



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Gabriel Makhlouf
Gobharnóir / Governor

Deputy John McGuinness
Chair
Joint Committee of Finance, Public Expenditure and Reform, and Taoiseach
Leinster House
Dublin 2
D02XR20

22 April 2024

Dear chair,

I attach responses to the outstanding issues raised by members during my last appearance at the Committee.

I hope that the attached information is helpful.

Yours sincerely,
A handwritten signature in purple ink, appearing to read 'Gabriel Makhlouf', with a long horizontal line underneath.

Gabriel Makhlouf

Appendix

1. Details of the Central Bank of Ireland's Investments and Investment Exclusion Policy

The Central Bank's Investment Assets

The Central Bank held approximately €17bn of Investment Assets at the end of 2023, mostly invested in government bonds and other high quality fixed income instruments issued by multilateral development banks, supranational organisations and government-linked agencies.

The Central Bank also invests in publicly listed equities, on a passive basis that captures the broad market's exposure, which account for approximately three per cent of the Central Bank's Investment Assets. An external investment manager passively manages the Central Bank's equities mandates on our behalf. This means that the manager tracks the composition and performance of global equity indices as closely as possible. The Central Bank directs the indices that are to be tracked by the external manager.

The Central Bank's Approach to Sustainable Investing

The Central Bank has implemented a number of sustainable investment measures applicable to the Investment Assets in recent years, most notably with the establishment of a Sustainable Investment Charter in 2022. The purpose of this Charter is to guide the Central Bank in considering how sustainable investment principles will apply to our own investment practices. The effects of climate change are a strategic focus in this first iteration of the Charter.

The Central Bank also implemented an expanded Sustainable Investment Exclusion Policy in 2022 applicable to corporate investments held in the Investment Assets. This policy resulted in the exclusion of coal companies (that derive one per cent or more of their revenues from coal mining, extraction, distribution or refining¹); companies that violate the United Nations Global Compact (UNGC) principles,² and, companies involved in the manufacture of prohibited/controversial weapons - as defined in relevant international treaties in addition to the pre-existing exclusion of Tobacco companies.

¹ This exclusion criteria also captures companies that derive 1% or more of their revenues from thermal coal power generation.

² The [UNGC principles](#) are derived from the United Nations' Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

In order to improve the carbon footprint of the Central Bank's Investment Assets and support the Paris Agreement objectives, we began, in late 2023, to replace the Central Bank's conventional equity benchmark (MSCI World) with an EU Paris-aligned benchmark (EU PAB)³. The minimum baseline exclusion requirement of the EU PAB is to remove Controversial Weapons, ESG Controversies, Environmental Harm and Tobacco. The EU PAB also contains the following fossil-fuel activity-based exclusions based on companies' revenue: Thermal Coal Mining (if activity is greater than one per cent); Oil (greater than ten per cent), Gas (greater than 50%) and Power Generation (50% or more of revenues from electricity generation with a GHG intensity of more than 100 gCO₂e per kWh).

As reported in the Central Bank's inaugural climate-related financial disclosures in March 2023, the Central Bank has set a target to achieve full alignment with the EU PAB for its equity investments in a progressive fashion and by no later than 2026. So, in the meantime, the Central Bank's equities mandate is transitioning from one that is managed via the tracking of the MSCI World Index to one that is tracking the MSCI World EU PAB Overlay Index, meaning that over the period the Central Bank will hold elements of both benchmarks.

In addition, since 2018, external investment managers appointed to manage our equities portfolio are required to be signatories of the UN-sponsored Principles for Responsible Investing (UN PRI).

Finally, in recent years, the Central Bank has been increasing investments in Green, Social and Sustainability (GSS) bonds that support the green transition and other environmental/social objectives. At the end of 2023, the Central Bank's Investment Assets held approximately €1.4bn nominal in such bonds.

As noted above, the Central Bank's equities mandate is currently comprised of two separate portfolios: one that is managed via the tracking of the MSCI World Index and one that is tracking the MSCI World EU PAB Overlay Index. Both portfolios exclude controversial weapons, while neither of the benchmark indices nor the Central Bank's portfolios currently

³ The Regulation on the EU Climate Transition Benchmarks (2019) created two new categories, or labels, of climate-related benchmarks. The EU climate transition benchmark (EU CTB) which brings the resulting benchmark portfolio on a decarbonisation trajectory; and the EU Paris-aligned benchmark (EU PAB) which brings the resulting benchmark portfolio's carbon emissions in line with the Paris Climate Agreement target to limit the global temperature rise to 1.5C° compared to pre-industrial levels. The EU PAB has an immediate carbon intensity reduction of 50% vs. the parent index and aims to achieve an average reduction per annum in greenhouse gas intensity of 7% of the parent index relative to the greenhouse gas intensity at the base date.

contain specific exclusions in relation to the Occupied Territories. However, any companies that are recognised as in violation of the UNGC principles would be excluded.

