

**MINUTES¹ 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 present²: 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