

**MINUTES<sup>1</sup> OF MEETING NO. 66 OF  
THE CENTRAL BANK COMMISSION  
OF 25 FEBRUARY 2016**

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

**Also present<sup>2</sup>:** Sharon Donnery (Deputy Governor designate), Eadaoin Rock (General Counsel), Gerry Quinn (Chief Operations Officer – Items 1-4, 7-12, 14-19), Bernard Sheridan (Director Consumer Protection – Item 6), Colm Kincaid, (Head of Consumer Protection, Policy & Authorisations Division – Item 6), Helena Mitchell, (Head of Consumer Protection, Supervision Division – Item 6), Derville Rowland (Director Enforcement – Item 7); Nodhlag Cadden (Deputy Head of Internal Audit Division – Item 7), Stephen Giffney (Central Credit Register – Item 8), Joe Foy (Head of Internal Audit Division – Item 9), Fergal Power (Head of Financial Control Division – Item 10), Brendan Sheridan (Deputy Head of Financial Control Division – Item 10), Helen Twomey (Financial Control Division – Item 10), Bernie Keppel (Deputy Head of General Secretariat Division – Item 11), Paul Molumby (Director Currency and Facilities Management – Item 17).

## **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.

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<sup>2</sup> 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 28 January 2016**

The minutes of the meeting of 28 January 2016 (Meeting No. 65) were agreed subject to two minor changes that were proposed and accepted.

## **3. Matters Arising**

The Commission noted it had approved, by written procedure on 9 February 2016, the conditions applying to the appointment of Sharon Donnery as Deputy Governor.

One member noted that, while the next broad discussion on Insurance Supervision was due to take place in June 2016, there were some related items that could be discussed in the shorter term and that these would be submitted in advance for consideration at the next meeting. This was agreed.

The Chair of the Budget and Remuneration Committee noted that it had been agreed at the November 2015 Commission meeting that management would return to the Commission in quarter one of this year in relation to resourcing out to end-2018. The Governor suggested that this could be considered in the first instance by the Budget and Remuneration Committee. This was agreed.

The Commission noted the follow-up items from the previous meetings; there were no further matters arising.

## **4. Governor's Report**

The Governor introduced this item.

### ***International Meetings***

At the EU and international levels, growth forecasts would likely be revised downwards. There was less optimism than in the previous quarter and this was creating uncertainty with consequent impacts on investments and growth.

### ***Appointments to the Commission***

The Governor noted that the Public Appointments Service (PAS) was due to shortly launch a process around filling the two vacancies on the Commission. While the Commission was operating within its statutory composition, the legislation allowed for two further appointments and this would now be progressed via the PAS process. The appointments were a matter for the Minister for Finance, who would be advised by the PAS.

### ***Seminars***

The Governor confirmed the Brexit Seminar for Commission members would take place on 27 April 2016; the external speaker would be Dan O'Brien of the Institute of International and European Affairs (IIEA). The seminar on Evaluation of Macro Prudential Measures was scheduled for 29 June 2016; the external speaker would be Carmelo Salleo of the ECB.

### ***Agreement on Net Financial Assets***

The Governor requested Ms Donnery to update the Commission on the publication in early February 2016 by the ECB of the Agreement on Net Financial Assets (ANFA). This agreement limited the size of national central bank (NCB) balance sheets. The ECB published an explanation alongside the agreement and a set of questions and answers. The Bank also published its own set of questions and answers.

### ***Resolution Fund***

Ms Donnery also updated the Commission on the Resolution Fund levy and noted a paper would be provided for the March 2016 meeting.

### ***Governor's Engagements***

The Governor noted that he had met with EU Ambassadors on 27 January 2016.

### ***€500 Banknote***

The Governor updated the Commission on discussions at ECB level concerning the issuance of €500 banknotes.

**The Commission noted the Governor's Report.**

## 5. Supervisory Update

Mr Roux introduced this item (Paper No. 45 of 2016).

### *Stress Tests*

The European Banking Authority (EBA) had launched the European wide stress tests, for a sample of the 53 larger banks, including AIB and Bank of Ireland, with results being published in August 2016. The remaining SSM banks, including PTSB, would have their stress testing frameworks and results considered as part of the annual Supervisory Review and Evaluation Process (SREP).

