

**MINUTES¹ OF MEETING NO. 74 OF
THE CENTRAL BANK COMMISSION
OF 23 NOVEMBER 2016**

In attendance: Governor, Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery, John FitzGerald (via teleconference – items 6,10,12) Des Geraghty, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Also present²: Paschal Finn (Deputy Head of Legal Division), Gerry Quinn (Chief Operations Officer – Items 5, 7, 10, 11 – 19), Gabriel Fagan (Director Economics – Items 9, 12), Mark Cassidy (Head of Financial Stability Division – Items 9, 12), Yvonne McCarthy (Deputy Head of Financial Stability Division – Item 9), Niamh Hallissey (Financial Stability Division – Item 9), Ed Sibley (Director Credit Institutions Supervision – Item 9), Liz Joyce (Director Human Resources – Item 10), Fergal Power (Head of Financial Control Division – Item 10), Colm Kincaid (Head of Consumer Protection, Policy & Authorisations Division – Item 11), John Coyle (Director Resolution and Corporate Affairs – Items 13, 15), John Thompson (Head of Project Management Office – Item 14), Stephen Giffney (Project Manager, Central Credit Register – Item 15).

1. Procedural Items

The Governor opened the meeting and noted it was quorate. He asked if members had any interests to declare. There were no declarations of interest.

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, relates to items that remain under deliberation, 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 October 2016

The minutes of the meeting of 26 October 2016 (Meeting No. 73) were agreed.

3. Matters Arising

There were no matters arising. The follow-up items were noted.

4. Governor's Report

The Governor introduced this item. He said it was a very busy period and he noted the hard work undertaken across the Bank. In relation to forthcoming events, he referred to the December 2016 monetary policy setting meeting of the Governing Council of the ECB, which would be informed by new forecasts; he also noted the upcoming Italian referendum and, in the wider international setting, the December 2016 meeting of the Federal Open Market Committee.

He informed the meeting of the recent launch of the Bank's new in-house curriculum based training programme, the One Bank Foundation Programme. The programme, for now aimed at new starters, provided a foundation of knowledge and learning about the Bank. He noted the importance of this initiative and that, to date, it was proving very successful.

He informed the meeting that the Governing Council of the ECB had appointed Deputy Governor Donnery as Chair of the ECB's Budget Committee. It was one of only two ECB committees where the chair was held by someone from outside the ECB; she would take up the role in January 2017.

He noted that the Bank's report on Mortgage Arrears had issued to the Minister for Finance, it was expected the report would be published shortly. The trajectory of mortgage arrears remained important.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

This minute is partially omitted as it contains supervisory information and information relating to matters concerning Eurosystem operations.

Ms Donnery introduced this item. She updated members on the liquidation of Rush Credit Union. The overall resolution process was smoothly executed. The majority of members received their compensation just seven working days since DGS invocation.

The Bank's INBS Administrative Sanctions Procedure Inquiry was due to hold its first public hearings over four days on 30 November, 1, 13 and 14 December 2016. The purpose of this element of the Inquiry was to address a number of procedural issues including various applications that have been made by the persons concerned.

She noted that the Oireachtas Committee of Public Accounts had written to the Governor regarding concerns raised by the Department of Social Protection concerning the application of negative interest rates by the Bank on Government deposits. The response to the Committee was that this was universally applied across the Eurosystem, reflecting the current monetary policy stance, and also noting that Central Bank profits accrue to the Exchequer.

She informed the meeting that the sixth Post-Programme Monitoring/Surveillance mission by the EU Authorities and the IMF was due to take place at the end of the November 2016.

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

6. Deputy Governor's Report (Financial Regulation)

This minute is partially omitted as it contains supervisory information

Mr Roux introduced this item. The European Commission was due to announce proposed revisions to capital requirements directives, including Capital Requirements Directive IV (CRD) and Capital Requirements Regulation (CRR). The review was also likely to lead to proposals concerning the location of holding companies.

He noted that the ECB had recently published its opinion on the Central Bank (Variable Rate Mortgages) Bill 2016. The opinion was comprehensive and included the view of the ECB that the proposed new powers on the Central Bank of Ireland should be regarded as atypical of a central bank. The opinion stated that such powers could conflict with the Bank's monetary policy and supervisory functions and raised concerns around monetary financing.

