extent and depth of the view that might be taken across the wider macro environment and how that interacted with the banking system and with individual banks. In the previous crisis, the interaction between the banks and the economy was not sufficiently picked up. There was a risk that there might still be a failure to properly examine and understand these interactions. While there was no immediate prospect of such, a new crisis could manifest itself in future years if there was not sufficient examination and analysis on the macro level. Mr Roux said that this was an area where significant progress was being made. The recent stress tests, for example, were designed on the financial stability side with a lot of interaction between that area and banking supervision. On the wider stage, the European Systemic Risk Board had been established to take this macro view and to bring macro-economic analysis, financial stability and banking supervision closer together. The Governor added that the stress test exercise was only one dimension of this within the Bank; the introduction of the bi-annual Macro Financial Review was another example.

Mr Ahearne noted from the presentation that while the levels of non-performing loans were indeed reducing, they remained at high levels. He asked how progress in this area might be categorised. Mr Sibley said that while there had been an improvement across the system, there were still some specific issues on a bank-by-bank basis. The operational response had improved and, while problem loans were being worked through, they remained on the balance sheet of the banks so the levels appeared higher than might be the case. Ms Donnery added that some categories of loan took longer to

deal with, quite often with legal complications, such as buy-to-let loans. It was important to maintain focus on this.

Ms Clarke said that she would have expected initial decision making and bureaucracy around SSM to eventually bed down but she was concerned that this may be a longer term problematic issue and asked how this risk might be managed. She asked if the banks treated or reacted to the supervisory interaction in a different way depending on whether it was seen to be led by the ECB or by the Bank. She also asked about the supervisory team's experience with recovery planning in banks; she noted that in the United States there had been evidence that banks were not fully sure what the supervisor actually wanted them to do in this space.

On this latter point, Mr Sibley said that, where the Bank did challenge on recovery plans, it was on getting the banks to focus on their core business. The first draft of plans often did not focus sufficiently on this point, although in Ireland the banks have had to deal with issues in response to the banking crisis and so may be better placed than banks operating in other jurisdictions. Regarding the treatment of the supervisory approach, Ms McMahon pointed out that there was no distinction made. All supervisors were part of the same system now and there was no different approach or treatment regarding supervisory staff from the ECB or the Bank. The Bank indeed still operated under most of its pre-existing powers. On the decision making process, Ms Donnery said that this would hopefully settle down. The ECB was dealing with multiple national supervisory agencies and it would take a little bit of time for the system to come into balance.

Mr Moran asked if the Bank was considering examining the issue of setting out further targets for the banks around mortgage arrears, as the previous targets had expired at the end of 2014. The Governor said that the banks had met the targets set and, while the Bank retained the powers to introduce new or further targets, it was not being considered at this time. Mr Roux added that dealing with mortgage arrears was now part of the normal day-to-day engagement with the banks and was tied in with various other issues such as liquidity and credit policies, and was not necessarily treated as a separate item.

Mr Sibley, Mr Price, and Ms McMahon left the meeting.

The Commission noted the Credit Institutions Update.

5. Resolution

John Coyle, Director Resolution and Corporate Affairs; and Patrick Casey, Head of Special Resolution Unit, joined the meeting. Ms Donnery remained for this item.

The Commission considered Paper No. 14 of 2015.

Mr Coyle introduced this item. Bank Resolution was one of the three key elements of Banking Union, the others being Banking Supervision, under SSM, and Deposit Insurance (under a new Deposit Guarantee Scheme Directive). All three contained common elements in that they had single rulebooks, and in relation to supervision and resolution, centralised responsibility in a Eurosystem context. In the case of resolution, the rulebook was set out under the Bank Recovery and Resolution Directive (BRRD), with centralised responsibility being vested under the newly created Single Resolution Board (SRB. However, as with the other elements of Banking Union, there was de-centralised operational responsibility which, in Ireland's case, rested with the Bank, as the designated national resolution authority. Within the Bank, day to day responsibility would fall on the Special Resolution Unit, which was located in the recently established Resolution and Corporate Affairs Directorate. The BRRD had yet to be transposed into Irish law, although this was likely to happen by the end of Q1 2015.

Mr Casey then summarised the new arrangements under both the BRRD and the SRM. The BRRD aimed to shift the cost of failure of banks and investment firms from the taxpayers to the institutions themselves, and created a new statutory mechanism to 'bail in' certain types of liabilities. He noted that BRRD: (i) required firms prepare recovery plans (or 'living wills') and authorities to prepare resolution plans; (ii) created a harmonised set of resolution powers; and (iii) required Member States to establish resolution funds, with contributions coming from industry. In Ireland's case the BRRD resolution fund would be separate from the pre-existing Credit Institutions Resolution Fund which from now on would be confined to credit union related activity. The SRM Regulation centralised resolution powers in the SRB and created a common European resolution fund – the Single Resolution Fund (SRF). This would, from 2016 onwards,

take over bank sector contributions from the domestically established BRRD resolution fund.

The general principles of resolution included that shareholders would bear losses first, followed by creditors who would bear losses in the order of priority under national insolvency law, with creditors of the same class treated equitably. However a fundamental change to facilitate bail in was that insured retail deposits and uninsured retail deposits and SME deposits were given preference over other unsecured creditors. A key resolution principle was that "No creditor would be worse off" in a resolution than under insolvency, and, if they ended up worse off, they could be compensated from resolution fund resources. In addition, boards and senior management would be replaced, save for in exceptional cases; and banks and management would be held responsible under national civil and criminal laws.

The new resolution funds would be financed through levies on the industry. The BRRD fund, into which Irish licensed banks and investment firms would contribute during 2015, was being set up to raise a target of 1 per cent of covered deposits in Irish licensed entities over a 10 year period (implying a notional target of €700m for Ireland; thereby equating to annual industry contribution of €70m in 2015). From 1 January 2016, bank contributions would be placed into the new centralised SRF, which would also target raising 1 per cent of covered deposits although across the Eurosystem Member States over an eight year period (equating to approximately €55bn based on the current level of covered deposits in the Eurozone area). The €55bn target over eight years implied annual levies of about €7bn across euro area banks, of which it was estimated that Irish banks would contribute around [redacted]. EU Commission proposals would see Irish bank annual contributions migrate from being an estimated.€70m in 2015 up to an estimated [redacted] per annum by the eighth year.

Mr Coyle then outlined the new responsibilities of the Bank under the BRRD and SRM. The current mandate of the Bank's Special Resolution Unit (SRU) was carrying out credit union resolution activities. It also managed and administered the Credit Institutions Resolution Fund and worked with the Department of Finance in transposing the relevant European directives. Under the new arrangements, the SRU was now also responsible for: overseeing the resolution planning required in respect of the 23 banks and 16 investment firms licensed to operate in Ireland that were within BRRD scope; setting up

and managing the BRRD Fund; actively engaging on BRRD policy initiatives, including at both the SRB and European Banking Authority levels; and undertaking resolution actions should any arise. In addition to the preparatory work on various fronts, a major focus in 2015 would be on drawing up first iterations of resolution plans for the Significant Institutions. This posed both operational and resource led challenges for the Bank. The work was mandatory, complex, and required specialist skills. Given availability constraints, it would likely prove difficult to recruit the necessary resources in a short time frame, and third party resourcing may be required to cover any gaps.

Mr Soden said that this appeared to be a significant change in terms of those who would be held liable. He asked if there was an education programme around this for potentially impacted investors. The Governor said that under the new arrangements it would be large corporations and bondholders that would be more at risk; it would be costly on the firms to provide the necessary funding. Mr Casey said that in service of institutions building up bail in (or loss absorbing) capacity on balance sheet, BRRD was introducing new prudential ratio requirement to be set by resolution authorities – the minimum requirement for eligible liabilities (MREL). Bail in, when it was fully operational with MREL levels developed by firms, would represent the preferred resolution strategy for most firms.

Mr FitzGerald asked how the SRU would resource up when it was faced with a resolution case. Mr Casey said that the SRU already had some good practical experience, having dealt with resolution action in the credit union sector. In those cases there was a good deal of cross divisional cooperation and staff members were made available from other areas; it would be envisaged that similar cross divisional teams could be brought together for any future actions. The Governor added that an advantage to having the resolution responsibility within the Bank was that there were staff that could be drawn in when necessary.

Ms Clarke noted the reference to banks and management being held responsible under national civil and criminal law. She asked how this was being legislated for and what sanctions were available. Mr Casey said he would prepare a note setting that out.

The Commission noted the Resolution Update.

Mr Coyle and Mr Casey left the meeting.

6. Macroprudential Measures

Mark Cassidy, Head of Financial Stability Division; Niamh Hallissey, Financial Stability Division; and Therese Grace, Financial Stability Division, joined the meeting. Ms Donnery remained for this item.

The Commission considered Paper No. 23 of 2015.

The Governor introduced this item. He recalled that on 13 January 2015, a Commission Seminar on the proposed macro-prudential policy for residential mortgage lending was held. In this seminar a detailed summary of stakeholder responses to the consultation paper (CP 87) was presented. In addition, the results of three pieces of economic research were shared with the Commission. These research projects covered the subjects of the potential side effects of the macro-prudential measure and complementary policy options, the macroeconomic effects of the measure and the role of first time buyers (FTBs) in housing bubbles. Immediately after this seminar a meeting of the Commission was held. In that meeting three potential amendments to the LTV proposals had been presented for consideration. The Commission had discussed those policy options in detail.

The Commission was now being asked to consider specific measures for approval which were the result of the discussions to date and which incorporated the feedback received as part of the consultation process. These measures would be imposed by Regulation issued under Section 48 of the Central Bank (Supervision and Enforcement) Act 2013.

Mr Cassidy noted that the Commission had been circulated with two documents, which it was proposed to publish; an Information Note to accompany the Regulations, and a Feedback Statement which summarised the submissions to the consultation. The Information note, an updated version of which was circulated at the meeting, provided detail on the revised Regulations. This set out the objective and scope of the measures; the loan-to-value (LTV) limits and exemptions; the loan-to-income (LTI) limits and exemptions; and the monitoring and evaluation of the measures. The Feedback Statement outlined how the significant comments received as part of the consultation process had been dealt with in the revised Regulations.

Mr Cassidy then summarised the key elements of the proposed measures. Regarding the LTV measures, there were different limits proposed for different categories of buyers. For non-first time buyers of primary dwelling homes (PDH), a limit of 80 per cent LTV would apply on new mortgage lending. For first time buyers (FTBs) of PDHs, a limit of 90 per cent LTV would apply on the first €220,000 of the value of a residential property, and a limit of 80 per cent LTV would apply on any value of the property thereafter. In this way, FTBs purchasing more expensive properties would be subject to a lower maximum LTV ratio than those purchasing cheaper properties. The cumulative in monetary terms value of loans which breach any one of these limits should not exceed 15 per cent of the euro value of all housing loans for primary dwelling home purposes entered into in an annual period. The LTV limits would not apply to housing loans granted to borrowers who are currently in negative equity and wish to move property. For non-primary dwelling home purchases, a limit of 70 per cent LTV would apply, which should be exceeded by no more than 10 per cent of the euro value of all housing loans for non-PDH purposes.

A LTI limit of 3.5 times gross annual income would apply to all new lending for PDH purposes. This limit should be exceeded by no more than 20 per cent of the euro value of all housing loans for non-PDH purposes. Mortgages for non-PDH purposes were exempt from this limit. The LTI limits would apply to borrowers in negative equity who are currently in negative equity and wish to move property.

Mr Soden welcomed the proposals, particularly around the treatment of FTBs. He asked if there were potential unintended consequences from the measures for certain categories of people; for example would divorced or separated people be excluded from the FTB category. The Governor said that the definition of FTBs was aligned with the Revenue definition; the measures allowed for flexibility on particular cases through the proportionate limits. Mr FitzGerald said that the Bank's role was to protect financial stability and there were good reasons advanced, based on research, to allow for some variance around the FTB cohort; there would need to be good evidence around other cohorts to allow for any further general variance.

Mr Moran suggested that some of the questions, such as that raised by Mr Soden, could be dealt with in the supporting FAQ communication materials. He asked why a loan

value of €220,000 had been identified as the cut-off point for the FTB LTV limit. Mr Ahearne noted that, due to the value limit, the measures would hit buyers in Dublin harder than elsewhere in the country but said it was important to recognise the measures were there to protect the borrowers and that this should be part of the Bank's communication. The Governor pointed out that a range of factors were taken into consideration around this value, including the level and distribution of house prices around the country; the threshold figure was close to the median value for FTBs buying in Dublin in the latest data. He further noted that the sliding nature of the LTV cap meant that the measures did not significantly restrict FTBs in more expensive areas of the country.

Mr Geraghty said that it would be useful to present this sliding scale when communicating. He said he approved of the revised proposals, in particular around FTBs. He welcomed the fact that the Bank had taken a very open and consultative approach on this and that it had responded to the various submissions received and to the broad national debate that had taken place. He remained concerned around various other aspects of the housing issue, in particular the lack of supply and security of tenure for those in the rental sector. He said the Bank needed to emphasise the purpose of its measures when communicating and to show awareness of issues that arose for other policy makers in the broader housing area. He also noted that borrower education was important and was something that should be addressed by the banking sector at large.

Ms Byron also supported the proposals and said the key remaining matter was on ensuring the communication was such that it was well understood. She believed that all key outstanding questions had been addressed in the new proposals and it would be important to get that across publicly. Ms Clarke said she believed this was a very good outcome and it was very positive to see the Bank take on public feedback in such a way. She felt that the position of negative equity borrowers needed to be explained more fully in the communications.

The Governor thanked the members for their comments and detailed consideration of this matter over the past months. He noted that the legislation required the Bank to formally consult with the Minister and he planned to do so immediately and to announce the measures as soon as possible after that, perhaps as quickly as today.

Mr Cassidy, Ms Hallissey, Ms Grace, and Ms Donnery left the meeting.

The Commission:

- **Approved the policy measures for mortgage lending as outlined in the updated Information Note as per Paper No. 23 of 2015, and which would be reflected in the Central Bank (Supervision and Enforcement Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 ('the Regulations'); and,**
- **Delegated to the Governor the capacity to commence the Regulations and approve any final changes to the revised Regulations.**

7. Floating Rate Notes (FRNs) Valuation

The Commission considered Paper No. 10 of 2015.

This had also been considered by the Joint Audit and Risk Committee at its meeting on 26 January 2015.

The accompanying paper (Paper No. 10 of 2015) pointed out that there remained no active secondary market for the Bank's portfolio of floating rate notes (FRNs) and they continued to be valued using an internal valuation model. The valuation policy for the floating rate notes foresaw an annual assessment of the valuation process for approval by the Commission. In line with the policy, the paper set out a number of key elements of the valuation approach which informed the value of the FRN portfolio to be reported in the 2014 annual accounts.

The FRNs had substantially increased in value throughout 2014, in line with the improving fiscal position of the Irish sovereign together with the general tightening of peripheral yields observed throughout the euro area. On 4 November 2014 the National Treasury Management Agency (NTMA) issued a 2030 Irish Government Bond which extended the observed Irish yield curve by approximately five years. This change had been incorporated in the model and reduced marginally the length of the sovereign yield

curve that had to be extrapolated. On 22 December 2014, the Bank sold €0.5bn nominal of the 2038 FRN at an offer price of 136.06.

It was proposed to calculate the end-year valuation by not placing any weight on the price received from the one-off purchase and cancellation by the NTMA of a portion of the 2038 bond, or the price published by Bloomberg for the FRNs; by keeping the same reference basket of sovereigns, which had been used since inception, to extrapolate the Irish yield curve (i.e. Spain and Italy, for the tenors where these are available, and France for longer tenors); and by incorporating a refinement to the process for estimating the extrapolated zero rate discount curve. The upward revision at 31 December 2014 in the portfolio value between the original model and the refined model was €0.8bn.

Ms Clarke and Mr Geraghty confirmed that the Joint Audit and Risk Committee recommended the valuation approach. It was noted that any approval was subject to review by the External Auditors.

The Commission approved the valuation approach, including the refinement to the estimation of the discount curve, which would result in a value of €33.66bn reported in the end-2014 accounts. This approval is subject to review by the External Auditors.

8. Annual Impairment Review: 2014 Financial Accounts

The Commission considered Paper No. 11 of 2015.

This had also been considered by the Joint Audit and Risk Committee at its meeting on 26 January 2015.

The accompanying paper (Paper No. 11 of 2015) noted that, as part of the process of finalising the annual accounts for 2014, the Bank was obliged to carry out a formal impairment assessment of a subset of its financial assets, namely, those categorised for accounting purposes as hold to maturity. The 2014 impairment assessment followed the same methodology to ensure that the assessment completed this year was consistent with

previous years. This framework had been calibrated in line with applicable accounting and financial reporting standards.

[redacted]

Ms Clarke and Mr Geraghty confirmed that the Joint Audit and Risk Committee recommended the making of the proposed provision. It was noted that any approval was subject to review by the External Auditors.

The Commission approved the making of a provision in the 2014 Statement of Accounts of €250m. As the existing provision is €350m, this is a reduction of €100m. This approval is subject to review by the External Auditors.

9. Appropriation of Profits

The Commission considered Paper No. 12 of 2015.

This had also been considered by the Joint Audit and Risk Committees at its meeting on 26 January 2015.

The accompanying paper (Paper No. 12 of 2015) noted that the Central Bank of Ireland (Surplus Income) Regulations, 1943, provided for an appropriation of a maximum of 20 per cent of the Bank's profit in a financial year to the General Reserve. The balance was

payable to the Exchequer as surplus income. The profit for 2014 was currently forecast to be in the region of €2.1bn, of which €0.7bn related to realised gains from sales of the Special Portfolio.

Ms Clarke and Mr Geraghty confirmed that the Joint Audit and Risk Committee recommended that an appropriation of the maximum of 20 per cent of profit (excluding depreciation) be retained from the surplus income payable to the Exchequer and transferred to the general reserves. It was noted that the value of such an appropriation remained to be finalised on completion of the end-year annual accounts which were subject to review by the external auditors.

The Commission, in respect of the Financial Accounts for 2014, approved an appropriation of 20 per cent of net profits to the General Reserve; and approved full provision for depreciation in accordance with the Bank's accounting practice.

10. Marked-to-Market Asset Allocation Review

The Commission considered Paper No. 15 of 2015.

This had also been considered by the Risk Committee at its meeting on 11 December 2014.

The accompanying paper (Paper No. 15 of 2015) noted that, against the backdrop of low growth and low inflation in the euro area and significant ECB actions to address this, 2014 saw a significant further fall in yields to record low levels across euro-area debt markets. Overall yields fell and the yield curves of both 'core' (AAA-rated) and 'semi-core' (AA-rated) flattened considerably out to five years. In this environment the risk and return trade-offs were poor, and increasing marginal return may involve incurring disproportionate risk.

[redacted]

[redacted]

Mr Geraghty confirmed that this matter was considered by the Risk Committee at its meeting on 11 December 2014 and that the Committee was recommending approval of the proposals as set out in Paper No. 15 of 2015.

The Commission approved the adjustment of the investment policy for the MTM portfolio to effect the changes set out in the recommended allocation and tactical deviations, detailed in Paper No. 15 of 2015; [redacted]

11. Review of Hold-to-Maturity Investment Options

The Commission considered Paper No. 16 of 2015.

This had also been considered by the Joint Audit and Risk Committees at its meeting on 26 January 2015.

The accompanying paper (Paper No. 16 of 2015) pointed out that the Hold-to-Maturity (HTM) portfolio was first established in 2004 with the aim of maximising return, subject to the avoidance of excessive market risk. This was achieved by investing in longer dated bonds. Furthermore, HTM bonds were not subject to market risk as HTM accounting treatment spread the return on a bond evenly across its life in exchange for a commitment not to trade the asset. In November 2013 an interim strategy for the HTM portfolio to re-invest upcoming maturities and coupons in bonds with a maturity less than

one year (also referred to as sub one year) was adopted. This provided the portfolio with the flexibility to gain maximum benefit in the event that interest rates began to rise. The purpose of the accompanying paper was to review the interim HTM investment strategy in the context of market developments and to assess investment strategy options for 2015 redemptions and coupons (c. €2.4bn).

During 2014, the yields on core, semi core and peripheral bonds reached record lows due to weak inflation and monetary easing by the ECB. In this low yield environment, it was becoming increasingly challenging to generate a significantly positive return from the Marked-to-Market (MTM) portfolio and as a result it had become more important to seek increased returns on the HTM. It was now recommended to alter from the current strategy to one in which coupons and redemptions were invested across the yield curve (at maturities from one year to ten years), which could be described as a maturity-weighted approach. This proposal would reinvest about 20 per cent of proceeds (coupons and redemptions) at the 10 year maturity with the remainder allocated to lower maturities on a declining basis. This option was expected to generate returns significantly above the cost of funds on the portfolio, and contrasted sharply with the current investment strategy that invested coupons and redemptions in sub one year maturities at predominately negative rates. Finally, this strategy sought to balance the risks given the considerable uncertainty over future interest rates, sought to extract the value of the term premium by investing in longer term bonds while maintaining a relatively responsive portfolio by allocating a portion to the short end of the curve.

Mr Geraghty confirmed that this matter had been discussed by the Risk Committee.

While the original proposal was for a change from a sub one year investment strategy to a maturity-weighted approach, the Governor suggested that some flexibility be built in due to the current environment and that the decision should be one of moving towards a maturity-weighted approach. This could be reviewed again in about six months' time.

The Commission approved the change from a sub one year investment strategy towards a maturity-weighted approach for the Bank's HTM portfolio for 2015.

12. Operational Risk and Business Continuity

The Commission considered Papers No. 17 and No. 18 of 2015.

Mr Geraghty confirmed that these items had also been considered by the Risk Committee at its meeting on 11 December 2014 and the Committee was recommending approval of the respective Frameworks, detailed in Papers No. 17 and No. 18 of 2015 to the Commission.

He noted that the Audit Committee had considered various reports at its meeting on 26 January 2015, including a draft Audit Plan and a report on a fraud incident. He said that he believed there should be an enhanced focus on IT security to ensure that not only the Bank's systems, but those of suppliers and third parties that the Bank depended on, were sufficiently robust. He also said that, in addition to the Audit examination, the Risk Committee would also be considering a report on the fraud matter. Ms Clarke confirmed that a management response to the fraud incident was due be reported to the Audit Committee in due course.

The Commission approved the Operational Risk Management Framework and the Business Continuity Management (BCM) Framework.

13. Risk Committee Terms of Reference

The Commission considered Paper No. 19 of 2015.

This had also been considered by the Risk Committee at its meeting on 11 December 2014.

Mr Whoriskey introduced this item. The Risk Committee had committed to reviewing its performance every year. The most recent review, carried out in December 2014, included a broad comparison of the typical roles and duties noted by external sources. The review concluded that the Committee was undertaking almost all of the roles/duties that were typically assigned to such a committee, with one suggested change arising from the

Committee discussion regarding its role in overseeing the Organisational Risk function. It remained an outstanding action to document and agree a formal risk appetite statement. It was intended to address this action in early 2015.

The Committee had previously discussed the technical complexity, diversity and importance of investment related issues it dealt with and which may merit some external support to the members. The Committee agreed to the appointment of a Special Advisor – Mr Lars Frisell - who would provide a sounding board and input to members on investment related matters. The Committee also agreed to a proposed change to its terms of reference arising from the benchmarking; namely to add a reference to the Committee's role in overseeing the Organisational Risk function, in terms of access to resources, information and freedom to operate without management or other restrictions.

The Commission approved the revised Terms of Reference for the Risk Committee.

14. Annual Review of Staff Code of Ethics and Behaviour – Update

Liz Joyce, Director Human Resources; and Derval McDonagh, Head of Human Resources, joined the meeting.

The Commission considered Paper No. 20 of 2015.

Ms Joyce introduced this item. She recalled that the Bank's Employee Code of Ethics and Behaviour was discussed at the Commission meeting on 12 December 2014. The Commission requested that three provisions in particular – concerning engagement in political activities; general financial integrity; and gifts and business hospitality - be reviewed to ensure they remained appropriate and fit for purpose. She noted that there had been extensive management consideration and discussion of these matters in the intervening time.

Ms McDonagh said that it was not proposed to make any changes to the sections of the Code around political activities. While alternative wording was considered, it was felt that political involvement of any kind should always be considered in the light of the

Bank's independence and apolitical status. Regarding financial integrity, there was an acute awareness of the levels of financial difficulties which existed amongst citizens in general and it stood to reason that a proportion of Bank employees had personal experience of same. It was therefore proposed to modify the wording of this section to reflect the fact that some staff may find it difficult to reach the "highest standards" espoused in the original wording. Finally, it was proposed to increase the value of gifts from non-regulated entities that may be accepted by staff from €25 to €50; this reflected similar provisions being introduced by the ECB.

Ms Clarke requested that some of the new wording around the financial integrity provisions, particularly those referencing the Bank reserving the right to review an employee's role where a conflict (actual or potential) of this type arose, be reviewed to ensure that it would not be interpreted as going against an employee's legal rights. Ms Joyce agreed that this would be reviewed before finalising the revised code.

Ms Joyce and Ms McDonagh left the meeting.

The Commission approved the revised Employee Code of Ethics and Behaviour.

15. Appointment of Consumer Advisory Group

The Commission considered Paper No. 21 of 2015.

The accompanying paper (Paper No. 21 of 2015) noted that the Central Bank Reform Act 2010 (the Act) provided for the establishment of a Consumer Advisory Group (appointed by the Central Bank). The Consumer Advisory Group's (CAG) role was to advise the Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services. The Commission originally approved the appointment of members to the CAG in January 2011, in accordance with the Act. At its meeting in November 2013, the Commission approved the re-appointment of members to the CAG on a rolling basis, to ensure minimum disruption during the changeover from old to new membership. The Commission was now requested to note the activities of the

CAG in 2014 and to approve the appointment of a new member, Mr JB McCarthy, whose suitability for membership was set out in the accompanying paper.

The Commission noted the activities of the Consumer Advisory Group in 2014, and approved the appointment of Mr J B McCarthy as an additional member to the Group.

16. Authorisations Committee Annual Report – Review of Category 1 Authorisations

The Commission considered Paper No. 22 of 2015.

The accompanying paper (Paper No. 22 of 2015) noted that the Authorisation Framework for Financial Service Providers was approved by the Commission at its meeting on 14 October 2010. Designed to make the most effective and efficient use of resources and assist in the timely consideration of new applications, the framework for granting of authorisations adopted a risk-based approach to the making of regulatory decisions. High levels of seniority were required to process the applications as the nature, scale and complexity of the applicant's business increases.

The principal change from the previous regime was the delegation by the Commission of the powers to authorise Category 1 firms and the establishment, by management, of an Authorisation Committee to consider high risk cases. All approvals by the Authorisation Committee of Category 1 firms must be reported to the Commission on an annual basis by the Deputy Governor (Financial Regulation).

[redacted]

The Commission noted the report of the Authorisations Committee: Category 1 Authorisations 2014.

17. Supervisory Update

The Commission considered Paper No. 24 of 2015.

Mr Roux introduced this item. He updated the Commission on the following matters:

Senior Level Appointments

The competition to fill the vacancy of Director of Policy and Risk had successfully concluded. The Bank had offered the position to a suitably qualified external candidate and it was anticipated the Bank could formally confirm his appointment in coming days.

[redacted]

Policy Items

The accompanying paper (Paper No. 24 of 2015) summarised the key regulatory policy items on the agenda for the first half of 2015; it also set out the current status on active public consultations.

The Commission noted the Supervisory Update.

18. Risk Information Pack

The Commission considered Paper No 25 of 2015.

The Commission noted the Risk Information Pack.

19. Governor's Quarterly Report on Expenses

The Commission considered Paper No 26 of 2015.

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

20. Minutes of Meeting of Audit Committee of 24 October 2014

The Commission noted the minutes of the meeting of the Audit Committee of 24 October 2014.

21. Any Other Business

Fusion Update

The Governor recalled that, at its meeting on 26 September 2014, the Commission noted that, subject to the main contract tender amount being compatible with the overall budget envelope, the Bank would proceed with the appointment of the main contractor as soon as possible with a view to commencing construction in March 2015.

The Invitations to Tender (ITT) were issued to the six pre-qualified applicants on 4 November 2014; all submitted tenders on the due date of 19 December 2014. [redacted] The six tenders were currently being evaluated and the selection of the preferred tenderer was due to complete this Friday, 30 January 2014. In the coming week, the Letter to Successful Tenderer and the five Letters to Unsuccessful Tenderers would be issued. The Letter to Successful Tenderer would commence the formal process which would lead to an irrevocable contract with the Main Contractor. While the correspondence was confidential, it was possible that the issue would generate some media attention, and responses to potential media queries were being prepared in readiness.

It was expected that a binding *Letter of Acceptance* would be issued to the Successful Tenderer week commencing 9 March 2015. During the four week standstill period the Main Contractor would be asked to provide a number of documents. In the unlikely event that the Tenderer did not submit the documents as required within the time allowed then a number of options could be progressed to continue the selection process. A more detailed update to the Commission on the Fusion Programme would be provided following the appointment of the Main Contractor, when there would be greater confidence in any proposed cost and scope variations to the Programme.

The meeting concluded.

Governor
26 February 2015

005387

MINUTES OF MEETING NO. 54 OF

THE CENTRAL BANK COMMISSION

OF 26 FEBRUARY 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Stefan Gerlach, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Des Geraghty.

The Governor opened the meeting by noting that Mr Ahearne's term as a member of the Commission was due to expire on 8 March 2015. Contact had been made with the office of the Minister for Finance regarding the vacancy that would arise.

The Governor proposed that the Commission away meeting for 2015 be held at the Teagasc Head Office, Oak Park, Co. Carlow. A date and arrangements would be advised.

1. Minutes of Meeting of 27 January 2015

The minutes of the meeting of 27 January 2015 (Meeting No. 53) were agreed.

2. Matters Arising

Banknote Paper Procurement

[redacted]

[redacted]

[redacted]

3. Euro Area Developments – Issues for the Central Bank

[redacted]

[redacted]

[redacted]

The Commission noted the Euro Area Developments Update.

4. Consumer Protection

Bernard Sheridan, Director Consumer Protection; Colm Kincaid, Head of Consumer Protection – Policy and Authorisations; and Helena Mitchell, Head of Consumer Protection – Supervision, joined the meeting.

The Commission considered Paper No. 40 of 2015.

Mr Sheridan introduced this item, which was to update the Commission on the work of the Consumer Protection Directorate.

Mr Kincaid set out the key policy highlights of the past year. The Directorate had put in place a detailed process for the use of the Bank's Customer Redress powers; introduced additional Conduct of Business Requirements and Minimum Competency Requirements for debt management firms; and worked with the Department of Finance on the Consumer Protection (Regulation of Credit Servicing Firms) Bill on the regulation of loans transferred to unregulated entities. There was also a significant ongoing level of engagement with the European Supervisory Authorities (ESAs) on the development and implementation of relevant EU legislation. During the course of the year the EU Commission recommended ESAs give consumer/investor protection a higher priority and make full use of available powers. The Bank had played an active role on this front; Mr Sheridan was appointed Chair of the European Banking Authority (EBA) Standing Committee on Consumer Protection and Financial Innovation.

On the wider international front, Mr Sheridan reported on the progress of the International Financial Consumer Protection Organisation (FinCoNet), which now comprised 17 member countries and was supported by the OECD. In 2014 it published a Report on Responsible Lending, which reviewed the supervisory tools available for consumer lending practices. Its 2015 priorities included the development of a database of

all the key supervisory tools utilised by member countries in carrying out their consumer-related supervisory mandate, an examination of how innovative and emerging technology was having an impact on financial consumer protection, and a review of the role incentives play in granting credit. The Bank was also playing a very active role on this front; Mr Sheridan was currently the Chair of FinCoNet while Mr Kincaid chaired the sub-group looking at incentives and credit.

Mr Kincaid then set out the Directorate's overall approach to authorisations, for which it held responsibility for a wide cohort of firms including payment institutions, e-money institutions, retail intermediaries, moneylenders, bureaux de change, debt management firms and retail credit firms, and which would take on the authorisation of credit servicing firms in the future. A centralised authorisation function was created in the Directorate in January of this year. The aim was to ensure robust and timely processes for authorisation and refusal/revocation and appropriate challenge on consumer issues. Key points from 2014 included a continued downward trend in the number of authorised retail intermediaries and that approximately 50 per cent of the debt management firms that had submitted an application when the Bank took on regulating this sector had since withdrawn, and in some cases formal refusals were planned.

Ms Mitchell set out the Consumer Protection approach to supervision. The Directorate had responsibility for more than 3,000 firms across all PRISM impact categories. Sectoral and cross-sectoral risks were primarily assessed via themed inspections and firm-specific interventions were also used where issues were identified through on-going monitoring of the sector or other sources, including whistleblowers. Some of the key thematic work undertaken in 2014 included involvement in the cross organisational work programme on mortgage arrears; completion of the review of sales incentives for direct employees of banks, insurers, and investment firms; the provision of annual pension statements by life assurance companies; and the introduction of a new initiative of inspecting newly authorised firms.

The Directorate had been involved in a number of Enforcement cases. Among the more significant were breaches by FBD Insurance of various requirements of the Consumer Protection Code, which resulted in a sanction of €490,000; and breaches of regulatory requirements by Provident Personal Credit Limited resulting in a sanction of €105,000.

Mr Sheridan concluded the presentation by noting the Directorate's three year strategy was drawing to a close this year. Its evolving strategy for the coming period would be informed by building on successes to date; the introduction of the Single Supervisory Mechanism (SSM); recommendations from the Peer Review of Consumer Protection and other external reviews; recommendations from an internal review of its inspection processes; advice from the Consumer Advisory Group (CAG); and feedback from stakeholders. The Directorate had also recently published its Consumer Protection Outlook Report, which had been circulated to Commission members, and set out the key objectives for the coming year.

Mr Soden asked if there was evidence of any rebuilding of trust among consumers in the banking sector; such trust was necessary for a functioning financial system. Mr Sheridan said that this was largely a cultural issue, and the Consumer Directorate was continuing to work closely with the prudential divisions in this regard. There was evidence of positive developments in how the banking system was responding to issues. For example, the Bank was seeing good progress by high impact banks in implementing consumer protection risk frameworks. The banks were keen to develop a good framework around dealing with errors and consumer complaints and were less likely to wait for the Bank to push them on such issues. However, there were still particular issues that required attention and further development.

Ms Clarke had a number of questions. She asked if the Bank could do anything about cases such as that which recently arose in the High Court which was taken by an entity that was exempted from regulation because it availed of an exemption clause in the legislation. In the context of the Consumer Protection Outlook, which referenced engagement with senior management and boards around embedding cultural change, she asked what metrics the Bank could use to measure this. She enquired as to what were the main issues or concerns raised by the CAG. She also asked if the Bank utilised research around consumer decision making and how the Consumer Directorate worked with colleagues in other supervisory areas around thematic reviews.

On the sub-prime High Court case, Mr Sheridan confirmed that the firm in question was not regulated as it had availed of a legislative exemption. He said the Bank would further discuss with the Department of Finance the scope to close off exemptions for certain types of mortgage lending in the context of proposed legislation on credit servicing.

Regarding engagement at senior levels in firms, Mr Sheridan said that meetings were held separately with CEOs and with independent directors. These meetings were focused on tangible outcomes, such as developing proper Conduct Risk Frameworks. Ms Mitchell added that inspection staff from the Consumer Directorate engaged with firms at all levels, from the Board to the front line staff and were able to observe practices at first hand. On the issue of the CAG, Mr Sheridan said the Group had been focused on resourcing and this was an issue that was being addressed and indeed was one to which the Commission had positively responded. The CAG was also interested in ensuring the Bank pursued enforcement cases where that was warranted. Regarding consumer research, Mr Kincaid pointed out that the Bank was engaged in a three-year project with the ESRI and other public sector stakeholders focusing on how consumers make decisions. Also, via the Bank's membership of the Joint Committee Sub-Committee on Consumer Protection and Financial Innovation, it was overseeing a pan-EU consumer research project to develop the forthcoming regulation on Key Information Documents for packaged retail and insurance-based investment products. On the issue of cooperating with prudential colleagues, Ms Mitchell said that there was very strong cooperation with the other supervisory divisions. SSM had introduced a new dimension to this, including that around decision making, and this was still bedding down. Mr FitzGerald said he would be concerned if relevant information was not being shared across the organisation as a result of SSM. Mr Roux said while there were specific rules around information sharing, nothing of importance or relevance would not be shared.

