MINUTES[1] OF MEETING NO. 70 OF THE CENTRAL BANK COMMISSION OF 30 JUNE 2016

In attendance: Governor, Alan Ahearne, Patricia Byron (via teleconference – Items 1-6, 8, 11), Blanaid Clarke (via teleconference – Items 1-6, 8, 11), Sharon Donnery, John FitzGerald (via teleconference – Items 1-6, 8, 11), Des Geraghty, Derek Moran (Items 1-6, 8, 11), Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Also present[2]: Eadaoin Rock (General Counsel), Gerry Quinn (Chief Operations Officer – Items 7, 9-10, 12-13), Maurice McGuire (Director Financial Operations – Item 8), Mark Cassidy (Head of Financial Stability Division – Item 8), Kevin Garland (Chief Information Officer – Item 9), Cathal Ryan (Information Management and Technology Directorate – Item 9), Liz Joyce, (HR Director – Item 10), Bernie Mooney (Deputy Head of Consumer Protection: Policy and Authorisations Division – Item 11), Denise Delaney (Consumer Protection: Policy and Authorisations Division – Item 11), John Coyle (Director Resolution and Corporate Affairs – Item 12), Stephen Giffney (Central Credit Register Project – Item 12).

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.

[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 27 May 2016

The minutes of the meeting of 27 May 2016 (Meeting No. 69) were agreed with a minor amendment.

3. Matters Arising

Following a written procedure, it was agreed to defer a decision on attendance by executives at Commission meetings until a future meeting. It was noted that the two Commission vacancies had recently been advertised by the Public Appointments Service. The other action items from the May 2016 meeting were noted.

4. Governor's Report

The Governor introduced this item. He noted that a detailed consideration of the Brexit referendum would be taken under item 8. As regards international discussions, he attended the recent Governing Council meeting after which the ECB had published the latest Eurosystem staff macroeconomic projections which foresaw a positive but gradual recovery in the euro area.

The Governor had attended and spoken at a number of international events over the past month including: the Deutsche Bundesbank Spring Conference on 'Monetary, Financial and Fiscal Stability'; the Swedish Riksbank Macroprudential Conference Series; the Bank of International Settlements (BIS) Annual Conference; and the annual ECB Forum on Central Banking. He had also recently provided the keynote speech at the Financial Services Ireland (FSI) Annual Lunch, addressing the topic of 'Technological Innovation and Financial Services'; and had addressed the Association of Chief Executives of State Agencies where he provided an overview of the Bank's key priorities.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

Ms Donnery introduced this item (Paper No. 149 of 2016). She informed members that the Bank had commenced a programme of engagements with representatives of European institutions, with a visit from the European Ombudsman, who addressed a group of staff and held some bilateral meetings. The Bank also recently hosted the Secretary of the Governing Council of the ECB and other members of the ECB Secretariat function. This also included various bilateral meetings and an address to some staff members. Planned future engagements included hosting a visit from the Communications Directorate of the ECB. These bilateral meetings were proving very useful in terms of sharing views and experiences on items of common interest.

Ms Donnery informed members that she had been re-appointed as Chair of the ECB SSM High Level Group on Non-performing Loans (NPLs), which is nearing conclusion of phase one of its work. She expressed her appreciation for the assistance and support she received from staff of the Bank in this work to date.

Mr Whoriskey and Ms Rock updated members on the Bank's engagement with the Office of the Information Commissioner (OIC). The OIC had issued its decision concerning an appeal of a decision by the Bank to refuse access to records to a requestor on the basis that those records contained Schedule 1 information; the legal advice provided to the Bank was that records containing Schedule 1 information were outside of the FOI Act, and therefore not subject to the provisions of the Act. The OIC directed the Bank to undertake a fresh decision making process in respect of the records concerned. The alternative was for the Bank to appeal the OIC decision to the Courts. While some members saw the benefit in attaining legal certainty on the issue, others cautioned against appealing. Following discussion, members requested sight of the Bank's legal advice and agreed, following receipt of this advice, to provide any further views and comments by written procedure.