### *Financial Sector Assessment Programme*

The final mission of the IMF Financial Sector Assessment Programme (FSAP) would take place from 2 – 16 March 2016. Preparation for the final mission was underway in divisions across the Bank including preparing presentations/inputs required for meetings and identifying and collating evidence of practice to be provided to the IMF from the insurance, banking, securities, credit union and crisis management areas. These preparations also involved co-ordination with the Department of Finance and ECB for relevant meetings.

### *Legislation*

The Insurance Distribution Directive had just been introduced; it would require transposition into Irish law within 24 months.

The UCITS (Undertakings for Collective Investment in Transferable Securities) V Directive was due to be transposed into Irish law by 18 March 2016. The focus of the reforms contained in the Directive was primarily on clarifying the role, eligibility, responsibility and liability of depositories with the aim of increasing investor protection. Markets Directorate had been engaging with the Irish funds industry since May 2015 concerning the operational arrangements regarding the UCITS V implementation. A number of regulations would come before the Commission for approval in relation to this.

There was a delay at European level in finalising the MiFID (Markets in Financial Instruments Directive) II; this was now due in January 2017.

While the Bank issued Investor Money Regulations in March 2015, extensive engagement with industry was still being undertaken with regard to the implementation of the requirements; as industry was not yet fully ready, it was decided to delay implementation until 1 July of this year.

### ***Credit Union Regulations***

The credit union regulations commenced on 1 January 2016 and included a provision that a credit union needs to apply to the Bank for approval to: retain individual members' savings in excess of €100,000 which were held at commencement of the regulations; and/or increase individual members' savings in excess of €100,000, where the credit union has total assets of at least €100m. Since commencement of the regulations the Registry of Credit Unions (RCU) had been working on the development of the application forms which would facilitate credit unions in seeking such approvals.

A member questioned the criteria being used for such assessments and whether it was limited to the financial position of the credit union or if other factors, such as corporate governance practices, would be considered. Mr Roux said the financial hurdles were a minimum requirement and other factors would be considered.

### ***Funding Levy***

The Bank was due to undertake a full review of the funding levy process, including how fees were levied and on moving to 100 per cent funding. A consultation process would be undertaken to inform this. The Governor noted that for banks the process should be straightforward and in line with European norms, but it was more complex for other sectors. One member said that it would be important to try and ensure some future proofing in order to deal with potential future changes in the regulatory landscape.

### **The Commission noted the Supervisory Update.**

## **6. Consumer Protection**

Mr Sheridan, Mr Kincaid and Ms Mitchell presented this item. The presentation updated the Commission on the delivery of the Bank's consumer protection mandate. The Strategic Plan

had set out three broad aims in this regard: working to develop a positive consumer focused culture within firms; ensuring the consumer protection framework remained fit for purpose; and supervising firms to ensure they were meeting the necessary standards and treating their customers fairly. In order to deliver this, the Consumer Protection Directorate had a wide range of responsibilities across various functional areas: gatekeeper, policy, research and supervision. Over the past year there were various enhancements to the consumer protection framework, delivered through both domestic and European policy engagement, the latter via the European Supervisory Authority consumer protection committees. Other key work over the year included the enactment of the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015; the introduction of new consumer protection rules for debt management firms; various risk and thematic based reviews, and inspections and regulatory actions, resulting in significant redress for consumers; and a number of enhancements to the structure of the Directorate, including the introduction of centralised gatekeeper and supervisory functions.

The main areas of focus for the coming year were set out in the recently published Consumer Protection Outlook Report.

A number of risks and challenges were also highlighted, including the need to continue to drive a consumer-focused culture among firms; being clear on the mandate of the Bank in the consumer space; the impact on consumers of the changing way in which financial services were delivered; and the need to continue to maintain a strong consumer protection framework in the wider EU and international environment.

In the discussion that followed, a number of members identified the issue of culture within the industry and enquired as to what evidence was emerging that firms were taking their consumer responsibilities more seriously. Other members referenced the need to continue to pay particular attention to mortgages and related impacts on many consumers, in particular around arrears, pricing, and lack of competition.

