



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Annual Performance Statement 2017

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PHILIP R. LANE

## FOREWORD *by* Philip R. Lane, Governor

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Our mandate has expanded in recent times. In order to better deliver on the mandate, we re-organised our financial regulation activities during the year. The new structures are designed to ensure that the Central Bank is suitably equipped to meet that expanded mandate. This restructuring into two pillars – Prudential Regulation (led by Ed Sibley) and Financial Conduct (led by Derville Rowland) - provides the Central Bank with strong foundations to carry out its vital financial regulatory mandates.

Allied with a relocation to the Dockland Campus in Dublin during 2017, bringing all regulatory functions together, this supports the strategic and effective delivery of the Central Bank's broad mandate, through increased collaboration and knowledge sharing and also facilitates greater collaboration with the Central Banking pillar. These new structures will be further embedded in the coming year.

As I acknowledged in last year's Annual Performance Statement, the then Deputy Governor Cyril Roux left the Central Bank in April 2017. I would also like to recognise the strong contribution made by Bernard Sheridan as Acting Deputy Governor from 8 April to 31 August 2017.

Looking forward to 2018, in addition to the core regulatory and supervisory work, I have set out below some of the main priorities for the Central Bank:

- The ongoing Tracker Mortgage Examination remains a key objective for the Central Bank.
- We continue to challenge the effectiveness of the underlying culture in banks and it is for this reason, that we will conduct a review of the culture within the five main retail institutions in 2018.

FOREWORD BY  
PHILIP R. LANE, GOVERNOR

- Maintaining and updating the Consumer Protection Framework in areas such as mortgage switching, new measures for Intermediary Inducements and enhancements to the Consumer Protection Code for Money Lenders.
- Ongoing engagement with the European Supervisory Authorities (ESAs) via the Boards of Supervisors and other operational committee meetings will ensure that the Central Bank contributes to the effective development of EU regulation.
- We will continue to fulfil our Single Supervisory Mechanism (SSM) responsibilities, working effectively within the SSM to deliver appropriate supervisory outcomes for Irish banks, notably the reduction of non-performing loan portfolios.
- In 2018, new regulations and directives including MiFID II, PSD2 and the prudential impacts of the new IFRS9 accounting standards and the General Data Protection Regulation (GDPR) will result in a broadening of the supervisory approach, with focus on compliance with MiFID, embedding of Solvency II with a successful transition of Solvency II to “business as usual”.
- Commencement of a range of thematic inspections/reviews, including: lending to SMEs by retail credit institutions; insurance companies selling niche/add-on insurance; payment institutions’ safekeeping of client funds; and retail credit firms’ handling of long-term arrears.
- Driven by Brexit, the Central Bank will deal with a significantly higher volume of firms seeking to establish a presence in Ireland. Supervision of authorised firms will ensure that institutions’ plans are sufficiently robust to address the impact of Brexit, particularly those firms and funds with exposure to the UK.
- Assessing the authorisation applications of firms transitioning from PSD1 to PSD2, and applications from new firms seeking authorisation as a payment institution or electronic money institution under PSD2 as part of the gatekeeper function.
- Assessing the frameworks of firms for Anti-Money Laundering and Combatting the Funding of Terrorism.
- The Central IT Risk Team comes into effect in 2018 with responsibility for conducting on-site inspections and supporting ongoing supervision in the areas of IT and Cyber Risk across all regulated sectors.

In 2018, the Central Bank will continue to deliver on its wide mandate in relation to both prudential regulation and financial conduct in order to safeguard stability and protect consumers.

**Philip R. Lane**  
Governor  
26 April 2018



ED SIBLEY



DERVILLE ROWLAND

## INTRODUCTION *by* Derville Rowland, *Director General, Financial Conduct* Ed Sibley, *Deputy Governor, Prudential Regulation*

### Introduction

Financial services play an essential role in how we live our lives and how the economy operates. From paying for goods and services, to purchasing a home, protecting our families from unforeseen risks and saving for retirement, financial services impact on our day-to-day lives. Recognising the importance of financial services, the Central Bank's mission statement is "Safeguarding Stability, Protecting Consumers". The importance of our mission drives our ongoing commitment to achieving our statutory objectives.

### How we achieve our statutory objectives

To help achieve our statutory objectives, our goal is a financial system that is well-managed, well-regulated, and serves the needs of the economy and consumers over the long-term.

This leads the Central Bank to challenge firms to demonstrate that they:

- have sufficient financial resources, including under a plausible but severe stress;
- are well governed, have an appropriate culture, with effective risk management and control arrangements in place, which are commensurate with their nature, scale and complexity;
- have capitally accretive business models over the long-term;

## INTRODUCTION BY ED SIBLEY & DERVILLE ROWLAND

- can recover if they get into difficulties, and if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs;
- conduct themselves in a manner that complies with applicable legislation and safeguards the integrity of the market;
- comply with required standards and codes including the Consumer Protection Code; and
- develop a positive consumer focused culture and act in the best interests of consumers.