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

6. Deputy Governor's Report (Financial Regulation)

Mr Roux introduced this item (Paper No. 150 of 2016). He noted that issues in relation to Brexit would be covered under a separate agenda item.

He informed members that the Credit Union Advisory Committee (CUAC) was due to report to the Minister for Finance on a review of the implementation of recommendations set out in the Report on the Commission of Credit Unions. The Registrar of Credit Unions and colleagues had appeared before the CUAC in April 2016 to provide regulatory input to the review. Areas discussed included: tiered regulation; longer-term lending limits; the consultation process between credit unions and the Bank; governance in credit unions; restructuring; and business model development. The Registrar's formal submission to CUAC noted the significant structural challenges facing the sector and the need for business model development to address these challenges. In relation to tiering, the submission noted that, to date, it was not evident that a lack of tiering was impeding business model development and indicated that the Bank was open to forms of tiering that would permit some credit unions to provide a wider range of services. In relation to restructuring, the submission noted that during the development of the Commission of Credit Unions Report, the Bank proposed a top down (hub and spoke) approach to the restructuring of the credit union sector. While this suggestion was not followed, the submission noted the significant increase in the pace of sector restructuring but highlighted the Bank's concern at the limited benefits becoming visible, as of yet, regarding cost efficiencies, service development and membership growth.

Following publication in May 2016 of the application processes for credit union retention and increase in savings in excess of €100,000, to date the Registry had received approximately 60 such applications. This compared to a total of 193 credit unions that had originally held accounts exceeding this amount, indicating that a large majority of such credit unions were not seeking to retain these types of savings.

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

7. Chief Operations Officer's Report

Part of this minute is omitted as it contains industrial relations information.

Mr Quinn introduced this item (Paper No. 133 of 2016). He noted that at end-May 2016 the headcount had increased to 1,567 full time equivalent (FTE). A total of 205 roles had been filled in the year-to-date but this had only led to a net increase of 51. At end Q2 a review of FTEs versus complement and projections for the remainder of the year would be undertaken. Initial indications would suggest the Bank-wide approval of 1,695 would not be exceeded. He noted that a review of untaken annual leave in the organisation would be presented to the Budget and Remuneration Committee at its meeting in July 2016.

He informed members that a work-to-rule by engineering staff at the Currency Centre had commenced. This arose around a dispute centring on technicians' remuneration and related engagement. The union members, represented by the Technical Engineering and Electrical Union (TEEU) and Unite, rejected the recommendations of the WRC. The Bank would continue with engaging in the normal industrial relations processes. In the meantime, sufficient contingency arrangements were in place.

Mr Quinn said that based on external advice and significant internal assessment, it had been agreed not to seek to remove the Crann an Óir sculpture from the plaza on Dame Street, post-the Bank's move to North Wall Quay. The Governor noted that Crann an Óir would remain central to the brand of the Bank.

The Commission noted the Chief Operations Officer's Report.

8. Brexit Update

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

The Governor introduced this item. He recalled the Commission had been updated by teleconference on 24 June on the outcome and market reaction to the UK 'Brexit' referendum. He noted the significant preparatory work that had been undertaken in the Bank in advance of the referendum and the detailed contingency arrangements that had been put in place. He also informed members that he had spoken with the wider management team and had issued a general staff communication on Brexit in recent days.

Mr Cassidy, who chaired an internal Task Force examining medium-term implications of Brexit, noted that Article 50 of the Lisbon Treaty would presumably be triggered some time after the election of a new Conservative leader, after which the UK would have two years to negotiate its exit from the EU. As set out for the Commission in a previous analysis, there were numerous potential outcomes of the negotiations, although the UK retaining full access to the Common Market was seen as unlikely. The main short term effects of the referendum outcome, as had already been borne out, were financial market volatility and heightened uncertainty. The net economic impact for Ireland over the medium term was expected to be negative due primarily to trade effects, although the extent of this depended also on assumptions in relation to foreign direct investment (FDI) flows and labour market outcomes.