The exclusion criteria applied to both portfolios can be summarised as follows:

Exclusion criteria	MSCI World EU PAB Overlay	MSCI World
Controversial Weapons	✓	✓
UN Global Compact Principles	✓	✓
OECD Guidelines for Multinational Enterprise	✓	X
Fossil Fuels-related revenue:		
Coal	✓	✓
Oil	✓	X
Gas	✓	X
Greenhouse Gas-intensive electricity production	✓	X

As mentioned above, the Central Bank operates a passive equity investment mandate, which is managed by an external equity asset manager. As at the end of 2023, the Central Bank’s total equities investment mandate equated to approximately €450m.

At the end of 2023, approximately five per cent of the MSCI World portfolio was invested in fossil fuel-related stocks, or four per cent in aggregate across both the MSCI World and MSCI EU PAB portfolios (based on the sum of weights in the Energy, Gas Utilities and Multi-Utilities industry sector and sub-sectors). By 2026 at the latest, it is expected that fossil fuel-related investments will be effectively eliminated.

The Central Bank’s exclusion policy does not have any specific criteria in relation to the Occupied Territories. Assessing the extent to which the Central Bank has investments in companies that may have activities in the Occupied Territories is operationally challenging, as there is no consistent methodology for determining the precise geographical distribution of the full set of activities of companies included in the MSCI World and MSCI EU PAB indices.

The Office of the United Nations High Commissioner for Human Rights (OHCHR) has produced a list of companies with certain business activities in the OT⁴. In the Human Rights Council Resolution 31/36, adopted in 2016, the United Nations High Commissioner for Human Rights was requested to produce a database, of business enterprises engaged in certain activities in relation to Israeli settlement activity in the Occupied Palestinian Territory, and to update it annually.

Nevertheless, there are limitations with relying solely on the OHCHR list to determine companies that may have activities in the Occupied Territories. For example, the OHCHR list is not updated frequently to respond to changing circumstances. The first iteration of the database was released in 2020, and there were no additional updates prior to the published updated database in June 2023. Further, the June 2023 update addressed a finite period up to 31 December 2022 only. Finally, and as noted in the June 2023 update, the OHCHR noted that the update does not purport to provide a complete list of business enterprises engaged in the specified activities addressed in the HRC Resolution 31/36.

At the end of 2023, the Central Bank's equity investments in companies that are listed on the latest available version of the OHCHR database can be summarised as follows:

- The Central Bank's total investments in companies on the OHCHR database are **€2.38 million**, which accounts for **0.014%** of the Central Bank's total Investment Assets.
- Of that, **€2.19 million** or **0.013%** of total Investment Assets are **international companies**, with the remaining **€0.19 million** or **0.001%** of the Central Bank's total Investment Assets are companies **listed on the Israeli stock exchanges**.⁵
- Like all of our investments, these are subject to ongoing review.

⁴ The OHCHR provides a database of all business enterprises involved in the activities detailed in paragraph 96 of the report of the independent international fact-finding mission to investigate the implications of the Israeli settlements on the civil, political, economic, social and cultural rights of the Palestinian people throughout the Occupied Palestinian Territory, including East Jerusalem.

⁵ The Central Bank's total investments in Israel-listed equities accounted for approx. €500,000 or 0.003% of the Central Bank's total Investment Assets. The difference is because not all of the Israel-listed companies in the Central Bank's equity portfolio (tracking the MSCI World and MSCI EU PAB indices) are listed on the latest available version of the OHCHR database.

2. Details of Central Bank Spending on Fraud Awareness Campaigns

In November 2023 the Central Bank of Ireland ran a consumer information campaign aimed at empowering consumers to avoid financial scams. The campaign used video, radio and infographic content to give consumers the information they need on how to protect themselves from financial scams. This was promoted organically and by using paid media, on national and regional radio, and on digital channels (including Instagram, YouTube, Twitter and LinkedIn), to reach target audiences at scale. A large portion of the digital assets (video and social media posts) were created in-house. The radio ad recording cost approx. €1,000 with advertising spend across all channels costing approximately €45,000. This is the total spend on fraud awareness campaigns by the Central Bank in 2023. The previous campaign, of which the Committee is aware, was conducted in July 2022.

Our two campaign videos have been watched 198,000 times and the online campaign has garnered 566,000 impressions. At least 45% of all Irish adults heard our fraud awareness radio ads at least once and survey results show that 21% of all adults were aware of this campaign. While further calibration of such campaigns will improve reach and effectiveness, we are satisfied that our November 2023 campaign represents good value for money.

The Central Bank has set aside a budget for further consumer awareness campaigns in 2024. This will be allocated across a range of consumer-relevant issues, and fraud awareness will form part of the mix.

3. The Central Bank's Role in Respect of the Irish Bank Resolution Corporation

On 7 February 2013, a Special Liquidation Order was made pursuant to section 4 of the Irish Bank Resolution Corporation Act 2013, in respect of Irish Bank Resolution Corporation Limited (IBRC) and joint special liquidators (JSL) were appointed. This led to the revocation of IBRC's credit institution licence. Pursuant to the Irish Bank Resolution Corporation Act 2013 (the IBRC Act), the Special Liquidator of the firm is under the jurisdiction of the Minister of Finance, not the Central Bank of Ireland. Given that IBRC has had its banking licence revoked, the Central Bank has a limited role in relation to the oversight of the winding down of its banking activities. While the revocation of the banking licence inevitably curtails the role of the Central Bank in relation to IBRC, the Central Bank still has a role in considering requests from the Special Liquidators, as are necessary for winding up IBRC.

