SECRET

MINUTES[1] OF MEETING NO. 68 OF THE CENTRAL BANK COMMISSION OF 28 APRIL 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 present[2]: Eadaoin Rock (General Counsel), Gerry Quinn (Chief Operations Officer – Items 1-5, 7-8, 10, 12-13, 15-19), Gabriel Fagan (Chief Economist – Item 8), John Flynn (Head of Irish Economic Analysis Division – Item 8), Mark Cassidy (Head of Financial Stability Division – Item 8), Joe McNeill (Head of Statistics Division – Item 8), Gerard O'Reilly (Head of Research Division – Item 8), Luca Onorante (Acting Head of Monetary Policy Division – Item 8), Gareth Murphy (Director, Markets Supervision – Item 9), Grainne McEvoy (Head of Securities and Markets Supervision Division – Item 9), Michael Hodson (Head of Investment Funds and Funds Services Division – Item 9), Liz Joyce (Human Resources Director – Item 10), Derval McDonagh (Head of Human Resources Division – Item 10), Jennifer Blake (Organisation Review – Item 10), Daniel Lawlor (Markets Policy Division – Item 11), Alan Briscoe (Head of Regulatory Transactions Division – Item 12), Andrew Whitty (Legal Division – Item 13), Stephen Cummins (Deposit Guarantee Scheme – Item 13), Ed Sibley (Director, Credit Institutions Supervision – Item 14), Aoife Langford (Banking Supervision Division – Item 14), Kevin Garland (Chief Information Officer – Items 15-16), Niall McEvoy (IT Security Officer – Item 15).

1. Procedural Items

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

[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.

The Commission adopted the agenda, with some re-ordering of items to facilitate those attending.

2. Minutes of Meeting of 24 March 2016

The minutes of the meeting of 24 March 2016 (Meeting No. 67) were agreed.

3. Matters Arising

The Commission noted it had approved, by written procedure on 12 April 2016, the amended Procurement Policy. The other action items from the April meeting were noted.

4. Governor's Report

The Governor introduced this item. He had recently attended the Spring Meetings of the International Monetary Fund (IMF) and the World Bank. The consensus at the meetings was that, while there was a recovery underway in the global economy, vulnerabilities remained and downside risks were increasing.

He noted the Bank had just published both its 2015 Annual Report and 2015/2016 Performance Statement and had also held a press briefing and issued accompanying statements around those publications. He thanked the various staff members involved in the preparation of the reports. He noted that the Commission Brexit Seminar had taken place on 27 April 2016 and expressed his and the Commission's thanks to the external speaker at the seminar, Dan O'Brien of the Institute of International and European Affairs. Finally, he noted the Bank had hosted an Economics Round Table event also on 27 April 2016 which included topics on the low interest rate environment, Brexit and the macroprudential rules.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

Ms Donnery introduced this item (Paper No. 97 of 2016). Among the items she highlighted were a number of developments relating to monetary policy implementation. She also noted the Bank was awaiting formal feedback from the Office of the Data Protection Commissioner before it could make the relevant Central Credit Register Regulations, which had been approved by the Commission at its February 2016 meeting. In relation to the resolution levy, the Single Resolution Board was due to issue the 2016 levy contribution notices to banks in the coming week. This was subject to a separate item at this meeting. Mr Whoriskey updated the Commission on some FOI matters.

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. 98 of 2016). He provided an update on a number of matters. He noted the Bank had just launched a public consultation on a new methodology to calculate the funding levy for retail intermediaries. The Registry of Credit Unions was commencing a programme of engagements with the credit union sector and other stakeholders concerning the application processes for the retention and increase in savings in excess of €100,000, which were contained in the Credit Union Regulations that commenced on 1 January 2016.

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

7. Chief Operations Officer's Report

Mr Quinn introduced this item (Paper No. 99 of 2016). Among the items he updated members on was the continuing high level of resourcing activity. The overall headcount at

end Q1 was 1,541 FTE, a net increase of 21 since the start of the year. The turnover rate for Q1 was 1.7 per cent, trending to 6.9 per cent for the year. There remained a high level of internal 'churn' arising from the filling of vacancies. In relation to facilities, he noted some works that were due to take place and he also updated members on the Fusion programme.

The Commission noted the Chief Operations Officer's Report.

8. Economics Directorate

Mr Fagan introduced this item. The presentation (Paper No. 100 of 2016) set out the key activities of the Directorate across its four divisions – Statistics, Financial Stability, Irish Economic Analysis, and Monetary Policy – and a number of the key themes that were being advanced. He set out a number of specific themes that were a significant focus for the current period. These included data collection and analysis covering Special Purpose Vehicles (SPVs). Ireland had a sizeable SPV sector and work was of relevance across a number of areas of the Bank, including statistics, financial stability and regulatory functions. Another area of focus was the evaluation of the macroprudential measures. A project was underway to examine the impact and effectiveness of the measures in achieving their stated objectives, and the main potential side effects. A report on the impact and effectiveness of the measures would be completed later in the year and presented to the Commission with a view to publication towards the end of 2016. On the broader macro-economic front the Directorate was examining the potential impacts of the global slowdown on Ireland and was participating in international research networks and task forces on monetary policy, including the ECB's Low Inflation Task Force. Research output remained concentrated on areas of direct relevance to the Bank's mandate and to wider current economic matters. In the past year topics covered included mortgage arrears, impacts of macroprudential measures, developments in fiscal revenue and the impact of fiscal policy.