Ms Byron said it was very positive to see the levels of engagement at the wider European and international level, particularly the FinCoNet initiative where the Bank was taking a leading role. Regarding engagement with firms, she said it was very important to maintain a direct line into CEOs which, in her experience, was an effective level of engagement. She raised a question around 'minded to refuse' letters when it came to authorisations. She asked if there was a risk with this approach, in that some might accept that without challenge while others may be more robust in their approach thereby creating an uneven playing field. Mr Kincaid clarified that 'minded to refuse' referred to a necessary step in the proper process of refusing an application for authorisation, to give the applicant an opportunity to make final representations before a final decision was made whether or not to grant an authorisation, rather than being the conclusion of the process. Ms Byron said she remained concerned around consumer awareness of

passporting firms and their status, as instanced in the recent Setanta Insurance case, and asked if there had been any developments in this space. Mr Sheridan said that the legal position was that if an insurance firm was authorised in one Member State it was entitled by EU law to offer services in others, but that the Bank was looking at disclosures in this regard and at wider education, particularly around the intermediary sector which tended to be the conduits through which such firms operated.

Mr Ahearne noted that the Bank was active in the space of bank charges but said the real consumer concern was around interest rates; he asked if the Bank had any powers it could exercise in this space. Mr Sheridan said the Bank did not have direct powers around interest rate margins; however it did have authority to oversee how banks relied on their terms and conditions on interest rates, including whether this was correct and fair; for example, the Bank was engaging with lenders around treating new customers differently to existing customers when applying standard variable rates. The Governor added the Bank had recently written to the relevant CEOs asking them to set out their approaches to the application of standard variable rates, but the Bank had no particular levers in this regard.

The Commission noted the Consumer Protection Update.

Mr Sheridan, Mr Kincaid, and Ms Mitchell left the meeting.

5. Insurance Supervision

Sylvia Cronin, Director Insurance Supervision; Mark Burke, Head of Life Insurance; and Kieran Murphy, Head of General Insurance, joined the meeting.

The Commission considered Paper No. 41 of 2015.

Ms Cronin introduced this item, which was to update the Commission on the work of the Insurance Supervision Directorate. She noted some significant developments over the past year. The IMF had completed its ROSC review of insurance supervision in Ireland. On-site and off-site reviews took place in the final quarter of 2014. The IMF had rated 11

of the internationally recognised Insurance Core Principals (ICPs) as fully observed; 10 as largely observed; and five as partly observed. A summary of the findings was presented in the accompanying presentation (Paper No. 41 of 2015). Another key development in 2014 was the introduction of new general insurance Reserving Requirements. The new Requirements were issued to significantly improve the existing regime for reserve adequacy in non-life companies. They would also serve as a stepping stone in the implementation of Solvency II which, from January 2016, would introduce a harmonised, sound and robust prudential framework for insurance undertakings across the EU. The Bank was planning for its implementation and was prioritising the development of new supervisory guidance and adaptation for use as part of the PRISM approach; and undertaking a comprehensive review of the way Insurance Supervision would operate once Solvency II was implemented. There was also a focus on variable annuity companies in 2014 following a stress testing exercise conducted in late 2013 which, while confirming the strong capital position of firms, also highlighted areas for focus, including modelling sophistication, operational risk, and liquidity risk. Finally, among the notable items of the past year, was the Setanta Insurance case which, while regulated by the Maltese authorities, required the intervention of the Bank.

Ms Cronin then highlighted some ongoing challenges. These included the still challenging economic environment which posed particular issues for the insurance industry with lower investment returns combined with lower and sometimes negative underwriting returns. The already mentioned implementation of Solvency II as well as responding to the IMF review would also be areas of focus in the coming period.

Mr Murphy then set out some key areas of regulatory engagement in the non-life sector by way of some case studies. [redacted]

[redacted]

Mr Roux also pointed out that combined ratios (claims and expenses) in excess of 100 per cent continued to be a concern for a number of high impact non-life companies. A thematic pricing review was planned for this year that would look at all aspects of pricing and underwriting rigour across the market to identify key areas of differential.

Mr Burke then set out some case study examples from the life sector. [redacted]

[redacted]

[redacted]

Ms Cronin concluded the discussion by noting that a key challenge for the Directorate remained that around recruiting and retaining skilled staff.

The Commission noted the Insurance Supervision Update.

Ms Cronin, Mr Burke and Mr Murphy left the meeting.

6. Freedom of Information

John Coyle, Director Resolution and Corporate Affairs; and Tom Meade, Deputy Head of Legal Compliance, joined the meeting.

The Commission considered Paper No. 42 of 2015.

Mr Meade introduced this item which provided an overview of Freedom of Information (FOI) and how the Bank was preparing for it. FOI provided a legal right to members of the public to access information held by public bodies. The objective of FOI was to enhance transparency and strengthen accountability of public bodies. Under the Freedom of Information Act, 2014, the Bank was now due to be subject to FOI legislation, and open to FOI requests being submitted from 14 April 2015 and in respect of records created from 21 April 2008.

Under the legislation, there were a number of specific exemptions for the Bank; in the areas of information held on regulated firms and persons, in respect of ESCB records, and also records which in future would be held on the Central Credit Register. The Bank was currently getting legal advice on the extent of the specific exemptions as it was expected that there would be challenges on the interpretation of the specific exemptions. There were also some general exemptions under the Act for all public bodies covering, for example, sensitive information, information received in confidence, around on-going deliberations by public bodies, and administrative exemptions, such as voluminous requests; however these general exemptions were subject to a public interest override test. Given the Bank's specific exemptions, the current understanding was that the main types of records open to FOI would be administrative mainly covering HR, procurement and policy.

The Bank had been actively preparing for FOI for the last five months and had adopted a centralised model in responding to FOI requests. A dedicated FOI Unit had been established and this Unit would be responsible for processing and responding to all FOI requests. Given that everyone had a responsibility for FOI, particularly in respect of creating records, an FOI awareness campaign had been implemented for all staff and an online learning module was to be launched in the coming days.

The Bank faced a number of challenges in respect of FOI. Given the history of the Bank on confidentiality, FOI would bring a cultural change in how certain information would now be expected to be provided to the public. Under the legislation, there was a

statutory timeframe of 20 working days to respond to most requests. The Bank did not have an integrated records management system covering hard and soft copy records and the retrieval of relevant records in the timeframes would be predominantly manual and therefore challenging. It was also very difficult to predict the volume of FOI requests the Bank would receive, but indications were that it could be significant, particularly in the early stages.

Mr FitzGerald noted that it was the practice of the Department of Finance, and possibly others, to make available the responses to FOI requests to everyone simultaneously, thus reducing the 'exclusive' nature of certain requests, particularly from media. Mr Moran questioned the centralised approach that was being taken; he noted that in government departments it was the practice to decentralise decision making to the relevant business areas as they knew best in terms of what information could be released. He noted that the role of decision maker was set out very clearly in the legislation and that the decision maker had sole authority when deciding on a FOI request. He added that the starting point on any request should be that the information be released and only then should the exemptions be considered. Ms Clarke said she shared Mr Moran's concerns regarding the centralised model; there was a large degree of judgement called for on such matters and it would be important that the people with the right overview of a particular issue would be the ones making those judgements. Mr Ahearne asked if staff were well informed of what was coming and of what their responsibilities would be. Ms Byron asked if there were data management aspects of this that needed to be considered and if there was anything the Commission might be able to help progress in this regard.

In relation to the centralised model, Mr Meade said that this was an initial approach in order to bring the relevant expertise together to try and ensure a consistent and well understood methodology to responding to FOI requests. He said that this would be reviewed over time once the Bank had got through the initial stages. There was a training programme in place for decision makers and the team was already in place with some additional resources due to join in the coming weeks. Regarding the wider staff, there was also an awareness campaign in place. On the issue of data management, Mr Coyle said that the FOI project was something of a catalyst for a wider Bank examination of this and it was emerging as a key issue from a strategic planning

perspective. Ms Clarke added that the wider issue of data had arisen at Audit Committee level and it had been agreed that this would be examined in a joint Audit/Risk capacity.

The Commission noted the Freedom of Information Update.

Mr Coyle and Mr Meade left the meeting.

7. Superannuation Fund – Appointment of Fund Managers

Maurice McGuire, Director Financial Operations; Paul Woods, Deputy Head of Organisational Risk Division; and Con Christofides, Organisational Risk Division, joined the meeting.

The Commission considered Paper No. 47 of 2015.

Mr Woods introduced this item. At its meeting on 31 October 2014, the Commission approved a re-allocation of the assets held by the Bank's Superannuation Fund, specifically that the asset allocation ratio of equities to bonds be changed from 50:50 bonds/equities to 40:40:10:10 bonds/equities/Multi-Asset Funds (MAFs)/property. To give effect to this decision, the Pensions Investment Advisory Committee (PIAC) had undertaken a process to select a preferred fund manager for each externally managed allocation.

In accordance with legal advice, the Fund was not obliged to follow the strict public procurement guidelines as applied to the Bank more generally; however, the PIAC was mindful of the necessity to follow the general principles of public sector procurement as far as practicable. A selection panel, comprised of members of the PIAC and representatives of the Trustees, convened in January 2015 to consider tenders presented by a number of suitable managers as suggested by the scheme actuary and investment advisors, LCP. Tenders and presentations were received from four MAF managers, three Passive Equity managers, and three Irish property managers. A report summarising the

outcome of the selection process as reported to the Trustees was contained in the accompanying paper (Paper No. 47 of 2015).

[redacted]

Clause 13.3 of the scheme Trust Deed specified that the prior consent of the Bank was required for the Trustees to appoint investment managers of the Fund (or part of the fund). Subject to this, the final appointments would be completed by the Trustees with support from the PIAC.

Mr McGuire, Mr Woods, and Mr Christofides, left the meeting.

The Commission approved the appointment of the Investment Fund Managers as set out in Paper No. 47 of 2015.

8. Delegation of Powers: Fitness and Probity Requirements for Certain Credit Unions

This was taken after Item 12.

Anne Marie McKiernan, Registrar of Credit Unions; and Aoife Langford, Head of Policy, Registry of Credit Unions, joined the meeting.

The Commission considered Paper No. 44 of 2015.

Ms McKiernan introduced this item. In December 2012 the Bank issued a consultation paper on a tailored Fitness and Probity regime for credit unions (CP62). Included in this consultation was a proposal that credit unions that were also authorised as retail intermediaries (CURIs) would become subject to the Fitness and Probity regime that

applied to all other regulated financial service providers in 2015. The Feedback Statement on CP62, while noting that concerns were raised by a number of respondents in relation to extending the general Fitness and Probity regime to CURIs, indicated that CURIs would be subject to the general Fitness and Probity regime for the retail intermediary part of their business.

Following this consultation process and approval by the Commission at its meeting on 24 April 2013 (Paper No. 81 of 2013), the first phase of the tailored Fitness and Probity regime for credit unions commenced on 1 August 2013 for credit unions with total assets greater than €10m. Having further considered the potential impact of imposing the general Fitness and Probity regime on CURIs in 2015, the Bank issued a consultation paper on 1 August 2014 setting out proposals for a revised approach on a 'Fitness and Probity regime for Credit Unions that are also authorised as Retail Intermediaries' (CP83). The revised approach in CP83 proposed that the two pre-approval controlled function (PCF) positions in the Fitness and Probity regime for credit unions (chair of the board and manager of the credit union) would apply to CURIs and the additional PCFs from the general Fitness and Probity regime would not apply to CURIs. CP83 did not revise the approach for controlled functions and indicated that the 11 controlled function positions from the general Fitness and Probity regime would apply to CURIs.

The closing date for submissions on CP83 was 30 September 2014. The Bank received 16 responses to the consultation paper which generally welcomed and supported the revised approach. A feedback statement on CP83 was published on 19 December 2014 indicating that: the Bank would proceed as outlined in CP83; the Fitness and Probity regime for CURIs would be introduced on 1 August 2015, with transitional arrangements; and the Regulations, updated Standards and Guidance would be published by end March 2015.

The draft 2015 Regulations and updated Standards were included in the accompanying paper (Paper No. 44 of 2015).

Ms McKiernan and Ms Langford left the meeting.

The Commission:

- **approved the imposition of the 2015 Fitness and Probity Regulations and updated Standards on credit unions that are also authorised as retail intermediaries from 1 August 2015, with transitional arrangements as set out in the updated Standards, pursuant to relevant statutory powers;**
- **approved the publication of the 2015 Fitness and Probity Regulations and updated Standards; and**
- **delegated to the Deputy Governor (Financial Regulation) the powers as set out in Paper No. 44 of 2015.**

9. Corporate Safety Statement

The Commission considered Paper No. 43 of 2015.

Gerry Quinn, Chief Operations Officer; and Paul Molumby, Director Currency and Facilities Management, joined the meeting.

Mr Quinn introduced this item. He recalled that at its meeting on 29 September 2011 (Paper No. 109 of 2011), the Commission: endorsed the overarching Central Bank Corporate Safety Statement thereby demonstrating the effective discharge of its statutory duties; agreed that the Corporate Safety Statement would be presented to the Commission for endorsement on an annual basis and; agreed that an annual report would be presented to the Commission detailing levels of compliance in statutory health and safety training, and a summary of Key Performance Indicators collated within the safety management systems. The annual report presented as part of the accompanying paper (Paper No. 43 of 2015) was the third such report, and covered activities for 2014.

The changes proposed for the 2014 Corporate Safety Statement related to: the integration of additional environmental and energy related text throughout; and the changes to post holders in its appendices. The Annual Report detailed all environmental, health and safety (EHS) performance related achievements, including an audit of the Bank's integrated EHS management systems to external certification standards; and the

inclusion of EHS and accessibility principles in the detailed design of the new headquarters.

Ms Clarke asked what caused the significant fall in recycled waste and the increase in hazardous waste in 2014 as set out in the EHS annual report. Mr Molumby said that increase in hazardous waste was due to the ES2 banknote production which saw higher levels of printing carried out in the year. On a net basis the total amount of waste was reduced by almost 10 per cent on the previous year.

Mr Quinn and Mr Molumby left the meeting.

The Commission:

- **noted the Annual Report on Environmental, Health and Safety performance, and;**
- **approved the revised Central Bank Corporate Safety Statement.**

10. Balanced Scorecard – Review of 2014

This was taken after Item 15.

Mr Quinn was present for this item.

The Commission considered Paper No. 33 of 2015.

This had also been considered by the Budget and Remuneration Committee at its meeting on 25 February 2015.

The Governor introduced this item. He noted that a detailed report of all the outputs for the 2014 Balanced Scorecard (BSC) was compiled and presented to the Budget and Remuneration Committee at its meeting on 25 February 2015. This report contained an overview conducted at an executive level by the Governor's Committee, which had based its discussion and deliberations on the outcomes which were to be achieved under

each of the Strategic Goals/objectives and whether these outcomes had or had not been broadly achieved. These deliberations were both evidence-based and judgment-based. A number of objectives were considered to represent significant achievements for the Bank in 2014 and to have made a major impact towards economic recovery and stability. A further number of objectives were considered to represent very high quality work and to have made significant contributions to the ongoing progress being made by the Bank in fulfilling its mandate. The remaining objectives were considered to have been largely achieved while recognising that further improvements in some areas could be achieved in the future. It was also noted that difficulties had been experienced with one of the major projects and that remedial action was now being taken to address these shortfalls.

Mr Soden confirmed that the Budget and Remuneration Committee had reviewed the 2014 BSC and that it had agreed with the recommendation of the Governor's Committee that an achievement rate of 90% reflected the overall outcome for the year.

Mr Quinn noted that, to address the unintended consequence of the pool of merit leave days being reduced following the changes to the distribution and to re-balance the pool, it had been agreed with the Unite union that, on a once-off basis for the 2014 review period, and having regard to the transition to the revised arrangements, those who achieve a rating of 'Meets (sometimes exceeds) Expectations' would receive two days merit leave instead of one day. This would not have any particular impact on the net number of merit leave days awarded compared to previous years. The allocation of merit leave to those on this rating would revert to one day for the 2015 review period.

Mr Quinn left the meeting.

The Commission:

- **noted the progress on the 2014 Organisational Balanced Scorecard and the overall score of 90%; and,**
- **approved the outcome of the 2014 Organisational Balanced Scorecard and the consequent award of merit leave to staff.**

11. Superannuation Fund – Investment Performance Report

This was taken after Item 7.

Mr McGuire, Mr Woods, and Mr Christofides were present for this item.

The Commission considered Paper No. 46 of 2015.

Mr Christofides introduced this item. He noted that the Central Bank Superannuation Fund returned 6.7% in 2014. Equities returned 12.8% for the year, while bonds generated a return of 0.6%. The market value of the Fund assets increased by approximately €36.9m, from €530.5m on 31 December 2013 to €567.4m on 31 December 2014. The asset allocation at the end of the year was 52.7% equities and 47.3% bonds. Since the start of the investment period, at end-December 2009, the total return on the fund was 32.8% equating to a return of 5.8% per annum.

The Commission noted the return on the Superannuation Fund in 2014.

12. Review of Investment Performance 2014

The Commission considered Paper No. 45 of 2015.

Mr McGuire, Mr Woods, and Mr Christofides were present for this item.

Mr Woods introduced this item. He noted that at end December 2014, the investment portfolio totalled €19.7bn and comprised a Marked-to-Market (MTM) euro portfolio of €10.0bn, of which €9.8bn was benchmarked; a Hold-to-Maturity (HTM) portfolio of €9.3bn; and two ECB Covered Bond Purchase Programme portfolios – CBPP1 (€0.3bn) and CBPP2 (€0.1bn). The Bank also had holdings under the ECB's Securities Markets Programme (SMP) and a further Covered Bonds Purchase Programme (CBPP3 – initiated in October 2014).

The latter two were monetary policy portfolios and, as such, all income and risk was shared amongst participating Eurosystem national central banks (NCBs) based on capital key share and thus were not included in the investment performance of the Bank's portfolios. Similarly, while the main change to the structure of the Bank's balance sheet in recent times was the creation of the Special Portfolio of approximately €42.9bn in Quarter 1 2013 (€25.8bn at end December 2014), as a result of the IBRC liquidation, this portfolio was also excluded from the calculations of investment performance. Mr McGuire noted that the Commission would be provided with an overview of the Special Portfolio at its meeting in March 2015.

The rate of return on the total investment portfolio (including the HTM and the first and second CBPP portfolios) was 2.37 per cent for 2014, compared to a return of 2.25 per cent for 2013. Total earnings on the investment portfolio amounted to €454.7m for 2014 compared to €421.7m for 2013. In the same period, the return on the HTM portfolio was 4.07 per cent while the first Covered Bonds Purchase Programme (CBPP1) portfolio earned a return of 4.76 per cent and CBPP2 earned 4.89 per cent. While the benchmarked portfolio was valued on a Marked-to-Market basis, all other portfolios were at Hold-to-Maturity and were valued on an amortised pricing basis.

The euro Marked-to-Market portfolio (i.e. excluding periphery bonds and the HTM and CBPP portfolios) outperformed the benchmark by 10 basis points (bps) on an annualised basis earning a return of 0.72 per cent for 2014 compared to an outperformance of 7 basis points and a return of 0.37 per cent in the period July to December 2013.

[redacted]

The Commission noted the return on the investment assets in 2014.

13. Budget Outturn 2014

This was taken after Item 10.

Mr Quinn was present for this item. Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 32 of 2015.

This had also been considered by the Budget and Remuneration Committee at its meeting on 25 February 2015.

Mr Power introduced this item. He summarised the budgetary outturn for 2014. Operating costs, comprising staff costs (including pensions) and non-pay expenditure, amounted to €192.1m, and were below the 2014 budget of €196.8m. The outturn represented an increase of €5.6m (3 per cent) on the 2013 outturn. Total non-capital costs to 31 December 2014 amounted to €213.1m, which was 3 per cent below budget. Total staff costs (including pensions), which constituted the largest component of the Bank's operating expenditure were €123.9m (0.8 per cent below budget). Pension charges for 2014 of €25.1m were based on the budgeted cost, and were €9.0m higher than 2013.

Non-pay costs for 2014 amounted to €68.1m - €2.9m higher than 2013 (4.5 per cent), and €3.7m less than budget (5.2 per cent). The variance on prior year could be attributed to Professional Fees (€27.3m, an increase of €1.6m), mainly due to the Asset Quality Reviews (AQR) within Banking Supervision; Communications & IT costs (€9.3m) had increased by €1.5m, of which a significant portion (€2.7m) related to Data Centre Charges (increase of €1.2m); and finally Payments and Asset Management Charges (€5.3m), which increased by €1.8m, due to Target 2 project costs. The variance on budget was attributed to all expenditure lines, which were below budget.

The aggregate outlay on Investment/Capital Projects for 2014 was €21.9m, or 56 per cent of the total 2014 approved Investment Envelope of €39.4m. The 2014 outturn represented an increase of €2.9m on the 2013 outturn (€19.0m) for the same period. The expenditure included €13.5m on IT systems; €4.8m on the Fusion Programme; €2.5m for Currency Operations; €0.6m on the Central Credit Register project; and €0.5m on Facilities Management.

Mr Power noted that the 2015 Pension Costs were originally budgeted at €38.8m in Q3 2014, based on actuarial advice from the Bank's external actuary. This was noted at the Budget and Remuneration Committee to be judgemental at the time. Subsequent to the year-end, and as part of the Bank's finalisation of the 2014 accounts, the actuary provided details of the final 2015 Current Service cost as €44.3m. The increase in the current service costs was driven by a fall in the recommended discount rate to 2.35%, down from the prevailing rate of 2.6% when the budget was set. While the €44.3m charge may change due to other factors such as scheme leavers, the Bank did not have visibility of this, nor could it control this expense. Accordingly, a supplementary budget of €5.5m to cover the increase in the 2015 current service costs to €44.3m was requested.

Mr Soden confirmed that this item had been considered by the Budget and Remuneration Committee at its meeting on 25 February 2015; that the Committee had noted the outturn; and that the Committee was recommending the approval of the supplementary budget to cover the pension costs.

Mr Quinn and Mr Power left the meeting.

The Commission:

- **noted the expenditure outturn to 31 December 2014; and,**
- **approved the supplementary budget for €5.5m for 2015 pension costs.**

14. Provisional Statement of Accounts for 2014

Mr Quinn and Mr Power were present for this Item.

The Commission considered Paper No. 37 of 2015. This had also been considered by the Audit Committee at its meeting on 25 February 2015.

Mr Power introduced this item. The Provisional Statement of Accounts for the year ended 31 December 2014 analysed the provisional profit for the year and compared the

outturn to the same period in 2013. It also provided a summary of the Balance Sheet position as at 31 December 2014, compared to 31 December 2013.

The Bank recorded a provisional profit of €2,136.5m for 2014 (2013: €1,518.1m), an increase of €618.4m. The key driver of this increase was higher realised gains (2014: €739.4m v 2013: €54.6m), primarily reflecting the realised gains on the partial sales of the 2025 Irish Government bond (€537.6m) and the 2038 FRN (€180.3m) held in the Special Portfolio. This increase was offset somewhat by a reduction in net interest income of €124.5m reducing to €1,422.2m for 2014 (2013: €1,546.7m). Against a lower interest rate background, and lower average balances on interest bearing assets and liabilities, both interest income and interest expense were significantly lower for the year. The provisional profit gave rise to provisional Surplus Income payable to the Exchequer of €1,708.1m for 2014 (2013: €1,212.1m) following a transfer of 20 per cent to the Bank's reserves.

The Bank's balance sheet amounted to €81.3bn as at 31 December 2014 (2013: €108.1bn), a decrease of €26.8bn (25 per cent). The decrease in the balance sheet was primarily driven by the fall in monetary policy lending of €18.3bn (2014: €20.7bn, 2013: €39.0bn), which reflected the early repayment of the three year Longer Term Refinancing Operation (LTRO) and credit institutions' increased access to market funding. The Special Portfolio decreased by €8.7bn (2014: €35.3bn, 2013: €44.0bn), year on year, and reflected the redemption of NAMA bonds (€12.2bn nominal), partial sales of the 2025 Irish Government bond (€2.3bn nominal) and 2038 FRN (€0.5bn nominal), offset partially by the increase in market value of the securities of €6.3bn.

Ms Byron enquired if the Bank had received a Management Letter from the auditors. Mr Power confirmed that Management Letters in respect of the previous year's accounts were received from both sets of auditors in the course of 2014 and it would be anticipated that the same would happen this year for the 2014 accounts; typically these were received some months after the accounts closed. The Management Letters were circulated to the Audit Committee.

Ms Clarke confirmed that this item had been considered by the Audit Committee at its meeting on 25 February 2015 and that there had been extensive engagement on the accounts to date.

The Commission noted the provisional statement of accounts for the year ended 31 December 2014.

Mr Quinn and Mr Power left the meeting.

15. Annual Report on Security

This was taken after Item 8.

Mr Quinn and Mr Molumby were present for this item.

The Commission considered Paper No. 48 of 2015.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

The Commission noted the Annual Report on Security.

16. Fusion Programme Update

Mr Quinn and Mr Molumby were present for this Item.

The Commission considered Paper No. 56 of 2015.

Mr Quinn introduced this item. The Fusion Programme, including the agreed procurement strategy, was progressing, with the overall timeline broadly on schedule and the project continuing to operate within the approved Fusion budget envelope.

He recalled that a compliance condition of the planning permission for the building was that Dublin City Council (DCC) would have an opportunity to view a mock-up of a section of the façade. This had been arranged and in recent weeks DCC had raised some concerns on the aesthetics of the facade. There was some uncertainty as to whether or not this would warrant a significant change or delay but following further engagement and provision of information, DCC has accepted some adjustments which would result in an overall delay of only two weeks.

As previously advised, Walls Construction Ltd was identified as the Preferred Bidder for the Main Contract with a contract sum that was compatible with the overall budget envelope as approved by the Commission at its meeting on 20 September 2013 (Paper No. 191 of 2013). The Programme expected to proceed with the formal appointment of the main Contractor, as advised to the Commission at its meeting on 26 September 2014 (Paper No. 190 of 2014). [redacted]

The Commission noted the Fusion Programme Update.

Mr Quinn and Mr Molumby left the meeting.

17. Supervisory Update

The Commission considered Paper No. 49 of 2015.

Mr Roux introduced this item. He updated the Commission on the following matters:

European Supervisory Authorities

The terms of office of the chairs and executive directors of the three European Supervisory Authorities (ESAs) were due to expire over the coming year; there was therefore a growing focus on the renewal/replacement process as these positions had become increasingly important as the European supervisory landscape evolved. The ESAs were also engaged in budgetary discussions, as their 2016 budgets needed to be submitted shortly. There were still growing costs associated with the ESAs; this reflected an increasing regulatory agenda that would feed in to EU Directives and ultimately to the need for the Bank to take on more responsibilities.

Consultation Papers

There were currently a number of active consultations, including that on Regulations for Credit Unions, which was due to close in one day's time. The most contentious issue, in terms of comments received, related to the proposals to limit deposits to €100,000 per customer. Another key consultation related to the governance of Fund Management Companies. The outcome of this work would have significant implications around the role of the boards of these entities.

[redacted]

The Commission noted the Supervisory Update.

18. Risk Information Pack

The Commission considered Paper No. 50 of 2015.

The Commission noted the Risk Information Pack.

19. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meetings of the Budget and Remuneration Committee of 24 October 2014; and of the Audit Committee of 26 January 2015.

20. Any Other Business

Stress Testing

Mr FitzGerald noted that, in his recent evidence to the Banking Inquiry, he had referenced the concern he had expressed to the Bank in 2007 that the banking stress tests that were being carried out at the time were not onerous enough. He said that, while there was no immediate need to do so at this juncture, it would be very important that future such stress tests linked in with an appropriate macroeconomic model. While he recognised the role of the ECB under SSM in this respect, he also recognised the role of the Commission under its responsibility for financial stability. The Governor said that this would be a consideration.

Whitaker Lecture

The Governor noted that the 6th Whitaker Lecture was due to be delivered this evening by Mr FitzGerald.

The meeting concluded.

Governor

26 March 2015

005415

MINUTES OF MEETING NO. 55 OF

THE CENTRAL BANK COMMISSION

OF 26 MARCH 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Stefan Gerlach.

The Governor opened the meeting by congratulating Mr Ahearne on his re-appointment as a member of the Commission with effect from 8 March 2015.

Ms Byron informed the meeting that she was shortly to take up a new role as Director General of the Society of Chartered Surveyors Ireland.

Ms Byron also set out a number of matters that had been discussed at the recent informal meeting of the non-executive members of the Commission; these matters included staffing, strategy and governance. The various items were noted for follow up. The Governor noted that strategy was already being discussed at management level, and a facilitated workshop on strategy for the Commission was being planned for late April 2015.

The Governor confirmed that the Commission meeting on 26 June 2015 would be held at the Teagasc Head Office, Oak Park, Co. Carlow.

1. Minutes of Meeting of 26 February 2015

The minutes of the meeting of 26 February 2015 (Meeting No. 54) were agreed.

2. Matters Arising

There were no matters arising.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. [redacted]

While there had been some surprise expressed in markets and in commentaries around the fall in the exchange rate, it remained within a historically reasonable range. [redacted]

The Commission noted the Euro Area Developments Update.

4. Economic Policy and Analysis

Gabriel Fagan, Chief Economist; John Flynn, Head of Irish Economic Analysis Division; Mark Cassidy, Head of Financial Stability Division ; and Joe McNeill Head of Statistics Division, joined the meeting.

The Commission considered Paper No. 63 of 2015.

Mr Fagan introduced this item, which was to update the Commission on the work of the Economics Directorate. While the business as usual work of the Statistics Division

remained the publication of monthly and quarterly statistical releases and the transmission of various data to the ECB, there was a number of new projects where the Division was making a significant contribution. These included the ECB's Analytical Credit Register and the Bank's own Central Credit Register projects. There was also a new requirement to develop statistics for the SSM. New statistics were also being produced around insurance companies, securities and credit card spending and the Bank was also undertaking joint work with the Central Statistics Office (CSO) on financial sector statistics.

The main focus of the Financial Stability Division in recent months was the introduction of the macroprudential measures on residential lending. The next step in this process, already underway, was the preparation of a framework for assessing the effects of the measures. The Division continued to produce the twice-yearly Macro Financial Reviews, as well as other analysis and research focused on issues such as household and SME credit. The Financial Stability Division was also involved in preparations for the next round of stress testing in 2016.

The Irish Economic Analysis Division continued to focus on regular forecasting and analytical activities, including the production of the Quarterly Bulletin. New developments included analysis and research using data from the Household Finance Consumption Survey (HCFS) to enhance understanding of household financial behaviours; the Bank was also using new survey data to help improve understanding of wage behaviour.

The Monetary Policy Division was also engaged in various analytical work, including around the implementation of monetary policy, such as the impact of quantitative easing. This helped feed into its preparations for ECB Governing Council monetary policy discussions. The Division was also the Bank's contact point for the post-programme monitoring by the IMF and EU.

Mr Fagan noted the focus the Directorate had on staffing. There was a new emphasis on hiring highly qualified economists from home and abroad which included recruitment visits to universities. There was also strong encouragement to staff to participate in various academic programmes as well as undertaking training and attend relevant seminars hosted by other central banks, such as the New York Fed and the Bank of England.

Mr Geraghty noted the ESRI had recently criticised aspects of the Bank's macroprudential measures. He also said that he was somewhat concerned at the public comments the Bank tended to make on wage negotiations, where its position appeared to be consistently that of wage restraint. He said that this was not always necessarily the case as wage increases, particularly at lower levels, could have a positive impact, including on productivity. On the ESRI, Mr Fagan noted the comments were consistent with points previously raised in response to the Bank's consultation paper, around the timing of the measures. It had introduced a new argument, not included in its submission, concerning the treatment of first time buyers. The arguments put forward by the ESRI were not well founded. The rationale for the treatment of first-time buyers was based on sound evidence that the default rates for this class of borrower was lower than for other borrowers. Regarding wages Mr Fagan pointed out that recent comments reported in the press had highlighted the need to take competitiveness into account in wage setting rather than arguing for specific rates of wage increase. The Governor noted that, in its commentary, the Bank had generally focused on issues within its competence with only occasional references to competitiveness.

Mr FitzGerald said that it was essential to be able to follow closely the links between the macro economy and the financial system in both financial stability analysis and in macroeconomic analysis. The Bank now had the tools to do this. Mr Ahearne asked for more detail on how it was proposed to monitor the effects of the macroprudential measures. Mr Cassidy noted that at this stage the Bank was in the process of setting up the framework. Elements would include comparing outcomes for housing-related variables with what had been predicted prior to the introduction of the measures; the use of data on transactions/prices/rents from DAFT.ie; possibly a survey of home buyers; and returns to be provided by banks.

Ms Byron welcomed the move towards more sophisticated analysis. She encouraged the presentation of such results to the Commission to assist it in its policy discussions. Mr Soden asked whether there was an estimate of the medium term housing needs. Mr Flynn said that the staff relied on recent estimates from the ESRI. Mr FitzGerald confirmed he had worked on those estimates which indicated a medium term need of 25,000-32,000 houses per year. He stressed that these estimates were subject to a high margin of uncertainty, especially relating to net migration flows.

The Commission noted the Economic Policy and Analysis Update.

Mr Fagan, Mr Flynn, Mr Cassidy and Mr McNeill left the meeting.

5. Financial Operations

Maurice McGuire, Director Financial Operations; Daragh Cronin, Head of Payments and Settlements Systems Division; and Peter Sinnott, Head of Financial Markets Division, joined the meeting.

The Commission considered Paper No. 64 of 2015.

Mr McGuire introduced this item, which was to update the Commission on the work of the Financial Operations Directorate. The Directorate had a strong Eurosystem focus, primarily through operationalising Governing Council monetary policy decisions; preparing and advising the Governor on the relevant issues that would arise at Governing Council level; and working with counterparties on ensuring collateral eligibility for operations. In recent times this had become more complex, covering as it did the various non-standard monetary policy initiatives introduced.

The Directorate was also responsible for maximising the risk-adjusted return on the Bank's investments. The Bank's investment portfolio continued to perform strongly against the benchmark. Investment asset management had also become considerably more complex, in particular around the management of the Special Portfolio, which was subject to a separate item at this Commission meeting (see Item 11).

Mr McGuire updated the Commission on developments around the National Payments Plan (NPP). There was relatively good progress in 2014, particularly for the implementation of the Single European Payments Area (SEPA); some movement on bank charges to incentivise greater usage of electronic payments; the rollout of 'e-Day', which marked the end of usage of business cheques in the public sector; and the publication of various research and information. Towards the end of 2014 a strategic review of the programme led to a revised strategy which would now see the Bank participating in a more streamlined NPP Management Group, chaired by the Department

of Finance, with a re-focus on a smaller number of key recommendations, including incentivisation, communication, and financial inclusion.

Regarding the Deposit Guarantee Scheme (DGS), a new EU Directive was due to be transposed into Irish law by July 2015 which aimed to speed up payments made and to improve financing of the Scheme. The Bank was working closely with the Department of Finance and credit institutions on the transposition and resulting financial and operational requirements. The Governor noted the speedy and efficient operation of the DGS in the invocation that occurred in 2014.

The Directorate was involved in two major infrastructure investment projects aimed at driving efficiency and reducing risks. The first of these, the Local Collateral Management System (LCMS), was delivered on schedule and within budget in September 2014. For counterparties it brought efficiencies, for example by allowing for collateral pooling; earlier delivery of liquidity; enhanced provision of real time information; and automatic substitution of collateral. For the Bank, it made it compliant with mandatory Eurosystem obligations and reduced FTE costs. Anticipated risk reduction had not yet fully materialised due to some outstanding technical issues which were currently being addressed with the vendor. The second major project – the Local Market Operations Platform (LMOP) was designed to deliver a fully integrated enterprise investment solution to enable straight through processing of trades, allowing the Bank to trade in a wider range of instruments. The project had just gone live in recent days and had come in within budget.

Mr McGuire finally set out the Directorate's approach to staffing and the development of its people. It had seen a reduction of 10 FTE in response to the infrastructure investment and in the context of the Voluntary Severance Scheme (VSS). There was a strong emphasis on training and staff development, including regular secondments with the ECB and staff exchanges with other national central banks.

Mr Moran noted the involvement of the Directorate in the recent repayment of IMF loans; he said that this was a very complex matter but was very well operationalised by the Bank. He also noted that the revised approach around the NPP should lead to a tighter focus. Mr Geraghty asked if there was any evidence of people being resistant to migrating to electronic forms of payment because of fears of fraud. Mr Cronin said there

was no particular evidence or research around this; Mr McGuire said it was primarily up to the financial institutions to respond to any concerns their customers might have.

The Commission noted the Financial Operations Update.

6. Annual Statement on System of Internal Controls

This was taken after Item 8.

Mr Quinn and Mr Power were present for this item

The Commission considered Paper No. 65 of 2015. This item had also been considered by the Audit Committee at its meeting on 25 February 2015.