The foundations of our approach include the regulatory framework, our supervisory approach, enforcement and resolution. The regulatory framework is the rules and regulations on which our work is based. Our supervisory approach is effective, intrusive, analytical, outcomes-focused, anchored by the Probability Risk and Impact System (PRISM) and SSM methodologies. It is risk-based, structured and underpinned by the credible threat of enforcement. The approach also includes a framework for recovery and resolution where firms face difficulties.

Our supervisory approach is consistent with European and international good practice. This is important as financial services firms operate in a broader European and International environment. The Central Bank is committed to shaping and influencing the international regulatory framework and environment and plays an active role in European and international fora.

In 2017, the Central Bank continued to enhance its resources in key areas and implemented and embedded significant improvements to its regulatory toolkit. Through enforcement action, the Central Bank continued to hold to account firms and individuals who breach the regulatory framework. We also have defended the integrity of our enforcement processes in the face of challenges by those against whom we have taken action.

In 2017 the Central Bank restructured its financial regulation functions into two distinct pillars: one dedicated to prudential regulation and one dedicated to the regulation of financial conduct. The restructuring reflects the considerable growth in the Central Bank's mandate and the ongoing evolution and increasing complexity of Ireland as a financial services centre, as well as a strengthening of our approach to conduct supervision. The restructuring further complements the Central Bank's longstanding work on, and commitment to, consumer protection.

The ability of the Central Bank to continue to deliver is predicated on our ability to attract and retain experienced, skilled and motivated staff to carry out these important tasks. We would like to thank our teams for their continued hard work and dedication. We would recommend prospective candidates to consider roles in the Central Bank where we contribute to the delivery of a financial system that is well-managed, well-regulated, and sustainably serves the needs of the economy and consumers over the long-term. Working in the Central Bank provides a challenging and rewarding career. There are significant opportunities for professional development with unrivalled exposure to the financial services sector both in Ireland and internationally.

The foundations of our approach include the regulatory framework, our supervisory approach, enforcement and resolution.

## INTRODUCTION BY ED SIBLEY & DERVILLE ROWLAND

### Outcomes for 2017

In 2017, the Central Bank challenged firms to demonstrate the sufficiency of their capital resources, the appropriateness of their governance frameworks including their approach to financial conduct, the sustainability of their business models and development of recovery and resolution plans, and that they are conducting themselves in a manner that complies with applicable legislation and safeguards the integrity of the market. We also continued to assess regulatory applications from firms and approve individuals under the Fitness and Probity regime.

All of this work is critically important to the delivery of our mandate and underpins the outcomes we seek; it is where the majority of our staff spend the majority of their time. Nonetheless, as with any organisation, and in any year, there will always be particular issues, achievements and outcomes that warrant highlighting. In 2017, these include the Tracker Mortgage Examination, Brexit, enhancing the regulatory framework including the Markets in Financial Instruments Directive and the Market in Financial Instruments Regulation (together MiFID II) and Solvency II, and sector specific priorities including non-performing loans (NPLs) and IT risk in firms.

In 2017, we advanced our work on the Tracker Mortgage Examination to the point where the majority of affected consumers have been identified and significant progress was made on stopping the harm to those consumers and ensuring redress is paid. By the end of 2017, €316m had been paid to affected customers. As the largest, most complex and significant consumer protection review undertaken by the Central Bank to date, the Examination has exposed unacceptable failings by lenders on an industry-wide basis and a lack of a consumer-centred culture in lenders. These failings have had a detrimental and, in some cases, devastating impact on tracker mortgage customers, up to and including the loss of their homes. It is clear that all lenders did not sufficiently recognise or address the scale of their failings until the Central Bank intervened. We will persevere with this work until we are satisfied that all affected consumers have been identified and compensated, as well as progressing our related enforcement investigations.

We enhanced our Consumer Protection Risk Assessment (CPRA) model by establishing a new and more intrusive approach for supervisory assessments of regulated firms in relation to how they identify and manage conduct and consumer protection risks.

Our new model enables supervisors to assess how firms' consumer protection risk management frameworks are designed and governed and, importantly, how effective they are in practice at delivering fair consumer outcomes.

As well as the intensive programme of inspections and other supervisory engagements, 2017 saw an increased focus by the Central Bank on gathering and analysing increasingly detailed data about the sectors we regulate, as well as further work on the resolution of NPLs. We implemented MiFID II and continued to embed Solvency II.



## INTRODUCTION BY ED SIBLEY & DERVILLE ROWLAND

We also committed resources to ensuring that Irish-resident financial firms with UK exposures are making adequate preparations for Brexit including a possible 'hard' Brexit. Brexit has led to a material increase in new applications and changes to business models of existing firms. This will drive an expansion in both the size and complexity of the internationally-orientated section of the Irish financial services industry. We have, and will continue to adopt, an approach of transparency, rigour and pragmatism in respect of Brexit applications.

While the financial services regulatory regime, properly applied by firms, provides a solid prudential framework, firms can and do fail. This is why we require the management bodies of firms to tackle the prospect of failure in a realistic and responsible manner. In 2017, this included requiring significant improvement in the recovery plans of a number of key financial institutions. Restructuring of the credit union sector continued during 2017 with the aim of transferring weaker and non-viable credit unions to larger, stronger credit unions, supporting the protection of members' savings and continuation of credit union services for members.