Mr McGuire, who chaired an internal Contingency Group focusing on more immediate issues arising from the referendum outcome, noted the general negative market developments over the past week. The Bank had engaged extensively with banks, domestic authorities and at the wider Eurosystem level both before and in the aftermath of the referendum.

The Governor noted that the Bank's Quarterly Bulletin would be published towards the end of July and it would contain revised forecasts based on an initial assessment of the macroeconomic impact. While current forecasting would suggest a modest 'point' adjustment in growth rates, there was a wider potential range and a more significant impact could not be ruled out.

In the discussion that followed, members noted the detailed preparatory work that had been undertaken in both the Bank and at wider institutional level in Ireland. It was also noted that the overall outcome would take a considerable time to become apparent and to materialise, although it remained very important that the Bank continue to prepare for various potential outcomes. In relation to a question on the potential for FDI impacts, including increased authorisations by the Bank, the Governor noted that the Bank was part of the wider EU financial system and any applications for authorisation would be assessed according to well established processes, although the Bank would also need to remain alert to any financial stability implications. Mr Roux added that the regulatory directorates were due to meet with industry bodies over the coming weeks, as part of scheduled series of engagements, at which the Bank would take the opportunity to re-state its overall authorisation approach and processes.

The Commission noted the Brexit update.

9. IT Strategy

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

Mr Garland introduced this item. He set out the current drivers and challenges for IT in the Bank. There had been significant levels of activity, including: 26 separate projects completed in the past year, and 19 due to complete this year; a doubling in data storage over the last 18 months; and greatly increased demands overall due to growth across the organisation, with emphasis having to be put on delivering for the more strategic initiatives. Despite recent investments, there remained a requirement to further enhance the offering; the IT organisation structure required some further development; and recruitment remained a challenge. Some of the key areas of focus included data management and analytics capability; the need to implement new core technologies to coincide with the move to North Wall Quay; a requirement to continue to improve operational controls and manage risk appropriately; and the need to continue to deliver on mandated strategic projects. A significant element of the work was on providing a new data management architecture framework for the Bank.

The Information Management and Technology Directorate (IMTD) worked in a collaborative way with the business and was also striving to re-structure in a manner that would best fit the requirements of the organisation. While there had been significant progress, there remained a need to continue to focus on ensuring the appropriate controls and processes were in place. Mr Quinn noted the huge demands that were placed on IT delivery at this time and the challenges the area was facing, particularly as regards recruitment of the necessary staff, all of which carried an element of risk.

One member asked about the timeframes for delivery of the various components. Mr Garland said that there was a big uplift in capability required over the next three years, with investment likely to fall off somewhat at that point. However there would always be a need to ensure the Bank was investing appropriately, particularly around information security, and new developments in the business would always dictate other levels of necessary activity.

The Commission noted the IT Strategy.

10. Organisation Review

Ms Joyce introduced this item. She updated the Commission on various elements of the Organisation Review programme. She noted that it was planned to hold a seminar in July 2016 for Commission members on the proposed Reward Framework. Pending some slight final modifications, the re-design of organisation structures was now complete and new role profiles were nearing final development resulting in 600 unique profiles and some 200 generic profiles for the organisation. This would result in the definition of clearer responsibilities and accountabilities; a significant reduction in 'people managers' from 37.4 per cent to 25 per cent; a maximum of four reporting layers from Head of Division; and an increase in spans of control from 2.7 to 4.0. Naming conventions for role titles had also been agreed. A new Career Framework was being developed to include new career bands, the development of 'job families', and the introduction of new tools to assist staff in navigating their career in the Bank. Work was also advanced on setting out a defined 'Employee Value Proposition' for all staff and to provide support in the attraction and retention of staff. This would be rolled out to coincide with the move to North Wall Quay.