Ms Clarke introduced this item. She confirmed it had been discussed by the Audit Committee. The accompanying paper (Paper No. 65 of 2015) noted that the Commission was required to review the System of Internal Controls annually and the Annual Statement of Accounts included a Statement on Internal Financial Control that was signed by the Governor. The accompanying paper (Paper No. 65 of 2015) provided a high-level overview of the major categories of internal controls within the organisation, highlighting various enhancements introduced during 2014. The background information in this paper would form the basis of the Statement on Internal Financial Control. She noted some changes to be made to the Statement before publication. Mr Power also noted that the auditors may also suggest some minor changes; similar to the annual accounts, he suggested that approval be finalised by written procedure.

Ms Byron noted the reference to the control weakness that resulted in an irregular payment in relation to supplier services, which was currently being investigated by the Garda. She queried the nature and size of this; the data management issues it raised; and as to why it had not been discussed by the Commission. Ms Clarke confirmed that the issue had been discussed in some detail at the Audit Committee and the Committee was satisfied that it did not require escalation to the Commission; the details were noted in the minutes of the Audit Committee which did circulate to the Commission at this stage. On the specific issue of data management, she also noted that the Audit Committee had

raised this in a more general sense as a significant risk and had requested a paper be prepared for joint Audit/Risk Committee consideration.

The Commission:

- **noted the current system of internal controls that the Bank had in place, including the initiatives completed during 2014;**
- **agreed to approve by written procedure the draft Statement on Internal Financial Controls for inclusion in the forthcoming Annual Statement of Accounts; and,**
- **agreed to approve by written procedure the draft Statement on Internal Financial Control for the Credit Institutions Resolution Fund for inclusion in the forthcoming Annual Statement of Accounts.**

Mr Power left the meeting.

7. Annual Report and Annual Statement on Regulatory Performance

Mr Quinn was present for this item.

The Commission considered Paper No. 66 of 2015.

Mr Whoriskey introduced this item. The accompanying paper (Paper No. 66 of 2015) set out the structure and content of the Bank's Annual Report 2014 and Annual Performance Statement (Financial Regulation) 2014-2015. It was planned to publish the Annual Report together with the Statement of Accounts and the Statement relating to regulatory activities on 1 May 2015. He noted the short time the Commission had to consider the content and said that any comments could be taken by written procedure.
Mr Roux noted the content and detail of the reports, in particular the Annual Performance Statement. He suggested that the overall structure of the Annual Performance Statement be reviewed for future as the current format was perhaps overly-detailed and it was difficult to highlight the key important aspects of the work of the Bank. Mr Moran agreed that improvement could be made to the Annual Performance Statement. He noted that the legislation required the Bank to prepare an Annual

Performance Statement that was to be in the form, and was to relate to the matters, that the Minister for Finance directed. The current process was back-to-front, with the Bank proposing the form and content to the Minister for his agreement. He said that in future it would be necessary to reflect more closely the approach set out in the legislation. He said he would bring forward proposals to the Bank on this in the coming months.

The Commission approved the Annual Report and Annual Performance Statement, pending final comments by written procedure.

8. Statement of Accounts

This was taken after Item 11.

Mr McGuire and Mr Kearns were present for this item. Gerry Quinn, Chief Operations Officer; Fergal Power, Head of Financial Control and Procurement Division; Brendan Sheridan, Deputy Head of Financial Control and Procurement Division; and Yvonne Dunne, Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 60 of 2015. This had also been considered by the Audit Committee at its meeting on 25 February 2015.

Mr Power introduced this item. The Financial Accounts had been audited by both external auditors: the Office of the Comptroller and Auditor General (C&AG) and RSM Farrell Grant Sparks (FGS). On approval by the Commission and formal certification by both external auditors, the Statement of Accounts would be published in the Annual Report for 2014.

The draft Statement of Accounts for the year ended 31 December 2014 was considered by the Audit Committee at its meeting on 25 February, which was attended by representatives from both the C&AG and FGS, as was the meeting on 25 March 2015. Both auditors had indicated that they would provide an unqualified opinion on the Statement of Accounts pending their approval by the Commission. The Bank was currently awaiting the final Management Letters from the C&AG and FGS. Upon receipt

of both Management Letters, the Bank would prepare responses to the findings and these responses would be provided to the Audit Committee for its consideration.

The Surplus Income payable to the Exchequer this year, after the transfer of 20 per cent of profit to the General Reserve which amounted to €244.5m (as agreed by the Commission in January 2015), was €1,708.8m (2013: €1,212.1m). The figures were in line with the provisional Statement of Accounts for year ended 31 December 2014 as presented to the Commission in February 2015.

As at 31 December 2014, a net pension liability of €285.9m (2013: €84.6m) was recognised in the Balance Sheet representing the difference between the Bank's estimated superannuation obligations and the fair value of the pension fund assets at that date. All pension-related details had been calculated by consulting actuaries Lane Clark and Peacock Ireland Limited (LCP). The actuarial assumptions were approved by the Governor's Committee and were discussed in detail at the Audit Committee held on 25 February 2015. The assumptions used in determining the Bank's underlying superannuation liability was outlined in Note 31 of the draft Financial Statements, contained in Paper No. 60 of 2015.

As noted also under Item 11 at this meeting, the unrealised gains on the Floating Rate Note (FRN) securities held in the special portfolio as at mid-March 2015 were €14bn, €5bn higher than that recorded at year end. These gains had increased significantly since year-end reflecting on-going improvement in Irish sovereign yields which had been given an additional boost from the initiation of the Eurosystem's Expanded Asset Purchase Programme. Mr Kearns noted that, as of today, the valuation of the Special Portfolio was at €38.071bn.

Mr Power said that the external auditors were finalising their consideration of the accounts and, while the fundamental matters were now all agreed, there were likely to be some minor changes before the accounts were signed, due to take place on 10 April 2015. He said that a final version of the accounts would be circulated to the Commission for its approval by written procedure.

Ms Clarke confirmed that the accounts had been discussed in detail at the Audit Committee with the external auditors and that the key issues were around the valuation of the FRNs and provisioning. She said that the auditors had pointed out that there was no requirement on the Bank to set out in its accounts the increase in valuation of the Special Portfolio since year-end, primarily as the accounts only covered the period up to year-end; however, they noted that this matter should be discussed by the Commission and that some consideration might be given to communicating this in some way. There was discussion on this at the Audit Committee; there were arguments in favour of this from a transparency perspective, however consideration was also required around setting a precedent for publishing such information and around the fact that the valuation may change rapidly and fluctuate over the year. The advisor to the Audit Committee was of the view that further disclosure in the balance sheet was not necessary, apart from in the accounts as the year-end position. It was also noted that the balance sheet reflected a particular point in time and that the external auditors had advised that the valuation change would not necessitate a post-balance sheet event. Mr FitzGerald said that the Special Portfolio valuation would likely be a significant focus of the annual report in the media when it was published. He said it was important the Bank manage the communication on both the valuation and on the sales strategy. The Governor said the sales strategy response would be the same as previously, i.e. setting out the stated policy. Regarding the question of valuation, he suggested the Bank could prepare a time series from the start of 2014 to date, this would demonstrate the volatility of the valuation while giving an up-to-date position.

Mr FitzGerald noted that the Commission had recently approved the retention of 20 per cent of profits to the Bank's reserves. As the special portfolio was sold off, there was a reduction in the size of the balance sheet; these sales also resulted, to date, in large profits, which in turn increased the reserves. While recognising the Bank had been historically under-reserved, at some point equilibrium of sorts would be achieved on the size of the balance sheet vis-à-vis the reserves. He requested that a paper be brought to the Commission on this to set out the relevant issues.

Regarding provisioning, Mr Kearns noted that the same methodology was employed this year as previously and the disclosures would be similar. [redacted]

[redacted]

Ms Clarke said that at the Audit Committee the external auditors had been very complimentary to the key divisions involved in preparing the accounts and related statements; work had been advanced at an early stage to allow for relatively early conclusion.

Ms Byron requested that any letter arising from the 2014 audit be circulated with the draft management response before a final response issues to the C&AG. This was agreed.

The Commission noted the draft Statement of Accounts and related Financial Statements for the year ended 31 December 2014, subject to final certification by both external auditors. The Commission agreed to approve the final Statement of Accounts by written procedure.

Mr McGuire, Mr Kearns, Mr Power, Mr Sheridan, and Ms Dunne left the meeting.

9. Regulations in Relation to UCITS

This was taken after Item 12.

Daniel Lawlor, Markets Policy Division; and Paschal Finn, Legal Division, joined the meeting.

The Commission considered Paper No. 67 of 2015.
Mr Lawlor introduced this item. Undertakings for Collective Investment in Transferable Securities (UCITS) were investment funds authorised under an EU regulatory regime. They were designed for retail investors and had rules on eligible investments, portfolio diversification and safekeeping of assets by an independent depositary. The UCITS Directive, as implemented in Ireland, imposed a number of rules on UCITS investment

funds, UCITS management companies and UCITS depositaries. The Bank imposed a number of additional rules, which either supplemented rules contained in the UCITS Directive (for example, contents of prospectuses) or which dealt with areas not otherwise covered by the UCITS Directive (for example, dealings with connected parties). These rules were currently set out in the Bank's UCITS Notices.

It was proposed to re-format the rules which the Bank imposed on UCITS investment funds, UCITS management companies, and UCITS depositaries as Regulations pursuant to the Bank's regulation making powers under the Central Bank (Supervision and Enforcement) Act 2013. It was also proposed to introduce some policy changes which had been publically consulted upon and agreed by the Policy Committee.

The Commission was requested to approve the UCITS Rulebook as Central Bank Regulations and to authorise the Deputy Governor (Financial Regulation) to commence the Regulations and approve any final technical or drafting changes.

Mr Roux noted that this was not just a housekeeping exercise, but would provide greater clarity to industry and consolidated a complex set of rules. There had been good internal debate on this and an external consultation process. Mr Moran welcomed the proposals; he said the consolidation made things much clearer and there was greater enforceability around this.

Mr Lawlor and Mr Finn left the meeting.

The Commission approved the Regulations; and delegated to the Deputy Governor (Financial Regulation) the capacity to commence the Regulations and approve any final changes to the revised Regulations. The Commission also delegated to the Deputy Governor (Financial Regulation):

- **the capacity to make any transitional arrangements that he considers appropriate with individual firms or with industry sectors in respect of the Regulations;**
- **the capacity to approve any changes arising from the on-going review of Regulations.**

10. Data Protection Policies

Tom Meade, Deputy Head, Legal Compliance, joined the meeting.

The Commission considered Paper No. 68 of 2015.

Mr Meade introduced this item. An internal audit of the Bank's compliance with data protection legislation was conducted during 2014. The subsequent report was completed in October 2014. The accompanying paper (Paper No. 68 of 2015) recommended that the Bank review and enhance its data protection policy and develop a data security breach management policy. The two policies had been developed and were contained in the paper.

Mr Meade left the meeting.

The Commission approved the Data Protection Policy; and the Personal Data Security Breach Management Policy.

11. Special Portfolio

This was taken after Item 5.

Mr McGuire, Mr Cronin and Mr Sinnott were present for this item. Allan Kearns, Deputy Head of Organisational Risk Division, joined the meeting.

The Commission considered Paper No. 69 of 2015.

Mr Kearns introduced this item. The assets in the Special Portfolio were acquired as part of the liquidation of IBRC in February 2013, and totalled €42.2bn, taking the form of €25bn of Irish government floating rate notes (FRNs); €13.7bn of NAMA bonds; and €3.46bn of an Irish government 2025 fixed rate bond. In addition, the Bank acquired €367m of assets backing IBRC outstanding monetary policy borrowings. The accompanying paper (Paper No. 69 of 2015) summarised the performance of the Special Portfolio in 2014 and the sales strategy for the remainder of 2015.

The Bank committed to sell the government bonds in the Special Portfolio as soon as possible, subject to financial stability conditions. Almost all of the NAMA bonds (€13.3bn) had been redeemed with only €395m outstanding, while sales of government bonds to date had been significantly in excess of the minimum. Effectively, all of the Irish government 2025 bond had been sold. Sales of the FRN had been initiated in 2014, with an initial sale of €500m of the 2038 bond in December 2014.

The significant increase in the Bank's profit for 2014 was primarily due to the realised gains amounting to €718.1m earned on sales of securities held in the Special Portfolio. The value of unrealised gains (which were excluded from profits but bolstered the Bank's revaluation reserves) on the FRN portfolio had increased in line with the improvement in financial market conditions in 2014 and early 2015. There were approximately €14bn in unrealised valuation gains on the FRN portfolio as at mid-March 2015.

The sales strategy for the remaining FRN portfolio would be influenced by a number of considerations; including an assessment of both financial stability and financial market conditions. In the light of the improving trends in financial stability and barring any unexpected events impacting on financial markets, the Bank intended to continue to dispose of the Special Portfolio on an accelerated basis during 2015. This could entail a considerable acceleration of disposals of the FRNs.

[redacted]

The Commission noted the Update on the Special Portfolio.

Mr Cronin and Mr Sinnott left the meeting.

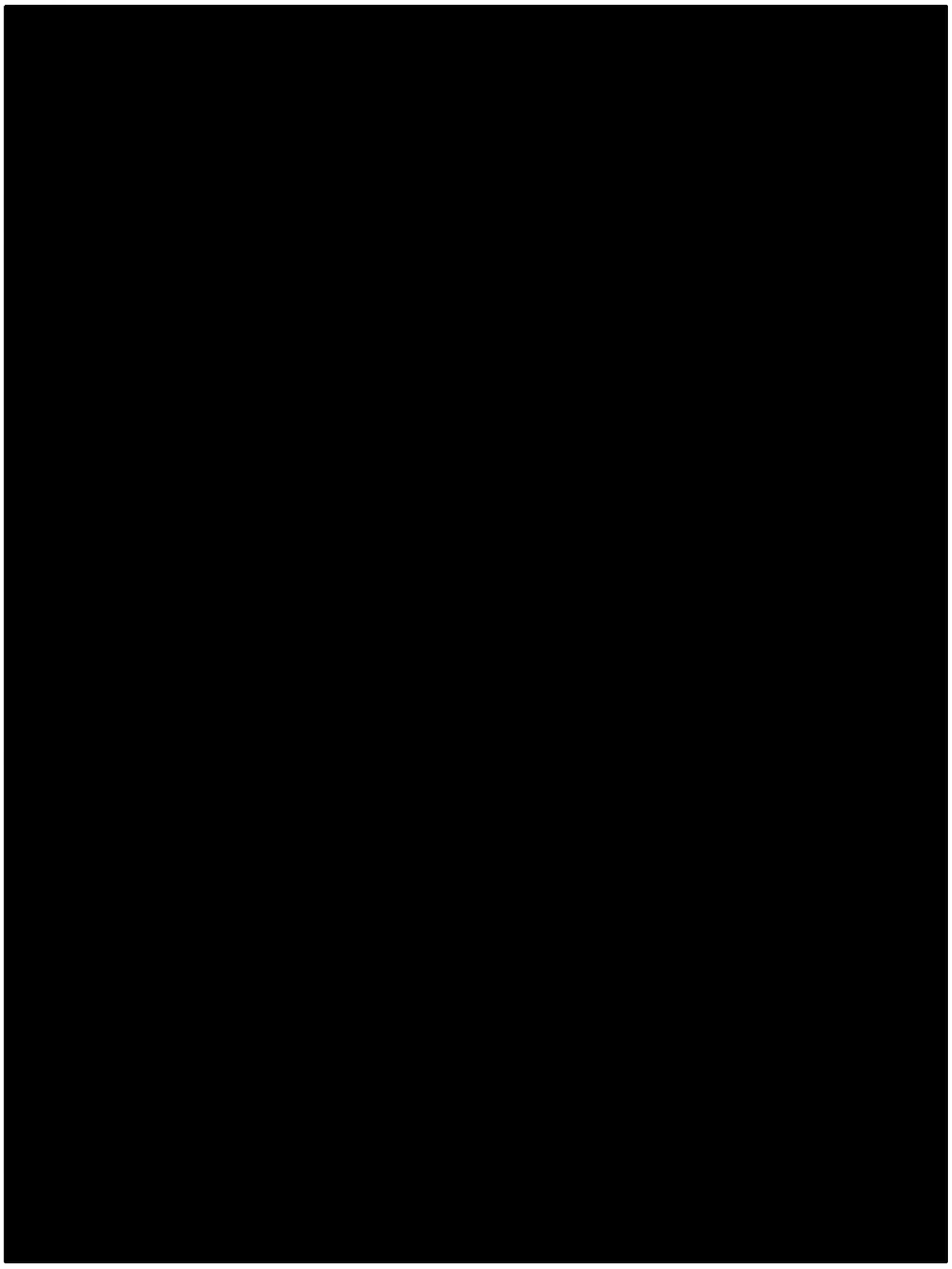
12. Fusion Update

This was taken after Item 7.

Mr Quinn was present for this item. Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 70 of 2015.

Mr Molumby introduced this item. Since the Commission was last updated, at its meeting on 26 February 2015, discussions with the preferred bidder for the main contract had progressed and had taken longer than planned; in addition resolution to Dublin City Council's (DCC) concerns about the façade design had been achieved, [redacted] The Commission was previously advised of changes to the building design and consequential potential requirement for increases in the budget arising from increased scope, increased staff numbers and DCC requirements. [redacted] Furthermore, the previously identified Fusion Operations Programme (i.e. the non-construction elements of the Programme) had completed its initial planning and costing.



[redacted]

[redacted]

The Commission noted the Fusion Update; [redacted]

Mr Quinn and Mr Molumby left the meeting.

13. Supervisory Update

The Commission considered Paper No. 71 of 2015.

Mr Roux introduced this item. He updated the Commission on the following matters:

Funding Levies

A working group on Funding Levies, involving the Bank and the Department of Finance, was drafting a proposal around the move to 100 per cent industry funding. A consultation process was to follow the adoption of the proposal, planned for the end of April 2015, in time for the adoption of revised funding regulations in the autumn.

[redacted]

[redacted]

Peer Reviews

The peer review by the Dutch consumer regulator into the consumer protection function of the Bank had concluded and was published. In the main, the review was positive, with some recommendations for improvement. These included the need for a more structured consumer protection model of engagement targeted at solving key problems (especially cross-sectoral risks), with greater clarity in setting priorities and measuring outcomes;

going beyond reactive supervision for the low impact firms, and reviewing the Central Bank's approach to enforcing compliance in that sector.

[redacted]

Ms Byron raised concerns she had regarding the pricing of non-life insurance products. There had been a rush to the bottom in recent years as companies sought to increase market share. Quite rightly, the Bank was now insisting on proper underwriting standards. In order to compensate for earlier under-pricing, there now was an emerging risk that the firms could over-charge their customers for products. She said that there was some predictability in the market around the levels of awards payable. She said she believed the Bank had a consumer protection role to play here, while also balancing its prudential responsibilities. Mr Roux said there were clear rules in place regarding reserving and the need for insurance firms to price their policies so that they are not loss-making. He agreed to further discuss the matter with Ms Byron.

Mr Moran suggested moving the Supervisory Update item to earlier in the meeting to allow for fuller discussion on some of the items.

The Commission noted the Supervisory Update.

14. Risk Information Pack

The Commission considered Paper No. 72 of 2015.

The Commission noted the Risk Information Pack.

15. Minutes of Sub Committee Meetings

The Commission noted the minute of the meetings of the Audit Committee of 25 February 2015.

16. Any Other Business

There was no other business.

The meeting concluded.

Governor

23 April 2015

AMENDMENT TO MINUTES OF MEETING NO. 56 OF

THE CENTRAL BANK COMMISSION

OF 23 APRIL 2015

NOTE TO FILE

Stefan Gerlach was present at the Commission meeting on 23 April 2015.

005436

MINUTES OF MEETING NO. 56 OF

THE CENTRAL BANK COMMISSION

OF 23 APRIL 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

1. Minutes of Meeting of 26 March 2015

The minutes of the meeting of 26 March 2015 (Meeting No. 55) were agreed pending some final changes suggested by Ms Byron.

2. Matters Arising

Statement of Accounts and Statement of Internal Financial Controls

The Statement of Accounts for the year ended 31 December 2015 and the Statement of Internal Financial Controls were approved by written procedure on 9 April 2015.

Delegation of Powers – Irish Collective Asset-Management Vehicles Act 2015 (ICAV)

The delegation of regulatory powers relating to the Irish Collective Asset-Management Vehicles Act 2015 (ICAV) as set out in Paper No. 76 of 2015, were approved by written procedure on 7 April 2015.

Management Letter

The Bank was awaiting receipt of the external auditors' management letter; once it was received and draft management responses were prepared, it would be circulated to Commission members.

Staffing

Management was engaged in a workforce planning exercise which would be presented to the Commission over the coming months, taking cognisance of the evolving Strategic Plan. This would cover off the issues raised at the last meeting which had been discussed at the non-executive session. It was also noted that a Strategy Workshop for the Commission was due to be held on 27 April 2015.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He had recently attended the IMF Spring Meetings. A theme that ran through some of the discussions centred on the relative demand levels globally. There was a weakening of demand in some parts of the world, such as Latin America, while Europe was experiencing some growth. There were exchange rate developments, with a weakening of the euro and a strengthening of the dollar and some concerns that this might develop into a longer term trend with little current visibility on where various exposures may lie. Other issues that arose were around the fall in oil prices and the very low levels of bond yields. Of more immediate concern were the on-going developments in Greece. The strategy of the Greek government remained somewhat vague and there was also some uncertainty as to how the broader international community may react to developments around Greece; for now it seemed the situation would continue to run on for some months without any definitive outcomes.

Ms Clarke asked to what extent Greek banks were currently subject to the mechanisms under the Bank Recovery and Resolution Directive (BRRD). Mr Roux said that there had been a resolution of a small Greek bank in recent days. [redacted] The BRRD had not yet been transposed into Greek law; nor had it been transposed into Irish law, and while potential claimants on a resolved bank could still invoke the directive, it would likely be

a difficult process. Mr Moran noted that the directive had only to date been transposed in eight states; it was a complex piece of legislation.

The Commission noted the Euro Area Developments Update.

4. Supervisory Update

The Commission considered Paper No. 87 of 2015.

Mr Roux introduced this item. He updated the Commission on the following matters:

Consultation Papers

The working group on Funding Levies, involving the Bank and the Department of Finance, was finalising its report, although there had been some slippage in the process. It was now planned to issue a consultation paper in May. The Bank was finalising its consultation on Corporate Governance Requirements for Investment Funds; this would be published in the coming weeks. Ms Clarke asked what key governance changes the Bank was seeking. Mr Roux said that there was a proposed scaling back on the number of board meetings required, but a stronger focus on defining the responsibilities of boards and committees.

Insurance

The Bank had recently hosted a Solvency II Forum, addressed by Mr Roux and the Director of Insurance Supervision, Sylvia Cronin. The Forum was attended by the Chair of the European Insurance and Occupational Pensions Authority (EIOPA), and by industry bodies and firms. A 'spot check' of the Bank's readiness for Solvency II had recently been carried out by EIOPA. It had highlighted a concern around the expertise of some supervisory staff who were seen as too junior to be acting in their particular roles. This spoke to the issue of retention and recruitment of appropriately experienced staff. A broader review of the Bank's compliance with internationally recognised insurance supervisory practices was carried out by the IMF and was due to be published shortly.

[redacted]

[redacted]

Banking

[redacted]

CRD IV contained a number of national discretions and options (OND) which may be applied on the basis of national circumstances and were now exercised by the Supervisory Board under SSM. There was quite a bit at stake here as this could influence capital requirements through, for example, cancelling certain existing allowances, such as deferred tax assets. Mr FitzGerald asked if Irish banks were at risk in any particular

way. The Governor noted that the exposure of Ireland was not much greater than any other country but particular items might impact more than others and it was something the Bank needed to remain alive to.

Mr Geraghty asked if the Bank had a role in relation to the ILCU's Savings Protection Scheme (SPS) which had been the subject of media coverage which cited a highly critical report by Mazars into the operation of the scheme. The Governor said that the Bank did not oversee ILCU and had no visibility into its operations; it had questioned the SPS with individual credit unions.

[redacted]

Ms Byron requested that the risk mitigation reports section of the Supervisory Update paper in future be RAG status coded to allow for ease of reference. Mr Moran noted that the Supervisory Update had been moved to an earlier point in the agenda, as requested, and this had been of benefit as demonstrated by the detailed discussion on this item.

The Commission noted the Supervisory Update.

5. Banking Sector Outlook and Challenges

This was taken after Item 6.

Gabriel Fagan, Chief Economist; Sharon Donnery, Director Credit Institutions Supervision; Mark Cassidy, Head of Financial Stability Division; Gordon Barham, Financial Stability Division; Ed Sibley, Head of Banking Supervision – Supervision; and Adrian Varley, Deputy Head of Banking Supervision – Analysis, joined the meeting.

The Commission considered Paper No. 88 of 2015.

Mr Barham introduced this item. The Irish banking system had experienced significant changes in recent years, reflecting the effects of the crisis and resultant financial-sector policy measures as well as on-going changes in the regulatory landscape. Individual banks remained affected by the legacy of the crisis through, for example, a large stock of non-performing loans on their balance sheets, the effects of the tracker mortgage loan book, low levels of new lending, a lack of diversification in business models and relatively low capital levels on a fully-loaded basis. The banking system had also become more concentrated since before the crisis and large parts remained in State ownership. In light of these developments, the accompanying paper (Paper No. 88 of 2015) examined the main challenges facing Irish banks and explored how these might develop over the medium term.

The financial crisis highlighted weaknesses in banks' funding models; both market participants and regulators now required a higher standard of funding in terms of the type of funding and how future funding would be accounted for. Funding conditions had become much more favourable in recent years for Irish banks reflecting the global search for yield, high appetite for risk, and improvement in sentiment towards Irish banks. While the expectation remained that banks should be able to refinance debt and support higher lending to the real economy, the sector remained susceptible to changes in sentiment. In addition, banks would have to meet new regulatory requirements, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were to be introduced over the coming years under the Capital Requirements Directive (CRD IV), while the Bank Recovery and Resolution Directive (BRRD) would set out common rules

for dealing with failing banks and large investment firms across Europe which could lead to higher funding costs for banks.

The return to profitability of the Irish banking sector during 2014 was a welcome and necessary step in the return to a sustainable and resilient banking sector. Profitability remained relatively weak, however, and would need to be improved in order to ensure sustained access to funding and equity markets and to support an increase in lending to meet expected future demand. On the income side, domestic banks remained heavily reliant on net interest income. It would be challenging for banks to increase both volumes and margins in the coming years. Overall demand for credit was expected to pick up steadily, but growth would be constrained by high levels of indebtedness in both the household and non-financial corporates (NFC) sectors. Further increases in net interest margins, meanwhile, would also be difficult. On the expenses side, there was not much scope for further reductions in deposit rates with official rates at close to zero and the low rate environment expected to persist for a protracted period. The effect of the tracker book on margins would continue as long as official rates remained low and the tracker book accounted for a significant share of the loan book. The scope for further reductions in operating costs had also become more limited. New entrants to the sector could also be a factor in the coming years as competition could constrain margins or lower volume growth for incumbents. Low interest rates also impacted on the ability of banks to earn a return on their free funds while non-interest income sources remained low.

An additional aspect to banks returning to a sustainable and profitable business model was dealing with the impact of the level of non-performing and low-quality loans. These problem loans impacted negatively on the profitability outlook and left the banks at risk of a re-emergence of significant impairment charges should the economic situation deteriorate or interest rates increase materially. In this way the issues with credit quality could make it more difficult for Irish banks to access both funding and equity markets.

In terms of capital, there had been increasing focus on banks' fully-loaded capital positions under CRD IV following the Comprehensive Assessment. [redacted]

[redacted]

The banking landscape would be affected by a number of new institutional and regulatory developments. The BRRD would require credit institutions to meet a minimum requirement for own funds and eligible liabilities which would have implications for capital and funding structures. The new SSM supervisory framework had been formally established while banks were now also operating within a new macro-prudential framework. The Bank and ECB had additional capital and liquidity instruments at their disposal to address systemic risks. Over the medium and long term, macro-prudential policy would reduce systemic risks and support both financial stability and consumer protection. Short-term effects could also arise impacting on banks' capital requirements and profitability.

Notwithstanding the challenges, on-going economic recovery should help to boost banks' profitability and ability to generate capital. The opportunity for profits in an expanding market could also prove attractive to potential new entrants and help the State dispose of its holdings. Against this, additional entrants may mean lower profitability which could mean a lower return for the Minister when he sold his holdings. Existing banks would face certain disadvantages in competing with new entrants due to the high stock of non-performing loans and the loss-making tracker books – particularly if new entrants cherry-picked the most profitable opportunities.

These were important issues from a supervisory perspective but also from a financial stability perspective to the extent that they would impact on the cost and availability of credit to businesses and households as the expected economic recovery took hold. In this regard, a well-functioning banking system was a key requirement for recovery. Moreover, ultimately, a well-capitalised and profitable banking sector should attract potential investors and allow the State to divest itself from the Irish banking system.

[redacted]

[redacted]

Mr FitzGerald said the paper was very useful in setting out a wide range of issues. He said the next stage should be around putting these various issues together in relation to a range of potential macroeconomic scenarios. This might give valuable insights into possible future profitability of the banks, capital requirements, and attractiveness for new entrants, etc. He said this would be important from a financial stability perspective. Mr Moran agreed that this would be a very useful exercise. Mr Ahearne said it would be good to get a perspective on what were the main barriers to new entrants; what was really driving the standard variable rates, and what the outlook would be for NPLs over the medium-term. The Governor noted that the Bank was currently undertaking strands of research around mortgage interest rates and the various influencing factors that may pertain.

Mr Geraghty said that new thinking was required on dealing with issues of NPLs, such as warehousing of impaired loans and mortgages in a NAMA-style operation. He believed people would look to the Bank to take a lead on such initiatives. Ms Donnery said the Bank had recently written to the banks regarding how they were dealing with individual cases of borrowers in arrears, and setting out that 75 per cent of these arrangements should be meeting their revised terms and conditions by year-end.

The Governor noted that there were a number of good ideas put forward for further work and consideration and that the Commission would return to these matters.

The Commission noted the Report on Banking Sector Outlook and Challenges.

Mr Fagan, Ms Donnery, Mr Cassidy, Mr Barham, Mr Sibley, and Mr Varley, left the meeting.

6. Authorisation – [redacted]

This was taken after Item 4.

Sylvia Cronin, Director Insurance Supervision; Bernard Sheridan, Director Consumer Protection; Paschal Finn, Legal Division; and Tim O'Hanrahan, Deputy Head of General Insurance Division, joined the meeting.

The Commission considered Paper No. 90 of 2015.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

7. Charity Committee Annual Report

This was taken after Item 9.

Daragh Cronin, Chair of the Charity Committee; and Susan Eaton, Human Resources Directorate, joined the meeting.

The Commission considered Paper No. 91 of 2015.

Mr Cronin introduced this item. Following a decision of the Commission at its meeting on 24 November 2011, a Charity Committee comprising staff representatives was established to oversee the management of the Bank's Benevolent Fund. Final approval for the Fund's expenditure came from the Director of Human Resources. The Committee's main tasks were to recommend the distribution of the Benevolent Fund; to promote volunteering; support charitable endeavours among staff; and occasionally organise charity events within the Bank. The Committee also provided periodic updates to the Governor. At its meeting on 25 November 2010, the Commission agreed that the annual budget for the Benevolent Fund be increased from €30,000 to €100,000, which was where it now stands.

The accompanying paper (Paper No. 91 of 2015) set out the Committee's activities for 2014. The Committee also recommended to the Commission that it approve an increase of its annual budget to €200,000. It further proposed that an increase in the Bank's annual donations budget should be accompanied by greater oversight of its donations activity. The Committee believed that it lacked resources and the expertise/specialist knowledge required to fully appraise requests and then monitor the use of donations to the Bank's partner charities. The Committee believed the outsourcing option to be the most appropriate available (against allocating the task to an employee, for example), costing less than €10,000 per year.

Mr Geraghty said it would be very important that the Bank was satisfied that any organisations it was donating to were properly registered and that the relevant checks were carried out. He said without such checks, the Bank could face reputational risks. Ms Clarke said the staff should be commended for their many efforts in the charitable space; she agreed with the proposal to utilise an outsourced firm but said that the Bank

should check feedback with other clients of any such firm before engaging and to review the arrangements after one year. Ms Eaton said this would be done; she noted that the concerns raised by Mr Geraghty were similar to those held by the Committee and the outsourcing option was a way of addressing them.

Mr Cronin and Ms Eaton left the meeting.

The Governor proposed that any expenditure on the monitoring company be in addition to the proposed budget for donations, up to a limit of €10,000. This was agreed.

The Commission noted the report of the Charity Committee for 2014; approved an increase of its annual budget to €200,000; approved retaining the services of a monitoring organisation for one year at a further cost of up to €10,000; and agreed to the publication of the annual report on the Bank's intranet.

8. Superannuation Fund Performance Report to 31 March 2015

The Commission considered Paper No. 94 of 2015.

The accompanying paper (Paper No. 94 of 2015) presented the performance of the Central Bank Superannuation Fund in Quarter 1 2015.The paper summarised the current benchmark asset allocation of the fund; outlined the value of the fund; illustrated the distribution of fund assets as at 31 March 2015, and described the actual performance of the fund during Q1 2015.

In summary, the total fund returned 9.1 per cent in Q1 2015. Equities returned 16.5 per cent for the quarter while bonds generated a return of 0.8 per cent. The market value of the Fund assets increased by approximately €52.1m, from €567.4m on 31 December 2014, to €619.5m on 31 March 2015. The asset allocation at the end of March 2015 was 56.2 per cent equities and 43.8 per cent bonds. Since the start of the investment period, at end-December 2009, the total return on the fund was 44.8 per cent, equating to a return of 7.3 per cent per annum.

The Commission noted the Superannuation Fund Performance Report to 31 March 2015.

9. Special Portfolio

This was taken after Item 5.

Maurice McGuire, Director Financial Operations; Rosanna Lynch, Organisational Risk Division; and David Doran, Financial Markets Division, joined the meeting.

The Commission considered Paper No. 89 of 2015.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

The Commission noted the Special Portfolio update.

Mr McGuire, Ms Lynch, and Mr Doran left the meeting.

10. Freedom of Services – Non-Life Insurance Sector

This was taken after Item 6.

Ms Cronin and Mr Sheridan were present for this item.

The Commission considered Paper No. 96 of 2015.

The accompanying paper (Paper No. 96 of 2015) set out the Bank's role in relation to the supervision of insurance companies, which operated in the State on a Freedom of Services basis. The paper also described recent enhancements to the Bank's supervisory processes, which were aimed at increasing supervisory oversight of such firms.

Once an EU/EEA non-life insurance undertaking had been authorised in its Home State to establish a business, it was permitted to write business throughout the EU/EEA. An undertaking could write business in another EU/EEA state either by: establishing a branch, thus operating on a 'freedom of establishment' basis (FOE); or writing business directly on a 'freedom of services' basis (FOS). The responsibility for the prudential supervision of inward FOS insurers lay with the Home State regulators; however, the Bank, as Host State Regulator, was responsible for conduct of business supervision.

The Consumer Protection Directorate (CPD) was the supervisor for Irish authorised intermediaries and managing general agents (MGAs), which sold insurance on behalf of FOS insurers. Following initial analysis of insurance provided on an FOS and FOE basis in Ireland, the Bank's primary supervisory concerns related to motor insurance provided by FOS insurers to Irish residents. General Insurance (GEN) had taken a number of steps to enhance its knowledge of the inward FOS sector. These included: establishing regular contact with the Home State Regulators; requesting additional statistical and financial data; expanding its price comparison survey to include FOS companies; and encouraging

the Home State Regulator to conduct on-site inspections of the MGAs which were performing delegated functions on behalf of non-Irish underwriters.

If an on-site inspection (or other supervisory intervention) was warranted, CPD's role would typically be to investigate consumer protection issues such as claims handling and business continuity in the event that the underwriter ceased operations. Such a recent inspection was carried out on an MGA which was performing functions on behalf of a FOS insurer.

Ms Byron said she was not comfortable with the use of the term 'rumours' in the paper. Mr Roux said that this essentially was the same as 'market intelligence'; it was important for the Bank to act on any relevant information that may come its way and the paper set out a specific example in how such information did lead to the Bank carrying out a warranted inspection. Ms Byron noted that this terminology was more appropriate.

The Commission noted the approach taken to Insurance Underwriters operating on a Freedom of Services basis into Ireland - Non-Life Sector.

11. HR Matters

a. Retention Scheme for Critical Projects

b. SSM on-site Allowances

The Commission considered Papers No. 97 and No. 101 of 2015.

Paper No. 97 of 2015, noted that a retention policy was put in place in July 2014 by the Bank following an analysis across all the Directorates to identify flight risks among key personnel working on critical projects. [redacted] A retention policy was developed for critical staff working on critical projects with the assistance of legal advice and [redacted] The policy was agreed by the Budget and Remuneration Committee (BRC)

and the Department of Public Expenditure and Reform (DPER) was informed of the policy.

