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MINUTES OF MEETING NO. 41 OF
THE CENTRAL BANK COMMISSION
OF 30 JANUARY 2014

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, John Moran, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Cyril Roux.

The Governor opened the meeting by welcoming Ms Byron to her first meeting since being appointed to the Commission on 1 January 2014.

1. Minutes of Meeting of 10 December 2013

The minutes of the meeting of 10 December 2013 (Meeting No. 40) were agreed.

2. Matters Arising

The Governor confirmed that the Commission approved on 23 December 2013, by written procedure, the delegation of the relevant functions and powers concerning the Capital Requirements Directive IV Regulations as set out in Paper No. 275 of 2013.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. Since the last update at the December 2013 meeting, Ireland had officially exited the EU/IMF Programme. There was considerable publicity around this, both domestically and at a wider European level. There was a certain sense of over-optimism in European circles which should be viewed with a certain amount of caution; it was still necessary to build on the achievements of recent

years and further progress was required before Ireland could be deemed to have recovered from the crisis. There were still two further years of fiscal contraction necessary. Nevertheless, the Programme exit was managed very well; it was quickly followed up with a successful bond issue and renewed market confidence. The Troika visits would continue, although on a less frequent basis.

On the broader macroeconomic front, inflation in the euro area had fallen well below its medium term goal and forecasts did not have it rising in the medium term. Despite this, deflation was not anticipated by the markets but it was very important to try and move it from these low levels; a long period of disinflation would increase the debt burdens of countries by more than may have been expected. While economic conditions in the euro area were improving, with some good signs over recent weeks, there were risks. Market conditions in emerging markets were worsening as investors retreated; this could spill over to lower demand for European exports.

Regarding progress towards the Single Supervisory Mechanism (SSM), the Governor noted that a number of key senior appointments had now been made. The Supervisory Board of the SSM would comprise six members nominated by the ECB, including the already appointed Chair and Vice-Chair, plus the heads of the relevant supervisory authorities in the participating countries. In Ireland's case, Cyril Roux was the member (he was attending the first SSM Supervisory Board meeting in Frankfurt today).

The Commission noted the update on Euro Area Developments.

4. PRISM Review – Final Report

Gerry Quinn, Chief Operations Officer; Leslie Caslin, Eleanor Gill and Andrea Pack, Risk Advisors, joined the meeting.

The Commission considered Paper No. 2 of 2014.

Ms Gill introduced this item. She recalled that at its meeting on 23 October 2013, the Commission had considered the preliminary findings of the PRISM Review. The

recommendations contained within the report were based on the PRISM approach and PRISM system-related issues outlined at the October 2013 meeting. It was important to note that the implementation of the recommendations, if accepted, would require careful planning, oversight and leadership. It was envisaged that a phased implementation approach, with the in-built flexibility to allow different sectors and teams to advance at different speeds and times, would be appropriate.

She said that one of the critical questions that might be asked is whether PRISM was broken. The view of the review team was that PRISM was not broken; the issue was more around whether PRISM was as effective as it could be, particularly to meet the current and future requirements of the organisation. In the review team's judgement, it was essential to take advantage as PRISM entered its maturation phase to be ready for, and if possible to anticipate and respond to, future regulatory developments.

Since the review was commissioned, SSM became a reality and a question arose as to the implications of this for PRISM. Although it was too early to say definitively how this might work in practice, it was important to note that SSM related-banks comprised only a very small percentage of the 93 Ultra High, High and Medium High ranked firms; therefore it was felt that the recommendations still stood as regards PRISM as whole, regardless of SSM developments.

The review team had concluded that the core PRISM system was sound. However, the system was found to be over-elaborate and 'clunky', and the lack of user-friendly functionality encouraged the use of alternative systems. In short, the PRISM system had not been embraced to the same extent as the PRISM approach to date.

The Governor thanked the team for the Report. When PRISM was introduced it marked a significant change in the supervisory approach at a particularly challenging time. Now was the right time to take stock.

Mr Soden asked if Mr Roux (who was not in a position to attend this meeting) had expressed any particular view on the report at this stage and indeed on the overall PRISM process. Was it something he saw the Bank continuing with into the future. He added that, in his view, prevention was a very difficult task for a regulator; when you identified a problem, often it had already occurred. He was not entirely sure that the resources and investment in the overall PRISM process would ultimately prevent

problems in the financial system. The Governor said that Mr Roux would have views on the report which would be articulated in an overall management response. It was important to note that the report was not a negotiated piece of work but rather the view of the review team. It was important and necessary to reflect on that, to digest its details and to return with a considered management response. Ms Pack confirmed that while she and her colleagues had obviously engaged with senior management, the report was the independent view of the review team. Regarding prevention, she said that while you can never be certain that you can identify everything, you could make best efforts to do so. A tick box mentality would not achieve very much; to be fully effective engagement with firms should not be formulaic nor process driven but should be objective and outcome-focused.

Mr Geraghty said the report presented a major challenge to the Commission and to the organisation. There was clearly a very complex process involved; there were issues raised in the report concerning ownership and governance, the role of supervisory management, culture, skills, and capability. Was the Bank focusing on the right areas? He was reminded of the Anglo Irish Bank case and, while it would seem many people knew there was something wrong, the system did not respond. He also posed the question of prevention and how PRISM could assist in anticipating problems; he asked if it was capable of identifying fraud or abuse; and asked if it was sufficiently flexible to respond to future developments. He said the Commission needed to return to this once its contents had been digested. Ms Pack said that from speaking to firms it would appear that supervisors now understood their businesses better. Firms would like, however, to have more engagement at a more senior level with the Bank. In terms of prevention, it would be necessary that engagement with firms be more outcome-focused. A number of people in the Bank would have demonstrated an ability and willingness for this, but others may need further encouragement. Ms Caslin added that there was an issue with speaking up in the Bank which was a cultural thing. People should be encouraged to speak up and challenge more.

Ms Clarke said the report was very useful. By undertaking the review an expectation was now created and doing nothing was not an option. It would however be important to concentrate on what could be realistically achieved and not to get too granular in the solutions. PRISM did not seem to be as effective when dealing with medium and low risk firms. Some of the issues were already picked up in internal audit reports; the

message from those reports was that there were teething problems that would be sorted but this did not happen. The system security also appeared to be a risk. A very worrying element was the sense that firms were not clear on why they moved from one risk category to another, or indeed how they could move themselves back. This needed to be addressed. Another issue was around ownership and it would be very interesting to get the management view and response to that.

Mr FitzGerald said that it was interesting to note that the report echoed some of the internal audit findings on the user-friendliness of the system. Solutions proposed for this in the past around training would not be sufficient; training people to use a bad system was not the answer. There were other solutions suggested here that needed to be examined. The system should not be static, it should evolve. Ms Pack said that the supervisors should be the agents of change going forward. There was a sense that the supervisors knew what needed to be changed, but were not speaking up about this.

Ms Byron said it was very encouraging to see such a detailed report and to have such an open discussion on this important issue. There was much to follow up in this report. What was very important would be the glue, which was essentially the culture and attitude, that would bring the various disparate pieces of this approach together.

Mr Moran said it was a very thorough report. It would be essential for the Commission to support the management to implement some of the changes that were necessary. He was somewhat concerned about establishing a Steering Group in the first instance when a problem did seem to exist around ownership and getting managers more engaged and involved. He was struck by the apparent lack of senior engagement from firms and auditors.

Mr Quinn, Ms Caslin, Ms Gill and Ms Pack left the meeting.

Ms Clarke asked what the next steps would be and what role the Commission might play in that. Mr Ahearne asked if there would be a formal management response. The Governor said this would be taken forward very quickly. He proposed that Mr Roux would brief the Commission on the review at the next meeting on the process for responding to the review.

The Commission noted the PRISM Review – Final Report

5. Economic Policy and Analysis

Lars Frisell, Chief Economist, joined the meeting.

The Commission considered Paper No. 1 of 2014.

Mr Frisell introduced this item. He set out the key developments within the Economics Directorate and highlighted a number of initiatives for the coming year. The Directorate was on track to reduce its overall staff complement by 10 Full Time Equivalents (FTEs) by 2016, a process that commenced last year. In addition, over the past two years, there had been significant staff turnover, both within the Directorate, but also into and out of the Directorate. This was a positive development as it allowed for new ideas and new approaches.

In the Statistics Division, ongoing work regarding data reporting by financial services firms and the publication of various monthly and quarterly statistical releases would be supplemented in 2014 with the introduction of new statistics on investment funds, financial vehicle corporations, money and banking, financial accounts and securities holdings; the development of Single Supervisory Mechanism (SSM) statistical framework; and potential preparatory work for the establishment of a central credit register.

The Bank had recently appointed a new Head of Financial Stability. The division monitored financial stability, followed up on issues arising at Financial Stability Committee level, engaged with supervisory divisions and external parties, published the bi-annual Macro Financial Review, and undertook significant analytical work including the development of loan loss forecasting models. A major focus of this area in the coming year would be around preparation for, and assistance in and around, the European stress test exercises. Work would also feed into the requirements of the European Systemic Risk Board (ESRB). In addition, there would be a requirement to enhance the Bank's macroprudential policy thinking and modelling.

In addition to its quarterly macroeconomic forecasting and publication of the Bank's Quarterly Bulletin, the Irish Economic Analysis Division would continue to work on new forecasting tools and models in 2014. These included a new macro model, being developed with the ESRI, and a new short-term forecasting model, consistent with the ECB framework. The Bank would also be engaged for the first time in the coming year in the Eurosystem Household Finance and Consumption Survey and related analytical work.

All divisions were involved in participation in various ECB committees and working groups. Among the more significant was the Monetary Policy Committee, which was attended by representatives from the Monetary Policy division. A new head had also been appointed in recent weeks. The division was, and will remain, the Bank's main point of contact with the Troika, now focused on post-programme monitoring. In the coming year it would be concerned with analytical work on the implementation of monetary policy, including non-standard measures and the role of bank sector conditions.

Mr Frisell concluded his presentation by recalling the main recommendations of the external review of the Economics Directorate which was presented to the Commission at its meeting of 27 January 2012. A number of the recommendations had since been implemented. Of those that remained at January 2013, two could now be considered closed – the appointments at Head of Financial Stability, and Head of the macro-modelling project; while two remained open – the physical split of the directorate and the limited resources for forward-looking work. An item that might be considered to be 'in progress' was around people and cultural issues.

Mr FitzGerald said that it was a positive development to see some staff from the statistics area move around to work with colleagues in other economic divisions; this was utilising resources well. He said that having projects where people could work across divisions would be useful for their development and for the output of the Bank. He said that a lot of the focus in recent years was on analysing what went wrong in the lead up to the crisis. While this was important and necessary, it would also be important to examine what may happen if the recovery was more vigorous than anticipated. If, for example, a large cohort of those currently renting opted to buy in the coming years, there would be

wide implications from a supply perspective, putting upward pressure on prices. In addition, there would be implications for the banking system and its capacity to lend in such a market. These would be useful areas to examine. He asked if Mr Frisell had identified any gaps in research that the Bank could usefully fill over the next couple of years. Mr Ahearne asked when the macro modelling work would be completed.

Mr Frisell agreed that having staff work across the directorate was very useful and had produced positive results. He was in favour of the further development of cross-directorate projects. Regarding the research focus, while there were limited resources, it would be important for the Bank to start considering the implications of a more positive macro-economic scenario. Mr Gerlach added that overall research standards had improved and that the Bank had moved to focus its research on more directly relevant topics. There was less formal research and more analysis, with a greater balance achieved. This also helped to keep staff intellectually fit. Regarding the models, Mr Frisell confirmed the core models were already available and it was possible to run scenarios; there were various modules that required further development.

The Governor thanked Mr Frisell and, on behalf of the Commission, [redacted]

The Commission noted the Economic Policy and Analysis presentation.

Mr Frisell left the meeting.

6. LCMS Project

This was taken after Item 12.

Maurice McGuire, Director Financial Operations; and Gerry Quinn, Chief Operations Officer, joined the meeting.

The Commission considered Paper No. 3 of 2014.

Mr McGuire introduced this item. At its meeting on 25 July 2012, the Commission was first informed of the need to upgrade the current local collateral management system (LCMS) in order to facilitate the removal of the repatriation requirement for collateral; and provision of cross border tri-party collateral management services, which were mandated by the Governing Council of the ECB. Subsequently, at its meeting on 12 December 2012, the Commission was given a further update and approved the engagement of a third party supplier to provide a customised solution with a revised indicative cost range of €5m to €8m for the project.

During the execution phase of this project, the need for additional expenditure in the region of €1.6m to €2.6m had emerged. This was attributable to additional infrastructural requirements and increased costs associated with the identified need to bring forward the start of User Acceptance Testing. This could bring the total costs of the project over five years to a level of €9m; €1m in excess of the €5m to €8m range already approved by the Commission.

The Governor noted that the potential cost overrun was being brought to the attention of the Commission at this time in order to ensure full transparency and no surprises as the project evolved.

The Commission noted the increase of €1m to the upper end of the previously approved range of €5m to €8m to cover possible additional costs related to infrastructural requirements and testing.

Mr McGuire and Mr Quinn left the meeting.

7. Delegation of Powers – Funding Regulations 2013

This was taken after Item 10.

Mr Gerry Quinn, Chief Operations Officer; and Mr Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 4 of 2014.

Mr Power introduced this item. The Central Bank Act 1942 (Section 32D) Regulations (SI No. 359 of 2013) set out the industry funding levy payable by regulated financial service providers for 2013. These Regulations conferred various powers and functions on the Bank in respect of the issue and collection of levies from regulated entities.

These Regulations were updated annually. However, an anomaly had been recently identified whereby the powers conferred on the Bank had not, since 2011, been delegated to any officer of the Bank. This matter now required regularisation in order that the powers available, such as making decisions on appeals and requests for waiver of individual levies, may be exercised.

Mr Quinn and Mr Power left the meeting.

The Commission delegated to the Governor the power to exercise any of the powers and to perform any of the functions and duties imposed on the Bank by the 2013 Regulations; approved the further delegation by the Governor to individual officers/employees of the Bank as he sees fit, of the powers to take any administrative or other steps necessary for the purposes of exercising any of the powers and performing any of the functions and duties imposed on the Bank by the 2013 Regulations; and confirmed that the foregoing delegations shall be "Delegations" for the purposes of Minute No. 9 of Meeting No. 19 of the Commission of 28 March 2012 and the decision in that Minute No. 9 shall apply to the foregoing delegations.

8. Procurement Policy – Non-Compliance Procedures

Mr Gerry Quinn, Chief Operations Officer; and Mr Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 5 of 2014. This had also been considered by the Audit Committee at its meeting on 9 December 2013.

Mr Quinn introduced this item. The Bank's Corporate Procurement Policy was approved by the Commission on 23 October 2013 as part of the Expenditure Approvals

Framework. Following implementation of the new Procurement Policy, it was identified that in respect of the new control on non-compliant contracts, included in Section 3.10 of the Policy, it would be difficult for directors, outside the particular directorate making the request, to accept responsibility for the approval of contracts which would be in breach of the Procurement Policy. This could result in urgent work or services being delayed.

Mr Geraghty queried the usage of the term 'non-compliance'. Mr Quinn said that achieving 100 per cent compliance in all cases was extremely difficult; the thrust however was to be fully compliant. The proposal was aimed at ensuring that any such cases were given the proper consideration at the appropriate levels.

Ms Clarke confirmed that the proposed new control had been submitted by the Financial Control and Procurement and Internal Audit Divisions to the Audit Committee on 9 December 2013. The Audit Committee was satisfied that sufficient controls would be in place and was recommending the Commission's approval for this amendment.

Mr Quinn and Mr Power left the meeting.

The Commission approved the updated Procurement Policy.

9. Audit Committee – Revised Terms of Reference

This was taken after Item 14.

The Commission considered Paper No. 6 of 2014.

Ms Clarke introduced this item. The Commission approved a revised Terms of Reference for the Audit Committee in January 2013 which provided for a review of the Committee's own terms of reference and effectiveness on an annual basis. Such a review was completed in December 2013 and considered by the Audit Committee at its meeting on 9 December 2013.

The review concluded that the Committee had operated within its terms of reference and that it had delivered an effective performance during 2013. The Audit Committee agreed to recommend a minor change to its terms of reference to reflect the role of the Committee in ensuring that the Bank's Fraud Policy was appropriate.

The Commission approved the revised Terms of Reference of the Audit Committee.

10. Fusion Update

This was taken after Item 13.

Mr Gerry Quinn, Chief Operations Officer, and Mr Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 7 of 2014.

Mr Molumby introduced this item. The 'Scheme Design' phase of the Bank's proposed new headquarter premises on North Wall Quay had now been completed, during which design work had been undertaken on the façade, the public realm, and floor layouts. These aspects of the Scheme Design were the basis for the Planning Application that had been submitted to Dublin City Council (DCC) on 28 January 2014 for amendments to the existing planning permission in respect of an alternative façade design, public realm, changes to the internal layout and reorganisation of uses within the building. He presented a visual overview of these aspects of the Scheme Design, including various high definition computer generated visuals, floor plans, and images of the models of the proposed structure, which some Commission members had already viewed when on display in the Bank in the past weeks.

On the condition that no requests for additional information were received from DCC and no appeals were made to An Bord Pleanála (ABP), the planning process was expected to last approximately 12 weeks. Should there be a substantive objection, it could take about 22 weeks for ABP to review the objection. As previously outlined, the current assessment of the risk of objections to the Planning Application and appeals to

ABP was medium. The impact of same on the programme would be high – as previously advised there was no allowance in the plan or budget for delays associated with planning appeals.

The procurement process for the façade contractor had commenced and eligible contractors were currently being shortlisted. The Fusion investment envelope of [redacted] remained on track with no issues of concern at present. As construction appointments were made and the three main Works Contracts costs were finalised, more certainty would emerge on final cost. The amount spent as at end-December 2013 amounted to approximately €12m, against a budget €11.7m.

There had been significant staff engagement in the last month, with a series of feedback sessions with various staff groups, along with a number of workshops with heads and deputy heads. A video outlining key features of the façade had been distributed to staff. The programme also held roadshows in all Bank sites for staff to view images of the building.

DCC had requested the Bank, as anchor tenants of the area and due to the Bank's profile, to provide proposals for design of the public realm in the area. This was being factored into the overall plans. The Bank had also procured independent peer reviews of the current security design of the site. These peer reviews accepted the methodology, approach and design as being in line with international best practice and provided a limited number of recommendations which would be progressed during the detailed design phase of the new building. The Bank was also considering the installation of a temporary wrap on the existing structure featuring the Central Bank's name and logo.

Mr Geraghty said that there were a number of risks associated with any major construction project such as this, and these risks were increased as the Bank was not in this business in its normal course of work. This project would also have a very high public focus so there were reputational risks also to be considered. He also felt there were financial risks and security risks associated with this project. He requested that the Fusion programme report on a regular basis to the Risk Committee. Mr Quinn said that this would be facilitated and that he welcomed the proposal to keep the Risk Committee informed in this way.

Ms Byron asked if the Bank could leverage off the experience of others in the public sector that had already gone through major building projects, in particular from lessons learned perspective. Mr Molumby said the Bank was already engaged with the OPW; the State Architect was working with the Bank in an advisory capacity on the project.

Following a discussion on the matter, the Commission advised against the installation of the suggested temporary wrap on the structure.

The Commission noted the completion of the Scheme Design Report; noted the submission of the Planning Application and the attendant potential for an appeal to An Bord Pleanála resulting in a delay to the programme; and noted the commencement of the procurement of a Façade Contractor and the attendant risks in relation to the impact of possible delays and/or changes to the façade design as a result of the Planning Permission process and/or decision.

11. Review of the Special Portfolio and Bond Disposal Strategy

This was taken after Item 5.

Mr Maurice McGuire, Director Financial Operations; Mr Allan Kearns, Deputy Head, Organisational Risk Division; and Mr William Molloy, Deputy Head, Financial Markets Division, joined the meeting.

The Commission considered Paper No. 8 of 2014.

Mr McGuire introduced this item. Following the liquidation of the Irish Bank Resolution Corporation (IBRC) in February 2013, there was a significant change in the composition of the asset side of the Bank's balance sheet. At the end of the process, short term assets in the form of monetary policy lending and exceptional liquidity assistance (ELA) were replaced by a portfolio of long term assets (Special Portfolio). This portfolio, which the Bank acquired as part of the liquidation, was made up of €25bn of Irish government floating rate notes (FRNs), €13.7bn of NAMA bonds and €3.46bn of an Irish government

2025 fixed rate bond. In addition, the Bank acquired €367m of assets backing IBRC's outstanding monetary policy borrowings.

The accompanying paper (Paper No. 8 of 2014) provided a review of developments relating to the Special Portfolio in 2013. Firstly, it set out the performance of the portfolio over the year and its impact on the Bank's financial accounts before moving on to provide an update on the accounting and valuation treatment of the FRNs. The 2014 disposal strategy was then considered, taking into account relevant factors outlined in the paper - completed sales to date, market developments and wider Eurosystem considerations. In terms of performance, total net income (realised capital gains and coupon income) of circa €738m was generated on this portfolio in 2013. The most significant contributor to this was coupon income on both the FRNs and the 2025 fixed rate bond.

In accordance with the Eurosystem accounting and reporting framework, the FRNs would be accounted for as 'marketable instruments' and reported at market price. Until a reasonable volume of sales of the portfolio were undertaken to establish market prices, a mark-to-model approach was likely to be required by the ECB. The provisional unrealised capital gain on the FRNs for 2013, using the Bank's current valuation approach, was €2.82bn. Mr McGuire noted that this mark-to-model approach would expose the Bank to greater fluctuations in the valuation of the FRNs than the original proposed approach of using the acquisition cost. While alternatives were being explored, it appeared this was the most likely approach to be adopted.

Under the minimum sales schedule indicated by the Bank at the time of the liquidation, the Bank was obliged to sell a minimum of €500m of assets from the Special Portfolio by the end of 2014. To date, €450m of sales had been completed, with these disposals focused exclusively on the 2025 bond. In the context of the 2014 disposal strategy, the recommendation was that any disposal would continue to be focused on this fixed rate bond. [redacted]

[redacted]

Mr FitzGerald said he could see merit in the approach being taken as regards the 2025 bond sales and that [redacted] He also asked at what point it might make sense to dispose of the FRNs early taking into account when a net benefit for the State might accrue. Regarding the accounting treatment of the FRNs, he asked how this would show up in the accounts and how it might impact the Bank's reserves, its profits and its dividend to the Exchequer. Ms Clarke asked when the accounting treatment would be finalised and at what point would the Bank be engaging with its auditors on this.

[redacted] The Bank needed to be cognisant of developments within the Eurosystem, both in relation to compliance with Articles 123/124 of the Treaty (concerning monetary financing) and with the Eurosystem's Agreement on Net Financial Assets (ANFA) which stipulated how much assets a national central bank could hold on its Balance Sheet. [redacted] Mr McGuire said that any unrealised gains from the FRNs would not impact on profit; however unrealised losses, where the valuation fell below the original price, would be taken into account in calculating profit and could therefore likely wipe out profit in an adverse scenario. Mr Kearns said that the Bank was being advised on the valuation approach for the FRNs by KPMG and also noted that one of the valuation models under consideration could limit but not eliminate recorded losses in circumstances where markets were dislocated. He expected those considerations to conclude shortly at which point the Bank would engage further with the auditors, who were already aware of these matters, before reverting to the Audit/Risk Committee later in February 2014.

The Commission noted developments in relation to the Special Portfolio in 2013, the prospective accounting treatment and the proposed strategy for 2014.

Mr Kearns and Mr Molloy left the meeting.

12. SEPA Update

Mr McGuire remained for this item. Mr John Rice, Project Manager, SEPA, joined the meeting.

The Commission considered Paper No. 9 of 2014.

Mr McGuire introduced this item. At its meeting on 10 December 2013, the Commission was informed that the Bank believed that a reasonably successful outcome to the Single European Payments Area (SEPA) migration programme in Ireland could be achieved, but probably not without some degree of disruption in the domestic payments system, the level of which would be difficult to precisely quantify. Based on this belief, and in the absence of any specific direction from either the ECB or the EU Commission, the Bank seemed likely to be faced with taking a decision in mid-January as to whether to not to permit processing of credit transfer and direct debit payments in the existing national system for some interim period beyond 1 February 2014. On the broader European front, returns for end-November 2013 from other euro-area countries, while showing strong momentum, suggested that many – including some of the larger member states - would struggle to meet the 1 February 2014 migration end-date (particularly for direct debits).

Faced with this situation, the EU Commission announced on 9 January 2014 that it had adopted a proposal to amend the relevant EU Regulation by introducing what was referred to as 'an additional transitional period' of six months, during which credit transfer and direct debit payments could continue to be processed using existing national technical standards; in effect, postponing the SEPA migration end-date to 1 August 2014. The current indications were that the EU Commission's proposal would be voted on in plenary session of Parliament on 4 February 2014 and be adopted retroactively to 31 January 2014 to avoid any legal uncertainties.

[redacted]

[redacted]

The Irish Payment Services Organisation (IPSO) agreed at a board meeting on 20 January 2014 to avail of a transitional period of two months (to 31 March 2014) to accommodate a smooth transition to SEPA. This decision by the banking industry (which was discussed in advance with the Bank, and with which the Bank was in agreement) negated the need for the Bank to take a decision along the lines outlined to the Commission at its meeting of 10 December 2013.

The Bank was continuing to work with all key SEPA stakeholders and could report good progress on the national SEPA migration effort since December 2013. Challenges within the banking sector ([redacted]) had been overcome, with successful deployment of technical solutions and strong customer momentum now evident, particularly in the SME sector. The current position was that the Bank – on the basis of returns from the banking sector – anticipated that circa 95 per cent of all credit transfer and direct debit payments by volume would be SEPA-compliant for the month of February, with the remaining 5 per cent to make the transition comfortably by 31 March 2014.

Ms Clarke asked if there were any implications now for those firms that did not meet the extended national deadline of 31 March 2014. Mr McGuire said that this would not appear possible as, legally, European law was allowing a longer transitional period. Mr Rice said the 31 March 2014 date was more an operational than legal deadline. He added

that there was a technical issue that was going to have a temporary impact on Exchequer returns. Under SEPA, the first presentation of direct debits would take seven banking days to process, resulting in some receipts being delayed from January to February. As such, end-January Exchequer figures would be down significantly in year-on-year terms but this would likely correct itself the following month.

The Commission noted the update to the Single European Payments Area (SEPA) migration programme

Mr McGuire and Mr Rice left the meeting.

13. Annual Review of the Central Bank Superannuation Fund

This was taken after Item 6.

The Commission considered Paper No. 11 of 2014.

The accompanying paper, prepared by the Pension Investment Advisory Committee (PIAC) (Paper No. 11 of 2014) presented the performance of the Bank's Superannuation Fund in 2013. The paper summarised the current benchmark asset allocation of the Fund; outlined the value of the Fund; illustrated the distribution of Fund assets as at 31 December 2013; described the actual performance of the Fund up to 31 December 2013; and summarised the work of the PIAC in 2013.

In summary, the total Fund returned 10.9% in 2013. Equities returned 21.3% for the year while bonds generated a return of 0.7%. The market value of the Fund assets increased by approximately €57.4m from €473.1m on 31 December 2012 to €530.5m on 31 December 2013. The asset allocation at the end of the year was 53.6% equities and 46.4% bonds. Since the start of the investment period, at end-December 2009, the total return on the Fund was 24.4% equating to a return of 5.6% per annum.

The Commission noted the return on the Bank's Superannuation Fund in 2013.

14. Authorisations Committee – Annual Report

This was taken after Item 6.

Ms Fiona Muldoon, Director Credit Institutions and Insurance Supervision, joined the meeting.

The Commission considered Paper No. 10 of 2014.

Ms Muldoon introduced this item. The Authorisation Framework for Financial Service Providers was approved by the Commission on 14 October 2010. It provided for the delegation by the Commission of the powers to authorise Category 1 firms and the establishment, by the executive, of an Authorisations Committee to consider high risk cases. Designed to make the most effective and efficient use of resources and assist in the timely consideration of new applications, the framework for granting of authorisations adopted a risk-based approach to the making of regulatory decisions. High levels of seniority were required to process the applications as the nature, scale and complexity of the applicant's business increases. A three tier framework was in place for authorisations with a "4-eyes" principle approach. Any proposed business model which might pose a threat to financial stability could only be formally considered for authorisation following an assessment by the Financial Stability Division (FSD). Where a refusal to authorise was being considered such decision required sign-off at a higher level than the corresponding regime for an approval. Applicants had a right of appeal to the Irish Financial Services Appeals Tribunal (IFSAT).

As set out in Commission Paper No. 5 of 2010, all approvals by the Authorisations Committee of Category 1 firms must be reported to the Commission on an annual basis by the Deputy Governor (Financial Regulation). In 2013, the Authorisations Committee met three times to consider applications from Category 1 firms. The details of those considerations were contained in the accompanying paper (Paper No. 10 of 2014).

The Commission noted the report on Category 1 authorisations for 2013.

Ms Muldoon left the meeting.

15. Supervisory Update

This was taken after Item 8.

Mr Bernard Sheridan, Director Consumer Protection; and Ms Derville Rowland, Director Enforcement, joined the meeting.

The Commission considered Paper No. 12 of 2014.

Mr Sheridan introduced this item. He updated the Commission on a number of items.

[redacted]

[redacted]

[redacted]

Moneylenders

Mr Sheridan said that he had appeared on 29 January 2014 before the Oireachtas Joint Committee on Finance, Public Service and Reform, to discuss the licensed moneylending sector in Ireland. The main issues discussed at the Committee were as expected, around the level of rates charged by the sector; and the availability of alternative forms of credit. The Governor noted that the question regularly raised in the public domain was that concerning the rates charged by licensed moneylenders and whether a cap on such rates should be introduced. However, a balance needed to be struck, as to impose a cap would risk removing such lenders from the pitch and would open up a market for illegal moneylenders. It was also important to note that the Bank had been quite active in keeping out 'pay day' moneylenders from the Irish market, a sector that was quite active in the UK.

Mr Geraghty said there was an impression that the Bank was restricting credit unions from lending thus leaving some consumers with no option but to go to moneylenders. It was very important that the credit unions were put back into a position where they could provide the necessary and appropriate lending in the communities that they serve. The Governor said the Bank was performing its role in relation to fixing the credit union sector, which was primarily concerned with resolution. [redacted] It was important to note there were other players involved.

15 (a) Update on Enforcement Strategy - [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

The Commission noted the Supervisory Update.

Mr Sheridan and Ms Rowland left the meeting.

16. Governor's Quarterly Report on Expenses

This was taken after Item 9.

The Commission considered Paper No. 13 of 2014.

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

17. Risk Information Pack

The Commission considered Paper No. 14 of 2014.

The Commission noted the Risk Information Pack.

18. Any Other Business

Banking Inquiry / Freedom of Information

A note (Paper No. 16 of 2014) setting out the Bank's preparations for the proposed Banking Inquiry and for the application of Freedom of Information was tabled at the meeting.

Meeting Dates

The Bank had received information only this morning of the proposed meeting dates of the Single Supervisory Mechanism (SSM) Supervisory Board for 2014. Mr Roux is a member of the SSM Supervisory Board on behalf of the Bank and it would be necessary for him to attend these meetings in Frankfurt. The meeting dates would clash with many of the dates already set for the Commission meetings; it would be necessary therefore to re-schedule these meetings, starting with the February 2014 meeting. The Secretary would advise the Commission of suggested revised dates over the coming days.

The meeting concluded.

Next Scheduled Meeting – Wednesday 26 February, 2014 at 9.30 a.m.

Patrick Honohan

Governor
26 February 2014

0C5133

MINUTES OF MEETING NO. 42 OF

THE CENTRAL BANK COMMISSION

OF 26 FEBRUARY 2014

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

1. Minutes of Meeting of 30 January 2014

The minutes of the meeting of 30 January 2014 (Meeting No. 41) were agreed.

2. Matters Arising

It was noted that revised meeting dates for the remainder of 2014 had been circulated.

3. Euro Area Developments – Issues for the Central Bank

The Commission considered Paper No. 54 of 2014.

The Governor introduced this item. Since the last meeting, there had been a slight upturn in projections for the European economy; however, inflation prospects were lower again than previously projected. While deflation was not being considered likely in any projections, inflation was not projected to come back to its target level of below but close to 2 per cent in the immediate future. Low inflation would continue to cause difficulties for those countries with high debt levels.

Regarding forecasts for the Irish economy, there appeared to be agreement that a broad based recovery was underway. However, it should be noted that while this was positive, it was nonetheless weak and it would be necessary to remain cautious about it. The most

recently published Bank forecasts were for GNP at 2.2 per cent this year and 2.5 per cent next year. This compared to previous forecasts of 1.2% GNP growth for this year. There may be some factors impacting on the data, such as the Promissory Note transaction and foreign companies that were influencing this. Bank staff members were discussing this with the CSO. However, regardless of how the data might be interpreted, it was clear that a broad based recovery was underway. Mr FitzGerald said it would be necessary to consider the possibility of a more vigorous recovery. He noted that recent ESRI research was indicating that a large cohort of those in rented accommodation – up to 60,000 – may be in a position to buy; there was not a sufficient housing supply to meet such demand and it could lead to prices again reaching levels that were not sensible.

The Governor moved on to discuss the forthcoming Comprehensive Assessment, which would be carried out in advance of the start of the Single Supervisory Mechanism (SSM) in November 2014. [redacted]

Dwayne Price, Deputy Head of Banking Supervision, Covered Banks, joined the meeting.

The Governor said that in order to inform members on the process surrounding the Comprehensive Assessment he had invited Mr Price to present to the Commission. A similar presentation had been given to the wider Bank management team in recent weeks.

Mr Price began by setting out the three core components of the Comprehensive Assessment (CA) - the Asset Quality Review (AQR), Risk Assessment, and Stress Test. The AQR involved an audit of the banking book with minimum thresholds for coverage, including 50 per cent of risk weighted assets, with a check for impairments and collateral valuations at file level. The Risk Assessment element was essentially consistent with normal supervisory examinations, similar to what the Bank undertook, and in line with the PRISM identifiers. The final element was the Stress Test, which would be similar to exercises previously undertaken by the Bank under the Prudential

Capital Assessment Review (PCAR) work and the European Banking Authority (EBA) stress test. This element would be led by the EBA.

The overall objective of the CA was to prepare the way for the ECB assuming its new supervisory role under SSM in November 2014. It also aimed to enhance the transparency of the balance sheets of significant banks in the euro area, with considerable amount of disclosures planned. It may also trigger balance sheet repair, where that might be necessary, and to ultimately strengthen confidence in the European banking system. The various elements would interact with each other. The AQR was intended to result in balance sheet repair with additional provisions if necessary; the Risk Assessment may result in additional capital requirements; while the Stress Test would forecast capital ratio through time, with any shortfall to pre-defined capital ratio targets required to be recapitalised over a particular timeframe.

From the perspective of the Bank, there were five banks in scope for the full assessments – AIB, Bank of Ireland, Permanent TSB (PTSB), Ulster Bank, and Merrill Lynch. Certain assets of other banks would also be subject to review where they had in-scope assets but where ultimate responsibility lay elsewhere in the euro area. The Bank would be using some of the data from its own recent Balance Sheet Assessment carried out on AIB, Bank of Ireland and PTSB, at the end of 2013 as part of the Troika requirements. The process around the AQR had already commenced and was expected to be completed by 18 July 2014; the scenarios for the Stress Test would be developed from April 2014 with execution taking place from August 2014 and the publication of the final results, and related capital requirements, in October 2014. There were no set dates for the Risk Assessment at this stage. The project was being led in the Bank by the Banking Supervision team with necessary inputs from other areas. Significant internal and external resources would be necessary. Oversight would be provided through a National CA Steering Committee, chaired by Mr Roux, and likely including another national competent authority (NCA) representative and a ECB observer; this was a common approach across the euro area.

The Governor added that the design of the Stress Test would be common for all participating banks, but it would be further articulated at a national level, taking certain national conditions into consideration. It was being developed by the European

Systemic Risk Board and Bank staff were participating and inputting at relevant committees and working groups around this to try to make sure that national conditions were appropriately reflected.

The Commission noted the update on Euro Area Developments.

Mr Price left the meeting.

4. **Consumer Protection**

Bernard Sheridan, Consumer Director, joined the meeting.

The Commission considered Paper No. 38 of 2014.

Mr Sheridan introduced this item. The presentation would set out the key strategic priorities of the Directorate for the coming year, which were around mortgage arrears; enhancing the consumer protection framework; ensuring consumers were treated fairly; the approach being taken to low impact firms; and key stakeholder engagement. The Directorate's work was involved with many issues arising across industry sectors and Bank projects. It supervised more than 3,300 firms directly; almost all of them from a prudential, as well as consumer, perspective. There was a growing focus on the changing landscape for financial services, including technological developments; the contracting branch network; developments around consumers exiting insurance cover, in particular health cover; and the increasing complexity of products and charges.

Mortgage arrears remained a key area for attention. A revised Consumer Code on Mortgage Arrears (CCMA) had become effective in July 2013. Its main objectives were to strengthen protections, where necessary; increase transparency; and facilitate the resolution of arrears cases. Implementation of the revised Code was progressing satisfactorily. Each institution had a nominated senior manager responsible, with monthly reporting to the Bank including final sign-off by their boards. While certain non-deposit taking institutions and passporting lenders were subject to the CCMA, in the case of potential transfers of mortgages to third parties, any transferees that were not subject to Bank authorisation would be exempt from the Code. This was of some concern

to the Consumer Directorate, which was engaging with the Department of Finance, NCA and FSO on the issue.

Another strategic priority was around enhancing the consumer protection framework. Certain policy initiatives here included the development of a model for the use of the Bank's new statutory powers for customer redress; a review of the SME Code; and the drafting of new conduct of business rules for debt management firms. Key EU and international priorities included the implementation of the Mortgage Credit Directive and finalisation of the Payments Accounts Directive; participation in the relevant European Supervisory Authorities and on the OECD Task Force on Consumer Protection. The latter was chaired by the Dutch central bank, which had a particularly well developed consumer function; it was planned to request the Dutch central bank to conduct a peer review of the Bank's consumer protection role.

Current themed inspections included those on household insurance claims, sales incentives, annual pension statements and payment protection insurance. Future themes would be on SME lending, advertising, provision of information on fees and charges, and health insurance. The Directorate was developing its regulatory framework around debt management firm; a consultation paper had been issued regarding conduct of business rules and an authorisations process was underway. There were also developments around enhancing the regulatory framework for payment and e-money firms. [redacted]

Mr Sheridan concluded his presentation by setting out the final strategic priority, around key stakeholder engagement. This remained a very important focus of the Directorate; it was necessary to instil confidence, keep people informed and to develop market intelligence. It also informed the work of the Directorate, and allowed it advocate on behalf of consumers.