Our work is conducted as part of an EU regulatory framework operating within the context of an international financial system. In this regard, we continue to place an important focus on influencing developments through our contributions to the SSM and the ESAs in order to develop the regulatory framework, drive supervisory convergence and improve international standards for regulation globally. We see the development of a strong framework of regulation at European and international level as central to the success of our work here in Ireland to drive cultural change and ensure that financial services deliver for our society.

### Objectives for 2018

In 2018, our approach to regulation will continue to be intrusive and outcome-focused, supported by strong analysis and proactive engagement at domestic, EU and international level to enhance the regulatory framework and advance towards a more consumer-focused culture in financial services. We will be ambitious in our goals to see that the highest standards are set and met. We will continue to enhance our use of data analytics to improve supervisory outcomes and strengthen our framework for supervising conduct in the fields of consumer protection and wholesale markets. This will include assertive and intrusive supervision and a robust approach to enforcement.

The Central Bank's priorities for 2018 include: core supervisory activity; on-site inspection activity; strengthening the Central Bank's approach to the delivery of its financial conduct mandate; the Tracker Mortgage Examination; driving forward a consumer and risk focused culture agenda, including diversity in regulated firms; Brexit; financial innovation; and the use of data analytics to enhance our supervisory approach.

We see the development of a strong framework of regulation at European and international level as central to the success of our work here in Ireland to drive cultural change and ensure that financial services deliver for our society.

We will also focus on sectoral priorities. For credit institutions, this will include monitoring reductions in NPLs towards more normalised levels, capital adequacy and the EBA stress test. For credit unions, consistent with proportionality, we will refine our supervisory engagement approach to engage more frequently and intensively with larger credit unions and apply more targeted supervision to smaller credit unions. We will also review the framework for longer term lending and maintain our focus on business model development. The embedding of MiFID II and the protection of client assets remain ongoing priorities in asset management. Within insurance we will continue our focus on both the domestic market and the provision of cross border supervision both into and from Ireland.

The Central Bank has a large and diverse mandate; our people are committed to achieving our goal of having a financial system that serves the needs of consumers and the broader economy.

**Dervile Rowland**  
Director General,  
Financial Conduct

26 April 2018

**Ed Sibley**  
Deputy Governor,  
Prudential Regulation

26 April 2018



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

A photograph of a modern office interior. Two people, a woman and a man, are seated in blue armchairs facing each other, engaged in a conversation. They are holding papers. The background features large windows with blinds and a glass railing. The scene is overlaid with a teal and yellow geometric graphic.

# Overview of Financial Regulation in the Central Bank

# Overview of Financial Regulation in the Central Bank

## 1.1 Legal Framework and Statutory Objectives

The Central Bank was established by the Central Bank Act, 1942 (the Act). The functions of the Central Bank are set out in the Act with the primary objective of the Central Bank being that of price stability. The other statutory objectives of the Central Bank which relate to the regulation of the financial services sector include:

- stability of the financial system;
- proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected; and
- resolution of financial difficulties in credit institutions.

## 1.2 The Central Bank Commission (The Commission)

The Act provides that the activities and affairs of the Central Bank (other than the functions of the European System of Central Banks (ESCB)) are managed and controlled by the Commission. The Commission has the following statutory functions:

- management and control of the affairs and activities of the Central Bank;
- ensuring that the Central Bank's financial regulation and central banking functions are coordinated and integrated; and
- ensuring that the statutory powers and functions conferred on the Central Bank are properly exercised and discharged.

## 1.3 Delegation of Powers and Functions

The Act provides that any of the statutory functions may be delegated by the Commission to the Governor, a Deputy Governor or an employee of the Central Bank.

## 1.4 Members of the Commission

The Governor is the Chairman of the Commission. The other ex-officio members comprise the Deputy Governor, Central Banking, the Deputy Governor, Prudential Regulation and the Secretary General of the Department of Finance (DoF). The Minister for Finance appoints at least six, but no more than eight, other members of the Commission who hold office for a term of five years. Ex-officio members of the Commission remain members for as long they hold the office in question.

## 1.5 Senior Leadership in Financial Regulation

### 1.5.1 Governor

Philip R. Lane is the 11th Governor of the Central Bank, taking office on 26 November 2015. The Governor is appointed by the President, on the advice of the Government, for a term of seven years which may be extended by a further seven years. The Governor is an ex-officio member of the Governing Council of the European Central Bank (the ECB). The Governor, or a substitute, must attend all meetings of the Governing Council. His roles and responsibilities are set out by the European Union (EU) Treaties, the ESCB Statute and the Act.

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

The Governor discharges his ESCB functions independently of the Commission and has sole responsibility for the performance of the functions imposed on him and the exercise of powers conferred on the Central Bank, by or under the EU Treaties or the ESCB Statute. The independence of his role is enshrined in the EU Treaties and takes precedence over Irish law.

### 1.5.2 Deputy Governor Prudential Regulation

Ed Sibley was appointed Deputy Governor, Prudential Regulation on 1 September 2017. He is an ex-officio Member of the Commission and is also a member of the Supervisory Board of the Single Supervisory Mechanism (SSM), the Board of Supervisors of the European Banking Authority (EBA) and the Board of Supervisors of the European Insurance and Occupation Pensions Authority (EIOPA).