Mr Sheridan said that culture was a very significant issue and one that required long-term focus. The Consumer Directorate was engaging directly with boards and identifying the need for them to own the consumer agenda and see it as an integral part of their business model. It would take some time to embed this, however there was evidence emerging in some sectors that this was improving. On product oversight and governance, there were a number of initiatives emerging at a European level that the Bank was feeding into; domestically, in the

coming year the Bank intended to examine firms to ensure they were responding appropriately to the guidelines issued in 2014 on variable remuneration arrangements for sales staff. Among the key themes identified for 2016 was a review of investment products focusing on the sale of structured products to retail consumers. The sale of private health insurance was also a priority area.

The Governor noted that a lot of work was going in to mortgages and related matters and that the Commission would be returning to this at various points throughout the year, including the review of the macro-prudential measures.

**The Commission noted the Consumer Protection Update.**

## **7. Banking Inquiry Report**

Ms Rowland introduced this item. She provided an overview of the work undertaken to meet the requirements of the Direction imposed on the Bank by the Joint Committee of Inquiry into the Banking Crisis. A summary of the staff response to some of the recommendations detailed in the Report was also provided (Paper No. 47 of 2016). Drafts of letters due to issue to the Department of Finance and the ECB were also presented.

In the discussion that followed, a number of Members noted that the staff response was technical in nature and, while this satisfied the particular purpose, the need for a separate and broader overview of issues arising from the Banking Inquiry and previous related reports on the crisis would be useful. Some amendments to the draft letters were also suggested. The Governor said that the Commission would return to this at its next meeting.

**The Commission noted the overview of the Banking Inquiry Report.**

## **8. Central Credit Register - Regulations**

Mr Giffney introduced this item. Draft Central Credit Register (CCR) regulations had been prepared and were presented for consideration (Paper No. 49 of 2016).

The Department of Finance and the Office of the Data Protection Commissioner (ODPC) had provided views on the draft regulations. No changes arose directly from this feedback. However, points raised by the ODPC would be addressed in guidance and technical specifications to be published by the Bank.

Work was still in progress on regulations to set levies and fees for access to CCR data. It was anticipated that these regulations would not be made until later, when final costs and expected transaction volumes are better understood. Once approved, the regulations would be sent to the Data Protection Commissioner for formal consultation and to the Minister for Finance for consent, with a view to making the regulations by 31 March 2016.

One member noted a previous request concerning engagement with the Central Statistics Office (CSO) and stressed the importance of this in terms of the potential access by the CSO, for research and statistical purposes, to some of the data the Bank would now be gathering, bearing in mind data protection and other relevant considerations. Mr Giffney said that finalisation of the regulations would not interfere with such engagement and it was agreed it should proceed in parallel. It was also agreed to further discuss the CCR at the Commission meeting in May 2016.

**The Commission approved the draft CCR regulations as a basis for initiation of formal consultation with the Data Protection Commissioner and seeking the consent of the Minister for Finance; and, delegated authority to the Governor to sign the final regulations on behalf of the Commission and to approve any final changes to the Regulations.**



## **9. Annual Statement on System of Internal Control**

*This item had also been considered by the Audit Committee at its meeting on 24 February 2016.*

Mr Foy introduced this item. The Commission was required to review the system of internal financial control on an annual basis. In line with best practice and to facilitate adherence to the requirements of the Code of Practice for the Governance of State Bodies, the Annual Statement of Accounts would include a Statement on Internal Financial Control (Paper No. 50 of 2016).

The Chair of the Audit Committee confirmed that this item was also considered by the Committee at its meeting on 24 February 2016 and the Committee had suggested some minor changes to it.

**The Commission noted the current system of internal financial control that the Bank had in place, along with the Assessment of the Bank's Application of the Code of Practice for the Governance of State Bodies, and the Analysis of Open Audit Issues as at 31 December 2015; and approved the draft Statement on Internal Financial Control for inclusion in the forthcoming Annual Statement of Accounts.**

## **10. Provisional Statement of Accounts**

*This item had also been considered by the Audit Committee at its meeting on 24 February 2016.*

Mr Power introduced this item. While provisional accounts had previously been circulated (Paper No. 51 of 2016), an advanced draft Statement of Accounts was tabled at this meeting (Paper No. 64 of 2016). The draft Statement of Accounts for the year ended 31 December 2015 was considered by the Audit Committee at its meeting on 24 February 2016, which was attended by representatives from both external auditors – the Office of the Comptroller and Auditor General (C&AG) and Grant Thornton. On approval by the Commission and formal certification by both external auditors, the Statement of Accounts would be published in the Annual Report for 2015.