[redacted]

[redacted]

Ms Byron asked if there was any conflict of interest surrounding Personal Insolvency Practitioners (PIPs) where they had been involved initially in selling a product, as an intermediary, and were now involved in negotiating restructuring around those same products. She also asked how the Bank engaged with firms when it had both consumer and prudential oversight and whether, for example, this led to a frequency of inspections and returns that might be better managed in a more homogenised fashion. Mr Sheridan said that the PIPs were authorised by the Insolvency Service of Ireland and that the majority were not providing intermediary services. However, this was more of an issue for debt managers, as many of them were already authorised as an intermediary. It was planned to examine how the Code might address any such potential conflicts. Regarding the supervisory engagement across both prudential and consumer issues, he noted that this might be even further complicated with the advent of SSM. However, the Consumer and Prudential areas did work closely together; the lead supervisor would always be the main contact for a firm, and when the Consumer area was involved in any new initiatives it would always inform the Prudential area to ensure supervisory engagement was managed appropriately across the Bank. Mr Roux pointed out that there still may be instances where both Prudential and Consumer engagement with firms overlapped and could not be avoided.

Ms Clarke asked if the team had sufficient time to incorporate knowledge from other sources, such as the OECD, when planning policy initiatives or themes. Mr Sheridan said that leveraging off existing research was very important and this was done where feasible.

Mr Moran said that it would be important to anticipate future developments in financial services, what risks these may pose to consumers and how best to ensure that regulatory gaps did not appear when it came to consumer protection. He asked if there were any areas where the Consumer Directorate may be concerned about in this regard. Mr Sheridan said that mobile banking and mobile payments were two areas where increased attention was being paid. There was also dialogue and discussions with other regulatory authorities in Europe on issues such as digital currencies, like Bitcoin, and to

the other developments, such as 'crowdfunding', but the regulatory response was still evolving at an international level in this regard.

Mr Geraghty queried the Bank's role with unlicensed moneylenders and it was clarified that this was a matter for the Garda.

The Commission noted the Consumer Directorate Update

Mr Sheridan left the meeting.

5. Strategic Plan 2013-2015

Gerry Quinn, Chief Operations Officer; and Bernie Keppel, Deputy Head of General Secretariat, joined the meeting.

The Commission considered Paper No. 41 of 2014. This had also been considered by the Budget and Remuneration Committee at its meeting on 19 February 2014.

Ms Keppel introduced this item. The Central Bank Strategic Plan 2013-2015 was approved by the Commission at its meeting on 20 September 2012. As the Bank entered the second year of the Plan, management had taken stock of the current environment to ensure the continuing relevance of each of the eight High Level Goals and to confirm that progress had been made on a broad front towards the main strategic deliverables. While it was recognised that within these goals there remained a certain amount of shifting of tactical emphasis, the mandate of the Bank remained largely unchanged and it did not seem necessary at this time to revise or reset the High Level Goals for the remaining period covered by the Plan. The accompanying paper (Paper No. 41 of 2014) assessed some of the key challenges for the Bank in 2014 under a number of broad headings and aligned them with the High Level Goals. These challenges, along with other on-going priorities, had been reflected in the 2014 Balanced Scorecard (BSC) approved by the Commission at its meeting on 10 December 2013.

The continued monitoring of the implementation of the Plan was carried out using the BSC process and the objectives in the BSC were aligned to the High Level Goals. During 2013, the Budget and Remuneration Committee received detailed quarterly progress reports. The accompanying paper also set out the detailed assessment of the Bank's achievements in 2013. The overall assessment indicated that considerable progress was made during 2013 against a series of stretched objectives. Although targets for some objectives in the BSC were not fully met or satisfactorily achieved, additional unforeseen work contributed to this in some instances. The Directors responsible for delivering on each of the objectives provided an assessment of progress for the full year. The Governor's Committee considered the assessments and overall outcomes and performance for the Bank for 2013 and recommended that a total score of 87.67% reflected the achievements against the agreed objectives. This was considered and agreed by the Budget and Remuneration Committee at its meeting on 19 February 2014 and was being recommended to the Commission for approval at this meeting. Under the Bank's performance management development process, merit leave would be awarded to staff who delivered an effective performance or higher if the overall score exceeded 85%.

Mr Soden confirmed that the matter had been considered by the Budget and Remuneration Committee. He said that the Committee had agreed with the assessment. The process was good, although it had been somewhat overly quantitative in the assessment. He noted that a revised Scorecard had been put in place for 2014, which was intended to put a greater emphasis on outcomes and on an assessment from a qualitative perspective. He also noted that the Committee had also discussed the issue of merit leave and how this only contributed further to accrued leave for some members of staff. This was of concern and a better system of reward should be investigated. Mr Soden said that any additional merit days awarded under the Performance Management and Development Programme (PMDP) should not be included in annual leave carryover and therefore not subject to any payment in lieu of contractual annual leave days, recently agreed under the Foster Agreement. The Governor said that the BSC process was essentially evolutionary; it would by necessity constantly change to ensure it best met the needs of the organisation when it came to measuring its performance and that of its staff. There had been positive changes made to the process in recent months, and these would be built on.

Ms Keppel and Mr Quinn left the meeting.

The Commission noted the key challenges which the Bank will face in 2014; and, approved the overall assessment of 87.67% for the Balanced Scorecard 2013 and the consequent award of merit leave as agreed under PMDP.

6. Update on Security Developments

Mr Quinn was also present for this item; Mr Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 43 of 2014.

Mr Molumby introduced this item. He updated the Commission on security developments in the Currency Centre. The accompanying paper (Paper No. 43 of 2014) built on the information provided to the Commission at its meeting on 24 April 2013.

[redacted]

[redacted]

005142

[redacted]

[redacted]

[redacted]

Mr Quinn and Mr Molumby left the meeting.

The Commission noted the proposed multi-year capital investment programme in the security infrastructure at the Currency Centre, with an indicative capital cost of [redacted] and approved that the detailed investment plan be developed and progressed via the organisation's governance framework and the appropriate approval sought.

7. **Legal Review – Management Response**

This was taken after Item 9.

The Commission considered Paper No. 39 of 2014.

Mr Gerlach introduced this item. At its meeting on 28 March 2012, the Commission determined that an external review of the legal function of the Bank be carried out. [redacted] and Mr Daire Hogan, [redacted] were appointed as the reviewers. The review was presented to the Commission at its meeting on 23 October 2013. It contained a number of recommendations which, for the purpose of the management response, had been grouped under a number of headings: Resourcing and Staffing; Organisation and Structure; Dialogue and Engagement; Efficiency and Effectiveness; Policy Formulation; ECB and SSM; and, Laws Governing the Bank.

The Review and its recommendations had been considered by the Governor's Committee informed by the input and comments from the Legal Division, Enforcement Directorate and HR Directorate. The management response was broadly in agreement with the various recommendations made. The specific responses along with an action plan for implementation were set out in the accompanying paper (Paper No. 39 of 2014).

Ms Clarke welcomed the Management Response which she said was thorough and had covered all the key recommendations. She asked for clarification on management's view regarding the proposed creation of a further team within the Legal Division to deal with operational issues; this was currently carried out by the same team that dealt with broader

central banking matters. She said she agreed with the response regarding Legal's interaction with the Commission but asked what process would be followed regarding Legal's involvement with other policy making bodies and functions. The Governor said that management had, in principle, agreed with the recommendation on the division of responsibilities as between central banking and operational issues. There were related resourcing and structural issues that needed to be considered and this would be examined in the context of both the broader organisational review and also in the normal planning and budgetary considerations. Regarding the participation of Legal in policy, and related, fora, Mr Gerlach said that the Governor's Committee would consider the appropriate levels of interaction. He said the Committee would consult with Legal on that.

Mr Geraghty cautioned against an overly-influential legal involvement in the running of the organisation. While certain policy matters might rightly require a legal view, it should not be necessary in the day-to-day functioning of the Bank where management should have the responsibility for decision making. Ms Byron said there were cultural issues around this; people do not generally feel empowered if they think a legal view needs to be sought all the time; it was important to also be aware that there were business solutions. It was necessary, she said, to strike the appropriate balance.

The Commission noted the Management Response to the Legal Review.

8. ROSC and PRISM Reviews - Update

This was taken after Item 9.

The Commission considered Paper No. 40 of 2014.

Mr Roux introduced this item. He updated the Commission on the current status of the Report on the Observance of Standards and Codes (ROSC) assessment conducted by the IMF and provided an initial update on the proposed management approach to the review of PRISM, considered by the Commission at its meeting on 30 January 2014. These two items were inter-related given that both addressed potential required revisions in the

supervision framework of the Bank. Both arose in the context of the upcoming entry into application of European legislative changes for banking and insurance supervision, arising directly as a result of the advent of the Single Supervisory Mechanism (SSM) on 4 November 2014 and of Solvency II on 1 January 2016.

Much work had been done within the organisation to raise supervisory standards. PRISM had driven a sea-change in approach within prudential supervision. PRISM had also driven resource allocation and workloads. The recently completed PRISM review represented a timely stock-take of the work done to date and an opportunity to learn from experiences, develop the framework further, and correct course as necessary. However, Mr Roux pointed out that the PRISM review must be read and acted upon together with concurrent reviews and external developments. The Bank's supervisory approach, the tools used to deliver it, and any potential changes to them, must be consistent with international standards and European regulatory and supervisory transformations. To this effect, the accompanying paper (Paper No. 40 of 2014) summarised the dialogue with the IMF about the Bank's observance of international standards in banking and financial markets supervision. Consideration would have to be given in particular to the Bank's engagement model for low and medium low impact firms.

Further information would be given to the Commission to the changes to the banking supervisory approach that would arise from SSM and to the Bank's insurance supervisory approach that would stem from Solvency II. It seemed likely that it would be necessary within the Bank to adopt a sector-dependent differentiated approach to prudential supervision from that point on. This may have far-reaching implications in terms of the engagement model, the priorities for off-site supervision, the conduct of on-site inspections, the Bank's staffing and training priorities, as well as to the system used to support supervisory practices.

The EU-IMF programme commitments required the Bank, during 2013, to request the IMF to conduct a detailed ROSC for Ireland based on the Basel Core Principles for Effective Banking Supervision. The Bank requested the IMF to conduct a parallel ROSC for securities and markets supervision based on the IOSCO Principles. These principles were worldwide benchmarks for assessing the quality of supervisory systems and for identifying future work to achieve a baseline level of sound supervisory practice. Given

the significance of the two pieces of work, and their inter-related nature, Fiona Muldoon, out-going Director of Credit Institutions and Insurance Supervision, would lead a report on planning for the next phase of PRISM, and it was envisaged that the report would be presented to the Commission at its April 2014 meeting together with a report on intended actions arising from the Banking ROSC. A separate piece of work was being conducted on the intended actions arising from the IOSCO ROSC, led by Markets Director, Gareth Murphy.

Mr Roux pointed out that, under the Banking ROSC, the IMF had rated Ireland as 'materially non-compliant' against four of the Basel Core Principles. The first of these concerned the independence of the Bank and was largely an issue for Government. The others related to the use of supervisory techniques and tools, which was around engagement with medium-low banks; related party lending; and anti-money laundering compliance, which was focused on engagement with branches of foreign banks. In the Irish authorities' formal response, which would be published as part of the IMF Detailed Assessment Report, the Core Principles which had been rated as Materially Non-Compliant, would be challenged and commented upon as appropriate. Draft responses were contained in the accompanying Commission paper.

Mr Geraghty said he considered the finding regarding independence to be serious and, in the context of the forthcoming Banking Inquiry, where he said such questions might be explored in the context of previous oversight, it would be very important that this matter be addressed clearly in any response. The Governor said that the Bank had already written to the Minister about this, following it being raised in the IMF Safeguards report at the time of the start of the Troika Programme. Mr Roux noted that the draft response on that particular issue in the current report had been prepared by the Department of Finance. Mr Ahearne said that in any area, if Ireland was found to be non-compliant, it would be important to be balanced and careful in the responses, it may not be sufficient to simply contest the findings. Ms Clarke agreed; she said that while current practice may mitigate the risks it was important to focus on the potential for the future. On the question of independence she felt it would be important that any response from the Department of Finance should acknowledge any potential for conflict, should such exist, and set out what controls may be in place, or state that this would be reviewed. She also requested the Commission be given sight of the detailed descriptions by the IMF of the

matters considered non-compliant. Ms Byron said she agreed with the need to carefully consider the responses and felt that the draft responses should be reviewed before finalisation and they should be forward looking in tone.

The Governor said that the responses should be more forthcoming and not be seen to be merely resisting change. He proposed that the draft responses be further reviewed in light of the discussion. He said that it would be useful to have further dialogue with the Department of Finance on the response to the independence matter. He said that management would revert to the Commission with revised responses, by written procedure if necessary, before finalisation.

The Commission noted the current status of the Report on the Observance of Standards and Codes (ROSC) assessment conducted by the IMF; and the proposed management approach to ROSC and to the revision of PRISM. The Commission further agreed to consider revised responses to the ROSC assessments before finalisation.

9. Fitness and Probity – Appointment of Decision Maker

This was taken after Item 6.

The Governor nominated Ms Clarke to chair the meeting as he was absenting himself for this item.

The Governor, Mr Gerlach and Mr Roux left the meeting.

Ms Clarke assumed the Chair.

The Commission considered Paper No. 46 of 2014.

Ms Clarke introduced this item. She reminded the Commission members present that the Governor, the Deputy Governor (Financial Regulation) and the Deputy Governor (Central Banking) had not received copies of the accompanying paper (Paper No. 46 of

2014) and had absented themselves from the discussions. The matter to be considered was around the appointment of a decision maker by the Commission to make a decision as to whether or not to issue a Prohibition Notice under the Central Bank Reform Act 2010 in relation to a particular individual. Any such appointed decision maker would be delegated the powers and functions of the Commission under Part 3, Chapter 4 of the Act. As the Governor and Deputy Governor (Financial Regulation) had specific statutory roles under this Act, the Bank was previously advised by Senior Counsel that to reduce the potential for successful legal challenge in respect of the delegation process, they should both abstain from participating in the decision to be made by the Commission. [redacted] the Legal Compliance function had also recommended that the Deputy Governor (Central Banking) abstain himself from participating in this decision. Ms Clarke asked the remaining Commission members present if any of them knew the individual concerned or had any connections that may give rise to a potential conflict of interest. The members present confirmed they were not aware of any such personal conflicts.

At its meeting on 24 October 2012, the Commission considered the issue of appointing persons to perform the functions under Part 3, Chapter 4 of the Central Bank Reform Act 2010. These powers and functions related to the decision whether or not to issue a Prohibition Notice pursuant to Section 43 of the 2010 Act, in addition to other ancillary decisions which may arise on foot of this decision, for example, publication of a Prohibition Notice. At that meeting it was agreed that the Commission would be asked to make a decision vis-à-vis the appointment of a decision-maker (to decide whether or not to issue a Prohibition Notice) on a case-by-case basis. The Bank's Regulatory Decisions Unit was now seeking a decision by the Commission for the adoption of a procedure for the appointment of a suitably qualified person to perform the functions of the Bank under the Act in relation to a specific case, outlined in the accompanying paper. This included a decision on the appointment of a decision maker and two alternates from a list of suitably qualified persons.

[redacted]

[redacted]

Mr FitzGerald asked if it were necessary that the decision maker have a particular type of background or skill set. Ms Clarke said she understood the key issues for consideration would be around proper procedures and fairness; there would be support and advice available to the decision maker. At this point, Ms Clarke invited representatives of Legal Compliance and Legal to join the meeting to respond to any further queries.

Ms Hilary Griffey, Head of Legal Compliance; Ms Johanna Morris, Regulatory Decisions Unit, Legal Compliance; and Mr Paschal Finn, Legal Division, joined the meeting.

Ms Byron asked if there were an appeals mechanism open to the individual who was the subject of the potential Prohibition Notice. Ms Griffey said the Prohibition Notice, if issued, would be valid for two months and in that period there was no facility to appeal. After that time, it would be possible to enter into an agreement with the individual or for the matter to be considered by the High Court; if the latter, the onus would be on the Bank to make its case to the Court. Mr Moran asked how important it was for the decision maker to understand the underlying issues or whether it was mainly a procedural consideration. Ms Griffey said the most important factor was procedural but it would be useful that the decision maker would also understand the business issues. Ms Clarke asked how much time would be necessary for the decision maker to deal with the matter. Ms Griffey said at minimum some days, at maximum some weeks. Fair process would likely dictate that.

Ms Griffey, Ms Morris, and Mr Finn left the meeting.

The Commission appointed a Panel of three persons (being a decision-maker and two alternates) to perform the functions of the Bank under Part 3, Chapter 4 of the Central Bank Reform Act 2010 in relation to the case set out in Paper No. 46 of 2014, [redacted]

The Commission also approved the process for the confirmation of the appointed person as set out in Paper No. 46 of 2014; authorised the application of the Seal of the Bank to confirm and evidence the appointment of a person to perform the functions of the Bank under Part 3, Chapter 4 of the 2010 Act; and approved that where [redacted] was prevented by reason of conflict or otherwise from performing a function of the Bank under Part 3, Chapter 4 of the 2010 Act, the relevant process would be repeated for the second identified person on the Panel and thereafter the third.

Mr FitzGerald left the meeting.

The Governor, Mr Gerlach and Mr Roux re-joined the meeting.

The Governor resumed the Chair.

10. Balance Sheet Risks and Appropriation of Profit

This was taken after Item 7.

Gerry Quinn, Chief Operations Officer; Anne Marie McKiernan, Head of Organisational Risk Division; Allan Kearns, Deputy Head of Organisational Risk Division; and Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 45 of 2014.

Ms McKiernan introduced this item. The Central Bank of Ireland (Surplus Income) Regulations, 1943 provided for an appropriation of a maximum of 20 per cent of the Bank's profit in a financial year to the General Reserve. The balance was payable to the Exchequer as surplus income.

The Commission was required to decide at this time on the level of appropriation of profits to the General Reserve in respect of the financial year ended 31 December 2013. The profit for 2013 was currently forecast to be in the region of €1.5bn which compared to a corresponding amount of €1.4bn for 2012. This included an estimated reduction of €52m in the 2013 impairment provision.

Ms McKiernan pointed out the possibility of unrealised losses on the Special Portfolio negatively impacting on profits and financial reserves in future years. While the Special Portfolio was, in overall terms, a significant improvement for the Bank compared to the assets previously held against ELA, the accounting treatment, which required the Bank to record the €25bn Floating Rate Notes on a mark-to-model basis, exposed the balance sheet to possible significant volatility. Internal work had been undertaken to assess possible model-based valuation approaches, which could lower the possible volatility, as much as permissible by accounting standards, but the Bank remained exposed to significant losses that could arise from widening in bond spreads, and it would therefore be important to protect the balance sheet against such losses spilling over into negative capital.

In addition, the Bank's overall financial reserves remained low by comparison with the rest of the Eurosystem, although the balance sheet was less risky than in the early years of the crisis. Other Eurosystem national central banks (NCBs) had been using general provisioning as a way to enhance their buffers. Under the relevant accounting rules, this was something which the Bank could not do at present; as a result it had lagged behind other NCBs in its financial-buffers-to-risks ratios.

[redacted] Ms McKiernan concluded as a final point that the 20% retention still facilitated providing approximately €214m more to the Exchequer than indicated in the estimate provided to the Department of Finance late last year.

Mr Quinn, Ms McKiernan, Mr Kearns, and Mr Power left the meeting.

The Commission approved an appropriation of 20 per cent of net profits to the General Reserve; the collective provision of €350m; and full provision for depreciation in accordance with the Bank's accounting practice.

11. Corporate Safety Statement

This was taken after Item 5.

Mr Quinn and Mr Molumby were present for this item.

The Commission considered Paper No. 44 of 2014.

Mr Molumby introduced this item. The systems for management of statutory health and safety requirements imposed on the Bank had been established by following the international standard for safety management systems. At its meeting on 29 September 2011, the Commission had endorsed the over-arching Central Bank Corporate Safety Statement and had agreed that the Corporate Safety Statement would be presented to the Commission for endorsement on an annual basis.

The only changes to the 2014 Corporate Safety Statement compared to the 2013 version, related to the post holders as set out in its appendices. The Annual Report, attached to Paper No. 22 of 2014, detailed all environmental health and safety performance related achievements including the necessary engagement with all divisions in the development of health and safety risk assessments; and the development and launch of mandatory in-house e-learning based Display Screen Equipment training and risk assessment programmes.

The Governor noted the very high level of compliance recorded. He asked if the process was renewed on an ongoing basis, and how such high levels might be maintained. Mr Molumby said the aim was for continuous improvement. There were no proposals for radical change in terms of how these matters were addressed, but there was ongoing

monitoring and engagement to keep this on the agenda of all management and staff members. Mr Geraghty asked if training was an important factor. He noted there had clearly been a good investment in recent years to get the Bank to a level of good awareness, but this needed to be maintained. Mr Molumby confirmed that training was a very significant input and there was a strong commitment to maintaining that.

Mr Quinn and Mr Molumby left the meeting.

The Commission noted the Annual Report on Environmental, Health and Safety performance; and approved the revised Central Bank Corporate Safety Statement.

12. Provisional Statement of Accounts 2013

The Commission considered Paper No. 21 of 2014. This had also been considered by the Audit Committee at its meeting on 24 February 2014.

The Commission noted the Provisional Statement of Accounts 2013.

13. Budget Outturn 2013

The Commission considered Paper No. 47 of 2014. This had also been considered by the Budget and Remuneration Committee at its meeting on 19 February 2014.

The Commission noted the Budget Outturn 2013.

14. Review of Investment Performance 2013

The Commission considered Paper No 29 of 2014. This had also been considered by the Risk Committee at its meeting on 24 February 2014.

The Commission noted the Review of Investment Performance 2013.

15. **Legal Responsibilities of the Commission under SSM**

The Commission considered Paper No. 49 of 2014.

The Commission noted the Legal Responsibilities of the Commission under SSM.

16. **Delegation of Powers and Summary of Powers Retained by the Commission**

The Commission considered Paper No. 48 of 2014.

The Commission noted the Delegation of Powers and Summary of Powers Retained by the Commission.

17. **Supervisory Update**

This was taken after Item 8.

The Commission considered Paper No. 50 of 2014.

Mr Roux introduced this item. He updated the Commission on a number of matters.

[redacted]

Financial Services Ombudsman

The Financial Services Ombudsman was publishing his half yearly report on 26 February 2014 which would contain details of the cases he dealt with in the second half of 2013. The report would, for the first time under new powers, contain details on the findings issued against individual financial service providers.

Credit Unions – Judicial Review

[redacted]

Insurance Compensation Fund

There were potential calls on the Insurance Compensation Fund arising from difficulties in insurance firms, based in the UK and Iceland, that were operating in the Irish market place and selling products to Irish customers. Any such calls on the Fund would likely be small, but there was a worrying trend emerging, following the recent experience with Setanta Insurance as previously reported to the Commission.

Mr Moran asked what the Bank could be doing, potentially with other regulators, to reduce the incidence of such difficulties impacting on Irish customers and on the Irish Insurance Compensation Fund. There were reputational as well as financial issues at stake. Mr Roux said that, in the case of EU-based firms, they were operating legitimately on the single market basis and it was not possible to challenge this. [redacted] Ms Byron suggested that the Consumer directorate could potentially have a role in providing some public information on these matters. Mr Roux noted that there were already customer disclosure and advertising requirements around identifying the jurisdiction in which a firm was regulated.

Credit Unions – Resolution

The Governor noted that the Bank may be going to the High Court in the coming days to seek approval for the transfer of a small credit union to a neighbouring credit union. This resolution process was advanced and likely to conclude very shortly. There was no objection from the credit union involved and, to date, the process had gone smoothly.

18. Risk Information Pack

The Commission considered Paper No. 35 of 2014.

The Commission noted the Risk Information Pack.

19. Minutes of Sub Committees

The Commission noted the minutes of the meetings of the Joint Audit and Risk Committees of 7 October 2013; the Risk Committee of 28 November 2013; the Audit Committee of 9 December 2013; and the Budget and Remuneration Committee of 9 December 2013.

20. Any Other Business

There was no other business.

The meeting concluded.

Patrick Honohan

Governor
26 March 2014

MINUTES OF MEETING NO. 43 OF THE CENTRAL BANK COMMISSION OF 26 MARCH 2014

In attendance: Governor (Chair), Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, John Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Alan Ahearne

1. Minutes of Meeting of 26 February 2014

Under Item 5 – Strategic Plan 2013-2015 – Mr Soden said he wanted it recorded in the minutes that any additional merit days awarded under the Performance Management and Development Programme (PMDP) would not be included in annual leave carryover and therefore not subject to any payment in lieu of contractual annual leave days, recently agreed under the Foster Agreement. The Governor said that he was informed by the Human Resources Directorate that merit leave days must be used in the annual leave year in which they were granted and could thus not be included for the purpose of carryover. The first days of annual leave taken in any year were deemed by HR to be merit leave, until such leave was exhausted, and therefore could not be carried forward at year end. The Human Resources Directorate was ensuring that merit leave could not be included in the current pay in lieu of contractual annual leave arrangements.

Ms Byron said that press reports of today created a perception that the Bank was out of line with the wider public service in its awarding of merit leave to staff. This was an issue the Bank needed to be alive to and to be in a position to address it in the public domain. The Governor said that while merit leave was not the ideal reward mechanism it was the only one currently open to the Bank and that it was fully defensible. There was a strong process around it, including Commission approval. He said there were risks with having overly-rigid rewards for staff and that it should be recognised that staff in the Bank took a series of significant pay cuts, while those in some other state agencies did

not. Mr Roux noted that the Bank was competing for staff both domestically and now also with the ECB through the Single Supervisory Mechanism. It was therefore necessary to look at pay and rewards in the Bank through these prisms. Mr Moran suggested that the time to address this in public was probably when the Governor was next appearing before a Joint Oireachtas Committee.

The minutes of the meeting of 26 February 2014 (Meeting No. 42) were agreed pending Mr Soden's proposed addition to Item 5.

2. Matters Arising

Howth-Sutton Credit Union

The Governor noted that on 5 March 2014 the High Court granted a transfer order with immediate effect under the Central Bank and Credit Institutions (Resolution) Act 2011, transferring all of the assets and liabilities of Howth-Sutton Credit Union to Progressive Credit Union as transferee. Under a financial incentive agreement between the Bank and Progressive Credit Union, Progressive Credit Union received a cash financial incentive of €2.15m from the Resolution Fund. This resolution action followed an extensive supervisory engagement over a three year period by the Registry of Credit Unions (RCU), including a series of regulatory directions and restrictions being placed upon Howth-Sutton Credit Union. During that period, Howth-Sutton Credit Union engaged in discussions regarding a voluntary transfer of engagement with two other credit unions but neither of the proposed transactions completed. In January 2014, the Credit Union Restructuring Board (ReBo) indicated to the Bank that there was no restructuring solution (in terms of a transfer of engagement or amalgamation with another credit union) for Howth-Sutton Credit Union that it could support or recommend. All of the relevant steps to secure the successful transfer order were conducted in an expedited manner by the Bank.

IMF ROSC Review

Mr Whoriskey noted that a paper for information was circulated on 25 March 2014 setting out the revised responses to the Banking ROSC review.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. Referring to a newspaper report, citing the views of unnamed ECB personnel concerning the pace of sale of the special portfolio bonds, he said that this had been discussed at the level of the Governing Council in the context of its annual review of compliance with Articles 123 and 124 of the Treaty which dealt with monetary financing. It was expected a specific reference would be made to this in the ECB Annual Report, due for publication on 7 April 2014, stating that while the liquidation of IBRC raised serious monetary financing concerns, these concerns could be somewhat mitigated by the disposal strategy of the Central Bank of Ireland. The Governor recalled that when the Bank first took these bonds on to its balance sheet in exchange for the Promissory Notes an agreed minimum disposal plan was set out, with any disposals above that minimum amount only taking place subject to financial stability conditions permitting. This approach was not disputed at the level of the ECB. The Governor said he had informed the Governing Council of the disposals to date, which in fact had exceeded the minimum amount. The stance of the ECB, to be outlined in its Annual Report, was not inconsistent with this overall strategy and, in fact, it represented an important milestone in the process. This would be reviewed annually by the ECB. It was proposed to bring a paper to the Commission at its April 2014 meeting setting out an assessment of financial stability conditions for the purpose of the disposal strategy.

Mr Geraghty said he had some concerns regarding a recently published letter from ECB President Draghi to Deputy Michael McGrath. He questioned the protocol around this and the sensitivity of such matters being raised in the public domain by the ECB President in this way. The Governor said that in the current environment the media and commentators tended to give heightened attention to some matters. In this case the issues addressed by President Draghi were consistent with the Bank's own frequently expressed views regarding the need for the banks to continue to address a number of

issues. The Bank had also made it clear publicly as to why it did not publish the outcome of the Balance Sheet Assessments as it was part of the overall Comprehensive Assessment, the outcome of which was due to be published in October of this year. The usual practice regarding communications with parliamentarians was that the ECB communicated with the European Parliament while the national central banks communicated with their own national parliaments. He asked if the Commission wanted to formally raise any concerns with the ECB on this particular communication; members agreed that it would be sufficient were the Governor to discuss it informally.

The Governor updated members on the preparations for the SSM stress testing. The modelling for the stress tests was going through several iterations; the Bank was involved in various technical discussions with the ECB on this and it was anticipated that the models would be decided on around mid-April 2014.

The Commission noted the update on Euro Area Developments.

4. Financial Operations

Maurice McGuire, Director Financial Operations; and Daragh Cronin, Head of Payments and Settlements, joined the meeting.

The Commission considered Paper No. 64 of 2014.

Mr McGuire introduced this item. The accompanying presentation (Paper No. 64 of 2014) provided an overview of the structure of the Directorate, how it had been managing the various challenging issues that arose out of the financial crisis, an update on major projects, and upcoming issues. The work was conducted against a backdrop of on-going staff development, including active mobility of staff, secondments and training and development.

Mr McGuire set out a number of developments at the Eurosystem level. This included a decline in outstanding Eurosystem liquidity support which had been facilitated by the

early repayment operations for the three-year Long Term Refinancing Operations (LTROs). Other developments included the adoption by the Governing Council of various legal acts to give effect to changes to the Eurosystem collateral framework. The Bank had also been at the forefront of efforts at Eurosystem level to study the implications of new Basel III regulatory measures for money markets and monetary policy.

On the domestic front, the most significant change had been the acquisition of the special portfolio, following the liquidation of IBRC earlier in 2013. Mr McGuire circulated material at the meeting which updated a slide in the accompanying paper (Slide 13) concerning the holdings and disposals to date of the Special Portfolio. Of the €42.586bn of assets acquired under the IBRC liquidation, €4.397bn, primarily of NAMA bonds, had to date been either redeemed or disposed of. The forecast to end-Q2 2014 included a further €5.135bn of NAMA bond redemptions with provisional further redemptions of €2bn of these NAMA bonds in the second half of the year. Of the Irish Government Bonds in the Special Portfolio, to date there had been €575m of disposals. The management of the Bank's investment assets over the coming years would be strongly influenced by the ECB's annual Article 123 review and its regular reviews of the Agreement on Net Financial Assets (ANFA) as well as the Bank's own Asset Management Review Group considerations, which was a matter due to be discussed at today's Commission meeting.

Mr McGuire updated the Commission on some of the major projects that were currently progressing within the Financial Operations Directorate. A new Local Collateral Management System (LCMS), a mandatory project motivated by a Governing Council decision to provide additional collateral management services, was well advanced. A third party-provided software package had been selected and testing of the solution had commenced with a 'go live' date of 29 September 2014 envisaged. The total project costs over five years would be in the region of €8m to €9m. The Bank had also selected a supplier to provide a new Local Market Operations Platform (LMOP) to enable straight-through processing of trades, thereby reducing risks. This was due to be delivered by Q1 2015 with total five year costs of €6m to €7m.

Regarding the Deposit Guarantee Scheme (DGS), capability was now in place for both credit unions and banks. A public awareness initiative was due to commence shortly with

the credit institutions. DGS had been activated for the first time for the IBRC Special Liquidation. Under the National Payments Plan, Government-to-business cheque usage was due to end in September 2014 and awareness was being raised around an 'E Day' initiative for this. The one and two cent rounding trial had successfully completed and it was now a matter for the Minister for Finance to decide on whether this should be rolled out nationally. A big challenge was around the pricing of electronic transactions which was out of line with costs and would always be a barrier to migration unless something changed. Regarding the Single European Payments Area (SEPA) initiative, migration was almost complete and a limited extension of 31 March 2014 had been availed of following the European decision to extend to August 2014.

Mr Geraghty noted the reference in the Paper to the secondment of staff from the Bundesbank and asked what the rationale was for this. Mr McGuire said it was part of an internship training programme run by the Bundesbank. Secondments were not a one-way street and the Directorate had recently seconded a staff member to the Banque de France. In general such arrangements were very positive for both institutions. Mr Moran queried the proposed public information campaign on the DGS; he said that, depending on the nature of the campaign, there could be a risk that people mis-interpret the intent and link it to developments such as the forthcoming stress tests. Other members also expressed some concerns. Mr McGuire said that the initiative would be relatively low-key. The Governor proposed that a note setting out the proposed approach be prepared and circulated to members. In the context of the NPP, Mr Moran also asked if the Bank had any information on the current and potential future use of non-banking based payment systems, such as Realex and PayPal. He also wondered if the Bank should be considering whether or not such systems required regulation. Mr Cronin said that the Bank would be in favour of choices in the payments system but he did not have any particular data to hand. He said he would prepare some information on this for the Commission.

The Commission noted the Financial Operations Update.

Mr McGuire and Mr Cronin left the meeting.

5. Asset Management Review

This was taken after Item 12.

Anne Marie McKiernan, Head of Organisational Risk; John Geelon, Organisational Risk Division; Leon Fernandez Brennan, Organisational Risk Division; and Conn Creedon Financial Markets Division, joined the meeting.

The Commission considered Papers No. 66 and 67 of 2014.

Mr Gerlach introduced this item. In late 2012 an internal working group, the Asset Management Review Group, was established to review the Bank's strategic approach to the management of its investment assets. The Group presented a preliminary report to the Commission meeting on 20 September 2013 examining background issues. That report concluded that further work would need to be undertaken on a range of issues, including a review of the Bank's strategic asset allocation, analysing the implications for profitability and financial buffers of changes to asset allocation, and assessing implementation options and operational challenges related to changes to asset allocation. These issues were discussed in the accompanying paper (Paper No 66 of 2014), which presented work undertaken within the Bank on strategic asset allocation. This work was part of an on-going effort to enhance the Bank's investment management capabilities. The report concluded with asset allocation policy proposals, focusing on increasing the range of eligible asset classes that the Bank could invest in, and on possible lengthening of the Bank's investment horizon, for consideration by the Commission.

A separate paper (Paper No. 67 of 2014) set out the Eurosystem context for strategic decisions in relation to the Bank's investment assets. In addition, the Group also committed to review the Bank's investment governance structures and to develop a statement of investment principles. That work would be presented in a separate report to the Commission later in the year focused on investment governance.

Mr Gerlach noted that the Bank had a narrower range of investment asset classes than many other national central banks (NCBs) but somewhat lower credit risk standards; the assets were all in euro and fixed-income in nature and were mostly sovereign. The Bank's financial buffers were small relative to the risk shared assets; however there was currently limited capacity to build up these buffers as, under legislation, at most only 20 per cent of profits could be retained; and the accounting and legislative framework

constrained the creation of provisions. This contributed to an historic unwillingness to accept a loss in a given year with the result that the investment focus tended to be on a one year horizon. It therefore seemed sensible to examine the Bank's investment approach in the context of diversification, the time horizon, the ability to build buffers and the related profit distribution constraints.

Ms McKiernan provided an overview of the work undertaken to date. The main issues covered included a review of the Bank's investment objectives; trends in other NCBs; a risk/return analysis of possible investment classes and investment horizon; an outline of some 'candidate' portfolios to help illustrate risk appetite; and the potential balance sheet impacts. Regarding asset classes and diversification, a range of options was available, although there were no recommendations being made at this time. Investment options included covered bonds, which is already a Commission-approved asset class, but not currently in use in the Bank's own portfolios; corporate bonds; equities; non-euro sovereign assets; and currencies. The trend among NCBs was for some investments to be placed into non-traditional instruments, but these were at relatively low allocations. Regarding a longer term horizon, it was useful to note that NCBs generally had long-term objectives, less need for liquidity and the ability, albeit temporarily, to operate with negative capital. However, there was also a counter-balancing tendency to avoid losses in one calendar year. Ms McKiernan presented some examples of the impact of a longer term horizon on the probability of loss, based on variously diversified portfolios. The next steps in the process were to continue to build capacity, to undertake additional analysis, to examine the operational challenges, and to review the investment governance structures.

Mr Soden said that a challenge in taking a more diversified investment approach would be on acquiring the skill-sets and on the management of the people who would be involved. He noted in particular the different risks – especially credit risks - to be managed when moving from a trading mind-set to an investment mind-set, and the importance of top quality talent when making such a transition. He said there were potential reputational risks for the Bank to consider when undergoing changes to its investment mandate, and queried the respective role of the Bank and the NTMA in managing assets on behalf of the State. Mr Gerlach said that a careful consideration of risks was indeed necessary; however nothing radical was being proposed. If this were to progress further, the Bank would be moving towards the NCB average approach and not

away from it. Reputational risks arguably already existed in that the Bank may be earning less than it could because of the current investment approach. Ms McKiernan added that many other NCBs had taken this route before and they had done so on a careful, phased basis over a number of years, sometimes utilising external managers, building up internal capability and migrating certain expertise in-house over a period.

Mr FitzGerald also focused on the mandate of the Bank and asked for clarity that any changes would not contravene the statutory objectives of the Bank. He said the Bank already had a significant risk on its balance sheet through the Special Portfolio and in choosing our investment strategy we should bear this in mind. He said that there were broader national considerations regarding other investment arms of the State and the concept of a national portfolio. Mr Geraghty said that the concept of a longer-term horizon had an appeal and, while better management of the investment portfolio would be welcome, there was a need to be cautious and he was not in favour of a speculative approach. He also said that there was the question of the need to increase the Bank's capital buffers to be considered. Ms Byron said it was very important to have the type of analysis presented today and welcomed the increase in capability and analytical rigour with respect to investment policy. She too was in favour of better outcomes in terms of returns, balanced with a proper consideration of risks. She was in favour of innovation generally, but the strategic positioning needed to be carefully managed. Ms Clarke felt the Paper covered off all of the key issues. This work was important as the Bank had a responsibility to manage its assets wisely. She was happy to see work on this continuing. She queried the feasibility of being able to manage a more active asset management function in-house. Mr Moran welcomed the breadth of the stocktake on investment asset issues. He said while it should not be divorced from the other national portfolio, as the ultimate beneficiary was largely the same. He wanted to make it clear that this work was not influenced or requested by the State, the Bank was taking its own specific examination separate to any other factors. However, it should be possible for different arms of the State to share certain information to ensure that conflicting issues did not arise, and at the same time for the Bank to protect its independence in this as in other matters.