The purpose of the retention policy was to establish an objective basis upon which the Bank may lawfully make retention payments to Target Employees in order to ensure that they were retained in employment by the Bank over identified strategically critical periods. The decision to agree new contracts of employment with terms involving the making of payments to Target Employees was in recognition of the fact that such Target Employees were required by the Bank in order to ensure continuity of expertise and experience to enable it to efficiently and effectively implement Critical Projects. Payments were structured to ensure that the Bank secures the retention of the key skills, knowledge and experience possessed by the Target Employees until the Critical Projects come to an end. On 24 March 2015, a Retention Proposal was presented to the Governor's Committee to mitigate the risks to [redacted] The impact on the implementation of this project, if they resigned, would be highly detrimental.

It was proposed to issue new contracts to these Target Employees. The new contracts would facilitate a payment of 20% of annual salary, payable in one lump sum, 12 months following the signing of the new contract. The payment will be subject to: continuous satisfactory performance assessment during the full period from now to the payment

date, including successful implementation of the Project; [redacted] The new contract would also extend notice periods to six months and would require confidentiality regarding the issuance of the new contracts and the content thereof.

Given the large number of Target Employees who would be invited to participate in this retention programme and notwithstanding the strict confidentiality requirements, the likelihood of both the existence of the policy and [redacted] there was likely to be a need to make internal and/or external statements to explain the rationale, once the existence of the scheme becomes apparent.

The Commission noted the Implementation of Retention Scheme for Critical Projects - [redacted]

Paper No. 101 of 2015 set out proposals regarding SSM On-Site Allowances. As part of SSM, the Bank now had a cohort of 42 staff in the Banking Supervision Inspections Division who were required to spend between 70 per cent and 90 per cent of their working time onsite in the banks carrying out inspections (Missions). These Missions were longer and more detailed and comprehensive than anything that was required prior to SSM - previously inspection work was typically from one to two days, to a maximum of two to three weeks - whereas the majority of Missions now involved being onsite for durations of an average of eight weeks. This would generate out of pocket travel expenses for staff and additionally, as approximately 85 per cent of the onsite locations were inside a five km radius of the Bank premises, these staff were not entitled to claim tax free subsistence under the Bank's Expenses Policy.

Should the Bank wish to compensate these staff for out-of-pocket expenses, the main risk was the potential contravention of FEMPI. Legal advice had been sought on this and overall, the Bank was satisfied that the combination of changes to the roles of these staff amounted to a sufficient change in their terms of employment to qualify them as being outside the scope of FEMPI. It was therefore proposed to introduce an annual SSM Inspections Allowance – the quantum to be considered up to €7,300. This annual

allowance figure included travel element and was not reckonable for pension purposes. It was intended that this allowance will be sufficient to cover realistic expenses consistent with the subsistence they would receive if they were permitted to claim under the existing Expenses Policy. A communications plan is under preparation to proactively inform the organisation of this decision and the associated rationale.

The Commission noted the SSM On-site Allowance Proposal.

12. Risk Information Pack

The Commission considered Paper No. 85 of 2015.

The Commission noted the Risk Information Pack.

13. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meetings of the Risk Committee of 11 December 2014 and of the Joint Audit and Risk Committee of 26 January 2015.

14. Any Other Business

Freedom of Information

Tom Meade, Deputy Head Legal Compliance Function, joined the meeting.

Mr Meade introduced this item. He noted that the Commission had been provided with a note at the meeting that summarised the Bank's experience of Freedom of Information (FOI) requests since becoming subject to FOI on 14 April 2015. To date the Bank was in receipt of 34 separate FOI requests. These requests were very broad and multifaceted and as a result the FOI team had to engage with requestors in seeking to refine the scope of the requests received in order to identify the relevant records. In the majority of cases the

requestor agreed to refine the scope of the request and make it more specific. Where requestors were refusing to refine the scope of the request, under the FOI legislation the request could be refused. Given the time frames for processing FOI requests under the legislation, additional resources had been temporarily assigned to the FOI unit to assist in dealing with the large volume of requests received.

The Bank was planning to voluntarily publish certain information covering expenditure on items such as travel, taxis and accommodation, as well as appointment diaries and certain HR related information; it was proposed that such information would be published shortly after the launch of the annual report in May 2015. Where information was voluntarily published, a related FOI request could be refused.

Mr Moran noted the role of the decision makers in the process and recalled he had previously mentioned that, in his view, it might be better for the Bank to employ a decentralised decision making model rather than the current centralised approach, as it was likely that decision makers located in the business would have a better view of the relevant issues. Mr Geraghty said he was in favour of voluntarily publishing information as this was both transparent and would also reduce the numbers of future FOI requests. Mr Roux said that the level and types of requests currently being dealt with was creating resourcing issues and was already impacting on other work; this was an aspect that required close monitoring.

Mr Meade left the meeting.

Governor's Retirement

The Governor said he had recently informed the Minister for Finance of his intention to retire before the end of the year. He had asked the Minister to set in train a process for identifying a successor, ideally by 1 November 2015. The Governor said his decision was one that was based on timing and he felt this was the appropriate juncture in the final year of his term to retire from the role. On behalf of her colleagues she acknowledged the Commission's appreciation of his work on behalf of the Bank.

The meeting concluded.

Governor

28 May 2015

MINUTES OF MEETING NO. 57 OF

THE CENTRAL BANK COMMISSION

OF 28 MAY 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

1. Minutes of Meeting of 23 April 2015

The minutes of the meeting of 23 April 2015 (Meeting No. 56) were agreed pending a minor amendment suggested by Mr Moran.

2. Matters Arising

Part of this minute is omitted as it contains confidential information.

Special Portfolio

The Governor noted that the Bank was planning to conduct sales from the Special Portfolio of floating rate notes (FRNs) in each of the remaining quarters, with some sales likely in June 2015.

Governor Appointment

The Governor noted that, since the last meeting, his planned retirement from the post had been publicly announced. Mr Moran confirmed that a process to help identify a replacement would be commencing shortly. He noted that the appointment was made by the President on the advice of the Government and that there was no role for the Commission.

3. Euro Area Developments – Issues for the Central Bank

Part of this minute is omitted as it contains confidential information.
Gerry Quinn, Chief Operations Officer, was present for this item.

This was taken after item 4.

The Governor introduced this item. He updated the Commission on the ECB's quantitative easing (QE) programme. It was continuing to operate in line with its target. Bond yields were settling somewhat after an initial market reaction that drove them sharply and quickly lower, both after the announcement and following the initial purchases in March. Irish bond yields moved largely in line with moves of German bunds.

The Governor then raised the matter of the planned 'in/out' referendum in the UK, which had crystallised since the recent election. A paper (Paper No. 121 of 2015), prepared in 2012 although still useful in terms of setting out some important considerations for Ireland and for the Bank, had been circulated. A question arose as to what additional internal or external work should be commissioned in relation to setting out in more detail some potential risks or outcomes and what these might mean for the Bank, both in terms of its own preparedness and in its role of advising Government.
Mr Moran noted that the Department of Finance had established a joint research group with the ESRI, under the chairmanship of Mr Ahearne, which was examining various matters. The issue was a very significant and material one for Ireland considering its trade and other closely integrated relationships with the UK. Mr Ahearne said that the research group would benefit from the involvement of the Bank, particularly in and around the financial services aspects. Mr FitzGerald said that it would also be useful to examine the potential for relocation of financial services to Ireland arising and in particular the risks that could arise. Mr Geraghty said that the likely outcome of the process might be a renegotiation of the UK's relationship with the EU rather than an exit; it would be useful to consider the implications for Ireland of any negotiations the UK may enter into, when these were known. The Governor concluded the discussion by proposing that Mr Gerlach liaise with Mr Ahearne, the Department of Finance, and the ESRI regarding the contribution the Bank might make to the work of the research group.

The Commission noted the Euro Area Developments Update.

4. Supervisory Update

This was taken after item 2.
Part of this minute item is omitted as it contains supervisory information.
The Commission considered Paper No. 108 of 2015.

Mr Roux introduced this item. He noted that there had been a request at the previous meeting to present some of the PRISM related information in a RAG status for ease of reference. He said that this new format was being developed and he planned to bring a revised version to a future meeting. He then updated the Commission on a number of items:

Administrative matters

Mr Roux was due to appear before the Banking Inquiry on 10 June. Some previous and current staff members had already appeared. There was a considerable amount of administrative overhead involved in this process. There was also a significant impact on day-to-day business arising from Freedom of Information (FOI) requests. Mr Whoriskey noted that the Bank was also publishing, on a voluntary basis, various information items in order to pre-empt FOI requests and reduce some of the administrative burden.

Mr Roux also noted that the Bank was liaising with the Department of Finance in relation to preparing a revised format to the Annual Performance Statement; he welcomed the early engagement with the Department on this.

Banking

Enforcement

Mr Roux reported that the Bank had taken a major enforcement action against Western Union, fining it €1.75m for breaches of anti-money laundering requirements. This was

the first such case taken and gave a strong signal that compliance also applied to outsourced activities. Mr Geraghty welcomed the action; he noted that he had expressed some concerns at the Commission in the past regarding the risks that surrounded such activities.

Ms Byron said it was necessary to move to a structure whereby the Bank did not have to depend on a single person in order to proceed with major pieces of work. There was a general issue around ensuring there were sufficient numbers with the right skills in place and it was something the Commission needed to return to. Mr Gerlach noted that the challenges here were not necessarily ones of approving complement, but of recruiting and retaining in the face of an increasingly competitive market. The Governor pointed out that the Commission had in no way inhibited the Bank when it came to staffing; indeed it had been very supportive. The Bank had envisaged an increase of between 8 and 9 per cent in staffing this year, following a cumulative increase of 40 per cent from five years ago. The challenge was in finding the right people. Mr Roux noted that the Strategic Plan process that was currently in development would include an estimation of the resources required to deliver the strategy.

Insurance

She deemed it very important that the Commission fully explore and discuss whether or not the Bank had the systems in place to detect, and deal in a timely fashion with, fraud or other significant failings at insurance firms. It was important to have a full debate on that. The Governor agreed that these matters merited full discussion in light of all of the relevant information. He said that when that information was available, which would be very shortly, the Commission would have an opportunity to fully discuss and explore these matters.

The Commission noted the Supervisory Update.

5. Standard Variable Rates

Part of this minute is omitted as it contains confidential information.

Mark Cassidy, Head of Financial Stability and Caroline Gavin, Financial Stability Division joined the meeting. Mr Quinn was present for this item.

The Governor introduced this item. The Bank had recently forwarded to the Minister for Finance, and subsequently published, a paper on 'Influences on Standard Variable Mortgage Pricing in Ireland'. A copy of this had been previously circulated to Members. The paper summarised some of the ongoing research the Bank was conducting into this issue and made a number of high level observations. Members referenced a number of issues that were relevant to the debate on SVRs, including the costs of funds; tracker mortgages; credit risk; switching; and competition. The Governor said that the Bank was continuing to conduct research into this area and that this would be the subject of additional papers in due course. He noted that he was due to appear before the Oireachtas Joint Committee on Finance, Public Service and Reform later that day where some of the matters around SVRs would be debated.

The Commission noted the update on Standard Variable Rates.

6. Financial Stability – Macro Financial Review

Mr Cassidy, Ms Gavin, and Mr Quinn were present for this item.

The Commission considered Paper No. 110 of 2015.

Mr Cassidy introduced this item and set out the main messages from the Macro Financial Review which was due to be published in mid-June. The Irish economy continued to improve. The external environment appeared more favourable than at the time the last Review was published in December 2014, while domestic demand was expected to benefit from continuing growth in employment and incomes.

The external and macro-financial risks to the outlook were, however, broadly on the downside: fragile euro area economic growth conditions, international geopolitical tensions, the possibility of a more aggressive normalisation of monetary policy occurring outside of the euro area, and the prospect of a reversal of the global search for yield and of high asset prices. Any of these could have negative consequences for the international economy and financial system, with implications for Ireland.

The domestic macro-financial environment was characterised by high unemployment, elevated debt burdens in the private and public sectors, and a banking sector with a large stock of non-performing bank loans and a low level of new lending.

Notwithstanding some price moderation in the opening months of 2015, residential property prices continued to experience strong growth, in part reflecting the emergence of supply shortages in many areas. The commercial property market was performing strongly but was susceptible to a diversion of investment activity to other locations offering higher returns and to a reversal of the search for yield.

While the domestic banking sector returned to profitability in 2014, a range of challenges remained for the banks. The overall level of non-performing loans remained high. Despite the return to profitability, the internal capital-generating capacity of domestic banks was low. A reversal of the current favourable market conditions could impact banks' funding; a high proportion of which remained of a short-term duration, and on their ability to raise new capital.

The Commission noted the Macro Financial Review.

Mr Cassidy and Ms Gavin left the meeting.

7. Strategic Plan 2016-2018

Part of this minute is omitted as it contains confidential information.

John Coyle, Director Resolution & Corporate Affairs, and Eleanor Gill, External Advisor joined the meeting. Mr Quinn was present for this item.

The Commission considered Paper No. 109 of 2015.

Mr Coyle introduced this item. He recalled that the Commission held a workshop on 27 April 2015 to consider and provide direction on the approach to the development of the Strategic Plan 2016-2018. It also provided the Commission with an opportunity to consider what outcomes were to be delivered over the lifetime of the plan and how it should be designed and presented to meet the needs of the Bank's various stakeholders. The presentation at this meeting (Paper No. 109 of 2015) provided a summary of key outputs from the workshop, and set out the emerging strategy framework reflecting the points raised by the Commission and subsequently considered by management.

Ms Gill then summarised the key outputs from the workshop. The next three years could be characterised as a period of transition from crisis to recovery, with the Bank's mandate being delivered within an increasing European and international context. It was also a period of consolidation for the Bank, building on progress made. To that end, the current plan's mission statement ('safeguarding stability, protecting consumers') and emerging vision statement ('trusted by the public, respected at home and abroad, fulfilling for our people') were valid as the core of the plan for next three years. It was recognised that there were many diverse audiences to cater for in the presentation of the new plan and that it should address clearly, and at the right level, to its audiences, both internal and external. She recalled that Members emphasised the need to embed a rolling programme of review and annual work in order to operationalise the plan and deliver on the desired outcomes. The plan was also seen as an opportunity to provide clarity on what the Bank did, and how it was to deliver on its mandate. A number of broad environmental themes were identified: the increasing role of Europe and the eurosystem; a growing economy and financial system; emerging technological developments and 'big data'; the changing face of financial services; and the overall domestic environment. She also summarised a Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis which provided an opportunity to assess where the Bank was now.

Mr Ahearne suggested that staffing was a theme that regularly arose at Commission level and it would be important to capture that in a more prominent way. Ms Clarke said that this should also include a focus on staff development. She questioned the phrase 'fulfilling for our people' and suggested that there may be a better way to express this while maintaining the overall sentiment. She also said that data management should be included in the 'weakness' box of the SWOT. Mr Geraghty said it would be important to demonstrate the changing mandate of the Bank, for example around the introduction of SSM. He also said that the consumer role should be given prominence. Mr Moran said it was important to recognise the Bank's inter-connectedness with other arms of the State.
Ms Gill then summarised the measures of success that could be applied to delivery of the plan. These included an emphasis on the distinct role the Bank played with Ireland's overall economic and financial wellbeing; effective management of financial stability and regulation; and having an influential voice both domestically and internationally. Some internal success factors were around the Bank being a learning organisation; attracting the right people; and having the flexibility to meet a changing and dynamic environment. She also demonstrated how overall the plan could be presented in a graphical format. Mr Geraghty said that a measure of success should include a consumer/household dimension. Mr FitzGerald said that it should be possible to link financial stability with the interests of the consumer. Mr Soden said that it was important to have a reference to efficiency. Ms Byron also raised this point and said that efficiency and effectiveness could be expressed as a guiding principle.

Mr Coyle then summarised a set of overall strategic responsibilities, which broadly reflected the Bank's mandate, and some suggested outcomes that the Bank may be seeking against those. He also set out three high level enablers which were seen as key around how the Bank would deliver on the plan. These were around people and resources; information and knowledge; and communication and accountability. He noted that an overriding view from the workshop was that of keeping the plan at a high level and resisting the temptation to include a detailed list of what the Bank was going to do to deliver on its mandate. He set out a number of potential new initiatives that were due to progress over the next three years that could feature in the plan, while recognising that behind the plan there would be a much greater and more detailed list of tasks and desired outcomes identified. Mr Moran agreed that it was important to keep it succinct and that

the outcomes in the published plan should be at a high level while remaining relevant and robust.

Mr Coyle concluded the discussion by proposing to bring a draft strategic plan to the Commission at its June meeting, with further iteration in July before a planned sign-off in September. This approach was agreed.

The Commission noted the update on the Strategic Plan 2016-2018.

Mr Coyle and Ms Gill left the meeting.

8. **Appointment of Trustee to Superannuation Fund**

Part of this minute is omitted as it contains personal and commercial information.
Mr Quinn was present for this item.

The Commission considered Paper No. 111 of 2015.

The accompanying paper (Paper No. 111 of 2015) noted that the current Trustee Board for the Central Bank and Financial Services Authority of Ireland Superannuation Scheme consisted of two member-nominated trustees, three Bank-appointed trustees and one Professional Trustee. In order to facilitate the day-to-day management of the Fund, it was proposed that a replacement Management Trustee be selected. Mr Martin Moloney, Head of Markets Policy Division, was the proposed appointee; he met all legal requirements of a trustee.

The accompanying paper also noted that the Commission previously approved the appointment as Professional Trustee on 26 March 2014.

The Commission approved the appointment of Mr Martin Moloney, Head of Markets Policy Division, as a Bank-appointed Trustee.

9. Commission Sub Committees

Mr Quinn was present for this item.

The Commission considered Paper No. 120 of 2015.

Mr Whoriskey introduced this item. He recalled that at its meeting on 14 October 2010, the Commission agreed to the establishment of three sub-committees as follows: Audit Committee; Budget & Remuneration Committee; Risk Committee. It also agreed to the membership and chairs of the respective sub committees. As almost five years had elapsed since the committees were first established, it was considered timely to review the composition of the committees and, in particular, the chairmanships. It was now proposed that from 1 September 2015 the composition of the Committees be reconstituted as follows: Audit Committee – Patricia Byron (Chair), Blanaid Clarke, John FitzGerald; Budget & Remuneration Committee – Alan Ahearne (Chair), Blanaid Clarke, Stefan Gerlach, Cyril Roux; Risk Committee – Michael Soden (Chair), Des Geraghty, Alan Ahearne, Stefan Gerlach, Cyril Roux.

The Commission agreed to the new composition of Commission Sub Committees from 1 September 2015.

10. Statement of Accounts to 31 March 2015

Mr Quinn was present for this item.

The Commission considered Paper No. 112 of 2015.

The accompanying paper (Paper No. 112 of 2015) summarised the Statement of Accounts for the three months ended 31 March 2015. The Bank recorded a provisional

profit of €605.5m for the year to date 2015, (2014: €326.2m), an increase of €279.3m. The key drivers of the increase were higher realised gains on the partial sales of the 2025 Irish Government bond (2015: €314.3m v 2014: €32.7m) and lower unrealised losses year on year, (2015: €2.2m v 2014: €52.4m). These increases were offset somewhat by a reduction in net interest income amounting to €61.6m.

At this juncture, the profit for the full year was estimated to be in the region of €1.5bn (2014: €2.1bn) but this should be viewed as preliminary and subject to change. An outturn of this order would equate to Surplus Income payable to the Exchequer of around €1.2bn assuming retention of 20 per cent and minimum sales of securities held in the special portfolio. This forecast was provided to the Department of Finance in February 2015.

The Bank's balance sheet amounted to €83.4bn as at 31 March 2015, an increase of €2.0bn (3 per cent) over end-December 2014. The increase in the balance sheet primarily reflected the increase in the valuation of the Floating Rate Notes since end-December 2014 (+€4.0bn) acquired following the IBRC liquidation offset by the reduction of €2bn in the Marked-to-Market (MTM) investment portfolio. This reduction related to the Bank's commitments under the Agreement on Net Financial Assets (ANFA) as approved by the Risk Committee in December 2014.

Mr Quinn noted that an incorrect table had been inserted on slide 1 of the paper where some of the comparative numbers with previous years were not correct; this did not impact on the overall current information in the paper. A corrected slide would be circulated.

The Commission noted the Statement of Accounts to 31 March 2015.

11. Budget Outturn to 31 March 2015

Mr Quinn was present for this item.

The Commission considered Paper No. 106 of 2015. This matter had also been considered by the Budget and Remuneration Committee at its meeting on 18 May 2015.

The accompanying paper (Paper No. 112 of 2015) outlined the operating and investment/capital costs for the Bank for Q1 2015, comparing actual outturn to the approved budget and prior year for the same period. Operating costs, comprising staff costs (including pensions) and non-pay expenditure, amounted to €50.4m, and were below the Q1 2015 budget of €51.0m. The outturn represented an increase of €8.6m (21 per cent) on the Q1 2014 outturn. Total non-capital costs to 31 March 2015 amounted to €53.0m, which were 7 per cent below budget.

Total staff costs (including pensions), which constituted the largest component of the Bank's operating expenditure were €36.9m (3 per cent above budget). Pension charges for Q1 2015 of €11.0m were based on the budgeted cost, and were €5.9m higher than Q1 2014. Non-pay costs for Q1 2015 amounted to €13.5m - €1.9m higher than Q1 2014 (16.5 per cent), and €1.8m less than budget (11.8 per cent). The variance on prior year can be attributed to Professional Fees (€2.9m, an increase of €1.5m), mainly due to Banking Inquiry legal fees. Rent & Utilities costs (€2.7m) had increased by €0.4m, primarily due to a rent increase for the Iveagh Court premises. The variance on budget was attributed to most expenditure lines, which were below budget.

The aggregate outlay on Investment/Capital Projects for Q1 2015 was €3.5m, or 4 per cent of the total 2015 approved Investment Envelope of €81.0m. The 2015 outturn represented a decrease of €1.2m on the 2014 outturn (€4.7m) for the same period. The expenditure included €2.1m on IT systems; €0.8m on the Fusion Programme; €0.5m for Currency Operations; and €0.1m on the Central Credit Register project.

The Commission noted the Budget Outturn to 31 March 2015.

12. Annual Review of the Delegation of Powers

Mr Quinn was present for this item.

The Commission considered Paper No. 113 of 2015. Mr Whoriskey introduced this item. The accompanying paper (Paper No. 113 of 2015) listed the delegations in effect within the Bank and set out a summary of the powers retained to the Commission.

Mr Moran requested that the way in which the role of the Commission was described when powers were delegated should be re-examined. Mr Soden requested a paper that set out the specific powers that were retained to the Commission. Mr Whoriskey said that these issues would be addressed and brought forward in a future paper.

The Commission noted the Annual Review of the Delegation of Powers.

13. Industry Funding Levy – Consultation Paper

Mr Quinn was present for this item.

The Commission considered Paper No. 114 of 2015.

The Bank's total funding requirement for financial regulation activity was determined on an annual basis by the resources required to discharge its legal responsibilities under domestic and EU law. The industry currently funded approximately 50 per cent of the costs incurred by the Bank for financial regulation with certain exceptions. This translated into a corresponding reduction in the annual surplus remitted by the Bank to the Exchequer. This arrangement had been in place since 2004 after the establishment of the 'Single Regulator' in 2003. In 2014, the budget for financial regulation attributable to industry was approximately €74.188m.

In conjunction with the Department of Finance, a Joint Working Group was established to progress the collective view that full industry funding be introduced. The Bank had expressed strong views on advancing such a move, which was consistent with international regulatory norms. The Consultation Paper balanced these views with the Department of Finance's broader interest in the impact a change in funding

arrangements could have on the competitiveness of the financial services sector in Ireland. In real terms, using 2014 industry funding data, a fully funded financial regulator would have levied approximately €125.9m on industry to cover its costs.

The working group proposed issuing a Consultation Paper to elicit views on a move from the current approach of partial industry funding of financial regulation towards full industry funding.

Mr FitzGerald said it was important the paper noted that the current model of funding was not the preferred model of the Bank but rather than of Government; the Bank had made it clear that it was in favour of a 100 per cent funding arrangement.

The Commission noted the draft Industry Funding Levy - Consultation Paper.

14. Profiling the Financial Vehicle Corporation/Special Purpose Vehicle Sector

Mr Quinn was present for this item.

The Commission considered Paper No. 116 of 2015.

The accompanying paper (Paper No. 116 of 2015) introduced a mapping exercise of Special Purpose Vehicle (SPV) activities in Ireland. The paper also outlined the next steps in this programme of work which were decided by the Financial Stability Committee (FSC) at its meeting on 10 April 2015. The mapping exercise had been conducted jointly by teams in the Economics Directorate and the Markets Supervision Directorate.

Recently various questions had been addressed to the Bank regarding shadow banking and securitisation activity in Ireland (for example from the Financial Stability Board (FSB), the IMF and the media). In addition, the Bank continued to receive new legislative mandates which made supervisory engagement with a greater number of SPVs more likely. The aim of this exercise was to identify all of the SPVs which were

incorporated as so-called Section 110 vehicles; to categorise the vehicles' activities; to map their cross-border linkages; and, to estimate their benefit to the Irish economy.

The analysis suggested there were approximately 1,300 Section 110 SPVs domiciled in Ireland. Of this total, 763 were categorised as financial vehicle corporations (FVCs) under the relevant ECB regulation and therefore reported quarterly statistical data to the Bank. Irish domiciled FVCs had total assets of approximately €400bn as at Q4 2014. The residual (approximately 600 SPVs) referred to those vehicles that fell outside the ECB definition of FVCs. The Bank did not require data from these vehicles at present. Based on the analysis of 2012 company accounts, these entities had approximately €150bn in assets under management.

Apart from eight FVCs with approximately €37bn linked to Irish banks, the remaining FVCs and non-reporting SPVs had few direct links to the Irish economy. The vehicles had a number of links to the wider global financial system including the United States, the United Kingdom and Germany. The main benefit to the Irish economy came through fees paid to corporate service providers. Based on the mapping exercise, it was estimated that the total Irish fees from this sector were in the region of approximately €50 - €200m per annum. FVCs and SPVs generally did not have direct employees. In addition, director concentration was high within the sector. The main motives for setting up the vehicles in Ireland related to tax efficiency, bankruptcy remoteness, anonymity and regulatory arbitrage. Although current and forthcoming European securities regulation would touch on some of these vehicles' activities, some of this activity may remain outside the regulatory perimeter. The most obvious risk to Irish financial stability was potential reputational damage owing to the limited oversight of the non-reporting SPV population.

Mr FitzGerald said it was important to remain conscious of the reputational risks that existed around these types of activities establishing in Ireland.

The Commission noted the report of Financial Vehicle Corporation/Special Purpose Vehicle Sector and noted the next steps in the Bank's programme of work.

15. Risk Advisors' Report

Part of this minute is omitted as it contains supervisory information.

This item was previously discussed under item 4.

The Commission noted the Risk Advisors' Report.

16. Risk Information Pack

The Commission considered Paper No. 117 of 2015.

The Commission noted the Risk Information Pack.

17. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meeting of the Budget and Remuneration Committee of 25 February 2015.

18. Any Other Business

There was no other business.

The meeting concluded.

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Governor

26 June 2015

MINUTES OF MEETING NO. 58 OF THE CENTRAL BANK COMMISSION OF 26 JUNE 2015

In attendance: Governor (Chair), Alan Ahearne, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).
Apologies: Patricia Byron.

The Governor opened the meeting by welcoming the members to Oak Park, Carlow, and by expressing the Commission's gratitude to Teagasc for hosting the meeting in its headquarters. To facilitate staff members who would be presenting on various items, the agenda order had been amended.

1. Minutes of Meeting of 28 May 2015

The minutes of the meeting of 28 May 2015 (Meeting No. 57) were agreed.

2. Matters Arising

Special Portfolio
The Governor noted that the Bank was due to conduct a sale from the Special Portfolio of floating rate notes (FRNs) of €500m.

3. Euro Area Developments – Issues for the Central Bank

This was taken after Item 11.

Gerry Quinn, Chief Operations Officer, was present for this item.

[redacted]

The Commission noted the Euro Area Developments Update.

4. Supervisory Update

This was taken after Item 9.

Derville Rowland, Director Enforcement, was present for this item.

The Commission considered Paper No. 130 of 2015.

Enforcement

[redacted]

[redacted]

[redacted]

[redacted]

Markets

The Bank had recently been invited to participate in a shadow banking monitoring and information sharing exercise organised by the Financial Stability Board (FSB). Jurisdictions that participated in this information sharing exercise would have reciprocal access, on a confidential basis, to the information/data collected. In addition to the data sharing exercise the jurisdictions would also participate in workshops which would analyse the data and examine possible policy approaches.

The European Securities and Markets Agency (ESMA) had recently imposed its first fine on a credit ratings agency. DBRS Ratings Limited (DBRS) had been sanctioned for failing to comply with corporate governance, compliance and record-keeping requirements under the Credit Rating Agencies Regulation.

Consultation Papers

The Bank had recently published a consultation paper on Corporate Governance Requirements for Investment Firms (CP94). It set out the proposed requirements for such firms including: minimum board size, the composition of the board, the role of the Chairman, the role of the CEO; the frequency of board meetings; the role and composition of the risk committee, and the role and composition of the audit committee.

[redacted]

The Irish League of Credit Unions (ILCU) had, on foot of the issuance of the Bank's consultation paper on Credit Union Regulations, requested a meeting with the Commission to discuss its views. It was noted that the Governor would meet with the ILCU.

Insurance

[redacted]

[redacted]

The Commission noted the Supervisory Update.

5. Currency Centre Operations [redacted]

This was taken after Item 7.

Paul Molumby, Director Currency and Facilities Management, and Mr Quinn, were present for this item.

The Commission considered Paper No. 131 of 2015.

Mr Molumby introduced this item. [redacted]

[redacted]

[redacted]

[redacted]

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[redacted]

[redacted]

[redacted]

[redacted]

6. Strategic Plan 2016-2018 - Update

This was taken after Item 2.

John Coyle, Director Resolution and Corporate Affairs, and Mr Quinn, were present for this item.

The Commission considered Paper No. 132 of 2015.

Mr Coyle introduced this item. He recalled that, at its meeting on 28 May 2015, the Commission had considered a summary of the key outputs from previous workshop discussions, and had further discussed and considered the emerging strategy framework. The accompanying paper (Paper No. 132 of 2015) contained a preliminary draft of the Plan and set out a style and format that the Plan could follow. The Commission was requested to provide feedback on the layout and content which had been developed thus

far, although the document was still subject to further internal discussion and consultation.

Mr Soden asked if the Bank was fixed to a three year cycle or could it have a more regular cycle, ideally on an annual rolling basis to take account for changing priorities. He noted that the Bank needed some flexibility and ability to change priorities should the external environment or other circumstances change. He also questioned the wording of the goal around consumer protection and in particular the phrase that, 'regulated firms act in the best interests of consumers'. While recognising the importance of firms' obligations to their customers and not suggesting that this be diminished in any way, he also said that firms had obligations to their shareholders and investors and it may require more balanced wording. Mr Roux explained that the phrase of acting in the best interests of consumers was drawn directly from the legislative mandate. Mr Geraghty said that the document should have a look-back to what had been achieved during the lifetime of the preceding Plan, and that the introduction could also set out the key statutory responsibilities of the Bank and how the Plan linked to those. Mr Moran added to this point by suggesting that it would be useful if the Introduction also set out what had changed during that period, such as the introduction of SSM and to put a context on the changing role of the Bank. Mr Ahearne welcomed the draft and said it read very well; he asked if the ordering of the goals as they were presented graphically and in the text were set out in any prioritised fashion. Ms Clarke also said that it was emerging as a very good document. She suggested that under Supervision and Enforcement it might be sensible to state that the risk-based approach to supervision was not a 'zero failure' regime; she also said that it would be useful for the Plan to set out how the Bank worked to actively shape and influence policy at the wider European level, such as around SSM and Resolution. Ms Clarke also said that there should be a reference to IT security risks, such as cyber-attacks, and what the Bank might do to address these. A number of members requested that, while fully supportive of the concept, the vision phrase of 'fulfilling for our people' be re-examined to be a bit more specific.

In response to the various suggestions, Mr Coyle said that all the comments would be considered in the context of the ongoing drafting of the Plan, which would be brought back to the Commission at its next meeting. On some of the specific points, he said that

while the Bank had a statutory obligation to produce a Plan on a three-yearly basis, that this should not prevent it from producing an annual update to the Plan to include reporting on achievements against the goals and setting out any new or changing priorities. He agreed that the Introduction could include a section setting out some of the key achievements and changes that occurred during the lifetime of the current Plan. He noted that the order of items as presented would be examined.

The Governor said that the management team had also been discussing the resourcing implications that would arise from the commitments set out in the Plan. He said that in order for the Bank to deliver on its growing mandate a ramp-up in staffing requirements would be needed. The Bank was already under pressure to deliver and this would only increase in the coming period if there was not an increase in resources. The proposed increase was likely to be in the magnitude of three figures. He said that this would also pose significant challenges around recruitment and retention. This aspect would be brought to the Commission at its next meeting. Mr Ahearne asked if this might have implications for the new building at North Wall Quay. Mr Quinn noted that the Bank had a contingency in terms of its existing lease on the Spencer Dock premises.

The Commission noted the update on the Strategic Plan 2016-2018.

Mr Coyle left the meeting.

7. Organisation Review Update

Liz Joyce, Director Human Resources, and Mr Quinn, were present for this item.

The Commission considered Paper No. 133 of 2015.

Ms Joyce introduced this item. She recalled that at its meeting on 28 November 2014, the Commission considered the outputs of the comprehensive analysis conducted by PwC, as

well as the organisational design principles and decisions which were agreed by management. In summary, these were that the Bank would move from a grade to a role-based organisation, categorised by bands and perhaps job families; enable its staff to gain experience and valued skills by moving purposefully around the organisation; enable staff to pursue team contributor roles and/or the management track, in order to attract, develop and retain needed skills and provide a meaningful proposition; flatten structures and widen spans of control; and, focus on more effective ways of working. In the intervening period the Programme team in conjunction with PwC had piloted these design principles in three areas - Statistics, Financial Control and Procurement and the Insurance Directorate. The pilot had provided valuable information regarding the impact of flattening reporting layers, increasing spans, more devolved decision making and accountability, dual career paths, [redacted]

[redacted] Concurrent with the work on reward, work had commenced on developing the Bank's employer value proposition (EVP), including a staff survey, which would assist in the development of an employer brand and would clearly articulate what the organisation expected of staff and what staff could expect from the organisation.

In order to resolve the high level organisation issues of attraction and retention of key talent, management was examining the potential to create a new Career and Reward Framework aligned to the market.

[redacted]

[redacted]

It was the intention to proceed to roll out the organisational re-design process from the end of June 2015. Communications to support this roll-out including workshops with Heads and Deputy Heads of Divisions, were being designed and implemented to support this. [redacted]

[redacted]

[redacted]

Mr Geraghty said that the plans were very ambitious. He believed it important that people within the organisation would see that they could progress within their own sphere of competency and not to have to move to another area or to a people management role in order to develop their careers within the Bank. He also said that it would be important to ensure that teamwork, as well as individual contributions, was recognised. [redacted]

[redacted]

Ms Joyce responded to the various points by saying that the proposals were at an early stage and were largely illustrative; at this stage it was more about the general direction the organisational redesign was taking, however the comments were very useful in further developing that. On some of the specific issues raised, she noted that a key element of the process was to ensure that staff progression was not based entirely on moving to management roles but also on catering for those who could progress on an individual contributor level. She noted the importance of team performance and that the Bank already recognised collaborative and team achievements. [redacted] He noted that pay and reward was only one element of the organisation review which was also focused on roles and structures.

Ms Joyce concluded by noting that work would continue in the direction set out; the intention was to continue to consult with and keep the Commission informed and updated on progress with a view to full implementation by mid-2016.

The Commission noted the update on the Organisation Review.

Ms Joyce left the meeting.

8. Delegation of Summary Criminal Powers

This was taken after Item 3.

Ms Rowland was present for this item.

The Commission considered Paper No. 134 of 2015.

Ms Rowland introduced this item. The Bank had authority to bring summary criminal prosecutions in limited circumstances. [redacted]

The Bank was empowered to bring summary criminal proceedings, i.e. to prosecute offences in the District Court only, for a range of minor offences provided for in financial services legislation. Historically, this power was typically created on an offence-by-offence basis in each relevant enactment or statutory instrument creating the offence. The Central Bank Reform Act 2010 inserted a new provision in the Central Bank Act 1942, Section 61DA, which gave the Bank the legislative power to bring a summary prosecution in relation to all offences created in the financial services enactments and statutory instruments listed in Schedule 2 to the 1942 Act.