As Deputy Governor, Prudential Regulation, Ed is responsible for leading the prudential regulation and supervision of banks, credit unions, insurance undertakings and the asset management industry.

### 1.5.3 Director General Financial Conduct

Derville Rowland was appointed Director General, Financial Conduct on 1 September 2017. She is a member of the Board of Supervisors of the European Securities and Markets Authority (ESMA).

As Director General, Financial Conduct, Derville is responsible for leading the regulation and supervision of firms' consumer and investor protection obligations, securities and markets supervision, enforcement and anti-money laundering supervision and policy and risk.

## 1.6 Internal Governance Structures

There are a number of internal committees through which the Central Bank coordinates the development and implementation of policies and decisions relevant to financial regulation, and advises and informs on major issues.

The internal governance model includes the following committees which are chaired by the Governor:

- **The Governor's Committee** oversees the preparation for Commission meetings and follow-up actions, approves senior appointments and considers other significant strategic issues.
- **The Senior Leadership Committee** ensures alignment of all activities and the successful execution of the Central Bank's strategy through the development and review of the organisational Balanced Scorecard. The Committee ensures the structures and activities across the Central Bank are aligned and coordinated, and focuses on delivering strategic outcomes agreed by the Commission.
- **The Financial Regulatory Oversight Committee (FROC)** ensures effective coordination of regulatory work and related cross-bank policy initiatives. The Committee does not consider ESCB tasks or operational matters.

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

- **The Financial Stability Committee (FSC)** is responsible for monitoring and assessing domestic and international economic and financial developments and for highlighting potential areas of concern in the Irish financial system. The committee's focus is, in particular, on risk mitigation strategies and the consideration, implementation and review of micro and/or macroprudential policy instruments. The role of this committee is both to advise the Governor, and to discuss with and inform key internal management on financial stability issues.
- **The Macroprudential Measures Committee's (MMC)** role is to advise on the regular reviews of macroprudential measures and to make recommendations about maintaining or revising these rules as appropriate. The Central Bank is the designated national macroprudential authority in Ireland. In recent times, several macroprudential measures have been activated via the banking system. These include: borrower-based measures such as mortgage rules; the counter-cyclical capital buffer; the other systemically important institution buffer; and reciprocation of macroprudential policy measures taken by other member states. The scope of the MMC may evolve in line with shifts in the nature of macroprudential interventions in the Irish financial system.

Other high-level committees which consider financial regulation matters include:

- **The Supervisory Committee**, co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct, advises them and relevant supervisory directorates and divisions on issues central to the management of supervisory risks and also on the development and enhancement of risk based supervision and supervisory engagement, including Probability Risk and Impact System (PRISM)<sup>1</sup> matters.
- **The Policy Committee**, co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct, advises them on regulatory policy issues and initiatives including consultation papers, feedback statements, codes, guidelines, and regulations before their adoption in accordance with relevant delegations.

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<sup>1</sup> PRISM is the Central Bank's framework for the supervision of regulated firms. PRISM has been developed to enhance the Central Bank's ability to deliver judgement based, outcome focused supervision.

