

SECRET

**MINUTES<sup>1</sup> OF MEETING NO. 71 OF  
THE CENTRAL BANK COMMISSION  
OF 26 JULY 2016**

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

**Apologies:** Sharon Donnery, Derek Moran

**Also present<sup>2</sup>:** Eadaoin Rock (General Counsel), Gerry Quinn (Chief Operations Officer – Items 7-8, 10, 12-15, 17-20), Paul Molumby (Director, Currency and Facilities Management – Item 8), John Coyle, (Director, Resolution and Corporate Affairs – Item 9), Patrick Casey (Head of Resolution – Item 9), Fergal Power (Head of Financial Control Division – Item 10), Karen O’Leary (Financial Control Division – Item 10), Andrew Whitty (Legal Division – Item 11), Deirdre Byrne (Legal Division – Item 11), Ed Sibley (Director, Credit Institutions Supervision – Item 16), Adrian Varley (Head of Banking Supervision Analysis Division – Item 16).

**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.

**2. Minutes of Meeting of 30 June 2016**

The minutes of the meeting of 30 June 2016 (Meeting No. 70) were agreed.

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<sup>1</sup> 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.

<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.

### **3. Matters Arising**

The action items from the April 2016 meeting were noted.

Mr Whoriskey confirmed that the Delegation of Powers for Market Abuse Regulations (Paper No. 158 of 2016) had been agreed by written procedure on 18 July 2016. On the suggestion of one member, it was agreed to review the process for written procedures. It was also agreed that the wider issue of delegations be discussed at a future meeting.

In relation to the Consumer Protection Code, which was agreed at the June 2016 meeting (Paper No. 154 of 2016), it was noted that some minor changes that had been suggested at the meeting had been incorporated and the updated Code was published on 21 July 2016.

Mr Whoriskey noted, in relation to the FOI discussion at the last meeting, that the Bank had decided not to appeal the decision of the Office of the Information Commissioner (OIC). A fresh decision was currently being made; members would, for their information, be issued with the final records that would be released. The Commission agreed that the records (minutes of Commission meetings from January 2014 to April 2015) also be published.

The other action items were noted.

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

The Governor introduced this item. He noted that the ECB had, at its recent meeting, decided not to alter the current policy stance.

The Bank would publish its next Quarterly Bulletin on 27 July 2016. This includes some growth forecast adjustments arising from the outcome of the Brexit referendum. The Governor would discuss this and other issues when he addressed the Institute of International and European Affairs (IIEA) on 2 August 2016. Other forthcoming external engagements included a visit to the UK in the coming week to meet with the Bank of England and the Irish Ambassador. The Governor would also be visiting the United States in September 2016.

The Governor noted the decision to establish a Macroprudential Measures Committee (MMC) in the Bank. The Committee would advise on the regular reviews of national macroprudential measures and make recommendations about any revisions to the relevant rules. It was envisaged that a record of meetings of the MMC would be published.

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

**5. Deputy Governor's Report (Central Banking)**

As the Deputy Governor was unable to attend this meeting, the Governor introduced this item. He noted the report (Paper No. 168 of 2016) contained an update on the Central Credit Register project, in particular in relation to discussions with the Office of the Data Protection Commissioner. Mr Whoriskey drew members' attention to the reference in the report to plans for the Bank to publish, as part of its FOI Publication Scheme, additional information relating to procurement. This would include details of payments made by the Bank to suppliers in excess of €20,000 in the previous quarter and all new contracts entered into.

**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. 169 of 2016). He noted that European Banking Authority (EBA) stress tests were due to be published on 29 July 2016. Output from this exercise would inform draft capital guidance levels for the Significant Institutions as part of the 2016 SSM capital setting process (SREP). He also updated members on preparations that were ongoing at a European level in relation to the forthcoming Basel Committee on Banking Supervision (BCBS) meetings in September 2016.

Mr Roux noted that the IMF was due to publish the Financial Sector Assessment Program Report (FSAP) for Ireland on 28 July 2016. The report would contain approximately 20 recommendations, but in general would be broadly positive concerning the role and activities of the Bank. The Governor noted the IMF would also publish its annual Article IV report on Ireland this week.

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

**7. Chief Operations Officer's Report**

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*Parts of this minute are omitted as they contain industrial relations-related information; and information concerning matters under deliberation.*

Mr Quinn introduced this item (Paper No. 170 of 2016). He updated members on a number of issues. He noted that in relation to the Organisation Review, the top down cross organisational review of the 'To Be' structures was complete. Heads and Deputy Heads of Division had been advised of their roles in the new structures and local transition planning was now underway in advance of communicating the new structures to all staff in September 2016. A Head of Division/Deputy Head of Division forum was in place to support the implementation process and surface and address issues and concerns. Engagement with staff representatives is ongoing. He noted the reward element of the programme was the subject of a Commission seminar on 25 July 2016.

He noted that an update on the Fusion programme would be provided under a separate item at this meeting.