There was detailed work underway to ensure that implementation of, and transition to, the new structures was managed appropriately. Work to date indicated that approximately 90 per cent of staff would most likely map directly across to the new structures from their current roles. A detailed communication and engagement plan was being put in place. This included direct engagement with a cross organisational forum of Heads and Deputy Heads of Division. Engagement with Unite, which represents professional and administrative staff, had commenced.

The Commission noted the Organisation Review Update.

11. Amendments to Consumer Protection Code

Ms Mooney introduced this item. The existing consumer protection framework provided many protections to mortgage holders, such as specific rules in assessing the suitability and affordability of a potential borrower and a range of protections in the Code of Conduct on Mortgage Arrears (CCMA) for borrowers either in, or facing, mortgage arrears. However, it was decided that further measures could be proposed specifically for variable rate mortgage

holders aimed at increasing transparency and facilitating consumer choice, including considering the possibility of switching mortgages.

In the context of the overall suite of work being conducted by the Bank in the area of standard variable rates (SVR), the Consumer Protection Directorate (CPD) developed proposals for enhanced transparency measures and issued a consultation paper in November 2015. During the three month public consultation, stakeholders were invited to submit their views on the following three proposed enhanced transparency measures: requiring lenders to prepare and publish a variable rate policy statement; requiring lenders to provide information on alternative product options; and requiring lenders to provide a statement of the reasons for an interest rate increase. The consultation paper also sought views on whether there would be a net benefit to increasing the notification period for an increase in a variable interest rate.

It was now proposed to introduce enhanced transparency measures. If approved, these measures would be published in July 2016 as part of an Addendum to the 2012 Consumer Protection Code.

When publicising the changes to the Consumer Protection Code, and in particular the enhanced transparency measures for variable rate mortgage holders, the Bank messaging would be clear that these measures aimed to improve transparency and information for consumers and required lenders explain to consumers how they set their variable mortgage interest rates.

Unrelated to the above, CPD was also taking the opportunity to include in Section 2 of the proposed Code Addendum, consequential amendments required to the Code arising from the transposition of the EU Mortgage Credit Directive in March 2016 and previously approved changes arising from the Small to Medium Enterprises (SME) Regulations.

Some minor amendments to some of the wording in the proposals were suggested and agreed. One member also questioned the ultimate usefulness of such initiatives for consumers if the consumers did not fully understand their rights. It was agreed that this was always a challenge; in this particular instance the Bank had engaged directly with the Banking and Payments Federation Ireland (BPFI) and the Money Advice and Budgeting Service (MABS) on the proposed new measures and would be requiring banks to test the proposed summary statement with their customers in advance of implementation.

The Commission approved the proposed amendments to the Consumer Protection Code as outlined in Paper No. 154 of 2016 and reflected in the Addendum, attached at Appendix 1 of the paper, to be issued under Section 117 of the Central Bank Act 1989; and delegated to the Deputy Governor (Financial Regulation) the authority to approve any final changes to the Addendum to the Consumer Protection Code and issue these for and on behalf of the Central Bank.

12. Central Credit Register

Mr Coyle introduced this item. He recalled that the Central Credit Register (CCR) project was last considered by the Commission at its meeting on 25 February 2016 when draft regulations were approved as a basis for initiation of formal consultation with the Data Protection Commissioner and seeking the consent of the Minister for Finance.

The Bank had since consulted with the Data Protection Commissioner, and engagement with the Office of the Data Protection Commissioner (ODPC) was ongoing. The engagement centred largely on the legal basis for the Bank collecting Personal Public Services Number (PPSN) for processing within the CCR, as provided for in the Credit Reporting Act 2013.

The CCR implementation could not proceed without regulations being made, and these were dependent on the conclusion of engagement with the ODPC. Nevertheless, work on other aspects was well advanced and, subject to the conclusion of discussions with the ODPC, the project was well placed to complete implementation smoothly. The Commission would be consulted again in the light of the outcome of the ODPC discussions or when decisions are taken on revised implementation approach or timelines.

The Commission noted the Central Credit Register Update.

13. Any Other Business

There was no other business.

The meeting concluded.