OVERVIEW OF FINANCIAL  
REGULATION IN THE CENTRAL BANK

1.6.1 European System of Financial Supervision

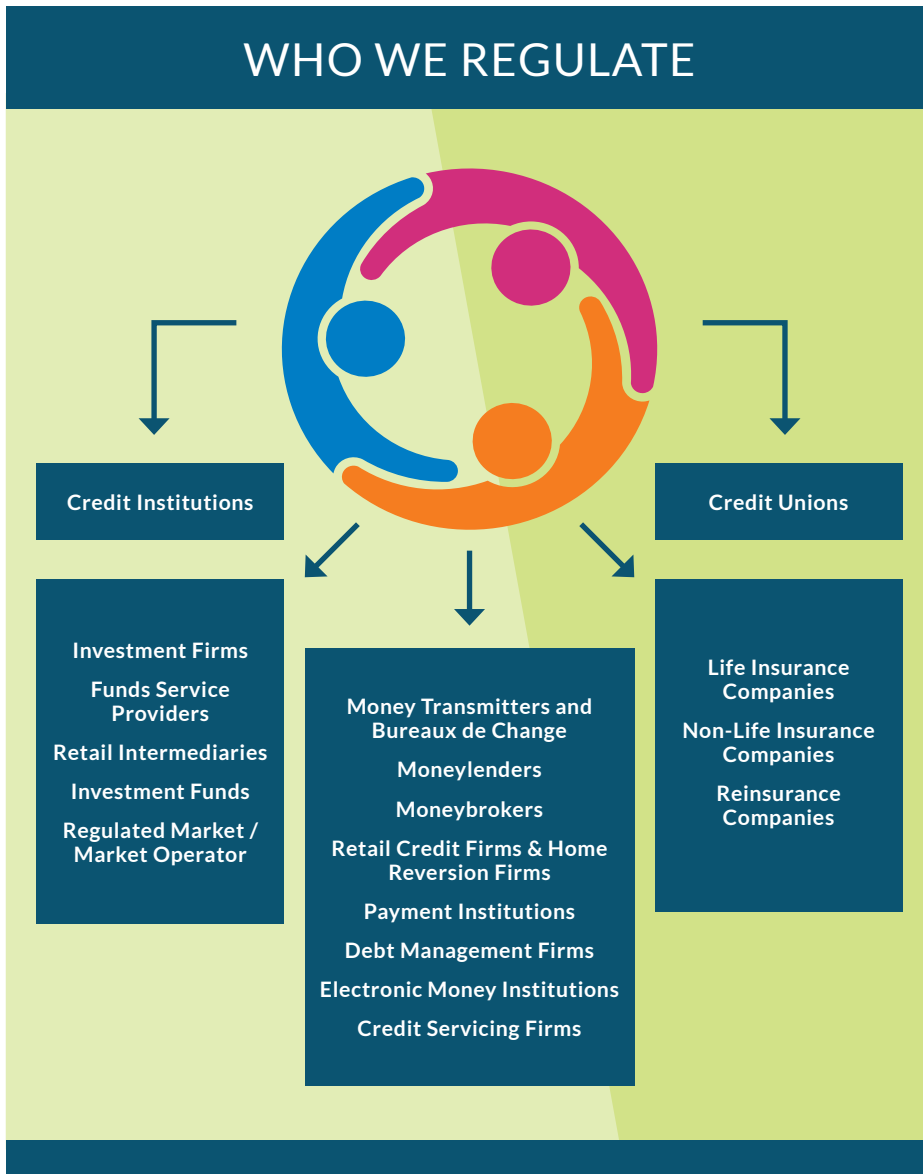
Ireland is part of the broader European System of Financial Supervision. The structure of these institutions are illustrated in **FIGURE 1** below. This includes the European Central Bank (ECB), the Single Supervisory Mechanism (SSM); the European Systemic Risk Board (ESRB); the European Supervisory Authorities (ESAs), including the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA); and National Competent Authorities (NCAs), such as the Central Bank.

**FIGURE 1**  
Structure of the European System  
of Financial Supervision

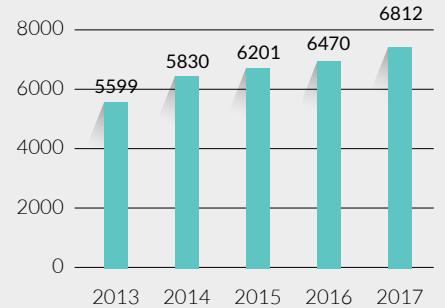


Source: European Commission

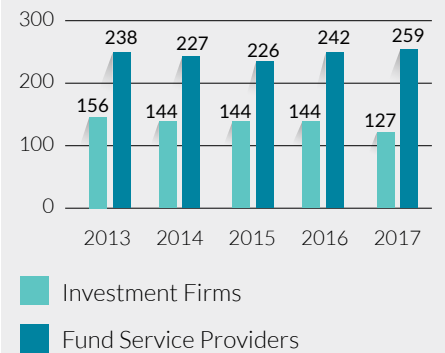
## 1.7 Who the Central Bank regulates



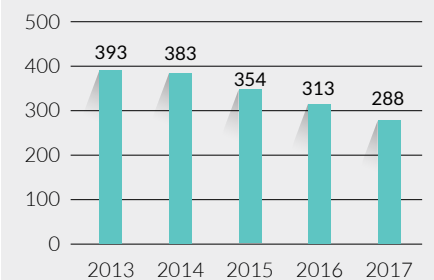
Collective Investment Schemes



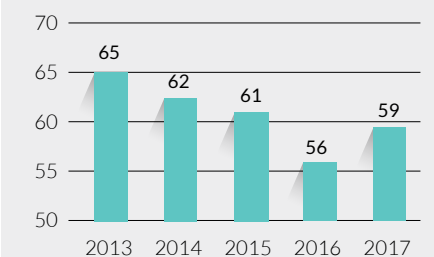
Investment Firms & Fund Service Providers