### **The Commission noted the Chief Operations Officer's Report.**

## **8. Fusion Update**

*Parts of this minute are omitted as they contain commercial information.*

Mr Molumby introduced this item (Paper No. 171 of 2016). He reported that construction was progressing to plan and, while it remained on schedule for substantial completion at end November 2016, this was a challenging timeframe and not without risk; among the actions being taken to mitigate the risks there is zero tolerance for non-essential change requests.

A significant challenge for the programme is the alignment of the IT work-stream with construction activity for the new building, as some aspects of IT design were completed later than expected. There is a risk that the budget for the IT work-stream may overrun, however the current indications are that the overrun of budget can be accommodated within the overall Fusion investment envelope.

As previously noted to the Commission, the scope of the Programme had now been formally expanded to include the relocation of some functions to Spencer Dock. The approach to the accommodation of Spencer Dock premises is to retain the existing layout, fittings and fabric

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and in this way to minimise any impact on the Programme schedule for North Wall Quay (NWQ). The primary change to Spencer Dock is the provision of some of the elements of the new technology platform as provided at NWQ. When the Fusion Programme is complete, the accommodation and facilities in Spencer Dock would be reviewed to determine the appropriate investment. The inclusion of Spencer Dock in project plans on this basis gives rise to an additional cost for the Programme; however this is expected to be accommodated within the overall approved investment envelope. Other cost risks included the public art piece for the north east corner as required in compliance with planning obligations, and the set-up costs for the first year's events in the Exhibition Centre.

The Programme would be subject to an internal audit review in the coming months.

The formal [Dame Street properties'] sales process is planned to commence in early September 2016 and the 'Data Room' was expected to be open to prospective bidders for a period of 6-8 weeks.

A travel survey had recently been conducted among staff. Almost 90% of staff members used sustainable transport, which was viewed as very encouraging. As part of the travel Action Plan a car park permit allocation policy will be developed, and a process for dealing with those staff with existing car parking permits is underway, and would be finalised over the coming period. It was agreed to circulate the travel action plan to members.

The members commended the programme on the progress to date.

**The Commission noted the Fusion Update.**

## 9. Resolution

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

Mr Coyle introduced the item (Paper No. 172 of 2016). The Single Resolution Mechanism (SRM) constituted the second pillar of Banking Union. Flowing from the Bank Recovery and Resolution Directive (BRRD) last year, the Bank assumed a new responsibility as Ireland's National Resolution Authority (NRA). Reflecting the importance of this new mandate, within the 2016-2018 Strategic Plan, Recovery and Resolution is identified as one of the Bank's eight strategic responsibilities. He set out the organisation of resources to discharge these

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responsibilities which were in line with the specific requirement under BRRD for strict separation between resolution and supervisory and other central banking responsibilities.

Mr Casey noted that the Single Resolution Board (SRB), which was the EU centralised body charged with resolution planning and decisions relating to 143 significant and cross-border banks within the Euro Area, supported by the NRAs including the Bank, had assumed its full resolution powers on 1 January of this year. In addition to a pre-existing domestic fund – the Credit Institutions Resolution Fund - two new resolution funds had been established as part of Banking Union, a new national BRRD fund and the Single Resolution Fund. He then set out the resolution planning process which involves the preparation of resolution plans by resolution authorities on an ex-ante basis for individual firms based upon the preferred resolution strategy in each case.

Mr Casey concluded by setting out some key challenges in the sphere of resolution. As resolution is a new and complex approach to deal with firm failure, it would take time to be fully implemented and embedded domestically (which is also the case across all other EU Member States), and the framework itself is still evolving at EU level. The Bank needs to recruit and retain staff with specific key skillsets which, like other areas in the Bank, remains a key risk for the Resolution Division (bearing in mind the dearth of experienced BRRD practitioners in the market as it is a new area). The SRB is still in start-up mode with plans to double its staff headcount by end-2017.

One member asked how the Resolution Division would be staffed up in the event of a resolution event. Mr Coyle said it would draft in staff from elsewhere in the Bank, while there was also a pool of resolution staff being hired by the SRB, from whom the Bank could seek support during a resolution event if necessary. Mr Roux noted the experience built up internally from a number of prior resolution actions undertaken within the credit union sector. The same member asked about the involvement of banks in the resolution planning process. Mr Casey explained that whilst a lot of information is sought from banks for planning purposes, unlike the US approach, resolution plans are prepared by the authorities as against the firms themselves.

Finally, a member asked what was the Single Supervisory Mechanism (SSM) input to the process. Mr Casey explained supervisory authorities are responsible for monitoring bank recovery plans under BRRD (with input from resolution authorities) and that they are engaged in the resolution planning process through annual resolution colleges. At EU level, Mr Roux

noted the close cooperation between the Supervisory Board of the SSM and the SRB; the rules of SSM provided that when looking at banks in difficulty the SRB was invited to meetings of the Supervisory Board; and also under the SRM, the SSM attends board meetings of the SRB in Plenary Session as an observer.

