

**MINUTES<sup>1</sup> OF MEETING NO. 65 OF  
THE CENTRAL BANK COMMISSION  
OF 28 JANUARY 2016**

**In attendance:** Governor, Alan Ahearne, Patricia Byron, Blanaid Clarke (Items 1-9, 15), John FitzGerald, Des Geraghty, Derek Moran, Cyril Roux (Items 1-19), Michael Soden, Neil Whoriskey (Secretary).

**Also present<sup>2</sup>:** Sharon Donnery (Deputy Governor designate – Items 1-19), Eadaoin Rock (General Counsel – Items 1-19), Gerry Quinn (Chief Operations Officer Items 1-4, 7, 10-14, 16-19), Ed Sibley (Head of Banking Supervision Division – Item 6), Fiona McMahon (Head of Banking Supervision Inspections Division – Item 6), Adrian Varley (Head of Banking Supervision Analysis Division – Item 6), Paul Molumby (Director Currency and Facilities Management – Item 7), Daniel Lawlor (Markets Policy Division – Item 8), Tim O’Hanrahan (Insurance Directorate – Item 9), Allan Kearns (Deputy Head of Organisational Risk Division – Items 10-12), Paul Woods (Deputy Head of Organisational Risk Division – Item 13), Tadhg Cahalan (Organisational Risk Division – Item 13), Thomas Brophy (Financial Markets Division – Item 14).

## **1. Procedural Issues**

The Governor opened the meeting and noted that it was quorate. He welcomed Sharon Donnery, who was attending the meeting as Deputy Governor designate. He also welcomed Eadaoin Rock, General Counsel, and noted it had been agreed at the previous meeting that she attend Commission meetings in an observer capacity.

He asked if members had any interests to declare. There were no declarations of interest.

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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, 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.

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

## **2. Minutes of Meeting of 11 December 2015**

The minutes of the meeting of 11 December 2015 (Meeting No. 64) were agreed.

## **3. Matters Arising**

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

A member asked for confirmation on when Insurance Supervision was next due to be discussed by the Commission as a strategic item. The Governor said he would revert with a date.

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

The Governor introduced this item.

### ***Banking Inquiry***

The Governor noted that the Report of the Joint Committee of Inquiry into the Banking Crisis had been published the previous day, 27 January 2016. A paper would be prepared for discussion at the February Commission meeting, focusing in particular on the recommendations contained in the Report.

### ***Governance***

He noted that the PwC Governance Evaluation of the Commission had been discussed in advance of the December 2015 meeting and a plan around the implementation of its recommendations drawn up, many of which were already being implemented. A review of the implementation of the recommendations would be brought to the Commission within six months.

### ***Seminars***

The Governor proposed the following Commission Seminars for 2016: Brexit (March); Evaluation of Macro-prudential Measures (June/July); Future Income Streams for Central Banks (September/October). It was intended to invite external speakers to the seminars. The timings would be finalised and communicated in due course.

### ***Fusion***

The Risk Committee had been updated on the Fusion Programme at its meeting on 27 January 2016 and the relevant paper was tabled at this Commission meeting. This included an update on the disposal strategy for the Dame Street premises.

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

The Governor noted he had undertaken a number of public engagements recently which presented him with the opportunity to set out the key strategic items for the Bank in 2016: he appeared before the Joint Committee on Finance, Public Expenditure and Reform on 26 January 2016; addressed the Institute of Directors on 22 January 2016; and participated in the European Financial Forum on 27 January 2016.

### ***International Meetings***

The Governor briefed members on recent international meetings. Some of the themes discussed were around the European recovery which, while moving at a reasonable pace, was tempered by concerns around weak inflation and the movements of financial markets; these were likely to occupy policy makers in the coming period.

### ***Freedom of Information***

The Governor requested Mr Whoriskey to brief the Commission on Freedom of Information. The Bank was currently in discussions with the Office of the Information Commissioner (OIC) concerning interpretations of Schedule 1 of the Freedom of Information Act 2014, which covered confidential supervisory information.