Mr Gerlach thanked the Members for their input which was very useful. He reiterated that there would be no proposals that would go any further than what was approaching the norm in other comparable NCBs. The Governor added that wider Eurosystem

considerations, including the Agreement on Net Financial Assets (ANFA), discussed as part of the previous item, would ultimately have a strong influencing factor on the Bank's abilities to deal with such matters. In the meantime, work on this would continue. As the work continued, updates would be brought to the Commission at the appropriate time.

The Commission noted the Asset Management Review.

Mr Geelon, Mr Fernandez Brennan, and Mr Creedon left the meeting.

6. Statement of Accounts 2013

Ms McKiernan remained for this item. Gerry Quinn, Chief Operations Officer; Fergal Power, Head of Financial Control and Procurement Division; Michael Fagan, Deputy Head of Financial Control and Procurement Division; Yvonne Dunne, Financial Control and Procurement Division; and Allan Kearns, Deputy Head of Organisational Risk Division, joined the meeting.

The Commission considered Paper No. 58 of 2014. This item had already been considered by the Audit Committee at its meeting on 24 March 2014.

Mr Quinn introduced this item. The Financial Accounts had been audited by both external auditors: the Office of the Comptroller and Auditor General (C&AG) and RSM Farrell Grant Sparks. The draft Statement of Accounts for the year ended 31 December 2013 was considered by the Audit Committee at its meeting on 24 March 2014, which was attended by representatives from both the C&AG and RSM Farrell Grant Sparks. As the C&AG had not yet completed its final review, further minor changes may arise. On approval by the Commission and formal certification by both external auditors, the Statement of Accounts would be published in the Annual Report for 2013.

The Surplus Income payable to the Exchequer this year, after the transfer of 20 per cent of profit to the General Reserve which amounted to €304.5m, as agreed by the

Commission at its meeting on 26 February 2014, was €1,205.8m. This compared to the estimate of €1,204.1m provided to the Commission at its meeting on 26 February 2014.

As at 31 December 2013, a net pension liability of €84.6m was recognised in the Balance Sheet, representing the difference between the Bank's estimated superannuation obligations and the fair value of the pension fund assets at that date. All pension-related details had been calculated by consulting actuaries Lane Clark and Peacock Ireland Limited (LCP). The actuarial assumptions were approved by the Governor's Committee and were discussed by the Audit Committee at its meeting on 24 February 2014. The assumptions used in determining the Bank's underlying superannuation liability were outlined in Note 32 of the draft Financial Statements.

Mr Power noted that as the accounts remained subject to final review by the external auditors, some additional disclosures may be necessary. Any further changes would be submitted to the Commission for its approval by written procedure.

6(a) Valuation Policy for the Floating Rate Notes

The Commission considered Paper No. 61 of 2014. This item was also considered by the Audit Committee at its meeting on 24 March 2014.

Mr Kearns introduced this item. The accompanying paper (Paper No. 61 of 2014) outlined the Bank's policy for valuing the portfolio of long-dated Irish Floating Rate Notes (FRNs). The Bank's policy was to use a discounted cash flow model. The model aimed to make maximum use of available market information. Cash flows were discounted using the Irish zero coupon yield curve. As Irish sovereign bonds may not be traded at all of the required tenors, an extrapolation method may be required. A standard method of extrapolation in the valuation model was to take the yield of the longest maturity traded Irish government bond and then apply changes from observable data for other sovereigns' yield curves. An adjustment to the extrapolated yield curve method may be required if this standard extrapolation produced long-term Irish yields which were unreliable. The paper concluded with a summary of the governance process to be followed in future years to approve the key assumptions and the valuation for inclusion in the annual Financial Accounts.

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6(b)Overview of the Valuation Methodology and Policy for the Special Portfolio of Floating Rate Notes

The Commission considered Paper No. 77 of 2014.

Mr Kearns introduced this item. The assets in the Special Portfolio were acquired as part of the liquidation of IBRC in February 2013, and included €25bn of Irish government floating rate notes (FRNs). The Bank acquired a portfolio of eight Irish FRNs, maturing between 2038 and 2053. The nominal value of the combined positions at acquisition was €25.034bn, but by end-2013 there had been unrealised gains of €2.83bn based on a marked to model valuation approach. The accompanying paper summarised the FRN valuation methodology. An internal model had been developed to value these positions. The key steps and assumptions in the model were to estimate the cash flows arising from the FRNs (coupons and maturity payments); discount the cash flows to obtain a present valuation; and, repeat this process to track the valuation over time.

There were a number of assumptions in the valuation approach. The key assumption related to the discount rate. The discount rate applied should be the Irish zero coupon yield curve. At present, Ireland had ten benchmark bonds with maturities extending across the yield curve to 2025. The key challenge with valuing longer-dated positions was how to extrapolate the Irish sovereign zero-coupon yield curve beyond the maturity of traded Irish sovereign bonds (i.e. 2025). It was crucial that the chosen methodology could be justified by statistical analysis, economic intuition and professional judgement. The Bank's valuation model currently used changes in Spanish, Italian and French yields to extrapolate the Irish sovereign yield curve from the last observed point on the Irish curve (2025), to the last maturity of the FRNs (2053). Other reference curves may be used over time if they were deemed more reliable.

In certain circumstances, an adjustment to the extrapolated yield curve method might be required when the standard extrapolation produced long-term Irish yields which were unreliable. The adjusted yield curve was only used when it produced discount factors that were deemed to more accurately capture the risk associated with the FRNs.

The Bank engaged KPMG to review the proposed modelling approach and the valuation framework. KPMG was satisfied that the Bank's approach was consistent with the applicable accounting and reporting standards.

Ms Clarke confirmed that the valuation policy had been discussed by the Audit Committee at its meeting on 24 March 2014 and the Committee was happy to recommend its adoption to the Commission. She noted that the auditors had highlighted the importance of the Commission being aware of its responsibilities in this regard.

Ms McKiernan and Mr Kearns left the meeting.

6(c) Industry Levy – Impact of Exceptional Items

The Commission considered Paper No. 62 of 2014. This item was also considered by the Audit Committee at its meeting on 24 March 2014.

Mr Quinn introduced this item. On an annual basis the Bank made Regulations designed to recoup roughly 50 per cent of the budgeted cost of financial regulation activities from the financial service providers. The amount to be levied in a given year was calculated in advance, based on the budget for that year. After the year end, and as part of the preparation of the following year's levy, the actual cost of regulation was calculated. The difference between the budgeted cost initially levied on the industry and the actual cost based on the final outturn was quantified; the over/under recovery was used to adjust the following year's levy. This information was disclosed in the annual accounts. In 2013, a number of exceptional items of expenditure were incurred by the Bank in the course of its work; these concerned expenses relating to Onerous Leases, Holiday Pay Accrual, Fixed Asset Write-Offs, and Accelerated Depreciation.

In light of the fact that these items had the potential to significantly distort the amount to be raised from industry in 2014 (as a result of their impact on the required adjustment in relation to 2013), it had been considered appropriate to seek Commission approval of the approach to be taken. Management had identified two options; the first, which was the option recommended by management, would be to levy the costs of the accelerated depreciation and fixed asset write offs; levy for the holiday pay accrual over one or more years; and not to levy the cost of the onerous lease on the industry. The second option identified was to levy all costs on the industry, including the onerous lease costs, over one or more years.

Mr Roux noted that the management discussion, which took place at the level of the Governor's Committee, had focused primarily on the impact the onerous lease costs would have on the industry levy. As the accounting recognition meant that the Bank would essentially have to forecast potential future costs associated with the lease, it was recognised that these costs ultimately may or may not have to be borne by the Bank and therefore consideration had to be given to charging for costs that may not all ultimately be borne. There were also the potential reputational issues surrounding the Bank levying a fee on industry to pay for a property decision made some years ago.

Ms Clarke confirmed that this had been discussed at the Audit Committee meeting of 24 March 2014. She noted that the Committee had recognised that the property decision in question was taken in good faith at the time. The recommendation of the Audit Committee was for the Commission to approve the second option, which included levying the onerous lease. However, the Committee was of the view that the costs of the onerous lease should be spread over a period of years and recovered in that period on the basis of when the actual costs accrued to the Bank, rather than recouped in a single year. This would avoid a 'spike' in costs to industry and, if the rental income was better than anticipated in the accounting treatment, the costs may not be as high as currently set out.

Ms Byron said she agreed with the Audit Committee suggestion; to treat the onerous lease differently to other costs, vis-à-vis the levy, could potentially open up debate as to what other costs might be excluded in the future. Mr Soden said that regardless of the approach, the consumer would end up paying for the costs at the end of the day, either in taxes or in charges by industry. He said that adding costs to the banking sector would only delay its recovery. Mr FitzGerald said that at the Audit Committee meeting he had supported the option now being recommended. For him it came down to charging the industry or charging the taxpayer and he was not in favour of charging the taxpayer in this regard. He said that it was open to the Commission to take a common-sense approach in how the onerous lease costs would be applied to industry and he felt the Audit Committee recommendation was sensible. He added that the Commission had previously agreed that the Minister be written to with regard to increasing the proportion of costs levied to industry from the current 50 per cent level to 100 per cent. The Governor noted that the Minister had been communicated with and this option always remained open to the Minister.

Mr Quinn noted that it was also recommended that the costs of the holiday pay accrual be spread over a three year period but that the fixed asset write-offs, and accelerated depreciation be levied in one year. Mr Power said that the approach now recommended would require final checking with the external auditors but that it was not anticipated it would cause any issues. He added that it would also require the recognition of an asset in respect of costs incurred in the current year but to be recouped in future years.

Mr Quinn, Mr Power, Mr Fagan, and Ms Dunne, left the meeting.

The Commission:

- **Approved the draft Statement of Accounts for the year ended 31 December 2013 incorporating the Financial Operations chapter, subject to final certification by both external auditors;**
- **approved the valuation policy;**
- **approved the valuation methodology;**
- **approved the application of the levy on industry to include the costs of the onerous lease, as those costs accrued to the Bank; the costs of the holiday pay accrual, to be applied over three years; and the costs of the fixed asset write-offs and accelerated depreciation.**

7. Annual Statement on System of Internal Controls

Mr Quinn, Mr Power, Ms McKiernan, Mr Kearns, Mr Fagan, and Ms Dunne, were also present for this Item.

The Commission considered Paper No. 68 of 2014. This item had already been considered by the Audit Committee at is meeting on 24 February 2014, and subsequently by the Audit Committee by written procedure.

The accompanying paper (Paper No. 68 of 2014) set out that the Central Bank Commission reviewed the System of Internal Controls annually and that the Annual Statement of Accounts included a Statement of Internal Financial Controls that was

signed by the Governor. The accompanying paper provided a high-level overview of the major categories of internal controls within the Bank, highlighting various enhancements introduced during 2013. The background information in this paper would form the basis of the Statement on Internal Financial Controls.

This paper was considered by the Audit Committee at its meeting on 24 February 2014. The Audit Committee subsequently noted, by written procedure, the current system of internal controls that the Bank had in place and also agreed to recommend the draft Statement on Internal Financial Controls to the Commission.

Mr Power noted that there remained final sign off by the external auditors on the Statement of Internal Financial Controls and that it may be necessary to include an additional reference to procurement compliance. Any changes would be submitted to the Commission for its approval by written procedure.

Mr Quinn, Mr Power, Ms McKiernan, Mr Kearns, Mr Fagan, and Ms Dunne, left the meeting.

Ms Clarke noted that the Audit Committee had to delay its approval of the System of Internal Controls due to a delay in relevant information being made available to Internal Audit from a particular division in the Bank. The Governor confirmed that he had been made aware of the matter.

The Commission reviewed the effectiveness of the system of internal financial controls for the year ended December 2013; noted the current system of internal controls that the Bank had in place, including the initiatives completed during 2013; and agreed the draft Statement on Internal Financial Control for inclusion in the forthcoming Annual Statement of Accounts, subject to final certification by both external auditors.

8. Annual Report and Annual Statement on Regulatory Performance

This was taken after Item 10.

The Commission considered Paper No. 69 of 2014.

Mr Whoriskey introduced this item. The accompanying paper (Paper No. 69 of 2014) set out the structure and content of the Bank's Annual Report 2013 and Annual Performance Statement (Financial Regulation) 2013-2014. Both draft reports were also contained within the paper. Some final editing was underway and some sections, including the Governor's Foreword, would be finalised closer to publication date. Pending the sign off on the accounts by the external auditors, it was planned to publish both the Bank's Annual Report, together with the Statement of Accounts for the year ended 31 December 2013, and the Annual Performance Statement, relating to its regulatory activities, on 30 April 2014.

The Commission approved the Annual Report and the Annual Performance Statement (Financial Regulation); and delegated approval of any final changes to the Annual Report and Annual Performance Statement (Financial Regulation) to management.

Ms Clarke left the meeting.

9. Superannuation Fund – Appointment of Professional Trustee

Martin Langan, Deputy Head of Human Resources, joined the meeting.

The Commission considered Paper No. 70 of 2014.

Mr Langan introduced this item. The current Trustee Board for the Central Bank of Ireland Superannuation Scheme consisted of two member-nominated trustees, Ms Derville Rowland and Mr Alan McCormack, and three Bank-appointed trustees,

Mr Brian Halpin, Mr Joe Gavin and one Professional Trustee. Willis Trustsure Ltd had acted as Professional Trustee since the establishment of the Superannuation Fund in October 2008. The Trust Deed for the Central Bank of Ireland Superannuation Scheme stated that the appointment or removal of trustees was a decision which must be taken by the Bank. The then Board of the Bank approved the appointment of Willis Trustsure Ltd for an initial 18-month period in 2008, and their retention as Professional Trustee was approved by the then Board of the Central Bank in 2010.

While there had been no issues with the service provided by Willis Trustsure Ltd, it was considered that a full tender process should be completed now that the Funded Scheme was well established, in order to ensure compliance with standard public procurement rules. Four submissions were received to the tender from [redacted] On the basis of the outcome of the assessments of the tender, as detailed in Paper No. 70 of 2014, it was recommended that the contract be awarded to Willis Trustsure Ltd.

Ms Byron said that some of the wording on the tender outcome should be reviewed to reduce the risk of a challenge from any of the incumbents. While the scoring was clear, it was important that the text was consistent with that. Mr Langan said that the wording of the assessment would be revised to better reflect this.

Mr Langan left the meeting.

The Commission approved the appointment of Willis Trustsure Ltd as Professional Trustee for a two year period, with an option to extend the contract by a further year if required.

10. Enforcement Policy

This was taken after Item 7.

Derville Rowland, Director Enforcement, joined the meeting.
Ms Clarke was also present for this item.

The Commission considered Paper No. 71 of 2014.

[redacted]

[redacted]

[redacted]

3[illegible]176

[redacted]

11. IMF ROSC Securities and Markets Assessment

This was taken after Item 9.

Gareth Murphy, Director Markets Supervision; and Mr Grellan O'Kelly, Deputy Head of Investment Firms and Funds Supervision, joined the meeting.
The Commission considered Paper No. 73 of 2014.

Mr Murphy introduced this item. The IMF conducted an assessment of Ireland's compliance with the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation in September 2013. There followed a period of dialogue with the IMF in order to conclude on their report and recommendations, culminating in the submission of the official response of the Irish Authorities on 16 January 2014.

The official response from the Irish Authorities, which would be published along with the final report, adopted a tone and format similar to other jurisdictions' responses where assessments against the IOSCO Principles had taken place. The response noted that the Irish Authorities committed to critically appraise current practices in light of the IMF recommendations with a view to taking action where appropriate. The response

disagreed with the IMF's assessment with respect to one principle and expressed the view that a 'not applicable' rating should have been applied as the principle was aimed at jurisdictions that had domestic clearing and settlement market infrastructures and the assessors did not appear to take account of the nature of supervisory cooperation and reliance which is part of the European System of Financial Supervision.

In total, the IMF made 29 recommendations. Of these, 20 were addressed to the Bank. It was proposed that the Bank would take action in respect of 11 of them. The remaining nine recommendations were addressed to external bodies and the Bank would highlight in writing to these bodies the specific IMF recommendations. As part of the preparations for the ROSC, Bank staff had also identified a further five areas where further action could be taken internally and one area where action could be taken by an external body.

The Governor noted the assessment was very detailed and asked if this had proved challenging to engage with. Mr O'Kelly noted the process had been challenging and had not been faced before by the Bank. An initial self-assessment ran to more than 500 issues that needed to be set out before the IMF visit and assessment; it was instructive in that it set out the huge amount of ground the Bank covers in this area and it proved a very beneficial exercise overall. Mr Roux said he hoped it would help demonstrate to the Commission the amount of work that is done on a daily basis but which may not get attention at Commission level.

Ms Byron noted the reference to indemnity of staff under Section 33AJ of the Central Bank Act 1942 as mentioned under Principle 2, and asked if the same indemnity applied to Commission members. She also referenced Principle 16 regarding the disclosure of information and queried what other financial information might be disclosed under the recommendations of the IMF. Mr Murphy said the Bank would be writing to the Department of Jobs, Enterprise and Innovation for consideration of this item as it was a legislative issue. The Bank was not intending to set out or recommend what 'other information' would be disclosed. Regarding the indemnity issue; this would be raised with Legal Division as regards its applicability to Commission members.

The Commission:

- **noted that the IMF's Report on Observance of Standards and Codes regarding the implementation of the IOSCO Objectives and Principles of Securities Regulation in Ireland was complete and awaiting publication by the IMF;**

- **noted that the IMF had made specific recommendations with regards to current practice and that the Bank intended to take action in relation to some but not all of these areas; and**

- **noted that relevant Central Bank divisions, led by the Markets Directorate, had identified some further areas, not identified by the IMF that would be considered for action.**

Mr Murphy and Mr O'Kelly left the meeting.

12. Analysis of Operational and Market Developments in 2013

The Commission considered Paper No. 74 of 2014.

It was intended that the accompanying paper (Paper No. 74 of 2014) be published in the Q2 Quarterly Bulletin on 3 April 2014, as a signed article.

In 2013, developments in the European periphery and emerging markets remained a focus for market participants. Meanwhile, monetary policy announcements by the key central banks continued to be a driver of financial market developments. In the article the authors reviewed 2013 and early 2014, examining the main changes to the ECB's operational framework and the evolution of Eurosystem lending, particularly the Early Repayment Operations (EROs) relating to the two 3-year Longer Term Refinancing Operations (LTROs). The article studied the use of the ECB's standing facilities, while it also reported on the improvements in money markets over the review period. Finally, the Irish sovereign's on-going return to debt markets was examined before briefly analysing changes in TARGET2 balances over 2013.

The Commission noted the Analysis of Operational and Market Developments in 2013.

13. Supervisory Update

The Commission considered Paper No. 72 of 2014.

Mr Roux introduced this item. He updated the Commission on a number of matters.

[redacted]

[redacted]

Multi-Debt Initiative

The pilot multi-debt initiative was approaching its concluding stages. Meetings over the coming days with the key stakeholders involved were planned in order to finalise the Bank's direct involvement in brokering this pilot and hopefully to move it on to a more operational phase involving the credit institutions and the Stepchange debt charity. While it had been a difficult issue to address, it had been a good pilot with good results.

Credit Unions – Judicial Review

The Judicial Review taken by Maynooth Credit Union and the Irish League of Credit Unions was due to commence in the High Court on 1 April 2014.

14. Minutes of Sub Committees

The Commission noted the minutes of the meetings of the Audit Committee of 24 February 2014 and of the Joint Audit and Risk Committee of 24 February 2014.

15. Any Other Business

Fusion (North Wall Quay) Project

The Governor noted that under new building regulations introduced in March, the Bank may be faced with added complexities on the North Wall Quay building project arising from new requirements for specific elements of the construction to be completed on a sequential basis, rather than overlapping. These were onerous and unexpected requirements which could contribute to a potential delay now emerging of approximately six months on the completion of the project. While the Bank could seek an exclusion from such requirements, and it was understood some other public bodies were seeking same, it was not at all guaranteed that this would be granted. It was planned to provide a detailed update on the project at the next Commission meeting in April 2014.

The meeting concluded.

Patrick Honohan

Governor
29 April 2014

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MINUTES OF MEETING NO. 44 OF

THE CENTRAL BANK COMMISSION

OF 29 APRIL 2014

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

1. Minutes of Meeting of 26 March 2014

The minutes of the meeting of 26 March 2014 (Meeting No. 43) were agreed.

2. Matters Arising

Statement of Accounts

The Governor noted that the Commission approved by written procedure on 14 April 2014, the Statement of Accounts for the year ended 31 December 2013. The Commission also approved by written procedure, on the same date, the revised Statement on Internal Financial Controls. The Governor further noted that the annual report and annual accounts would be published on Wednesday 30 April 2014.

Financial Operations – Deposit Guarantee Scheme and Non-Banking Payment Systems

As requested at the meeting on 26 March 2014, information notes on the following issues were circulated to members on 16 April 2014: 'Deposit Guarantee Scheme – Depositor Information Requirements'; and, 'The Role of non-traditional Payment Services Providers in Ireland' were circulated. Mr Soden suggested that, in future, such information notes should also be noted as agenda items at the subsequent meeting. This was agreed.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. The details concerning the methodology and scenario for the EU-wide stress tests were due to be announced today, 29 April 2014, by the European Banking Authority (EBA). In tandem, the ECB was due to set out how any capital shortfalls would be addressed following the Comprehensive Assessment, of which the stress tests were a part. There would be a common methodology applied to all banks subject to the stress tests covering a range of risks. Various adverse scenarios, designed by the European Systemic Risk Board, were also drawn up. There was a baseline forecast for the European economy out to 2016 which was more pessimistic than the Bank's own forecasts, showing as it did a fall in growth rather than a gradual increase. From an Irish perspective, the stress scenarios – covering GDP, unemployment, house prices and commercial real estate prices – were broadly appropriate. [redacted]

[redacted] The Governor added that there had been a lot of analysis on this, the banks tended to be somewhat

optimistic while the Bank was less so and was insisting that adequate provisions were in place. There was proper treatment of all of this from an accounting perspective; the banks were obligated to be fully transparent with the market and this was happening.

Mr FitzGerald said he was concerned about the role of the Commission in all of this. He recognised that the Commission's responsibilities were changing but that it should reserve the right to be in a position to express a public view on this, were that necessary. While certain responsibilities were moving to the ECB under SSM, the Commission retained a responsibility for financial stability and for advising the Government; it was in this context that it needed to be fully briefed on these matters so as it could have an informed view and, if necessary, although unlikely, express any concerns it might have around the process. Mr Roux said that the Commission did indeed have every right to be fully informed; this process was now in the hands of Europe and, come November 2014, responsibility for the prudential supervision of the relevant Irish banks would be under the sole remit of the ECB. These types of issues would no longer be a responsibility of the Commission. Ms Byron said she agreed with Mr FitzGerald in that the Commission should be able to have an independent view. It was also very important that the Commission was clear on the corporate governance arrangements that would apply under SSM. Ms Clarke said that from a previous paper to the Commission prepared by the Bank's Legal Division (Paper No. 49 of 2014), it appeared likely that the Commission would not have any substantive decision-making powers in this regard. However, the Commission may have some residual responsibilities, such as in an advisory capacity or as regards making a view known to the market or others, and it would be necessary to have clarity on this.

Mr Roux said it was important to note that the SSM carve-out related only to five banks and, even for those banks; the Commission would still have responsibility for matters such as conduct of business and anti-money laundering. However, it was clear that as regards capital requirements, this would now be a European and not a domestic responsibility. The Governor reiterated the change in responsibility from the Bank to the ECB, but said that the Commission would be kept very well informed as to all developments.

The Commission noted the update on Euro Area Developments.

4. Fusion Update

This was taken after Items 5 and 12.

Mr Quinn was also present for this item. Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 85 of 2014. This item had also been considered by the Risk Committee at its meeting on 28 April 2014.

Mr Molumby introduced this item. The accompanying paper (Paper No. 85 of 2014) provided an update on the Fusion (NWQ) Programme and built on information provided to the Commission in Papers No. 114 of 2012, Nos. 156 and 191 of 2013, and No. 7 of 2014.

Mr Molumby noted that developments in the external environment had increased the risks of timely completion and had added uncertainties for the Fusion Programme; in particular the impact associated with implementing the Amendment to the Building Control Regulations and the impact of procurement complexities. The issues rising from the Amendment to the Regulations also had the potential to add cost. The increased risks with the introduction of the Amendment to the Building Control Regulations had outweighed the advantages associated with the sequencing and concurrent activities aspects of the planned procurement strategy. To address the risks the main contractor would now be procured to carry out the combined base build and fit out works, using the Public Works Employer Design Contract, resulting in the appointment of a single contractor with ultimate responsibility to deliver the works. Accordingly it was considered prudent and appropriate to revise the Programme Plan to reflect this approach, the additional tasks, and the increased risk and uncertainty.

Following a delay to the originally planned date, to allow for thorough discussions with Dublin City Council (DCC) to address the planners' concerns, the Bank submitted its planning application at end-January 2014. At end-March 2014, DCC issued the

Notification of Decision to Grant planning permission for the new building, with a number of conditions. Given the high profile nature of the site and the relatively complex issues raised by DCC at the pre-planning stage, particularly regarding the façade treatment and ground floor layout, the securing of planning permission with conditions was a significant milestone achievement for the Programme. [redacted] The majority of the conditions required timely engagement with DCC, and this effort must be accommodated within the revised project plan. Following consultations with the planning consultants the decision had been made not to appeal any aspect of the planning permission.

The Programme Team had reviewed 12 different scenarios with the goal of commencing and completing the delivery of the building as soon as possible in the context of the issues. It was concluded that the Programme Plan duration should include an additional four months to accommodate the issues raised. The Programme Team now envisaged the Programme completion as falling in the September – December 2016 range, with September 2016 being 'best case' and, in the event that the contingency was drawn down, December 2016 being 'worst case'. The Commission's approval was being sought to adopt this revised Programme Plan based on the 'best case' and 'worst case' scenarios, reflecting the addition of a 10 per cent time contingency, should this be needed. This was a medium risk approach; the lower risk approach would see completion in Q1 2017 and the higher risk approach would see completion in two phases – July 2016 and Q1 2017. The proposed medium risk approach included the change to a two contract procurement strategy – façade contactor and main contractor - to mitigate risks. The plan was based on reasonable and known risks and it did not include all risks, for example extreme weather conditions, industrial disputes, procurement challenge, key contractors/sub-contractors becoming bankrupt during the course of construction, etc. Key contractor failing would have a high impact on the Programme time and cost. The financial standing risk of the main contractor was addressed via the requirement for the successful contractor to provide a performance Bond of 10% of the contract sum. In line with current Office of Public Works (OPW) practice the Bank would seek, at the prequalification stage, a minimum turnover requirement (as a test of capacity); a letter from the candidate's bank; confirmation that appropriate insurances could be put in place; and a requirement to provide a performance bond at contract award. This approach

had been adopted on advice of the technical professional team and in dialogue with the OPW and, while not fully evaluating the financial robustness of the bidders for the Main Contract works was not in accordance with Department of Public Expenditure and Reform Guidelines for a contract of this size in the context of the current process, this approach was considered to be appropriate.

Mr Molumby informed the Commission that the Bank had invited the State Architect at the OPW to conduct a peer review of the amended Programme Plan. The review concluded that the Bank had assembled a competent, professional, and well experienced design team. The review determined that, in broad terms, the revised Programme Plan was achievable, however this would be challenging and not without risk, and would require a reshaping and realignment of skills and resources, both within the Bank and with its external consultants. The review endorsed the approach to procure a main contractor to carry out both the base build and fit-out works.

In other developments, the detailed design phase of the Programme was progressing, with the initial period of this phase focused on gathering the Bank's specific requirements. The process to procure the main contractor had commenced and the public notice requesting expressions of interest was published on 24 April. Lisney Estate Agents had been appointed as advisors for the disposal of the Bank's Dame Street premises. [redacted]

Mr Geraghty confirmed that this item had been discussed at the Risk Committee on 28 April 2014. The Committee had agreed with the proposal to revise the Programme on the basis of the medium-risk approach set out in the accompanying paper. However, the Committee had also acknowledged that there were many risks associated with such a significant project and that what was important was getting it right rather than being overly focused on a particular deadline.

[redacted]

[redacted]

Mr Soden asked if a performance bond would need to be paid by the Bank. Mr Molumby said that he fully expected the cost of the bond to be reflected in the contractor's cost to the Bank. The bond was designed to minimise the risks associated with a contractor going out of business and would largely cover out of pocket expenses for the Bank while another contractor was being appointed. Ms Byron said that the Bank also needed to closely monitor the contractor's cash flow.

Mr Quinn and Mr Molumby left the meeting.

The Commission noted the emergent risks for the Programme and the steps taken to mitigate the risks and their impact assessment; noted recent progress with the Programme including façade procurement, planning permission, detailed design and disposal activity; and, approved the adoption of a revised Programme Plan to show a 'best case' completion date of September 2016 with a 'worst case' completion date of December 2016, including the addition of a 10% time contingency.

5. PRISM Review – Next Steps

This was taken with Item 12 – IMF ROSC Banking Assessment. These items were taken after item 6.

The Commission considered Papers No. 91 and 100 of 2014.

Ms Clarke said that the paper relating to the response to the PRISM Review (Paper No. 91 of 2014) was not helpful. The PRISM Review, conducted by the risk advisors and

presented to the Commission at its meeting on 30 January 2014, had been very detailed with a large number of recommendations. The paper that had now been circulated for consideration, as the response to that review, was too high level and did not cover off all of the recommendations. It was necessary for the Commission to know how the Bank was responding to the PRISM review and it was not possible to determine that from the paper that had circulated. There were also some general statements contained in the paper, such as that the PRISM system was to be replaced by the ECB system of choice for banking supervision under SSM, but there was no specific detail or explanation behind these. It was important that the Commission was provided with the necessary detail to determine whether or not the response to the Review was appropriate and sufficient. An appendix to the paper containing a list of the recommendations and the responses to them would have been very helpful. As it stood, it was not possible, she believed, for the Commission to take a position or view on this matter without that level of information. Mr Soden said he agreed with these comments and that he too found the paper to be inadequate.

Mr Roux said that the risk advisors had gone somewhat beyond their mandate and had addressed wider regulatory issues, using PRISM as their entry point. This, to him, was not a proper approach as it was not possible to examine regulatory practice by just reviewing PRISM but rather by examining a wider range of issues. The IMF ROSC reviews had in fact examined some of these wider matters and the paper that was prepared for this meeting concerning the PRISM Review was an attempt to re-focus specifically on the PRISM-related matters. In responding to the risk advisors' review it was necessary to concentrate on what was possible and feasible to do. There were a great many recommendations. It was necessary to try and make sense of the big issues and respond to those, such as governance and supervisory engagement. What was going on now in banking supervision was not about PRISM, it was about reconstructing the directorate and the supervision teams to get ready for SSM. The Bank was not deaf to the recommendations in the report, there were changes in governance and ownership identified and agreed with, but it was necessary to move forward. PRISM was created with banking supervision in mind; however this would now be replaced, under SSM, by the ECB's version of PRISM. [redacted] It would be better to have a wider discussion around the banking supervisory directorate under SSM,

and where PRISM fits into that, at the appropriate time later in the year when there was greater clarity on some of this.

Ms Clarke said that Mr Roux's comments made sense but that these explanations were not provided for in the paper; this would have put a context on why certain recommendations were being adopted and others were not. She said the Commission needed sufficient time and information to consider the points that Mr Roux was now raising. Ms Byron said that the Review had contained considerable commentary on staff-related issues such as attitude, openness and challenge, yet this paper only covered this within a single paragraph, which was a disappointing approach. These were fundamental issues and should be responded to so that the Commission could have an informed view and offer its own perspective to management. Mr FitzGerald said that a lot of what Mr Roux had pointed out seemed very sensible, but much of it was new to him and it appeared that the context for PRISM was changing from when the review was first started. The Commission should be informed of the various changes that were taking place and the impact that these would have.

Fiona Muldoon, Director Credit Institutions and Insurance Supervision; and Gerry Quinn, Chief Operations Officer, joined the meeting.

The Governor then invited Ms Muldoon, who had overseen the response to the Review, to summarise the issues covered in the accompanying paper (Paper No. 19 of 2014).

Ms Muldoon said that the independent report found, and the management team concurred, that the implementation of PRISM had been a success. The Deputy Governor (Financial Regulation) and the regulatory directors remained committed to the implementation of the assertive risk based philosophy that underpinned the basic PRISM regime. They welcomed the constructive tone of the report and the spirit of the recommendations which sought to build on and improve all of the significant work already undertaken and provide for the natural evolution of both the regime and the system as it moved now into its next phase. This next phase would seek to leave behind the 'implementation phase' and could be characterised as the 'embedding phase' in the natural life cycle of any major cultural and system change in an organisation such as the one undertaken at the Bank.

The report stated that PRISM was two things: an approach or 'philosophy' to regulatory supervision and oversight; and an IT system that captured and recorded the supervisory work undertaken by the teams. A key element of PRISM had been the fostering of a culture of challenge and it remained critical to its continued successful implementation that this aspect was further fostered and embedded into the supervisory organisational culture. Any changes or suggested improvements should be complementary, and further to, this aim.

Ms Muldoon then summarised the main recommendations for the next phase of PRISM arising out of management consideration of the report: IMTD should own the PRISM system and a cost/benefit analysis should be undertaken of the proposed system changes contained in the independent report in order to ascertain and decide which should be pursued; a new PRISM Executive Group (PEG) should be formed effectively merging the Supervisory Risk Committee and the PRISM Implementation Board (PIB); the Deputy Governor (Financial Regulation) should chair PEG and own the PRISM culture, working with his Directors and Heads of Division; Risk Mitigation Programme (RMP) letters would be signed by the Deputy Governor (Financial Regulation), relevant Director or Head of Division, depending on PRISM impact rating of the firm; the role of the Head of Division and Deputy Head of Division at Risk Governance Panels (RGP panels) would be clarified; a sub-group of the newly formed PEG would re-evaluate engagement level responsibilities and workload for Medium-Low firms and report its findings to PEG; training and skills development for supervisors would continue to receive a high priority; and a PRISM System sub-group of PEG would be formed so that IT issues could be evaluated, managed and prioritised on a regular on-going basis.

The Governor asked Ms Muldoon if the work undertaken had included a review of all the recommendations and if this could be summarised in a check-list style for the Commission in a follow-up paper. Ms Muldoon said all the recommendations had been examined and it would be feasible to summarise them in the way suggested. Ms Byron asked how many of the recommendations had, in fact, been considered appropriate for implementation. Ms Muldoon said that most of the recommendations were taken on board although it had been considered necessary to amend or not adopt some; for example it was decided better to maintain risk governance panels as advisory rather than decision making; some organisational design issues raised in the report were considered

beyond the mandate of the Review and did not make particular sense so these were not acted upon; the IT-related recommendations appeared to make good sense but they needed more analysis and also needed to be costed.

[redacted]

The Governor noted that this was Ms Muldoon's final week working in the Bank. He thanked her on behalf of the Commission and wished her well for the future.

Ms Muldoon left the meeting. Mr Quinn remained for Item 4.

Mr Moran said that, while the risk advisors' review may indeed have gone beyond the original scope, they nonetheless raised some issues that the Bank would need to demonstrate it had taken account of and followed up as necessary. These were the matters raised around culture, morale, etc. While it would be good to get the detailed response to the individual recommendations, it would also be good to have a discussion and a view on some of these wider matters. Mr Quinn suggested that this could be incorporated into the examination of, and response to, the staff survey, which had just been carried out and was currently being analysed. This in turn would be reported back to the Commission.

The Commission noted the next step to be taken in relation to PRISM and requested to receive the table of responses to the individual recommendations for further consideration at a future meeting.

6. Disposal Strategy for Special Portfolio – Assessment of Financial Stability Conditions

This was taken after Item 3.

Maurice McGuire, Director Financial Operations; and David Doran, Financial Markets Division, joined the meeting.

The Commission considered Paper No. 92 of 2014.

The Governor introduced this item. Following the liquidation of Irish Bank Resolution Corporation (IBRC) in February 2013, the Bank acquired a Special Portfolio of assets that were related to the collateral that was previously held against IBRC ELA operations. The total portfolio acquired (€42bn) was made up of €25bn of Irish government floating rate notes (FRNs), €13.7bn of NAMA bonds and €3.46bn of an Irish government 2025 fixed rate bond. A paper was considered by the Commission at its meeting on 30 January 2014 (Paper No. 8 of 2014), which focussed on income and accounting rules of the Special Portfolio.

The Bank had undertaken to implement a strategy involving an agreed minimum disposal plan for the €28.5bn sovereign bonds acquired. The agreed minimum sales due to take place were as follows: €0.5bn by end-2014; €0.5bn per annum during 2015-2018; €1bn per annum during 2019-2023; and €2bn per annum for 2024 and thereafter. Any disposals above the minimum amount would only take place subject to financial stability conditions permitting. In that context, the Bank's Financial Stability Committee (FSC) carried out an assessment of the financial stability conditions in March 2014 for the purpose of the disposal strategy for the Special Portfolio of sovereign debt.

The accompanying paper (Paper No. 92 of 2014) was similar to the paper considered by the FSC, with updated information to reflect developments since the March 2014 assessment. Financial stability conditions had improved over the past year and the sovereign had regained access to market funding following the clean exit from the EU-IMF Programme. Nevertheless, a number of key vulnerabilities remained, notably relating to high public and private sector indebtedness. Risks to market sentiment

towards the sovereign also related to the high overall level of maturing sovereign and bank debt in the coming years; the high proportion of debt currently held by passive investors; and the potential volatility of the overall market for Irish sovereign debt.

The Governor recalled that at the previous meeting of the Commission he had noted that the ECB reviewed compliance with Articles 123 and 124 of the Treaty which dealt with monetary financing. A reference was made to this in the ECB Annual Report, published on 7 April 2014, which stated that, while the liquidation of IBRC raised serious monetary financing concerns, these concerns could be somewhat mitigated by the disposal strategy of the Central Bank of Ireland. [redacted]

The Commission noted the Disposal Strategy for the Special Portfolio.

Mr McGuire and Mr Doran left the meeting.

7. Employee Trading Rules Update

This was taken after Item 11.