**The Commission noted the Resolution Update.**

#### **10. Industry Funding Regulations 2016**

*This minute is omitted as it contains information concerning matters under deliberation.*

#### **11. Delegation of Regulatory Powers Pursuant to the European Union (Consumer Mortgage Credit Agreement) Regulations 2016**

**The Commission approved the delegations as set out in Paper No. 174 of 2016.**

#### **12. Budget Outturn to 30 June 2016**

This item had been considered by the Budget and Remuneration Committee at its meeting on 25 July 2016.

**The Commission noted the Budget Outturn to 30 June 2016 (Paper No. 175 of 2016).**

#### **13. Statement of Accounts to 30 June 2016**

This item had been considered by the Audit Committee at its meeting on 25 July 2016.

**The Commission noted the Statement of Accounts to 30 June 2016 (Paper No. 176 of 2016).**

#### **14. Update on the Risk Exposures of the Central Bank Balance Sheet**

This paper had also been provided to the members of the Risk Committee.

**The Commission noted the Update on the Risk Exposures of the Central Bank Balance Sheet (Paper No. 177 of 2016).**

#### **15. Superannuation Fund Performance Report to 30 June 2016**

**The Commission noted the Superannuation Fund Performance Report to 30 June 2016 (Paper No. 178 of 2016).**

#### **16. Bank Stress Test Exercise**

Mr Varley introduced this item (Paper No 179 of 2016). Two stress testing exercises – one by the IMF as part of the Financial Sector Assessment Program (FSAP), and another by the European Banking Authority (EBA) – had been conducted on Irish banks with a reference date of end December 2015, both of which were due to be published at the end of July 2016. The results of the exercises would be a key input into the Single Supervisory Mechanism's (SSM's) determination of Capital Guidance as part of the annual Supervisory Review and Evaluation Process (SREP). Capital Guidance was a new measure being introduced by the European Banking Authority (EBA) this year and adopted by the SSM, and was essentially a bank specific capital buffer capturing forwarding looking risks. While the Irish banks were currently capital generating, the continued need to repair balance sheets was evidenced in the Stress Tests that confirmed the supervisory view that they remain vulnerable to a significant economic downturn. In addition to credit losses, the stress tests also quantified the impacts of stressed funding costs, Capital Requirement Directive IV (CRD IV) capital transitions and sensitivity to sovereign bond holdings.

AIB and Bank of Ireland were the only Irish banks included in the EBA sample since it was focused on the larger institutions. In contrast, the FSAP considered all five retail banks and also a number of the IFSC banks. Furthermore, the FSAP covered a wider risk and vulnerability assessment including a liquidity stress test. As with all stress tests, the purpose was not to be predictive, instead, they were used to assess a firm's capacity to withstand severe but plausible events. The FSAP scenarios included a simultaneous downturn in the Irish and UK economies coupled with a significant widening of Irish sovereign spreads. The EBA



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scenarios included a more severe assumption on unemployment but less severe on property prices and sovereign bond yields.

Vulnerabilities clearly still existed due to legacy issues including continued workout of non-performing loans (NPLs). Other factors included exposure to sovereign debt and lack of diversified income. These stress tests were used to inform the regular supervisory review process. Banking Supervision agreed with the recommendations of the IMF that the banks and supervisors needed to stay vigilant and utilise forward looking analysis, such as stress testing, on a continual basis.

In response to a query from a member, Mr Sibley noted that NPLs continued to be high on the supervisory agenda for the Bank and noted that progress was being made, albeit at a slow pace. The Governor noted that Ms Donnery was chairing the NPL working group at ECB level; this group was due to publish a report in August 2016 which would include lessons learned in the Irish context.

One member asked if Brexit had featured in any of the scenarios. Mr Varley said that while Brexit in itself was not referenced, the FSAP stress test did include a simultaneous shock to both the UK and Irish economies. Another member queried whether an inflation shock which might require an interest rate response was included. Mr Sibley said that interest rate changes were factored in, and Ireland would remain particularly vulnerable to an interest rate shock.

It was suggested that a background paper on lessons learned from the stress test exercises would be useful; Mr Sibley said that this would be considered.

**The Commission noted the update on Bank Stress Test Exercises.**

### **17. 2015 Credit Institutions Resolution Fund Statement of Accounts**

**The Commission noted the 2015 Credit Institutions Resolution Fund Statement of Accounts (Paper No. 180 of 2016).**

### **18. Financial Risk Information Pack**

This paper had also been provided to the members of the Risk Committee.

**The Commission noted the Financial Risk Information Pack (Paper No. 162 of 2016).**

**19. Minutes of Meetings of Sub Committees**

The Commission noted the minutes of the meetings of the Audit Committee of 26 May 2016, and of the Budget and Remuneration Committee of 24 March 2016.

**20. Any Other Business**

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

Mr Whoriskey noted that the Budget and Remuneration Committee had considered the Balanced Scorecard half yearly report and had agreed that the paper circulate to all Commission members for information. It was also agreed that a presentation by Professor Niamh Moloney recently provided at a seminar on Enforcement be circulated to all members.

**The meeting concluded.**

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Governor

15 September 2016