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

## **5. Supervisory Update**

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

Mr Roux introduced this item.

### ***Insurance***

On 1 January 2016 the Solvency II Directive entered into force around Europe. With the exception of three countries (Greece, Cyprus and the Czech Republic) all member states, including Ireland, had now transposed Solvency II into their national legislation. The successful implementation of the Solvency II regime was a strategic objective of the Bank for 2015.

### ***Credit Unions***

The new credit union Regulations came into force on 1 January 2016. The commencement of the regulations marked another important step in the development of a strengthened regulatory framework for credit unions.

### ***Consumer Protection***

The Bank published the SME Regulations 2015 on 18 December 2015. These Regulations would replace the existing SME Code with effect from 1 July 2016, in the case of regulated lenders other than credit unions; and they would extend to credit unions from 1 January 2017.

### ***Markets***

The Bank's response to the European Commission call for evidence as part of the Capital Markets Union initiative was circulated to members as an appendix to the Supervisory Update (Paper No.19 of 2016).

### ***ESRB Stress Tests***

The European Systemic Risk Board (ESRB) would shortly finalise the scenarios that would apply in the EU-wide banking stress tests. The stress tests would be an element of the 2016 Supervisory Review and Evaluation Process (SREP) and would not constitute a 'pass/fail' for banks in terms of capital raising, as the 2013 exercise did.

The role of the Commission in relation to such tests, as part of its financial stability mandate, was raised by one member who said it was important that the scenarios envisaged be examined as to their appropriateness to Irish banks. The member added that there were likely other macroeconomic scenarios that the Commission should be examining in terms of potential impact on the Irish financial system. The Governor noted that the Bank did have an input to the ESRB scenarios through the staff engagement at the European level. He said he believed it would indeed be useful for the Commission to examine how best to set the agenda for macro financial research and macro modelling in the Bank and that he would return to that at a future meeting.

**The Commission noted the Supervisory Update.**

**6. Banking Supervision**

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

Mr Sibley, Ms McMahon and Mr Varley presented this item. The presentation updated the Commission on the main risks faced by the banks operating in Ireland and provided insights into Banking Supervision's work in 2015 and its focus for 2016 in mitigating those risks.

The three divisions were working collectively within the Banking Supervision function to deliver a number of key outcomes, within the structural arrangements of the Single Supervisory Mechanism (SSM). These included: banks having sustainable business models; banks being governed appropriately with clear and embedded risk appetites, which drive an appropriate risk culture and control framework; banks having sufficient financial resources to meet both capital and liquidity requirements; and Banking Supervision supporting the development of credible resolution plans, with impediments to resolvability being addressed.

A number of key achievements for 2015 were identified. These included the completion of the 2015 Supervisory Review and Evaluation Process (SREP) for all Significant Institution (SI) classified banks; further progress on addressing non-performing loans

(NPLs); much greater inspections related activity, in terms of intensity and depth of supervision; enhanced assessments and analysis of banks' internal risk models; an increase in the supervision of Less Significant Institutions (LSIs); and involvement across wider Central Bank projects including the Banking Inquiry and the IMF Financial Sector Assessment Programme (FSAP).

While progress was being made in delivering on the long-term goals, significant vulnerabilities remained. For SI banks, profitability was still challenged and currently overly-reliant on provision write-backs; while there was clear momentum in the reduction of non-performing loans (NPLs), overall levels remained elevated. Resourcing and turnover of staff in the Banking Supervision area also remained a challenge.

The presentation also highlighted some firm-specific issues.

In the discussion that followed, Commission members raised a number of points and queries. These included the sustainability of mortgage arrears solutions; the risks attaching to IT in the banks, particularly where outsourcing was taking place; how well or otherwise the working arrangements within SSM were operating; and any impediments that there might be concerning the development of resolution strategies.