Mr Billy Clarke, Deputy Head Securities and Markets Supervision Division; and Gavin Marie, Human Resources Division, joined the meeting.

The Commission considered Paper No. 94 of 2014.

Mr Clarke introduced this item. The Employee Trading Rules were approved by the Commission at its meeting on 27 October 2011 and had been in force since August 2012. It was proposed to amend the Rules in light of an internal audit conducted in 2013 and from comments raised during preparations for the recently-completed IMF ROSC review. The updated Rules were set out in an appendix to the accompanying paper (Paper No. 94 of 2014).

The main changes proposed were: the removal of references to agents of the Bank; the inclusion of entities related to companies regulated by the Bank; an alternative approval procedure for members of the direct line management of the Compliance Officer, whose requests to trade would be referred to the Director of Enforcement; a requirement to advise the Compliance Officer if a trade related to any firm where the staff member would be in a position to obtain price sensitive information; the removal of a note regarding the management reserving the right to direct staff in relation to bank deposits; and re-framing of the Bank's expectations of staff to conform to the highest ethical standards. The proposed changes had been reviewed and approved by the Operations Committee. The unions (SIPTU and Unite) were consulted on the changes and had raised no comments.

Ms Clarke asked the Secretary if he would examine whether the changes set out in the Employee Trading Rules would necessitate any revision to the Commission's Code of Conduct. Mr Whoriskey confirmed he would look into that.

Mr Clarke and Mr Marie left the meeting.

The Commission approved the updated Employee Trading Rules.

8. Statement of Accounts to 31 March 2014

This was taken after Item 13.

The Commission considered Paper No. 95 of 2014.

The accompanying paper (Paper No. 95 of 2014) noted that the Bank recorded a provisional profit of €323.6m for the first three months of 2014 compared with an operating loss of €31.3 million for the corresponding period in 2013, an increase of €354.9m. In Quarter 1, 2013 there were significant unrealised capital losses recorded on the Irish Government Floating Rate Notes (FRNs) acquired following the IBRC liquidation, amounting to €480.3m which resulted in a deficit in that quarter. In Quarter 1, 2014 there were unrealised gains amounting to €3.6bn recorded on these securities which were transferred to revaluation reserves and had no impact on profit (unlike the unrealised losses which, in accordance with the prudence concept were charged against profit at year end).

Unrealised capital losses in Quarter 1, 2014 amounted to €52.4m and mainly arose on the NAMA bonds held in the Special Portfolio. The decrease in losses in Quarter 1, 2014 was offset somewhat by a reduction in net interest income amounting to €74.3m. Against a lower interest rate background (a reduction of 0.5% in the Main Refinancing Rate over the review period), both interest income and interest expense were significantly lower.

The Bank's balance sheet amounted to €100.4bn at end Quarter 1, 2014, a decrease of €21.8bn (17.8%) over the corresponding period in 2013. The decrease in the balance sheet was primarily driven by the fall in the monetary policy lending which continued to reflect the early repayment of the 3 year Longer Term Refinancing Operation (LTRO) during Quarter 1, 2014 and credit institutions increased access to market funding.

A provisional profit figure of €725m for the full year was provided to the Department of Finance in March 2014. This estimate was based on a number of assumptions including movements in interest rates, bond yields and investment strategy and should be viewed as preliminary.

The Commission noted the Statement of Accounts for quarter ended 31 March 2014.

9. Superannuation Fund Performance Report to 31 March 2014

The Commission considered Paper No. 97 of 2014.

The accompanying paper (Paper No. 97 of 2014) set out the performance of the Central Bank of Ireland Superannuation Fund (Fund) in Q1 2014. In summary, the total Fund returned 1.1% in Q1 2014. Equities returned 1.9% for the quarter, while bonds generated a return of 0.1%. The market value of the Fund assets increased by approximately €7.8m, from €530.5m on 31 December 2013 to €538.2m on 31 March 2014. The asset allocation at the end of the quarter was 50.2% equities and 49.8% bonds. Since the start of the investment period, at end-December 2009, the total return on the fund was 25.7% equating to a return of 5.5% per annum.

The Commission noted the return on the Central Bank of Ireland Superannuation Fund in Q1 2014.

10. Charity Committee Annual Report

The Commission considered Paper No. 98 of 2014.

Following a decision of the Commission at its meeting on 24 November 2011, a Charity Committee comprising staff representatives was established to oversee the management of the Bank's Benevolent Fund, with final approval for expenditure coming from the Director of Human Resources. The Committee also provided periodic updates to the Governor. The Committee's main tasks were to recommend distribution of the Benevolent Fund; to organise occasional charity events within the Bank; and to promote volunteering and charitable endeavours among staff. The report set out in the accompanying paper (Paper No. 98 of 2014) was provided to update the Commission on the work of the Committee during 2013. It is proposed that a summary of the report would be published on the Bank's intranet.

The Commission noted the report of the Charity Committee for 2013.

11. Anglo Irish Bank – Update on Investigation and Other Matters

This was taken after Item 4.

Derville Rowland, Director Enforcement; and Brenda O'Neill, Head of Enforcement, joined the meeting.

The Commission considered Paper No. 99 of 2014.

Ms O'Neill introduced this item. She recalled that the Commission was last updated on the status of the Bank's investigation into Anglo Irish Bank Corporation at its meeting on 23 October 2013. A criminal case against three former directors of Anglo recently concluded in the Circuit Criminal Court; the trial was in respect of offences under Section 60 of the Companies Act, relating to the provision of financial assistance for the purchase of Anglo shares. Further criminal trials were pending.
The accompanying paper (Paper No. 99 of 2014) provided an update to the Commission on the various on-going investigations into Anglo and the outcome of the Bank's review of the Anglo recordings. [redacted]

[redacted]

[redacted]

The Commission noted the current status on each of the elements of the broader Anglo investigations; noted that the Central Bank's Administrative Sanctions Procedure (ASP) relating to Anglo was suspended for the foreseeable future in order to avoid any possible prejudice to the conduct of current and possible future criminal cases; and [redacted]

Ms Rowland and Ms O'Neill left the meeting.

12. IMF ROSC Banking Assessment

This was taken with Item 5, PRISM Review – Next Steps. These items were taken after Item 6.

The Commission noted the IMF ROSC Banking Assessment.

13. Supervisory Update

The Commission considered Paper No. 101 of 2014.

Mr Roux introduced this item. He updated the Commission on a number of matters.

[redacted]

Credit Unions – Judicial Review

Since the last meeting of the Commission, Maynooth Credit Union and the Irish League of Credit Unions (ILCU) had withdrawn their judicial review initiated last July. The Bank issued a statement noting this decision and stating that the regulatory directions, which were the subject of the proceedings, remained in place. It was also noted that the Bank intended to carry out updated reviews of Maynooth Credit Union and the other credit unions which were subject to the proceedings. The Bank had not conceded anything as a result of this challenge and nothing had changed as regards its engagement with the sector.

[redacted]

[redacted]

The Commission noted the Supervisory Update.

14. Risk Information Pack

The Commission considered Paper No. 89 of 2014. This item was also considered by the Risk Committee at its meeting on 28 April 2014.

The Commission noted the Risk Information Pack.

15. Governor's Quarterly Note on Expenses

The Commission considered Paper No. 102 of 2014.

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

16. Minutes of Sub Committees

The Commission noted the minutes of the meeting of the Risk Committee of 24 February 2014.

17. Any Other Business

TARGET 2 Closure

The Governor noted that 1 May 2014 was a public holiday across much of Europe, and as a result the TARGET 2 Settlement System would be closed on that date. As 1 May did not this year coincide with a public holiday in Ireland, some payments due to be received into Irish bank accounts on that date were not likely to be processed, or value given, until the following day. A further impact of the European bank holiday would result in Irish banks not receiving payments due to accounts on 2 May until later than usual on that day. However, payments would be posted to accounts as quickly as possible and in any event all accounts will be updated by close of business on 2 May. Although TARGET2 had been closed on 1 May in previous years, the Irish banks were able to 'work around' the problem as the domestic payment system continued in operation. However, the full implementation of SEPA has resulted in the closure of the domestic payment system, so this 'work around' option is no longer available to the Irish banks. While the matter was largely one for the banks and the Irish Payment Services Organisation (IPSO), the Bank was to issue a statement and a Q&A document for consumers to alert them to this.

Appointment of Interim Director

In order to change the somewhat unwieldy reporting lines that the Deputy Governor (Central Banking) was currently responsible for and to have a director with clear responsibility for resolution issues, it was planned to appoint, on an interim basis pending the outcome of the Organisation Review, a new director. The interim Director for Resolution and Corporate Affairs would also have a key oversight role in the development of the Bank's new Freedom of Information responsibilities; among other areas of responsibility include Legal and Organisational Risk. [redacted]

Commission Members' Fees

The Governor noted the Department of Finance had informed the Bank that, on the request of the Minister, it had been advised by the Department of Public Expenditure and Reform that the payment of fees should be discontinued for those members of the

Commission affected by the 'one person one salary' principle. Under the legislation the payment of fees was a matter for the Minister, the Bank therefore requested the Department of Finance to identify and communicate with the relevant members. The Department did so on 19 March 2014. Having examined the issue further, the Bank had established that there already existed a precedent for compensation to be paid to the full-time employers of the relevant members at an amount equivalent to the fee that was previously paid to the member. The Bank had examined the legal, procurement and taxation implications of doing this and it had determined that there were no impediments to paying such compensation. It was therefore the intention to write to the Department of Finance in that regard.

The meeting concluded.

[redacted]

Governor
28 May 2014

MINUTES OF MEETING NO. 45 OF

THE CENTRAL BANK COMMISSION

OF 28 MAY 2014

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

1. Minutes of Meeting of 29 April 2014

The minutes of the meeting of 29 April 2014 (Meeting No. 44) were agreed pending the inclusion of a minor change suggested by Ms Byron.

2. Matters Arising

Employee Trading Rules

The Commission had requested the Secretary to examine whether the changes set out in the Employee Trading Rules would necessitate any change to the Code of Conduct for Members of the Central Bank Commission (Code). This examination was undertaken and there were no changes necessary to the Code, which already covered the obligations in the Employee Trading Rules as it stated that, in addition to not trading in instruments of regulated firms, a Commission member "should consult with the Secretary in relation to any trade where they are unsure of a possible conflict, a perception of conflict, or impact on the reputation of the Bank."

3. Euro Area Developments – Issues for the Central Bank

The Governor noted that there were no specific items to update the Commission on under this item for this month.

4. Financial Stability – Macro Financial Review

Mark Cassidy, Head of Financial Stability; and David Cronin, Financial Stability Division, joined the meeting.

The Commission considered Paper No. 116 of 2014.

Mr Cronin introduced this item. The outlook for the economy was broadly unchanged since the last Review, published in December 2013. Following a decline in output last year, a balanced recovery in GDP growth was expected in 2014 and 2015. Labour market performance was improving, employment growth had continued to pick up, and unemployment had fallen from its peak of 15.1 per cent in Q1 2012 and was now expected to decline further to an average of 10.4 per cent next year. Unemployment, nevertheless, remained high by historical and international comparisons. The sovereign had raised funds in the bond market in recent months at low interest rates following the exit from the EU-IMF programme. The NTMA had already met more than 80 per cent of its funding target for the year. The three major ratings agencies now gave Irish sovereign debt an investment grade rating.

Despite these positive developments, the macro-financial environment remained challenging. Supply shortages were an important contributory factor to recent house price increases and, by their nature, would take time to address and should be the focus of policy in this area. In relation to the public finances, a failure to adhere to agreed fiscal measures could undermine confidence in the sovereign, although fiscal rules should ensure that policy remained focussed on the medium-term objective of a balanced budget once allowance was made for the impact of the economic cycle on government revenue and expenditure.

The public finances remained vulnerable to changes in interest rates and growth rates. The credit market remained far from well-functioning and was not supporting economic growth to the extent that would normally prevail. The large stock of non-performing loans was the key factor in the difficult operating environment facing the banking sector. Despite some recent reductions, mortgage arrears remained high, while the number of cases of very long-term arrears continued to increase. Arrears among small and medium enterprises were also a significant problem. While arrears workout targets had been met,

further progress was needed across both household and SME sectors. Low new business volumes and the short maturity profile of funding were additional challenges facing the banking sector.

Some favourable developments in the banking sector reported in the last Review had continued, including an on-going improvement in earnings capacity, lower funding costs, and a further reduction in central bank funding. The outcome of the ECB Comprehensive Assessment in November 2014, which would include a point-in-time Asset Quality Review and forward-looking stress tests, would be important in determining the resilience of the major banks to future shocks, notwithstanding the capital injections of recent years.

Mr Cassidy added that the Review was part of a wider work plan in the Financial Stability Division; it reflected an increased focus on analytical work in key areas such as mortgage and SME arrears and bank funding and was also linked to the development of a macroprudential framework. The Governor added that the development of this framework was particularly important as it would allow the Bank to respond faster should developments, such as those around house prices, warrant action.

Mr Soden asked what the objective of the Review was and what audience was it aimed at. He also enquired as to whether the Bank received any feedback from consumers of such reports. Mr Gerlach said it was aimed at a reasonably wide audience of policy makers and financial institutions, both domestically and internationally. It was the only review of its kind focussed on these types of issues for Ireland and from his own experience in meeting with various stakeholders, including the IMF, it was highly regarded. Mr Cassidy suggested that at some point it would be useful to conduct a readership survey.

Mr FitzGerald welcomed the Review but said its omission of material on the current account was a gap that should be filled. Developments in the current account could be very useful indicators in a macro analysis. Another gap was around housing. He said he was concerned at the recent government proposals around a demand stimulus; the Bank should be making some form of public statement on these issues, if not in this Review then in some other way. Mr Geraghty said he would not like the Review to give a 'business as usual' message; there was an ongoing crisis in Ireland and in Europe. Regarding housing, he suggested that the Commission devote a full session to discussing

the many issues around this as it was not possible to do so in a short space of time. Mr Moran said that the government message on housing was also focused on the supply side. He said it would be helpful on the household sector to be clearer around the issue of deleveraging, in particular as to whether it was happening fast enough or even too fast. He also suggested that the affordability of debt issue could be more nuanced, for example to reflect the predominance of trackers in the mortgage market. Mr Ahearne said that the Review did not address one of the more recent public debates that arose around the alleged potential threat to financial stability due to the forthcoming stress tests. He felt that a response to that view would be useful in the Review and that readers may expect that. A number of further suggestions were made by members regarding specific elements of the text.

Mr Gerlach said that the Review was not intended as a policy document but rather as a spelling out of the facts and the provision of analysis and background. The Governor welcomed the suggestion of a discussion session on housing and said that one could be arranged to allow for a wider group to meet and discuss the relevant issues. He said that the issues around measurement of the current account could be addressed in a box in a forthcoming Quarterly Bulletin. He said that some other issues, such as that around the stress tests, had already been aired at the press briefing for the Annual Report but some of this was lost in the noise around other issues that were aired on the day; he said he would arrange for the full video of the press briefing to be published and would also be seeking other communication opportunities over the coming weeks. He welcomed the various suggestions from members around specific elements of the text and these would be incorporated to the extent possible before the Review was finalised for publication in June 2014.

The Commission noted the Macro Financial Review.

Mr Cassidy and Mr Cronin left the meeting.

5. Currency Centre Operations

Gerry Quinn, Chief Operations Officer; Paul Molumby, Director Currency Services and Facilities Management; Lucy O'Donoghue, Head of Currency Issue; Harry Murphy, Head of Currency Production Division; and Des Lane, Deputy Head of Currency Issue Division, joined the meeting.

The Commission considered Papers No. 117 and 124 of 2014.

Mr Molumby introduced this item. He first set out the major priorities of the Currency function which were to deliver on the Bank's relevant Eurosystem mandate; to maintain public confidence in the currency; and to ensure there were no significant currency supply or quality issues.

In 2013 the marginal downward trend in processing of cash volumes continued, and the key deliverable in 2013, and into 2014, had been the entry into circulation of ES2 €5 notes. This entailed the orderly wind down and withdrawal of ES1 €5 stocks, and the promotion of ES2 €5 notes. In parallel the Operations had been focused on the print production of ES2 €10 notes, and readiness to put the ES2 €10 note into circulation. There had also been an investment in the processing capacity for ES2 notes through the purchase of a new note processing machine, at a cost of €1.4m. The machine was currently being brought online and was on target to be in place ahead of the ES2€10 launch in September. In fulfilling the Bank's mandate to ensure supply, there had been a significant threat to continuity of operations of the national cash cycle arising from the potential withdrawal of G4S cash in transit (CIT) services during 2013; in response the Bank facilitated the establishment of a National Cash Contingency committee and development of contingency plans. While the plans did not need to be invoked, they stood ready and were being developed further in line with changes and evolving risks in the market. As participants in the development of the National Payments Plan the Currency function led a review of the effectiveness and efficiency of the National Cash Cycle. While the review concluded that the Irish cash supply chain was relatively efficient, the report identified potential for improvements in efficiency, resilience and the benefit of more active oversight.

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The key challenges this year included the impact of strategic developments in security infrastructure, developing a strategy for the print works, and progressing recommendations from the cash cycle review, while maintaining the focus on fulfilling the mandate through business as usual activities.

[redacted]

In order to address a number of issues in the current Eurosystem banknote production model the ECB had established the Eurosystem Production and Procurement System (EPPS), [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

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[redacted]

[redacted]

[redacted]

[redacted]

Mr Molumby, Ms O'Donoghue, Mr Murphy and Mr Lane left the meeting. Mr Quinn remained for items 6, 7 and 8.

6. Legacy Issues re Anglo

Mr Quinn remained for this item. Liz Joyce, Director, Human Resources; and Joe Gavin, Head of Legal Division, joined the meeting.

The Governor introduced this item. The Anglo Irish Bank trial relating to lending to the 'Maple 10' had concluded; it was expected that further Anglo-related cases would be heard in spring 2015 and beyond. As previously advised to the Commission, at the request of the Gardaí, the Bank had agreed not to proceed with its own examinations so as not to prejudice any criminal prosecutions. This remained the position. The Governor said that he had concerns regarding a public perception of inaction on the part of the Bank. This was exacerbated by the recent high profile television coverage of Custom House Capital where the Bank had, again, deferred to the Garda investigations and where no criminal sanctions were, as yet, forthcoming. [redacted]

[redacted]

[redacted]

[redacted]

Mr Gavin left the meeting. Mr Quinn and Ms Joyce remained for Item 7.

7. Voluntary Severance Scheme

Mr Quinn and Ms Joyce remained for this item.

The Commission considered Paper No. 106 of 2014. This item had also been discussed by the Budget and Remuneration Committee at its meeting on 27 May 2014.

Ms Joyce introduced this item. The accompanying paper (Paper No. 106 of 2014) provided detail of the implementation of the Voluntary Severance Scheme (VSS) agreed under the Foster Agreement.

There were 107 applications for Cost Neutral Early Retirement (CNER) and/or VSS. Of these, it was currently planned to accept 73 applications at a total cost of approximately €6m, which would be incurred this year. This cost would be offset in 2014 by pay (salary, pension and PRSI) savings of approximately €1m. The annualised saving was €5.5m. Of these positions it was planned that 24 would be replaced at a lower level or with individuals with a more appropriate skills mix at an estimated cost of €1.9m. There would therefore be a net reduction of complement of 49 versus the 2015 target reduction of 57. The scheme therefore showed a payback period of 1.64 years.

Mr Soden confirmed that this item had been discussed at the Budget and Remuneration Committee meeting on 27 May 2014 and that the Committee was recommending approval of the scheme to the Commission.

Mr Quinn and Ms Joyce left the meeting.

The Commission approved the budget and expenditure of circa €6m in redundancy payments based on the implementation of the Voluntary Severance Scheme.

8. Industry Funding Regulations 2014

Mr Quinn re-joined the meeting for this item. Fergal Power, Head of Financial Control and Procurement Division; and Karen O'Leary, Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 118 of 2014. This item had also been discussed by the Budget and Remuneration Committee at its meeting on 27 May 2014.

Mr Power introduced this item. Section 32D of the Central Bank Act 1942 provided that the Commission may make regulations prescribing levies to be paid by persons who were subject to regulation under the designated enactments and designated statutory instrument. The accompany paper (Paper No. 118 of 2014) outlined the distribution of the amount to be recouped from industry but not the quantum - the quantum was a consequence of the 2014 budget which was approved by the Commission in November 2013. It also included an overview of the amounts to be recovered from various industry sectors in 2014 by means of the Regulations and proposed that the Regulations which were made for 2014 would be finalised by the Deputy Governor (Financial Regulation) and signed by him on behalf of the Commission. A draft of the 2014 Funding Regulations including a draft Schedule was included as Appendix 1 to Paper No. 118 of 2014.

Mr Soden confirmed that this item had been discussed at the Budget and Remuneration Committee meeting on 27 May 2014 and that the Committee was recommending approval of the scheme to the Commission.

Mr Roux noted that the ECB had just published a consultation on its proposals to recover its own costs under SSM. All ECB-supervised banks – significant and non-significant – would be levied with the largest banks paying about €15m per year. The total amount to be levied for 2015 would be about €260m. The Irish banks that come under SSM would likely pay between €700,000 and €2m annually. These fees would apply from 2015 onwards. They would be collected directly by the ECB and would be in addition to the fees charged by the Bank for its supervisory work.

Ms Clarke said that this would require clear communication, particularly as there might be a perception that banks were being charged by two different supervisors – the ECB and the Bank - for the same work. Mr Roux said that one explanation for the increase in costs was that the banking union would overall create a stronger supervisory framework with less likelihood of failure.

Mr Quinn, Mr Power and Ms O'Leary left the meeting.

The Commission noted the draft 2014 net Annual Funding Requirement and agreed to recommend to the Commission adoption of the various related delegations and approvals as outlined in Paper No. 118 of 2014.

9. Proposal of New Issuers for Investment Portfolios

The Commission considered Paper No. 108 of 2014. This item had also been discussed by the Risk Committee at its meeting on 27 May 2014.

The accompanying paper (Paper No. 108 of 2014) set out that the majority of highly rated European sovereign issuers were trading at, or close to, historically low yield levels following monetary policy actions taken by the ECB and central banks globally. The exceptionally low, and sometimes negative, yield environment was one of the primary drivers for seeking to identify alternative issuers that traded at a spread to comparable sovereign issuers. The objective of the proposal was the continuation of the strategy to broaden the number of approved issuers without significantly increasing the credit risk profile of the investment portfolio's prudential limits.

[redacted]

Both nominal yields and spreads on these issuers were at, or close to, historic low levels. Consequently they may present a greater sensitivity to rising yields as spreads may widen. However, initially the proposed issuer would not be included as part of the benchmark and purchases would be at the discretion of the Bank's front office and conditional on market conditions.

Mr Geraghty confirmed that this item had been discussed at the Risk Committee meeting on 27 May 2014 and that the Committee was recommending approval of the scheme to the Commission. He noted that, while the Committee fully accepted the inclusion of the new issuers, these institutions would not be particularly well known to the Committee and that it was guided by the executive in such matters. He also noted that the Committee had discussed, in light of any broadening of the Bank's investment portfolio, that it have access to third party advice from time-to-time to help provide an objective perspective for the Committee on such matters. Mr Gerlach said that this was a very good suggestion and one that he would fully support [redacted]

The Commission approved the proposed new issuers for inclusion on the Bank's issuer list and the limits on the five issuers in accordance with the Bank's prudential limits framework.

10. Terms of Reference of the Risk Committee

The Commission considered Paper No. 119 of 2014. This item had also been discussed by the Risk Committee at its meeting on 28 April 2014.

Mr Geraghty introduced this item. It was proposed to revise some relevant sections of the Risk Committee's Terms of Reference, to make them more consistent with those of other sub-committees, whose terms of reference were already revised; to reflect explicitly those duties with respect to the non-financial risk management frameworks which were being undertaken by the Committee; and to meet relevant recommendations of the Internal Audit review into corporate governance carried out in 2013.

The Risk Committee agreed at its meeting of 28 April 2014 to recommend to the Commission the adoption of a number of amendments to the terms of reference for the Committee, as set out in the accompanying paper (Paper No. 119 of 2014). Some further changes to the Terms of Reference may be required at a future date pending the outcome of the work of the Asset Management Review Group.

The Commission approved the revised Terms of Reference for the Risk Committee.

11. Budget Outturn to 31 March 2014.

The Commission considered Paper No. 105 of 2014. This item had also been discussed by the Budget and Remuneration Committee at its meeting on 27 May 2014.

The accompanying paper (Paper No. 105 of 2014) outlined the operating and investment/capital costs for the Bank for the first quarter of 2014, comparing actual outturn for the quarter to the approved budget, and prior year for the same period. The paper also reflected how the organisation was trending in relation to actual expenditure for the remainder of the year, with interesting trend lines emerging in both pay and non-pay.

Operating costs comprising staff costs (including pensions) and non-pay expenditure amounted to €41.4m and were below budget of €45.2m for the quarter. The outturn represented an increase of €1.5m (4 per cent) on the 2013 outturn. Total non-capital costs to 31 March 2014 amounted to €5.7m which was 38 per cent below budget.

Total staff costs (including pensions), which constituted the largest component of the Bank's operating expenditure, were €29.9m (3 per cent above budget). Pension charges for the first quarter of €5.1m were based on the budgeted cost, and were €66,000 higher than 2013. In September 2013 the Bank's actuary advised the Bank to budget €20m. This advice increased to €25m in January 2014 – based on actuarial developments in the meantime. The final outturn would be subject to other potential adjustments such as curtailments, etc., arising from the Voluntary Severance Scheme (VSS) during the year.

Non-pay costs for the quarter amounted to €11.5m; this was €970,000 higher than the same period in 2013, and €4.6m less than budget. The expenditure included Communication & IT costs of €2.5m, of which a significant portion related to Data Centre Charges (€827,000) and Support Software (€393,000). The variance on budget could be mainly attributed to Professional Fees at €1.4m which was less than prior year (€2.5m) and significantly below budget (€5.6m). The reason for this variance was due to an overall credit in Banking Supervision in Q1 2014 and the scheduling of the Asset Quality Review for Q2 2014. Banking Supervision had advised that it expected to exceed its Professional Fees budget (by approx. €2.8m) by year-end due to the Asset Quality Review. There were various over/under spends in the different categories of expenditure, more details of which were provided in the paper.

The aggregate outlay on Investment/Capital Projects for the first quarter of 2014 was €4.7m, or 12% of the total 2014 approved Investment Envelope of €38.5m. The 2014 outturn represented a decrease of €4.5m on the 2013 outturn (€9.2m) for the same period, which primarily related to the purchase of the new building (NWQ) early in 2013. The expenditure in Q1 2014 included €3.5m on IT systems and facilities; €857,000 on the Fusion Programme; €163,000 for consultancy charges on the Central Credit Register project; €75,000 on Facilities Management and €73,000 for Currency Operations.

The Commission noted the budgetary outturn to 31 March 2014.

12. Supervisory Risk Update

Gareth Murphy, Director Markets Supervision, joined the meeting.

The Commission considered Paper No. 120 of 2014.

Mr Roux introduced this item. In addition to the normal management information pack, a number of other documents had also been circulated that were relevant to this item. These included the summary of the IMF ROSC Review, as published by the IMF on 27 May 2014; a note on the Supervisory Oversight of Management and Audit Practices

(Paper No. 126 of 2014); and an update on the current position in respect of resourcing in financial regulation. On this latter note, Mr Roux said that there were currently 81 vacancies within financial regulation, more than 10 per cent of complement, of which 49 were due to be filled as the relevant candidates had completed the recruitment process and roles had been offered. The vacancies were unevenly distributed among divisions with some suffering a 20 per cent shortfall in staffing as a result. Operating on such low levels meant that it was not possible to discharge all of the Bank's regulatory responsibilities. The HR Directorate was working very hard to try and fill the vacancies but it was proving very difficult and in many cases vacancies were being filled by candidates of lesser calibre than the departing staff. In addition, more than 20 staff members had applied for roles in the ECB under SSM. The market had clearly shifted and the Bank no longer could attract or retain the requisite number and calibre of staff to do its job fully in the regulatory sphere.

Ms Clarke noted that this was the second time that such resourcing concerns were being brought to the Commission and it was a matter the Commission needed to take very seriously. She requested that further detail be provided and that a fuller discussion take place at Commission level. This could not wait until the Organisation Review was complete and it would be necessary to examine what actions might be possible in the short term to address this. Mr FitzGerald noted that there also had been difficulties with recruitment to the audit function. Mr Moran suggested that a comparison between the pay rates applying in the ECB and the UK regulatory bodies with that on offer in the Bank would be useful to examine.

[redacted]

[redacted]

[redacted]

The Commission noted the Supervisory Risk Update. It was agreed that the Commission would return to the issue of resourcing at an early stage.

13. Risk Information Pack

The Commission considered Paper No. 114 of 2014. This item was also considered by the Risk Committee at its meeting on 27 May 2014.

The Commission noted the Risk Information Pack.

14. Minutes of Sub Committees

The Commission noted the minutes of the meetings of the Budget and Remuneration Committee of 19 February 2014; and of the Risk Committee of 28 April 2014.

15. Any Other Business

There was no other business.

The meeting concluded.

Governor
25 June 2014

MINUTES OF MEETING NO. 46 OF

THE CENTRAL BANK COMMISSION

OF 25 JUNE 2014

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

1. Minutes of Meeting of 28 May 2014

The minutes of the meeting of 28 May 2014 (Meeting No. 45) were agreed.

2. Matters Arising

Written Procedure – Delegation of Functions

The Governor confirmed that the Commission had approved by written procedure, on 10 June 2014, the delegation of the relevant functions concerning the Central Bank Bill 2014 as set out in Paper No. 125 of 2014.

HR Update

The Governor noted that the issue of resourcing in the financial regulatory area, raised at the last meeting, would be addressed through the HR Update, which was due to be presented at the July Meeting.

SSM Legal Responsibilities

A briefing on the Commission's legal responsibilities under SSM was being finalised and it was planned to arrange for this to be presented to the Commission by Legal Division, and by representatives of McCann FitzGerald Solicitors, on or before the July meeting.

Mortgage Arrears

Following the publication of the Macro Financial Review, a more detailed presentation on mortgage arrears would be made in July, prior to the Commission dinner.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He updated members on the set of monetary policy initiatives recently announced by the ECB. These included a reduction in the main refinancing rate to 0.15 per cent; the introduction for the first time of a negative deposit rate; and the launch of targeted long-term refinancing operations (TLTROs), aimed at promoting loans to non-financial companies (NFC), with a combined initial potential amount of some €400bn. The ECB further announced that it would intensify its preparatory work related to outright purchases in the Asset Backed Securities (ABS) markets. It also said it would continue to conduct its main refinancing operations as fixed rate full allotment tenders. With euro area inflation forecasts showing a rate of well below 2 per cent over the next two years, the ECB's actions reflected its determination to, as it would describe, 'anchor' inflation rates into the medium term at below or close to 2 per cent. The range of measures introduced reflected the fact that the ECB, in common with other central banks in recent times, has had to utilise tools other than interest rates as they hit a lower bound. The market reaction was as expected; it had been waiting for such an announcement.

Mr FitzGerald asked how effective these measures were likely to be; in particular if demand from the NFC sector did not meet expectations. He also noted that the exchange rate did not move in response to the announcements, which possibly was due to market expectations. The Governor said the ECB had modelled this to show that it would have an impact. In Ireland the impact may not be strongly felt as the benchmark for TLTROs excluded loans relating to house purchases which account for a disproportionate share of Irish banks' loan losses, however it should have some positive impact by reducing costs and uncertainties of bank funding for SME and related loans. Ms Clarke asked if the banks were obliged to pass on to their customers the better terms on which they might access the TLTRO funding. The Governor said that there was no such obligation on

banks; the ECB would audit the banks to ensure they were using the funding for the specified form of lending that was intended, but not the rate which the banks may apply.

The Governor then updated the Commission on developments around the Comprehensive Assessment (CA). [redacted]

The Commission noted the Update on Euro Area Developments.

4. IT Strategy

Gerry Quinn, Chief Operations Officer; Karina McArdle, Head of Customer Engagement, Information Management and Technology Division; Michael Power, Head of Information Technology, Information Management and Technology Division; Gareth Murphy, Director Markets Supervision; and Joe McNeill, Head of Statistics, joined the meeting.

The Commission considered Paper No. 127 of 2014.

Mr Quinn introduced this item. The level of investment in, and focus on, IT over recent years had allowed the Bank to achieve a number of key enhancements to the IT infrastructure and capability; to initiate and complete major projects; [redacted] all against a backdrop of ongoing challenges, including increased demand and increased pressure on resources. Ms McArdle summarised the various components of the IT project portfolio. There were a large number of projects of varying complexity and scale; efforts were focused on delivering these multiple items to tight deadlines using expanded resources, but it was proving difficult to keep up with demand. Ms McArdle also set out the current state and future landscape of systems development. [redacted] Major new systems recently at advanced implementation phase included those around collateral management, market operations, HR and the industry levy.

Mr Power reported that the major migration to the new Data Centre was now complete and was on budget. This had delivered an industry class facility with a scaleable platform. The Bank had now engaged independent assistance to actively benchmark the facility to ensure it was remaining competitive from a pricing and value perspective. In addition, an external audit would be undertaken to provide operational assurance. This project had addressed significant challenges in underlying technologies and had addressed a significant operational risk by providing an enhanced level of availability and a disaster recovery capability. The next major challenge in this space was around the move to North Wall Quay; this would also allow for alignment with the Fusion project around ensuring technology supported new ways of working.

[redacted]

In order to deliver on the very significant on-going work that was required, there were clear resourcing implications. Ms McArdle pointed out that the headcount in the Information Management and Technology Directorate (IMTD) had grown from 70 in 2010 to more than 90 today. Internal resources alone, however, were not sufficient to meet demand which required the Bank to partner with external providers. This had significant cost implications.

Mr Quinn concluded the presentation by noting that demand was driven in many respects by mandatory work from Europe; the advent of the Single Supervisory Mechanism (SSM) would add to this. The Bank needed to carefully balance how it resourced for this – skills from the market and internal capability – and this would be an on-going challenge.

Ms Byron remarked on the breadth and scope of the work which she noted was very significant. She asked that further information be provided around a cost benefit analysis of some of the key projects referenced so as the Commission could be satisfied that the approach being taken was correct. Mr Quinn said that all key projects were costed out on the basis of a five year evaluation. The analysis would be collated and brought back to the Commission. Mr Geraghty asked if a full examination had been undertaken around the marginal gains of partnership versus internal resourcing. He said that there might be more that could be done, for example in building relationships with universities, to attract in an appropriate level of resource for some of the work while partnering with third parties where that was necessary. Mr Power said that the market was very buoyant at the moment and the Bank was competing in that space against a backdrop of measures that had to be taken around public sector pay cuts over recent years. Mr Quinn noted that the pressure to attract was being felt across both the public and private sectors as there was a supply and demand problem, particularly at the graduate level. Mr FitzGerald suggested that HR examine the optimum solutions that may exist and to determine when it might be more efficient to hire than to outsource. Mr Quinn said that this could be examined and he would raise it with the HR Director.

Mr McNeill then went on to brief the Commission on developments around a data strategy for the organisation. A note – 'A Data Vision for the Central Bank of Ireland' produced by the Bank's Data Strategy Group – was circulated. The Bank was already gathering huge amounts of data including those for monetary policy and regulatory purposes. This was to increase with the introduction of SSM; the requirements under the Capital Requirements Directive (CRD IV); Solvency II; and other non-discretionary developments. Currently the Bank typically collected data for a specified purpose on a division or directorate basis or in response to ad-hoc requests or requirements. This was putting pressure both on the Bank and on the firms that it gathered the data from. The development of a data strategy would be aimed at addressing some of these challenges and exploring opportunities in this field. For example, removing a 'silo' approach to data gathering and doing in a more joined-up fashion and sharing it across the organisation; putting in the necessary tools and infrastructure that would be scaleable and transferable across the Bank; and building in capability to address issues that had not yet arisen but which may do in the future. It was clear that it would be much better to move to a situation where data was gathered once and then utilised in different ways and by different users in the Bank.

Mr FitzGerald said that this was very important initiative. There might be some data protection and other legal related issues that would need to be overcome and he suggested the Bank talk to the Central Statistics Office in this regard who had experience of such matters. Mr Moran also welcomed the approach and said that it would be useful to examine how some of this data might be packaged and shared with external users outside the Bank. Again, there may be legislative and other problems to be overcome, but some of this could be very useful to the public and to external users using an 'open data' type of approach. Mr McNeill said he would examine that aspect.

The Commission noted the IT Strategy.

Mr Quinn, Ms McArdle, Mr Power, and Mr McNeill left the meeting. Mr Murphy remained for item 5.

5. Markets Supervision

Mr Murphy was present for this item.

The Commission considered Paper No. 128 of 2014.

Mr Murphy introduced this item. His presentation provided an overview of the Irish securities and markets landscape, which was overseen by the Markets Directorate. Industry trends showed an increasing flow of fund authorisations and prospectus approvals, with the quantum of funds under administration in Ireland having increased by 20 per cent year-on-year. There had been four IPOs listed on the Irish Stock Exchange (ISE) over the past year with a potential three more by the end of 2014; the ISE itself had demutualised, creating the potential for bid interest which would require the Bank's approval under the Acquisitions Directive. The stockbroking sector was stable while the number of new investment funds continued to decline. New fund types were in prospect due to pending EU legislation and likely revision to rules on loan origination by funds. There were a number of new EU legislative directives and regulations in the pipeline for implementation over the coming three years which would require the Bank's oversight and would create additional work.

Of the main achievements of the past 12 months, the Directorate had fully embedded the PRISM approach, which was delivering well, and had undertaken full risk assessments of 29 firms with the implementation of risk mitigation programmes. Substantial progress had been made in improving governance at investment firms and fund service providers. All investment firms had sufficient regulatory capital.

There was a heavy project workload in train or in the pipeline. This included implementation of the new Markets in Financial Instruments Directive (MiFID) authorisation process; the development of new sets of rules for the safeguarding of client assets; a re-engineering of the funds authorisation and passporting process; the development of a new supervisory approach for all derivative counterparties under the European Market Infrastructure Regulation (EMIR); and the successful conclusion to the IMF ROSC Review. As there was a growing reliance on regulatory returns and authorisation data, there was a need for the ramping up of data analysis capability.