In the discussion that followed, the work on SPVs was welcomed as very important in the context of ongoing developments in that broad sector; one member suggested the Bank draw wider attention to this, including at the European level. The same member said it was also important that the Bank's scenario modelling examine the potential impacts on the financial

system of, not just adverse economic developments, but also where the economic recovery might be stronger than anticipated, and the implications of the need to increase housing supply. It was also suggested that the Bank continue to examine further ways in which its data can be made available to external users. Another member said it would be important that the review of the macroprudential measures take into consideration consumer issues and the regional differences in the impacts of the measures. Other members asked if the Bank's research work would also focus on the shadow banking sector and whether the Bank was monitoring the wider international banking sector for any potential impacts on Ireland. On shadow banking, Mr Fagan noted that, while much of the focus to date had been on data gathering, there was a growing emphasis on analysis, including a recent Quarterly Bulletin article and a conference being planned for later in the year. The Governor said that there were extensive reciprocal arrangements concerning the oversight of the international banking system and that the Bank was active in various fora in that respect. He noted the growing role of the Bank on various economic matters; this was something that would be further promoted externally and was likely to attract greater visibility in the period ahead.

The Commission noted the Economics Directorate Update.

9. Markets Supervision

Mr Murphy introduced this item. He summarised market trends, which were set against a backdrop of increased volatility over the past 12 months, driven by various global economic and political developments. Such an environment could lead to a potential increase in conduct risk among market participants. Despite such a climate, investment fund authorisations continued to increase and the volume of prospectus approvals remained at 2015 levels.

He noted that the main elements of the Directorate's strategic priorities were broadly the same as last year. He cautioned, however, that limitations on the ability to retain and attract the right talent was reducing supervisory capability and that there were increased risks that reduced levels of frontline supervisory experience would lead to issues being missed.

Several initiatives had been launched to improve governance within supervised firms. These included a focus on control, capability, conflict and capacity within delegating fund management companies, such as Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Fund Managers (AIFMs); the development of a new statutory corporate governance code for high, medium-high and medium-low impact firms; and an increased supervisory focus on ensuring the appointment of additional independent directors to a number of investment firms. There was a continued push within firms to increase outsourcing, primarily to group related entities in order to rationalise costs and resources. The Directorate had some concerns around these developments and was undertaking extensive work investigating the distribution of activities in administration processes and establishing new standards around operational control over outsource providers, organisation of reporting lines, and the quality of service level agreements. Another area of strategic focus was on shadow banking. Ireland had a sizeable non-bank financial sector. The Bank had made significant progress in scoping out the territory, developing risk analysis and engaging with the main international standard-setters in this field. Reporting requirements had extended to special purpose vehicles (SPVs) so as to reduce data gaps in risk analysis; various risk indicators were being developed. This was in keeping with the broader international view of a need for greater focus on evidenced-based risk analysis, improved data collection, and greater supervisory cooperation. The Directorate was also leading a concerted drive to improve the culture within supervised firms. Where poor culture was identified, risk mitigation programmes were introduced.

Members raised a number of queries for the Markets team; these included any competitive pressures that may exist in terms of Ireland's supervision of the markets and funds sectors; whether there were any 'too big to fail' concerns around the funds industry; the potential impacts of Brexit on the sector; the risks that might attach from dealing with new types of entities and around cyber security; whether industry was experiencing similar staff attraction difficulties as arose in the Bank; and if there were any specific implications arising from the publication of the 'Panama Papers'. In response, Mr Murphy said that, while there was some attention paid to where Ireland might be competitively positioned, for example in areas such as fees charged and throughput of applications, a fundamental priority for the Bank was the rigor of the applications process. He noted the 'too big to fail' issue was subject to international policy debate, which the Bank was participating in, the key issues being a focus

on risk. In relation to the risk issues identified, Mr Hodson said that a feature of capital markets supervision was that there were constant innovations in the market and, compared for example to banking, supervisory approaches were based on reasonably short histories; there was an ongoing need to ensure the Bank was appropriately skilled to perform its functions; the directorate was trying to recruit in a competitive market and it was more greatly challenged than industry in that respect. Mr Murphy said he would revert on the question of cyber security. Regarding ‘Panama Papers’, Ms McEvoy noted that Markets Supervision was engaged with other areas of the Bank, such as Anti-Money Laundering and Markets Policy on an ongoing basis as regards inter-connections and beneficial ownership issues.

The Commission noted the Markets Supervision Update.