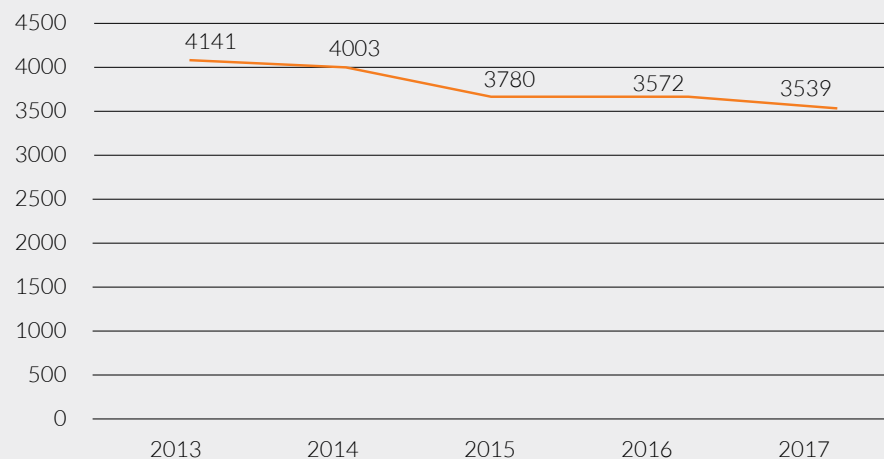
Credit Unions



Credit Institutions



Total Regulated Firms (excluding funds) 2013-2017

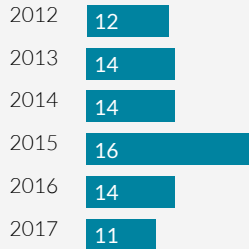




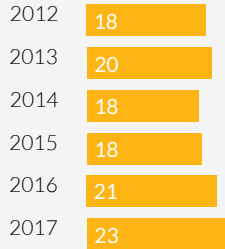
OVERVIEW OF FINANCIAL  
REGULATION IN THE CENTRAL BANK

Other Financial Service Providers

Money Transmitters and  
Bureaux de Change



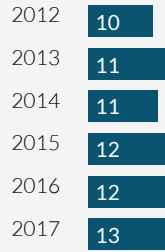
Retail Credit Firms & Home  
Reversion Firms



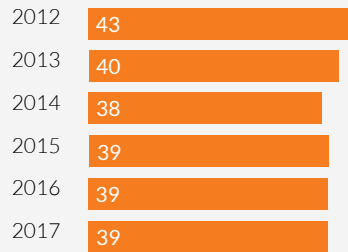
Moneybrokers



Payment Institutions



Moneylenders



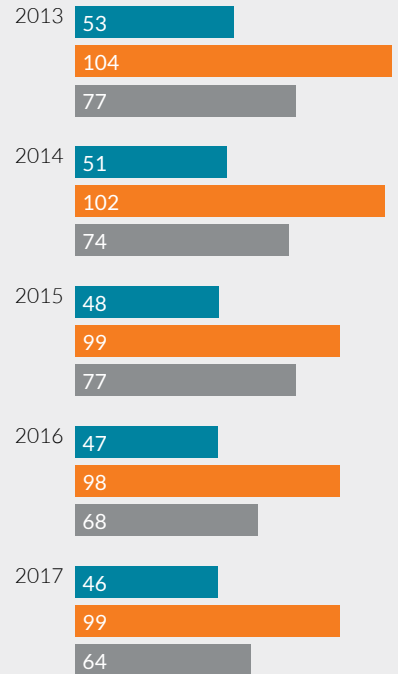
Retail Intermediaries



Debt Management Firms



Insurance



■ Life Insurance Companies  
■ Non-Life Insurance Companies  
■ Reinsurance Companies

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

### 1.8 Organisation Chart – Financial Regulation

Regulation of financial institutions and markets is undertaken through analysis, monitoring and risk-based supervision coupled with the credible threat of enforcement, which is underpinned by the Central Bank's rigorous authorisation procedures, the assessment of applications for approval of persons under the Fitness and Probity (F&P) standards and the development of financial regulation policy. The Central Bank's objectives are to safeguard stability and protect consumers by seeking to ensure that regulated firms:

- act in the best interests of consumers;
- are financially sound and safely managed with sufficient financial resources;
- are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them; and
- have frameworks in place to ensure failed or failing providers go through orderly resolution.

Responsibility for supervision and regulation of financial service providers is allocated over seven Directorates within the Central Bank which report to the Deputy Governor, Prudential Regulation or Director General, Financial Conduct. **FIGURE 3** below shows the Divisions within each Directorate. An overview of the remit of each Directorate is set out below.



OVERVIEW OF FINANCIAL  
REGULATION IN THE CENTRAL BANK

FIGURE 3

Financial Regulation Directorates of the  
Central Bank and their Divisions



Credit Institutions Supervision	Insurance Supervision	Asset Management Supervision	Policy & Risk*	Consumer Protection	Enforcement & Anti-Money Laundering	Securities & Markets Supervision
Vacancy	Sylvia Cronin	Michael Hodson	Gerry Cross	Gráinne McEvoy	Seána Cunningham	Colm Kincaid
Banking Supervision - Supervision	Insurance Supervision	Asset Management - Supervision	Financial Risk & Governance Policy	CP - Supervision	Enforcement - Investigations	Securities & Markets Supervision
Banking Supervision - Inspections	Insurance Advisory, Analytics & Actuarial Services	Asset Management - Authorisations and Inspections	Supervisory Risk	CP - Policy and Authorisations	Enforcement - Advisory	Securities & Markets Authorisations
Banking Supervision - Analysis			Markets Risk		Anti-Money Laundering	Securities & Markets Analytics and Risk
Registry of Credit Unions			Policy & Risk (Horizontal Team)			

\* The Policy and Risk Directorate supports the work of both the Prudential Regulation and Financial Conduct pillars.

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

### 1.8.1 Prudential Regulation Pillar

The Prudential Regulation Pillar is responsible for the supervision of banks, credit unions, insurance undertakings and the asset management industry. The Central Bank's prudential supervision objectives are to protect consumers and financial stability by challenging firms to demonstrate that they:

- have sufficient financial resources, including under a plausible but severe stress;
- are well governed, have an appropriate culture, with effective risk management and control arrangements in place, which are commensurate with their nature, scale and complexity;
- have capitally accretive business models over the long-term;
- can recover if they get into difficulties, and if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs; and
- conduct themselves in a manner that complies with applicable legislation and safeguards the integrity of the market.