He noted the Oireachtas Committee Report on the Rising Cost of Motor Insurance was due to be published on 24 November 2016. This would contain a number of recommendations, including the establishment of an integrated insurance database. The Bank was also participating in a working group, chaired by Minister for State Murphy into motor insurance.

One member agreed with the ECB opinion concerning the variable mortgage rate Bill. The member said that competition was outside of the statutory remit of the Bank and that it was for the Competition and Consumer Protection Commission (CCPC) to address any such concerns.

The Commission noted the Deputy Governor's Report (Financial Regulation).

7. Chief Operations Officer's Report

Mr Quinn introduced this item. He updated members on a number of issues. He reported that the headcount at end-October 2016 stood at 1,597. A total of 129 roles were currently in the recruitment process.

He noted that a number of initiatives were underway as part of the Data Strategy. This included finalisation of the tender for an Enterprise Document Management System. The costs arising

would be brought to the Budget and Remuneration Committee. Work was also underway in developing an Information Security Dashboard for the Risk Committee and the Commission.

In relation to Currency, the 2016 Print Production would complete this month, four weeks ahead of schedule.

The sales process for Dame Street/College Green properties had progressed and the Bank's advisors, Lisney, recommended that the Bank nominate a preferred bidder for the properties. The Bank has entered into a period of exclusivity with the bidder with a view to completing the contract for sale.

The Commission noted the Chief Operations Officer's Report.

8. Brexit Update

The Governor introduced this item. He noted that Brexit related matters had been covered in both deputy governors' reports to this meeting. He referred to a prominent media report concerning comments from banking sources that the Bank was reluctant to authorise large trading operations. He noted that, for banks, the authorisation process was a matter that came under SSM. In relation to authorisations of other firms, the Bank had made it clear in its communications that it followed a transparent process for authorisations and operated by applying standards and practices that were common throughout the EU.

One member asked if any economic impacts of Brexit were becoming apparent. The Governor noted the exchange rate moves which impacted on trade and were proving challenging for some firms. On the other hand, consumers were seeing some benefits from lower import prices. These were short term effects for now. The Bank's view remained that, long term, Brexit was a negative.

The Commission noted the Brexit Update.

9. Macroprudential Mortgage Rules Review

The Governor introduced this item. He commended the extensive and robust analytical programme of work, the results of which were presented to the Commission at its seminar on

26 October 2016. Based on the analytical work, discussions at the Financial Stability Committee and Macprudential Measures Committee, and consideration of the feedback received during the public call for evidence, it was found that the overall framework was effective in meeting the objectives of the measures, with contained side effects. The review also found that the parameters of the measures continued to be appropriate. However, when considering the overall calibration of the measures, a number of structural changes were identified which could improve the effectiveness and sustainability of the framework.

Mr Cassidy summarised the key findings of the analytical work and set out the proposed amendments to the framework. These were to: remove fully the €220,000 threshold on house prices that applies to the higher loan-to-value (LTV) requirement for first time buyers (FTBs) so that the LTV requirement on FTBs was 90 per cent at all house prices and the LTV requirement on second and subsequent borrowers (SSBs) was 80 per cent; amend the structure of the proportionate caps to differentiate the allowances between FTBs and SSBs so that 20 per cent of the value of new lending to SSBs would be allowed above the 80 per cent LTV limit and 5 per cent of the value of new lending to FTBs would be allowed above the 90 per cent LTV limit for FTBs; extend the requirement for a property valuation to be carried out within a two month period to a four month period; and, amend the scope of the non-primary dwelling home limit to remove large commercial residential property lending.

The Governor thanked Mr Cassidy and his colleagues for the extent and quality of the work produced. He noted that the aim of the proposed modifications was to improve the design of the framework. First, the revised framework should only require adjustments in the future if it was assessed that the macro-financial environment had materially changed. Second, in relation to LTV allowances, splitting the SSB and FTB cohorts into separate pools would improve the effectiveness of the framework, since it was possible to envisage future scenarios in which it would be desirable to have different adjustments to the LTV allowances for the separate cohorts. He emphasised the importance of the loan-to-income (LTI) measures that remained in place and continued to be a key anchor across all loan size categories; and, the fact that the new limits were not targets but ceilings.

