MINUTES[1] OF MEETING NO. 80 OF THE CENTRAL BANK COMMISSION OF 30 MAY 2017

In attendance: Governor, Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery, John FitzGerald, Des Geraghty, Derek Moran, Bernard Sheridan, Neil Whoriskey (Secretary).

Apologies: Michael Soden

Also present[2]: Gerry Quinn (Chief Operations Officer), Paschal Finn (Head of Function, Legal Division), Maurice McGuire (Incoming Director, Financial Stability – Item 9), Martin O'Brien (Financial Stability Division – Item 9, Sylvia Cronin (Director, Insurance Supervision – Item 10), Nuala Crimmins (Head of Insurance Supervision Division – Item 10), Liz Joyce (HR Director – Item 11), Karen O'Leary (Head of Organisational Development – Item 11), Paul Molumby (Director, Currency and Facilities Management – Items 12 – 14), Grace O'Mahony (Head of Function, Legal Division – Item 15), Joe McNeill (Head of Statistics Division – Item 18), Rory McElligott (Head of Function, Statistics Division – Item 18), Cathal Ryan (Information Management and Technology Directorate – Item 18).

1. Procedural Items

The Governor opened the meeting and noted it was quorate. He asked if members had any interests to declare. There were no declarations of interest. The Commission adopted the agenda, with some re-ordering of items to facilitate those attending.

2. Minutes of Commission Meeting No. 79 (28 April 2017)

The Commission approved the minutes of its meeting held on 28 April 2017 (Meeting No. 79).

[1] These minutes are published as a record of the meeting. The Commission may decide to omit information from the published record that is legally or commercially confidential, where it contains confidential supervisory information, relates to matters under deliberation or where it is in the public interest to do so.

[2] Those members of management and staff presenting specific proposals for decision are only present when the item is being discussed by the Commission, and are not present when the decision is taken.

3. Matters Arising

Mr Whoriskey noted that the Commission had approved by written procedure on 15 May 2017, the appointment of Ed Sibley as Acting Registrar of Credit Unions from 1 July 2017.

4. Governor's Report

The Governor introduced this item. Financial stability was a common topic at recent international meetings. He noted the ECB had recently published its Financial Stability Review. In recent speeches in Tokyo and Dublin, the Governor had highlighted the issue of external spillovers, that are relevant in evaluating the appropriate monetary policy stance for the euro area, and the internal spillovers that may require mitigation through national macroprudential policies. These speeches noted that the scale of trade and financial integration had trended upwards over the last 20 years, so that the potential scale of external and internal spillovers were quantitatively larger today than in the past.

Internally, he reported on a number of recent events, including the opening of the Bank's new library and its learning and development centre, and the launch of the Rainbow Network, a new diversity initiative. He also had presented the annual Governor's Awards to more than 150 staff members who had successfully gained various academic qualifications over the past year.

The Commission noted the Governor's Report.

5. Brexit Update

The Governor introduced this item. Discussions were ongoing with firms in relation to potential authorisations. The Bank had also recently updated the Seanad Special Select Committee on the withdrawal of the UK from the European Union. A number of Brexit-related topics were discussed at the Seanad Committee, including its impact on the Irish economy and the financial system, and the work being undertaken by the Bank's Brexit Task Force. In terms of resources, the Budget and Remuneration Committee had, at its meeting on 30 May 2017 considered a request for additional Brexit-related resources in the Credit Institutions Directorate and Resolution Division. These would be brought forward to the Commission for its consideration at the June 2017 meeting. Mr Sheridan noted that the Bank had hosted a Brexit Roundtable on 8 May 2017 with a number of industry representative bodies. The Bank set out how it was engaging with potential applicants across all sectors, the resources and processes it had put in place and how it was engaging at a European level. Industry bodies raised a range of issues, including the importance of maintaining cross-border access to financial markets. A second roundtable on Brexit was held with consultancy and law firms on 22 May 2017. A summary of both roundtable sessions had been published on the Bank's website. The Bank was also actively involved at the level of the European Supervisory Authorities (ESAs) around the authorisation approach at the European level, advocating the importance of consistent and strong standards.