In relation to mortgage arrears, the Banking Supervision team responded that there had been significant improvements made. There were now about 110,000 accounts that were restructured with 88 per cent of those account holders meeting the new terms. However, risks remained, particularly around vulnerability to interest rate rises and borrowers' ability to pay over a long duration, for example where re-structured loans required payments beyond retirement age.

Regarding IT concerns, the Bank had established a new IT inspection team which was providing a dedicated focus on this area, including examining outsourcing and strategic partnerships.

In relation to SSM, the team reported that a great deal had been learnt from the work within the SSM over the last year. The Bank's role had fundamentally changed, whereby

for the SIs the strength of supervisory assessment, analysis and inspections, could only deliver the appropriate supervisory outcomes through the Bank's influence through the SSM/ECB processes. In this context, the interaction at a working level, on a day-to-day basis through the JSTs, and in the multiple taskforces and working groups, was of critical importance. Regarding resolution, the Bank was now operating within the framework of the Bank Recovery and Resolution Directive (BRRD) and a single resolution fund had been established at EU level. However, it was early days and the new European resolution mechanism had yet to be tested.

**The Commission noted the Banking Supervision Update.**

**7. Currency Centre Operations Print Strategy**

*Part of this minute is omitted as it contains confidential information which is subject to a deliberative process.*

Mr Molumby introduced this item.

**The Commission noted the update on the Currency Centre Operations.**

**8. European Union (European Long-Term Investment Funds) Regulations 2015**

**The Commission approved, in accordance with section 18F of the Central Bank Act 1942, the delegation to the Deputy Governor (Financial Regulation) of the functions and powers of the Bank provided for in the ELTIF Regulation and ELTIF Statutory Instrument; and the related approvals and confirmations sought in Paper No. 22 of 2016.**

**9. Approval of Draft Regulations Requiring Insurance Undertakings to Provide Certain Additional Reporting: 'National Specific Templates'**

**The Commission approved the policy position as outlined in Paper No. 23 of 2016 and reflected in the Regulations attached at Appendix 1 of the Paper, to be issued**

**under Section 48 of the Central Bank (Supervision and Enforcement) Act, 2013; and delegated to the Deputy Governor (Financial Regulation) the authority to approve any final changes to the Regulations and make the Regulations for and on behalf of the Bank.**

#### **10. Floating Rate Notes Valuation 2015**

*This item had also been considered by the Joint Audit and Risk Committees at their meeting on 27 January 2016.*

Mr Kearns introduced this item. The Bank's valuation policy for the floating rate notes (FRNs) required an annual assessment of the assumptions and the choice of inputs used for pricing. This assessment was conducted in conjunction with the preparation of the annual accounts. A valuation proposal was presented, that had already been endorsed by the Joint Audit and Risk Committees, and required approval by the Commission.

Mr Soden confirmed that this item was also considered by the Joint Audit and Risk Committees at their meeting on 27 January 2016.

**The Commission approved the proposed valuation and valuation approach for the 2015 year-end accounts, including the refinement to the estimation of the discount and forward curve, as contained in Paper No. 24 of 2016.**

#### **11. Annual Impairment Review: 2015 Annual Accounts**

*This item had also been considered by the Joint Audit and Risk Committees at their meeting on 27 January 2016.*

Mr Kearns introduced this item. As part of the process of finalising the annual accounts for 2015, the Bank was obliged to carry out a formal impairment assessment of a subset of its financial assets, namely those categorised for accounting purposes as hold-to-maturity. The 2015 impairment assessment followed the same methodology that was agreed in previous years by the Joint Audit and Risk Committees to ensure that the



assessment completed this year was consistent with previous years. This framework had been calibrated in line with applicable accounting and financial reporting standards. Paper No. 25 of 2016 summarised the provisioning process to be followed as per the applicable accounting standards.

Mr Soden confirmed that this item was also considered by the Joint Audit and Risk Committees at their meeting on 27 January 2016.