Resourcing was a key challenge. There had been an acceleration in the loss of experienced staff in the Markets Directorate; these staff were being lost to the external market but also internally. While replacing numbers was not particularly an issue, what was of concern was the difficulty in finding new staff to match the calibre of those who had moved on. Other challenges included the lack of progress on powers to appoint an administrator to investment firms; increased demands and expectations of other partner divisions in the Bank – as they feel the strain; a pressure is also put on the Markets Directorate – and the already referenced EU legislative pipeline. Another challenging issue was that around enforcement; where referrals had, correctly, been made onwards to the Garda, there was a perception created that the Bank was failing to take action. This was highlighted recently in media coverage of the Custom House Capital (CHC) case; [redacted]

[redacted]

Ms Clarke noted the heavy workload and the forthcoming responsibilities the Bank would have under the pending EU legislative measures. She also said that apart from

implementing the legislation, the Bank might be missing opportunities to influence the development of the legislation due to resourcing pressures. She asked if Mr Murphy could at some point provide an estimate on the staffing resources needed to ensure implementation of EU legislative pipeline. Mr Murphy agreed to do this.

The Commission noted the Markets Supervision presentation.

Mr Murphy left the meeting.

6. Legacy Issues re Anglo

Gerry Quinn, Chief Operations Officer; and Joe Gavin, Head of Legal Division, joined the meeting.

The Governor introduced this item. A paper – Legacy Issues re Anglo: Update (Paper No. 139 of 2014) – was circulated. The Governor recalled that at the Commission meeting on 28 May 2014 there was a discussion on the reputational impact on the Bank of adverse comments made by Judge Nolan in the Anglo criminal trial on 8 May 2014 [redacted]

[redacted]

[redacted]

The Commission noted the Legacy Issues re Anglo Update.

Mr Quinn and Mr Gavin left the meeting.

7. **Annual Review of Investment Portfolio Prudential Limits**

John Geelon, Organisational Risk Division, joined the meeting.

The Commission considered Paper No. 129 of 2014.

Mr Geelon introduced this item. The investment portfolio prudential limits framework was introduced only in 2012 and remained appropriate for the Bank's credit risk management of the investment portfolios, bearing in mind systems limitations; therefore no changes to the Bank's framework for limit-setting were proposed.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

The Commission approved the various proposals as set out in Paper No. 129 of 2014 concerning the Bank's investment portfolio prudential limits.

8. Balance Sheet Bi-annual Update

The Commission considered Paper No. 130 of 2014. This item had also been discussed by the Risk Committee at its meeting on 27 May 2014.

The accompanying paper contained the bi-annual update on the Bank's balance sheet. The analysis presented was as at 30 April 2014. Since the last report, at 31 October 2013, there had been a number of developments. Both the Bank's published and adjusted balance sheets had continued to decline, with the published balance sheet contracting by €9.2bn to €99.0bn and the adjusted balance down marginally from €82.4bn to €82.0bn. The composition of the balance sheet was broadly the same as at the last review. Monetary Policy Lending fell by €105.8bn across the Eurosystem, driven by continued early repayment of the Very Long Term Refinancing Operations. The Bank's risk-shared component of this lending fell by nearly €1.7bn. Exposures also decreased due to NAMA redeeming over €4.5bn of senior bonds during the period. These bonds had been issued to the Bank following the liquidation of IBRC. Exposure to non-risk shared monetary policy lending (e.g. Additional Credit Claims) increased slightly. There had been no material change in the Bank's other portfolios. The financial buffers had increased on a net basis, with reserves increasing by €327m, while there was a marginal reduction in impairment-related provisions of €50m. Key issues under consideration which may impact on the size of the balance sheet were the possibility of a Eurosystem quantitative easing programme and the ANFA review.

[redacted]

[redacted]

Mr Geraghty confirmed that this item had been discussed at the Risk Committee meeting on 27 May 2014.

The Commission noted the balance sheet biannual update.

9. Consumer Advisory Group Update

This was taken after item 11.

The Commission considered Paper No. 131 of 2014. The Central Bank Reform Act 2010 provided for the establishment of a consumer advisory group. The Consumer Advisory Group's (CAG) role was to advise the Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services. This annual report outlined the activities of the CAG over the past year. The Consumer Protection

Directorate facilitated four meetings of the CAG during 2013, and two meetings to date in 2014, with a further two scheduled. Examples of some topics which had been considered at recent meetings by CAG included: health insurance; proposed introduction of a Consumer Redress Scheme; the Central Credit Register project; 'virtual currencies', 'crowdfunding' and peer-to-peer lending; the Debt Management Code; and the 5 Cs Framework and how it relates to the work of the Consumer Directorate.

The Consumer Protection Directorate was very satisfied with the on-going workings of the CAG. The Directorate had been provided with valuable opinions and input on various matters throughout the year and the CAG's feedback on many items had been incorporated into the work of the Directorate.

The Commission noted the activities of the Consumer Advisory Group.

10. Newbridge Credit Union – After Action Review

Sharon Donnery, Director Credit Institutions; and Patrick Casey, Special Resolution Unit, joined the meeting.

The Commission considered Paper No. 132 of 2014.

Mr Casey introduced this item. As noted at the meeting of the Commission on 10 December 2013, the Bank successfully applied to the High Court on 10 November 2013 for an order transferring the assets and liabilities (save for the premises) of Newbridge Credit Union Limited (NCU) to Permanent TSB. NCU had been the subject of on-going resolution action by the Bank since the appointment of a Special Manager in January 2012. The resolution of NCU constituted the first exercise by the Governor of the powers granted to the Bank under the Central Bank and Credit Institutions (Resolution) Act 2011.

At the Commission meeting in December 2013, Mr Roux noted that an internal after action review of the NCU resolution process would be carried out by a risk advisor to the Bank, and that a report would be provided to the Commission upon its completion. The

objective of the after action review was to identify key lessons that the Bank could learn from the process to resolve NCU, including what worked well and what could be improved upon with a view to informing the Bank's approach to future resolution cases. [redacted]

Between January and April 2014, a risk advisor, Mr James Bagge, reviewed all relevant materials and met with all key Bank officials involved in the NCU process following which the Report was prepared. The final Report was circulated to the Governor, the Deputy Governor (Financial Regulation), and the Director for Credit Institutions Supervision on 23 April 2014. The Report made a number of recommendations in the form of lessons learned which were summarised in the accompanying paper (Paper No. 132 of 2014). In addition, the paper also set out details of responses to the recommendations.

[redacted]

The key lessons, the other recommendations contained in the Report, and the measures adopted to date to implement them, had been agreed by Senior Management and/or the Governor (where appropriate). Many of the lessons learned were adopted during the next resolution case that arose, that of the transfer of Howth-Sutton Credit Union to

Progressive Credit Union. The on-going implementation of the measures would be monitored by the Resolution Committee, which included representatives from all relevant divisions and Senior Management.

[redacted]

Mr Moran said that he believed the report to be inaccurate in respect of certain references to the Department of Finance made within it. He requested that the Bank liaise with Department officials in this respect. Ms Donnery said that the Bank did not write the report; rather it was the independent report of Mr Bagge. She said that the Bank would however take on board any comments the Department may wish to provide.

Mr Geraghty said that one of the public criticisms regarding the NCU case was the cost of the Special Manager. He asked if this had been addressed and if the proposed panel was now in place. Mr Casey confirmed that an informal panel of potential special managers, comprising both firms and individuals had been put in place. The Bank had considered and now had identified possible remuneration models based on a capped or level of fixed fees, but ultimately it would be for the High Court to approve the remuneration of any future special managers. Ms Donnery added that this included a mix of firms, with smaller firms identified as more appropriate to smaller credit unions.

The Commission noted the Newbridge Credit Union After Action Review and the action points set out in response.

Ms Donnery and Mr Casey left the meeting.

11. Central Credit Register

This was taken after item 8.

Stephen Giffney, Central Credit Register Project Manager, joined the meeting.

The Commission considered Paper No. 133 of 2014.

The Credit Reporting Act 2013 was commenced by the Minister for Finance on 27 January 2014. It mandated the Bank to establish and operate a Central Credit Register (CCR) and conferred powers on the Bank to make regulations setting out much of the operational detail of the CCR and associated obligations.

As previously advised to the Commission at its meeting on 23 October 2013, the Bank planned to seek an external partner to build and operate the CCR on its behalf. The proposed approach of awarding a contract to an experienced credit bureau operator was favoured as the safest way of delivering the CCR and mitigating potential reputational risks. Four shortlisted bidders had been engaged in a Competitive Dialogue process since February 2014 in which a range of commercial, operational and technical issues had been discussed. [redacted]

[redacted] The location of the service in Ireland or elsewhere would be determined in the selection process. Data Protection Directives did not allow the Bank insist that the service operated in Ireland. Bidders would be asked to provide costs for their preferred location(s). Costs would be assessed along with other factors such as implementation capability, service operations, functional fit, information security, operational reliability and business continuity arrangements.

The CCR would impose significant new responsibilities on the Bank with potential reputational risks. In particular, the Bank would be responsible for processing large volumes of personal data which must be kept accurate and up to date. Lenders or Credit Information Providers would be liable for the accuracy of the data that they provided to the Bank; but the Bank must process that data quickly and accurately. Commercial risks may also arise in the event of extended implementation timelines, although the legislation provided for the Bank to recoup costs through levies and charges.

[redacted]

The Governor noted that this was an issue related to the earlier discussion (under agenda item 4) concerning the Bank's data strategy. He asked how the development of a Central Credit Register might tie in to a more harmonised approach concerning the gathering and usage of data. Mr Giffney said that it would be intended to work with the lenders and other stakeholders, such as the ECB, to try and ensure there was as harmonised an approach as possible.

[redacted]

Mr FitzGerald asked if the ultimate location of the provider, and by consequence of the data itself, would have any legal implications, particularly around data protection. Was it possible that action for discovery could be taken against the operator under local law, rather than Irish law, depending on the jurisdiction of the service provider? Mr Giffney said it was his understanding that the Bank would be responsible, under Irish law, as data

owner and data controller for the collection and safeguarding of the data and this would be reflected in the contract with a partner. However the issue of potential action against a operator under local law required further clarity and he would return with a legal view on this to the Commission.

The Commission noted the proposed approach to awarding a contract to a potential partner to build and operate the CCR on behalf of the Bank.

12. Annual Review of Delegation of Regulatory Powers

The Commission considered Paper No. 134 of 2014.

The accompanying paper (Paper No. 134 of 2014) set out that Section 18F of the Central Bank Reform Act 2010 provided that the Commission may delegate to the Governor, Deputy Governor or an employee of the Bank any functions or powers of the Commission, if the Commission considered it appropriate do to so in the interests of the efficient and effective management of the Bank. At its meeting on 28 April 2011 the Commission agreed that a report be compiled annually summarising how the delegated regulatory powers were exercised in practice. The paper provided an overview of the actions taken subject to the delegations during the period 1 April 2013 to 31 March 2014.

The Commission noted the actions taken pursuant to the delegation of regulatory powers for the period 1 April 2013 to 31 March 2014.

13. Supervisory Update

The Commission considered Papers No. 134 and No.137 of 2014.

Mr Roux introduced this item. He noted that an update on the PRISM Review recommendations (Paper No. 137 of 2014), including a detailed implementation plan set against the individual recommendations, had been circulated.

Regarding senior level appointments, he noted the Commission members had already been informed of the proposed appointment of Ms Anne Marie McKiernan as Registrar of Credit Unions. The Bank was awaiting the approval of the Minister for Finance to the appointment. He further noted that the appointment of Ms Sylvia Cronin as Director of Insurance Supervision was due to be publicly announced in the coming days.

A restructuring of the Banking Supervision area was taking place. The establishment of the Single Supervisory Mechanism (SSM), its operational structures and its planned supervisory engagement processes had caused Banking Supervision to review its organisational and operating structures. It had been decided to move to a three-division structure, built around the three key activities envisaged by SSM, with one division for off-site supervision of all banks, one division for on-site inspections and a third division covering all other horizontal activities.

Under the Central Bank Reform Act 2010, the Bank was required to undertake a peer review of its regulatory activities every four years. He noted that, under the IMF ROSC process, reviews had already taken place of the banking and markets/securities supervisory areas. The IMF had recently confirmed that it would undertake a ROSC review of the insurance area in the course of the second half of 2014, and the Bank had already arranged for peer reviews by other regulators of the consumer and credit union areas. Combined, these reviews should satisfy the legislative requirement.

Mr Roux informed the Commission that the VHI had submitted its application for authorisation. This was a detailed and complex application and would take some time to fully process. [redacted]

The Commission noted the Supervisory Update.

14. Risk Information Pack

The Commission considered Paper No. 136 of 2014.

The Commission noted the Risk Information Pack.

15. Any Other Business

There was no other business.

The meeting concluded.

Governor
25 July 2014

MINUTES OF MEETING NO. 47 OF THE CENTRAL BANK COMMISSION OF 25 JULY 2014

In attendance: Governor (Chair), Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Alan Ahearne, Derek Moran.

1. Minutes of Meeting of 25 June 2014

The minutes of the meeting of 25 June 2014 (Meeting No. 46) were agreed.

2. Matters Arising

There were no matters arising.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He noted the implications of recent changes to the measure of national accounts and Balance of Payments data arising from the implementation of new European standards for national accounts - the ESA 2010 framework. While all of the new standards had yet to be fully adopted in Ireland, the Central Statistics Office (CSO) made a number of changes to the national accounts and Balance of Payments data in early July 2014 resulting from the new framework. These changes, which, for the first time, included research and development (R&D) expenditures and estimates of illegal, but mutually agreed, transactions, had the impact of adding an estimated 0.8 per cent to GDP in 2013. Further changes, due to be introduced in September of this year, would have the impact of classifying for statistical purposes banks in wind-down and in the control of the State – so called 'defeasance

vehicles' – as belonging to the Government sector. According to Eurostat, this would include IBRC and would result in a large but temporary increase in measured gross General Government Debt in the period 2011 to 2013.

The Governor referred to the paper circulated for information and listed on the agenda (Item 11), Special Portfolio – Impact of Different Assumptions for the Pace of Government Bond Sales (Paper No. 150 of 2014). He recalled that in February 2013, on the liquidation of IBRC, the Bank acquired a portfolio of approximately €42.6bn worth of Government and NAMA bonds. Two issues arose around the treatment of those bonds from the perspective of the ECB. The first concerned whether or not the purchase and holding of such bonds was in compliance with Articles 123 and 124 of the Treaty which dealt with monetary financing. This had for now been addressed and, as stated in the ECB Annual Report, published in April 2014, while the liquidation of IBRC raised serious monetary financing concerns, these concerns could be somewhat mitigated by the disposal strategy of the Central Bank of Ireland. The second issue related to the Eurosystem's Agreement on Net Financial Assets (ANFA), which set ceilings on the amount of assets a national central bank (NCB) could hold on its balance sheet. The IBRC related bonds, when added to the Bank's more standard investment holdings, had pushed the Bank's asset holdings way above the ceiling. There could, however be 'permissible, temporary deviations' from this. [redacted] The ANFA was reviewed on a five year basis and the next review was due later this year. [redacted]

[redacted]

[redacted]

Mr FitzGerald said that when the results became available it would be useful to receive a staff assessment on whether or not the outcome was broadly appropriate. The Governor said that there was considerable quality control around the process, involving staff not only from the Banking Supervision Divisions but also from other areas of the Bank. Mr Geraghty said that there could be reputational issues to deal with were the public to view the ECB tests as overly rigid both in approach and outcome. The Governor said the Bank had negotiated strongly with the ECB on many aspects of the Comprehensive Assessment and the Bank had good standing in the ECB on this as it was viewed as having strong technical expertise in this area due to the previous work undertaken. Ms Clarke and Ms Byron both said it would be important the Commission be kept informed on all relevant developments. The Governor said that this was indeed the intention and the Commission would be notified, either at meetings or at other times, as and when further information became available.

The Commission noted the Update on Euro Area Developments.

4. HR Strategy Update

Gerry Quinn, Chief Operations Officer; Liz Joyce, Human Resources Director; and Michael Maher, Head of Organisational Development, joined the meeting.

The Commission considered Papers No. 144 and 161 of 2014.

Ms Joyce introduced this item. This was to update the Commission on the ongoing development and implementation of the HR Strategy which was previously presented at the meeting on 10 December 2013.

All elements of the Foster Agreement had now been implemented on schedule. The most recent item in this regard was the Voluntary Severance Scheme (VSS) which had just concluded. In total, 107 applications had been received with 71 offers made, of which, to date, 63 had been accepted. Approximately 21 replacements would be required to off-set some of the departures, but these were generally at a lower grade and in re-defined roles. At end-June 2014 the total complement was 1,510 with actual full time equivalents (FTE) standing at 1,410. The workforce plan to end-2015 had envisaged a complement of 1,378. The VSS impact assumed a net loss of 44, reducing the end-2014 complement to 1,466. Emerging resource needs and the Organisation Review would impact on the eventual outcome.

While the overall staff turnover rate was low, at only 4.7 per cent, there were a number of pressure points where the Bank was vulnerable to the loss of key staff and some of these had been brought to the attention of the Commission at previous meetings. A short term solution had been identified for a small number of key roles. This proposed policy was set out in Paper No. 161 of 2014 and had been discussed at the Budget and Remuneration Committee meeting on 24 June 2014.

[redacted]

The Budget and Remuneration Committee had previously sought legal advice on the draft policy and on the establishment of new contracts to enable these needs to be addressed; this advice had now been obtained and was contained in the paper that had been considered by the Committee. Mr Soden confirmed that the retention issue had been discussed at the Budget and Remuneration Committee and that the Committee had

agreed to the policy and to a related budget provision of €500,000 to cover the cost of the implementation of the draft policy.

Ms Joyce then went on to set out the various considerations for resourcing models; in particular around employee or contractor/consultant models. There had been significant resourcing activity to date in 2014 with 242 roles offered and 214 accepted, of which 113 were internal candidates. Good progress had been made in reducing the number of vacancies which had reduced from 133 at end-May to 92 in mid-July, although the number was always likely to fluctuate around the 100 mark. Regarding performance management, a review had been carried out into the Bank's Performance Management and Development Process (PMDP). The key areas of concern identified were on the moderation process and on the forced distribution model that was used. Any proposed changes arising from the review would need to be negotiated with the union.

Learning and Development remained a key area of focus. Of the payroll costs, between 3.5 and 4.0 per cent of budget was allocated to training; this was well in excess of outside norms of about 1.5 per cent. A Learning and Development strategy review had recently been completed and a Strategic Learning Group established. Management training had seen the continued roll-out of the LEAD programme and partnering with the IMI. Currently some 320 staff members were undertaking professional and academic courses and programmes. The Bank's mentoring programme had also recently been extended with more than 250 participants. There were also further developments in online training programmes.

The recent staff survey results showed some dis-improvement from the 2012 outcome, although it was coming off a relatively high base and there had been factors, such as the FEMPI legislation, that may have fed into the more recent results. It was important that the Bank understood and identified the underlying issues and, to that end, the management response was focused at two levels. Firstly those areas influenced by the Senior Leadership Committee, including visibility and impact of the leadership team and issues that could be addressed in the short term, for example performance management through the recent PMDP review; and secondly at a divisional level where there was significant divergence in the scores. Finally there were a number of items that would be addressed as part of the Organisation Review, such as career progression.

Mr Maher then summarised the various activities that were forming phase one of the Organisation Review. The ultimate aim was to ensure a more appropriate and effective organisation. PwC had been appointed as external partners and to date had held a number of directorate and staff focus groups and had engaged with members of the senior leadership team. There were many other sources of information that were feeding into the review, including divisional feedback, various functional reviews that the Commission would already have seen, feedback from a number of fora, including the Leadership Network, and a number of external organisation reviews. The key themes that were emerging to date were on restructuring for efficiency and flexibility; staff mobility; culture; decision making; and career paths and development. There was a strong focus on communication with a number of staff engagement exercises undertaken. The coming months would see further internal engagement as well as discussions with external reference organisations, [redacted]t was also intended to seek some external stakeholder views. It was planned to return to the Commission in the autumn with updates and proposals.

Mr Geraghty congratulated the team on the work to date and the wide focus that was being applied. He questioned if the more negative results of the staff survey might be linked with broader national developments and not just issues confined to the Bank. He asked if the Commission could play a role, particularly around the leadership space, in terms of providing greater clarity or vision to the staff at large. Mr Quinn said that it would be very important for the success of the review were the Commission to show its support so that staff could see that there was buy-in at the very top of the organisation. The Governor pointed out that the key goals and objectives of the organisation were clearly articulated in the Bank's strategy and Balanced Scorecard and there were links between that and the operational work of divisions, but there was a gap in staff understanding or engagement with that and it needed to be worked on. He instanced the recent all-staff conference and video that accompanied it as one such effort to help make the connection between the work on the ground and the overall goals of the organisation.

Ms Byron said the Bank appeared to be at best practice level in many of its HR processes. She said that the turnover rate was not alarming and it would be expected that there would be a level of turnover, particularly in the technical areas. She asked what plans there might be for future facilities management staffing and if the Bank was

examining new models in the context of the move to North Wall Quay. Ms Joyce said that the Bank currently operated a hybrid model with both insourced and outsourced services; this was something that was currently being examined in context of future developments but that there was no specific outcome at this time.

Ms Clarke said that the slide in the presentation which set out that only 5 per cent of successful applicants were subsequently turning down offers may be a bit misleading as it was likely there were larger numbers of potential applicants that decided not to apply at all due to the pay restrictions. She said it was encouraging that the Bank was examining various ways to deal with the challenges it faced in recruitment and retention in certain areas. She asked Mr Roux, as he had raised his own concerns a number of times at Commission level, whether he was confident that solutions could be found. Mr Roux said he welcomed the interim proposals that had been agreed around targeting some specific roles, but that this was only aimed at a very small proportion of staff; the tools available were limited and the constraints were strong. He said the problem was not necessarily reflected in vacancies but rather in the calibre of staff the Bank was able to attract, particularly in a post-crisis environment; he had begun to receive some negative feedback from industry on the calibre of some of the supervisory staff. He said the regulatory agenda continued to grow, particularly with additional requirements from Europe across practically all sectors, and, domestically, it was clear to him that the Bank needed to re-calibrate its risk appetite around credit unions. He had asked all his directors to set out for him the additional work their areas were facing and the consequent resourcing implications and he would bring this back to the Commission. He noted that if the Bank could not recruit the right staff because of pay constraints, it may be forced to outsource more and this was not usually the most cost effective solution. Ms Byron said that it was not always about numbers of staff but sometimes some business re-engineering was necessary and she suggested that this feature in the Organisation Review.

Mr FitzGerald noted the importance of the Learning and Development initiatives. He said the Bank was seen as a very attractive employer for younger staff as it put so much into their training and education. This was a very good way of incentivising staff at a particular stage in their careers. He said that a problem across the public sector in general was how to incentivise those with specialist skills, as usually the only options were promotion to managerial positions and this did not fit with some specialisms. Ms Joyce

said that this was also an issue for the Bank and was being examined as part of the Organisation Review.

The Commission noted the HR Strategy Update.

Mr Maher left the meeting.

5. Currency Centre – Printworks Strategy Update

This was taken after Item 6.

Mr Quinn was present for this item. Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 145 of 2014.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Mr Molumby and Mr Quinn left the meeting.

[redacted]

6. Superannuation Fund – Actuarial Valuation

This was taken after Item 4.

Mr Quinn and Ms Joyce were present for this item.

The Commission considered Paper No. 146 of 2014.

The accompanying paper set out that, in accordance with the Pensions Act 1990, the Trustees of the Central Bank of Ireland Superannuation Scheme were required to carry out an Actuarial Valuation of the Superannuation Scheme at least every three years. The Actuarial Valuation had recently been completed by the scheme actuaries, Lane Clark & Peacock Ireland Ltd (LCP), for the three year period ending 31 December 2013. The initial findings of the valuation were presented to the Trustees on 29 April 2014.

The Actuarial Valuation, contained in Paper No. 146 of 2014, found that the Scheme's funding level was currently 104.6 per cent on a going concern basis. The fund was valued at €531.2m and had a surplus of €23.3m. The Scheme currently had sufficient assets to meet its minimum liability under the Funding Standard; therefore, the Scheme satisfied the statutory minimum funding requirements under the Pensions Act, 1990.

The recommended contribution rate at the last valuation was 15.9 per cent of salaries. If there was no surplus in the Scheme, the long term contribution rate emerging would be 16.8 per cent of pensionable salaries. If the going concern surplus was spread over the future working lifetime of the Scheme, the recommended contribution rate would be 15.4 per cent per annum of pensionable salaries. It was appropriate to allocate some of the

surplus to act as a buffer against adverse performance. As such, LCP had recommended the Bank continue to contribute at a rate of 15.9 per cent of pensionable salaries from 31 December 2013. The Trustees had agreed with this recommendation; however the decision on the employer contribution rate ultimately rested with the Bank, under Clause 9.1 of the Trust Deed. Therefore, the Commission was being requested to consider the Bank's contribution rate to the Superannuation Scheme as a result of the findings of the Actuarial Valuation.

Mr Quinn and Ms Joyce left the meeting.

The Commission approved the proposal to maintain the current employer contribution rate of the Superannuation Scheme at 15.9 per cent of salaries.

7. **Supplementary Budget Request**

8. **Budget Outturn to 30 June 2014**

These items were taken together.

Mr Quinn was present for this item. Sharon Donnery, Director Credit Institutions; Fergal Power, Head of Financial Control and Procurement Division; and Yvonne Dunne, Financial Control and Procurement Division, joined the meeting.

The Commission considered Papers No. 140 and 141 of 2014. These items had also been discussed by the Budget and Remuneration Committee at its meeting on 24 June 2014.

Mr Soden introduced this item. The Committee was recommending to the Commission that it approve the request for a supplementary budget.

Mr Power pointed out that the pension element (€20m) of the approved Pay budget (€118.4m) was likely to be exceeded by €5m due to changes in actuarial assumptions between budget setting time and the time when the final 2014 cost was calculated. This was an accounting cost, and was not linked to the cash contributions of 15.9 per cent of relevant salaries which were paid into the Pension Scheme. The pay contingency

approved by the Commission at its meeting on 29 November 2013 (€4m) was not designed to cover such actuarial differences; rather it was designed to facilitate variables in 'controllable' costs, such as FTE fluctuations.

A supplementary budget of €6.3m was requested for the Non Pay budget to meet the forecasted costs of the Asset Quality Review (AQR) currently being undertaken. This project was initially budgeted at €8m. An amount of €7.7m was released from the approved contingency budget in early June 2014 when the costs were forecasted at €17.6m. The latest estimate was that these costs would rise to €22.7m. Given the uncertain nature of the final outturn of these costs, a supplementary budget of €6.3m was requested.

Mr Power noted that the approved Investment Envelope for 2014 totalled €38.5m, with the Fusion programme making up the majority (€25.5m). The forecasted outturn on Fusion was now likely to be significantly lower at €6m. Management planned to vire €5m of the unused Fusion Investment Envelope to facilitate Non Fusion projects which were forecasted to exceed budget by €6m.

Ms Donnery explained that the AQR was being undertaken in the context of the Comprehensive Assessment which was the first time that such a system wide assessment had been undertaken. While very good efforts had been made to estimate the budgetary costs of this in advance, changes in scope, required by the ECB, occurred during the process and this resulted in the additional costs. The Bank was still in discussions with the external consultants to try and contain the additional costs, and there had also been significant internal quality assessments of the work undertaken.

The Governor noted that an after action review would be held in order to see if there were lessons to be learned should there be a need for similar exercises in the future. He enquired of the experience from other countries in relation to external costs. Ms Donnery noted that there were similar costs associated with the exercise when you look at smaller central banks; in reality there were a limited number of firms that could assist with this work and there was not a competitive market in this instance. She said it was worth noting that, notwithstanding the increase in costs, the Bank had built up good internal experience and this had reduced what the overall cost might have been.

Ms Byron said she supported the supplementary budget request. Looking at public sector public procurement on a wider level she asked, as this work was being done across Europe, would it be possible in future to negotiate a collective procurement framework. Mr Power said that this was technically possible and within the Eurosystem there was a centralised procurement function – the European Procurement Coordination Office (EPCO). However, in reality it had not been very successful and had managed to agree only one central contract since its establishment some years ago; it was very difficult to get all participating countries to agree, and different procurement rules prevailed in different jurisdictions.

Mr Power then summarised the budget outturn for the year to 30 June 2014. The accompanying paper (Paper No. 140 of 2014) outlined in detail the operating and investment/capital costs for the Bank for the first half of 2014, comparing actual outturn for the quarter to the approved budget and prior year for the same period. The paper also reflected how the organisation was projecting in relation to actual expenditure for the remainder of the year. Operating costs, comprising staff costs (including pensions) and non-pay expenditure, amounted to €94.6m and were below budget of €97.5m for the first half of 2014. The outturn represented an increase of €13.2m (16 per cent) on the 2013 outturn. Total non-capital costs to 30 June 2014 amounted to €9.0m which was 27 per cent below budget.

Total staff costs (including pensions), which constituted the largest component of the Bank's operating expenditure, were €60.8m (4 per cent above budget). Pension charges for the first half of 2014 of €10.2m were based on the budgeted cost, and were €0.2m higher than 2013.

Non-pay costs for the quarter amounted to €33.8m - €11.9m higher than the same period in 2013 (54%), and €4.8m less than budget (13%). The variance on prior year could mainly be attributed to Professional Fees (increase of €8.2m) due to the AQR. The expenditure included Communication & IT costs of €5.1m, of which a significant portion related to Data Centre Charges (increase of €1.7m) and Support Software (increase of €0.5m). There were various over/under spends in the different categories of expenditure, more details of which were provided in the paper.

The aggregate outlay on Investment/Capital Projects for the first half of 2014 was €10.2m, or 27 per cent of the total 2014 approved Investment Envelope of €38.5m. The 2014 outturn represented a decrease of €2.6m on the 2013 outturn (€12.6m) for the same period, which primarily related to the purchase of the new building early last year. The expenditure in H1 2014 included €6.8m on IT systems and facilities; €1.5m on the Fusion Programme; €1.4m for Currency Operations; €0.3m on the Central Credit Register project; and €0.1m on Facilities Management.

Mr Quinn, Ms Donnery Mr Power and Ms Dunne left the meeting.

- **The Commission approved the supplementary budgets of €5m for Pay and €6.3m for Non Pay for the year ended 31 December 2014; and noted the intention to vire €5m from the Fusion Investment Envelope to the other categories in the Investment Envelope.**

- **The Commission noted the budget outturn to 30 June 2014.**

9. Statement of Accounts to 30 June 2014

This was taken after Item 5.

Mr Quinn and Mr Power were present for this item.

The Commission considered Paper No. 147 of 2014. It was noted that this paper was also due to be considered by the Audit Committee at its meeting on 29 July 2014.

The accompanying paper (Paper No. 147 of 2014) set out the Statement of Accounts for the half-year ended 30 June 2014, analysed the provisional profit for the half-year ended 30 June 2014 and compared the outturn to the same period in 2013. The outturn for Quarter 2 2014 was also analysed and compared to Quarter 1 2014.

The Bank recorded a provisional profit of €770.0m for the half year to 30 June 2014 (H1 2013: €726.1m), an increase of €43.9m. The key drivers of the increase were lower

unrealised losses year-on-year (H1 2014: €8.1m v H1 2013: €62.8m), higher realised gains (H1 2014: €113m v H1 2013: €23.2m) offset somewhat by a reduction in net interest income amounting to €79.5m. Against a lower interest rate background (a reduction of 0.10 per cent in the Main Refinancing Rate over the review period), both interest income and interest expense were significantly lower.

At this juncture, the profit for the full year was estimated to be in the region of €1.3bn (2013: €1.5bn) but this should be viewed as preliminary and subject to change. An outturn of this order would equate to Surplus Income payable to the Exchequer of around €1.0bn, assuming retention of 20 per cent and no change to the level of risk provisions. This estimate, which was based on current interest rate levels, was significantly higher than that provided to the Department of Finance in March 2014, primarily reflecting lower bond yields and also considerable realised gains on the sale of holdings of the 2025 Irish Government Bond. An updated forecast based on the latest available information would be provided to the Department of Finance in the coming months.

The Bank's balance sheet amounted to €82.8bn at half year to 30 June 2014, a decrease of €17.6bn (17.6 per cent) over Quarter 1 2014. The decrease in the balance sheet was primarily driven by the fall in monetary policy lending which continued to reflect the early repayment of the three year Longer Term Refinancing Operation (LTRO) during Quarter 2 2014 and credit institutions' increased access to market funding.

The Commission noted the Statement of Accounts for the half-year ended 30 June 2014.

10. Central Bank Superannuation Fund Performance Report to 30 June 2014

The Commission considered Paper No. 148 of 2014.

The accompanying paper (Paper No. 148 of 2014) set out the performance of the Bank's Superannuation Fund to end-Q2 2014. In summary, the total fund returned 2.4 per cent in Q2 2014. Equities returned 4.6 per cent for the quarter while bonds generated a return of

0.2 per cent. The market value of the Fund assets increased by approximately €15m; from €538.2m on 31 March 2014 to €553.3m on 30 June 2014. For the first two quarters of 2014, the total Fund returned 3.5 per cent - with equities contributing 3.3 per cent to the overall Fund return, while the bonds and cash contributed 0.2 per cent to the overall Fund return. The asset allocation at the end of June was 51.1 per cent equities and 48.9 per cent bonds. Since the start of the investment period, at end-December 2009, the total return on the Fund was 28.8 per cent, equating to a return of 5.8 per cent per annum.

The Commission noted the return on the Superannuation Fund in Quarter 2 2014.

11. Review of Investment Performance to 30 June 2014

The Commission considered Paper No. 149 of 2014.

The accompanying paper (Paper No. 149 of 2014) provided the Commission with a review of performance of the Bank's investment portfolio in the first half of 2014. While the main change to the structure of the Bank's balance sheet in recent times was the creation of the Special Portfolio as a result of the IBRC liquidation, this portfolio was excluded from the calculations of investment performance.

At end June 2014, the investment portfolio totalled €19.7bn and comprised a Marked-to-Market (MTM) euro portfolio of €10.0bn of which €9.8bn was benchmarked; a Hold-to-Maturity (HTM) portfolio of €9.1bn; and, two ECB Covered Bond Purchase Programme portfolios – CBPP1 (€0.4bn) and CBPP2 (€0.2bn). The Bank also participated in the ECB's Securities Markets Programme (SMP). Under the SMP programme, the Bank had purchased a portfolio of Greek, Irish, Portuguese, Italian and Spanish government bonds which amounted to €2.7bn nominal at end June 2014. This was a monetary policy portfolio and, as such, all income and risk was shared amongst participating Eurosystem national central banks (NCBs) based on capital key share. While the benchmarked portfolio, currently euro denominated, was valued on a Marked-to-Market basis, all other portfolios were Hold-to-Maturity and were valued on an amortised pricing basis.

The rate of return on the total investment portfolio (including the HTM and the CBPP portfolios) was 2.56 per cent for the first half of 2014, compared with a return of 2.33 per cent for the previous six months and 2.25 per cent for the full year 2013. Total earnings on the investment portfolio amounted to €242.1m for the first half of 2014 compared to €220.8m for the previous six months and €421.7m for 2013.

A revised benchmark was introduced in July 2013 as the Bank's previous investment benchmark had come to be less than fully representative of the Bank's holdings as a result of the turmoil of recent years (in particular, a large number of sovereign rating downgrades) and various restrictions imposed on the Bank's investment activity due to its participation in the ECB's Securities Markets Programme. The euro Marked-to-Market portfolio (i.e. excluding periphery bonds and the HTM and CBPP portfolios) outperformed this new benchmark by 8 basis points on an annualised basis earning a return of 0.96 per cent for the period January to June 2014 compared to an outperformance of 7 basis points in the period July to December 2013.

For the first six months of 2014, the return on the HTM portfolio was 4.18 per cent while the first Covered Bonds Purchase Programme (CBPP1) portfolio earned a return of 4.76 per cent and CBPP2 earned 5.13 per cent. The return on the assets purchased by the SMP portfolio was 5.99 per cent. [redacted]

The Commission noted the return on the investment assets for the first half of 2014.

12. Special Portfolio – Impact of Different Assumptions for the Pace of Government Sales

The Commission considered Paper No. 150 of 2014.

The Governor noted that the accompanying paper (Paper No. 150 of 2014) had already been discussed under item 3 – Euro Area Developments.

This paper assessed the impact upon the Bank's profit of varying the pace of sales of the Special Portfolio. As the Bank's profitability was guided largely by the Eurosystem accounting rules and as the Special Portfolio was accounted for at market value, any capital gains could only be crystallised when the bonds were sold.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

13. New Lending Fact Find

The Commission considered Paper No. 151 of 2014.

The accompanying paper (Paper No. 151 of 2014), which had also been discussed at the briefing for Commission members on Mortgage Arrears held on 24 July 2014, had been compiled by the Credit Team in Banking Supervision as an initial fact-find to understand the sources of information the Bank had at its disposal in relation to new lending volumes.

In 2014, with progress on resolution of distressed loans and early signs of economic recovery, an upturn in new lending was inevitable after several years of stagnant activity. One of the key findings from the review related to the geographic split of new lending by

Irish banks. Total lending by Irish banks in 2013 was €10.7bn, of which only €6.9bn was lent into Ireland (64 per cent). Just 57 per cent of all commercial lending related to Irish business, which was a reduction from 59 per cent in 2012. The balance related to UK and US businesses mainly. There was a good deal of public commentary about credit availability. Banks claimed that demand was low; counter claims centred on unwillingness by banks to supply credit to fund viable borrowing propositions across commercial and mortgage sectors. The debate was alive in the political arena too, with government initiatives geared to compel lenders to meet targets to fund new lending.

The risks attaching to new lending practices in 2014 were low from a prudential perspective based on current lending levels. Increased lending activity in 2013 was modest and there was no evidence in Risk Appetite Statements or Internal Capital Adequacy Assessment Process (ICAAP) projections of material upticks in particular lending activities. However, the Banking Supervision divisions wished to position the Bank to monitor developments and make early interventions where needed, while ensuring that actions taken did not have unintended consequences (i.e. inappropriately curtailing supply or demand).

The Commission noted the New Lending Fact Find exercise.

14. Supervisory Update

The Commission considered Paper No. 152 of 2014.

Mr Roux introduced this item.

Senior Level Appointments

Mr Roux noted that the Commission had been informed of the resignation of Patrick Brady, Director of Policy and Risk and Acting Director of Insurance Supervision. Mr Brady would continue in his role as Director of Policy and Risk until the end of the year, but would step back with immediate effect as Acting Director of Insurance Supervision. Mr Roux would take on this role in the interim pending the start date for the new Director of Insurance Supervision, Sylvia Cronin.

As Domhnall Cullinan recently transferred to the role of Head of Anti-Money Laundering, the Bank held a competition to replace him as Head of General Insurance. The Bank identified a suitable external candidate who was due to take up the role in August 2014.

