

SECRET

**MINUTES¹ OF MEETING NO. 67 OF
THE CENTRAL BANK COMMISSION
OF 24 MARCH 2016**

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

Also present²: Eadaoin Rock (General Counsel), Gerry Quinn (Chief Operations Officer – Items 1-5, 7-13, 16-21), Trevor Fitzpatrick (Banking Supervision, Analysis Division – Item 8), Maurice McGuire (Director, Financial Operations – Item 10), Paul Molumby (Director Currency and Facilities Management – Item 11), Glenn Calverley (Head of Organisational Risk Division – Item 12), Tom Meade (Deputy Head of Organisational Risk Division – Item 12), Michael Power (Head of Procurement Function – Item 13), Liam McMunn (Environmental Health and Safety Manager – Item 16), John Coyle (Director, Resolution and Corporate Affairs – Item 18), Patrick Casey (Head of Resolution – Item 18), Fergal Power (Head of Financial Control Division – Item 19).

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, 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 25 February 2016

The minutes of the meeting of 25 February 2016 (Meeting No. 66) were agreed.

3. Matters Arising

The Commission noted it had approved, by written procedure on 15 March 2016, the Annual Statement of Accounts. These would be published, as part of the Annual Report, in late April 2016.

The Commission noted that the strategic presentation on Insurance would be brought forward to May 2016.

Resourcing

The Chair of the Budget and Remuneration Committee informed the Commission that the Committee had earlier that day considered a revised organisational resourcing plan, which proposed a complement of 1,829.7. This represented an increase of 17 permanent FTEs on the plan considered in November 2015. Of these additional positions, 16 were identified in the central banking pillar to address emerging requirements in the Legal, Communications, Central Credit Register, Secretariat and Economics functions. One additional role was identified as necessary in the Enforcement Directorate. Based on recruitment trends, it was also projected that the hiring rate for 2016 would be higher than previously thought; this would suggest an end-of-year FTE of 1,695 in 2016, compared to the previously approved number of 1,659. It was noted that further tasks may be developed in the near future, at which point it may be necessary to identify additional resources in certain areas. The Chair of the Budget and Remuneration Committee said that the Committee was recommending that the Commission approve the proposals.

Following discussion, the Commission noted the increase in complement to 1,829.7 and approved a FTE of 1,695 in 2016, and the consequent pay budget implications. While recognising the resourcing requirements, members emphasised the need to ensure an ongoing assessment of effectiveness and efficiency in how the Bank delivered on its mandate.

4. Governor's Report

The Governor introduced this item. He noted the recent monetary policy decisions by the ECB, including a further lowering of rates and an expansion in size and scope of the asset purchase programme. While the baseline view remained that of a modest economic recovery, the downside risks had increased, and inflation was not picking up as quickly as it might.

He noted the recent conclusion of the IMF mission as part of its Financial System Assessment Programme (FSAP). Staff of the Bank had been engaged very deeply in the FSAP work; a more detailed update would be provided at the April 2016 meeting.

The Governor reported that he and the Deputy Governor (Central Banking) had recently met with the Central Statistics Office (CSO) to discuss items of common interest, including the Central Credit Register project.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

Part of this minute is omitted as it contains market sensitive information.

Ms Donnelly introduced this item (Paper No. 77 of 2016). Among the items she highlighted were the Bank's role in monetary policy implementation, including the recently announced 'March package' referenced in the Governor's Report.

The Bank's next Quarterly Bulletin would be published on 1 April 2016, while a roundtable meeting between the Bank and academic and private sector economists was due to be held on 27 April 2016.

The Bank had recently initiated a consultation with the Office of the Data Protection Commissioner (ODPC) concerning the operation of the new Central Credit Register (CCR), following approval of the relevant regulations by the Commission in February 2016. A letter

of feedback from the ODPC was awaited. The final approach to the operation of the CCR may need to be adjusted in the light of feedback received.