The functions and powers of the Bank relating to financial regulation, including enforcement powers, save where expressly retained by the Commission, had been delegated to the Deputy Governor (Financial Regulation), most notably in Commission Paper No. 22 of February 2011 (under the title Head of Financial Regulation). The legislative authority to delegate the functions and powers of the Bank was found in Section 18F of the 1942 Act.

Ms Rowland noted that the purpose of the accompanying paper (Paper No. 134 of 2015) was to seek the delegation by the Commission to the Deputy Governor (Financial Regulation) of the function and power of the Bank under Section 61DA of the Central Bank Act 1942, as amended, being the power to commence a summary criminal prosecution. It was further sought to have the execution of this delegation done under the seal of the Bank as provided for in Section 10 of the 1942 Act [redacted]

This delegation would apply to all summary prosecutions brought by the Bank.

Ms Rowland left the meeting.

The Commission:

- **approved and made a delegation to the Deputy Governor (Financial Regulation), pursuant to Section 18F of the Central Bank Act 1942, of the statutory power contained in Section 61DA of the Central Bank Act 1942 to bring and prosecute summarily criminal proceedings for an offence under that Act, a designated enactment or a designated statutory instrument; and,**
- **approved the application of the seal of the Bank to this delegation in accordance with the procedure set out in Section 10 of the Central Bank Act 1942.**

9. Delegation of Regulatory Powers: EuVECA/EuSEF

The Commission considered Paper No. 136 of 2015.

The accompanying paper (Paper No. 136 of 2015) noted that Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds came into effect on 22 July 2013. These Regulations introduced a harmonised set of rules for qualifying venture capital and social entrepreneurship funds and permitted certain alternative investment fund managers to market qualifying funds under the designation of EuVECA or EuSEF throughout the EU pursuant to a passport.

Under the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (AIFMD), an EU passport was available to managers of alternative investment funds above a certain size. However, qualifying funds tended to be relatively small meaning that their managers fell below the AIFMD threshold for an EU passport. The EuVECA and EuSEF Regulations had the objective of allowing managers of qualifying funds to passport throughout the EU notwithstanding their small size. As the competent authority, the Bank would be responsible for registering managers of qualifying funds in the State

and supervising their compliance with obligations in the EuVECA and EuSEF Regulations.

The EuVECA and EuSEF Regulations were supplemented by two domestic statutory instruments, namely the European Union (European Venture Capital Funds) Regulations 2015 and the European Union (European Social Entrepreneurship Funds) Regulations 2015 (EuVECA and EuSEF Statutory Instruments).

The delegation of powers proposed was consistent with the previous decisions of the Commission on the Delegations Framework in Commission Paper No. 22 of 2011 and as applied to the functions and power of the Bank under financial services legislation relating to fund managers, including the European Union (Alternative Investment Fund Managers) Regulations 2013.

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 provided for in the EuVECA and EuSEF Regulations and the EuVECA and EuSEF Statutory Instruments;**
- **approved the further delegation by the Deputy Governor (Financial Regulation) of the statutory functions and powers delegated under paragraph i. to a committee of officers/employees of the Central Bank or individual officers/employees of the Central Bank as he or she sees fit, to ensure effective, efficient and economic resource allocation within the Central Bank; and,**
- **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.**

10. Balance Sheet Biannual Update

The Commission considered Paper No. 126 of 2015. This item had also been considered by the Risk Committee at its meeting on 25 June 2015.

The accompanying paper (Paper No. 126 of 2015) provided the bi-annual update on the risk exposures of the Bank's balance sheet and covered the six month period to 30 April 2015.

Since October 2014, the size of the Bank's *published* balance sheet had declined slightly, falling from €78.3bn to €77.9bn. However the *adjusted* balance sheet had increased from €67.4bn to €75.4bn. This change mostly resulted from significant valuation gains on the special portfolio. Following the initiation of the ABS purchase programme (ABSPP) and a new covered bond purchase programme (CBPP3), the Governing Council of the ECB introduced a public sector purchase programme (PSPP) in Q1 2015.

[redacted]

Since the date of the last assessment, the risk measures had remained broadly stable. [redacted]

[redacted]

Mr Geraghty confirmed that this item had been discussed by the Risk Committee at its meeting on 25 June 2015.

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The Commission noted the Balance Sheet Biannual Update.

11. National Payments Plan – Revised Governance Arrangements

This was taken after Item 5.

Ronnie O'Toole, National Payments Plan, Mr Quinn, and Mr Molumby were present for this item.

The Commission considered Paper No. 123 of 2015.

Mr O'Toole introduced this item. He noted that at the Commission meeting of 23 June 2011 the Bank agreed to take responsibility for the co-ordination and implementation of a National Payments Plan (NPP) for Ireland. Following the establishment of a NPP Steering Committee and a secretariat in the Payment and Securities Settlements Division (PSSD), the Plan, which aimed to double the number of electronic payments between 2011 and 2015, was approved by Government and published.

Despite significant progress in a number of areas, it became evident in early 2014 that the more ambitious goals of the plan would not be met. The Bank was concerned that the existing governance arrangements were such that the Bank was not, in fact, in the best position to deliver the most effective leadership role from this point forward. A review was carried out, initiated by the NPP secretariat in PSSD, and involving the main stakeholders, to identify the requirements necessary to allow the plan to succeed. The areas highlighted included prioritisation at a national level, with clear political sponsorship at a senior level; a clearer vision of the scope and objectives of the strategy; and a more aligned governance structure to support implementation of any revised strategy. The conclusions reinforced the Bank's own view that a governance model involving more political leadership and a more central role for the Department of Finance would be preferable.

Arising from this review, the Department of Finance, in consultation with major stakeholders including the Bank, had now set out a new strategy for the NPP. This was based on a streamlined NPP Governance structure chaired by the Department of Finance, with a policy of refocusing on a small number of key recommendations, namely: incentivisation; financial inclusion; and a communications strategy. The revised NPP would not have an overarching 'target' as before, given the difficulty of matching specific actions with market outcomes. The existing NPP Steering Committee would be replaced by a consultative group with an expanded membership that will meet less frequently. The Department of Finance would also provide the secretariat to the NPP. Under the new structure, the Bank would be jointly responsible for monitoring the use of electronic payments in Ireland and development of policy, and would also participate on working groups to progress initiatives as required.

Mr O'Toole noted that, in addition, the Bank would also lead the co-ordination of the national rollout of the 1c and 2c rounding initiative following recent Government agreement to proceed with this strategy. Rounding was a voluntary process, on the part of both retailers and consumers, whereby goods and services were still priced in multiples of 1c and 2c but the final total was rounded up or down at the till to the nearest 5 cent. Rounding would apply only to cash payments.

In many countries globally, including in the Netherlands, Finland and Belgium in the euro area, low denomination coins had effectively been removed from circulation through the use of a so–called 'rounding' rule. In 2013 the NPP ran a successful pilot on rounding in Wexford and this experience would stand to the Bank in the upcoming national rollout. Following the request from Government, the Bank had established a project team, led by the Payments and Securities Settlements Division (PSSD), and involving the Press Office and Currency Issue Division (CID). It was envisaged that the rollout campaign would have two major elements: merchant education and consumer education. An external communications agency would support the project team in delivering the campaign. The actual date for the roll-out would be decided in conjunction with retail representative bodies, though it had tentatively been set for late-October 2015.

Mr Soden asked if there was a potential for inflation arising from rounding where retailers may be tempted to price items from a rounding up perspective. Mr O'Toole said

that rounding applied to the total price of all goods and not on individual items, where more than one item was being purchased. It would therefore be extremely difficult to engineer a rounding up result from baskets of goods. The evidence from the Wexford trial was that there were no appreciable changes in the prices of goods. Mr Moran noted that the Wexford trial was overall very successful and there was widespread acceptance of rounding, however this was due in part to a strong communications plan and this would need to be replicated on a wider level. Mr O'Toole confirmed that there was a significant communications work-stream built in to the new project.

The Commission noted the National Payments Plan update.

12. Risk Information Pack

The Commission considered Paper No. 129 of 2015.

The Commission noted the Risk Information Pack.

13. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meeting of the Risk Committee of 22 April 2015.

14. Any Other Business

Governor Appointment

Mr Moran informed the Commission that the process for identifying potential candidates for the role of Governor for consideration by Government was underway. It was expected that a search agency would be appointed to assist in this; in addition, Mr Moran had been asked to chair a panel to screen potential candidates and to prepare a short list

for consideration by Government. He asked any non-executive members of the Commission who were interested in sitting on that panel to contact him bilaterally.

The meeting concluded.

Governor

23 July 2015

MINUTES OF MEETING NO. 59 OF THE CENTRAL BANK COMMISSION OF 23 JULY 2015

In attendance: Governor (Chair), Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, Derek Moran (Items 1-7, 12), Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Alan Ahearne

1. Minutes of Meeting of 26 June 2015

The minutes of the meeting of 26 June 2015 (Meeting No. 58) were agreed.

2. Matters Arising

'Brexit'

Mr FitzGerald queried the status of the work the Bank was engaged on with the Department of Finance joint research group with the ESRI concerning 'Brexit', which had been discussed at the May 2015 Commission meeting; he was concerned that there may be a gap in considerations around the financial sector. The Governor noted that the Bank was not a member of the research group but rather a contributor to it. Mr Gerlach confirmed that the Bank was keeping close contact with the Group and was providing the necessary assistance including relevant papers and research.

[redacted]

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. [redacted]

[redacted]

The Commission noted the Euro Area Developments Update.

4. Supervisory Update

The Commission considered Paper No. 147 of 2015.

Mr Roux updated the Commission on a number of matters.

Credit Unions

The external peer review of credit union supervision, undertaken by the International Credit Union Regulators' Network (ICURN) was expected to be finalised very shortly and published over the coming weeks.

The Bank was also due to publish new regulations following its recent consultation exercise. Some issues remained controversial with the credit union movement, including the €100,000 limit on deposits, and it could be anticipated that there would be some public debate and challenge on this front.

Consumer Protection

The Bank was due to issue a consultation paper on the proposed regulatory regime for credit servicing firms now that the relevant legislation had been introduced. The Bank had worked to ensure that consumers whose loans had transferred to such firms retained their consumer protection benefits. The Bank would ensure this was the case by

exercising its new powers for the authorisation of such firms which would then be subject to the consumer protection codes. There were approximately 10 such firms operating in this space at the moment.

Enforcement

The Bank was conducting an enforcement investigation into permanent tsb (PTSB) concerning issues associated with tracker mortgage rates. The Bank was requiring PTSB to implement a Mortgage Redress Programme to address the issues identified and a significant announcement was due in the coming week. The enforcement investigation was continuing and this step was being taken at this stage to ensure that customers did not remain disadvantaged until the conclusion of the work.

[redacted]

Ms Clarke noted the references in the Supervisory Update paper (Paper No. 147 of 2015) to the recently completed themed inspection on the compliance of lenders with the Code of Conduct on Mortgage Arrears (CCMA) [redacted]

[redacted]

She asked if the Bank was satisfied that the banks were correctly valuing the properties on their books and were following the relevant international standards in doing so. She noted that poor valuations had caused major problems in the past and now that the property market was becoming more active it would be necessary to ensure this was not

repeated. Mr Roux referenced the very detailed balance sheet assessments and asset quality reviews that were undertaken as part of the euro area-wide Comprehensive Assessment of banks in 2013 and 2014. He said that if international standards were to change the Bank would of course reflect that in its analysis. He noted that this was now a matter of prudential supervisory responsibility that came under the SSM, and that there would be further such assessments and stress tests undertaken in 2016.

The Commission noted the Supervisory Update.

5. Strategic Plan 2016-2018 - Update

John Coyle, Director Resolution and Corporate Affairs, and Gerry Quinn, Chief Operations Officer, were present for this item.

The Commission considered Paper No. 148 of 2015.

Mr Coyle introduced this item. He recalled that the Commission, at its meeting on 26 June 2015, had considered an outline draft of the Strategic Plan 2016-2018. The updated draft of the document had reflected the comments from that meeting, including a 'look-back' on the strategic progress made by the Bank during the 2013-2015 period. The Commission was now being requested to provide any further drafting comments with a finalised document due to be presented at the meeting on 25 September 2015 for approval.

The Strategic Plan sets out the challenges facing the Bank and included both new mandates and the uplift required for enhanced effort in some areas of the Bank's work. An examination had been carried out to determine the resource requirement to fulfil the commitments in the Plan and a summary of these indicative requirements was set out in the accompanying paper as a basis for discussion. Approval of additional resources would be subject to the annual budgeting processes in the usual way.

Management had identified 38 separate actions to deliver the desired outcomes over the three year life of the plan. Of these, 12 would be progressed utilising existing resources, while 26 other actions would require further resource investment, indicatively sized at a further 250 staff members, above the end-2015 complement, by 2018; while new capital investment over the period was estimated at €54m. If the Bank committed to such a resource uplift, it would result in an organisation of some 1,800 people. While increased resource needs were broadly identified across the space, the five new resource intensive initiatives were: enhanced supervisory engagement, process and tools in light of new powers, mandates and upgraded international standards; extended on-site inspection activities; the development of a new data management strategy; a decreased reliance on outsourcing for certain activities; and the implementation of Solvency II.

The majority of the increase was identified in the financial regulatory space. Mr Roux explained that this was largely down to three factors: a significant increase in the European regulatory agenda, including the requirement to implement new directives and regulations; the need to respond to recent external peer reviews by the IMF and others that recommended an enhancement of supervision of low-impact firms; and the continuing growth in the international financial services industry in Ireland. Mr Quinn noted that the increase identified in the Operations area was in large part related to the data management strategy, discussed at the previous day's Joint Audit/Risk Committees meeting, and to the need to decrease reliance on outsourced contractors in certain areas. He also noted that, should numbers increase in other areas, there would be a corresponding increased demand on support services.

Mr Soden asked how much of the proposed increase was mandate driven out of Europe, and how much was on own initiative. He also said that increased costs of regulation were likely to have a negative impact on the investment prospects of the banks at a time when there was a desire to move them away from Government ownership. Mr FitzGerald recalled that he had on previous occasions raised the question as to the added-value of some of the firms and activities the Bank was regulating. He noted that this was not primarily an issue for the Bank as it generally had to regulate what it was given, but there were wider policy considerations and the Bank should ensure it was keeping the Department of Finance informed where appropriate in this respect.

Mr Roux said that little of the additional work in the regulatory space was home-grown; it was primarily driven by new European generated mandates and in responding to market growth. He said the additional costs that industry would incur were minimal in the overall scheme of their costs and he noted the huge costs to industry, and to society, that resulted from poor regulation in the past. Regarding the value-add question, the Governor noted the importance of this and the fact that the Bank had indeed shared information with the Department of Finance and had also published papers and articles addressing this.

Ms Byron said that the proposed increase was quite significant and, while accepting it was being presented in a high level manner at this point, it would be necessary to see a more detailed basis for such numbers before the Commission could make any decisions in this respect. It was important that any proposal included a capacity framework, including making allowances for economies of scale, to support the very significant numbers currently envisaged. Mr Geraghty queried the need to over-rely on inspections, which were resource heavy, and if consideration should be given to leveraging more off market intelligence or whistleblowing. He also believed that a higher level of consumer awareness and strong enforcement messaging could have a positive impact on compliance among firms.

Mr Coyle confirmed that the headcount data presented for this meeting was at a high level and that the normal budgetary process would be utilised to spell out in greater detail the precise proposed requirements. Regarding inspections, Mr Roux said that Ireland was already operating at the lower end of the scale on this activity and this had been spelt out in external reviews. He said that the level of on-site monitoring was a requirement under SSM and that any other proposals for other sectors were modest in comparison.

Mr Moran said that in his view the key matter before the Commission at this meeting was whether or not the Strategy, as set out, was the correct one for the Bank to follow. He noted that resourcing issues and discussions on those would follow. He said he broadly agreed with the Strategic Plan as currently drafted.

Mr Coyle concluded the discussion by saying that any suggestions on the draft of the Strategic Plan could be taken by written procedure; a final version would be prepared for agreement at the meeting in September 2015. He said that the management team would

also in the meantime be setting out in more detail the precise resourcing requirements that might arise and would return to the Commission with more specifics on that.

The Commission noted the update on the Strategic Plan 2016-2018 and agreed with the Plan as currently drafted.

Mr Coyle left the meeting.

6. Accommodation

Mr Quinn; Paul Molumby, Director Currency and Facilities Management; and Fergal Power, Head of Financial Control and Procurement Division, were present for this item.

The Commission considered Paper No. 158 of 2015.

The Governor introduced this item. He noted that the opportunity for the Bank to consider the purchase of Block R, Spencer Dock, had just arisen. A decision would be required imminently in order to progress with any submission of a bid. He said that the Bank would still have an opportunity to undertake due diligence around this and that the accounting treatment would be set out under a separate item, although no specific decision on these particular aspects were required at this meeting.

Mr Molumby noted that Spencer Dock was located within a few minutes' walk from the new building at North Wall Quay (NWQ), and the Bank currently had a long term lease on circa half the property. The Strategic Plan for 2016 – 2018 pointed to a continuation in the trend of increases in city centre staffing levels. The indications were that the projected staff levels would absorb the full capacity of the accommodation levels in the NWQ building. Accordingly, the retention of the Bank's long term lease on the Spencer Dock property was considered the prudent long term protection for provision of additional city centre accommodation.

The financial analysis of the Bank purchasing the Spencer Dock building, and using the current footprint occupied by the Bank for its own purposes, and maintaining the existing leases with the current tenants would indicate that purchase was a significantly cheaper option than continuing to rent the building as a tenant. In addition acquiring Spencer Dock would also result in an immediate release of the Onerous Lease provision of €17.2m currently held on the Balance Sheet.

The property was being sold by sealed bid tender in a one round process. Sealed Bids needed to be submitted by noon on 30 July 2015. The Bank had engaged a professional team, who were continuing to work on this matter, to advise on this transaction. [redacted]

Mr Geraghty said he supported the proposal. He had long held a view that the Bank should have a two-building strategy from a contingency perspective. Mr FitzGerald noted there would be a separate discussion on the funding of this and that he would have some concerns regarding the Bank's involvement in property investment outside of its own needs; he also noted that the Office of Public Works and a regulated entity were existing tenants in the building and that this aspect was also something that required consideration. Mr Quinn said that having a building adjacent to NWQ was advantageous in terms of future proofing accommodation needs; although conversely it was not likely to be very appropriate for significant business continuity requirements because of that proximity. The Governor noted that the Organisational Risk Division had been tasked with considering the option of treating the purchase as an investment rather than as a fixed asset and a separate paper would be circulated on that. He also said that any relationship with tenants would be at arms-length and that the Bank would have to ensure market rates applied for any tenancy arrangement; this was particularly important regarding any public sector tenants so as to avoid any question of monetary financing.

The Governor proposed that the Commission approve the proposal to proceed with a bid and delegate to him the purchase price to be set and conditions applying to this.

Mr Molumby, Mr Power and Mr Quinn left the meeting.

The Commission approved the making of a bid for the acquisition of Block R, Spencer Dock at (a) a price to be set by the Governor; and (b) subject to such conditions as the Governor considers appropriate.

7. Data Strategy

This was taken after Item 12.

Mr Quinn was present for this item.

The Commission considered Paper No. 156 of 2015. This item had also been considered by the Audit and Risk Committees at their joint meeting on 25 June 2015.

Mr Quinn introduced this item. He noted that there had been a detailed discussion on this item at the previous day's Joint Audit/Risk Committees meeting. The accompanying paper outlined the critical importance of data to the organisation and set out ways in which the Bank could best improve its data management capabilities and address the issues and risks which had been identified.

[redacted]

[redacted]

[redacted]

Ms Clarke confirmed that the Joint Audit/Risk Committees meeting had considered a detailed presentation on this. She said that the Committee had recommended a broadening of the membership of the Governance Group to ensure good coverage of the Bank's key functions. She also said that the Committee had noted that it was not intended to agree the full strategy at this point but rather, because of its scope, a number of initiatives would be brought forward for consideration as it evolved. She said that the issue of data management was one that regularly arose at Audit level and that it had been agreed that a matrix would be drawn up setting out how the various audit recommendations were being addressed as the strategy evolved.

The Commission noted the proposed Data Strategy.

8. Insurance Supervision

Sylvia Cronin, Director Insurance Supervision; Mark Burke, Head of Life Insurance Division; and Kieran Murphy, Head of General Insurance Division, joined the meeting.

The Commission considered Paper No. 149 of 2015.

Mr Roux introduced this item. He recalled that, over the past year, the way in which the Bank organised itself around banking supervision was reviewed and restructured to align itself with the new approach adopted under SSM. While the driver was not precisely the same, Solvency II represented a watershed in insurance supervision and presented a similar opportunity to examine the Bank's structure and approach in this space.

Ms Cronin said that the Insurance Directorate had reviewed, and was currently amending, its supervisory approach and changing its directorate structures to address the requirements of Solvency II, as well as the areas of concern highlighted by the IMF, EIOPA and after action reviews on individual supervisory files. The practices in other national supervisory authorities had also been examined. This had all contributed to considerations on developing a new supervisory approach and designing the new Insurance Directorate structures which it was intended to implement in advance of, while in keeping with, the overall Bank Organisational Review project.

The new approach to Insurance Supervision would focus on delivering a number of changes in how supervisors interacted with companies. Specifically, it was intended to develop: more intrusive and challenging engagement with companies; enhanced collaboration within the Insurance Directorate and across the Bank; strong internal and external challenge processes; more focus on quantitative analysis and independent quantitative assessment; more granular, risk-based approach to supervisory engagement (in lieu of current impact based approach); and more supervisory roles with long-term growth potential. The new structure would comprise two divisions. One devoted to supervision, onsite and offsite, the other to analytics and specialist support. As a key driver was Solvency II, it was intended to have these changes in place before the end of 2015.

The Governor asked, owing to the presence of such international insurance firms in Ireland, if it would be possible to have integrated data analytics with other supervisors. Mr Burke said that there would be some scope for that; he pointed also, in the context of the large volume of foreign risks underwritten by Irish insurers, to the plan to dedicate several supervisors to be foreign risk experts - to monitor and better understand developments in key markets where Irish firms underwrote significant exposures.

Ms Clarke welcomed the proposed changes. She said, however, with reference to the paper's section on 'Insurance Supervision in the Future' and specifically to have, 'a more intrusive and challenging supervisory approach' and to employ 'internal challenge

processes', that these were practices she would have expected to be already in place, including in the context of PRISM. Ms Cronin said that this was being done but only up to a point. The Bank could be a lot more intrusive based on being armed with more data and the new approach was designed partly to tool-up in this space. Mr Murphy added that it was planned to intensify the internal challenge process.

Ms Byron said that the new structures made sense and allowed for greater clarity on the role played by the Directorate. She asked if the related staffing changes, which would happen before year-end, required any particular approvals at this point. She noted that the more armed the Bank was with data, the more refined its supervisory approach could be. She asked if there were plans to utilise research tools around reserving; while this would not replace intellectual capital, it would bring strength to the analysis. Mr Burke said that the Directorate had invested in software to assist with firm level analysis but not sector-wide. He said that the type of product referenced could indeed complement expert resources and it was something that would be examined. Mr Roux added that while such tools could be useful, the real difficulty was in ensuring there were expert and experienced staff that were in a position to challenge. It remained difficult to recruit and retain such staff. Mr FitzGerald [redacted] He also asked if it was possible to arrange for staff secondments from other supervisory authorities. [redacted] Ms Cronin said that secondments were already happening; the Bank currently had a staff member from the Austrian supervisor and next year one from the German supervisor would also join for a period. The Governor noted that the envisaged staffing changes did not require any approvals as they were within the 2015 agreed complement.

The Commission noted the analysis conducted by the Insurance Directorate and the changes to its structure.

9. Industry Funding Regulations 2015

Mr Quinn and Mr Power were present for this item.

The Commission considered Paper No. 150 of 2015.

Mr Power introduced this item. He noted that, on 3 July 2015, the Bank and the Department of Finance published a joint consultation paper (CP95) entitled 'Funding the Cost of Financial Regulation' which outlined a number of proposed changes to the current funding structure and addressed a number of topics including the case for full industry funding and the current regulatory cost model. Any implications from the consultation would not take effect until the 2016 levy year at the earliest.

The focus of this paper centred on the 2015 levy year. Section 32D of the Central Bank Act 1942 provided that the Commision may make regulations prescribing levies to be paid by persons who are subject to regulation under the designated enactments and designated statutory instruments (the 'Regulations'). As in recent years, it was proposed that the 2015 Regulations would be finalised by the Deputy Governor (Financial Regulation) and signed by him on behalf of the Commission. A draft of the 2015 Funding Regulations, including a draft Schedule, had been included in the accompanying paper. It also outlined the amounts to be recouped from various industry sectors in 2015.

Mr Power drew attention to an increase of €20.6m in the 2015 Industry Funding levy (from €51.1m in 2014 - excluding the supplementary levies for credit institutions - to €71.7m) which resulted in significant increases in many levy rates. Following extensive internal engagement, all Supervisory Divisions were aware of the outlook for 2015 levies and the next steps would include engagement with the Department of Finance and industry bodies.

The 2015 Budget for financial regulation activity totalled €137.4m and reflected an increase of €14.4m from €123.0m in Budget 2014, and a slight reduction compared with the 2014 outturn of €139.4m. The 2015 pension cost of €29.0m related to financial regulation was the most significant driver of the 2015 increase (2014 Budget: €13.4m; Actual: €17.6m). Pension costs in the accounts reflected an approach mandated under

Financial Reporting Standards (FRS) which, in the current low bond yield environment, gave rise to high charges. While consideration had been given to finding an alternative approach for levy purposes to smooth the volatility arising from the FRS, the conclusion has been to maintain the established link between the accounting treatment and the levy calculations.

A shortfall in levies from prior years of €2.4m added to the cost to be recouped from industry in 2015 (31 December 2013: Surplus €4.8m). Unpaid levies represented €1.7m of this €2.4m shortfall. In prior years, such unpaid levies were recouped from the industry category to which they related. For 2015, it was proposed to redistribute unpaid levies over all categories in proportion to each category's share of levies before redistribution. This approach avoided the paradox whereby failure to pay the levy benefitted the delinquent firm and also imposed the costs it had avoided on its direct competitors. Mr Quinn added that the Bank was putting in a bigger effort to collecting from these non-payers, via an agency acting on its behalf and, if necessary, through the courts.

Mr Quinn and Mr Power left the meeting.

The Commission:

- **Noted the draft 2015 net Annual Funding Requirement (net AFR) as outlined in Paper No. 150 of 2015; and,**
- **Agreed to the various delegations as set out in Paper No. 150 of 2015.**

10. Banking Recovery and Resolution Regulations 2015

Paschal Finn, Deputy Head of Legal Division, joined the meeting.

The Commission considered Paper No. 157 of 2015.

Mr Finn introduced this item. The European Union (Bank Recovery and Resolution) Regulations 2015 (S.I. 289 of 2015) implemented the Bank Recovery and Resolution

Directive (BRRD) which formed part of the 'Single Rulebook' of EU Banking Union and introduced a harmonised EU recovery and resolution regime for banks and certain investment firms. The 2015 regulations became effective on 15 July 2015 (other than the 'bail-in tool', which would come into operation on 1 January 2016).

The regulations introduced a new resolution regime for investment firms subject to the CRD IV initial capital requirement (EUR 730 000) and would replace the Central Bank and Credit Institutions (Resolution) Act 2011 as the resolution regime applicable to credit institutions. In giving effect to the BRRD, the 2015 regulations drew on much of the precedent provided by the Act of 2011, including the court approval process for the resolution of an institution.

The 2015 regulations, in accordance with the BRRD, created a distinction between the Bank acting as supervisory authority (i.e. the 'competent authority') and the Bank acting as 'resolution authority'. The Governor, consistent with the previous resolution framework under the Central Bank and Credit Institutions (Resolution) Act 2011, was to be responsible for exercising the functions of the resolution authority under the 2015 regulations and such functions may be delegated. The accompanying paper did not relate to the functions and powers of the resolution authority, for which the Governor was responsible for exercising. The paper did relate to the supervisory and certain other functions and powers of the Bank under the 2015 regulations i.e.: the functions and powers conferred on the Bank as supervisory authority (the 'competent authority' as designated for the purposes of the Capital Requirements Regulation, where the context required that this was the Bank and not the ECB); and, certain functions and powers conferred on the Bank without distinction as to competent authority or resolution authority.

The delegation of powers envisaged in the proposal was to delegate all of the functions and powers of the Bank acting as supervisory authority under the 2015 Regulations specified in paragraph 1.1 of Paper No. 157 of 2015; and to delegate certain other functions and powers specified in paragraph 1.2 of the paper. This approach was consistent with the previous decisions of the Commission on the Delegations Framework in Commission Paper No. 22 of 2011.

Ms Clarke noted that the regulations had been a long time coming. Mr Finn said that the regulations indeed had taken some time to finalise; this was partly due to the complexity involved in separating out the resolution authority from the competent authority. There was also a need to develop a role for the courts in the Irish case due to constitutional property rights.

Mr Finn left the meeting.

The Commission, in accordance with section 18F of the Central Bank Act 1942, approved and confirmed the various delegations as set out in Paper No. 157 of 2015.

11. Statement of Accounts to 30 June 2015

The Commission considered Paper No. 142 of 2015. This item was considered by the Audit Committee at its meeting on 22 July 2015.

The accompanying paper set out the Provisional Statement of Accounts for the six months ended 30 June 2015, analysed the provisional profit up to 30 June 2015 (YTD 2015) and compared the outturn to the same period in 2014 (YTD 2014). The outturn for Quarter 2, 2015 was also analysed and compared to Quarter 1, 2015.

The Bank recorded a provisional profit of €1,044.2m for the YTD 2015, (YTD 2014: €769.4m), an increase of €274.8m. [redacted]

The Bank's balance sheet amounted to €72.4bn as at 30 June 2015, a decrease of €11.0bn (13 per cent) from €83.4bn as at 31 March 2015. This reflected a decrease in Monetary Policy Advances (-€8.2bn), a decrease in the valuation of the Floating Rate Notes (-€3.9bn) and sales of the Floating Rate Notes (-€0.5bn) since end March 2015. There was an increase in the investment in the quantitative easing programmes

(+€2.6bn), a decrease in the SMP programme due to maturities (-€0.4bn) and a decrease in Other Assets (-€0.6bn) since 31 March 2015.

The Commission noted the Statement of Accounts to 30 June 2015.

12. Bank Investment Portfolios: Diversification and Performance Strategy

This was taken after Item 6.

Mr Quinn; Glenn Calverley, Head of Organisational Risk Division; Paul Woods, Deputy Head of Organisational Risk Division; and Seamus O'Donnell, Organisational Risk Division, joined the meeting.

The Commission considered Papers No. 151 and No. 160 of 2015. Part of this item (that relating to Paper No. 151 of 2015) had also been considered by the Risk Committee at its meeting on 25 June 2015.

Mr Woods introduced this item. He first went through the matters set out in Paper No. 151 of 2015. This paper outlined the Bank's strategy to diversify a portion of its investment assets into a performance tranche. The strategy had been approved by the Governor and presented to the Commission Risk Committee at its meeting on 25 June 2015.

Increased asset diversification had been a consistent recommendation; from the Asset Management Review Group (AMRG), by an external review by advisors from the Bank for International Settlement (BIS), and in April 2015 in a paper presented by the Risk Committee's investment policy advisor. The Organisational Risk Division was tasked to augment the Bank's risk management framework to help contain losses and protect the Bank in risk managing such a performance tranche. This work included considering the size of the tranche from a practical operational, a containment of potential loss, and profit & loss volatility perspective. [redacted]

[redacted] A wide spectrum of asset classes was initially considered, some were excluded due to Eurosystem constraints, and others due to lower expected returns, or due to liquidity concerns.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Mr Woods then referenced Paper No. 160 of 2015, which had been tabled for this meeting. He said that the paper had been drafted at very short notice, and it considered whether the purchasing of the Spencer Dock building could be funded in part, or full, from the Bank's discretionary investment assets.

Three options existed for the funding of the purchase of this specific property: Option 1 related to funding the property as a normal fixed asset; Option 2 considered fully funding the purchase from the discretionary investment assets; and, Option 3 to the partial funding of the property from the investment assets. The paper, drafted by the Investment Policy team, dealt only with options 2 and 3 and provided initial views on whether there was potential to fund the property from the investment assets and considered some of the associated risks.

Initial due diligence was given to the asset class Property within the strategic asset allocation review; however, this did not form part of the diversification strategy, just discussed. There were a number of benefits associated with property investment, including that it tended to be uncorrelated with bonds and equities, it generated real income thereby protecting against inflation, and it was expected to generate a relatively high rate of return. In general, however, investors tended to allocate to property through some form of fund, rather than via direct or specific property investments.

A working assumption was that the entire property could cost [redacted]

[redacted]

On a standalone basis, given its concentrated, illiquid nature and associated risks, it would be atypical for the Spencer Dock building to be considered as an investment asset, notwithstanding the potential for a broadly comparable long-term yield with a fund investment. In the broader strategic context, outside of the normal Investment Policy domain, it was understood there may be strategic value in the purchasing of this particular building given it would support accommodation in line with forecasts, and given its proximity to NWQ.

[redacted]

The question, which could not be answered by the Investment Policy team related to whether the Commission considered the strategic value of securing this accommodation, in the event it was decided not to fund it as a fixed asset, to warrant the atypical investment from the discretionary investment assets.

The Governor thanked Mr Woods and his team for the balanced presentation of the issues which had to be compiled at short notice. He noted that no decision was required at this time on how this asset might be funded were the Bank to be successful in its bid and that the Commission would return to this as necessary.

The Commission noted the considerations around the potential funding of the purchase of Block R Spencer Dock.

Mr Quinn, Mr Calverley, Mr Woods, and Mr O'Donnell left the meeting.

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13. Risk Information Pack

The Commission considered Paper No. 152 of 2015.

The Commission noted the Risk Information Pack.

14. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meeting of the Audit Committee of 25 March 2015 (Paper No. 153 of 2015).

15. Governor's Quarterly Report on Expenses

The Commission noted the Governor's Quarterly Report on Expenses (Paper No. 154 of 2015).

16. Any Other Business

Banking Inquiry

The Governor noted the recent media reports concerning allegations of improper behaviour by Banking Inquiry staff, including that of giving favourable treatment to certain participants in the Inquiry. He noted that the Central Bank was specifically referenced in this regard. He said that the Bank had received no contact from the Inquiry about these allegations. The Bank was satisfied that it had properly engaged with the Inquiry at all times and he was comfortable that the interaction was always fully above board. He said that it had been decided not to pro-actively engage on this matter unless asked to do so by the Inquiry but rather to await developments, if any.

External Review of Commission

Mr Whoriskey informed members that PwC had been appointed to undertake the external review of the Commission. This work would commence very shortly and include individual meetings with Commission members over the coming weeks.

Freedom of Information

Mr Whoriskey informed the Commission that a request under FOI for the minutes of the Commission meeting of 13 January 2015, at which the proposed macro-prudential measures were discussed, and which had been refused by the Bank, had been appealed to the Office of the Information Commissioner (OIC). The Bank was awaiting the outcome of the OIC's examination.

Mr Roux noted that correspondence between him and the Governor relating to resourcing, and released under FOI, had been reported in a selective way. The correspondence had covered all regulatory divisions but the media report had focused on the anti-money laundering and consumer areas only. Mr Roux said he was meeting the staff in those areas to contextualise the matter.

The meeting concluded.

Governor

29 October 2015

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MINUTES OF MEETING NO. 60 OF THE CENTRAL BANK COMMISSION OF 25 SEPTEMBER 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach (Items 1-3, 7-18), Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).
Also present: Gerry Quinn, Chief Operations Officer (Items 3, 5-18)

Opening of Meeting

The Governor opened the meeting by noting that two additional items had been added to the agenda – Industry Funding Pension Treatment (Item 8), and Credit Institutions Resolution Fund Annual Accounts (Item 13). The Commission agreed the agenda.

The Governor noted that Mr Gerlach would be resigning as Deputy Governor at the end of the year, and consequently his membership of the Commission. Mr Gerlach would absent himself from any items on the agenda that may cause any potential conflict.

1. Minutes of Meeting of 23 July 2015

The minutes of the meeting of 23 July 2015 (Meeting No. 59) were agreed, pending some amendments suggested by Ms Byron.

2. Matters Arising

Accommodation

The Governor recalled that, at its last meeting, the Commission had approved the making of a bid for the acquisition of Block R, Spencer Dock, at a price to be set by the Governor and subject to such conditions as the Governor considered appropriate. The Commission was updated on developments by means of a briefing note on 14 August

2015 at which time it was confirmed that the Bank had been successful in its bid and had been awarded successful bidder status.