Insurance-related Issues

[redacted]

[redacted]

Since the last Commission meeting, Bernard Sheridan, Consumer Director, had appeared before the Joint Oireachtas Committee on Finance, Public Expenditure and Reform to discuss recent issues that arose in relation to the liquidation of Setanta Insurance. A number of matters were being dealt with. While the Bank's supervision of Setanta Insurance extended to conduct of business issues only, it had sought to protect the interests of Irish policyholders through engagement with the Maltese regulator, the firm and the liquidator. The Bank would continue to ensure that affected consumers were fully informed of any developments and would also continue to liaise with the Maltese regulator during the liquidation process. The case highlighted certain issues around the role of the Bank in relation to financial services firms it does not directly regulate; there may be lessons for any future such cases that could be learned from this particular case.

Berehaven Credit Union

The Governor updated members on the liquidation of Berehaven Credit Union (BCU). This was the third such credit union resolution case the Bank had dealt with, following

those relating to Newbridge Credit Union and Howth-Sutton Credit Union. There would be more such cases in the future. In this particular case the Bank had been heavily engaged with BCU since 2010 when it was clear that the credit union was not sustainable in its own right, various robust efforts were made by the Bank to find a solution, including engagement with the Irish League of Credit Unions (ILCU) and approaching other credit unions to examine if a merger were feasible.

[redacted] The Bank's application for the appointment of a provisional liquidator to BCU was approved by the High Court on 23 July 2014.

The appointment of a provisional liquidator triggered the invocation of the Deposit Guarantee Scheme (DGS). Following the High Court's order, the provisional liquidator and the Bank's DGS team were working together to process payments to members of BCU. While there was a 20 day statutory timeline, the Bank hoped to make payments sooner.

Mr Geraghty said that locally there was a view that the Bank had put restrictions on BCU that prevented the credit union working its way out of the crisis. He referred to the fact that other banking services had in recent years been withdrawn from the area and it would be very important that the Bank do as much as it can to facilitate any replacement credit union services there. He would like the Bank to communicate that it was supportive of the facilitation of any such replacement services. The Governor noted that the Bank was aware of the level of local concern [redacted] Mr Whoriskey added that there had been very pro-active communications by the Bank, both on a national level, including an interview with Sharon Donnery on Prime Time on RTE, and with local radio and press. [redacted]

The Commission noted the Supervisory Update.

15. Risk Information Pack

The Commission considered Paper No. 153 of 2014.

The Commission noted the Risk Information Pack.

16. Governor's Quarterly Report on Expenses

The Commission considered Paper No. 154 of 2014.

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

17. Minutes of Meeting of Budget and Remuneration Committee

The minutes of the meeting of the Budget and Remuneration Committee of 27 May 2014 were noted.

18. Any Other Business

There was no other business.

The meeting concluded.

Patrick Honohan

Governor
26 September 2014

MINUTES OF MEETING NO. 48 OF

THE CENTRAL BANK COMMISSION

OF 26 SEPTEMBER 2014

In attendance: Governor (Chair), Alan Ahearne, Blanaid Clarke (Items 1-3 and 7 via teleconference), John FitzGerald, Des Geraghty, Stefan Gerlach, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Patricia Byron.

The Governor opened the meeting by welcoming Mr Moran, who was attending his first meeting as a Commission member.

The Governor also congratulated Mr Geraghty and Mr Soden on their re-appointments by the Minister for Finance to the Commission. Mr Geraghty and Mr Soden would begin new five year terms as Commission members from 1 October 2014.

The Governor also informed members of some changes at the senior management level. He recalled that members had already been informed in writing that Patrick Brady was resigning as Director of Policy and Risk at the end of the year. The new Director of Resolution and Corporate Affairs, John Coyle, had started on 22 September 2014; the new Chief Economist, Gabriel Fagan, was due to start on 1 October 2014; while the new Director of Insurance Supervision, Sylvia Cronin, and the new Chief Information Officer, Kevin Garland, were due to join the Bank in the coming month.

1. Minutes of Meeting of 25 July 2014

The minutes of the meeting of 25 July 2014 (Meeting No. 47) were agreed.

2. Matters Arising

There were no matters arising.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. The Governing Council of the European Central Bank had recently announced a series of further monetary policy measures, including a lowering of the interest rate; an asset backed securities purchase programme (ABSPP); and a new covered bonds purchase programme (CBPP3). [redacted] The ECB President, in a recent speech, had also referenced the need for broader structural and demand-targeted measures from other policy makers. There were various technical issues to be worked through regarding implementation of the ECB measures.

The Governor then went on to provide an update on the Comprehensive Assessment exercise. This remained the subject of on-going work and analysis with a lot of discussions taking place at the staff level. There were no particular developments or insight to be provided since he last updated the Commission at its meeting in July. The Bank would not have the details of the outcome for the Irish banks until a couple of days before they were publicly announced, which at this stage was expected towards the end of October 2014. The Commission would be kept updated.

The Commission noted the Update on Euro Area Developments.

4. Policy and Risk

This was taken after Item 7.

Patrick Brady, Director Policy and Risk; Mary Burke, Head of Prudential Policy; Mairéad Devine, Head of Risk, Governance and Accounting Policy; and Martin Moloney, Head of Markets Policy, joined the meeting.

The Commission considered Paper No. 181 of 2014.

Mr Brady introduced this item. The role of the Policy and Risk Directorate was to influence the legislative agenda, both domestically and at European level; to support its proper implementation through clear regulations and guidelines; to assist and advise front line supervisors on various technical and specialist issues; and to engage with various external stakeholders. He noted that there was a very full legislative agenda which was complex and demanding, with some exceptionally short timeframes for implementation.

Ms Burke set out the key priorities and challenges of the Prudential Policy Division, which were around banking policy, insurance policy, and EU and international co-ordination. In banking the major tasks centred on the implementation of the Capital Requirements Regulation and Directive (CRR/CRD IV), active participation in the European Banking Authority (EBA), and various SSM-related integration issues. Within insurance policy, the focus was primarily on on-going preparations for Solvency II, including the development of supervisory guidance and reporting to the European Insurance and Occupational Pensions Authority (EIOPA). The Division was also active in ensuring external relations at an EU and wider level were maintained at a high level. This work included engagement with the EU Commission and Parliament; assisting the various regulatory divisions in their EU-related work; and engaging with industry, particularly in assisting its preparedness for various EU legislative requirements.

Ms Devine then set out the role and work of the Risk, Governance and Accounting Policy Division. Its key responsibilities included the development and maintenance of corporate and internal governance standards for regulated firms and the fitness and probity regime. It also developed and implemented frameworks around accounting and auditing related issues, provided technical advice and training to staff in this regard, and maintained the Bank's relationship with the external audit profession. The Division was also responsible for the on-going development and enhancement of PRISM and for identifying and communicating to staff on emerging risks and trends in the financial services sector. Recent and current focus included the issuance of revised Impairment Provisioning and Disclosure Guidelines for credit institutions; development of corporate governance codes, including a revised code for credit institutions and the introduction of a code for the funds industry; new fitness and probity regulations; regular provision of Environmental Risk Assessments and various enhancements to PRISM. A big focus of the Division was on training and support to supervisory staff throughout the Bank.

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Mr Moloney then summarised the work of the Markets Policy Division. Its role included building good relations and influence with the European Securities and Markets Authority (ESMA), the International Organisation of Securities Commission (IOSCO) and the EU Commission, on markets related issues. It developed and maintained enforceable and proportionate Rule Books for investment firms and funds, and provided support to staff in that regard. It was also concerned with ensuring that the Bank was well prepared from a markets infrastructure perspective, particularly were any applications to be received from potential entrants. Recent achievements included the complete re-writing of relevant existing rules and guidance; influencing European policy-making through the successful appointment of Bank nominees to key positions; and the development of discussion papers on issues such as shadow banking and crowd funding.

Mr Brady said that he wished to highlight some key issues. The first was the success of PRISM, in particular the fact that it had been adopted by the ECB for SSM purposes; this was a major vote of confidence. The second issue was around the structure of the Directorate, which was largely flat compared to the rest of the organisation. While this was, in large part, due to the nature of the work involved, it was also interesting to note in the context of the current Organisational Review. Finally, there was a growing problem as regards the retention and attraction of staff. This was becoming acute and would likely become more complex in the future, under current reward structures.

The Governor thanked the Policy and Risk team for its presentation. He said it highlighted the variety and complexity of the work. Mr Roux said that the work in relation to EU and international relations was extremely important and had produced very positive results for the Bank. The Bank now held very senior and influential positions in the European Supervisory Authorities (ESAs) and, for a country of its size, this was an enormous achievement.

Ms Clarke acknowledged the huge volume of work, its scope, breadth and complexity. There had been very good strides made in the corporate governance work, which had been identified as a major problem and contributor to the crisis, so this was very welcome. She noted the importance of training but also noted that, whenever the Budget and Remuneration Committee examined this, the training budget across the Bank was under-utilised. She said she had serious concerns around the ability of the Bank to attract

and retain the right people to undertake this, and other, complex work and it would be necessary for the Commission to focus on that. Under such pressures, it may be necessary to prioritise; this was a big strategic issue.

Mr Ahearne said that the auditing profession had come under a lot of criticism in recent years; what had changed in terms of their responsibilities and what the Bank required or expected? Ms Devine said that there had been a lot of communication with the auditing profession and the Bank was harnessing information from auditors, in relation to areas that it was interested in, such as internal controls and governance.

The Governor noted that Mr Brady was shortly due to leave the Bank and thanked him on behalf of the Commission for all the very good work that had gone in to the Policy and Risk area in recent years.

The Commission noted the Policy and Risk Update.

Mr Brady, Ms Burke, Ms Devine, and Mr Moloney left the meeting.

5. SSM Update

Sharon Donnery, Director Credit Institutions; Ed Sibley, Head of Banking Supervision; and Deirdre Walsh, Manager, Project Europe, joined the meeting.

The Commission considered Paper No. 197 of 2014.

Ms Donnery introduced this item. The Single Supervisory Mechanism (SSM) was due to become operational on 4 November 2014 when the ECB assumed its new supervisory role. SSM conferred a number of powers on the ECB which would see it directly supervising 'significant' credit institutions. 'Less significant' credit institutions remained under the supervision of national competent authorities (NCAs - in Ireland's case, the Bank) in line with the SSM supervisory manual and subject to oversight by the ECB.

While the ECB had a range of powers, mainly in the sphere of prudential supervision, it retained no specific responsibilities regarding consumer protection or anti-money

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laundering, which remained competencies of the Bank. In total, the ECB would be responsible for directly supervising 120 bank groups, including four Irish banks – Bank of Ireland, AIB, PTSB, and Ulster Bank. These would be supervised via Joint Supervisory Teams (JSTs) comprising both national and ECB supervisory staff. Bank staff would be participating in 12 JSTs, covering not only the significant Irish banks, but also other significant European banks with subsidiaries in Ireland. In the case of the less significant institutions, the Bank would remain responsible for 12 such banks, including Merrill Lynch and Citibank.

Under the SSM governance structures, the Governing Council of the ECB would be the ultimate decision maker; however all key decisions would come via the Supervisory Board, which was made up of representatives of the NCAs and ECB representatives. Mr Roux was Ireland's Supervisory Board member, with Ms Donnery acting as his alternate.

SSM would have a fundamental impact on Banking Supervision in the Bank. There were various impacts and changes surrounding the legal mandate, as set out in the information paper circulated to members: 'Single Supervisory Mechanism – Legal Division Briefing' (Paper No. 194 of 2014). Decision making would move largely to the ECB and there would be a requirement to conform to new European 'norms'. Tasks and priorities would be set by the ECB. Supervision would become more granular and evidence-based, with new methodologies applied and much greater levels of on-site supervision. In this sphere, the Bank would now be part of a federal organisation of supervision, rather than a standalone organisation. Increased resources would be required in Banking Supervision, but also in the Information Management and Technology Directorate; Deputy Governor's Office; Statistics and Enforcement. There would be significantly more travel for staff, mainly to Frankfurt, as well as new on- and off-site working arrangements. To reflect these new demands, and to mirror the structure at the centralised level, the Banking Supervision Directorate would be re-structured into three broad divisions – Supervision; On-Site Inspections; and Analysis.

Ms Walsh summarised the work undertaken within the Bank on 'Project Europe' which had been established to identify and implement the necessary changes to processes, systems and structures to ensure the Bank was properly prepared for the transition to full

SSM implementation. It also supported and completed any necessary tasks in support of the ECB's own preparation, including the execution of the Comprehensive Assessment, which the Governor had referenced earlier under Item 3. The work involved more than 150 people across 13 divisions.

The Governor said that the presentation illustrated the huge effort that had been put in across the Bank to ensure successful transition to SSM. It was a very significant operation which was on course to meet its goals on time. Ultimately it would lead to good supervision arrangements across Europe.

Mr Soden complimented the team on its work. He noted that it was very important for the Bank to play an influential role in Europe and it appeared in this case that Ireland was punching above its weight. He said it would be very important for those Irish staff in Frankfurt to maintain strong relations with the Bank and to keep in close working contact with each other. The Governor said that there had been a very pro-active effort made to give Bank staff an opportunity to work in the ECB on SSM and this was having a positive impact. Mr Roux added that, as a small country entity, it was very important for the Bank to be influential at the centre and this was being achieved in various ways.

Ms Clarke asked that the Commission be updated on SSM again in about 6 months' time.

The Commission noted the SSM Update.

Ms Donnery, Mr Sibley and Ms Walsh left the meeting.

6. Investment Strategy

Maurice McGuire, Director Financial Operations, joined the meeting.

The Commission considered Papers No. 170 and 182 of 2014.

[redacted]

Mr McGuire noted that the size of the Special Portfolio had declined significantly since its acquisition in February 2013. Much of the fall had reflected rapid redemptions of NAMA bonds following the successful sale of IBRC's assets. Against a background of improving financial stability conditions and rising bond prices, the Bank had also accelerated the sales of the fixed rate 2025 government bond acquired in February 2013 into the market, solely on a reverse enquiry basis. The intention was to continue to meet reverse enquiry demands at a high rate relative to the minimum schedule while market conditions remained strong. If market conditions were to deteriorate, the pace would be lowered. There had been no disposals of the Floating Rate Notes (FRNs) to date. [redacted]

[redacted]

[redacted]

[redacted]

The Governor noted that the Bank had, in fact, already sold approximately €2.3bn of the 2025 bond. This included the already announced sales of €350m last year and was well in excess of the minimum sales schedule of €500m by the end of 2014. Mr FitzGerald asked how this would be accounted for; would any profits on the sales be seen as a capital gain and therefore more appropriately used by Government to reduce the debt rather than for current spending? The Governor noted that in his pre-budget letter to the Minister he drew attention to this and the forthcoming Quarterly Bulletin would also state that any 'windfall' revenue gains should be utilised to reduce the debt. Mr Gerlach also noted that the sales reduced a balance sheet risk for the Bank.

Seamus O'Donnell, Organisational Risk Division, joined the meeting

Mr Gerlach then introduced the second paper to be considered under this item (Paper No. 170 of 2014) which was a proposal on investment governance arising out of the work of the Asset Management Review Group. He noted that this had already been discussed by the Risk Committee at its meeting on 25 September 2014. Mr Gerlach pointed out that the proposals were without prejudice to powers already delegated to the Governor in October 2010 (Paper No. 18 of 2010) which had already given the Governor the right to buy and sell all kinds of properties, including securities and to choose asset classes.

However, the practice to date had been for the Commission to be involved in a wide spectrum of both strategic and more tactical decisions around investments. The proposal before the Commission was to give greater clarity to the governance arrangements of separating out strategic decisions from tactical decisions.

In its September 2013 report to the Commission (Paper No. 190 of 2013), the Asset Management Review Group committed to assess the Bank's investment governance structures. This followed a peer review by the Bank for International Settlements (BIS) on the Bank's investment process which made a specific recommendation around improving the governance.

The Commission had, to date, taken all material decisions in the investment process. The BIS noted that this was an adequate setup for the scope and nature of the Bank's investment process, but recommended a differentiation be made between strategic and implementation elements of the process. Strategic elements of the investment process included approving the overarching parameters that guided the final asset allocation. Implementation elements of the process included secondary decisions which must be taken when implementing an investment asset allocation. In the current setup, the Commission took both strategic and implementation decisions.

The BIS peer review of the Bank's investment process, academic literature, and benchmarking against other euro area national central banks, all indicated that implementation decisions would normally be taken at a level below the Commission, such as an appropriate internal committee, with the Commission focussing on strategic decisions, including strategic parameter setting and the development of risk management policies. The implementation decisions would be made strictly within the strategic parameters agreed by the Commission. The Commission would be kept fully up-to-date with all implementation decisions, and would have the opportunity to monitor and review.

In practical terms, it was now proposed to put into practice the already delegated powers for such implementation decisions from the Commission to the Governor, with the power for the Governor to further delegate these duties. Once these governance arrangements were put into practice, a number of decisions would be requested of the Commission

over the coming months to set the strategic parameters, and only then would significant implementation decisions be considered within these parameters.

Mr Geraghty confirmed that the Risk Committee had discussed this item at its meeting on 24 September 2014. Mr Ahearne said that at the Committee meeting he had expressed a view that he had not seen any particular problem with how the Commission had previously dealt with investment-related issues; however as this now appeared to have been an already delegated power, he would not object to the proposals.

Mr Geraghty said the Risk Committee had also raised the idea of gaining access to some advisory expertise, which could be utilised on a periodic basis to assist the Committee in its own considerations of investment-related matters. The Governor noted that the Risk Committee already had access to Risk and Audit expertise within the Bank; he also recalled that he had previously requested the Minister to consider persons with specific expertise on certain matters when making Commission appointments. He said that he would reflect on the legitimately expressed concerns of the Risk Committee Chair and would revert with proposals in due course.

The Commission noted the Investment Strategy update.

The Commission further agreed to distinguish between strategic and implementation decision making within the investment process, with implementation decision making to be undertaken strictly within the strategic parameters set by the Commission.

Mr McGuire and Mr O'Donnell left the meeting.

7. Macro-Prudential Instruments

This was taken after Item 3

Mark Cassidy, Head of Financial Stability Division; and Niamh Hallissey, Financial Stability Division, joined the meeting.

The Commission considered Papers No. 183 and 193 of 2014.

Mr Gerlach introduced this item. The first paper to be considered under this item was Paper No. 183 of 2014 which set out a Macro-Prudential Framework for Ireland. The document presented the key elements of a domestic macro-prudential policy framework covering the policy's objectives, instruments and underlying decision-making process. Ireland's emerging framework for macro-prudential regulation was being articulated within a structure that had been defined by the European Systemic Risk Board, but relied mainly on Irish national laws and institutions, especially the Bank which had a leading role in macro-prudential policy in Ireland given its statutory mandate to safeguard the stability of the financial system. The Bank had also been designated as the national authority responsible for macro-prudential powers in the European Capital Requirements Directive and Regulation (CRD IV/CRR), which came into force in 2014.

Macro-prudential policy aimed to strengthen the resilience of the domestic banking system so that it could withstand adverse movements in credit and property prices, and other macroeconomic shocks. Such policy measures would be forward-looking and seek to reduce the potential for imbalances to accumulate, which could lead to future financial distress. Intermediate objectives of macro-prudential policy dealt with excessive credit growth/leverage (including real estate imbalances), excessive maturity mismatch, limiting exposure concentration and reducing the misaligned incentives of systemically important banks.

The Bank had a range of instruments at its disposal to address systemic risk in the banking sector. These could be broadly divided into two groups, namely those that targeted the balance sheet of the banks (i.e., capital, liquidity-based tools and large exposure limits) and those that affected the terms offered to borrowers for lending (i.e., credit-based tools). Macro-prudential policy would not prevent future financial crises

but instead aimed to reduce the probability and depth of such events. By focusing on the resilience of the domestic banking sector, it would complement the Bank's micro-prudential supervision model and the structural reform of the Irish banking sector.

The Bank's Financial Stability Committee had considered the Framework document and it was now intended to publish it on the Bank's website. It should support any future communication on this policy area.

Mr Cassidy then went on to introduce the second paper for consideration under this item (Paper No. 193 of 2014) which set out a Macro-Prudential Policy for Residential Mortgage Lending and included a proposed public consultation document.

The consultation paper would seek comments on the Bank's proposal to introduce Regulations under Section 48 of the Central Bank (Supervision and Enforcement) Act 2013 to place ceilings on the loan-to-value (LTV) ratio (i.e. a maximum fraction of the purchase price to the fraction financed by bank credit) and on the loan-to-income (LTI) ratio (i.e. a maximum multiple of the borrower's income to be advanced) of new housing loans for residential property entered into by loans made by regulated financial services providers (RFSPs). The measures would apply to any RFSP providing housing loans to borrowers, but in practice it was likely to impact credit institutions and retail credit firms.

The Bank's objectives were twofold: to increase the resilience of the banking and household sectors to financial shocks; and to dampen the pro-cyclical dynamics between property lending and house prices. The consultation discussed the various options available to the Bank to achieve the stated objectives, and set out the Bank's opinion that the imposition of LTI and LTV limits was most suitable at this time. With thin supply and the return of a growing demand, conditions were such that it was desirable to put in place soon a set of rules that should help ensure that no undesirable bank credit-house price spiral could get hold again. LTV and LTI limits were the most suitable instruments available to the Bank to meet both the objectives as they directly increased bank and household resilience and prevented riskier lending from taking place.

The draft consultation paper was consulting publically on a range of caps, but the proposed option internally was for lenders to: restrict lending for primary dwelling

purchase above 80 per cent LTV to no more than 15 per cent of the euro value of all housing loans for principal dwelling home purposes; to restrict lending for primary dwelling purchase above 3.5 times LTI to no more than 20 per cent of the euro value of all housing loans for principal dwelling home purposes; and to restrict lending for buy-to-let properties above 70 per cent LTV to no more than 10 per cent of the value of all housing loans for investment purposes. A small number of exemptions to the measures were proposed. Most notably, exemptions were proposed to allow borrowers in negative equity to carry over excess LTV ratios to new properties.

The proposal was to impose LTV and LTI caps by means of a regulation to be issued under Section 48 of the 2013 Act. While a number of legal instruments were available to the Bank to implement the LTI and LTV caps, the power to issue regulations under Section 48 of the 2013 Act was considered the most suitable because: it applied across industry sectors, e.g. it was not a power which was limited in scope to credit institutions; it applied to both Irish authorised regulated financial service providers and those authorised in an EEA member state, and lending to borrowers in the State on a passport or cross-border basis; the regulations would form part of the Bank's legislative framework and thus the full range of tools would be available to the Bank to monitor compliance with the LTI and LTV caps; and the power to punish non-compliance (e.g. breach of the regulations) would be a "prescribed contravention" for the purposes of Part IIIC of the Central Bank Act 1942 (the Administrative Sanctions Procedure).

The Governor noted that there had been very considerable internal staff discussion on this over a period of some months; there was no sense from any internal considerations that nothing should be done, rather the discussions focused on what should be done. The proposals gave a degree of flexibility while setting clear limits. It was important that such measures be put in place soon; any delay could put the Bank behind the curve. The intention was that credit was not mis-directed to stressed households.

Mr Geraghty said he welcomed the proposals but he believed these should be introduced in the context of wider public policy measures around housing. Mr FitzGerald said his preference was that the Bank did not consult on a range of caps but on the single option, as was the preference set out in the paper. He believed that this would create greater certainty and avoid the need in future to consult on 'ranges'. He said that the 80 per cent

LTV limit appeared reasonable but asked why another proportionate limit was not chosen. Mr Soden said that while the LTI ratio seemed reasonable, it should be noted that incomes could change, sometimes quite significantly, over the early years of a mortgage, where, for example, a double-income reduces to a single income. Mr Ahearne said it was very sensible to introduce both LTV and LTI measures together, as one on its own may not have as much of an impact. He said there would likely be significant public and political focus on these proposals when announced and that there may be questions asked about the timing of this, as over the past number of years it would have been difficult for people to save; however he was in favour of the proposed measures as a prudent step to help prevent the problems seen in the relatively recent past. Ms Clarke also agreed with the proposals. She said the communication of this would be very important to get right, in particular to stress that any secondary effects, such as on house prices, was not the intention or focus of these measures. Mr Moran said that while this was a timely intervention by the Bank, he noted that the market was not in a steady state and that the paper highlighted the fact that 44 per cent of new mortgages in 2013 were issued at above the proposed LTV threshold. It was important that the Bank entered a consultative process, as proposed, through which various views could be collated before finalisation.

Regarding other potential housing measures, the Governor said that the consultation paper recognised that the Government had previously stated that consideration would be given to the concept of a mortgage insurance scheme. The consultation paper went on to note that, while the details of such a scheme had not yet been announced, consideration would be given to how this might interact with the Bank's proposals and therefore left open that possibility. Mr Roux said that the 80 per cent LTV cap was based on international regulatory norms and it was not considered low in other markets. However, there was scope, under the proposals, for banks here to go above this threshold by as much of 15 per cent of the value of all housing loans for principal dwelling home purposes. This was therefore a proportionate measure, allowing some flexibility. Regarding how incomes may change over time, the Governor noted that this was indeed the case and was one of the reasons why introducing both LTV and LTI measures made sense; it was not only income or value that was the single factor, but rather a combination of both.

The Commission noted the Macro-Prudential Framework document.

Mr McGuire, Mr Cassidy, and Ms Hallissey left the meeting.

The Commission approved the proposed introduction of a LTV and LTI cap on a proportion of banks' new lending to the residential property market; agreed that the final consultation paper should consult on a single option rather than on a range of cap thresholds, and; approved the publication of the consultation paper and draft Regulations.

Ms Clarke left the meeting.

8. Delegation of Powers – Approval and Removal of New Investment Asset Issuers and Counterparties

This was taken after Item 6.

The Commission considered Paper No. 147 of 2014. This item was also considered by the Risk Committee at its meeting on 29 July 2014.

The accompanying paper (Paper No. 184 of 2014) noted that in recent months, the Commission had approved several new issuers and counterparties for the Bank's investment assets. In order to make this process more efficient and effective, the Commission was invited to delegate to the Governor the approval, and removal, of issuers and counterparties, with the power for the Governor to further delegate this function to a committee of officers/employees of the Bank or individual officers/employees. The criteria considered for new approvals would be consistent with the Bank's current prudential limits. [redacted]

However, the approval of further quasi/sub sovereign issuers may result in the approval of issuers with lower credit ratings than their jurisdiction limits, from whom the limit was taken. Further, through both the approval of quasi/sub sovereigns (in the absence of a prior approved jurisdiction limit) and the approval of further counterparties, the current investment limits would expand. These impacts would be monitored by the Investment Policy team in the Organisational Risk Division, and would form part of the annual review of prudential limits. The Commission would be informed for an initial period of six months of all approval of new issuers or counterparties by means of Special Topic in the Risk Pack.

Mr Geraghty confirmed that the Risk Committee had considered this item at its meeting on 29 July 2014 and was recommending its approval to the Commission.

The Commission:

- **agreed to delegate to the Governor the power to approve and remove issuers and counterparties for the Bank's investment assets in accordance with Paper No. 184 of 2014;**
- **approved the further delegation by the Governor to a committee of officers/employees of the Bank or individual officers/employees of the Bank as the Governor sees fit, the power to approve and remove issuers and counterparties for the Bank's investment assets in accordance with the Paper; and,**
- **approved the further delegation by the Governor to a committee of officers/employees of the Bank or individual officers/employees of the Bank as the Governor sees fit, the powers to take any administrative or other steps necessary for the purposes of approving or removing issuers and counterparties for the Bank's investment assets.**

9. Client Asset Regulations and Guidance for Investment Firms

The Commission considered Paper No. 185 of 2014.

The accompanying paper (Paper No. 185 of 2014) noted that, as part of the Client Asset Enhanced Supervisory Review for safeguarding client assets, the Markets Directorate had put a process in place to revise the existing Client Asset Requirements. This Enhanced Supervisory Review was derived from the recommendations put forward by the Review of the Regulatory Regime for the Safeguarding of Client Assets. This Review and the Enhanced Supervisory Review was presented to the Commission in February 2012 (Paper No. 30 of 2012) and June 2013 (Paper No. 145 of 2013) respectively.

Following the commencement of the Central Bank (Supervision and Enforcement) Act 2013 on 1 August 2013, the revised Client Asset Requirements were issued for public consultation (CP 71) on 2 August 2013, as draft Client Asset Regulations and Guidance applying to both investment firms and fund service providers. The current Client Asset Requirements did not apply to fund service providers. CP 71 closed on 31 October 2013 with an extension of one week given to the Irish Funds Industry Association. Following consideration of the responses to CP 71, the Markets Directorate concluded that it was more appropriate to have two separate and distinct sets of Regulations for investment firms and funds service providers. A clear delineation was deemed necessary in order that the specific business model and diverse business practices operating within each of the sectors were adequately captured. To facilitate this revised approach, it was agreed that the Bank would re-engage with the funds industry to consider in more detail some of the operational and legal concerns raised during consultation. This work was at an advanced stage and a separate paper would be presented to the Commission for its consideration when the Regulations and Guidance for Fund Service Providers was finalised.

The purpose of Paper No. 185 of 2014 was to seek approval of the Client Asset Regulations and Guidance for Investment Firms and to delegate to the Deputy Governor (Financial Regulation) the capacity to approve the Client Asset Regulations and Guidance. The Client Asset Regulations and Guidance for Investment Firms provided a framework for a client asset regime based on seven core Client Asset Principles. The core Principles were underpinned with detailed Regulations which set out what an investment firm, holding client assets, was required to comply with. The Client Asset Regulations where necessary were supported by Guidance, to assist an investment firm

and its senior management to understand what was expected of them. While the Client Asset Regulations will be imposed under the 2013 Act, as the Markets in Financial Instruments Directive regime ("MiFID") was a maximum harmonisation directive, the Member State (i.e. the Department of Finance) must submit a notification to the European Commission at least one month in advance of any new rules entering into force. Therefore, on approval of the Client Asset Regulations and Guidance by the Commission, the following steps would have to be taken: consultation with the Minister for Finance and, per MiFID, his prior approval was required; notification to the European Commission; and, on completion of these steps, the Governor/Deputy Governor would sign the Regulations into Law.

The Commission:

- **approved the Client Asset Regulations and Guidance for Investment Firms;**
- **delegated to the Deputy Governor (Financial Regulation) the capacity to commence the Regulations and approve any final changes to the revised Regulations; and,**
- **delegated to the Deputy Governor (Financial Regulation): the capacity to make any transitional arrangements that he considers appropriate with individual firms or with industry sectors in respect of the Regulations; and the capacity to approve any changes arising from the on-going review of Regulations.**

10. Indemnity in Respect of Bank Account Arrangements with Danske Bank

The Commission considered Paper No. 186 of 2014.

The accompanying paper (Paper No. 186 of 2014) noted that the Bank had entered into bank account arrangements with Danske Bank A/S in respect of collection of the industry funding levy. Danske provided a bank account on behalf of the Bank for receipt of the industry funding levy. Industry participants may authorise the Bank to collect this levy by direct debit through Danske.

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Danske had requested that the Bank provide an indemnity in respect of losses which Danske may incur in connection with the direct debit arrangements relating to the Bank's account. The Commission was requested to authorise and approve: the entry of the Bank into the Indemnity and; the Bank's participation in and compliance with the direct debit scheme rules.

The Commission approved that:

- **the Bank participates as a Creditor in the European Payments Council's SEPA Core Direct Debit Scheme (the "Scheme") and shall comply with the terms, conditions and rules of the Scheme in force from time to time;**
- **the Bank enters into the Indemnity in the form required by Danske Bank A/S for the purposes of a Creditor's participation in the Scheme;**
- **the Indemnity be executed by affixing the seal of the Bank to the Indemnity and having it countersigned in accordance with Section 10(3) of the Central Bank Act, 1942, as amended; and**
- **the Indemnity be delivered to Danske Bank A/S.**

11. Commission Schedule of Meetings 2015

The Commission considered Paper No. 187 of 2014.

The accompanying paper (Paper No. 187 of 2014) set out the proposed dates for meetings of the Commission and Committees during 2015. The Commission meetings were scheduled, where possible, on the last Thursday of each month. In line with previous practice, it was proposed, where feasible, to hold meetings of Committees the day before Commission meetings. It was also expected that non-executive members would meet on three occasions in the coming year.

The Commission approved the Commission Schedule of Meetings for 2015.

12. Procurement Policy Update

The Commission considered Paper No. 188 of 2014.

Mr Whoriskey introduced this item. He said that the accompanying paper (Paper No. 188 of 2014) noted that the Bank required external legal services in a range of areas from time to time. Legal Division had developed a specific policy governing the procurement of legal services by the Bank. The purpose of the Legal Services Procurement Policy was to set out the processes and procedures that the Bank intended to follow to procure legal services so as to achieve transparency in relation to the legal costs expenditure and best value for money for the Bank. Financial Control and Procurement Division proposed that the Legal Services Procurement Policy be included within the scope of the Bank's Corporate Procurement Policy. This would require an amendment to the current version of the Corporate Procurement Policy which was approved by the Commission on 30 January 2014 (Paper No. 5 of 2014).

The Commission approved the updated Corporate Procurement Policy.

13. Organisation Review Update

Gerry Quinn, Chief Operations Officer, joined the meeting.

The Commission considered Paper No. 189 of 2014.

Mr Quinn introduced this item. The Organisation Structure and Design Review programme of work was formally launched in October 2013. The key activities undertaken initially included putting the appropriate governance and team in place to deliver the programme of work. This team then lead the procurement of the relevant external partners to support this work; and the delivery of a range of information gathering and engagement activities to enable the consultants familiarise themselves with the current organisation challenges and opportunities, once appointed.

PwC were appointed in May 2014 to deliver an 'As Is' analysis of the organisation structure and ways of working. PwC had conducted a five- phase approach to analysis of the current structure and ways of working, which included focus groups with 250 employees; interviews with key stakeholders as identified by the Programme Steering Committee; interviews with reference organisations to understand their organisation structure and design; and on-going engagement with Senior Leadership Committee (SLC) members. There were many other sources of information that were feeding into the review, including divisional feedback, various functional reviews conducted over the past number of years, and feedback from a number of fora, including the Leadership Network.

PwC's analysis of the current structure had now concluded and their assessment was recently presented to the members of the SLC. Following a discussion on a broad range of hypotheses with the various stakeholder groups, the key tenets of PwC's findings to date were as follows: there was a requirement for a clear vision for the future (a shared sense of unified purpose) to be embedded internally and communicated externally; structure and reward model changes alone would not address many of the issues in play; structural redesign may act as a signal for change and could serve as a platform to drive the wider transformational agenda; change would also be required to ways of working, i.e. governance, decision-making, layers and spans, grading, culture (including leadership) and stakeholder engagement; average span of control across the organisation was 3, and there was a significant population of 'managers' with no direct reports and anomalies in reporting arrangements; a range of structural options were possible, from addressing functional anomalies to transformational change; expectations had been set around this change and the appetite existed at divisional management level and with staff; and, articulation of an agreed stakeholder engagement philosophy for management and staff is now needed.

A number of these themes had come to the fore in the context of previous discussions, and the opportunity now existed in the wake of the crisis to build from the Bank's current platform and create a flexible, fit-for-purpose, sustainable organisation. The engagement with stakeholders during this analysis phase also identified both a level of goodwill and readiness for the Bank to change.

An off-site workshop had also been facilitated by PwC with all the members of the SLC, including newly-appointed Directors. The intended output from this and on-going engagement with members of the SLC would be an agreed way forward articulated in a set of Design Principles, on the basis of which a business case would be presented to the Commission in November 2014 outlining how it was proposed to take PwC's findings forward, and seek the Commission's approval for this change programme.

The Commission noted the Progress Update on the Organisation Review

14. Fusion Update

Mr Quinn was present for this item.

The Commission considered Paper No. 190 of 2014.

Mr Quinn introduced this item. Since the last update at the Commission Meeting of 29 April 2014, the Programme had progressed detailed design, compliance with planning conditions, appointment of the Façade Contractor, evaluation of the expressions of interest for the Main Contract, appointment of the Assigned Certifier, and continuing refinement of the cost estimates and risk register.

The Programme Plan and Procurement Strategy were progressing to plan. Dublin City Council had formally confirmed that the Bank's submissions on planning conditions relevant to detailed design were considered satisfactory and the resulting costs of changes to scope had been evaluated. The Invitation to Tender for the Main Contractor award was planned to be issued to the six shortlisted candidates on 31 October 2014. In order to maintain compliance with the procurement process and to adhere to the Programme schedule it was not planned to consult with the Commission on the outcome of the evaluation of these tender bids - scheduled for end-January 2015. The Programme continued to monitor all risks and issues and track appropriate mitigation steps. The most significant risk was the impact of a delay arising from a legal challenge to any of the procurement decisions.

Mr Geraghty noted that there had been a detailed discussion on the risks related to the Fusion Programme at the Risk Committee on 29 July 2014 and that the Committee would continue to monitor this closely.

The Commission noted:

- **the update on progress of key aspects of the Fusion Programme; and,**
- **that subject to the main contract tender amount being compatible with the overall budget envelope, the Bank will proceed with the appointment of the main contractor as soon as possible with a view to commencing construction in March 2015.**

15. Project Management and Value Realisation

Mr Quinn was present for this item.

The Commission considered Paper No. 191 of 2014.

Mr Quinn introduced this item. He noted that at its meeting on 25 June 2014, during the discussion on IT Strategy, the Commission had requested some information setting out the value realised from project investments. The purpose of the accompanying paper (Paper No. 191 of 2014) was to provide that information and also to inform the Commission on the performance of completed projects, and to outline improvements in project management undertaken over the past 12 months.

At its meeting on 20 September 2013 a detailed report (Paper No. 198 of 2013) was provided to the Commission on the project management methodology employed in the Bank. That report also included detail on the investment prioritisation process and the performance of the Bank's project portfolio at that time. The Bank continued to make good progress towards the effective management and delivery of projects, including the monitoring and control of associated investments and the realisation of benefits. Looking forward, a key area for improvement was project management skills and competencies and, specifically, ensuring that the right experience and skill levels were assigned to projects and programmes.

The Commission noted the update on Project Management and Value Realisation.

Mr Quinn left the meeting.

16. Supervisory Update

The Commission considered Paper No. 192 of 2014.

European Supervisory Authorities

Mr Roux updated the Commission on certain developments at the level of the European Supervisory Authorities (ESAs). [redacted]

[redacted]

[redacted]

Credit Union Resolutions

The Berehaven Credit Union resolution process had worked well. The Deposit Guarantee Scheme pay-outs had worked particularly well with 85 per cent of all payments made within five working days of the liquidation. The Governor noted that this was an exceptionally successful result; the Bank had built a very professional DGS

capability. Mr Roux further noted that credit union services had been restored to the Berehaven area, as Bantry Credit Union, operating under its common bond, had opened a branch there.