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

6. Deputy Governor's Report (Financial Regulation)

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

Mr Roux introduced this item (Paper No. 78 of 2016). Among the items in the Report, he noted the recently announced 2015 year-end results for some Irish banks. AIB and BOI both reported significant increases in profits, with AIB's results significantly improved by provision write backs. PTSB reported an underlying profit, but a significant loss overall once exceptional items were accounted for. AIB's and BOI's results were broadly in line with market expectations. However, there was a negative reaction to PTSB's results due to expectations of higher provision write backs and higher loan growth than were reported.

The Director of Markets Supervision recently chaired three meetings of ESMA's Investment Management Standing Committee to prepare for the ESMA Board of Supervisors meeting. Significant agenda items included draft UCITS V Remuneration Guidelines along with a letter to legislators on outstanding areas of legal uncertainty on UCITS V remuneration.

The Mortgage Credit Directive had been transposed in Ireland. The Bank had provided the Department of Finance with on-going technical assistance throughout its transposition work. The Directive complemented the Bank's existing consumer protection framework.

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

7. Chief Operations Officer's Report

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Mr Quinn introduced this item (Paper No. 79 of 2016). Among the items included in the Report, he updated members on the Organisation Review process, which was complex and operating to challenging timelines, and noted that the Commission would be updated in more detail at the April 2016 meeting.

Mr Quinn also noted that the Comptroller and Auditor General (C&AG) was due to publish a report on Severance Payments in the public sector between 2011 and 2013. The Audit Committee had already been informed of this. A formal procedure on individual discretionary severance payments had been in place since July 2015. The Bank would be issuing its own communication when the C&AG report was published.

He updated the meeting on a number of IT related items and noted that an Information Security report would be brought to the next meeting.

The Commission noted the Chief Operations Officer's Report.

8. Mortgage Arrears

Mr Fitzpatrick presented data in a dashboard format that had been compiled by combining various types of mortgage arrears statistics and analytics that existed across the Bank in various formats. The data was drawn from a number of sources, including residential mortgage arrears and repossessions statistics, loan level mortgage resolution data, and Standard Financial Statements. The Governor noted that utilising the aggregate and granular data effectively provided the basis for various elements of supervisory and analytical work; it also laid the foundations for future work. It was proving very useful in the Bank's direct interaction with industry in the supervisory context. Following discussion, it was agreed that a full demonstration be arranged for members.

The Commission noted the Mortgage Arrears Sandbox.

9. Banking Inquiry Report

The Governor introduced this item. The paper that had circulated (Paper No. 81 of 2016) was intended to introduce the second phase of the Commission's discussion of the Banking Inquiry Report. In the first phase, at the February 2016 meeting, the focus was on the detailed recommendations of the Report; the focus at this meeting was on the wider lessons to be drawn from the Report in relation to the Bank.

Taking first the lessons for the conduct of financial stability policies, the evidence presented to the Banking Inquiry was overwhelming in highlighting the importance of ensuring that the banking system was resilient. This was achieved by a combination of (i) micro-prudential regulation, requiring, *inter alia*, sufficiently high capital ratios, sufficiently adequate liquidity buffers, and proper governance requirements; (ii) pro-active prudential supervision; and (iii) macro prudential regulation in order to mitigate the buildup of systemic risks. This policy menu was fully reflected in the design of the new European regulatory environment. Micro-prudential and macro-prudential regulation had been respectively strengthened and introduced at EU level by the Capital Requirements Regulation (CRR) and Directive (CRD IV). Prudential supervision responsibility for larger banks had been transferred to the ECB under the SSM.

The Bank was now the designated macroprudential policy authority for Ireland. The main macroprudential policy tools were: (a) the mortgage regulations (LTV and LTI limits); (b) the counter-cyclical capital buffer (CCB); and (c) the other systemically important institutions buffer (O-SII). It would be important that the Bank be pro-active in deploying these buffers to limit the pro-cyclical impact of future leverage cycles. In turn, this required that the Bank be vigilant in identifying and monitoring external and domestic risks to financial stability and be prepared to act on risk signals by deploying its available policy instruments.