The Commission noted the Brexit Update.

6. Deputy Governor's Report (Central Banking)

This minute is partially omitted as it contains material that is subject to a deliberative process.

Ms Donnery introduced this item. She noted the recent announcement concerning the retirement of Chief Economist, Gabriel Fagan. The Commission would be updated in due course on the process to be followed in relation to identifying a suitable replacement.

In relation to the Central Credit Register, the Department of Finance had informed the Bank that advice from the Office of the Attorney General confirmed that hire purchase, asset finance and other lending to facilitate the purchase of a service or goods from a lender, was excluded from the scope of the Act. A legislative amendment was required to bring this lending back into scope. Lenders had been notified directly. The project team was engaging with the Department of Finance to take the necessary steps to implement the legislative amendment as appropriate.

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

7. Financial Regulation Report

This minute is partially omitted as it contains supervisory material

Mr Sheridan introduced this item.

The Bank recently attended the second European Insurance and Occupational Pensions Authority (EIOPA) platform of co-operation.

He updated the Commission on the preparations underway in relation to the implementation of the Markets in Financial Instruments Directive (MiFID) II Regulations. This was a significant project for the Bank. He also noted that the Bank had recently published a Discussion Paper on Exchange Traded Funds (ETFs), seeking input on key issues in the functioning and risks of ETF sector, which had a major presence in Ireland.

The Commission noted the Financial Regulation Report.

8. Chief Operations Officer's Report

Mr Quinn introduced this item. Resourcing remained challenging. Headcount at end-April 2017 was 1,598 full time equivalents (FTEs) representing a net reduction of six FTEs from end-March 2017. There were 152 roles active with the resourcing team at end-April 2017. A large-scale campaign for Financial Regulation supervisors had launched on 19 May 2017. This was the first targeted campaign for 2017 to meet the immediate staffing requirements in line with the Resourcing Strategy. 'Central Life' - the new brand for the Bank's employee value proposition - was launched on 2 May 2017.

In relation to IT, the Bank was now seeing positive trends in the use of the new technology deployed, following the move to the North Wall Quay building. Managed print indicated a reduction of approximately 30% on a month-by-month comparative basis; the new remote access system was receiving very positive feedback from staff operating in regulated entity offices or travelling and connecting back to the office; there was also evidence of increased network usage during commuter time in both the morning and evening. While the Bank was not targeted in the attack, he updated the Commission on its response to the recent global WannaCry ransomware incident. At a recent meeting of non-executive members of the Commission, it was proposed that the Commission be provided with an external advisor on IT Security issues. This was agreed.

The rollout of the ES2 €50 banknote commenced on 4 April 2017 and remained on schedule. To date the Bank had issued circa 16.12m ES2 €50 notes with no issues reported regarding acceptance of the new notes by the public and cash handling machines.

The Commission noted the Chief Operations Officer's Report.

9. Financial Stability

Mr O'Brien introduced this item. The Bank would shortly publish its bi-annual Macro Financial Review. It would note that the external environment was more uncertain and, while the general outlook for domestic economic growth was positive, credit growth remained subdued. There was a series of potentially mutually reinforcing risks present in the external environment, related to abrupt re-pricing in fixed-income markets, structural challenges in the European banking sector, public and private debt sustainability, and the potential for spillovers from the non-bank financial sector.

Domestic vulnerabilities had reduced in recent years but remained elevated, especially if interest rates were to rise sharply. The SME and corporate non-performing loan (NPL) rate was declining, but gross lending to such entities was low. The household debt ratio also continued to fall. The higher rate of residential house price growth in recent months and the lack of supply was still a key issue. Commercial real estate prices and returns were still relatively strong in the international context, but had been easing.