10. HR Update

Ms Joyce introduced this item. She presented an update of the Bank’s People Strategy, which had been brought into line with the 2016-2018 Strategic Plan from a timeline perspective. Resourcing remained a key focus and challenge with an identified requirement to increase staffing by circa 20 per cent over the three year period, equivalent to 300 staff members. Turnover had increased to 7.7 per cent over the past three years, with some areas running as high as 20 per cent. There were very high levels of vacant roles filled by internal candidates, partly a result of the challenges of recruiting new staff due in some part to the restrictions imposed by the FEMPI legislation. The HR directorate had identified a number of priorities, which were being addressed through the Organisation Review. These included a strengthening of the Bank’s capacity to attract the necessary people; an improvement in the ability to retain people with the right skills and experience; an increase in the depth of individual skill-sets and experience; and an improvement in organisational capabilities to manage change, projects and data. The design and reward phases of the Organisation Review were very close to completion; however it was recognised that there were constraints in implementing the reward piece in the near term. It was planned to return to the Commission at an early stage in relation to the Organisation Review.

In the discussion that followed, members referenced the turnover rates and noted that, on aggregate, they did not appear high and that certain levels of turnover should be seen as a positive thing. Other queries from members related to the challenges in recruitment, and whether these were solely down to pay, or if there were other elements; and to the costs relating to the recruitment process. Ms Joyce said that while the total turnover rate was not large, it was heavily concentrated in certain areas. Mr Quinn added that it somewhat masked a significant internal turnover of staff. The total external spend on recruitment equated to approximately €1.1m in 2015. Ms Joyce said she would revert with total costs, including internal management costs relating to interview panels. She noted that pay was not the only element that influenced recruitment levels. The Bank was moving to better promote its total offering to staff, including through the Organisation Review process.

The Commission noted the HR Update.

11. Amendment to Central Bank UCITS Regulations

The Commission approved the proposed amendments to the Central Bank UCITS Regulations and related delegations as contained in Paper No. 104 of 2016.

12. Approach to Implementing Regulatory Transactions Strategy

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

Mr Briscoe introduced this item. The Regulatory Transactions Committee (RTC) had agreed to seek Commission approval for a revised Regulatory Transaction Strategy business case given a change in the scope of what was now being delivered. This would result in a lower cost over five years, however it was noted that some risks remained from a delivery schedule perspective.

The Chair of the Risk Committee confirmed that, at its meeting on 23 March 2016, the Committee had noted the recommendation of the RTC to proceed with the revised business case and implementation approach and the proposal to seek Commission approval for that.

The Commission approved the recommendation of the Regulatory Transactions Committee to proceed with the revised implementation of Phase 1 of the Regulatory Transactions Strategy.

13. Delegation of Powers – Deposit Guarantee Scheme Regulations

The Commission approved the delegation of powers introduced by the European Union Deposit Guarantee Schemes Regulations, as set out in Paper No. 106 of 2016.

14. Financial Sector Assessment Programme Update

Ms Langford introduced this item. The IMF had identified 29 jurisdictions with systemically important financial sectors, including Ireland, that were now required to undergo financial stability assessments every five years under the IMF Financial Sector Assessment Programme (FSAP). This was the first FSAP for Ireland that had been conducted since 2006. The FSAP would conclude later in 2016 with the publication by the IMF of the Financial System Stability Assessment (FSSA) for Ireland, along with a number of more detailed Technical Notes covering specific areas such as the macroprudential policy framework, bank stress testing, non-bank risk and vulnerability analysis, asset management stability analysis, banking supervision, insurance supervision, securities supervision and the framework for financial safety nets, resolution and crisis management.

The Irish FSAP was a large and complex undertaking that involved both Irish and European authorities, with the Bank as lead authority. Over the last eight months, the FSAP had required input from more than 130 staff across the Bank and had also required significant input and resources from the Department of Finance and the European Central Bank (ECB).

The IMF currently planned to publish the FSSA, which would be based on the Aide Memoire that was provided to the authorities and final Technical Notes in the summer. The FSAP recommendations that related directly to the Bank would be reviewed, and follow up actions and related timelines identified as appropriate.

The Governor said that the feedback from the IMF on the approach of the Bank to this work was very positive and he commended all the staff involved.

The Commission noted the Financial Sector Assessment Programme Update.

15. Information Security

Part of this minute is omitted as it contains confidential security-related information.

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

Mr Quinn noted the importance from a governance perspective of board level oversight of such issues and said that the Commission would receive regular reports and updates.

The Commission noted the Information Security update.

16. Enterprise Mobility/Technology Refresh

Mr Garland introduced this item. There were various technologies required to enable the IT capability that was seen as necessary to fully exploit the benefits of the Bank's move to a new building. These individual investments were funded from the overall investment envelope and were approved through the normal delegated authorities. However, given the significance of the investments, it was considered appropriate to inform the Commission of the totality of the investment involved.

The Commission noted the investment in Enterprise Mobility and Technology Refresh.

17. Central Bank Superannuation Fund Performance Report

The Commission noted the Central Bank Superannuation Fund Performance Report to 31 March 2016.

18. Governor's Quarterly Report on Expenses

The Commission noted the Governor's Quarterly Report on Expenses.

19. Any Other Business

There was no other business.

The meeting concluded.

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Governor

27 May 2016