The Central Bank considers requests from the Special Liquidators on a bi-annual basis in respect of (i) authorisation to continue to provide particular 'Excluded Activities' which allows for the winding up of the entity and (ii) exemptions from the Fitness and Probity requirements for the Special Liquidators.

These 'Excluded Activities' include entering into derivative transactions where the JSL deem it necessary to manage the impacts of currency risk on asset values

4. Complaints from Customers of Financial Services Firms

We note the information provided by the Committee on a number of issues affecting individual consumers. This information has been shared with the relevant supervisory teams in the Central Bank for review and consideration as part of our supervisory engagement with firms. Please be assured that the Central Bank actively considers all information received in relation to individual firms as hearing directly from consumers and their representatives about their experience, informs our work and our supervision of financial firms.

While the Central Bank will review and consider the information provided in the context of our supervisory engagement with firms, consumers also have the option of making a complaint, as has been done in these cases. (In one case it would appear that a final response letter was issued to the complainant by the relevant Firm, and in the second case the Firm are progressing a final response letter to issue to the complainant) As set out in the Consumer Protection Code, any consumer who is not satisfied with how a regulated firm is dealing with them in the course of providing a service, can make a complaint directly to the regulated firm. If a consumer is not satisfied with how their complaint is dealt with, they have the option of then making a complaint to the Financial Services and Pensions Ombudsman (FSPO), which is the statutory officer who deals with complaints from consumers about regulated financial service providers and pension providers independently. You will find more information about making a complaint to the FSPO on www.fspo.ie.

In relation to the information provided regarding a tracker mortgage related issue, the Central Bank has previously engaged extensively with the individual concerned and has responded in as far as we possibly can, to the issues raised. As previously outlined to the individual concerned, the Tracker Mortgage Examination Framework (TME) provides that the scope of lenders reviews includes all mortgage accounts that have been sold or transferred to another entity by the lender. Under the Framework, sold mortgage books are the responsibility of the

mortgage originator and not the current owner of the loan. While the TME Framework sets out requirements on Stop the Harm, confirmation on how and why those requirements applied or ceased to apply to an individual case, can only be provided by the relevant lender. The Central Bank does not have a statutory role in investigating or intervening in individual customer cases. As set out above, the FSPO investigates and adjudicates on unresolved complaints from consumers, about their individual dealings with financial services providers, after the internal complaints procedure with the firm concerned has been followed.

5. The Credit Servicers Directive

In relation to the general questions provided which were posed by Edmund Honohan, it is important to note that the Mortgage Credit Directive (MCD) (adopted on 4 February 2014 as part of the EU's efforts to create a single market for mortgages, and against the background of the global financial crisis) was transposed into Irish law on 21 March 2016, as the European Union (Consumer Mortgage Credit Agreements) Regulations 2016, (the "MCRs"). The legislation was aimed towards an EU-wide mortgage credit market with a high level of consumer protection. The legislation built on existing Irish measures in this area including the Consumer Protection Code and the CCMA.

In accordance with these regulations staff of mortgage creditors carrying out relevant functions in respect of mortgage credit agreements (as defined in the regulations), are subject to the requirements of the Central Bank's Minimum Competency Code.

The MCRs were recently amended by the European Union (Credit Servicers and Credit Purchasers) Regulations 2023 (S.I. No. 644 of 2023) (the '2023 Regulations'), which transposed Directive (EU) 2021/2167 on credit servicers and credit purchasers into Irish law. The MCRs now contain a new regulation in relation to forbearance options, which expands upon the existing forbearance provision in the MCRs and a list of possible measures are now included as part of that amendment.

In that regard, we note that the amended Regulation 29 of the European Union (Consumer Mortgage Credit Agreements) Regulations 2016 now requires that:

1. A creditor shall have in place adequate policies and procedures that enable the creditor to exercise, where appropriate, reasonable forbearance measures before enforcement proceedings are initiated, which measures shall take into account, among other elements, the circumstances of the consumer and may include:

- a. a total or partial refinancing of a credit agreement;
- b. modification of the existing terms and conditions of a credit agreement including:
- c. extending the term of the credit agreement;
- d. changing the type of credit agreement;
- e. deferring payment of all or part of the instalment repayment for a period;
- f. changing the interest rate;
- g. offering a payment holiday;
- h. partial repayments;
- i. currency conversions;
- j. partial forgiveness and debt consolidation.

The Central Bank must have regard to the particular facts of each scenario when exercising its supervisory functions. Please be assured that the Central Bank is fully cognisant of its mandate to ensure compliance with the above new regulations and associated measure such as the CCMA.