Bank profits were lower over the last year, with loan books contracting and becoming more concentrated. There remained a need to generate sustainable levels of income against a still shrinking loan book and a potentially more expensive funding profile in common with the overall euro area situation. The funds sector continued to expand; due to its continued low degree of interconnectedness with other domestic sectors, there was a minimal potential for spillovers into domestic financial stability. The insurance sector across different segments faced varying challenges, given the low interest rate environment, claims uncertainty and underwriting losses.

The Governor noted that the overall base case was that of an improving economy, but it was important the Bank provided such risk scenarios. In the discussion that followed, one member suggested that the Commission would benefit from examining a broader range of risks, including those of an economy that may expand at a faster rate than anticipated. This would have implications for policy, including the Bank's own macro-prudential policy. A wide range of issues relating to the housing market was raised by members. These included: some concerns around developments in the housing market, which remained somewhat imbalanced as between supply and affordability; and a suggestion that it would be useful to examine if the housing market was in a transitory state, boosted by cash buyers who would fall out of the market at some point. Other members raised the risks related to Brexit and the non-bank sector. The Governor noted that the re-structuring of the economics function of the Bank would allow for an expansion of modelling work and consideration could be given to the best way of facilitating discussion of the strategic issues mentioned by members at the Commission. Mr McGuire said that the new Financial Stability directorate would be examining a number of relevant issues, and would return to the Commission on those, as well as considering the format and content of future presentations.

The Commission noted the Financial Stability Update.

10. Insurance Supervision

Ms Cronin introduced this item. She updated the Commission on developments in Insurance Supervision, focusing on the key priorities of the Directorate in 2017. One of the biggest challenges was the potential impact and the increased workload arising from Brexit. There had been a material increase in the number of enquiries from undertakings seeking to establish for the first time in Ireland, or existing regulated undertakings proposing a group restructure. The focus was on ensuring all new applications met Bank authorisation criteria, and that existing undertakings adequately considered the impact Brexit could have on all aspects of their business model.

Under Solvency II, the Bank was now gathering more data on insurance firms than before. Embedding analytics within supervisory processes and decision-making was another key priority. A number of the firms supervised by the Insurance Directorate wrote business through branches outside of Ireland. Branch inspection activities were being re-designed with a particular focus on the key business risks and effectiveness of control frameworks. This also included the further development of constructive relationships with other EU regulators. The Bank was also developing its on-site supervision activities by performing in-depth or thematic inspections.

In the current environment, there was a heightened risk of IT systems failure and cyber security events such as data theft or destruction. An IT and Cyber Risk Strategy had been developed for the Directorate. The Directorate also actively contributed to the cross-Bank IT & Cyber

Strategy working group. This was in addition to other collaborative initiatives, including with the Consumer Directorate. There had been a material increase in the volume of business being underwritten on a Freedom of Service (FOS)/Freedom of Establishment (FOE) basis in Ireland, particularly in the area of motor insurance. The Bank's focus in this regard included gaining a greater oversight of such inwards providers, enabling the identification of key emerging risks, and enhancing supervisory dialogue with relevant European regulators.

The Commission welcomed the update and commended the Insurance Directorate on the various initiatives. One member asked if the manner in which the Bank was pro-actively inspecting branches located outside the jurisdiction, and working with other supervisors in that respect, was unusual in Europe. Ms Cronin confirmed it was and said the Bank would be very willing to engage with, and support, any other European supervisors if they took a similar approach to branches located here, for which they had regulatory responsibility. She noted that some new procedures adopted by the European Insurance and Occupational Pensions Authority (EIOPA), on foot of Irish concerns, was helping drive increased cross-European engagement.

The Commission noted the Insurance Supervision Directorate update.