In the discussion that followed members welcomed the detailed analysis undertaken. Some members raised the issue of house prices and the risks that might exist around the potential impact of the rule changes in this regard. The Governor said the review had not indicated the

level of house prices was currently above fundamental values, and the evidence suggested the current level of transactions in the housing market was below normal levels. He said if there was evidence of house prices growing more quickly than anticipated, driven by increased lending, the Bank would be able to react.

One member noted the importance of savings for FTBs and that the lower LTV made sense, but questioned the wider 20 per cent head room for SSB lending above the LTV limits. The Governor said there was a large variation in SSBs and that banks to date had shown that any lending above the limits had been applied in a reasonably limited and sensible way. One member questioned the need to move the LTV limit to 90 per cent from 80 per cent for FTBs and that a more appropriate limit might be 85 per cent. The member accepted that a rounded view was being taken but was not comfortable with the scale of the change and had reservations about the proposal. The Governor noted the concerns and said that, in a more normally functioning housing market, there would be a stronger argument for a smaller move, but again emphasised the point that these limits were ceilings and that the evidence had shown that many FTBs had proven capacity to borrow at LTV values of lower than 90 per cent. Some members referenced the importance of communicating any decision, including how the rules would be reviewed in the future; the Governor said there was a detailed communications plan in place. The Governor proposed the Commission approve the retention of the policy measures with the suggested changes.

The Commission, by consensus:

- **approved the policy measures for mortgage lending as outlined and reflected in the draft amending regulations as circulated and which are to be made under section 48 of the Central Bank (Supervision and Enforcement Act 2013);**
- **pursuant to section 18F of the Central Bank Act 1942, delegated to the Governor the authority to -**
 - **approve any final changes to the draft amending regulations in advance of being made, and**
 - **make and commence the draft amending regulations, with any such final changes, for and on behalf of the Central Bank.**

10. Budget 2017

Mr Quinn introduced this item. He noted that proposed 2017 budget had been prepared on an initial bottom-up basis and had gone to the Budget and Remuneration Committee for its consideration in October 2016. Since then there had been some refinements made.

Mr Ahearne confirmed that the Budget and Remuneration Committee had considered the budget, the key consideration being around staff numbers. The original bottom up request identified an increase of upwards of 300 full time equivalents (FTEs); however, the Committee had considered, on the basis of the Governor's analysis largely around the capacity of the organisation to absorb new staff in any given year, a range of 120-208, the upper bound of which was based on the capacity of HR to recruit in the appropriate manner in the given period. While the Committee discussed the proposals in detail, it had not made any particular recommendation, but rather agreed it would be beneficial to have full Commission consideration of the matter.

The Governor recommended that the net increase in staff numbers be set at 170 for 2017, with due control in relation to grade mix, and including roles identified for key priorities, such as Brexit-related roles and risk management. He said that this balanced the bottom-up identified needs against the strains imposed upon the organisation in seeking to attain a significant one-year net increase in staff numbers. This was still a challenging target in relation to the range considered by the Committee, and equated to an approximate 10 per cent increase. More generally, it was important to put sufficient weight on the wider organisational impact of a significant volume of net hiring. He indicated that further increases would be necessary in 2018.

Mr Power set out the details of the proposed budget, based on this net increase of 170 on an end 2016 total of 1,620 FTEs. The overall budget request was €283m – up from a €223m trend for 2016. The key components of the increase in the budget were: staff costs up by €14.7m; pension costs up by €21m, due to likely adverse changes in the prevailing discount rate; and non-pay costs up by €25.1m, the main increases being in professional fees and IT costs. The proposed Investment Envelope, which represented the budget for capital and projects for 2017 totalled €28.9m.

In the discussion that followed, one member emphasised the potential for Brexit to result in big demands on the organisation. While the long-term requirements were difficult to forecast, the Bank needed to be ready to adjust. Another member pointed to a recent report on the Bank's

Balanced Scorecard for Q3 2016 and the fact that, due to resourcing constraints, a number of objectives would not be met. This was a concern and, while there were limits on the number of staff the Bank could hire in a given year, every effort should be made to resource up to the requisite level. In the meantime, the Bank and Commission need to reflect on the impact of a lower staff complement on the Bank's ability to fulfil its statutory functions and meet its strategic plan. Another member noted the increasing demands on the organisation, even before Brexit related issues, and that the originally identified request was considerably higher than that being considered now, and therefore the higher number in the range should be the target. Some other members noted that, while FTE numbers were a key factor, the Bank also needed to constantly examine its processes to ensure that efficiencies were being achieved. The impact of the increased costs, which would be passed back on to industry, was also a factor. Another member expressed concern at what was a one-third increase in operating costs.