Some items were being finalised with the auditors and, once those were complete in the coming days, an updated set of accounts would be provided to the Commission for approval, by written procedure. It was proposed that any further changes, that would be minor in nature, could be approved by the Governor, and sent to the Chair of the Audit Committee. This was agreed.

The Chair of the Audit Committee confirmed that this item was also considered by the Audit Committee at its meeting on 24 February 2016.

**The Commission noted the draft Statement of Accounts and agreed to approve the final Statement of Accounts by written procedure.**

## **11. Balanced Scorecard – Review of 2015**

*This item had also been considered by the Budget and Remuneration Committee at its meeting on 24 February 2016.*

Ms Keppel introduced this item (Paper No. 52 of 2016). The Organisational Balanced Scorecard (BSC) for 2015 was approved by the Commission at its meeting on 12 December 2014. It comprised 22 specific objectives that were linked to the eight High Level Goals identified in the Bank's 2013-2015 Strategic Plan. The BSC was reviewed at mid-year in June 2015 by the Budget and Remuneration Committee.

The year-end process involved the directors providing their own assessment of targets achieved against the BSC objectives. This was reviewed by the Governor's Committee and subsequently by the Budget and Remuneration Committee. Based on the assessment of the Governor's Committee, the Budget and Remuneration Committee recommended an achievement rate of 87%. Consequently, as the Organisational BSC was directly linked to the Bank's Performance Management Development Process, merit leave would be due to staff whose performance during the year met or was above expectations.

The Chair of the Budget and Remuneration Committee confirmed that this item was also considered by the Committee at its meeting on 24 February 2016.

**The Commission noted the outcome of the 2015 Organisational Balanced Scorecard and the assessment by the Governor's Committee of an overall score of 87%; and, approved the outcome of the 2015 Organisational Balanced Scorecard, and the consequent award of merit leave to staff whose performance during the year met, or was above, expectations.**

## **12. Annual Report 2015**

The structure and draft content of the Bank's Annual Report 2015 was presented (Paper No. 53 of 2016). Pending finalisation of the accounts process and final editing of the text, it was planned to publish the Bank's Annual Report in April 2016. One member proposed some additional text for inclusion; this was agreed.

**The Commission noted the structure and draft contents of the 2015 Annual Report; and delegated approval of any final changes to the 2015 Annual Report to management.**

## **13. Consumer Advisory Group – Update on Activities 2015**

Mr Sheridan introduced this item (Paper No. 54 of 2016). He noted the work of the Consumer Advisory Group (CAG) and that the Consumer Protection Directorate continued to be very satisfied with the ongoing engagement of the CAG. It had provided valuable opinions and input on various matters throughout the year and the CAG's feedback on many items had been incorporated into decisions taken by the Directorate in relation to development of policy and overall strategy. One member asked what issues were of most concern to the CAG. Mr Sheridan said that the CAG had previously raised the need to ensure the right balance between the consumer protection and prudential supervision mandates within the wider strategy of the Bank. He advised that the engagement with the CAG included input from the economic and prudential directorates and the focus was now more on specific consumer issues and also on how best to deploy the consumer related resources available to the Bank.

**The Commission noted the activities of the Consumer Advisory Group in 2015.**

#### **14. Budget Outturn 2015**

*This item had also been considered by the Budget and Remuneration Committee at its meeting on 24 February 2016.*

**The Commission noted the Budget Outturn 2015 (Paper No. 55 of 2016).**

#### **15. Review of Investment Performance 2015**

**The Commission noted the Review of Investment Performance 2015 (Paper No. 56 of 2016).**

#### **16. Central Bank Superannuation Fund Report 2015**

**The Commission noted the Central Bank Superannuation Fund Report 2015 (Paper No. 57 of 2016).**

#### **17. Annual Report on Security**

**The Commission noted the Annual Report on Security (Paper No. 58 of 2016).**

#### **18. Minutes of Sub Committee Meetings**

**The Commission noted the minutes of the meetings of the Budget and Remuneration Committee of 29 October 2015, 19 November 2015 and 28 January 2016; and of the Audit Committee of 27 January 2015.**

## **19. Any Other Business**

The Chair of the Audit Committee informed the Commission of an investigation that was currently being undertaken by Internal Audit.

**The meeting concluded.**

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Governor

24 March 2016