The Report also highlighted the importance of an orderly recovery and resolution regime for financial institutions. This was now embedded in the recently-introduced Bank Recovery and Resolution Directive (BRRD). The Bank was the national resolution authority, while resolution decisions for the main European banks were the responsibility of the Brussels-based Single Resolution Board (SRB).

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A further policy lesson was that the quality of credit decisions would be improved by the existence of a national credit register. The Bank was charged with the introduction of the Central Credit Register (CCR), which was a primary project for this year.

In terms of guarding against the violation of financial regulations, a robust approach to enforcement was essential. The enforcement function of the Bank had been strengthened in recent times, with a significant current caseload.

The capacity of the Bank to deliver its mandate was being further enhanced through a substantial increase in employment and a series of organisational reforms, including the creation of a separate Policy and Risk Directorate, the professionalisation of corporate services, significant IT investment, significant investment in learning and development, and the construction of a new headquarters building.

In addition to these direct policy implications, the Report also had important messages for the way the Bank operated. In relation to internal organisation, the Bank must foster an open culture in which contrarian views were given a full airing and the quality of decision making was not adversely affected by hierarchical or bureaucratic barriers. A critical task was to ensure that the central banking and financial regulation pillars of the Bank worked together in an effective manner, in view of the dual, intersecting roles of micro-prudential and macro-prudential regulation.

In addition, the Commission had an important role in monitoring and challenging the management and staff of the Bank. The Bank also welcomed Oireachtas scrutiny of its conduct and the quality of its analysis and policy decisions and the Banking Inquiry Report itself was useful and welcome in that context. The Bank must also place a high priority on the effective communication of its operations and policy decisions and be able to demonstrate that it adhered to high-quality processes in the formulation of its policies, while recognising its statutory independence from the Government and the professional secrecy laws which determined the manner in which it could discharge its accountability to the Oireachtas as regards its monetary and supervisory functions.

In the discussion that followed, some members emphasised the importance of continuing to promote an open culture and providing staff with the encouragement to speak up and challenge.

The Commission noted the overview of the Banking Inquiry Report – Follow Up

10. Financial Operations

Part of this minute is omitted as it contains market sensitive information.

Mr McGuire introduced this item. The presentation (Paper No. 82 of 2016) focused on the current and future work and priorities of the Financial Operations Directorate. A significant item for the Directorate in 2015, and continuing into 2016, was the implementation of the non-standard monetary policy measures. This included the expansion of asset purchases which would increase in the following month from approximately €750m per month to €1bn per month.

The work of the Directorate was also focused on a number of other priorities, including managing the Deposit Guarantee Scheme (DGS), and ongoing oversight of the payments and settlements systems, including engagement with the local market to understand the appetite and plans for TARGET2 Securities (T2S). The work of the Financial Operations Directorate had benefitted from the development and implementation of the Local Collateral Management System (LCMS) and the Local Market Operations Platform (LMOP). Both were helping to drive efficiencies while reducing risk.

The Commission noted the Financial Operations Update.

11. Fusion Update

This item had also been considered by the Risk Committee at its meeting on 23 March 2016.

Mr Molumby introduced this item which provided a status update on the Fusion Programme, including the risks and issues facing the programme, progress to date, and recent noteworthy activities in the programme, which were detailed in Paper No. 83 of 2016. While there had been a delay of four weeks with the façade, indications were that this was being contained and good progress was being made with all other aspects of the construction. The costs, as per the overall programme budget indicated in Q1 2015 remained on track. Due to increases in headcount, it would now be necessary to utilise the Spencer Dock premises in the Bank's accommodation plans. The Commission was also updated on the property sales programme.

The Chair of the Risk Committee confirmed that this item was also considered by the Risk Committee at its meeting on 23 March 2016.

In the discussion that followed, some of the issues covered were around security of the premises and procurement.

The Commission noted the Fusion Update.

12. Implementation of ECB Ethics Guidelines

This item had also been considered by the Risk Committee at its meeting on 23 March 2016.