#### *Credit Institutions Directorate*

The Credit Institutions Directorate comprises three Banking Supervision Divisions: Supervision, Inspections and Analysis, and the Registry of Credit Unions. Working with and supported by the other Banking Supervision Divisions, the Supervision Division is responsible for the overall risk assessment of the banks, assessing the financial strength of the banks, the effectiveness of their governance and control arrangements, and the sustainability of their business models. Staff within the division work closely with counterparts within the SSM, both at the ECB and in other NCAs.

The Inspections Division is responsible for conducting in-depth investigations of risks, risk controls and governance frameworks within Credit Institutions. These inspections cover risks including Credit, Liquidity, Capital, Operational, IT, Business Model and Internal Governance. The Analysis Division contributes to the effectiveness of prudential decision-making, by providing well-founded expertise on specific areas. The Analysis Division comprises specialist teams focusing on areas including data analytics, internal models, crisis management, stress testing, risk analysis, financial reporting, policy implementation and authorisations.

The Registry of Credit Unions is statutorily responsible for regulating and supervising credit unions, with a view to ensuring the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally.

#### *Insurance Directorate*

The Insurance Directorate comprises two divisions: Insurance Supervision and Insurance Advisory, Analytics and Actuarial Services.

The Insurance Supervision division is responsible for the supervision of over 200 life, non-life and reinsurance companies including the supervision of the domestic and international non-life companies authorised by the Central Bank, the reinsurance companies operating globally from Ireland and the captive (re)insurance industry based in Ireland.

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

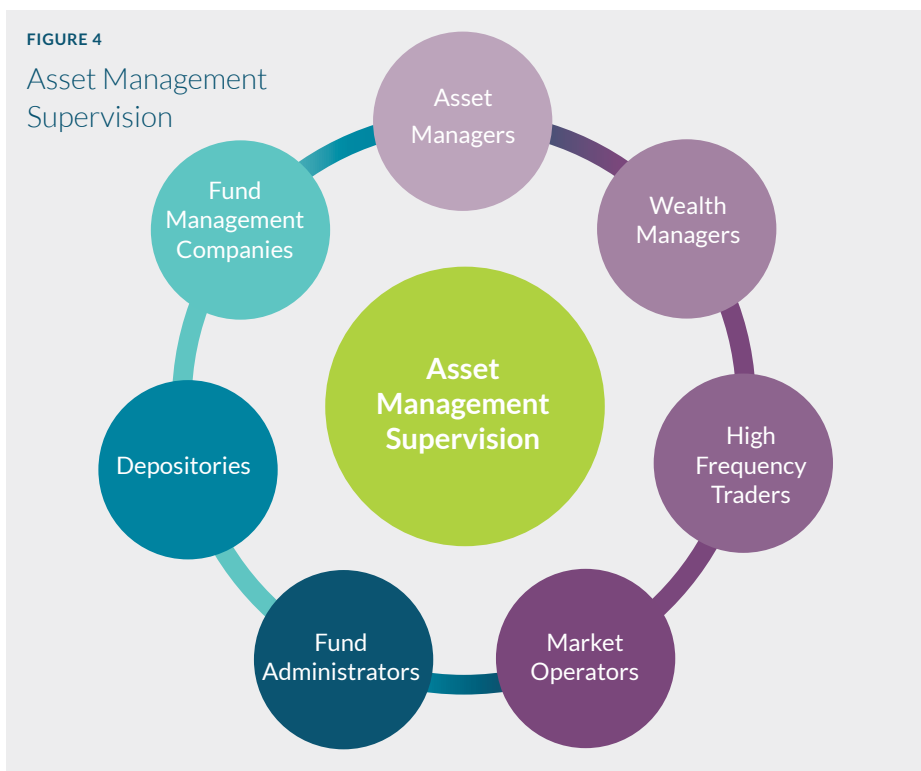
The Insurance Advisory, Analytics and Actuarial Services division comprises three functions as follows:

- Advisory – leads the development of a Supervisory Strategy for the directorate; develops the supervisory framework on an ongoing basis; leads change projects; and assesses applications for authorisation.
- Analytics – builds an analytical capability for insurance supervision designed to support the early identification of trends and developments across the insurance market and steer and guide the supervisory agenda accordingly.
- Actuarial - executes detailed pricing, reserving and capital modelling investigations across the industry to assist the Analytics and Supervisory teams.

### *Asset Management Supervision Directorate*

The Asset Management Supervision Directorate is responsible for the authorisation and prudential supervision of investment firms authorised under the Markets in Financial Instruments Directive (MiFID); non-retail investment business firms authorised under the Investment Intermediaries Act 1995 (IIA); and Fund Service Providers (FSP) authorised under the UCITS Regulations 2011 and Alternative Investment Fund Managers (AIFM) Regulations 2014.