The Governor thanked the members for their views. He noted the difficult balance that needed to be achieved at a time of increasing demands on the organisation. He remained of the view that a 10 per cent increase in headcount was justifiable, but to go beyond that would likely put other strains on the Bank. He said that this number did not include contingencies that may be necessary. He also noted comments on efficiencies and that this would remain an important focus. Finally, he noted the reservations that had been expressed, and proposed to the Commission that it adopt the budget as set out.

The Commission, by consensus, approved the 2017 Budget.

11. Consumer Advisory Group – Appointment of Members

Mr Kincaid introduced this item. The Central Bank Reform Act, 2010 provided that the Bank shall establish an advisory group to advise it on the performance of its functions and the exercise of its powers in relation to consumers of financial services. The Consumer Advisory Group was established in 2011 and, in accordance with the Act, its function is to advise the Bank in relation to: the effects of the Bank's Strategic Plans on consumers of financial services; initiatives aimed at further enhancing the protection of consumers of financial services; and, if the Bank so requests, documents, consultation papers or other materials prepared by the Bank. 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”. Currently, there were five members in the group. Two members’ tenures would end in December 2016, making it necessary to imminently appoint new members to ensure the continued effectiveness of the group. One additional appointment was also proposed to further increase the number and scope of expertise of the Group. It was noted that one of the nominees had acted as a Risk Advisor to the Consumer Directorate up to May 2016.

The Commission approved the appointment of Theodor Kockelkoren and Anne-Marie O’Connor from 1 January 2017; and Eleanor Gill from 1 June 2017.

12. Financial Stability

Mr Cassidy introduced this item. He noted that the next Macro Financial Review (MFR) would be published on 15 December 2016. Risks and uncertainty emanating from the external environment had increased since the last Review. While domestic vulnerabilities had reduced in recent years, they remained elevated. The key external risks were around the prospects for global growth, which had deteriorated since the June 2016 MFR; the potential consequences of Brexit for Ireland; uncertainties related to the US election outcome; and risks to EU/euro area financial stability. From a domestic macroeconomic perspective, economic growth forecasts were revised down following the result of the Brexit referendum but underlying prospects remained relatively favourable with GDP expected to increase by 4.5 per cent this year and 3.6 per cent next year.

For the corporate sector, there were rising activity levels, investment and profitability, although the recovery remained weakest for smaller non-exporting SMEs. Across the household sector, while deleveraging had been continuing, household debt remained high and was still the joint third highest in the EU. Mortgage arrears continued to fall, with loan modifications contributing. Negative equity numbers were also falling, now around 15 per cent of outstanding mortgages.

In the banking sector, the process of balance sheet repair and the work-out of impaired loans had continued since the last review, and, as deleveraging continued the balance sheet size of Irish retail banks continued to contract. While the low interest rate environment had helped to reduce funding costs it had also contributed to a fall in interest income. Aggregate profits

remain positive but have declined compared to 2015. Both the European Banking Authority (EBA) stress test and IMF Financial Sector Assessment Program (FSAP) solvency stress test indicated that the Irish banking sector is adequately capitalised but remained vulnerable to shocks.

In relation to the insurance sector, all the domestically focussed high impact firms reported losses in the first half of this year albeit at lower levels than in 2015. These profitability challenges mainly arose from developments in the motor insurance market. In relation to non-bank financial intermediaries, which stood at around €3 trillion in size, an account of the latest flows into the sector across investment funds, money market funds and special purpose vehicles (SPVs) since the last review had been relatively stable, although Q3 data was awaited and this would be interesting because of the impact of Brexit on the sector.

One member referenced forthcoming ESRI research on future levels of housing demands. It would be important for the Bank to recognise the potential stresses on the financial system from a financing perspective were housing demands to grow at particular levels. The same member said that the competitiveness of the economy, arising from any Brexit-related consumer price adjustments, may also merit attention, while noting price stability was a wider euro area policy issue.