11. Organisation Review – Closure Report

Mr Quinn introduced this item. The Organisation Review Programme had taken place over a considerable timescale. Notwithstanding the changing landscape and various challenges along the way, the programme had delivered significant achievements. These included: the development of role profiles for all roles; the restructuring of a number of business areas, including reducing the number of reporting layers and increasing managerial spans of control; the development of a career framework, incorporating job families and a career path for specialists; and the development of recognition policy and a clearly articulated employee value proposition. A new reward framework was also developed; a proposal to implement the new model did not proceed given the Bank's obligations under FEMPI legislation. From mid-2014 when the Programme formally commenced, to mid-2017 when it closed, externally sourced technical expertise cost €2.73m, and the estimated internal resource costs were €2.72m. The assessment of full value realisation would only emerge over time; however, the work undertaken should ultimately have positive impacts on recruitment, retention and mobility rates, and on the overall ability of the Bank to manage organisational change. It was noted that it had been necessary to defer the implementation of a new reward model; the question of whether this was required would likely re-emerge post the current public service pay discussions. Mr Quinn noted the considerable effort that went in to the Programme and that it had laid sound foundations; however, the benefits were yet to be fully exploited. The areas of focus now were around ways of working and further developing leadership capability.

The Commission acknowledged the significant work that went into the Organisation Review. It was proposed that a review be undertaken in two years' time to ascertain its overall impact on the organisation and that this is reported back to the Commission. This was agreed.

The Commission noted the Organisation Review Closure Report.

12. Fusion Update

This minute is partially omitted as it contains commercially sensitive information.

Mr Molumby introduced this item, which was to update the Commission on the Fusion Programme. The current focus of the Programme was to address the outstanding issues and ensure a smooth and complete transition to business as usual in the new campus. The construction programme had achieved the key contractual milestone of substantial completion and the focus was now on progressing the snagging activities. The new North Wall Quay building, including the core technologies, had been very well received by staff and there were no material issues. The operations programme remained actively engaged with divisions to ensure a smooth transition to the new working environment. The property sales programme had completed the decommissioning of Iveagh Court and the Dame Street buildings; the contents had been disposed of in line with the Bank's Asset Disposal Policy. The anticipated overall total outturn cost estimate continued to remain within the approved budget envelope. Previous 'high impact' risks were no longer applicable and the overall risk rating for the Programme had been reduced to 'medium'. The Programme closure process had commenced and was expected to be ongoing for a number of months.

The Commission acknowledged the smooth transition to the new campus and expressed its thanks to the Fusion team.

The Commission noted the Fusion Programme Status update.

13. Artwork at North Wall Quay Building

This minute is partially omitted as it contains commercially sensitive information.

Mr Molumby introduced this item. In order to secure planning compliance in 2014 from Dublin City Council, the Bank agreed to commission an artistic piece at the north-east corner of the North Wall Quay premises. The procurement process for the selection of the art piece was compliant with the relevant Office of Public Works (OPW) guidelines. A selection panel of practitioners was established to recommend an art piece.

The Commission endorsed the recommendation of the selection panel; approved the expected cost; and noted that the cost was included in the overall Fusion Programme budget forecast.

14. Fusion Supplementary Budget

Mr Ahearne noted that this item had been considered at the meeting of the Budget and Remuneration Committee on 29 May 2017. The 2017 approved Fusion Investment Envelope budget totaled €8.6m. When this was originally set in 2016, it was anticipated that more spend on the programme would have been incurred in 2016, and accordingly the budgetary requirement in 2017 would be lower. However, that did not transpire, and accordingly the level of spend in 2017 was higher than anticipated. This was timing related, and did not impact on the overall programme budget. He confirmed that the Committee had agreed to recommend to the Commission the approval of a supplementary budget to cover the 2017 spend.

The Commission approved a supplementary budget for Fusion of €9.5m.

15. Financial Regulation Structures

The Governor introduced this item. He recalled that the Commission had previously discussed proposed new financial regulation structures at seminars on 24 March and 15 May 2017. In addition, external legal advice had been provided, and the Governor had written to the Minister for Finance informing him of the proposed new arrangements.