The Governor informed the Commission that, under existing delegations, he had signed a binding contract for the purchase of Block R, Spencer Dock on 18 September 2015 for the purchase price of €104.26m. A deposit of €10.426m was paid, with the balance of approximately €93.834m payable on the date on which the transaction completed. This figure was subject to final adjustments that had to be made to reflect apportionments and allowances provided for in the contract.

The contract was concluded following a review of title by the Bank's external solicitors, McCann FitzGerald, and advice from Lisney, Deloitte and Henry J Lyons; it followed extensive negotiations with the vendors in order to obtain a number of key protections for the Bank. The professional fees were likely to be in the region of €700,000 excluding VAT. The transaction would be completed within five days of the vendor's interest in the Building being registered by the Property Registration Authority, which would allow the vendor to pass legal title to the Bank. The vendor had informed the Bank that it anticipated the completion date to occur in or around the end of September 2015. On or shortly after the completion date the Governor, or his delegate, would execute the relevant completion documents so that the Deed, transferring legal title in the building to the Bank, could be stamped by the Revenue Commissioners and registered by the Property Registration Authority.

The Governor added that accounting treatment of the funding of the purchase would come before the Commission in due course.

The Commission noted the purchase of Block R, Spencer Dock.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He informed the Commission that the Bank would be publishing its Quarterly Bulletin in early October 2015. This would include upward

revisions to the Bank's forecasts suggesting very strong growth in the order of 5.8 per cent GDP in 2015 and 4.7 per cent GDP in 2016. While the economy was certainly performing well and moving solidly in the right direction, he cautioned against over-interpreting these growth numbers. The economy was not at a peak, as evidenced by the fact that employment was some 9 per cent below its previous high.

Regarding the wider euro area, concerns had grown around economic developments in China. The boom and bust performance of its stock market over recent months and poorly communicated changes to its exchange rate policies had added to concerns. [redacted]

There did appear to be a definite decline in the pace of economic expansion with falls in commodity prices. Ireland was not very exposed directly to the Chinese economy, but there would certainly be indirect effects that could impact should things deteriorate.

[redacted]

Inflation forecasts for the euro area had not changed very much, with economic recovery happening slowly. Despite the quantitative easing (QE) measures, inflation was not yet meeting the ECB's price stability definition. It was therefore possible that the QE programme would extend beyond the original deadline of September 2016. [redacted]

[redacted]

Finally the Governor referenced the fallout of the Volkswagen scandal which, owing to how embedded the company was in German society, was likely to reverberate.

The Commission noted the Euro Area Developments Update.

4. Supervisory Update

The Commission considered Paper No. 176 of 2015.

Mr Roux updated the Commission on a number of matters.

Banking

The IMF visited the Bank this week as part of its initial scoping visit for the Financial Sector Assessment Programme (FSAP). The purpose of the scoping visit was to discuss and agree the approach for the FSAP including: the use of recent reviews (e.g. IMF Reports on Observance of Standards and Codes and the credit union peer review); the approach to stress testing; and, the approach for assessing resolution regimes and safety nets.

[redacted]

[redacted]

The Governor explained that this was a requirement under the new Bank Recovery and Resolution Directive (BRRD), which had designated the Bank as Ireland's National Resolution Authority. [redacted]

[redacted] Mr FitzGerald asked in the case of different jurisdictions, which country would be responsible for deposit guarantee payments. The Governor said it would be the country in which the deposits were held.

Credit Unions

Following consideration of the submissions received on the Consultation on Regulations for Credit Unions, some amendments were made to the proposed regulations on short term liquidity and related party lending requirements. The savings limit of €100,000 was being introduced as indicated in the consultation with some amendments to the transitional arrangements to provide 12 months (previously six months) following commencement of the regulations to return any savings held in excess of €100,000 to members and to provide for credit unions that had savings over €100,000 at the commencement of the regulations to apply to the Bank to retain those savings. The regulations and related feedback statement were published on 31 July 2015 and the regulations were due to commence on 31 December 2015. The Bank was aware that the Minister for Finance had received circa 80 letters from credit union stakeholders raising objections to elements of the regulations. Ms Clarke asked if there were greater risks now associated with those credit unions that may be retaining those levels of savings under the amended arrangements. Mr Roux said that in the fullness of time the Bank did not expect any credit unions to retain such levels; however, in the meantime, those that the Bank would be minded to allow retain such levels would be those that already had strong buffers.

The Registry of Credit Unions (RCU) had developed a new engagement model for credit unions. The objectives of the new model, which amended the current PRISM approach in some key ways, were to: ensure early stage detection, intervention and risk mitigation with viability stressed firms; drive standards of best practice while ensuring compliance; and, support sector restructuring and business model development. The new approach built on the lessons learned from the PRISM approach since 2012 and the special Temporary Engagement Model (Low Impact focus) in 2015; the recommendations of the International Credit Union Regulators' Network (ICURN) Peer Review of credit union supervision in the Bank; and the emerging risk profile of the sector, following much greater momentum on restructuring in 2014 - 2015. Ms Clarke said she had concerns around governance issues in credit unions as evidenced in some of the responses to the Consultation on Regulations. There appeared to be a lack of understanding among credit unions as to why the Bank was implementing certain regulations. This was both concerning and frustrating; she asked if the Bank was adequately addressing these issues.

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Mr Roux said there was a very large agenda of issues that the RCU was dealing with. While there was engagement on these issues, including directly with credit unions and in countrywide visits, he recognised the limitations on what could be delivered considering the scope of the task and the resources available; a programme of transformation would take time and resources to fully implement. The Governor recalled that the Bank had put itself forward to spearhead reform of the sector but this was rebuffed in the approach that was ultimately favoured by government.

Insurance

[redacted]

Enforcement

[redacted]

Macro-Prudential Measures

The Governor noted recent public commentary on this issue, including calls for a review by the Minister for Finance. The Governor had informed the Minister that, as indicated at the outset, the Bank would continue to monitor the implemented measures on an ongoing basis, particularly with regard to achieving the stated objectives of the measures and would monitor any unintended consequences. This was ongoing and would inform any future decisions in this area. He noted it would be unwise to change this stance and to do anything different until the measures were in place at least for one year. It would also not be wise to pre-announce anything on this. Mr Geraghty believed the Bank did not

emphasise strongly enough the positive consumer protection outcomes from these measures.

The Commission noted the Supervisory Update.

5. Markets Supervision

Gareth Murphy, Director Markets Supervision; Michael Hodson, Head of Investment Firms and Funds Supervision (IFFS); and Grainne McEvoy, Head of Securities and Markets Supervision (SMSD), joined the meeting.

The Commission considered Paper No. 177 of 2015.

Mr Murphy introduced this item by setting out current market trends. There had been a continued flow of authorisations in funds and prospectuses, and a sharp increase in equity issuances this year, despite market uncertainties and volatility. Outsourcing to offshore entities had become an increasing feature, and posed significant supervisory challenges. The Directorate had a number of key strategic initiatives to deal with the various challenges it faced. In addition to a raft of new legislation that required implementation, the Directorate was also focused on a re-engineering of its funds authorisation and passporting processes; a complete renewal of its data architecture and analytics capabilities; and had close co-operation with other regulators internationally, including through its active participation on European Supervisory Agencies' (ESAs) committees. A key focus was on its people. This involved various team initiatives; the hiring of specialist staff in response to emerging needs; and the creation of a wider pool of staff to engage with international supervisory committees. The Directorate remained busy on various fronts including undertaking full risk assessments; referring cases to Enforcement; various initiatives around improving governance in the funds industry; the introduction of new client assets and investor money regulations; and a series of thematic reviews.

The Governor noted the wide span of work, not least of which was due to the fact that the Bank was the implementing agency in Ireland for a growing international legislative agenda. He asked what the issues of greatest concern were. Mr Murphy said that the evolution of technology was creating a whole new set of risks, which could be both firm-specific but also systemic and could be caused by local failures or by external agents. The issue of cyber-crime was at an epidemic level internationally. The Directorate was seeking to respond through filling key skills gaps in cyber security, IT operational risk and new business models. He noted the difficulty with losing experienced staff and the increase in key-person risk. Mr Hodson noted the importance of governance and the need for boards to be alive to protecting their businesses in such a climate. Ms McEvoy cited the huge body of legislation that was coming through all the time and the need for the Bank to ensure it was well equipped to meet that.

Ms Byron welcomed the focus on staff development; this was a critical success factor. It was very important for the Bank to develop the right career paths and motivators for its staff and it was something she would like to hear more of across the organisation.

Ms Clarke noted the levels of cases being referred by the Directorate to Enforcement and asked if there were any difficulties or impediments in doing so. Regarding the initiatives to improve governance, she asked for some elaboration on the assessments carried out [redacted] She also noted that there had been some criticism in the media concerning the approach to limit directorships in the funds industry, particularly around the number of directorships any individual can hold. Ms Clarke also asked if any new entities had yet been established under the recently introduced Irish Collective Asset Management Vehicle (ICAV) legislation and if any particular issues were emerging in this space. Mr Hodson said that there were no issues or impediments regarding the referral of cases to Enforcement, [redacted] Regarding the issue of directorships, Mr Murphy said that there was not

a one-size-fits-all solution but this was part of a multi-pronged approach regarding improving governance in the funds industry. This included engagement at board level to ensure that proper assessments were being carried out on incoming board members and engagement with individuals directly. The publicity surrounding this issue had in fact had the benefit of generally upping the ante throughout the industry on this matter. It was something that would be kept under close review, including the possibility of introducing hard limits. In relation to ICAV, Ms McEvoy said it had only been rolled out in April 2015. Some new entities had been authorised and there had also been re-registering of existing entities. As the Bank was registrar, there had been a need to increase resources in this space. Mr Murphy noted that the Bank's role was largely administrative.

In relation to the growth in offshore activities, Mr FitzGerald asked how much the Bank could rely on the regulators from other jurisdictions to provide assistance. He also asked about the risks the Directorate saw with shadow banking, in particular around issues arising abroad that could impact here, and what mechanisms were in place to deal with that. Mr Hodson said that the offshore entities were not always regulated, so it was not straightforward in terms of relying on other regulators. He said that this was a growing risk that the Bank needed to be very mindful of. Mr FitzGerald said that it would be a real concern if all the supervisory and reputational risk lay with the Bank but it did not have sufficient oversight of what was happening offshore. Mr Murphy agreed and said that a key question was around where one drew the line and the Bank was arriving at that point with some firms. Regarding shadow banking, Mr Murphy noted that this was an evolving international debate; currently the Bank was taking an economic function approach rather than strictly on an entity-by-entity basis. This was consistent with the Financial Stability Board approach, but it was a developing issue internationally.

Mr Ahearne asked if there were any concerns emerging around the 'Brexit' debate and the potential implications for the funds industry here. Mr Hodson said that there was work ongoing in the Bank on this; at the moment it did not appear to be a big issue for firms and there was a sense that the firms did not expect it to occur. If it did come to pass there would likely be a large increase in applications to domicile in Ireland, including new types of entities.

The Commission noted the Markets Supervision Update.

Mr Murphy, Mr Hodson and Ms McEvoy left the meeting.

6. Policy and Risk

Gerry Cross, Director of Policy and Risk; Mary Burke, Head of Prudential Policy and Governance; and Martin Moloney, Head of Market Policy, joined the meeting.

The Commission considered Paper No. 178 of 2015.

The Governor welcomed Mr Cross, who was attending the Commission for the first time since his appointment earlier this year. Mr Cross summarised the core work of the Policy and Risk Directorate, which was to: develop and maintain the Bank's regulatory and policy framework for prudential and markets supervision; contribute to the formation and implementation of European and international regulation; lead the development and maintenance of the PRISM supervisory risk framework; provide support and assurance for supervisors' implementation of the Bank's policy and supervisory frameworks; and promote a high-quality and effective policy environment across the Bank. The Directorate was also actively participating in, and developing regulations, guidelines and recommendations with European Supervisory Authority (ESA) committees and working groups, with relevant EU Council Working Groups and in ECB/SSM committees and working groups. He noted that the SSM policy framework was still at a relatively early developmental stage.

Mr Cross then set out some of the key challenges for the period ahead. This included: a [redacted] Solvency II Implementation; the next stage of developments around SSM; MiFID2/MiFIR Implementation; issues around cyber-security; developing Bank-wide Policy Networks; and addressing shadow banking issues.

Ms Clarke also asked if there was any evidence in the post-crisis world, of regulatory arbitrage, emerging as an issue. Mr Moloney replied that as a concept regulatory arbitrage was significantly reduced due to the move to a single rulebook and common regulatory practices. Where advantage may be sought, it was more a temporary phenomenon around some jurisdictions being slower to adopt change or taking what were effectively unsustainable positions.

The Commission noted the Policy and Risk Update.

Mr Cross, Ms Burke and Mr Moloney left the meeting.

7. Strategic Plan 2016-2018 - Update

John Coyle, Director Resolution and Corporate Affairs, joined the meeting.

The Commission considered Paper No. 179 of 2015.

Mr Coyle introduced this item. He recalled that the Commission, at its meeting on 23 July 2015, had considered an advanced draft of the Strategic Plan 2016-2018. Some further changes had since been made, reflecting comments from the Commission and further management input. Specifically these were around including a look-back element, which identified key achievements under the existing Plan and sought to link these with the new Plan; the inclusion of a Vision Statement; a move away from a list of high level goals and associated detailed tasks, to identifying outcomes the Bank wished to achieve; highlighting the strategic enablers; and committing to accountability and reporting on how the Plan was being achieved. The Governor noted that there had been a very thorough and open process in getting the Strategy to this stage.

Mr Coyle left the meeting.

The Commission approved the Strategic Plan 2016-2018 and noted the Plan would be submitted to the Minister for Finance by 30 September 2015.

8. Industry Funding Levy Pension Treatment

Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 188 of 2015.

The Governor introduced this item. He recalled that the draft funding regulations for 2015 were considered by the Commission at its meeting on 23 July 2015 (Paper No. 150 of 2015). The draft regulations reflected an increase of €20.6m in the 2015 Industry Funding levy (from €51.1m in 2014 - excluding the supplementary levies for credit institutions - to €71.7m) which resulted in significant increases in many proposed levy rates.

Since July 2015, and prior to submitting the draft 2015 funding regulations for approval to the Minister, representatives of the key industry groups were briefed by the Bank on

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the proposed 2015 levies applicable to their sectors. At these meetings, concerns were expressed in relation to the increasing costs of financial regulation, with particular emphasis on the sharp increase in costs associated with the Bank's Pension Scheme. A number of Parliamentary Questions were submitted to the Bank, a number of articles were written in the press and a number of letters from representative bodies had been received.

Having considered the views expressed by the industry bodies and the Department of Finance, management was recommending that the Commission approve a change in the method of levying current service pension costs in order to reduce the volatility associated with pension costs in the annual levy calculations as an appropriate response to these concerns. Specifically, this would involve spreading the impact of the pension volatility over a ten-year period.

The Governor noted that the Commission had only been given sight of the proposal at this meeting, as the issue had just got to this point in recent days; he suggested that members should take some days to fully consider the proposal. Mr Roux commended Mr Power and his team on pulling the proposal together at short notice and also recognised the contribution Mr Quinn had made in the engagements the Bank had with industry on this over the past weeks. He noted that the Commission should be mindful of the fact that, even with the spreading out of the pension volatility costs, the costs to the broker sector which had undertaken most of the lobbying on this issue, would still be higher this year. This was due to changing dynamics in scope and size of the sector which had consequent impacts on how the levy was applied. Mr Quinn noted that, in his discussions with the industry, there were other concerns expressed relating to the levy, such as the transparency of the overall process and the future direction of travel, particularly around 100 per cent funding. The Governor noted that there would be a fuller review of the industry levy over the coming year. Ms Clarke noted that while the proposal could be considered in its own right, there would be a need to examine the accounting implications which remained open.

Mr Power left the meeting.

The Commission noted the proposal to approve a change in the method levying current service pension costs in order to reduce the volatility associated with pension costs in annual levy calculations; and to reaffirm that all other related approvals made by the Commission in July 2015 would still stand. The Commission agreed to defer its decision on this matter until members had an opportunity to further consider. The matter would be decided by Written Procedure by close of business on 28 September 2015.

9. Appointment of a Consumer Advisory Group Member

The Commission considered Paper No. 181 of 2015, which noted that the Central Bank Reform Act 2010 provided for the establishment of a Consumer Advisory Group (CAG), to be appointed by the Bank, to advise it on the performance of its functions and the exercise of its powers in relation to consumers of financial services. The Act stated that the composition of the consumer group "shall be made up of persons who have expertise, knowledge or experience relevant to the function of the advisory group concerned".

With the completion of Dermot Jewell's tenure as a member of the CAG at the end of 2014, it was now necessary to seek an additional member for a term of three years. Following a gap analysis, it was intended to seek a member with experience in domestic consumer matters to complement existing experience within the group. Consumer Director, Bernard Sheridan, had discussed the matter of an additional CAG member with Dr Anthony Walsh, Chairperson.

It was proposed to appoint John Mark McCafferty as a member of the CAG to replace Dermot Jewell. Mr McCafferty is the Head of Social Justice and Policy in the St. Vincent De Paul. He leads and co-ordinates all policy and advocacy work in the St. Vincent De Paul. He was previously a member of the National Economic and Social Council.

The Commission approved the appointment of Mr John Mark McCafferty to the Consumer Advisory Group.

10. Commission Schedule of Meetings 2016

The Commission considered Paper No. 182 of 2015, which set out a draft schedule of Commission and sub-committee meetings for 2016. Mr Moran suggested scheduling the meetings in December and July to slightly earlier dates. He asked if there were plans for an away-day meeting during the year. The Governor said that at this time there were no such plans.

The Commission approved the Schedule of Meetings 2016, pending some finalisation of dates for the July and December meetings.

11. Superannuation Fund Performance Report

The Commission considered Paper No. 183 of 2015 which presented the performance of the Central Bank Superannuation Fund to end Q2 2015. The paper summarised the current benchmark asset allocation of the Fund; outlined the value of the Fund; illustrated the distribution of its assets as at 30 June 2015, and described the actual performance of the Fund up to 30 June 2015.

In summary, the total Fund returned -2.3% in Q2 2015. Equities returned -3.8% for the quarter while bonds generated a return of -0.4%. The market value of the Fund assets decreased by approximately €12.8m, from €619.5m on 31 March 2015 to €606.7m on 30 June 2015. The asset allocation at the end of June 2015 was 55.2% equities and 44.8% bonds. Since the start of the investment period, at end-December 2009, the total return on the Fund was 41.5% equating to a return of 6.5% per annum.

The Commission noted the return on the Superannuation Fund in Quarter 2 2015.

12. Annual Review of Investment Prudential Limits

The Commission considered Paper No. 171 of 2015. This item had also been considered by the Risk Committee at its meeting on 24 September 2015. The accompanying paper presented the annual review of the prudential limits framework, which 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 and established the minimum standard of creditworthiness the Bank would accept, [redacted]

For euro area issuers, each country was assigned an overall limit which could be allocated between the sovereign and respective quasi-sovereign issuers. For non-euro area issuers, approved following due diligence, a minimum limit of [redacted] of the discretionary investment assets, [redacted] was allocated. Counterparties were allocated a combined limit for both FX and repo operations.

The Investment Policy team identified a number of areas to enhance the framework. For quasi-sovereign and non-euro area sovereign issuers, the limit setting methodology made no distinction between issuers of different credit ratings. This could allow for the introduction of new issuers that would significantly alter the credit profile of the investment assets. To address this issue, it was decided to increase the minimum rating for non-euro-area issuers [redacted]

For counterparties, it was decided to increase the maximum maturity limit for repos [redacted]

[redacted] Further, this review also incorporated seven new approved issuers. There were no significant changes to the counterparty limits.

Mr Soden confirmed the Risk Committee had discussed the item at its meeting on 24 September 2015.

The Commission noted the Annual Review of the Investment Prudential Limits.

13. Review of Investment Performance to 30 June 2015

The Commission considered Paper No. 172 of 2015. This item was considered by the Risk Committee at its meeting on 24 September 2015.

The accompanying paper provided the Commission with a review of performance on the Bank's investment portfolio in the first half of 2015. At end June 2015, the investment portfolio totalled €20.6bn and comprised a benchmarked Marked-to-Market (MTM) euro portfolio of €7.1bn, a Hold-to-Maturity (HTM) portfolio of €10.3bn, two ECB Covered Bond Purchase Programme portfolios – CBPP1 (€0.3bn) and CBPP2 (€0.1bn) - and a Public Sector Purchases Programme (PSPP) portfolio (€2.8bn) which was initiated by the ECB in March 2015. The Bank also had holdings under the ECB's Securities Markets Programme (SMP) and a further Covered Bonds Purchase Programme (CBPP3 – initiated in October 2014). The latter two were shared risk monetary policy portfolios

and, as such, all income and risk was shared amongst participating Eurosystem NCBs based on capital key share and thus were not included in the investment performance of the Bank's portfolios. Similarly, the Special Portfolio, acquired as a result of the IBRC liquidation in Quarter 1 2013, (originally €42.9bn and €24.4bn at end June 2015), was also excluded from the calculations of investment performance. The main changes to the structure of the portfolios in the first half of 2015 had been the pay-down of Agreement on Net Financial Assets (ANFA) commitments totalling €2.0bn and the transfer of €1.0bn to the HTM portfolio, both funded from the MTM portfolio, and the Bank's participation in the ECB's PSPP.

The rate of return on the total investment portfolio (i.e. the MTM, HTM, CBPP 1 and 2 and the PSPP portfolios) was 2.00 per cent for the first six months of 2015, compared to a return of 2.19 per cent for the previous six months and 2.37 per cent for the full year 2014. Total earnings on the investment portfolio amounted to €183.8m for the period compared to €212.6m for the previous six months and €454.7m for the full year 2014.

In the first half of 2015, the return on the HTM portfolio was 3.59 per cent while the first CBPP1 portfolio earned a return of 4.65 per cent, CBPP2 earned 3.91 per cent and PSPP earned 0.55 per cent. The euro Marked-to-Market portfolio (i.e. excluding periphery bonds, the HTM, CBPP 1 and 2 and PSPP portfolios) outperformed the benchmark by 3 basis points on an annualised basis earning a return of 0.15 per cent for the six months compared to an outperformance of 13 basis points and a return of 0.48 per cent in the period July to December 2014 and an outperformance of 10 basis points and a return of 0.72 per cent for the full year 2014. While the benchmarked portfolio was valued on a Marked-to-Market basis, all other portfolios are Hold-to-Maturity and are valued on an amortised pricing basis.

[redacted]

Mr Soden confirmed the Risk Committee had discussed the item at its meeting on 24 September 2015.

The Commission noted the Review of Investment Performance to 30 June 2015.

14. National Payments Plan – Rounding Update

The Commission considered Paper No. 184 of 2015 which recalled that on 16 June 2015 the Government asked the Bank to proceed with the national rollout of rounding 1 and 2 cent coins. Rounding was a voluntary process whereby goods and services were still priced in multiples of 1c and 2c but the change given was rounded up or down at the till to the nearest 5 cent.

A project team had been established to manage the process; the date for roll-out was set for 28 October 2015. It was envisaged that the rollout awareness campaign would have two major elements, namely: merchant awareness, to include a media campaign and the production and distribution of in-store signage to retailers; and consumer awareness, which would involve a campaign to be launched on 19 October 2015 using a mix of radio, print, digital, website and PR to ensure that consumers understood what rounding was and were confident of their rights. In parallel, the project team was working with charities and retail banks to ensure that consumers had an easy way to realise the value of hoarded coins.

The reaction to the project so far had been mainly positive. Retailer awareness and interest was high, and small/medium sized retailers were not reporting any particular implementation challenges. Larger retailers were having more operational and technical challenges, given they often had multiple point of sale channels, more formal HR/training programmes and overseas headquarters for sign-off. The other major issue raised by retailers was the lack of new 1c coins, which were not being minted currently. The Bank considered that there was a more than adequate supply of 1c coins available, and was currently focused on promoting the re-circulation of coin.

[redacted]

The Commission noted the National Payments Plan – Rounding Project Update.

15. Credit Institutions Resolution Fund Annual Accounts 2014

This was taken after Item 8.

Fergal Power, Head of Financial Control and Procurement Division; and Patrick Casey, Special Resolution Unit, joined the meeting.

The Commission considered Paper No. 180 of 2015.

The Governor introduced this item. The Credit Institutions Resolution Fund was established under the Central Bank and Credit Institutions (Resolution) Act 2011. Under the Act, the Bank was responsible for the management and administration of the Fund. The Act required the Bank to prepare all proper and usual accounts for the Fund in such form as the Minister for Finance approved. In preparing the financial statements of the Fund, the Bank was required to: select appropriate accounting policies and apply them consistently; make judgments and estimates that were reasonable and prudent; and prepare the financial statements on a going concern basis unless it was inappropriate to presume that the Fund would continue in operation.

Legislation made specific reference to the rate of return to be paid by the Fund to the Minister on sums advanced by the Minister to the Fund. However, the rate of interest paid by the Bank to the Fund on sums deposited by the Fund with the Bank was the Bank's deposit rate, currently minus 0.2 per cent.

In accordance with the Act, the Fund's purpose was to provide a source of funding for the resolution of financial instability in, or an imminent serious threat to the financial

stability of, an authorised credit institution, and in particular: to provide funds for any payment required; with the written consent of the Minister, to provide capital for a bridge-bank; and to meet the Bank's expenses in discharging its functions under the Act. The Fund was constituted by the contributions made by authorised credit institutions; any sums paid into the Fund by the Minister; any assets of a bridge-bank transferred to the Fund; and interest on those sums, contributions and assets.

The Comptroller and Auditor General (C&AG) had completed an audit on the 2014 Financial Statements for the Fund. The Governor noted that the C&AG had requested that the Commission consider the Financial Statements.

Ms Byron noted that the Audit Committee had already considered the related Statement on Internal Financial Controls.

Mr Power called out some minor amendments to the Financial Statements which had been received from the C&AG. These were noted by the Commission and were incorporated into the final version of the Statements that would be signed by the Governor.

The Commission noted the 2014 Financial Statements of the Credit Institutions Resolution Fund.

Mr Power and Mr Casey left the meeting.

16. Risk Information Pack

The Commission considered Paper No. 173 of 2015. This item was considered by the Risk Committee at its meeting on 24 September 2015.

The Commission noted the Risk Information Pack.

17. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meeting of the Risk Committee of 25 June 2015 (Paper No. 185 of 2015).

18. Any Other Business

European Court of Justice Decision

Mr FitzGerald enquired if the preliminary ruling by the European Court of Justice concerning the privacy protections around the transfer of data from the EU to the United States would have any potential impact on some entities supervised by the Bank; or indeed any direct implications for the Bank. Mr Roux said he would revert on the issue.

National Ploughing Championships

A video of the Bank's participation in the National Ploughing Championships was screened for members. The Governor noted the very positive reaction from members of the public who visited the Bank's stand.

Next Meeting – 29 October 2015

The Governor said that the next meeting of the Commission may take place in the Currency Centre. Members would be advised in due course.

The meeting concluded.

Governor

29 October 2015

SECRET

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MINUTES OF MEETING NO. 61 OF THE CENTRAL BANK COMMISSION OF 29 OCTOBER 2015

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach (Items 1-3, 5, 7, 9-16), Philip Lane (Items 1-15), Derek Moran, Cyril Roux (Items 1-6, 9-12, 14-16), Michael Soden, Neil Whoriskey (Secretary).
Also present: Gerry Quinn, Chief Operations Officer (Items 1-3, 5, 7-15).

Opening of Meeting

The Governor opened the meeting by welcoming Philip Lane as a new Commission member and Governor Designate. The Commission noted the appointment of Mr Lane as Governor, which was due to take effect from 26 November 2015, and noted that all functions and powers delegated by the Commission to the Governor, further delegated, or assigned in accordance with the plan of assignment of responsibility, would continue to be delegated, further delegated, or assigned notwithstanding the change of the person holding office as Governor.

The Governor noted the re-appointment of John FitzGerald to the Commission for a five year term, from 1 October 2015. He also confirmed Mr FitzGerald's continuing membership of the Audit Committee.

The Governor thanked Mr Soden for attending, on behalf of the Commission, the recent Memorial Service for former Commission member, Max Watson.

The Commission agreed to some re-ordering of agenda items to facilitate those who were attending for various items.

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1. Minutes of Meeting of 25 September 2015

The minutes of the meeting of 25 September 2015 (Meeting No. 60) were agreed.

2. Matters Arising

Industry Funding – Levy Pension Treatment

The Commission noted that it approved by written procedure on 28 September 2015 a change in the method of levying industry in order to reduce the volatility associated with pension costs in annual levy calculations.

European Court of Justice Ruling on Privacy of Data

A paper was included in the Table Documents that addressed a question raised at the previous meeting concerning the potential impact on regulated entities of the recent European Court of Justice ruling on privacy of data.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He had recently attended the annual meetings of the World Bank and the IMF. At these meetings there were some concerns expressed around the slowdown in China and in commodity producing countries, such as Brazil and Canada. The tone of concern concerning indebtedness in China had heightened in recent months. The euro remained relatively strong, partly due to weak oil prices and the uncertainties surrounding China; however recent signals from the Fed, around a potential rate increase before year-end, saw some weakening of the euro. The ECB had provided clear signals around the possibility of extending the Quantitative Easing (QE) measures. [redacted]

[redacted]

[redacted]

[redacted]

The Commission noted the Euro Area Developments Update.

4. Supervisory Update

This was taken after Item 5.

Derville Rowland, Director Enforcement, joined the meeting.

The Commission considered Paper No. 192 of 2015.

Mr Roux updated the Commission on a number of matters.

Financial Sector Assessment Programme

The IMF Financial Sector Assessment Program (FSAP) for Ireland had recently commenced and was due to conclude in the first half of 2016. During the scoping mission, that took place in September 2015, agreement was obtained on a number of key areas, including confirmation that the recent Report on the Observance of Standards and

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Codes (ROSCs) would be used to the greatest extent possible and that supervisory information would be used in the bank stress test element. A major difference between this assessment and those carried out in earlier years was the involvement of the ECB due to the SSM. There was already progress on agreement on the macro economic scenarios to be used in the FSAP stress tests and the ECB had stated that it would conduct the self-assessment of the compliance of Eurozone banking regulation with the Basel Core Principles.

Banking

Regarding SSM developments, the Director of Credit Institutions Supervision, Sharon Donnery, had recently been appointed to chair an ECB Working Group on Non-Performing Loans (NPLs). This was a positive recognition of the work the Bank had already undertaken in this space. [redacted] Mr Soden asked about the current status of NPLs in Irish banks. It was agreed that a report would be prepared to update the Commission on this. [redacted]

The European Banking Authority (EBA) had identified the banks that would be subject to its stress tests in 2016. Both AIB and Bank of Ireland had been selected, but not PTSB, which would be stress tested separately by the ECB next year. [redacted] Mr Ahearne asked how the FSAP and EBA stress tests would co-exist. Mr Roux said that it was coincidental that both would be happening but both used different approaches. The Governor noted that the FSAP would give more general, high level, conclusions while the EBA would be quite explicit and detailed on individual banks.

Concerning the reference to auditor assurance in the accompanying paper, Ms Clarke asked if the responses from the auditors were published or were it used only for risk assessment purposes. Mr Roux said it was his understanding that these reports were for

the Bank's supervisory purposes; however the credit institutions could publish them if they felt that was necessary. Ms Rowland added that she understood this was a relatively embryonic process and, while useful, it would be important not to over rely on it at this stage.

Credit Unions

Mr Roux informed the meeting that the Bank had, in recent days, been in receipt of a letter from lawyers representing the Irish League of Credit Unions (ILCU) seeking that the Bank did not proceed with its proposed new regulations. The ILCU letter also stated that it was to seek judicial review proceedings on the basis that the regulations were not proportionate, were creating an uneven playing field, and that the Bank had no constitutional basis to issue them. Mr Geraghty requested a paper to set out in more detail the specifics of the ILCU's objections and the Bank's response to those.

Insurance

Ms Byron noted the reference in the Supervisory Update which confirmed that the cost of bodily injury claims was the key cost driver for insurance reserves. She said she believed it was very important that the Bank collect bodily injury data, but her understanding was that the Bank only sought merged data, covering both bodily injuries and accidental damage, in its returns from the insurance firms. She said that she would also like to see more analysis on this, to include historical trends. Mr Roux said that the Bank was due to publish a thematic review of Motor Bodily Injury claims in the coming weeks. Insurance Supervision had sourced the data directly from the insurance undertakings to complete this review as they did not get this data in the regulatory returns.

Enforcement

Ms Rowland updated the meeting on some Enforcement related items.

Under the Fitness and Probity requirements, the Bank's first Suspension Notice had issued to an individual in October 2015. [redacted]

[redacted] Another important recent development was the conclusion of a case taken with the Registrar of Credit Unions against the Irish Taxi Owners' Co-Op Credit Union. [redacted] it was significant in that it was the first enforcement case to be taken against a credit union since the Administrative Sanctions Procedure became fully applicable to the credit union sector in August 2013, and in that the action related to the firm's failure to comply with its prudential regulatory returns requirements.

[redacted]

[redacted] While there were multiple challenges being taken simultaneously against the Bank, the strategy was to be fully prepared and ready for any such court actions.

The Commission noted the Supervisory Update.

5. Currency Operations

This was taken after Item 3.

Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 193 of 2015.

Mr Molumby introduced this item. In line with the Eurosystem development of the second series of banknotes in 2013, the Bank issued the new €5 note, and in 2014 the new €10 note; next month the new €20 would be issued. The Bank's role in this was logistical and operational in terms of distribution, but also in terms of oversight to ensure the cash cycle was ready to deal with new notes – in particular the upgrades to banknote handling equipment. There had been good industry engagement in readiness for the new €20 note.

In the past 24 months there had been greater engagement with industry players in the National Cash Cycle. A particular focus had been on resilience; the Bank had led the industry to develop contingency plans in the event of a failure of a key part of the supply chain. The Bank had also pushed the market to achieve self-sufficiency in the circulation of 1c and 2c coin and encouraged the market to change the denominational mix issued via ATMs, with a shift from €50 notes to a greater use of €10 and €20 notes.

There was an internal focus on ensuring a 'fit for purpose' operating model in the business units – with a mix of capital investment and operational efficiency. Risk identification and ensuring the adequacy and effectiveness of controls was a critical success factor; there had been no significant control failures since the previous Commission update in 2014.

The most significant challenge for the Print Works was last year's Governing Council approval of the Eurosystem Production and Procurement System (EPPS) Guideline, which mandated NCBs with in-house print works to strive for more cost effective operations, in order to move the in-house production costs closer to cost of procuring bank notes in the market. [redacted] At an operational level the Print Works would achieve its 2015 Eurosystem targets for printing by December of this year, and this would be the first time in many years that it would achieve the prescribed targets on time. [redacted]

[redacted]

[redacted]

The Commission noted the Currency Operations Update.

Mr Molumby left the meeting.

6. Enforcement

Ms Rowland was present for this item. Brenda O'Neill, Head of Enforcement; and Seana Cunningham, Deputy Head of Anti-Money Laundering, joined the meeting.

The Commission considered Paper No. 194 of 2015.

Ms Cunningham first set out the Anti-Money Laundering Division's supervisory engagement model. This included a total of 32 inspections of firms covering all areas of anti-money laundering and counter-financing of terrorism (AML/CFT) compliance, and thematic inspections focussing on key risk areas. Firms were selected on a targeted and reactive basis. The division also promoted compliance through engagements with external stakeholders, including various industry groups. It had published reports on AML/CTF compliance around the banking and credit union sectors and will shortly publish a report on the funds sectors. The supervisory work was backed by enforcement actions, [redacted]

[redacted]

A key milestone would be the forthcoming Financial Action Task Force (FATF) Mutual Evaluation Report (MER) exercise. While the Department of Finance was the FATF lead in Ireland, the Bank would be heavily involved in the MER exercise which would commence in early 2016. [redacted]

Ms O'Neill then set out some of the key strategic priorities of the Enforcement Division. [redacted] In addition there was a heightened 'gate keeping' function for Fitness and Probity applications; initiatives on education and training, both within the Bank and externally; and an increased focus on public communication to maximise the impact and understanding of the enforcement work. Ms O'Neill also summarised some of the key investigations that had taken place or were underway within the past months noting in particular the extraordinary level of legal challenge being taken by certain parties in response to our regulatory actions.

Ms Clarke noted the range of issues the Enforcement Directorate was engaged in and commended the staff of the Directorate on its work. [redacted] She asked for an update on how enforcement under SSM was evolving and how it interacted with existing legislation. [redacted]

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[redacted] Ms Clarke asked that the Commission be updated on this as it evolved.

[redacted]

The Commission noted the Enforcement Update.