The Commission noted the Financial Stability Update.

13. Strategic Plan 2016-2018 Review

Mr Coyle introduced this item. The accompanying paper (Paper No. 274 of 2016) summarised the proceedings of the Commission strategy review seminar of 21 October 2016 and also summarised the inputs provided by management.

He noted that at the seminar the Commission recognised that the Strategic Plan was drafted at a high-level and agreed that it remained relevant to the mandate of the Bank as no additional significant responsibilities had been given to the Bank since the Plan was published. Some items that had arisen since the Plan was originally agreed, in particular Brexit, would feature in the proposed Balanced Scorecard for 2017, which would come before the Commission for approval in due course.

At the seminar, members had discussed developing a more effective mechanism to allow the Commission further engage with issues that were worthy of strategic consideration, and which had the potential to evolve into items for specific inclusion in the next iteration of the Bank's strategy. To that end, Mr Coyle suggested a proposal could be brought forward. The Commission agreed to this.

Finally, he noted that the update against the Bank's strategic progress in 2016, together with any amendments or areas of emphasis to be publicly communicated, was due in the first half of 2017. It was considered likely that this would be included within the annual report; again this would be brought back to the Commission at the appropriate time.

The Commission noted the Strategic Plan Review.

14. Project Management Update

Mr Thompson introduced this item. Overall, 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 remained strong, as evidenced by NSAI 2016 confirmation that the Bank was compliant with ISO Project Management best practice. Additionally, good progress was made in 2016 in building a resource pool of professional project managers for assignment to high complexity and cost projects.

Benefit realisation from projects completed in the 12 months to end September 2016, while strong against defined targets, was largely based on achievement of pay/non-pay cost avoidance. While such financial benefits might be regarded as nominal, nonetheless the discipline of project business casing, particularly in the context of technology cost benefit analysis, is important.

Project completions in the 12 months to end September 2016 was lower than 2015. This was signalled in the previous report to the Commission and was reflective of the scale and complexity of projects, which continues on an upward trend. Over 90% of completed projects required technology development and the scale of demand continues to place pressure on IT development capacity.

A key challenge, particularly in light of audit and risk, was achieving an appropriate balance in the project portfolio between developing new capabilities and stabilising and improving underlying operational processes and technologies.

The Commission noted the Project Management Update.

15. Central Credit Register

Mr Giffney introduced this item. Following the successful conclusion of the consultation process with the Office of the Data Protection Commissioner (ODPC) in July 2016, the Minister for Finance consented to the making of the Central Credit Register (CCR) regulations on 16 August 2016 and the Governor signed the regulations on 20 August 2016. Lenders had been notified of their obligations and provided with relevant guidance, including through a dedicated website. Collection of data for consumer loans was scheduled to commence from 30 June 2017 and enquiries by lenders on the CCR may commence from 31 December 2017, subject to data quality being assured. This timeline followed an extension of the milestones of the project by nine months, following the extended consultation period with the ODPC. A communications strategy had been developed for the launch of the CCR, focusing on the key milestones of commencement of consumer data collection and enquiries.

Mr Coyle concluded by saying, with the regulations now in place and lenders aware of their obligations, it was an appropriate juncture to consider the transition of the CCR activities from a project structure to a business-as-usual function. To that end, a Head of Function role to lead the on-going CCR operations within the Bank would be filled in the near future. He noted that Mr Giffney, who had successfully led the project, was due to retire and thanked him for his work. The Governor, on behalf of the Commission, also thanked Mr Giffney and wished him well.

The Commission noted the update on the Central Credit Register.

16. Freedom of Information – Annual Review

The Commission noted the Freedom of Information Update.

17. Corporate Social Responsibility

The Commission noted the Corporate Social Responsibility Update.

18. Minutes of Meetings of Sub Committees

The Commission noted the minutes of the meetings of the Budget and Remuneration Committee of 25 July 2016; of the Risk Committee of 14 September 2016; and of the Audit Committee of 26 October 2016.

19. Any Other Business

The Governor noted that former Governor of the Bank, TK Whitaker, would celebrate his 100th birthday on 8 December 2016. The Bank would release a video and some other material to mark the occasion.

The meeting concluded.