Due to the expanded mandate of the Bank and the shift to a more intrusive method of supervision, the scale of financial regulation activity had sharply increased in recent years, with headcount within the financial regulation pillar increasing from about 500 in 2010 to around 750 in 2016. In addition, the level of European engagement required of the financial regulation pillar of the Bank had also been transformed in recent years. The internal and external workload now imposed on the Deputy Governor (Financial Regulation) was substantially more onerous than it had been at any other time. Accordingly, the Governor was now proposing to organise the financial regulation pillar of the Bank into two separate parts. First, a Prudential Regulation pillar to consist of the directorates of: Credit Institutions; Insurance; and Asset Management. Second, a Financial Conduct pillar to consist of the directorates of Consumer Protection, Securities and Markets, and Enforcement. The Policy and Risk Directorate would report to both pillars of Financial Regulation but will be part of the Financial Conduct pillar for administrative purposes.

The Prudential Regulation pillar would be led by the statutory Deputy Governor (Financial Regulation), whose title would be changed, subject to the consent of the Minister for Finance and the approval of the Commission, to that of Deputy Governor (Prudential Regulation). The Deputy Governor (Prudential Regulation) would be a member of the Commission and be responsible for the Bank's representation at the Single Supervisory Mechanism, the European Banking Authority and the European Insurance and Occupational Pensions Authority. The role holder would also represent the Bank, in addition to the Governor, at the European Systemic Risk Board. The Financial Conduct pillar would be led by the new non-statutory position of the Director General (Financial Conduct). The Director General (Financial Conduct) would be responsible for the Bank's representation at the European Securities and Markets Authority. Although the Director General (Financial Conduct) would not be a member of the Commission, the Director General (Financial Conduct) would provide reports at each Commission meeting and be fully available to the members of the Commission.

Internally, both the Deputy Governor (Prudential Regulation) and the Director General (Financial Conduct) would report directly to the Governor and be members of the Governor's

Committee, the most senior executive committee in the Bank. In addition, a new Financial Regulation Oversight Committee would be formed to ensure effective coordination of the regulatory work of the Bank.

In the discussion that followed one member, while noting the various advantages of the proposed arrangements, expressed concern at the proposal. While welcoming the legal advice provided, the advice did note that while the Commission could delegate authority, it could not delegate statutory powers. Some powers by statute resided with the Deputy Governor and it would not be possible to delegate that responsibility. The new arrangements would effectively remove a decision making voice from the Commission table on financial conduct issues and, while the Governor would now represent that voice at the table on such issues, this was effectively adding to the already wide responsibilities of the Governor. The same member was not convinced that the management issue could not be addressed by keeping the existing role of Deputy Governor (Financial Regulation) and creating a new role of Assistant Deputy Governor (Financial Regulation) to help manage some of the responsibilities. It was necessary to acknowledge that the proposed Director General position would not have statutory responsibilities and that was reflected in the proposed remuneration arrangements. Another member also expressed some concerns and a preference that, if possible, any changes would be legislated for.

Other members spoke in favour of the proposal on the basis of the need to manage the expanded mandate and responsibilities of the Bank in an efficient manner while recognising that there were some risks that needed to be mitigated. Another member asked if the arrangements surrounding the reporting lines of the proposed Director General (Financial Conduct) position could be reviewed over time and, if necessary, amended. The Governor confirmed that this was possible as the role was non-statutory and that this would be clearly stated in any contract. He also said he would return to the Commission with an updated Plan of Assignment of Responsibility so as to document the assignment of certain of the Bank's functions to the Director General (Financial Conduct) and that he would ask the Commission to update its current framework of delegations of responsibility to incorporate the updated Plan.

Mr Ahearne, as Chair of the Budget and Remuneration Committee, informed the Commission that the Committee had, at its meeting on 29 May 2017, considered the remuneration that might apply to the relevant roles should the Commission approve the proposals. The Committee was recommending to the Commission that the salary to be applied to the Deputy Governor (Prudential Regulation) be calculated on the same basis as that of the Deputy Governor (Central Banking) i.e. a single point scale and a ratio of 1.00 to 1.15 with the salary of the Governor. This calculation sets the salary at €227,370 per annum. It was further recommended that the salary to be applied to the Director General (Financial Conduct) be calculated at a single point salary scale and a salary ratio of 1.00 to 1.20 with the salary of the Governor. This calculation sets the salary at €217,897 per annum. The difference in salary was in recognition that the Deputy Governor for Prudential Regulation is a member of the Commission.