Ms Rowland, Ms Cunningham, and Ms O'Neill left the meeting.

7. Potential Implications of Brexit – A Supervisory and Financial Stability Perspective

This was taken after Item 13.

Paper No. 179 of 2015 had been circulated for this item.

The Governor noted that there was a limited amount of time in which to consider this item and he proposed postponing consideration of this until the November meeting.

The Commission agreed to defer consideration of this item until the meeting in November 2015.

8. Review of the Code of Conduct for Business Lending to Small and Medium Enterprises

This was taken after Item 6.

Bernard Sheridan, Consumer Director; and Colm Henry, Consumer Protection Directorate, joined the meeting.

The Commission considered Paper No. 196 of 2015.

Mr Sheridan introduced this item. The Code of Conduct for Business Lending to Small and Medium Enterprises came into effect on 13 March 2009 to support lending to this sector. A limited review was commenced in June 2011 focussing on the 'Financial Difficulties' section. Following this limited review, the revised SME Code came into effect from 1 January 2012. In the Bank's Strategic Plan 2013-2015, a commitment was made to strengthen the consumer protection framework by completing a review of the SME Code.

A project to undertake a review of the SME Code was commenced in 2014. A public consultation was initiated in January 2015 seeking views on proposed amendments to strengthen the protections for SME borrowers. The consultation paper also sought views on a number of issues relating to the scope of draft regulations published with the paper. A total of 11 submissions were received from relevant stakeholders. Industry stakeholders made strong representations, both in their responses to the paper and during the course of subsequent engagement, in relation to: the size of enterprise to be included within scope; the need to include the 'saver clause'; compatibility of the requirements with online service fulfilment; and the impact on the cost and supply of credit. SME stakeholders largely supported the enhanced protections proposed and, in particular, emphasised the need for lenders to provide information on the application process and the associated timelines; better explanations to borrowers for declined credit applications; and stronger protections for guarantors. The comments received from stakeholders were considered in formulating the final revised regulations, which were attached to the accompanying paper (Paper No. 196 of 2015).

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Arising from the review, a technical amendment was also required to the complaints section of the Consumer Protection Code (the CPC). The effect of the amendment would be that, for complaints relating to relevant activities covered by the Regulations, the complaint of all SME borrowers would be dealt with under the new SME Regulations, rather than the CPC.

Ms Clarke noted that Regulation 3(4) made reference to a regulated entity's legal or contractual rights to enforce security. She said that previously there was some uncertainty around whether such rights could be enforced if a code was breached. Mr Sheridan said that the Code should not hinder any such entitlement where that was justified and he believed the regulations made that sufficiently clear.

Mr Sheridan and Mr Henry left the meeting.

The Commission:

- **Approved the policy positions as outlined in this paper and reflected in the Regulations, attached at Appendix 1 of this paper, to be issued under Section 48 of the Central Bank (Supervision and Enforcement) Act 2013;**
- **Delegated to the Deputy Governor (Financial Regulation) the authority to approve any final changes to the Regulations and make the Regulations for and on behalf of the Central Bank;**
- **Delegated to the Deputy Governor (Financial Regulation) the authority under section 117 of the Central Bank Act 1989 to revoke the Code of Conduct for Business Lending to Small and Medium Enterprises for and on behalf of the Central Bank, to coincide with the coming into effect of the Regulations for regulated entities to which the Code of Conduct for Business Lending to Small and Medium Enterprises currently applies;**
- **Approved the proposed amendment to the Consumer Protection Code 2012 such that complaints in relation to activities within scope of the Regulations are handled in accordance with the Regulations for all SMEs, including SMEs who fall within the Consumer Protection Code definition of 'consumer'; and,**

Delegated to the Deputy Governor (Financial Regulation) the authority to approve any final changes to the Consumer Protection Code and issue the revised Consumer Protection Code for and on behalf of the Central Bank.

9. Purchase of Spencer Dock – Accounting and Funding Matters

This was taken after Item 7.

The Commission considered Paper No. 197 of 2015, which noted that the Bank was currently finalising the purchase of Block R, Spencer Dock, for the sum of €104.26m (excluding transaction costs and VAT). Spencer Dock comprised 128,000 square feet of both commercial and retail space, 59,000 of which was currently occupied by the Bank on a long term lease. The accompanying paper provided guidance on investment policy considerations that now arose and presented for consideration and approval by the Commission three options for accounting for this purchase, namely to: (a) account and fund the purchase of the entire property as a standard, fixed asset (property plant and equipment); (b) treat the purchase of the entire property as an investment property asset; (c), account and fund the purchase partially as a fixed asset and partially as an investment property.

The Governor had endorsed the third option based on Financial Control and Procurement Division's (FCPD) and Organisational Risk Division's (ORD) assessment that it was expected to provide the most appropriate approach to accounting for the purchase of the building, and was likely to be favoured by the Bank's auditors. This option most closely conformed to the relevant accounting standards for the treatment of mixed-use property, which required that, where practical, a distinction was made between investment property and property, plant and equipment. It also reflected and accommodated the current own use and leased portions of the property and was arguably most closely aligned with the strategic rationale and business case for purchasing the building. Finally, this option avoided distortion in relation to the industry funding levy, which could occur if the funding approach were not matched to the accounting treatment. Consideration of this factor favoured a funding approach whereby the investment property portion of the

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building was funded through the Bank's investment portfolio; while the fixed asset portion of the building was funded from the Bank's operating resources.

Under option (c), the fixed asset portion of the building (€54m) would be recognised at cost and depreciated over 50 years, in line with the Bank's accounting policy. The investment property portion (€50m) would be subject to annual re-valuation with changes reflected as a capital gain or loss on the investment. Rental income, net of administration and management costs, arising from the investment property portion would also accrue and be recognised as other income in the Profit and Loss Account.

Should option (c) be approved, consideration was also given, in the accompanying paper, to the investment management decisions that would then arise. As the purchase followed from the identification and validation of a strategic business case and did not arise as a policy proposal aligned with the management of the Bank's investment portfolio, it was not recommended that the Spencer Dock building be held as part of the discretionary investment portfolio. It was considered that the adoption of a passive management approach, subject to periodic reviews, carried out independently from reviews of the investment asset allocation, would be required, given the drivers and rationale for this acquisition were not driven by normal Investment Policy considerations, but rather overarching strategic reasons.

From an operational perspective, the management of the property under option (c), including rent collection, would be achieved through the extension of the existing facilities management contract with Aramark. Other operational considerations, relating to the periodic valuation of the property, both for accounting and investment performance purposes, would require the appropriate development or modification of relevant policies, systems and processes. A further consequence of selecting option (c) was an additional, albeit manageable, administrative overhead relating to the application of two accounting treatments to a single building.

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The Commission approved:

- **that the accounting treatment applied to the purchase of the Spencer Dock Building be separated between investment property, and normal fixed asset (i.e. property, plant and equipment); and**
- **that the investment property portion of the building be managed on a passive basis, independently from the Bank's investment portfolio.**

10. Annual Report on Protected Disclosures

The Commission considered Paper No. 198 of 2015 which noted that the Central Bank (Supervision and Enforcement) Act 2013 introduced provisions in relation to the making of reports to the Bank regarding alleged breaches of financial services legislation – protected disclosures. The Act required the Governor to present an annual report to the Commission in respect of protected disclosures.

The accompanying paper provided a summary of the 49 reports received over the period September 2014 to August 2015 together with an overview of the supervisory actions taken in respect of the reports received.

Ms Clarke noted that the report mentioned one firm had been placed on a watch list; she asked if other firms were also treated in this way or was this confined to a specific case. Mr Moran said that recent experience with the application of Protected Disclosures in the wider arena suggested it would be worthwhile for the Bank to examine the procedural elements it had in place to deal with them. It was agreed that both these issues would be followed up with the relevant area.

The Commission noted the Annual Report on Protected Disclosures.

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11. Budget Outturn to 30 September 2015

The Commission considered Paper No. 210 of 2015. This item had also been considered by the Budget and Remuneration Committee at its meeting on 29 October 2015. The accompanying paper outlined the operating and investment/capital costs for the Bank for Q1-to Q3 2015, comparing actual outturn to the approved budget and prior year for the same period. Operating costs, comprising staff costs (including pensions) and non-pay expenditure amounted to €151.8m, and were below the Q1-Q3 2015 budget of €157.2m. The outturn represented an increase of €3.9m (2.6 per cent) on the Q1-Q3 2014 outturn. Total non-capital costs to 30 September 2015 amounted to €164.3m, which were 6.3 per cent below budget.

Total staff costs (including pensions), which constituted the largest component of the Bank's operating expenditure, were €110.7m (2.2 per cent above budget). Pension charges for Q1-Q3 2015 of €33.1m were based on the budgeted cost (as advised by the Bank's actuaries), and were €14.3m higher than Q1-Q3 2014.

Non-pay costs for Q1-Q3 2015 amounted to €41.1m, which were €13.3m lower than Q1-Q3 2014 (24.4 per cent), and €7.8m less than budget (16 per cent). The variance on prior year could be primarily attributed to Professional Fees of €7.8m, which were €16.8m lower due to the high costs of the Asset Quality Reviews in 2014. The variance on budget was attributed to most expenditure lines, which were below budget.

The aggregate outlay on Investment/Capital Projects for Q1-Q3 2015 was €20.5m, or 25 per cent of the total 2015 approved Investment Envelope of €81.0m. The 2015 outturn represented an increase of €5.4m on the 2014 outturn (€15.1m) for the same period. The expenditure includes €13.1m on the Fusion Programme; €5.9m on IT systems; €1.4m for Currency Operations; and €0.1m on the Central Credit Register project.

The Commission noted the budget outturn to 30 September 2015.

12. Governor's Quarterly Report on Expenses

The Commission considered Paper No. 199 of 2015 which set out the Governor's expenses for the quarter up to 30 September 2015.

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

13. Introduction of Macro-Prudential Capital Buffers

This was taken after Item 8.

The Commission considered Paper No. 209 of 2015.

Mark Cassidy, Head of Financial Stability Division; Sharon Donnery, Director Credit Institutions Supervision; Gareth Murphy, Director Markets Supervision; and Clare Lanigan, Deputy Head of Banking Supervision Division, were present for this item.

Mr Cassidy introduced this item, which outlined the decisions taken by the Bank in relation to the setting of macro-prudential capital buffers from January 2016. A rate of 0 per cent would be set for the countercyclical capital buffer (CCB), reflecting the position in the credit cycle and in particular a lack of evidence of a build-up of cyclical systemic risk. Two banks, BOI and AIB, were identified as systemically-important in the context of the 'other systemically important institutions' (O-SII) buffer framework and it had been decided to apply an O-SII buffer rate of 1.5 per cent to each of them, to be phased in over the period 1 July 2019 to 1 July 2021. The Bank was required to formally notify the ECB 10 days before these final decisions are taken and the ECB had the power to set higher buffer requirements than those set by the Bank.

The CCB was a time-varying capital requirement which aimed to protect the banking sector from potential losses that could arise when excessive credit growth was associated with a build-up of systemic risks. National designated authorities, such as the Bank, were required to set CCB rates from 1 January 2016 and these could be set anywhere between 0 and 2.5 per cent, and higher in exceptional circumstances. The CCB would increase the

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capital requirement of banks when credit growth was 'excessive' and could then be released either partially or fully either in the case of a period of systemic stress or when credit growth and associated systemic risks receded.

The decision to introduce a 0 per cent CCB rate reflected analysis of a range of relevant indicators of the 'build-up' phase of systemic risk. These included the mandatory credit-to-GDP gap indicator, an alternative national credit-to-GDP gap indicator, which better represented idiosyncratic features of the Irish economy, and other indicators reflecting property market, banking sector and external account developments. The analysis provided no indication that credit conditions were contributing to a build-up of systemic risk.

The rationale for the O-SII buffer arose from the negative externalities created by the failure of systemically-important institutions to the domestic economy, i.e. costs borne by the wider economy through, for example, disruption to financial services or fiscal costs. By 1 January 2016, the Bank would be obliged to identify its O-SIIs on the basis of a range of indicators relating to size, importance for the economy, interconnectedness with the financial system and significance of cross-border activities. The Bank also had the option to set capital buffers for these banks or investment firms, which could be set anywhere between 0 and 2 per cent.

The identification process for O-SIIs was governed by European Banking Authority (EBA) guidelines, which took into consideration a range of mandatory indicators but also allowed for significant supervisory judgement. The latter part allowed the Bank to select from a prescribed list of optional indicators; those which best captured systemic risk in the domestic economy. On this basis the two largest banks, BOI and AIB, had been identified as O-SIIs. [redacted]

[redacted]

[redacted]

The setting of buffer rates for O-SIIs had been left to the judgement of policy makers. However, the Basel Framework set out some guidelines and the setting of buffers should take into consideration both the size and concentration of the banking sector as well as the systemic importance of the individual institutions to the domestic economy. Based on this, it was decided to set buffers of 1.5 per cent for both BOI and AIB. This left the higher buffer rate of 2 per cent as an incentive for banks to avoid becoming more systemically important.

The O-SII buffer could either be phased in over a given time period or come fully into effect from a given date. There was, in this regard, a trade-off to be considered between building adequate structural buffers to meet the objectives of the measures and ensuring that banks continued to recover and were in a position to support the on-going recovery in the broader economy. It had been decided to phase in the O-SII buffer requirement in equal steps between July 2019 and July 2021.

A number of notification requirements were discussed in relation to both the CCB and O-SII buffers, most notably notification to the ECB at least 10 working days before measures are adopted. Final sign-off by the Governor on the measures was expected on 18 November 2015, which would entail notification to the ECB before end-October 2015.

Mr FitzGerald asked what the overall effect on the cost of capital might be and what that might mean for the pricing of a mortgage or SME loan. He said it would be worthwhile to do some research to see what the impact of certain counter cyclical buffers might have been had they been in place over the past 10 years or so. In relation to the O-SII buffer, he asked if this would ultimately impose a higher requirement on Irish banks than for some other European countries and noted how banks could potentially move in and out of the O-SII category under SSM over time. Mr Ahearne said that he would not take any

great comfort from the 'below trend' indicators on the credit-to-GDP gap as set out in the accompanying presentation as this was somewhat distorted for Ireland by the impact of the boom years. Regarding the impact on the cost of capital, Mr Cassidy said that the banks would still have a surplus at the next level; it was up to the banks to decide how they may want to use such surpluses. On cross-country impacts, the ECB would be assessing the methodologies applied in different countries. Mr Lane said that he looked forward to the continuing work in this area, which would be informed by ongoing research and monitoring of the impact. He said that what had been decided here was broadly in line with what he had seen in other countries.

The Commission noted:

- **The decision to introduce a 0 per cent CCB rate from 1 January 2016.**
- **The decision not to identify any investment firms as O-SIIs.**
- **The decision to identify BOI and AIB as O-SIIs.**
- **The decision to set O-SII buffer rates of 1.5 per cent on both BOI and AIB as O-SIIs, to be phased in in equal steps between 2019 and 2021.**

Mr Cassidy, Ms Donnery, Mr Murphy, and Ms Lanigan, left the meeting.

14. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meeting of the Budget and Remuneration Committee of 29 July 2015 (Paper No. 202 of 2015).

15. Risk Information Pack

The Commission noted the Risk Information Pack (Paper No. 211 of 2015).

16. Any Other Business

Budget 2016

Mr Ahearne informed the Commission that the Budget and Remuneration Committee had earlier that day considered the proposed budget for the Bank for 2016. The Committee had agreed to the proposed increases for the coming year and this would be brought to the Commission for its approval at the November 2015 meeting. The Committee had also considered the overall resourcing requirement for the coming 2016-2018 period which had identified as a total FTE complement of 1,800. This represented a significant increase in staffing, although the 2016 budget did not envisage the Bank reaching that target by year-end. It had been suggested at the Committee that there be a third party review undertaken to help validate the proposals. This would be considered by the Committee but would not result in any changes to the 2016 proposals. It was agreed that the detailed presentation considered by the Committee be provided to the Commission in advance of its consideration of the Budget at its next meeting.

Appointment of New Governor

Mr Ahearne noted that the Budget and Remuneration Committee would consider the remuneration that would apply to the incoming Governor and would bring a proposal to the Commission in that respect before the new Governor took up his post.

Retirement of Governor

On behalf of his Commission colleagues, Mr FitzGerald thanked the outgoing Governor for the wonderful job he had done over the past number of years. He was leaving the Bank with its reputation greatly enhanced, as was the Governor's. He said that he and all the Commission members had greatly enjoyed working with him and wished him the very best for the future. The Governor thanked the Commission and said that he had been very pleased to work with them and they had been a very good team over the past years. He wished the Commission well with its work in the future.

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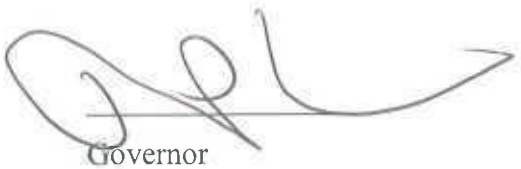
Next Meeting – 26 November 2015

The meeting concluded.



Governor

26 November 2015

CB5566

MINUTES OF MEETING NO. 62 OF THE CENTRAL BANK COMMISSION OF 24 NOVEMBER 2015

In attendance: Alan Ahearne (Chair), Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Derek Moran, Michael Soden, Neil Whoriskey (Secretary).

Opening of Meeting

The meeting was conducted via teleconference. Mr Whoriskey noted that the Governor had appointed Mr Ahearne as Acting Chair for this meeting and had agreed that the meeting should be taken in non-executive composition only, due to the item under consideration.

1. Appointment of new Governor – Remuneration and Conditions of Service

Liz Joyce, Director Human Resources; and Derval McDonagh, Head of Human Resources Division, joined the meeting.

The Commission considered Paper No. 244 of 2015.

Mr Ahearne introduced this item. He noted that Philip Lane had been nominated by Government for appointment by the President to the position of Governor of the Central Bank of Ireland. Mr Lane was due to commence in the role on 26 November 2015. Under Section 19 (1) of the Central Bank Act 1942 (as amended) ('the Act'), the Governor, "shall receive such remuneration and allowances, and be subject to such conditions of service, as the Board (the Commission) shall from time-to-time determine".

The Budget and Remuneration Committee (the Committee), meeting in non-executive composition and with the advice of the Human Resources Directorate, and related external legal advice, had discussed and considered the remuneration and the terms and conditions of employment that might apply to the incoming Governor.

The Committee was proposing a salary of €254,048 for the incoming Governor. This was consistent with the salary that currently applied to Governor Honohan. It was proposed that this salary be reviewed on an annual basis, at latest from January 2017 onwards, by the Committee, which would make recommendations as necessary to the Commission.

Notwithstanding the provisions in the Act that related to the position of Governor it was considered prudent to have a set of terms and conditions relating to the employment of Mr Lane.

Following discussion, the Commission agreed that the conditions should be expressed in an 'Employment Agreement', a draft of which was circulated. The Commission agreed that the finalisation of the details of the Agreement be delegated to the Budget and Remuneration Committee. The Commission also agreed that Mr Ahearne would sign the Agreement on behalf of the Commission.

The Commission noted that, pending assuming the role of Governor on 26 November 2015, Mr Lane had been employed by the Bank since 1 November 2015 to allow him to prepare for his new role. A salary commensurate with that of a Deputy Governor has applied to Professor Lane since 1 November 2015 and his service will be deemed continuous from 1 November 2015.

The Commission:

- **approved a salary of €254,048 to apply to the incoming Governor;**
- **delegated to the Budget and Remuneration Committee the finalisation of the terms and conditions of employment applying to the role;**
- **noted that Mr Lane had been employed by the Bank since 1 November 2015 at a salary commensurate with that of a Deputy Governor.**

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2. Any Other Business

There was no other business

The meeting concluded.

Alan Ahearne

Alan Ahearne (Acting Chair)

26 November 2015

MINUTES OF MEETING NO. 63 OF THE CENTRAL BANK COMMISSION OF 26 NOVEMBER 2015

In attendance: Governor (Chair; Items 1-8; 10-18), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach (Items 1-3, 5-7, 11-18), Derek Moran, Cyril Roux (Items 1-8; 10-18), Michael Soden, Neil Whoriskey (Secretary).

Also present: Gerry Quinn, Chief Operations Officer (Items 5-7, 11-18).

Opening of Meeting

The Governor opened the meeting. He noted it was his first meeting as Governor and said it was timely for the Commission to review the operation of the meetings. A dedicated discussion session would be arranged in December. This would also provide an opportunity to consider the recommendations arising from the recent Governance Evaluation of the Commission carried out by PwC.

For this meeting some changes were already introduced, such as the circulation of a log of Action Points from previous meetings and the re-positioning of the previous 'Euro Area Developments – Issues for the Central Bank' item, as 'Governor's Report'.

The Commission agreed to some re-ordering of agenda items to facilitate those who were attending for various items.

1. Minutes of Meetings of 29 October 2015 and 24 November 2015

The minutes of the meeting of 29 October 2015 (Meeting No. 61) were agreed.

The minutes of the meeting of 24 November 2015 (Meeting No. 62) were agreed. It was also agreed that Mr Ahearne would write on behalf of the Commission to the Ministers for Finance, and Public Expenditure and Reform, informing them of the remuneration applying to the Governor, as decided by the Commission. As Meeting No. 62 was held in

non-executive composition only, the Governor, Mr Gerlach and Mr Roux were not present when these minutes were discussed and agreed (this part of the meeting was chaired by Mr Ahearne).

2. Matters Arising

Bodily Injuries Thematic Review

The Insurance Directorate had published the Bodily Injuries Thematic Review, referenced at the previous meeting, on 24 November 2015. Ms Byron had requested a Commission discussion on the review. The Governor noted that the Bank published a range of such staff reports and it was not intended that the Commission would have an editorial role in such publications; however it may be useful to arrange occasional seminars on particular items for the Commission and some proposals in that regard would be brought forward for the coming year. It was agreed that the Commission would, where feasible, receive advance copies of Bank announcements and publications, and would also be updated weekly of the calendar of publications and events.

Protected Disclosures

Mr Whoriskey noted that the reference in the Annual Report on Protected Disclosures (Paper No. 198 of 2015) to a single firm placed on a watch list was illustrative. The Compliance function had confirmed that a number of firms were placed on watch lists arising from Protected Disclosures.

Macro-Prudential Capital Buffers

Mr FitzGerald noted that at the October 2015 meeting he had referenced the potential impact on the cost of capital for banks arising from the introduction of such buffers. It was agreed that a short report or briefing note be prepared.

Other Items

Other items arising from the meeting on 29 October 2015 were due to be discussed at this meeting. The Commission noted the Action Log.

3. Governor's Report

The Governor introduced this item. He noted that, as he had just assumed office, his report on this occasion would be brief. He informed the Commission that the process for selecting a new Deputy Governor (Central Banking) was underway. A selection panel comprising the Governor, Ms Clarke, Mr FitzGerald, Mr Moran and Ms Claudia Buch, the Deputy President of the Bundesbank, would consider a shortlist of candidates in early January 2016.

He also informed the Commission that, in preparation for his new role, he had visited a number of central banks in recent weeks including the Bank of England; the Board of Governors of the Federal Reserve System; the Federal Reserve Bank of New York; and the Federal Reserve Bank of Boston. He had also visited the IMF.

The Commission noted the Governor's Report.

4. Supervisory Update

The Commission considered Paper No. 227 of 2015.

Mr Roux updated the Commission on a number of matters.

Financial Sector Assessment Programme

Work was continuing on the IMF Financial Sector Assessment Program (FSAP) which formally commenced in September 2015, with the FSAP scoping mission, and was due to complete in Quarter 1, 2016. Key milestones achieved in November 2015 included agreement on the macro-economic scenarios to be used for the bank stress tests; agreement on information sharing modalities with the ECB; and further clarification on the scope of non-bank risk and vulnerabilities assessment. Preparations were underway for the next technical mission which was scheduled to take place from 30 November – 9 December 2015 in Dublin, with some time also in Frankfurt. This mission would focus on the 'Risk and Vulnerabilities Assessment' element of the FSAP, in particular the bank

stress tests, the macroprudential policy framework, and the risk and vulnerabilities assessment in the funds area.

Financial Stability Board Global Shadow Banking Monitoring Report

Since 2011, the Financial Stability Board (FSB) had conducted an annual monitoring exercise of shadow banking activities. These reports had attempted to map the shadow banking system mainly in the G20 jurisdictions. The 2015 FSB Global Shadow Banking Report was published on 12 November 2015. For the first time Ireland was included in this annual report. The Bank welcomed the opportunity to participate in this information sharing exercise and to further policy work in this area. Contribution to this and other information sharing exercises allowed Bank staff to input extensively to policy formulation in European and other international fora. Mr Geraghty asked if there was any evidence of a greater shift to shadow banking, particularly in light of developments such as The Single Supervisory Mechanism (SSM). Mr Roux said that there was very clear evidence that stronger regulation of banks increased the level of lending that took place outside of the banking system; this was not confined to Europe but was a global issue.

Ms Clarke noted that the European Commission had issued a call for evidence around Capital Markets Union. She asked if the Bank was contributing to that, what it might be emphasising, and if the Commission could receive a copy of the submission when it was issued. Mr Roux confirmed the Bank was responding. This included some commentary around loan funds; the Bank was welcoming proposals in that area. He noted that Ireland was at the forefront on stress testing on funds and that this would also feature as part of the FSAP exercise. The Governor noted that this was an example of how the IMF was utilising the FSAP process locally to also progress a global agenda.

Annual Performance Statement

A working group within the Bank had been developing proposals with the Department of Finance to enhance the format and content of the Annual Performance Statement and this was progressing well. There would be a number of changes introduced for the 2015 report, due to be published in April 2016; the Department of Finance was expected to consult

more widely on the process in the coming year. Mr Moran said there had been very constructive engagement on this.

Banking

Banking Supervision Directorate was currently setting out its planned supervisory engagements for the coming year, the details of which were contained in the accompanying paper (Paper No. 227 of 2015). Mr Roux noted the very extensive programme that was planned. Mr Soden asked what the reaction of the industry was to increased regulatory demands. Mr FitzGerald suggested that it would be timely to review experience under SSM now that it was one full year in operation. Mr Roux said that supervision had clearly stepped up significantly in recent years and the banks were conscious of the need to react appropriately to that; he noted that there were further demands coming down the line as the banks would have to be prepared to deal with the requirements of the Single Resolution Board (SRB) from next year. The Governor noted that Mr Roux was due to deliver a speech later in the week that would deal in a very balanced way with the SSM experience after one year. He also noted that the Chair of the SRB was speaking at the same event.

[redacted]

[redacted]

The Governor said that during his visit to the Bank of England (BoE) he was struck by the educational curriculum it developed for its staff, including those involved in banking supervision. There was a one year in-house course and a three-year Masters programme run in conjunction with Warwick University. It was a very interesting approach and he would return to it at some point as it developed.

The Commission noted the Supervisory Update.

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5. Potential Implications of Brexit

This was taken after Item 10.

Mark Cassidy, Head of Financial Stability; Gareth Murphy, Director Markets Supervision; and Ed Sibley, Head of Banking Supervision Division, joined the meeting.

The Commission considered Paper No. 195 of 2015.

This item had been held over from the previous meeting due to time constraints. Mr Cassidy introduced this item. The accompanying paper (Paper No. 195 of 2015) examined potential Brexit scenarios and model-based estimates of potential macro-economic effects under each of these. It also examined the potential impact of financial market effects on the Bank's own profitability and capital position, although this was not found to be a material risk due to the current valuation buffers that existed. More relevant were potential financial sector effects; the paper looked separately at potential implications for the banking, insurance and funds/markets sectors but also the financial market infrastructure and collateral framework.

While the most likely outcome of a referendum was still thought to be the UK remaining as part of the EU, Mr Cassidy noted that recent political events pointed to the difficulty in anticipating with any confidence how the UK referendum would turn out, while polls also indicated that concerns over migration were closely linked to attitudes to EU membership.

In terms of the impact of Brexit on the Irish financial sector, this could be significant if it occurred in a disorderly manner or had a large negative impact on the UK economy. The overall potential financial sector effects were considered in terms of the impact on business activity and business models; the potential for new international financial services firms to expand or locate here; and, implications for the Bank that were relevant for its supervisory and financial stability mandates.

It was found that some firms were more vulnerable than others, but for different reasons,

[redacted]

[redacted] In the insurance sector a substantial amount of cross-border business was undertaken on both freedom of services and freedom of establishment bases and, depending upon the UK's post-exit relationship with the EU, Irish insurers may face restrictions upon their ability to conduct such business. For non-bank financial intermediaries, including investment firms, the loss of access to a UK client base may have a negative impact on business although the exit of UK competitors from the market may benefit other firms.

More generally, Mr Cassidy noted it was clear from the analysis that firms across most parts of the financial sector had not themselves given adequate consideration to potential implications of Brexit, perhaps assuming that it would not happen. The Bank had already been engaging with firms across all sectors on the risks and it was hoped that the analysis undertaken for this paper could provide a basis for further and more specific engagement.

There could potentially be a large number of new applications for authorisations and these could vary in terms of size, type of business, complexity and risk profile, possibly including financial market infrastructures. In such an event the impact on the financial sector here could be significant, and while this would have resourcing implications for the Bank, the view across the different areas of the organisation was that preparatory action on the resource front would be premature until there was more certainty on the outcome of the referendum as this impact would likely be gradual. But beyond resourcing, it was an area with significant potential uncertainty and concerns were expressed in the paper about the implications of a large volume of applications for firms to relocate here. Any potential influx of business into Dublin would also face challenges in the form of shortage of supply and increasing costs of office space and workforce supply.

Mr FitzGerald thanked Mr Cassidy and the team; he noted the paper was extremely useful and a very valuable addition to the corpus of work that was being compiled by various agencies and bodies on this subject. He [redacted] suggested that the Bank co-operate with the ESRI on some modelling that could be undertaken to try and quantify stresses that may occur. He also said that, while it was not directly a matter

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for the Bank in terms of its responsibilities, the analysis on the potential migration of financial services from the UK or US to Ireland as a result of any Brexit event, should be shared with the Department of Finance from an overall policy perspective. He also noted the importance of examining potential impacts on Northern Ireland-based business activities of firms here. Mr Geraghty said that this was an evolving issue and it was important the Bank monitored developments and updated its own analysis as necessary. He said he was concerned at the references in the paper to the firms not making any particular preparations themselves and said the Bank should continue to encourage them to do so.

Mr Sibley said that the Bank had been engaging with banks and there were indications that they were now addressing this in a more determined manner; Mr Cassidy noted that similar engagement was taking place with insurance firms and funds, particularly those with larger UK exposures. The Governor pointed out that the forthcoming Macro Financial Review contained a box setting out some of these issues and that this should get some wider attention as a result. In relation to the potential inflow of financial services business to Ireland, Mr Murphy said the Bank was gathering some data and intelligence on this, largely based on firms that were already here.

Mr Gerlach said that, while the report pointed out many potential risks, some of the analysis, particularly around employment and growth effects, appeared to show a minimal impact. However, overall he said this was a good piece of work and important for the Bank to signal its concerns in this way. Mr Cassidy agreed that the broader macro impacts were not overly significant but any impact was likely to be gradual and not sudden. Mr Moran said the work was very important and Brexit was, in the broader context, very significant, in particular as it may impact on trade agreements, border controls, etc. It was important the Bank maintained this level of focus on the issue.

The Commission noted the Report on the Potential Implications of Brexit.

Mr Cassidy, Mr Murphy and Mr Sibley left the meeting.

305877

6. Financial Stability

This was taken after Item 9.

Mr Cassidy was present for this item.

The Commission considered Paper No. 228 of 2015.

Mr Cassidy introduced this item.

In advance of the publication of the Macro Financial Review (MFR) on 9 December 2015, the accompanying presentation (Paper No. 228 of 2015) set out the issues, risks and vulnerabilities relating to the financial stability environment.

External risks to financial stability had increased since publication of the last MFR in June 2015. This reflected two developments; first a deterioration in the global economic outlook, reflected in downward revisions to growth forecasts for this year and next for both the euro area and more evidently emerging market economies most notably China; second, the risks of a reversal to the low interest rate environment and compressed global risk premia. Legacy issues from the crisis in Ireland meant that Ireland's vulnerability to these external risks remained elevated.

Domestically, the macroeconomic environment continued to improve, and at a faster pace than previously expected. GDP growth was expected to be 5.8 per cent this year and was forecast at 4.7 per cent in 2016. Encouragingly, stronger domestic demand was evident, supported by an improving labour market and rising real wages, which benefitted the household sector directly. The non-financial corporate sector was seeing strong growth in exports and better domestic conditions also, while investment was projected to rise quite strongly both this year and next. However, in terms of risks and vulnerabilities, indebtedness and non-performing loans for both the household and corporate sectors remained among the highest in the EU and this left them particularly vulnerable to rising interest rates and/or economic shocks and acted also as a drag on the recovery in both consumption and investment. In addition, borrowing costs were among the highest in Europe although data and survey evidence pointed to an improvement in

trading and financing conditions for SMEs, including in relation to both cost and availability of credit.

Housing market developments were attracting a lot of attention since the introduction of the macro-prudential measures. The latest data showed moderation in both prices and price expectations. In terms of housing market activity, this had continued to increase also, albeit from a low level. Mortgage transactions during the first nine months of this year were actually 30 per cent higher than during the same period of the previous year while overall housing transactions were up by 24 per cent. The level of activity was likely to remain constrained, however, while supply shortages in the housing market remained acute despite gradual increases in output. The supply of rental accommodation seemed particularly low and this, combined with strong demand over recent years, had led to sustained increases in rents which were now above pre-crisis levels. Inflation in the rental market had been running at around 10 per cent per annum for the past three years or so; these pressures pre-dated the introduction of the macro-prudential measures but an impact on the rental market was anticipated as a potential unintended consequence of the measures in the short term at least. In the commercial real estate sector, strong growth in capital values and rents continued. This had been driven by international equity investment but there was a risk of reversal if global financial market conditions changed or there was a change in investor sentiment towards Ireland or the commercial property sector here. Bank lending to the sector had been increasing but remained at a low level, although the banking sector retained high exposures to the sector and high non-performing loans and therefore financial stability risks did exist in relation to the rate of expansion of the sector.

Regarding the financial sector, the very high rate of non-performing loans, by historical and international standards, remained a feature although the impairment rate continued to decline steadily. Improvements in profitability evident in 2014 had continued in 2015, with impairments now making a positive contribution to profits with the write back of provisions. The operating environment remained difficult, including with respect to delivering further improvements in net interest income with interest expenses, including deposit rates, at such low levels already and scope for new lending constrained. The challenges for banks in terms of meeting fully-loaded capital requirements were highlighted and an important issue was the ability of banks to build capital ratios while at the same time maintaining lending to the real economy to finance the expected recovery.

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In relation to non-banks, the weak profitability of non-life insurance firms was highlighted, as underwriting losses were offsetting investment income. Across many European countries the life-insurance sector was affected significantly by the low interest rate environment due to products with guaranteed returns. Irish life insurance companies tended not to have a lot of such products, which reduced the risks, but meant of course that the costs of the low-return environment were felt more by their customers, but life insurers were also facing pressures in generating new business.

The rapid increase in the size of non-bank financial intermediaries was also highlighted including shadow banks. This was a global phenomenon, affected here also by exchange rate developments, namely the strengthening of the dollar; and risks relating to the shadow banking sector, in the context of the search for yield and low interest rate environment, were an important focus now of the European financial stability and macro-prudential policy agenda.

Mr FitzGerald said he still held the view, expressed previously, that the Bank should adopt shock scenarios based on models to help in its financial stability assessments. This could, for example, include the impact of interest rate rises and the impact of a delayed return to adequate housing market supply. The Governor noted that some of these issues would be assessed through the stress tests that were due to take place under both the FSAP and the ECB/EBA exercises in the coming year. Mr Roux confirmed that these results would be made public. Mr Gerlach noted the need to also examine the stress testing of households. Mr Cassidy said that the Bank was developing some tools around this.

Mr Geraghty said that he noted in particular that high levels of household indebtedness and mortgage arrears; these were problems that were still persisting, and this remained a concern. He was also concerned about the lack of progress around supply in the housing market, in particular the rental sector. He believed the rental sector needed more institutional investors. Ms Byron highlighted the risk of the skills gap that existed in the housing and construction sector; while there may be demand, the supply could be constrained by a lack of qualified and certified people. Ms Clarke said that if the financial stability analysis was highlighting anything the Bank needed to prioritise, as part of its overall strategic direction, that the recently agreed Strategic Plan was on the basis that it was a dynamic document that was open to revision if required.

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The Commission noted the Financial Stability Update.

Mr Cassidy left the meeting.

7. Budget 2016

Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 229 of 2015. This item had also been considered by the Budget and Remuneration Committee at its meeting on 29 October 2015.