Mr Calverley introduced this item. From 1 June 2016, the Bank was legally bound to comply with ECB Guidelines, which laid down the principles for a harmonised Ethics Framework for the Eurosystem and Single Supervisory Mechanism (SSM). By 1 April 2016, in order to meet its obligations under these Guidelines, the Bank, together with all Eurosystem central banks and national competent authorities, was required to submit to the ECB the approach and associated documentation by means of which it intended to implement and comply with the Guidelines.

The Bank already had a well-established internal conduct framework, which included, *inter alia*, a comprehensive suite of human resources policies, a Commission-approved Code of Ethics and Behaviour, defined ‘Principles’ and ‘Priority Behaviours’ and Employee Trading Rules. In completing the first phase of the project, the implementation approach was defined by assessing the Bank’s existing policies and procedures *vis-à-vis* the stipulations within the Guidelines.

Following confirmation of the adequacy of the Bank’s implementation approach from the ECB, the revised Code of Ethics, Code of Behaviour and associated documentation would be submitted to the Commission for formal approval. Mr Whoriskey said that the Commission Code would also be reviewed to ensure consistency with the Guidelines. It was also noted that the Employee Trading Rules were also being reviewed at this time, again to allow for consistency.

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The Chair of the Risk Committee confirmed that this item was also considered by the Risk Committee at its meeting on 23 March 2016.

In the discussion that followed, one member stressed the importance of ensuring any revised Code was very clear in terms of what was being required of staff; it would be necessary to ensure that it was also legally robust. Other members noted the need to try and ensure that certain requirements being placed on staff, for example around political engagement, were not overly-stringent and that in some cases it may be necessary to make a distinction depending on the role or grade a person held; this would be consistent with broader civil service guidelines.

The Commission approved the proposed approach to implementing the ECB Ethics Guidelines; and noted the draft Code of Ethics which, following further drafting, would be submitted for approval to the meeting in May 2016.

13. Procurement Policy Update

Mr Michael Power introduced this item. The Bank's existing Procurement Policy had been reviewed by management and was revised for conciseness, in order to increase clarity for its readership both internally and externally. The Policy would be published on the Bank's website as part of the Publication Scheme required under the Freedom of Information Act, 2014.

The revised draft Policy had been reviewed by the Bank's Operations Committee. There were no proposed changes to the approval structures, procurement thresholds or the substance of the outgoing policy. It was proposed that the Policy be reviewed annually at a minimum to determine if changes were required. Members suggested some changes to the draft policy. These were around: making more explicit the reference to 'value for money'; clarification of the Exceptional Circumstances (direct awards) section; quantification of 'smaller values' in the context of accepting supplier terms & conditions; and clarification of the reporting frequency of compliance assessment. It was agreed that these amendments would be made and a revised draft of the policy would be submitted for approval by written procedure.

The Commission noted the proposed Procurement Policy and agreed to consider a revised version by written procedure.

14. Annual Performance Statement

Mr Roux introduced this item. The accompanying paper (Paper No. 84 of 2016) presented the current draft of the Annual Performance Statement of the Central Bank 2015-2016 (APS) and set out the approach that was taken to amending the format and the manner in which the content was presented, as a result of the exercise of powers by the Minister for Finance under the Central Bank Act. The amendments that were the subject of the direction by the Minister had been incorporated into the APS.

The Commission approved the publication of the Annual Performance Statement, subject to editorial changes that were delegated to the Deputy Governor (Financial Regulation).

15. Lending to Small and Medium Sized Enterprises Regulations 2015

Following a review of the Code of Conduct for Business Lending to Small and Medium Enterprises (the SME Code) in 2014/2015, the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015 were made on 17 December 2015. Since the Regulations were made, the Consumer Protection Directorate had identified three technical amendments that were required to the published text of the Regulations in order to make the published text fully consistent with the policy intention of the Regulations.

The Commission approved the Amendment Regulations, as contained in Paper No. 85 of 2016, to be issued under Section 48 of the Central Bank (Supervision and Enforcement) Act 2013, subject to relevant consultations; and, delegated to the Deputy Governor (Financial Regulation) the authority to make the Amendment Regulations for and on behalf of the Bank.