Consumer Protection

[redacted]

Insurance Supervision

A formal decision on an application for authorisation to the Bank by VHI was due to take place by the end of this year. This was something that would come before the Commission.

Peer Reviews

As part of a series of peer reviews, a review of insurance supervisory practices had just commenced by the IMF as part of its Reports on the Observance of Standards and Codes (ROSC) process.

The Commission noted the Supervisory Update.

17. Risk Information Pack

The Commission considered Paper No. 179 of 2014.

The Commission noted the Risk Information Pack.

18. Minutes of Meeting of the Risk Committee

The minutes of the meeting of the Risk Committee of 29 July 2014 were noted.

19. Any Other Business

There was no other business.

The meeting concluded.

Governor
31 October 2014

MINUTES OF MEETING NO. 49 OF

THE CENTRAL BANK COMMISSION

OF 31 OCTOBER 2014

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, Derek Moran (Items 1 – 5), Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

1. Minutes of Meeting of 26 September 2014

The minutes of the meeting of 26 September 2014 (Meeting No. 48) were agreed.

2. Matters Arising

[redacted]

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He recalled that the Commission had been briefed on the Comprehensive Assessment exercise on 24 October 2014. The results were subsequently announced on 26 October 2014. While the exercise was useful and very

important in the context of the establishment of the Single Supervisory Mechanism (SSM), it was limited to a capital exercise. There were other issues, particularly in Ireland where the banks were very much still in repair mode. The ultimate losses that may be incurred by the Irish banks were not fully known and, despite some improvement in recent times, their short term arrears were still well in excess of what might be expected in normal times. There would be on-going pressure on banks throughout the euro area, to continue to raise capital over the coming years. [redacted]

[redacted]

[redacted]

Mr FitzGerald said it would be useful for the Commission to receive a paper setting out the likely capital trajectories of the Irish banks over the coming years. His interest was in financial stability and the adequacies of the financial system in Ireland and its ability to finance the economy. The implications of raising capital for these banks could have broader implications for the economy. Ms Byron agreed with Mr FitzGerald's suggestion and said it would be useful to have a strategic overview of the Irish banks that would feed into a broad discussion on the financial system and financial stability. Mr Ahearne said that he would be interested in what the potential aggregate lending capacity of the system was in the coming years. [redacted]

[redacted]

The Commission noted the Update on Euro Area Developments.

4. Enforcement

This was taken after Item 5.

Derville Rowland, Director Enforcement; Brenda O'Neill, Head of Enforcement; and Domhnall Cullinan, Head of Anti-Money Laundering, joined the meeting.

The Commission considered Paper No. 212 of 2014.

Ms Rowland introduced this item which set out some of the key issues currently arising out of the work of the Enforcement Directorate. [redacted]

[redacted]

Ms O'Neill also referenced the investigation into Ulster Bank Ireland Limited (UBIL), which was focused on IT failures that occurred in the summer of 2012 and led to unprecedented disruption to customer account services. [redacted]

Ms O'Neill referenced some of the key goals for the Enforcement Division in 2015. There would be an increased focus on outcomes arising from casework. This would include taking forward cases that impacted on industry and would bring about changes in behaviour [redacted] It was also expected that Inquiries would become a business-as-usual item in the coming period. One of the key challenges that remained was around staff retention. Turnover in Enforcement was currently running at more than 30 per cent; this level of turnover had exacerbated the challenges in delivering on a workload, at a time when that workload was increasing in both volume and complexity.

Mr Cullinan then set out the major issues arising from the work of the Anti-Money Laundering (AML) Division, which also included Countering Financing of Terrorism

(CFT). Like the Enforcement Division, it was also faced with staffing challenges. In this case, the AML function was under-resourced in terms of developing and implementing a more fit-for-purpose strategy, and he noted there were proposals to be discussed under a separate agenda item at this meeting aimed at addressing that. The landscape underpinning an effective supervisory AML/CFT strategy was constantly changing and evolving. The current strategy was impacted by the external environment, such as the work and focus of the Financial Action Task Force (FATF) – an inter-governmental body which set AML/CFT standards and then examined countries' compliance with those standards; and the recommendations raised as part of reviews by other international agencies, such as the recent IMF Banking ROSC recommendation regarding the need for increased on-site supervisory activity.

[redacted]

Mr Soden noted that the staffing challenges were significant and asked if there were any potential solutions that were being examined. Ms Byron said it appeared that even if the requisite complement of staff were recruited, there appeared to be a high churn rate internally; she asked if outsourcing some of the work was an option. Ms Clarke also said

the turnover rate was of concern; however a small positive feature of this was where Enforcement staff moved into supervision, as this could create a good level of awareness in the supervisory divisions of the importance of enforcement. Ms Rowland said that staffing absorbed a lot of time as it not only involved a recruitment process, but also a detailed training element. [redacted] The reality was that this was an issue that had to be managed and, until such time as pay and reward mechanisms could be improved, it was likely to be an on-going challenge.

Mr FitzGerald complimented the team on getting to the advanced stage it had now reached on some of the critical investigative streams, [redacted]

[redacted]

[redacted]

[redacted]

The Commission noted the Enforcement Update.

5. Amendment of Inquiry Guidelines and Fitness and Probity Standards

This was taken after Item 3.

Ms Rowland, Ms O'Neill and Mr Cullinan were present for this item. Michael Hennigan, Deputy Head of Enforcement, joined the meeting.

The Commission considered Paper No. 215 of 2014.

Mr Hennigan introduced this item. With the establishment of the Single Supervisory Mechanism (SSM) on 4 November 2014, the European Central Bank (ECB) would assume key competences in the field of banking supervision. The ECB's competences pursuant to the SSM Regulation (SMR), relevant to Enforcement, were outlined in the accompanying paper (Paper No. 215 of 2014).

In summary, the ECB would have power to sanction credit institutions in certain circumstances and power to require national competent authorities (NCAs), including the Bank, to make use of their sanctioning powers. In addition, the ECB would have power to assess the fitness and probity of members of the management body of Irish significant institutions pursuant to the fitness and probity standards set out by the European Banking Authority (EBA) in guidelines issued by the EBA for that purpose.

In order to reflect the new competences of the ECB, the Enforcement Division proposed amending the Bank's Inquiry Guidelines and Fitness and Probity Standards. The Inquiry Guidelines and the Fitness and Probity Standards were issued pursuant to statutory powers of the Bank which must be exercised by the Commission directly or pursuant to a delegation in respect of the use of that power.

Ms Clarke requested that, in keeping with the delegation of Fitness and Probity, the Commission would be notified of changes in relation to the sanctions. Mr Hennigan confirmed that this would be done.

Ms Rowland, Ms O'Neill, Mr Cullinan, and Mr Hennigan left the meeting.

The Commission:

- **agreed to delegate to the Governor the authority to sign and issue the new Inquiry Guidelines (at Appendix 1 in Paper No. 215 of 2014) and approve any final changes to the Inquiry Guidelines;**
- **agreed to delegate to the Governor the authority to prescribe, amend and / or revoke Inquiry Guidelines under Part IIIC of the Central Bank Act 1942 pursuant to Section 33BD of the Central Bank Act 1942; and**
- **noted that, in line with the delegation granted to the Deputy Governor (Financial Regulation) by the Commission on 28 July 2011, the Deputy Governor (Financial Regulation) will be asked to commence and approve revised Fitness and Probity Standards.**

Mr Moran left the meeting.

6. Budget 2015:
  a. Organisational Resourcing 2015
  b. Draft Budget 2015

Gerry Quinn, Chief Operations Officer; Liz Joyce, Director Human Resources; and Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission first considered Papers No. 227 and 228 of 2014. This item was also considered by the Budget and Remuneration Committee at its meeting on 24 October 2014.

Ms Joyce introduced the discussion on Organisational Resourcing (Paper No. 227 of 2014). Primarily driven by the emerging challenge of the Single Supervisory Mechanism (SSM), and other changes in the regulatory area, the organisation had reassessed the Workforce Planning (WFP) 2015 commitments. Following this review, and a robust challenge process, an increase in complement of 156 staff, to 1,533 by end 2015, was identified as necessary to meet new and emerging responsibilities. This increase included recruitment of 116.5 additional roles on a phased basis over 2015; and a release of 28 from the original 2015 WFP. The balance of 10 staff was accounted for from other approved increases in complement over 2014.

Mr Roux noted that, as part of the manpower discussions in late 2012, the Commission had originally agreed a complement of 1,523 for 2013 through to 2015; though at the time it had been planned, under the WFP, to reduce this to 1,395 by the end of 2015. It was now being proposed to suppress the original end-2015 WFP reductions and to seek a complement of 1,533 for 2015, which in the context of the original manpower planning up to end 2015, was a modest increase. He added that, in addition to the increase in complement requested, the Commission was also being requested to increase its current risk appetite for Credit Union supervisory engagement to equate to the delivery of approximately 65% of PRISM supervisory engagement tasks, which was the current situation. Otherwise, delivery of supervision to the full PRISM engagement model would necessitate an additional 25 staff for the Registry of Credit Unions; a number that was not factored in to the current resourcing proposals.

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Mr Soden confirmed this item had already been discussed at the Budget and Remuneration Committee (BRC) meeting. Ms Clarke said she had requested some information at the BRC meeting concerning the impact any additional staff numbers would have on the Bank's Fusion project. Ms Byron said that if there were any potential capacity issues with the new building, these should be considered now and, if necessary, additional capacity should be built in, perhaps through deciding to extend the premises if that were feasible. Mr Quinn circulated his speaking note which set out the impact that the resourcing requests, and hypothetical future requests, would have on accommodation. In summary, the North Wall Quay building would accommodate the additional headcount request for 2015 with minimal impact. A further 160 staff, bringing city centre total headcount to 1,600, would require a combination of policy changes around active desk management; the introduction of agile desks for off-site teams; changes to some desk layouts; and, reduction of some offices and meeting rooms. These changes would not materially affect the 'essence' of the building design and would have minimal related costs if designed in the near future. Were the total to climb to 1,800; again the building would accommodate this, but a significant and costly design change would be necessary. Anything above 1,800 would require an additional building or extending the North Wall Quay building. The fall-back position, in the event of very significant headcount increases, was to keep some or all of the currently leased Spencer Dock offices.

Ms Byron asked what methodology was used to calculate the resourcing increase and if this was done on a capacity planning basis. She added that she believed capacity modelling should always be built in to such exercises. Mr Roux said that a very detailed process was used to identify the additional resource requirements; this factored in previous WFP planned reductions and related efficiency gains, the recent Voluntary Severance Scheme (VSS), and the new mandates that the Bank had been assigned. Mr Quinn noted that the original WFP had been based on efficiency gains of between 5 and 15 per cent across all divisions; the more recent assessment, which resulted in the proposals before the Commission, was an overlay, based on a bottom up approach but did not baseline the organisation to zero. He added that it was important to note that the challenge of recruiting such additional resources was very significant.

Ms Clarke said she was happy to support the resourcing proposals but would not agree to the request to increase risk appetite for credit union supervision without further detail or explanation being provided. Mr Roux said he would return to the Commission with more information on this before year-end, to specifically set out a supervisory engagement plan for credit union sector, including risk appetite.

Mr FitzGerald noted that a draft of a letter from the Governor to the Minister for Finance requesting 100 per cent funding charge back to industry for supervisory tasks was again being requested. The Governor said that there had been various intensive discussions internally and he took it that he had the support of the Commission to take a strong approach to the Minister on this.

The Governor concluded the discussion by saying that it was not his preference to return to the Commission seeking additional resources and such a plan was not brought forward lightly; however it was necessary considering the requirements that were now being placed on the organisation.

Gary Watters, Financial Control and Procurement Division, joined the meeting.

The Commission then considered the Draft Budget 2015 (Paper No. 228 of 2014).

Mr Power introduced this discussion. The pay budget for 2015 was estimated at approximately €93.7m (for wages and PRSI, excluding pensions), including staff working within the current WFP assumption. Separately, the annualised cost of the 116 additional roles proposed would be in the region of €9.9m. Were the recruitment of these roles to commence in 2015, the Financial Control and Procurement Division believed a budgetary provision of €2.6m in 2015 would be sufficient. The non-pay budget for 2015 was estimated at €65.98m, which was very close to the 2014 trend. A contingency reserve of €10m was being requested; this was based on submissions of more than €20m, although experience would tell that not all eventualities were likely to occur. The contingency element was introduced for the 2014 budget and had resulted in a much more accurate budgeting process. Finally, the Investment Envelope would likely total €80.9m in 2015, of which €56.8m related to Fusion. This budget was significantly higher than prior year approved envelopes, and was also higher than prior year actual outturns.

This was primarily due to the Fusion project reaching construction phase; the coming on stream of the Central Credit Register project; and the need to invest in Currency materials and processing machinery. An investment contingency budget of €13m had also been included, of which €3m related to non-Fusion items. Details of each element of the proposed budget for 2015 were set out in the accompanying paper.

Mr Power advised that the final budget would be presented to the Commission for approval at its November meeting He noted that the Bank would engage with the actuaries to ensure that the pension charge budgeted for remained their best estimate. Should any other changes occur, these would also be included in the revised proposal.

Mr Soden confirmed that this item had previously been discussed by the Budget and Remuneration Committee. Ms Byron said that, while she noted this was already considered by the Committee, it was important that the full Commission be given sufficient time to consider and discuss matters such as this.

Mr Quinn, Ms Joyce, Mr Power, and Mr Watters, left the meeting.

The Commission approved a total end 2015 complement of 1533.1; and noted the phasing of other requirements across 2016.

The Commission noted the Draft Budget 2015.

7. Delegation of Powers – European Market Infrastructure Regulation

This was taken after Item 13.

Billy Clarke, Deputy Head of Securities and Markets Supervision Division, joined the meeting.

The Commission considered Paper No. 213 of 2014.

Mr Clarke introduced this item. The European Markets Infrastructure Regulation (EMIR) entered into force on 16 August 2012 and introduced new requirements to improve the transparency of, and reduce the risks associated with, derivatives markets. The Bank had been appointed as national competent authority for EMIR by way of a Statutory Instrument (SI) signed by the Minister for Finance on 8 October 2014.

The accompanying paper (Paper No. 213 of 2014) proposed the delegation of the functions and powers of the Commission for the purposes of EMIR and the SI in a manner which was consistent with previous decisions of the Commission on the Delegation Framework as set out in Commission Paper No. 22 of 2011.

Mr Clarke left the meeting.

The Commission confirmed and approved the various matters requested under the Delegation of Powers - European Market Infrastructure Regulation as set out in Paper No. 213 of 2014.

8. Additional Consumer Protection for Debt Management Firms

Patricia Fitzgerald and Yvonne Tracey, Consumer Protection Directorate, joined the meeting.

The Commission considered Paper No. 214 of 2014.

Ms Fitzgerald introduced this item. Following the enactment of the Central Bank (Supervision & Enforcement) Act 2013, the Bank was responsible for the authorisation and supervision of debt management firms. Authorisation Standards and Requirements for Debt Management Firms were published on 10 October 2013 and, as at 21 October 2014, 47 debt management firms had been authorised. Any person authorised by the Bank to operate as a debt management firm was required to comply with the Consumer Protection Code 2012 where provisions of that Code were relevant to the activity of debt management services. However, as the Code was implemented prior to debt management services being regulated by the Bank, an analysis was carried out by the Consumer

Protection Directorate (CPD) which identified a number of areas where it was believed that additional sector specific requirements for debt management firms were needed, arising from actual or potential consumer detriment associated with this particular sector.

A consultation process was undertaken, which comprised two separate consultation papers being issued. Following analysis of responses received to both consultations, an additional chapter (Chapter 13) had been drafted for inclusion in the existing Code. Firms that were authorised to provide debt management services would be required to comply with these requirements with effect from 1 January 2015. In addition, some additional changes to the Code were required to clarify that debt management firms fell within the scope of the Code.

Separately, Ms Fitzgerald noted that the Consumer Protection Directorate also wished to take this opportunity to make some 'housekeeping' amendments not related to debt management firms, in order for the Code to sit properly alongside the revised Code of Conduct on Mortgage Arrears (CCMA) from last year.

On foot of amendments made to the CCMA as part of last year's review of that code, amendments to the Complaints Handling requirements of the Code were required in order to ensure that the two codes were consistent. While the views of Legal and Enforcement Divisions had been sought in relation to individual provisions, it should be noted that full legal proofing of the revised Code would be completed prior to its publication.

Ms Clarke welcomed the proposed additional requirements in the Code, in particular the cooling-off periods and the warning notices. She asked about the effect of a breach of the Code on a consumer's contract with a firm. She noted that recent Court judgements had created some potential uncertainty around that. For example, if it was found that a firm was in breach of the Code could this lead to the underlying contract being considered void? Ms Fitzgerald said that she would consult further internally on that point and prepare a note for the Commission on it.

Ms Fitzgerald and Ms Tracey left the meeting.

The Commission:

- **approved the imposition of the Additional Consumer Protection Requirements for Debt Management Firms, attached in Appendix 1 of this paper, as an additional chapter of the Consumer Protection Code 2012, pursuant to relevant statutory powers;**
- **approved the amendments to the existing Code for consistency with the revised Code of Conduct on Mortgage Arrears; and**
- **delegated to the Director of Consumer Protection the authority to approve any final changes to the revised Code and issue the revised Code on behalf of the Bank.**

9. Central Bank Superannuation Fund Asset Allocation Review

10. Central Bank Superannuation Fund Performance Report

These items were taken together

Maurice McGuire, Director Financial Operations; and Paul Woods, Deputy Head of Organisational Risk Division, joined the meeting.

The Commission considered Papers No. 221 and No 220 of 2014.

Mr McGuire introduced this item. The Commission first considered Paper No. 221 of 2014 which presented the Pensions Investment Advisory Committee's (PIAC) assessment of the asset allocation for the Bank's Pension Fund. The review was conducted, in conjunction with the scheme actuary and investment advisors Lane Clark Peacock (LCP), to ensure an on-going evaluation of the risk/return alternatives available to the Fund. While LCP's preferred approach was to hedge the pension liability by investing in longer dated bonds, given the current record low yield on bonds, LCP considered it acceptable to allocate to short dated euro-area bonds, with a view to moving to longer dated bonds when appropriate. In addition to global equities and short dated bonds, LCP also recommended an allocation be made to Multi-Asset Funds (MAF) and Irish property, thereby altering the asset allocation to 40 per cent equities, 10 per

cent MAFs, 10 per cent Irish property and 40 per cent short dated bonds/cash, rather than the current 50 per cent equities, 50 per cent short-dated bonds/cash.

Following on from the triennial actuarial review, the PIAC had received the most up to date information on the liability profile, including key variables such as the latest membership data, annual salary and pension inflation, thereby allowing for more informed decisions on the required composition of pension scheme assets. So far, in the first two quarters of 2014, the overall Fund (equities and fixed income) had generated a return of approximately 5.1 per cent year to date as equity markets generated returns of 9.7 per cent which was above the expected long term return (7.2 per cent). The PIAC was of the opinion that, in the absence of gains in equity markets greater than the 7.2 per cent per annum expected return assumed, the required rate of return to meet the accrued liabilities, which based on the assumptions in the most recent valuation was 4.3 per cent in the longer term, was unlikely to be achieved for some considerable time due to the prevailing exceptionally low interest rate environment negatively impacting the returns of the defensive assets i.e. short-term bills and cash. In order to generate opportunities for additional return based on purchase yield, and in line with the current practice of other pension funds, it was proposed that the maximum maturity for the defensive fixed income allocation be extended from one year to three years.

Furthermore, taking into account the record equity returns over the last few years and the stretched valuations along with diversification benefits, the PIAC endorsed LCP's recommendation that the asset allocation incorporated 40 per cent equities, 40 per cent short dated bonds/cash, 10 per cent MAFs and 10 per cent Irish property, rather than the current 50 per cent equities, 50 per cent short-dated bonds/cash.

Mr Gerlach noted that this approach was technically more conservative and was likely to offer, as suggested by the Paper, higher potential returns with lower variance. In his view this would reduce the variance on returns. Mr Ahearne said that, on the face of it, it looked like this was a more risky investment approach, but perhaps the combination of assets would have an impact in terms of how they moved. Mr Woods confirmed that the reduction in risk was driven by the addition of asset classes with asset correlations resulting in increased portfolio diversification. Mr Woods noted that this increased diversification resulted in an expected return of 4.14 per cent and a Value at Risk (VaR)

at a 90 per cent confidence level over a one year horizon of €59m versus the current allocation's 3.7 per cent expected return and €62.7m VaR.

The Commission then considered Paper No. 220 of 2014, which set out the performance of the Central Bank Superannuation Fund to end Q3 2014. The paper summarised the current benchmark asset allocation of the Fund; outlined the value of the Fund; illustrated the distribution of Fund assets as at 30 September 2014; and, described the actual performance of the Fund up to 30 September 2014.

In summary, the total Fund returned 1.5 per cent in Q3 2014. Equities returned 2.9 per cent for the quarter, while bonds generated a return of 0.1 per cent. The market value of the Fund assets increased by approximately €5.5m; from €553.3m on 30 June 2014 to €558.8m on 30 September 2014. For the first three quarters of 2014, the total Fund returned 5.1 per cent - with equities contributing 4.9 per cent to the overall fund return, while the bond and cash contributed 0.2 per cent to the overall fund return. The asset allocation at the end of September was 52 per cent equities and 48 per cent bonds. Since the start of the investment period, at end-December 2009, the total return on the Fund was 30.7 per cent, equating to a return of 5.8 per cent per annum.

Mr McGuire and Mr Woods left the meeting.

The Commission:

- **approved that the asset allocation ratio of equities to bonds be changed from 50:50 bonds/equities to 40:40:10:10 bonds/equities/MAF/property;**
- **approved that the maximum maturity on bond purchases be extended from 1-year to 3-years;**
- **noted that, for operational reasons, the next portfolio rebalancing will be conducted in line with the implementation of the revised asset allocation that is outlined in Paper No. 221 of 2014; and,**
- **noted the return on the Superannuation Fund in Quarter 3 2014.**

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11. Fusion Update

This was taken after Item 12.

Gerry Quinn, Chief Operations Officer; and Paul Molumby, Director Currency and Facilities Management, joined the meeting.

The Commission considered Paper No. 216 of 2014.

Mr Molumby introduced this item. He updated the Commission on matters related to the disposal of the Bank's city centre premises and to seek views on the process for the disposal of the Tower building.

The Tower building was acknowledged as an iconic and landmark building in Dublin city centre and, at any public discussion regarding the move to the new premises, the question of the future use of the Tower building invariably arose. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

The Commission:

- **noted the considerations around the disposal of the Tower Building; and,**
- **noted the proposal to relocate Crann an Óir to North Wall Quay.**

12. Budget Outturn to 30 September 2014

This was taken after Item 6.

Mr Quinn and Mr Power were present for this item.

The Commission considered Paper No. 198 of 2014.

Mr Power introduced this item. The accompanying paper (Paper No. 198 of 2014) outlined the operating and investment/capital costs for the Bank up to the end of the third quarter in 2014, comparing actual outturn to the approved budget and prior year for the same period. The paper also reflected how the organisation was projecting in relation to actual expenditure for the remainder of the year.

Operating costs, comprising staff costs (including pensions) and non-pay expenditure amounted to €147.8m and were below budget of €149.5m to 30 September 2014. The outturn represented an increase of €19.5m (15 per cent) on the 2013 outturn. Total non-capital costs to 30 September 2014 amounted to €161.7m, which was 3 per cent below budget.

Total staff costs (including pensions), which constituted the largest component of the Bank's operating expenditure, were €93.3m (0.6 per cent above budget). Pension charges at the end of September of €18.8m were based on the budgeted cost, and were €3.7m higher than 2013.

Non-pay costs for Q1-Q3 amounted to €54.5m - €15.2m higher than the same period in 2013 (39 per cent), and €2.3m less than budget (4 per cent). The variance on prior year could mainly be attributed to Professional Fees (increase of €13.3m) due to Asset Quality Reviews (AQR) within Banking Supervision. The expenditure included Communication & IT costs of €7.6m, of which a significant portion (€3.6m) related to Data Centre Charges (increase of €0.7m) and Support Software charges (increase of €0.6m). The variance on budget was attributed to all expenditure lines which were below budget with the exception of Training costs which were showing a moderate increase on budget (€0.02m).

The aggregate outlay on Investment/Capital Projects for the first half of 2014 was €15.1m, or 39 per cent of the total 2014 approved Investment Envelope of €38.5m. The 2014 outturn represented a decrease of €1.4m on the 2013 outturn (€16.5m) for the same period. The expenditure for the first three quarters of 2014 included €9.6m on IT systems; €3.4m on the Fusion Programme; €1.5m for Currency Operations; €0.5m on the Central Credit Register project; and €0.2m on Facilities Management.

The Commission noted the budget outturn to 30 September 2014.

13. Statement of Accounts

The Commission considered Paper No. 218 of 2014.

The accompanying paper (Paper No. 218 of 2014) set out the Statement of Accounts for the nine months ended 30 September 2014; analysed the provisional profit up to 30 September 2014 (YTD 2014); and compared the outturn to the same period in 2013 (YTD 2013). The outturn for Quarter 3 2014 was also analysed and is compared to Quarter 2 2014.

The Bank recorded a provisional profit of €1,444.0m for the YTD 2014, (YTD 2013: €795.1m), an increase of €648.9m. The key drivers of the increase were higher realised gains (YTD 2014: €470.1m v YTD 2013: €28m) reflecting the realised gains on the partial sales of the 2025 Irish Government bond, and significantly lower unrealised losses year on year, (YTD 2014: €2.0m v YTD 2013: €352.7m). These increases were offset somewhat by a reduction in net interest income amounting to €94.8m. Against a lower interest rate background (a reduction of 0.10% in the Main Refinancing Rate over the review period), both interest income and interest expense were significantly lower.

At this juncture, the profit for the full year was estimated to be in the region of €1.8bn (2013: €1.5bn) but this should be viewed as preliminary and subject to change. An outturn of this order would equate to Surplus Income payable to the Exchequer of around €1.4bn assuming retention of 20 per cent, a release of €100m from risk provisions, an estimate of €32m for unrealised losses and no additional sales of the securities held in the special portfolio. This forecast was provided to the Department of Finance in September 2014.

The Bank's balance sheet amounted to €77.4bn as at 30 September 2014, a decrease of €5.4bn (6.5 per cent) over end-Quarter 2 2014. The decrease in the balance sheet was primarily driven by the fall in monetary policy lending, which continued to reflect the early repayment of the three-year Longer Term Refinancing Operation (LTRO) during Quarter 3, 2014 and credit institutions' increased access to market funding.

The Commission noted the Statement of Accounts for the nine months ending 30 September 2014.

14. Annual Report on Protected Disclosures

This was taken after Item 10.

Tom Meade, Deputy Head, Legal Compliance, joined the meeting.

The Commission considered Paper No. 219 of 2014.

Mr Meade introduced this item. The Central Bank (Supervision and Enforcement) Act 2013 introduced new provisions in relation to the making of reports to the Bank regarding alleged breaches of financial services legislation. The Act required the Governor to present an annual report to the Commission in respect of protected disclosures. The accompanying paper (Paper No. 219 of 2014) was presented in fulfilment of this requirement.

The paper provided a short overview of the arrangements adopted in the Bank to receive and deal with protected disclosures reports. The paper provided a summary of the 44 reports received since the introduction of the Act and provided an overview of the various actions taken or not. Finally the paper noted the introduction of other legislation dealing with protected disclosures.

Mr Geraghty noted that the largest number of reports received concerned credit unions; he asked if there were any particular concerns regarding this sector as a result. Mr Meade said that there were no particular themes emerging from the disclosures concerning credit unions; they were at a higher level due to the relative size of the sector.

The Commission noted the Annual Report on Protected Disclosures.

Mr Meade left the meeting.

15. Supervisory Update

The Commission considered Paper No. 223 of 2014.

Peer Reviews

Mr Roux updated the Commission on the peer review process. The review of insurance supervisory practices conducted by the IMF as part of its Reports on the Observance of Standards and Codes (ROSC) process was underway, while the review into consumer supervision was at the stage where the report from the Dutch consumer protection authority, the Authority for Financial Markets, had just been received. The credit union review was, unfortunately, delayed as the [redacted] reviewers had withdrawn. Mr Roux was writing to the Minister to explain that the overall peer review process would be delayed as a result while a replacement reviewer was sought.

SSM – Delegation of Regulatory Powers

Mr Roux noted that the paper, 'Single Supervisory Mechanism – Delegation of Regulatory Powers' (Paper No. 231 of 2014) had been circulated to Commission members. As a result of the tight timeframes involved following finalisation of the legislation and the coming into force of the SSM on 4 November 2014, it was necessary to circulate a written procedure for decision by the Commission. A copy of the draft legislation was enclosed with the paper; any differences between the legislation circulated to the Commission and the signed version would be brought to the attention of the Commission.

The Commission noted the Supervisory Update.

16. Risk Information Pack

The Commission noted the Risk Information Pack (Paper No. 224 of 2014).

17. Governor's Quarterly Report on Expenses

The Commission noted the Governor's Quarterly Report on Expenses (Paper No. 222 of 2014).

18. Minutes of Sub Committees

The minutes of the meetings of the Audit Committee of 24 July 2014, and of the Budget and Remuneration Committee of 24 July 2014, were noted.

19. Any Other Business

There was no other business.

The meeting concluded.

Governor
28 November 2014

MINUTES OF MEETING NO. 50 OF

THE CENTRAL BANK COMMISSION

OF 28 NOVEMBER 2014

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

1. Minutes of Meeting of 31 October 2014

The minutes of the meeting of 31 October 2014 (Meeting No. 49) were agreed.

2. Matters Arising

Single Supervisory Mechanism – Delegation of Powers

The Governor noted the proposals contained in Paper No. 231 of 2014 ('Single Supervisory Mechanism – Delegation of Regulatory Powers') had been approved by written procedure by the Commission on 3 November 2014.

Additional Consumer Protection for Debt Management Firms

The Governor recalled that at the October 2014 meeting it was requested that a note be prepared setting out the legal status of Codes in court cases, in the context of the discussion on the application of additional provisions in the Consumer Protection Code regarding Debt Management Firms. A note on this had been prepared by the Legal Division and was circulated to the Commission members.

3. Euro Area Developments – Issues for the Central Bank

The Governor introduced this item. He noted that the yield on 10 year Irish government paper was at record low levels. There were a number of factors driving this: government budgetary discipline as perceived in the markets; generally low rates across the euro area driven by Germany yields; and market expectations that the ECB would re-start buying government bonds on a large scale.

The ECB had already stated that it would not reduce interest rates below their current exceptionally low levels; leaving it with the need to examine unconventional tools. These had been used, in the shape of quantitative easing, by other major global central banks. By buying up their own government bonds, these central banks had driven down long term rates and this had spread into other markets, including Europe. However, recent announcements by the Fed that it would stop buying long term bonds had the effect of long term yields beginning to push up again.

The ECB had announced a number of new monetary policy measures, including an asset backed securities purchase programme (ABSPP); a new covered bonds purchase programme (CBPP3); and new targeted long-term refinancing operations (TLTROs), aimed at promoting loans to non-financial companies. President Draghi had also announced that the Eurosystem balance sheet would greatly expand. While these were positive developments, the inflation rate was remaining well below 2 per cent. [redacted]

The Commission noted the Update on Euro Area Developments.

4. Financial Stability – Macro-Financial Review

Mark Cassidy, Head of Financial Stability Division; and Gordon Barham, Financial Stability Division, joined the meeting.

The Commission considered Paper No. 236 of 2014.

Mr Cassidy introduced this item. The Macro-Financial Review was a bi-annual publication of the Bank, prepared by the Financial Stability Division with inputs from a number of other divisions, and signed-off by the Financial Stability Committee. It offered an overview of the current state of the macro-financial environment in Ireland, as well as considering risks in that environment.

He outlined the main messages from the latest draft Review. Although the domestic economic outlook was improving, and there had been positive developments in the banking sector, there were issues weighing on the macro-financial environment. These included high debt burdens in the private and public sectors and a large stock of non-performing bank loans.

In the banking sector, there was a lack of progress on impaired buy-to-let mortgage loans and continuing growth in very long-term mortgage arrears. The maturity profile of funding remained weighted to the short term, leaving domestic banks susceptible to reappraisals of risks and changes in market sentiment. The pace of house price increases over the past year or so could influence price expectations and could lead to a misalignment of house prices. The commercial property market was vulnerable to a change in investor sentiment and the availability of investment opportunities elsewhere. Low levels of new lending and limited scope to increase margins constrained banks' ability to raise income. Constrained credit availability, in turn, could hinder economic recovery.

Beyond Ireland, there were geopolitical issues that could affect world output, challenges associated with monetary policy normalisation in some economies, deflationary pressures in others, and the possibility of a reversal of the global search for yield in financial markets and of the positive sentiment towards euro area sovereigns. Any of

these could have negative consequences for the Irish financial system and the macro-financial environment.

Ms Clarke said she was somewhat surprised concerning the data on SME lending which showed that about one-third of SMEs carried no debt. In the absence of bank credit, what were such firms using or was there little expansion taking place? Mr Cassidy said that the level of debt outstanding would suggest that many firms did not build up any new debt over the period of the crisis. New lending had picked up slightly, although overall it remained very subdued.

Mr FitzGerald noted that the content of Box 3 – Credit standards for mortgage lending and proposed macro-prudential measures – may need to be revised pending the outcome of the consultation process and the timing of the publication of the Review. He said that regarding some of the non-banking sectors, and in particular the references in the report to Financial Vehicle Corporations (FVCs), it would be useful in a future Review to set out what potential risks these posed from the wider public good perspective and whether their added value to the economy was not outweighed by the risks they posed. Mr. Cassidy said that there was a body of work progressing via the Financial Stability Committee concerning the risks underlying the shadow banking sector and this would be reflected in a future Review.

Regarding the Insurance section of the Review, Ms Byron said, from recent statistical information published by Insurance Ireland, there were potentially some issues developing in the sector that would give cause for concern and could be usefully further explored in future Reviews. The data would suggest that these may include issues around reserving, pricing and third party costs. It would be useful to delve more into these drivers.

Ms Byron added that she was aware of reports that a potential new entrant to the market was seeking authorisation from Gibraltar; considering the difficulties that arose from the recent case of Setanta Insurance, she asked if the Bank had any particular insight on this. Mr Roux said that within the European Economic Area there was freedom of services and firms were entitled to seek authorisation in one jurisdiction and sell into another; Ireland in fact had quite a number of such firms based here. The Governor said that the

major issues were around consumer protection and he would arrange for a paper to be provided on this.

Mr Soden said he remained concerned at the apparent lack of progress in the banks in tackling non-performing loans. The banks had been re-capitalised and it would be expected that by now this would have been used to absorb loan losses and to get the banks back actively lending into the real economy.

The Governor noted that, while Mr Soden's concerns were valid, the Bank had done all it could within its own powers to get the banks to address their loan books. The banks remained hopeful that they could write back some of their provisions should wider conditions continue to improve; this was essentially a commercial decision for the banks to make and the Bank had no specific powers in this regard.

Mr Ahearne noted that the Review pointed out that the maturity profile of funding for the banks remained weighted heavily to the short term. He asked if banks were not able to get longer-term funding. Mr Cassidy said that he would not wish to over-state the risk in this regard; however, a large proportion of bank debt was due to mature in Q1 2015 and would need to be rolled over. A rise in the cost of funding for any new debt could impact negatively on margins.

Mr Geraghty asked why buy-to-let impairment was still so high, in an environment where there was upward pressure on supply and rents were increasing. Mr Cassidy noted that the buy-to-let sector was particularly hard hit by the downturn; the banks had prioritised private dwelling homes in re-structuring. In addition, many BTLs were on interest only terms and only latterly moved into arrears when these arrangements reverted.

The Commission noted the Macro-Financial Review.

Mr Cassidy and Mr Barham left the meeting.

5. Organisation Review

Gerry Quinn, Chief Operations Officer; Liz Joyce, Director Human Resources; Michael Maher, Head of Organisational Development; and Ciara Fallon (PwC) joined the meeting.

The Commission considered Paper No. 237 of 2014.

Ms Joyce introduced this item. She noted that the Commission had previously been briefed on some high level aspects of the Organisation Review prior to the October 2014 meeting. In addition to the material presented today, an 'As-Is' analysis prepared by PwC had already been circulated to members.

Mr Quinn summarised the envisaged 'change journey' for the organisation. This had been the subject of considerable discussion at the level of the Senior Leadership team. It was envisaged that the Bank would move from structures and practices that were: in the mode of command and control in decision making; overly hierarchical with rigid grading structures; and limited in career progression and mobility opportunities, to ones that: allowed for greater devolved decision making; flatter structures; more role-based in nature; and with greater scope for mobility, including promotional opportunities in both specialist and management roles. [redacted] Allied to this was a need to get people, who operate across a number of diverse areas, to more fully connect with each other and with the over-arching aims of the organisation. To help achieve this, a broad vision statement had been defined as one where the Bank was 'trusted by the public; respected at home and abroad; and a fulfilling workplace for our people'.

Ms Fallon summarised some of the work that had been undertaken when examining structures and layers. There was broad agreement that the existing three 'pillars' of the Bank – central banking, financial regulation, and operations – was an appropriate and fit-for-purpose high level structure, as was the existing directorate model. There was a need, however, to focus more on developing the linkages within and between directorates and divisions; on enhancing the service delivery model between the

operations pillar and its internal customers; and on what enhanced capabilities may be required. The current structures tended to have too many layers, based on the existing grades; and average spans of control that were too small when compared with norms outside the Bank. It was planned to move from the current structure, with a wide number of grades, to one with fewer, but broader, 'bands' of roles. This would also allow for the creation of 'job families' that would promote and highlight mobility opportunities and create both specialist and management streams.

Ms Joyce said there was a window of opportunity to progress with these initiatives, which presented a number of opportunities for the Bank. Ultimately this would help the organisation deliver against its mandate more effectively; improve alignment between mandate and goals, and the activities and processes needed to deliver them; provide a greater ability to develop, attract and retain talent and expertise; provide a more fulfilling and progressive workplace and a more proactive, agile and flexible organisation; better manage and meet stakeholder expectations; and future proof organisational capabilities. There were risks and challenges to this. [redacted]

Ms Byron asked about the span of control; she said that in areas of high processing it would be expected to find wider spans but not in all areas of more specialist work. Ms Fallon said that the current average span in the Bank was 2.7; the review envisaged this moving out to average between 4 and 8 depending on the area of work.