Mr Power introduced this item. He noted that a detailed presentation in relation to the 2016 Budget had been made to the Budget and Remuneration Committee. He informed the meeting that, since that presentation, one change had been made to the proposed 2016 Budget, representing a €1.1m increase; this was outlined in Appendix 1 to the accompanying paper (Paper No. 229 of 2015).

The Budget and Remuneration Committee had also discussed the Bank's Organisational Resourcing Requirements at its October meeting (Paper No. 190 of 2015). This paper identified a total FTE complement requirement of 1,813 staff, an increase of some 300 FTE on the projected end-2015 total. The paper also recognised, based on recruitment trends and against the backdrop of the improving employment market, a projected estimated FTE increase of 159 in 2016, bringing total complement to 1,659 at end-2016. The 2016 proposed Budget was based on this 159 increase and the Commission was not being requested at this time to consider any further increases. It was planned to return to the Commission in Quarter 1, 2016 to discuss in more detail the resourcing requirements over the lifetime of the current Strategic Plan (2016-2018).

Total operating expenditure of €220.2m was proposed for 2016, representing an increase of €9.5m or 5 per cent on the projected outturn for 2015. This incorporated staff costs (including pensions) of €151.2m and non-pay administrative expenditure of €69m. In addition, other expenses, which included depreciation on fixed assets (€12.8m) and print (banknote) materials costs (€9.5m), were also proposed for 2016 which brought total budgeted expenditure to €242.5m.

An Investment Envelope budget of €121.9m was being requested for 2016, an increase of €90.2m (285 per cent) on the projected outturn for 2015, of which €99.9m related to the Fusion programme.

A total contingency reserve of €31m was proposed for 2016. This incorporated staff costs contingency (€5m), non-pay contingency (€10m) and an investment envelope contingency (€16m).

Mr Power left the meeting.

The Governor proposed that in early 2016 the Commission would examine the budgetary process to ensure it was appropriate, particularly in relation to the growth in resourcing identified over the lifetime of the new Strategic Plan. He noted the work already undertaken in terms of future resourcing identified up to end 2018, but stressed that the decision required of the Commission now was only in relation to the 2016 budget.

Mr Ahearne confirmed that the Budget and Remuneration Committee had considered the overall resourcing requests put forward but was only recommending at this time that the Commission approve the 2016 projected requirements; he agreed that the longer term resourcing be considered further in Q1 of next year.

The Commission approved the proposed Budget for operating and other non-capital expenditure of €242.5m and the Investment Envelope of €121.9m for 2016; approved the Contingency Reserves of €31m for 2016; and noted the proposal to further discuss in Q1 2016 the resourcing requirements over the lifetime of the current Strategic Plan (2016-2018).

8. Credit Servicing Firms – Delegation of Powers and Consequential Code Amendments

This was taken after Item 4.

Colm Kincaid, Head of Consumer Protection, Policy and Authorisations; and Andrew Whitty, Legal Division, joined the meeting.

The Commission considered Paper No. 230 of 2015.

Mr Kincaid introduced this item. The Consumer Protection (Regulation of Credit Servicing Firms) Act 2015 made provision for a new type of regulated entity – credit servicing firms. This was achieved by incorporating a new category of 'regulated business' into the existing regulatory framework in Part V of the 1997 Act, thereby extending the application of provisions of Irish financial services law that applied to 'regulated financial service providers' to credit servicing firms. This Act became effective on 8 July 2015.

The accompanying paper (Paper No. 230 of 2015) set out proposals to delegate the regulatory powers of the Bank in respect of this new type of regulated entity and make certain consequential amendments to the various Central Bank Statutory Codes of Conduct in order to make explicit that credit servicing firms were subject to such Codes.

Ms Clarke asked what percentage of the 17 firms, that had to date applied for authorisation under the Act, were registered in Ireland. This could be relevant from an enforcement perspective. She also asked if there was a requirement to have an Irish director. Mr Kincaid said that most of the firms were from outside of Ireland but some were considering incorporating in the State; the proposed authorisation requirements and standards would require a substantive presence in the State. Regardless of domicile, the Bank's fitness and probity requirements would also apply.

Mr Kincaid and Mr Whitty left the meeting.

The Commission:

i. **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 in respect of credit servicing firms provided for in Part V of the 1997 Act as amended by the 2015 Act;**

ii. **approved the further delegation by the Deputy Governor (Financial Regulation) of the statutory functions and powers delegated under the paragraph (i) to a committee of officers/employees of the Bank or individual**

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officers/employees of the Bank as he sees fit, to ensure effective, efficient and economic resource allocation within the Bank;

iii. **confirmed that the delegations already in effect in respect of Part V of the 1997 Act will continue to apply to Part V of the 1997 Act as amended by the 2015 Act;**

iv. **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;**

v. **confirmed that credit servicing firms authorised pursuant to Part V of the 1997 Act (as inserted by the 2015 Act) are included within Category 2 in the Authorisation Framework (Commission Paper No. 5 of 2010) and the Revocation Framework (Commission Paper No. 24 of 2010);**

vi. **approved in accordance with Section 117(1) of the Central Bank Act 1989 the proposed consequential amendments to the Central Bank's Statutory Codes of Conduct arising from the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015.**

vii. **delegated to the Deputy Governor (Financial Regulation) or the Director of Consumer Protection the authority to approve any final changes to the Addenda to the Central Bank's Statutory Codes of Conduct and issue these for and on behalf of the Central Bank.**

9. Appointment of a Suitably Qualified Person to Perform Functions under the Central Bank Reform Act 2010

The Governor appointed Mr Ahearne to Chair the meeting for this item. The Governor and Mr Roux absented themselves for this item.

This was taken after Item 13.

Dympna Murphy, Acting Head of Regulatory Decisions Unit; and Johanna Morris, Regulatory Decisions Unit, joined the meeting.

The Commission considered Paper No. 231 of 2015.

[redacted]

[redacted]

10. Delegation of Regulatory Powers pursuant to the European Union (Insurance and Reinsurance) Regulations 2015

This was taken after Item 8.

Deirdre Byrne, Insurance Directorate; and Paschal Finn, Deputy Head of Legal Division, joined the meeting.

The Commission considered Paper No. 241 of 2015.

Ms Byrne introduced this item. The substantive provisions of the European Union (Insurance and Reinsurance) Regulations 2015 were due to come into effect on 1 January 2016. In accordance with the requirements of the Solvency II Directive, certain powers of the Bank in respect of approvals and determinations under the 2015

Regulations came into force immediately after the making of the Regulations, on 5 November 2015.

The 2015 Regulations gave effect to a risk based capital regime for (re)insurance undertakings which was based on three distinct pillars. Pillar 1 comprised processes by which (re)insurance undertakings calculated their need for capital based on an evaluation of the risks faced by the (re)insurance undertaking. A (re)insurance undertaking's capital requirement would be calculated using either a standard formula or, with prior supervisory approval, a bespoke internal model.

Pillar 2 required (re)insurance undertakings to have in place an effective system of governance which provided for sound and prudent management of the business and that risk management be placed at the centre of their business models, in particular by performing an own risk and solvency assessment (ORSA).

Pillar 3 aimed to produce greater transparency by introducing new reporting requirements. (Re)insurance undertakings were also required to publish reports detailing the risks facing them, their level of capital and what risk management strategies they have in place.

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

Ms Byrne and Mr Finn left the meeting.

The Commission:

i. **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 2015 Regulations;**

ii. **approved the further delegation by the Deputy Governor (Financial Regulation) of the statutory functions and powers delegated under paragraph (i) 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;

iii. **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**

iv. **confirmed that insurance undertakings authorised pursuant to Part 2 of the 2015 Regulations are included within Category 1 and (re)insurance undertakings (including special purpose vehicles) are included within Category 2 in the Authorisation Framework (Commission Paper No. 5 of 2010) and the Revocation Framework (Commission Paper No. 24 of 2010).**

11. Project Management and Value Realisation

This was taken after Item 7.

The Commission considered Paper No. 232 of 2015.

The accompanying paper, which was an annual report to the Commission, noted that the Bank continued to make progress in the effective management and governance of Bank projects and programmes, including investment oversight and benefit realisation. The underlying management methodologies and organisation compliance with these standards were strong, as evidenced by the National Standards Authority of Ireland (NSAI) certification of the Bank as compliant with ISO best practice.

Benefit realisation from projects completed in the 12 month period to end-September 2015, while strong against defined targets, were largely based on achievement of pay/non-pay cost avoidance. While such financial benefits were nominal, nevertheless the discipline of project business casing, particularly in the quantification of technology costs and benefits compared to alternative manual solutions, was important.

Experiences in the 12 month period, relating to both completed projects in the period and those that were currently in development, had highlighted challenges, most notably in

respect of project scale and complexity, the volume of mandated projects and organisation delivery capacity.

While project completions in the 12 months were in line with previous years, the scale and complexity of projects had, and continued to, increase. More than 90 per cent of completed projects required technology development and the scale of demand continued to place pressure on IT development capacity. The capacity challenge was compounded by the volume of mandated projects, which limited investment prioritisation and management choices. Experiences over the last 12-18 months had also highlighted some weaknesses in project management skills and competency.

Looking forward, the significant business change (e.g. Fusion, Organisation Development, Information Strategy) and regulatory agendas (e.g. Solvency II, MiFid II/MiFir), pointed to challenges in overall organisation delivery capacity and capability.

Key areas highlighted for improvement were around enhanced project portfolio management through stronger strategy and execution alignment, stronger portfolio prioritisation, capacity planning and expansion and portfolio oversight; and project and programme management improvement through a combination of professional resourcing and internal skills development.

The Commission noted the Project Management update.

12. Financial Accounts to 30 September 2015

The Commission considered Paper No. 233 of 2015. This item had also been considered by the Audit Committee at its meeting on 30 October 2015.

The accompanying paper noted that the Provisional Statement of Accounts for the nine months ended 30 September 2015 analysed the provisional profit up to 30 September 2015 (YTD 2015) and compared the outturn to the same period in 2014 (YTD 2014). The outturn for Quarter 3 2015 was also analysed and compared to Quarter 2, 2015. The balance sheet analysis compared the position as at 30 September 2015 against the position as at 30 June 2015.

The Bank recorded a provisional profit of €1,492.1m for the YTD 2015, (YTD 2014: €1,445.8m), an increase of €46.3m. The key drivers of the increase were higher realised gains on sales of securities held in the Special Portfolio (YTD 2015: €670.4m v YTD 2014: €451.1m) and were offset somewhat by a reduction of net interest income of €164.8m.

The Bank's balance sheet amounted to €73.7bn as at 30 September 2015, an increase of €1.3bn (2 per cent) from €72.4bn as at 30 June 2015. This reflected an increase in investment in Quantitative Easing Programmes (€2.3bn), an increase in the valuation of the Floating Rate Notes (€1.4bn) which was offset by a decrease in Monetary Policy Advances (€1.9bn) and sales of the Floating Rate Notes (€0.5bn) since end June 2015.

The Commission noted the Statement of Accounts to 30 September 2015.

13. Freedom of Information

This was taken after Item 5.

The Commission considered Paper No. 234 of 2015.

Orlaith Ní Bhroin, Freedom of Information Unit, joined the meeting.

Mr Whoriskey introduced this item. The Freedom of Information Act 2014 was passed into law on 14 October 2014 and the Bank became subject to its provisions on 14 April 2015. The Act applied retrospectively to the Bank for records created from 21 April 2008. The accompanying paper provided a six month review in respect of the activity of Freedom of Information (FOI) in the Bank and also sought to assess its impact.

A dedicated unit was established in the Bank to process and respond to all FOI requests. In the six month period to mid-October 2015, 128 separate requests were received, with average monthly volumes now trending to approximately 14/15. Of the 116 requests closed at end-September 2015, records were issued in respect of 30. Of requests that

were refused, 19 were on the basis of specific exemptions under the Act. The remainder of refusals were for a variety of, mainly administrative, reasons including withdrawal of requests, voluminous scope, the non-existence of records, and as some requests were dealt with as press queries. A further 35 requests were refused under Schedule 1 of the Act, whereby requests for access to records containing confidential regulatory information could be refused.

The main source of requests was from the media. The main focus of requests to date had been on the macroprudential measures; correspondence between the Governor and Minister for Finance/senior officials; internal correspondence between senior Bank executives; and minutes of various Commission and executive meetings.

This paper also outlined details of a significant FOI issue currently faced by the Bank, which related to the interpretation of Schedule 1 of the Act. The FOI Unit obtained internal and external legal advice regarding the application of Schedule 1, and implemented procedures to be applied in processing requests for such information. The Office of the Information Commissioner (OIC) had recently indicated its objection to the Bank's interpretation of the exclusion regarding confidential information of regulated entities in the context of a request for minutes of Commission meetings. While the Bank had responded to the OIC by re-stating its interpretation of Schedule 1 based on its legal advice; it had also indicated to the OIC its commitment to the principles of transparency and accountability and, in that respect, its willingness to consider the possible voluntary publication of Commission minutes, suitably edited, outside of the FOI regime. The Bank had also offered to meet with the OIC to discuss its concerns with a view to achieving settlement of the issue. Ms Ní Bhroin noted that the Department of Public Expenditure and Reform had recently issued a guidance note which underpinned the OIC's interpretation of Schedule 1.

The Governor said that the legal discussions and interaction with the OIC around the interpretation of Schedule 1 should continue as set out. However, there was a practical solution to the specific case before the OIC and that was for the Commission to publish its minutes, in a suitable way whereby supervisory and other confidential information could be redacted. It was important that the Bank was transparent insofar as that was legally permissible and sensible and this would be an important signal of the Bank's support for openness and for the principles of FOI. There would be issues to consider

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around the format of the minutes and timing of publication, and this could be discussed at the pre-dinner session in December 2015. Mr Whoriskey noted that the issue before the OIC related to retrospective minutes and this would also have to be considered in addition to the publication of minutes of future meetings. While supporting the proposal to publish, Ms Clarke suggested that minutes be reviewed by Legal before publication to ensure the Commission was not breaching any confidentiality obligations.

Ms Ní Bhroin, left the meeting.

The Commission: noted the update on the operation of FOI; noted the ongoing dialogue with the Office of the Information Commissioner regarding Schedule 1 of the FOI Act; and agreed to publish the minutes of future Commission meetings, pending discussion on the format and timing.

14. Corporate Social Responsibility

This was taken after Item 12.

The Commission considered Paper No. 235 of 2015.

The accompanying paper noted that Corporate Social Responsibility (CSR) referred to the responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour.

In December 2014, following a decision by the Senior Leadership Committee (SLC), the Bank decided it would adopt a more structured approach to Corporate Social Responsibility. In this regard a CSR working group was set up with interested parties across the organisation, sponsored at SLC level.

At its meeting on 9 November 2015, the SLC considered and approved the CSR Working Group's proposals for an organisational policy statement on CSR and a Terms of Reference for how CSR will be governed at the Bank. The SLC also noted that a centralised CSR budget has been proposed for 2016.

Ms Clarke welcomed the initiative. Regarding the policy statement, she noted it referenced the setting of specific targets and objectives around environmental issues and suggested it should also reference targets and measures for other CSR activities. She further suggested that the CSR policy statement should explicitly include a reference to diversity.

The Commission noted the formal policy statement and Governance Structure for CSR at the Bank and noted that a centralised CSR budget had been proposed for 2016.

15. Appointment of new Pension Trustees

The Commission considered Paper No. 236 of 2015.

The current Trustee Board for the Central Bank and Financial Services Authority of Ireland Superannuation Scheme consisted of two member-nominated trustees, two Bank-appointed trustees and one Professional Trustee. The member trustee tenures of Derville Rowland and Alan McCormack came to an end in 2015. An election was held where pension scheme members were invited to vote in the appointment of new member trustees. The effective date for the resignation of the current Trustees and the appointment of the new Trustees was 1 November 2015.

The Commission noted the appointment of Domhnall Cullinan and Thomas Ryan as member Trustees of the Central Bank and Financial Services Authority of Ireland Superannuation Scheme, replacing Derville Rowland and Alan McCormack.

16. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meeting of the Risk Committee of 24 September 2015; and of the meeting of the Audit Committee of 30 September 2015.

17. Risk Information Pack

The Commission noted the Risk Information Pack (Paper No. 226 of 2015).

18. Any Other Business

Tracker Mortgages

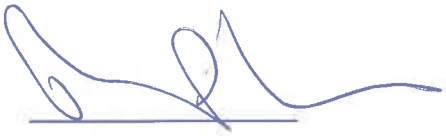
Mr Geraghty referenced a recent 'Prime Time' programme on RTÉ which suggested poor practices in banks in relation to tracker mortgages. He recalled the Bank's action against PTSB and said this was an issue the Commission should re-visit. Apart from the supervisory issues that might arise, there was also a need to ensure consumers were well informed of their rights. Mr Roux agreed with the concerns. He said that the Supervisory Update presented in October 2015 had set out the Bank's plans to embark on a major examination of tracker mortgage-related issues, covering among other things, transparency of communications with and contractual rights of tracker mortgage borrowers. Notwithstanding the supervisory interventions to date, the Bank remained concerned that there may be other tracker-related issues which could be impacting on consumers across the system. The Consumer Protection Directorate was developing an appropriate methodology for such an examination and was engaging with a number of consumer groups as well as the Financial Services Ombudsman to inform the scope of this work. The Commission would be kept informed as this developed.

Deputy Governor

On behalf of his Commission colleagues, Mr Soden thanked outgoing Deputy Governor Stefan Gerlach for his contribution to the work of the Commission since 2011 and wished him well for the future. Mr Gerlach thanked the Commission and said that he had very much enjoyed working with them and within the Central Bank. He wished the Commission well with its work in the future.

Next Meeting – 11 December 2015

The meeting concluded.



Governor

11 December 2015

MINUTES[1] OF MEETING NO. 64 OF
THE CENTRAL BANK COMMISSION
OF 11 DECEMBER 2015

In attendance: Governor, Alan Ahearne, Patricia Byron (Items 1-6, 8-9), Blanaid Clarke, John FitzGerald (via teleconference; Items 1-6, 8-9), Des Geraghty, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).
Apologies: Derek Moran

Also present[2]: Gerry Quinn (Chief Operations Officer Items 7, 10-16), Sharon Donnery (Director, Credit Institutions Supervision – Item 6), Anne Marie McKiernan (Registrar of Credit Unions – Item 6); Eadaoin Rock (General Counsel – Item 7); Stephen Giffney (Central Credit Register Project – Item 7); Paschal Finn (Deputy Head of Legal Division – Items 8-9); James Mulcahy (Legal Division – Items 8-9);); Bernie Keppel (Deputy Head of General Secretariat Division – Item 10); Derval McDonagh (Head of Human Resources – Item 11); Glenn Calverley (Head of Organisational Risk Division – Item 12); Allan Kearns (Deputy Head of Organisational Risk Division – Item 12).

1. Procedural Issues

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 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 supervisory information, or where it is in the public interest to do so. There may be occasions where a minute may be omitted, but retrospectively published when the rationale for initial omission no longer applies.
[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 Meeting of 26 November 2015

The minutes of the meeting of 26 November 2015 (Meeting No. 63) were agreed.

3. Matters Arising

The following matters arising were noted:

Seminars

A programme of seminars for Commission members would be arranged for the coming year, a list of potential topics would be circulated in Quarter 1 2016.

Appointment of Governor

Mr Ahearne had written on behalf of the Commission to the Ministers for Finance and for Public Expenditure and Reform informing them of the remuneration applying to the Governor following his recent appointment.

Publication of Minutes

The minutes of Commission meetings would be published, commencing with the minutes of this meeting. The minutes of each meeting would be published two weeks following their approval at the subsequent meeting (i.e. with an approximate six week lag). Some information may be omitted from the published minutes if it was legally or commercially sensitive or where it was in the public interest to do so.

4. Governor's Report

The Governor introduced this item. He noted the recent decision of the Governing Council of the European Central Bank regarding the extension of its asset purchase programme (APP), which would now run until March 2017, or beyond if necessary. In addition, the Governing Council decided to reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary; and to include in the public sector purchase programme regional and local government debt. These decisions were taken in order to secure a return to inflation rates that were consistent with the ECB's price stability mandate. While market reaction was somewhat negative following the announcement, he

noted that the actions taken were, in fact, quite significant and that there was a gradual and continuing recovery underway which these measures supported.

The Governor updated members on the ongoing process to select a new Deputy Governor (Central Banking).

The Governor noted that he had attended an induction session for recently recruited staff on 10 December 2015 at which more than 80 new staff members attended.

The Governor briefed members on the recent Principals' Group meeting.

The Commission noted the Governor's Report.

5. Supervisory Update

Mr Roux updated the Commission on a number of matters, including the following:

Financial Sector Assessment Programme

The IMF Financial Sector Assessment Programme (FSAP) technical mission had taken place in the past week. The technical mission focused on the 'risk and vulnerabilities assessment' element of the FSAP.

Annual Performance Statement

The Joint Working Group (encompassing the Department of Finance and the Bank) formed to make recommendations with regard to the future format of the Bank's Annual Performance Statement had now concluded its work. It was expected that the Minister would shortly write to the Governor issuing a direction with respect to the recommendations of the Joint Working Group.

Planning

All divisions of financial regulation had now completed the planning of their activities for 2016. This annual exercise had been conducted this year to a higher level of granularity, detailing to the fullest possible extent the work of each team.

Examination of Tracker Mortgages

An update was provided on the examination of tracker mortgages. It was recalled that the Bank had published a press statement confirming this wider examination. A Tracker Mortgage Review Group, chaired by the Director of Consumer Protection, had now been established to share information across relevant divisions and a project team was established in the Consumer Directorate. The objective of the examination was to achieve fair outcomes for borrowers. The Bank would shortly be contacting all in-scope lenders setting out its requirements.

Mr Roux also updated the Commission on certain supervisory matters relating to specific firms.

The Commission noted the Supervisory Update.

6. Credit Unions

Ms Donnery and Ms McKiernan presented this item. The presentation provided an overview of the credit union sector and set out the key strategic priorities of the Registry of Credit Unions (RCU).

The sector faced a number of challenges but had the potential to turn from structural decline into recovery. The sector was very important as it provided a wider choice in the financial system and had strong community and social aspects. However its recovery depended on a faster pace of restructuring; innovation in its business model offerings; a drive for new active membership; and a marked increase in core lending.

The RCU's strategic priorities were designed to support this while appropriately managing the risks. This included the need to assist consolidation and undertake resolutions where necessary, thereby safely removing the most distressed entities, protecting members' funds

and overall sector stability. Another key strategic priority was the introduction of new regulations, which arose from the Report of the Commission on Credit Unions and followed a public consultation process. These covered a number of areas, including reserves, liquidity, lending, investments, savings, borrowings, and building on existing prudential and governance requirements in these areas. The regulations, due to be introduced in early 2016, would build on existing prudential and governance requirements in these areas and include the establishment of types of categories of loans which credit unions may provide, together with related limits, counterparty and maturity limits for investments and a maximum individual members' savings limit of €100,000, with some limited scope to go above this but only in very restricted circumstances. A new engagement model was also being developed which was aimed at helping ensure the new regulatory framework was appropriately implemented. The level of supervisory engagement would be proportional and appropriate to the nature, scale, and complexity of the sector. Another priority was that of bringing additional clarity to the challenges around business model development, through a recently initiated stakeholder dialogue process.

In the discussion that followed, the members commended the work that was being undertaken. One member said it was difficult to understand how the €100,000 savings limit had created such controversy, particularly as the evidence showed that such sums were confined to a very small proportion of total savings. This member noted that credit unions were an extremely important part of the community fabric and it was important to safeguard that, but equally it was important that the business model was viable. It was suggested that the RCU communicate its role more directly to the members of the credit unions. Another member noted that the recent International Credit Union Regulators' Network review had identified a failure amongst credit unions in Ireland to understand and apply proper principles and standards. It was suggested by this member that there was a need to increase awareness among those who run credit unions about the rationale for such standards and why they needed to apply them properly. Other members referenced the need to continue with the restructuring process in a way that minimised the costs and risks to both members and the taxpayer, and the need for credit unions to develop their business models so as to attract new borrowers.

In response to the points raised, Ms McKiernan noted that the RCU was increasing its direct communications with and to the sector; this included a planned increase in the number of regional seminars and greater engagement with individual credit unions. She said that getting the business models right was a key challenge for the sector and a Sectoral Dialogue process was underway to keep appropriate focus on this. Regarding restructuring, there had been good progress over the past year although more was needed to ensure the viability challenges facing individual credit unions could be appropriately dealt with and to enable the sector to achieve some economies of scale. The focus remained on trying to achieve solutions from within the sector itself. It was evident that credit unions that were managing well were those that had developed good products that were appropriately priced for risk.

The Commission noted the Credit Unions Update.

7. Central Credit Register

Mr Giffney introduced this item. The Credit Reporting Act 2013 mandated the Bank to establish and operate a Central Credit Register (CCR) and conferred powers on the Bank to make regulations setting out much of the operational detail of the CCR and associated obligations. As previously advised to the Commission, the Bank selected CRIF Ireland Limited as its external partner to build and operate the CCR on its behalf.

Draft regulations had been prepared specifying: the personal and credit information to be submitted by Credit Information Providers (CIPs); the personal and credit information to be included in credit reports to be published by the CCR to CIPs and Credit Information Subjects (CISs); the timelines for commencement of data submission and data access/enquiries; the verification to be undertaken by CIPs in respect of the identity of CISs who make credit applications or agreements; and the notice to be provided by CIPs to CISs applying for credit, and informing them of the obligation to report personal and credit information to the CCR. Work was still in progress on regulations to set levies and fees for access to CCR data.

The focus of activity for the CCR Project to end March 2016 would be to finalise requirements and obligations imposed on CIPs in regulations. A final draft of the regulations would be presented to the Commission for approval in February 2016. At that point formal consultation with the Data Protection Commissioner would be initiated and the consent of the Minister for Finance sought with a view to making the regulations by 31 March 2016.

In the discussion that followed, members noted the importance of data protection and the need to ensure that any public concerns on privacy and access to data be properly allayed. The importance of having confidentiality undertakings in place with the external partner's staff was also noted. One member queried the rationale for including moneylenders in phase two.

Mr Giffney said that data security was of paramount importance. He noted that the Bank had carried out a Privacy Impact Statement in order to ensure that appropriate privacy controls were designed into the solution from the outset. He confirmed that appropriate confidentiality undertakings with the external partner's staff would be in place before any data was gathered. Regarding moneylenders, following the public consultation process, it was proposed that Phase 1 would cover all CIPs lending to consumers other than licensed moneylenders and local authorities; these would fall to be reported in phase two. It was noted that the majority of loans issued by licensed moneylenders were below the current reporting threshold of €500.

The Governor noted the importance of the project, and in particular the public communications aspects which would be necessary as it evolved.

The Commission noted the update on the CCR Project and the next steps to finalise the requirements and regulations.

8. Authorisation and Revocation Framework for Regulated Financial Service Providers

Mr Finn introduced this item. In October 2010, the Commission decided to delegate authorisations and refusals of authorisations to the Deputy Governor (Financial Regulation) and to relevant staff below that office in accordance with an authorisations framework. This authorisation framework categorised firms into three categories and was designed to be consistent with the risk-based approach to financial regulation.

Furthermore, at its meeting held on 25 November 2010, the Commission approved a corresponding three tier approach in respect of the revocation of firms' authorisations, with such decisions, when the revocation was involuntary, being taken at one level higher than the corresponding authorisation.

Since the approval of the authorisation and revocation frameworks, a large amount of financial services legislation, both domestic and derived from European law, had been added to the statute book which had led, in many cases, to the creation of new forms of regulated financial service providers, e.g. debt management firms, alternative investment fund managers. While specific delegations had been provided in each new case, the authorisation framework and revocation framework was now spread across many different papers and decisions.

As a result, it was proposed to: merge the authorisation framework and revocation framework into a unitary framework and to introduce clarifications to the process; restate existing delegations made by the Commission with respect to authorisations and revocations taking into account changes in financial services legislation and the organisation of the Bank; and identify, in a clear manner, the persons to whom the power to make decisions to authorise, refuse or revoke were delegated and the relevant processes to be followed.

The Commission approved, in accordance with section 18F of the Central Bank Act 1942 the delegation of the statutory powers to the persons referred to in the framework contained in the Appendix to Paper No. 247 of 2015; and the related approvals sought in Paper No. 247 of 2015.

9. IFSAT – Renewal of Contract for Registrar of Tribunal

Mr Finn introduced this item. The Central Bank Act 1942 provided that appeals against certain decisions made by the Bank would be heard and determined by the Irish Financial Services Appeals Tribunal. Whether the decision is appealable to the Tribunal is set out in the relevant sectoral legislation from which the decision derived and the decision may be affirmed by the Tribunal or remitted for reconsideration by the Bank. Administrative sanctions decisions may be affirmed, varied, substituted or remitted. In addition, some decisions by the Bank relating to the Administrative Sanctions Procedure may be set aside by the Tribunal. An appellant dissatisfied with the final outcome may appeal a decision of the Tribunal to the High Court.

The members of the Tribunal were appointed by the President following a nomination by the Government and currently comprised: John D. Cooke S.C. (Chairperson of the Tribunal), Inge Clissmann S.C. (Deputy Chairperson), Paul Brennan, Geraldine Clarke, Helen Collins, Teresa Pilkington S.C., and Conor Power S.C.

The Registrar of the Tribunal assisted the Chairperson in administering the Tribunal and performed such other functions imposed by law. Section 57J(1) of the 1942 Act provided that the appointment of the Registrar is made by the Chairperson. Section 57J(3) of the 1942 Act provided that the employment of the Registrar was on such terms (including terms as to the remuneration and superannuation) as were agreed between the Chairperson and the Central Bank Commission from time to time.

In a letter dated 2 December 2015, the Chairperson informed the Bank that, having discussed the position with the current Registrar, Treasa Kelly, and obtained the approval of the other members of the Tribunal, he was seeking the approval of the Commission with respect to renewal of Ms Kelly's contract. Ms Kelly's existing contract was due to expire on 31 December 2015 and the reappointment would be for a period of three years, from 1 January 2016 to 31 December 2018. The Bank had subsequently written to the Chairperson requesting that he obtained an assurance from an external legal advisor that the terms of the contract satisfied all current legislative requirements.

One member queried the appropriateness of the specific requirement in the Act giving the Commission such a function; it was agreed that Legal would examine this further and raise the particular issue with the Tribunal/Department of Finance.

The Commission approved the engagement of Treasa Kelly as Registrar to the Tribunal on the terms set out in the contract contained in Paper No. 253 of 2015.

10. Strategy Measurement Process – Balanced Scorecard 2016

Ms Keppel introduced this item. The Strategic Plan 2016-2018 (the Plan) was approved by the Commission at its meeting on 25 September 2015. It was subsequently forwarded to the Minister for Finance and was published on 23 November 2015. The Plan set out the Bank's eight Strategic Responsibilities and three Strategic Enablers and had a clear focus on the outcomes the Bank wished to achieve.

Following the recent approval of the Plan, consideration was given as to the most appropriate method to monitor its progress and implementation. The Senior Leadership Committee at its meeting in October 2015 considered that the Balanced Scorecard methodology remained an effective performance measurement tool. The 2016 Balanced Scorecard was now presented for Commission approval.

It was further noted that at its meeting on 26 May 2011 the Commission approved the use of the Balanced Scorecard process as meeting the legislative requirement in Section 32A of the Central Bank Act 1942 (as amended) to establish a framework for the assignment of responsibilities. The process outlined would continue to serve to meet that requirement for 2016.

The Commission approved the 2016 Organisational Balanced Scorecard.

11. Annual Review of Staff Code of Ethics and Behaviour

Ms McDonagh introduced this item. Ownership of the Employee Code of Ethics and Behaviour (the Code) rested with the Commission which had delegated the promotion,

monitoring, reviewing and updating of the Code to the Human Resources Directorate (HRD). The current Code was last updated in January 2015 following an annual management review by all divisions undertaken by HRD. The Code was reviewed by the Commission at that time and revisions were approved.

The Code provided for: an annual review to be undertaken in order to ensure its continued relevance vis-à-vis legislation and best practice; and the submission of an annual report to the Commission which outlined the key activities emerging under the Code in the previous year.

The activities arising under the Code in relation to gifts, employee queries, breaches of the Code, changes to the Code since January 2015 and comments from the Bank's Ethics Officer were set out. As part of the annual review process a change to the Code was proposed to reflect ownership of social media by the Communications Division.

It was also noted that, by June 2016, the Bank would be required to implement the ESCB Code of Ethics Framework. The Commission would be updated on progress and specifics of this requirement in Q1 2016.

The Commission noted the activities reported relating to the Code for the period July 2014 to June 2015; and approved the recommended changes to the Code.

12. Risk Appetite Framework

This item had also been considered by the Risk Committee at its meeting on 24 September 2015.

Mr Calverley introduced this item. In its 2014 Annual Review, the Risk Committee requested that the Organisational Risk Division (ORD) further develop the Bank's risk appetite framework, so as to set out for approval by the Commission a consolidated risk appetite statement underpinned by quantitative and qualitative tolerances and measures for the risks that fall within its remit. These developments aimed to strengthen the Risk Committee's existing oversight and monitoring of the Bank's principal (organisational) risk exposures.

The purpose of a risk appetite was to specify the amounts and types of risk the Bank was willing to accept, and informed decisions on the allocation of resources to managing risk exposures. The Bank's principal own risk exposures were strategic, financial and operational. These risks were relevant to the Bank's risk appetite as they were its own organisational risks which arose as a consequence of it performing its statutory role. Accordingly, risks associated with financial system stability, supervision and macroeconomic factors, while directly influencing decisions and actions taken by the Bank, were not considered part of the Bank's 'organisational' risk appetite.

The Bank's risk appetite was integral to its overall risk management approach which comprised *inter alia* measures for identifying and assessing risk, implementing and monitoring the adequacy of control measures, managing incidents and breaches, and reporting the status of risk, control and remedial actions to the Bank's governance committees. Assessing the Bank's risk profile against its risk appetite provided a basis for determining the adequacy of these risk management activities.

Pending approval by the Commission, the Risk Committee would review the risk appetite statement on an annual basis and receive reports on the status of the underlying tolerances and metrics at each of its meetings. As such, the appetite and tolerances set out in the Risk Appetite Statement were valid on their date of submission to the Commission, but were subject to future change.

Based on industry experience, it was envisaged that the Bank's risk appetite framework would evolve as it was refined and further embedded within the Bank's governance and reporting processes, and as market and economic conditions changed over time.

The Chair of the Risk Committee confirmed that the Committee had considered this item and had endorsed the Risk Appetite Framework and Statement. One member suggested a minor change to the section referencing "material…obligations" in order to better define materiality. Members also agreed that consideration be given to publishing the Risk Appetite Statement in an appropriate format.

The Commission approved the Risk Appetite Framework and associated Risk Appetite Statement.

13. Official Languages Act - Scheme

Mr Whoriskey introduced this item. Under the Official Languages Act, 2003 the Bank was obliged to prepare a draft Language Scheme for approval by the Minister for Arts, Heritage and the Gaeltacht. A Language Scheme was in addition to those obligations imposed under the Act, such as publication of annual reports in both Irish and English.

The Bank's current Language Scheme was published in December 2006 and remained in operation. In 2009, the Bank was requested to prepare a second Scheme. The draft second Scheme was submitted to the Department of Arts, Heritage and the Gaeltacht (DAHG) in September 2009, however the Bank did not receive any formal response from the DAHG until 2013. In the interim, the draft second Scheme was further revised to reflect the changing mandate of the Bank and there was a series of discussions, both internally and with DAHG officials. As a result, the draft second Scheme had been revised and it set out how the Bank intended to enhance services in the Irish language in a balanced manner in a number of areas over the lifetime of the Scheme (2016-2018). These enhancements included: bilateral correspondence between Registry of Credit Unions and Gaeltacht-based credit unions to be in Irish or bilingual; in the context of recruitment and training, the Bank to monitor and assess the demand for Irish language technical competency for inspections; the simultaneous publication in Irish and English of 25 per cent of press releases; a dedicated Official Languages Act page to be made available on the Bank's intranet, which would act as an information portal for staff; and, access for staff to recognised Irish language courses, together with e-learning courses where business needs identified.

The Commission approved the draft second Language Scheme for submission to the Minister for Arts, Heritage and the Gaeltacht.

14. Balance Sheet Biannual Update

This item had also been considered by the Risk Committee at its meeting on 25 November 2015.

The Commission noted the Update to the Risk Exposures on the Bank's Balance Sheet.

15. Risk Information Pack

The Commission noted the Risk Information Pack (Paper No. 252 of 2015).

16. Any Other Business

The Commission noted the recent passing of former Governor Tomás Ó Cofaigh and expressed its condolences to his family.

The meeting concluded.

Next Meeting – 28 January 2016