16. Corporate Safety Statement

Mr McMunn introduced this item (Paper No. 86 of 2016), which included both the annual report on Environmental Health and Safety (EHS) Performance and an updated Corporate Safety Statement. The annual report detailed all EHS performance related achievements including: the inclusion of EHS and accessibility principles in the physical design and the systems of work in the new building at North Wall Quay; the commencement of work to develop the Bank's integrated management systems for Spencer Dock to external certification standards; and reducing the Bank's overall energy usage by 1.54% notwithstanding an increase in headcount. The EHS team was able to influence compliance levels effectively, driving the average divisional compliance score to 95.4% in December 2015. The changes made to the 2016 Corporate Safety Statement related to the inclusion of a strategic EHS Manager role and other post holders. It was noted that consideration would be given to publishing the report.

One member requested that future reports also highlight the importance of wellness and that some consideration be given to promoting this aspect of EHS in the Bank. It was recognised the issue was covered in the report but could be given some more prominence in future.

The Commission noted the Annual Report on Environmental, Health and Safety performance; and approved the revised Central Bank Corporate Safety Statement, both of which were contained in Paper No. 86 of 2016.

17. Annual Statement of System of Internal Financial Controls – Credit Institutions Resolution Fund (CIRF)

This item had also been considered by the Audit Committee at its meeting on 27 January 2016.

The Commission noted the current system of internal control that the Special Resolution Unit had in place in relation to the operation of the CIRF; and, agreed the draft Statement on Internal Financial Control for the Credit Institutions Resolution

Fund as set out in Paper No. 87 of 2016, for inclusion in the forthcoming Annual Statement of Accounts of the CIRF.

18. Resolution Update

Mr Coyle and Mr Casey introduced this item. An error in the calculation in respect of the 2015 contribution period for the Bank and Investment Firm Resolution Fund was discovered in February 2016. While the error was such that it had no impact on the total amount raised by the Bank for the 2015 contribution period; it did affect the levy amounts to be raised from individual institutions, with certain institutions over-paying and other institutions under-paying. Steps had been taken to rectify this issue and give assurance on the probity of the revised 2015 calculation, including an independent third party review. Individual institutions would be advised of this matter and instances of over or under payment would be addressed in the context of the 2016 levy process, an approach approved by the Single Resolution Board. A letter would be issued to each institution, together with an invoice, to explain the adjustments related to the 2015 levies through the 2016 levy process.

It was acknowledged that the error should have been identified in advance of the invoices for the 2015 contribution period being issued and, although the total industry contribution was correct, it was regrettable that certain institutions were under-charged and other institutions were over-charged for the 2015 period. A series of lessons learned had been set out to help ensure avoidance of such an issue arising in future calculations.

The Commission noted the Resolution Update.

19. Industry Funding Levy

Mr Fergal Power introduced this item. The Industry Funding Levy required revision in the light of comments received from the industry in 2015, the introduction of the Single Supervisory Mechanism (SSM), and changes in the population of branches authorised in Ireland.

Changes in the method of apportionment of levies among retail intermediaries could be made by the Bank following a public consultation. A move towards 100 per cent funding, which was raised in a Joint Public Consultation Paper with the Department of Finance in 2015, would require a decision by the Minister for Finance. This had an impact on the decisions to be made on the apportionment of levies among regulated entities within sectors. Changes in the PRISM methodology were under consideration in order to recognise that branches of foreign entities may have varying degrees of impact.

The Commission noted an upcoming consultation on the apportionment of the retail intermediary levy; and, the direction of work as regards levies.

20. Minutes of Sub Committee Meetings

The Commission noted the minutes of the meetings of the Joint Audit and Risk Committees of 27 January 2016; of the Risk Committee of 27 January 2016; and of the Budget and Remuneration Committee of 24 February 2016.

21. Any Other Business

There was no other business.

The meeting concluded.

Governor

28 April 2016