Mr Soden said that this represented a significant cultural change; he said it would be important to distinguish between accountability and responsibility and asked if mechanisms of accountability would be examined in this exercise. Ms Fallon said that

this would feature around the decision-making piece; it was envisaged that people would be more empowered and better equipped, but with the necessary accountability attached, while also recognising that mistakes could be made.

Mr Geraghty said that while he welcomed the planned changes [redacted] Ms Joyce said that there was a related work stream examining this; it was necessary for the Bank to move to a more fit-for-purpose reward model. The Governor noted that there were currently restraints in place due to FEMPI, however these would change over time. He had already communicated to staff that this exercise was not about cost cutting.

Ms Clarke asked if there were any potential legal implications to changing over to any new descriptors for roles that may emerge; titles and classifications were important to many people. Ms Joyce said people would be given various opportunities to participate in the process [redacted] To date, while only high level detail had been shared across the organisation, there was a reasonably positive reaction.

Mr Moran said this was a big transformation programme. He asked if the management capacity existed to deliver on it; while the Bank had many very good senior specialists, they may not all be necessarily equipped to deal with such a change. Ms Joyce said there was considerable work taking place with Heads and Deputy Heads of Function to bring them along in this process and to ensure they were adequately equipped to deliver; some would be in a better position to do so than others. The Governor added that there was a new cadre of people at director level that were very strongly oriented to this type of approach and who had the requisite broad managerial skills and experience.

The Commission noted the Organisation Review.

Ms Joyce, Mr Maher and Ms Fallon left the meeting.

6. Budget 2015

Mr Quinn was present for this item; Fergal Power, Head of Financial Control and Procurement Division, joined the meeting.

The Commission considered Paper No. 238 of 2014.

Mr Power introduced this item. He recalled that a detailed presentation in relation to the 2015 Budget was made at the meetings of the Budget and Remuneration Committee on 24 October 2014 (Paper No. 199 of 2014) and of the Commission on 31 October 2014 (Paper No. 228 of 2014). Since that presentation, some changes had been made to the proposed 2015 budget, which were outlined in appendix 1 to the accompanying paper (Paper No. 238 of 2014).

Total operating expenditure of €204.5m was proposed for 2015, representing an increase of €13.6m or 7 per cent on the estimated outturn for 2014. This incorporated staff costs (including pensions) of €139.8m and non-pay administrative expenditure of €64.7m. In addition, other expenses, which included depreciation on fixed assets (€13.6m) and print (banknote) materials costs (€10.6m) were also proposed for 2015 which brought total budgeted expenditure to €228.7m. An Investment Envelope budget of €81m was being requested for 2015, an increase of €57.1m (240 per cent) on the estimated outturn for 2014, of which €56.8m related to the Fusion programme. A total contingency reserve of €27m was proposed for 2015. This incorporated a staff costs contingency (€4m), non-pay contingency (€10m), and an investment envelope contingency (€13m).

The pension costs of €38.8m were based on assumptions and discount rates advised by the Bank's actuaries; these may be subject to change and if such happens the Commission would be informed.

Finally, Mr Power informed the meeting that the costs of the 2014 Security Division restructuring costs of €1.3m (as previously communicated to the Commission), would be paid for from the 2014 Contingency reserve.

Mr Soden said that, while the Budget was for 2015, he had expected to see provisional staffing numbers for 2016 and 2017, particularly to ensure that the spend on the North Wall Quay premises was adequate in that it would be able to accommodate potential increased staff numbers. The Governor said that such staffing projections were not made at this time; there were many things to consider in this regard, not least the Bank's Strategy for the 2016-2018 period which was due to be developed in the course of the coming year. The October 2014 meeting was provided with information that demonstrated headroom in the new building, should that be required; in addition the Bank's lease of the Spencer Dock premises would remain in place for a number of years. The alternative option was to cease work on the Fusion project now and only re-commence that at some future point; this did not make sense. The Bank had to always operate in the knowledge that it may be given new responsibilities, or that expansion of the IFSC or other sectors might require additional resources; it was not feasible to second guess this.

Ms Byron said she wished to re-iterate her comments from the previous meeting that the Bank engage in a capacity modelling exercise, which would include planning for various scenarios. She did not expect this to stop or delay the Fusion project but rather that it be built in to planning for the future. The Governor said that this would be factored into strategic planning in the coming year but that it was difficult to model with any narrow range of precision.

Mr Quinn and Mr Power left the meeting.

The Commission:

- **approved the proposed budget for operating and other non-capital expenditure of €228.7m and the Investment Envelope of €81m for 2015;**
- **approved the Contingency Reserves of €27m for 2015; and**
- **noted the intention to fund the 2014 Security restructuring costs of €1.3m from the 2014 contingency reserve.**

7. Central Credit Register

John Coyle, Director of Resolution and Corporate Affairs; Stephen Giffney, Central Credit Register Project Manager; and Denis Kelleher, Legal Division, joined the meeting.

The Commission considered Paper No. 239 of 2014.

The Governor welcomed Mr Coyle who was attending his first meeting of the Commission since his recent appointment as Director of Resolution and Corporate Affairs.

Mr Giffney introduced this item. He recalled that the Commission had previously been updated on this issue, most recently at its meeting on 25 June 2014 (Paper No. 133 of 2014). The Credit Reporting Act 2013 mandated the Bank to establish and operate a Central Credit Register (CCR) and conferred powers on the Bank to make regulations setting out much of the operational detail of the CCR and associated obligations.

The CCR would impose significant new responsibilities on the Bank with potential reputational risks. In particular, the Bank would be responsible for processing large volumes of personal data which must be kept accurate and up to date. Lenders (or Credit Information Providers, as described in the Act) would be liable for the accuracy of the data that they provided to the Bank; but the Bank must process that data quickly and accurately. Commercial risks may also arise in the event of extended implementation timelines, though the legislation provided for the Bank to recoup costs through levies and charges.

As previously advised to the Commission, the Bank had sought an external partner to build and operate the CCR on its behalf. Awarding a contract to an experienced credit bureau operator was favoured as the safest way of delivering the CCR and mitigating potential reputational risks.

Following a procurement process, involving extensive dialogue with four shortlisted bidders, the Bank received provisional tenders addressing functional, technical and security requirements, implementation plans, service operations, commercial proposals and comments on contractual terms. Following a further round of discussions, two UK bidders withdrew and did not submit final tenders. Final tenders received from CRIF SpA (Italy) [redacted] The CRIF proposal had been adjudged the most economically advantageous as it scored higher across all areas bar one, including functionality, technology and information security, implementation and service operations as well as commercial arrangements. [redacted] Full details of the assessment were provided in the accompanying paper (Paper No. 239 of 2014).

CRIF was a private company registered in Italy but operating in 17 countries with 1,700 staff providing credit bureaux and other business information services. In addition to operating credit bureaux, the firm provided software and implementation services and outsourcing services and had worked with several central banks, mainly in developing countries.

CRIF proposed to host and process the CCR data in its Bologna data centres and to set up a local office in Dublin employing nine staff to engage with lenders and borrowers. Bidders were asked to propose their preferred operational location and CRIF opted to leverage their significant investment in data centre facilities and security in Bologna rather than take on the risks and costs associated with establishing new facilities in Ireland. Data protection and procurement rules did not allow the Bank insist that the service operated in Ireland. The Bank would be the data controller regulated by the Irish Data Protection Commissioner and CRIF would be the data processor.

The CCR was expected to receive data inputs from early 2016 and produce initial credit reports from mid-2016. The implementation timeline was dependent on lenders being able to deliver good quality data as well as the Bank finalising regulations through consultation with the Data Protection Commissioner and the Department of Finance.

[redacted]

Mr Soden enquired what exit strategy was in place, for example should CRIF be sold, or if the Bank was not satisfied with the service provided. Ms Clarke asked if, in finalising the contract, any lessons learned from the Bank's experience with [redacted] would be taken on board, such as the Bank being able to fully audit the company. Mr Giffney confirmed that the contract stipulated the establishment of a new dedicated company to provide the service and that the Bank would have a right to consent to change of control and a right of termination for convenience, with some provision for compensation which was relatively low. He added that the contract provided for a right of audit, both technical and financial, and also included detailed rules on confidentiality undertakings. The Bank assessed information security against the [redacted] and it scored quite well against that.

Mr Geraghty noted that the proposal would result in the potential loss of local knowledge as the firm was based in Italy [redacted] Mr FitzGerald said that it was clear the outcome, conducted under EU law, could not be changed from a tendering perspective. He said his own concerns extended to potential litigation and whether or not there was an exposure if such litigation took place in Italy rather than Ireland. Mr Moran said that, from the documentation presented, CRIF was the clear winner of the tender. He also noted that the data protection legislation was common throughout the EU so the location of the firm should not influence that. Ms Byron asked if CRIF would hold data on servers or in a 'cloud'? Mr Giffney said that the Bank was obliged to go through a public procurement process and that CRIF had come out as the winners of that process which was indeed done under EU law. Regarding employment, CRIF would set up with nine people based in Ireland [redacted] A note had been circulated with the paper (Paper No. 239 of 2014) which sought to spell out the question of whether action for discovery could be taken out against the CCR operator under local (Italian) law rather than Irish law. While this could not be ruled out, the Bank was the

data owner and the data controller for the purposes of data protection legislation. The note set this out in some further detail. Mr Giffney confirmed that the data would he held on a separate database to other data on virtualised servers, with full encryption when data is in transit.

Mr Coyle, Mr Giffney, and Mr Kelleher left the meeting.

The Commission approved the award of a 10 year contract valued at c.€25.3m to CRIF SpA for the establishment and operation of the Central Credit Register, with an option to extend for a further five years.

8. Prospectus Fee Regulations

Grainne McEvoy, Head of Securities and Markets Supervision Division; and Donald MacLean, Deputy Head of Securities and Markets Supervision Division, joined the meeting.

The Commission considered Paper No. 240 of 2014.

Mr MacLean introduced this item. Due to improving market conditions, changes in the fee schedules in comparable jurisdictions and judicious management of resources allocated to the prospectus review and approval function since 2011, the Securities and Markets Supervision Division (SMSD) was in a position to reduce, and possibly eliminate, the subvention required from the Exchequer to fund the activities of the prospectus approval team. To achieve this, it was recommended that prospectus approval fees for debt securities be increased to the levels set out in the accompanying paper (Paper No. 240 of 2014).

Due to market conditions and the elasticity of demand for prospectus approvals prevalent in 2011 when certain functions previously delegated to the Irish Stock Exchange were assumed by the Bank, it was not possible to fulfil the mandate of 100% industry funding for the prospectus review activities at that time. Since then, the activity had required a subvention from the exchequer. For example, the shortfall for 2013 was €1,674,645 and the projected shortfall for 2014 was estimated at €941,732.

The prospectus approval fees proposed were set at a level that would help bridge the funding shortfall, without significant impact on market participants or volumes. Assuming 2014 volumes and costs, the proposed fee levels would result in a surplus for 2015, thus eliminating the subvention required from the Exchequer to fund the activities of the prospectus approval team. However, the actual revenue year-on-year would be dependent on the actual volume of prospectuses approved and the operating costs associated with the prospectus approval activities performed by the Bank.

The Governor asked what response might be anticipated from industry to this measure. Mr MacLean said that he did not expect any particular push-back from industry; this had already been well signalled at stakeholder meetings. Ms Clarke remarked that she would have expected the respective costs charged out of the UK and Luxembourg to be closer to that of Ireland than as set out in the paper. Mr MacLean noted that the costs in other jurisdictions had diverged from those in Ireland in recent years, as both the UK and Luxembourg increased their fees for this.

The Commission approved the delegation to the Deputy Governor (Financial Regulation) of the power to:

- **make the relevant regulations as set out in Paper No. 240 of 2014; sign the Regulations on behalf of the Commission; and submit the Regulations to the Minister for Finance seeking approval of the Regulations and the revocation of the relevant Statutory Instrument.**

The Commission further approved the delegation of the statutory powers and functions of the Bank as contained in the Regulations to the Deputy Governor (Financial Regulation) and the further delegation by him of these statutory powers and functions to a committee of officers/employees of the Bank or individual officers/employees of the Bank as he sees fit.

9. Investor Money Regulations for Fund Services Providers

Ms McEvoy and Mr MacLean were present for this item.

The Commission considered Paper No. 241 of 2014.

Ms McEvoy introduced this item. Following the commencement of the Central Bank (Supervision and Enforcement) Act 2013 on 1 August 2013, the Bank issued a public consultation (CP 71) on revised Client Asset Regulations and Guidance for both investment firms and financial service providers (FSPs). The current Client Asset Requirements did not apply to FSPs. Following a review of the responses received to CP 71, the Commission approved at its meeting on 26 September 2014, (Paper No 185 of 2014) separate sets of Client Asset Regulations, one for investment firms and one for FSPs. The decision to separate the Regulations reflected the fact that the business model operated by investment firms differed significantly from the business model operated by FSPs in several key respects, including, *inter alia,* the international nature and mobility of the funds industry, the quantum of monies flowing through collection accounts and the indirect relationship that typically exists between FSPs and investors.

The purpose of the accompanying paper (Paper No. 241 of 2014) was to seek approval of the Investor Money Regulations for FSPs and to delegate to the Deputy Governor (Financial Regulation) the capacity to approve the Investor Money Regulations. The Investor Money Regulations for FSPs provided a framework for an investor money regime based on six core Investor Money Principles. The core Principles were underpinned with detailed Regulations which set out the obligations a FSP, holding investors' money, was required to comply with. Where necessary, the Investor Money Regulations were supported by Guidance, to assist a FSP and its senior management to understand what was expected of them.

On approval by the Commission, the next step would require consultation with the Department of Finance. On completion of this consultation, the Investor Money Regulations would be imposed under the Central Bank (Supervision and Enforcement)

Act 2013. FSPs would be allowed a transition period of 12 months in order to give them sufficient time to adapt their systems and procedures to comply with the Regulations.

Ms McEvoy and Mr MacLean left the meeting.

The Commission:

- **approved the Investor Money Regulations for FSPs;**
- **delegated to the Deputy Governor (Financial Regulation) the capacity to commence the Regulations and approve any final changes to the revised Regulations; and**
- **delegated to the Deputy Governor (Financial Regulation):**
  - **the capacity to make any transitional arrangements that he considers appropriate with individual FSPs or with industry sectors in respect of the Regulations; and,**
  - **the capacity to approve any changes arising from the on-going review of Regulations.**

10. Supervisory Update

The Commission considered Paper No. 242 of 2014.

Mr Roux introduced this item. He noted the change in structure and content of the Supervisory Update paper (Paper No. 242 of 2014).

Regarding the peer reviews underway, the IMF ROSC insurance examination team was currently on-site and an initial draft report was due over the coming weeks. The Consumer Review had been completed by the Dutch consumer authority and a report was due shortly; the Credit Unions Review was now being undertaken by the International Credit Unions Regulators' Network.

[redacted]

[redacted]

On other regulatory matters, a number of consultation papers had been issued including one covering the regulation of credit unions. One of the proposals, concerning limiting savings in credit unions to €100,000 per member, was likely to meet some resistance. Mr Roux concluded by updating the Commission on some recent discussions at the level of the European Supervisory Authorities, which was summarised in Paper No. 242 of 2014.

The Governor noted the new format to the Supervisory Update paper and asked members to consider their preference for such material, in particular as to what was useful to include and what was not.

The Commission noted the Supervisory Update.

11. Risk Information Pack

The Commission noted the Risk Information Pack (Paper No. 243 of 2014).

12. Any Other Business

This was taken after Item 6. Mr Quinn introduced these items.

Letter from Print Staff

A letter from staff in the Print function of the Currency Centre was received by the Governor on 27 November 2014 and cc'd to members of the Commission. The letter, along with accompanying documentation, was contained in the Table Documents Pack.

[redacted]

Fusion Project

The façade contractor would commence work in the coming week, to erect a section of the façade on the building at North Wall Quay. The work was necessary in order to provide a prototype to enable the architects and engineers perform some tests, and to facilitate a review of the façade design with Dublin City Council planning officers. The prototype façade would cover a relatively small section of the building; however it would be clear evidence to the public of commencement of construction activity at the site. There would be some pro-active briefing of the media to coincide with these works commencing in order to inform them of the specifics of this work and also to generally brief and update on the programme.

There was no other business.

The meeting concluded.

Governor
23 December 2014

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MINUTES OF MEETING NO. 51 OF

THE CENTRAL BANK COMMISSION

OF 12 DECEMBER 2014

In attendance: Governor (Chair), Alan Ahearne, Patricia Byron, Blanaid Clarke, John FitzGerald, Des Geraghty, Stefan Gerlach, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Derek Moran, Cyril Roux.

1. Minutes of Meeting of 28 November 2014

It was agreed that the minutes of the meeting of 28 November 2014 (Meeting No. 50) would be agreed by written procedure pending some final minor amendments to the draft circulated.

2. Matters Arising

Letter from Print Staff

The Governor noted that a response had issued to the print staff following the letter that had been circulated to Commission members at the meeting in November and matters were progressing.

Paper Procurement

The Governor informed the meeting that the Bank was examining its options around banknote paper procurement. The Bank currently procured directly from the market: [redacted]

[redacted] He would return to the Commission with more detailed information and potential proposals for consideration in due course.

3. Euro Area Developments – Issues for the Central Bank

As the Commission had very recently (28 November 2014) considered the relevant euro area updates, there was no discussion on this item.

4. Credit Unions

AnneMarie McKiernan, Registrar of Credit Unions; Frank Brosnan, Deputy Registrar; and Elaine Byrne, Deputy Registrar, joined the meeting.

The Commission considered Paper No. 262 of 2014.

Ms McKiernan introduced this item. There were emergent signs of stability improvement in the credit union sector according to some indicators; such as the number of credit unions reporting surpluses, a slight fall in average arrears, and improvement in provisions coverage. However, the overall position was one of a sector still in structural decline, a clear indicator of which was the falling loan-to-asset ratio, now at about 30 per cent (a viable ratio might be one of over 50 per cent). Not all credit unions were in this structurally weak position, but it was fairly widespread. This overall position reflected the fact that the business model of credit unions needed considerable change to keep them viable and healthy into the future. There were also significant shortcomings in governance, credit risk, other risk management, and strategy, where standards were well below regulatory requirements and the levels expected of deposit-taking institutions.

The Registry of Credit unions had set out a vision for the sector in three years' time around a theme of 'strong credit unions in safe hands'. To achieve the very significant improvements necessary for the sector, a number of priorities had been identified. These

included: a considerable level of both on-site and off-site engagement; further voluntary restructuring; various pre-resolution and resolution planning activities; and ongoing enhancement and implementation of the regulatory framework, which included the recent issuing of a consultation paper on new draft regulations.

There was also a focus on facilitating credit union growth and development. This involved assessing and challenging business model innovations or shared services initiatives, to enable credit unions to safely provide a broader and more cost-effective range of services to be attractive into the future, and attractive to new younger members. In addition, the Registry was proactively reviewing lending and other restrictions on the activities of credit unions, to enable them to avail of economic upturn or other growth and income opportunities, but in a context where they had appropriate credit risk and other systems of controls in place to lend or invest responsibly.

Mr Brosnan set out the current supervisory engagement model, and options for 2015 based on existing resourcing. Under the PRISM approach, the Registry was only in a position to deliver on about 70 per cent of its target onsite visits due to its resourcing. There were a number of risks with this approach. These included a weakening of the impetus for sector restructuring; failure of entities to achieve the required regulatory standards; risks to members' funds due to non-financial risks; and a reputational risk for the Bank. For 2015, there were a number of different approaches that could be taken. One was to maintain the current level of 70 per cent PRISM engagement; another was to target 50 per cent of the PRISM engagement and add new engagements, such as CEO engagements and low-impact visits; a third option, and the one preferred by the Registry, was to undertake a new 'risk and restructuring' approach, whereby credit unions were segmented by risk rather than impact and there was a focus on restructuring priorities. Under this approach, onsite engagements would take place with those identified as highest risk and those identified as unviable. All others would be on a reactive engagement basis. There were also a number of risks with this approach; however, it was seen as a temporary model for 2015 only and would be re-visited in the course of the year to allow for an assessment of longer term engagement and resourcing requirements based on experience of this approach, the outcome of a peer review exercise, and the emerging shape of a restructured sector.

Ms McKiernan then set out the Registry's priorities to achieve broader based restructuring within the sector. The aims were to keep momentum in the restructuring process, to get the sector on to a sounder footing; to de-risk actual restructuring projects, via solid business cases; and, where non-voluntary resolution looked more likely, to remove the kind of impediments which made resolutions time-consuming and risky, including clarifying true financial positions via asset reviews, recourse to private sector funding from the Irish League of Credit Unions (ILCU) fund, having consent of credit unions in taking resolutions and having strong transferees in place to make directed transfers viable as an alternative to liquidation in many cases. On voluntary restructuring, the Restructuring Board (ReBo) now had greater momentum, and the amended onsite supervisory engagement model would further encourage weaker credit unions to consider restructuring.

Ms McKiernan noted that it was planned to go to the High Court in the coming days to seek a transfer order. This was an example of a well-managed resolution case.

Mr Soden said that it did not appear that the business models of smaller credit unions were particularly viable. He asked if fitness and probity requirements applied to credit unions. He felt that the pool of talent within credit union management could be enhanced and supplemented were chartered accountants to be involved; there was a ready-made pool of such expertise available across the country. Ms Byrne said that fitness and probity requirements were being extended to credit unions on a phased basis; applying to larger credit unions in the first instance. While these were only for new appointments, it was a requirement that chairs be re-elected every four years, so the process would gradually also capture people in these posts. Ms McKiernan added that viability was indeed an issue for a number of credit unions, not only smaller ones; voluntary restructuring was often driven by this reality. The older customer profile of many credit unions was also an issue as that age group was less likely to take out loans.

[redacted]

Mr Geraghty said he believed PRISM was not the tool to address supervision of credit unions. He felt it was more appropriate to larger entities. Where resolution or restructuring occurred, it was important to try and retain credit union services in the local communities; [redacted] Regarding fitness and probity, he said it would be important to note that many of those involved in the credit union sector were on a voluntary basis. Ms Byrne said that she was the Bank's (non-voting) representative on the ReBo board. Under the legislation the Minister had to assess its role by 2016; ReBo was ramping up for a large number of restructurings in the coming year. [redacted]

Ms Byron asked whose responsibility it was to ensure that the credit unions' business models were sustainable going forward. While the Bank would appear to have a role in encouraging certain good practices it would seem it was the responsibility of the credit unions themselves to develop more sustainable models, such as attracting younger members and investing in innovation. Ms McKiernan said that much of the 'vision' for the sector was set out in the report of the Commission on Credit Unions (CCU). The Bank would certainly engage with credit unions in meeting their regulatory responsibilities, but certain other broader issues for the sector were not in its direct control. The Governor said that the Bank had been willing to play a bigger role in the broader strategic issues for the sector but that the CCU had not recommended this role for the Bank and ReBo had been given some responsibility in this area.

Mr FitzGerald said it was striking from the presentation that lending had reduced by over one-third over the period of the crisis and that investments and deposits had actually increased. There was no future for credit unions unless they loaned money out and it would be for the representative bodies, such as the ILCU, to do some useful research on why people were not borrowing from credit unions.

Ms McKiernan, Mr Brosnan, and Ms Byrne left the meeting.

Ms Clarke raised the issue of resourcing for the Registry, which had come up at the previous meeting of the Commission when the 2015 budget was discussed. While the engagement model for the coming year had been set out in the discussion that had just taken place, she asked the Governor if the resourcing was indeed adequate for the task ahead and if further consideration would be given in the course of 2015 to resourcing in this area.

The Governor said that the Registrar had requested additional resources for 2015 to bring the level of supervision up to that as set out under PRISM. There was indeed a case for this and it had been put forward by Mr Roux for discussion at the level of the Governor's Committee where the final proposals on 2015 resourcing were considered before being brought to the Commission. It was decided at that forum, taking into account the very large increases already being sought due to external pressures such as SSM, not to proceed with a request for further resourcing in the Registry at this time. It was felt that a more constructive approach was to allow the new Registrar to re-cast the supervisory engagement in the manner in which she had set out and not to be confined by the PRISM model. [redacted] and it was felt best to let that new approach bed-down and to also use 2015 for longer term planning and prioritising. He confirmed that this would include examining the necessary levels of resourcing for the 2016-2018 period in the course of the coming year.

The Commission noted the Credit Unions Update.

5. Macroprudential Measures – Preliminary Discussion

Gabriel Fagan, Chief Economist; Mark Cassidy, Head of Financial Stability; Robert Kelly, Deputy Head of Financial Stability; Niamh Hallissey, Financial Stability Division; and Therese Grace, Financial Stability Division, joined the meeting.

The Commission considered Paper No. 271 of 2014.

The Governor introduced this item. He recalled that at its meeting on 26 September 2014, the Commission approved the publication of the consultation paper on the introduction of macroprudential measures. The consultation period closed on 8 December 2014. The Bank had received more than 150 submissions. Today was an opportunity to get a high level summary of the submissions received and to have a preliminary discussion on the course of action to be followed. He said that it made sense to take some further time to consider the issues in more detail and that it would likely be necessary to convene a meeting of the Commission around mid-January to conclude on the options and to then announce the decision by late-January.

Mr Cassidy introduced the presentation. He said that, overall, the responses to the consultation were extremely rich and thought provoking but it was also worth noting that most of the key points raised were points that the Bank had already identified internally in preparing the proposals.

Ms Grace provided an overview of the 157 submissions received. There was a wide range of views expressed, both positive and negative. The measures had also received a lot of attention and comment in media with a high level of public engagement. This was reflected in the number of submissions received. The submissions could be broadly categorised in the following way: 110 'individual' submissions, where members of the public with no stated affiliation were setting out views in a personal capacity; and 47 'institutional' submissions from interested parties or organisations, including industry groups, financial institutions, representative bodies, politicians and academics.

The individual responses received were evenly split between supporting and disagreeing with the proposals. There was a high degree of consensus among those who could be identified as first time buyers (FTBs) welcoming the measures as prudent. Some other responses urged the Bank not to bow to pressure from vested interests. Those who disagreed were largely focused on the loan-to-value (LTV) proposals with views expressed that this would make home ownership unattainable for many FTBs. The issues raised in the institutional responses were broadly along similar lines, with the LTV proposals again attracting most of the criticism. The responses from the banks were largely consistent – supporting the proposed loan-to-income (LTI) cap but looking for a loosening of the LTV measures. The banks also sought time for further consultation and a delay or phasing-in of the measures. The responses from the political sector were generally negative. The submission from the Department of Finance was supportive but suggested the measures should be phased in and that different caps should apply for FTBs. Other messages from the responses were that these proposals were only one facet of broader housing policy issues; there were alternative instruments at the Bank's disposal; and there was a number of potential side effects to the measures. There were many suggestions setting out alternative proposals.

Ms Hallissey summarised the responses alleging adverse side-effects. Many responses queried the timing of the measures at this stage in the cycle, and stating that recent price rises were not driven by credit, but by supply constraints. Given that higher prices were still needed to encourage more construction, there was a concern that these measures would damage a fragile market by reducing demand and thus discouraging supply. Many responses called for a regulatory impact statement or further analysis on the impact on the housing market and on FTBs in particular. Around timing, a number of responses mentioned the need to have the central credit register, which was not due until 2017, in place before introducing the measures in order to minimise unintended consequences from unsecured borrowing to top up deposits. A few responses also called for education for buyers, in particular higher LTV buyers. A lot of the detailed feedback focussed on the LTV cap, the effect this would have on credit demand particularly from FTBs, and the knock-on effect this would have on the rental market. There were also several side effects highlighted around the LTI cap, more around the blunt nature of the tool.

Mr Cassidy set out the various proposals put forward in the submissions concerning alternative schemes to those that were set out in the consultation document. These alternatives included a phasing in of the 80% LTV threshold; increasing the LTV cap or having a different LTV cap for first time buyers, perhaps limited to smaller loans; and allowing a mortgage guarantee insurance to unlock LTVs above the 80% threshold (background material in Paper No. 270 of 2014 had been circulated specifically on the mortgage insurance options). It was also suggested that, in addition to the 80% LTV limit, a ceiling also be placed on the 15% of mortgages that were allowed above this. There were also proposals to make the parameters dynamic in response to market conditions. A number of proposals referenced more alignment between the LTI and LTV limits, for example whereby an under-shoot by a borrower in one would allow them to avail of an excess in the other. Other views were that the savings record of would-be purchasers constituted a better measure of creditworthiness than LTV or LTI. There were views that the scope for the transfer of negative equity loans was overly restrictive. Some more operational issues were raised by the banks. They asked for a delay in implementation for six months after the regulations came into effect. There was also a proposal that any excess or shortage in the shares of mortgages allowed above the LTV and LTI thresholds be allowed to be carried over to the following period or averaged over two or more periods. Finally the banks suggested that the monitoring period be 12 months rather than the six months currently proposed.

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Mr Geraghty said it was clear from the summary presented that this was a complex issue. He remained of the view that there were many moving parts around the overall housing sector, most of which were out of the direct control of the Bank, but which also needed addressing to complement any measures the Bank might consider. His major concern was around supply of housing. He was currently not satisfied to proceed quickly with the macroprudential measures.

Mr Ahearne asked if there was any particular difference in the submissions depending on the geographical location of the respondents. He also asked if there was any particular model the Bank might be employing in order to undertake a fuller analysis of this. Ms Hallissey said that there was no striking difference from a geographical perspective but it was referenced in two specific submissions. Mr Cassidy acknowledged the size of the task but said that the analysis would be built on a lot of work already undertaken across the Bank and there was a very high level of understanding of the various issues as a result.

Mr FitzGerald said it would be important that the Commission make a decision on these proposals by the end of January 2015. He did not perceive there to be any particular reason from a housing supply perspective not to proceed with the measures, the aim of which was to reduce credit risk. It would be helpful, however, if a paper could be prepared, for publication, that would set out the basis for decisions, when they were reached, including the wider macro-economic impacts. It would be important that the Bank be publicly seen to be responding to the various submissions received. Mr Gerlach

noted that it was striking that none of the submissions stated that the proposed measures would not achieve what the Bank said it was setting out to do, which was to reduce credit risk.

Ms Byron said it would be useful for the next discussion on this to focus on the proposed measures from the perspectives of the stakeholders, for example FTBs. This, again, would be important to demonstrate when the Bank goes public on its final proposals.

Mr Soden and Ms Clarke both said it was very important that the Bank publish its response to the consultation and its proposals by the end of January 2015. There was uncertainty in the market and it was necessary to close that off. The very speedy turnaround on the submissions to date was acknowledged, but it would be important for the reputation of the Bank to publish the submissions and its response and to re-emphasise the rationale for introducing such measures. It was also important there would not be any 'drip feed' of announcements but rather all information – the outcome of the consultation, the Bank's response to it, and the final measures – be announced together. Ms Clarke asked if the Commission would have access to review the various submissions.

The Governor said that the Commission would return to this, at a special meeting, in January 2015 with a view to concluding by the end of that month. It was agreed that any communication for now would be confined to signalling that the final considerations would be published in the latter half of January. In the meantime, access to the individual submissions would be made available.

The Commission noted update on the Macroprudential Measures consultation.

Mr Fagan, Mr Cassidy, Mr Kelly, Ms Hallissey, and Ms Grace left the meeting.

6. Balanced Scorecard 2015

Bernie Keppel, Deputy Head of General Secretariat, joined the meeting.

The Commission considered Paper No. 264 of 2014.

Ms Keppel introduced this item. The Central Bank Strategic Plan 2013-2015, approved by the Commission in September 2012, set out the key strategic priorities for the Bank over the three year period of the Plan under eight high level goals. The Budget and Remuneration Committee (BRC) monitored the delivery of the Organisational Balanced Scorecard (BSC) and reported to the Commission on the overall outcome of the BSC which was linked to the Performance Management and Development Process (PMDP).

The format of the 2014 BSC was revised to take account of the recommendations arising from the external review completed towards the end of 2013. The changes included: more explicit links with the strategic plan; the identification of outcomes; developing a less granular approach when articulating the actions/initiatives; and including qualitative as well as quantitative measures. The quarterly reports presented to the BRC included an executive assessment of progress and outlined any perceived risks to the completion of objectives. In addition to the organisational approach, BSCs produced at divisional or directorate level were mapped as necessary to the organisational BSC. These contained more explicit detail on the targets for completing objectives.

The 2015 BSC was developed in consultation with the Directors and highlighted the key issues which would be addressed during 2015. As 2015 was the final year in the current strategic cycle; it was proposed that the format for 2015 would closely follow the approach for 2014. The development of the next Strategic Plan in 2015 would also include a review on the most appropriate method for monitoring the implementation of the Strategic Plan. Ms Keppel concluded by stating that there would be some final minor editing to the BSC.

Mr Soden said that the Budget and Remuneration Committee had welcomed the change in format to the BSC; in particular the more qualitative-based commentary and the

flexibility to make changes during the course of the year if this was deemed necessary and appropriate. Ms Clarke suggested that the objective around SSM decision-making be re-formulated in order to more accurately reflect the role of the Bank around SSM Supervisory Board decision making.

Ms Keppel left the meeting.

The Commission agreed to consider the final version of the 2015 Balanced Scorecard, to take account of comments made at the meeting, by written procedure.

7. Annual Review of the Staff Code of Ethics and Behaviour

Liz Joyce, Director Human Resources, joined the meeting.

The Commission considered Paper No. 265 of 2014.

Ms Joyce introduced this item. The current Staff Code of Ethics and Behaviour was last updated and published in July 2014 following an annual management review by all divisions undertaken by the Human Resources Division. The Code provides for an annual review to be undertaken in order to ensure the continued relevance of the Code vis-à-vis legislation and best practice; and the submission of an annual report to the Commission which outlined the key issues emerging under the Code in the previous year.

The attached paper (Paper No. 265 of 2014) set out the activities arising under the Code in relation to gifts, employee queries, changes to the Code since July 2013 and comments from the Bank's Ethics Officer. As part of the annual review process, the paper also sets out recommended changes to the Code. The paper also set out any reported breaches of the Code in the period, of which there was one relating to a non-compliance with procurement guidelines.

Mr FitzGerald questioned the revised requirements relating to membership of political parties and engagement in political debate. He felt these may be over-restrictive when

compared to similar requirements in the civil service, particularly for more junior members of staff, and asked if these could be reviewed in that light. Mr Soden suggested that the cut-off value on the acceptance of gifts should also be reviewed as it appeared to be an impractically low level.

Ms Joyce left the meeting.

The Commission agreed to defer to its next meeting, in January 2015, final consideration of the revised Staff Code of Ethics and Behaviour pending a further draft.

8. Update on the Risk Exposures on the Balance Sheet

The Commission considered Paper No. 255 of 2014.

This item had also been considered by the Risk Committee at its meeting on 11 December 2014.

The accompanying paper (Paper No. 255 of 2014) provided the bi-annual update on the risk exposures of the Bank's balance sheet and covered the six month period to 31 October 2014.

Since March 2013, the size of both the Bank's published and adjusted balance sheets had continued to decline. The adjusted balance has fallen from €82bn to €67.4bn, which was mostly due to the redemption of over €8.5bn of NAMA bonds and a drop in monetary policy lending of €2.6bn during the period. The Governing Council of the ECB decided to further support bank lending to the euro-area through the introduction of an asset backed securities purchase programme (ABSPP) and a new covered bond purchase programme (CBPP3). To date there had been no balance sheet impact from these programmes because the purchases were held by the ECB; however, it was expected that the exposures would be transferred to individual NCB balance sheets beginning in late 2015.

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Mr Geraghty confirmed that this item had been discussed and considered by the Risk Committee.

The Commission noted the Update on the Risk Exposures on the Central Bank of Ireland Balance Sheet.

9. Legal Review - Update

Joe Gavin, General Counsel, joined the meeting.

The Commission considered Paper No. 266 of 2014.

Mr Gavin introduced this item. The external review of the Legal function of the Bank, as carried out by [redacted] and Mr Daire Hogan, was presented to the Commission at its meeting on 23 October 2013 and the reviewers made a number of recommendations, which were adopted by Management and approved by the Commission on 21 February 2014. The accompanying paper (Paper No. 266 of 2014) outlined the final position concluded under the recommendations as approved by the Commission. All recommendations were now in place arising out of the review.

Mr Gavin summarised some of the key actions undertaken on foot of the Review. In line with the recommendation to centralise delivery of legal advisory services for the Bank within the Legal Division, the various teams within the Division had been reorganised into three advisory teams comprising: Central Banking, Operations and Financial Regulation, as well as an administrative team and a Legal Compliance team contributing to assurance functions.

A competition to establish a panel of external legal experts was successfully concluded in September 2014. Senior management in Legal and Enforcement were actively committed to mobility between their respective areas and to co-location in the Bank's new premises at North Wall Quay. At this time, all new roles and promotions arising from the Legal Review had been successfully completed.

As recommended, a process for the referral of legal queries had been formalised with each of the Divisions within the Bank with effect from 30 June 2014. The Legal Division had initiated a Document Management System Project on a piloted basis for migration to a wider Organisation DMS project, which received approval as a Level 1 Project by the Central Bank Investment Committee (CBIC) in August 2014. In June 2014, General Secretariat Division (GSD) established a formal procedure for Legal to be consulted in advance by all Divisions on proposed 'For Decision' papers to be considered by the Commission. A newly created specialist role focussed on SSM was put in place in September 2014. Following consultation between the Deputy Governor, Cyril Roux, and the Department of Finance, the Department had confirmed to the Bank in early

November 2014 that it had appointed an external law firm to prepare draft consolidated enactment to consolidate all Central Bank Legislation.

Ms Clarke welcomed the implementation of the various recommendations. She asked if the Bank was sufficiently prepared for the application of Freedom of Information which she noted was due to commence in April of 2015. She also asked what exemptions applied under the Freedom of Information Act to certain activities of the Bank. The Governor suggested that this be the subject of a more detailed briefing to the Commission in February 2015. This was agreed.

The Commission noted the Progress Update to the Legal Review.

Mr Gavin left the meeting.

10. Supervisory Update

Ed Sibley, Head of Banking Supervision, joined the meeting

The Commission considered Paper No. 267 of 2014.

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The Commission noted the Supervisory Update.

11. Risk Information Pack

This item had also been considered by the Risk Committee at its meeting on 11 December 2014. The Commission noted the Risk Information Pack (Paper No. 243 of 2014).

12. Minutes of Sub Committees

The Minutes of the Risk Committee meeting of 25 September 2014 were noted.

13. Any Other Business

Risk Committee

Mr Geraghty said the Risk Committee considered and agreed on the appointment of an advisor to the Committee. The Committee had also undertaken a review of its role; a slightly amended terms of reference would be brought to the Commission meeting in January 2015 for approval.

The meeting concluded.

Governor
27 January 2015