The Governor thanked the Commission for their contributions to the discussion. He recognised there was a necessity to balance the risk factors identified and said the concerns expressed were reasonable and it would be necessary to keep track of those; however, he saw significant net benefit in the proposals and requested the Commission's approval of them.

The Commission, by consensus, approved a proposal to create a new role within the Bank for a person with responsibility for Financial Conduct (the "Director General (Financial Conduct)"); approved a proposal to commence a competition to recruit a Director General (Financial Conduct); approved a proposal to commence a competition to recruit a person to the role of Deputy Governor (Financial Regulation); approved a proposal to change the title of the Deputy Governor (Financial Regulation) to the Deputy Governor (Prudential Regulation); and noted that the Governor will return to the Commission with an updated Plan of Assignment of Responsibility so as to document the assignment of certain of the Bank's functions to the Director General (Financial Conduct) and that the Governor will ask the Commission to update its current framework of delegations of responsibility to incorporate the Governor's updated Plan of Assignment of Responsibility.

16. Risk Appetite Statement

This item had previously been considered by the Risk Committee at its meeting on 28 April 2017.

The Commission approved the Risk Appetite Statement.

17. Investment Portfolios – Annual Review

This item had previously been considered by the Risk Committee at its meeting on 28 April 2017.

The Commission approved Investment Portfolios – Annual Review.

18. AnaCredit Project

This minute is partially omitted as it contains commercially sensitive information.

Mr McElligott introduced this item. The ECB Analytical Credit Dataset (AnaCredit) project was a legally mandated project to set up a dataset containing detailed information on individual bank loans granted to legal entities, harmonised across all Member States. Each national central bank (NCB) was responsible for implementing the AnaCredit Regulation in its respective country. The project would be delivered in four stages, with the first stage planned for delivery in Q4 2017. The full dataset must be transmitted to the ECB by 9 November 2018.

The Commission noted the ECB Analytical Credit Dataset (AnaCredit) Project; and approved the implementation of the AnaCredit Project and the external expenditure.

19. Proposed Treatment of Profit on Sale of Dame Street Complex

Mr Ahearne noted that this item had been considered at the meeting of the Budget and Remuneration Committee on 29 May 2017.

The Committee had agreed to recommend to the Commission, in keeping with the treatment of premises-related costs which are partly borne by industry via the levy, that any gains from the sale of the Dame Street complex of premises be factored in to the levy. This would be on the basis of detailed calculations accounting for depreciation charges and average resources deployed since the levy process was introduced in 2004, and a further top level adjustment based on relative funding rates. The income attributable to industry would be offset against the 2017 cost of financial regulation, and levies reduced accordingly based on the 2017 contribution levels.

The Commission approved the recommendation that industry be granted a share in gains on sale of the Dame Street complex, based on the calculations set out in Paper No. 157 of 2017.

20. Budget Outturn to 31 March 2017

This item had been considered at the meeting of the Budget and Remuneration Committee on 29 May 2017.

The Commission noted the Budget Outturn to 31 March 2017.

21. Provisional Statement of Accounts to 31 March 2017

This item had been considered at the meeting of the Audit Committee on 29 May 2017.

The Commission noted the Provisional Statement of Accounts to 31 March 2017.

22. Superannuation Fund Performance Report to 31 March 2017

The Commission noted the Superannuation Fund Performance Report to 31 March 2017.

23. Minutes of Sub Committees

The Commission noted the minutes of the Budget and Remuneration Committee meeting of 27 February 2017; and of the Audit Committee meeting of 27 February 2017.

24. Any Other Business

There was no other business.

The meeting concluded.