**The Commission approved the making of a provision in the 2015 Statement of Accounts as set out in Paper No. 25 of 2016; and approved the updated impairment/provisioning policy to reflect the issuance of a new accounting standard (FRS102).**

## **12. Appropriation of Profits 2015**

*This item had also been considered by the Joint Audit and Risk Committees at their meeting on 27 January 2016.*

Mr Kearns introduced this item. Section 32H of the Central Bank Act 1942 required the Bank to pay its surplus income to the Exchequer. The Central Bank of Ireland (Surplus Income) Regulations, 1943 defined surplus income and provided for an appropriation of up to 20 per cent of the Bank's profit in a financial year to the General Reserve, with the balance payable to the Exchequer.

Mr Soden confirmed that this item was also considered by the Joint Audit and Risk Committees at their meeting on 27 January 2016.

**The Commission approved the level of appropriation of profits to the General Reserve in respect of the financial year ended 31 December 2015 as set out in Paper No. 26 of 2016.**

### **13. Investment Portfolios: Annual Review**

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

Mr Woods introduced this item. He outlined the annual review of the investment portfolios and highlighted some strategic issues that were planned to be addressed over the course of 2016.

Mr Soden confirmed that this item was also considered by the Risk Committee at its meeting on 27 January 2016.

**The Commission noted the annual review of the Investment Portfolios and approved the proposed amendments to the investment assets as contained in Paper No. 27 of 2016.**

### **14. Implications of IMF Quota Increase**

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

A package of IMF Quota and governance reforms, to better reflect changes in the relative positions of IMF member countries in the global economy, was now expected to go ahead towards the end of January 2016. Under these reforms, Ireland's Quota would increase. The Commission had previously, in February 2013, considered and approved how any such Quota increase would be funded by the Bank.

The Commission was now being requested to confirm the earlier decision it took in terms of the funding of the Quota increase. In addition, as an increase in the Bank's Special Drawing Rights (SDR) exposure arising from the Quota increase would lead to associated balance sheet exposure, it was recommended the Bank hedge its larger SDR exposure.

Mr Soden confirmed that this item was also considered by the Risk Committee at its meeting on 27 January 2016.

The Commission confirmed its decision, taken at its meeting on 26 February 2013, on the funding of the Quota increase; approved in principle the hedging of any net exposure once the Quota increase took place; and delegated to the Governor the decision on the operational modalities of a hedging strategy.

#### **15. Authorisations Committee – Review of Category 1 Authorisations**

The Commission noted the Authorisations Committee Review of Category 1 Authorisations (Paper No. 28 of 2016).

#### **16. Governor’s Quarterly Report on Expenses**

The Commission noted the Governor’s Quarterly Report on Expenses (Paper No. 29 of 2016).

#### **17. Rounding of Cash Transactions – Update**

The Commission noted the Update on the Rounding of Cash Transactions (Paper No. 30 of 2016).

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

The Commission noted the minutes of the meetings of the Audit Committee of 25 November 2015; and the Risk Committee of 25 November 2015.

#### **19. Risk Information Pack**

The Commission noted the Risk Information Pack (Paper No. 33 of 2016).

#### **20. Any Other Business**

*Appointment of Deputy Governor*

*Mr Roux and Ms Donnery did not attend for this item*

The Commission noted it had already approved, on 22 January 2016 by written procedure, the appointment of Sharon Donnery as Deputy Governor. The Minister had noted his consent in a letter dated 26 January. Ms Donnery would take up the post officially from 1 March.

The Budget and Remuneration Committee had considered the salary applying to the role and proposed a salary based on a ratio of Deputy Governor to Governor of 1.00 to 1.15. This was in the range of some comparator central banks. The salary for the Deputy Governor was therefore proposed as €220,911 per annum.

**The Commission approved a salary of €220,911 to apply to the incoming Deputy Governor (Central Banking).**

**The meeting concluded.**