During 2017, the reorganisation of the directorate resulted in the establishment of two new divisions. Asset Management: Supervision Division, which is responsible for all ongoing supervision and Asset Management; Authorisations and Inspections Division, which is responsible for assessing applications for authorisation, inspections, operations and policy implementation.



## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

### 1.8.2 Financial Conduct Pillar

The Financial Conduct Pillar is responsible for overseeing consumer protection; securities and markets supervision; policy and risk; enforcement and anti-money laundering supervision.

#### *Consumer Protection Directorate*

The objective of the Consumer Protection Directorate is to ensure that the interests of consumers of financial services are protected in line with the Central Bank's mission of safeguarding stability and protecting consumers. The Consumer Protection Directorate discharges this objective within the three broad functions of consumer protection policy, gatekeeper and authorisation, and supervision.

Specifically, the Consumer Protection Directorate is responsible for the authorisation of individuals and firms across a number of retail sectors<sup>2</sup>; monitoring compliance by regulated firms with consumer protection and prudential requirements. Robust supervisory action is taken where potential or crystallised risks outside the Central Bank's appetite are identified. Regular research is conducted and, through its policy work, the Directorate seeks to influence and ensure the consumer protection framework is fit for purpose. During 2017, the Directorate also set up a dedicated consumer risk analytics function.

#### *Securities and Markets Supervision Directorate*

The objective of the Securities and Markets Supervision Directorate is to ensure that, within the terms of the statutory scheme of regulation established at an Irish and EU level, there is an effectively supervised securities market. Its vision of an effectively supervised securities market is one where:

- the functioning of the market provides a high level of protection for consumers and investors;
- there is a widespread availability of information which allows market participants make informed decisions based on transparent and reliable pricing;
- market participants have a strong system of internal governance and controls;
- there is trust and confidence to allow the market to fund the economy, stimulate economic growth and contribute to the well-being of consumers and investors; and
- the market is resilient, in that it continues to operate its core functions in stressed conditions.



<sup>2</sup>Payment Institutions, Electronic Money Institutions, Credit Servicing Firms, Retail Credit Firms, Moneylenders, Mortgage Intermediaries and Mortgage Credit Intermediaries, Insurance Intermediaries, Investment Intermediaries, Debt Management Firms, Bureaux de Change, Money Transmission Firms and Home Reversion Firms.

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

The Securities and Markets Supervision Directorate contributes to the delivery of this vision through the following activities:

- authorisation and supervision of investment funds established in Ireland;
- approval of the prospectus required for issuers of securities making offers to the public and/or seeking admission to trading on a regulated market;
- ensuring disclosures to the market required by relevant legislation are made;
- market monitoring and surveillance of market trading; and
- oversight and analysis of regulatory data in order to identify firm specific and macro-level risks to our objectives.

### *Enforcement and Anti-Money Laundering Directorate*

The regulation of financial institutions by the Central Bank is undertaken through risk-based supervision, which is underpinned by credible enforcement deterrents.

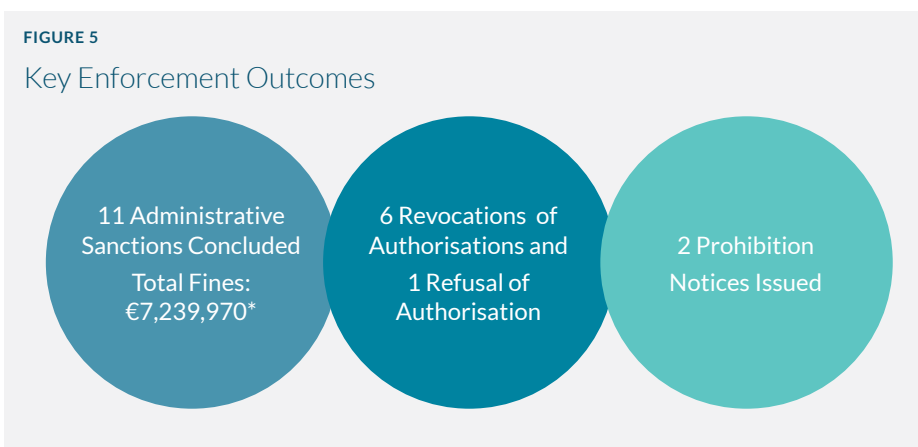
The Enforcement divisions are responsible for the targeted use of enforcement and sanctioning powers in order to hold regulated firms and individuals to account where their behaviour fails to meet the required standards, with the public communication of enforcement outcomes serving to promote compliance with core standards and behaviours within the financial services industry generally.

The Central Bank's enforcement and sanctioning powers include the following:

- imposition of sanctions under the Administrative Sanctions Procedure (ASP) on firms and individuals who breach their regulatory requirements;
- prohibition of persons, who do not meet the applicable Fitness and Probity (F&P) standards, from working in the financial services industry;
- revocation or refusal of firms' authorisations where those firms fail to meet their regulatory requirements, or where a firm fails to meet the authorisation requirements; and
- summary criminal prosecutions.

FIGURE 5

### Key Enforcement Outcomes



\*In addition a fine of €1,750,000 was imposed on PTSB by the European Central Bank (SSM).

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

The Central Bank is the competent authority for the supervision of credit and financial institutions' compliance with their anti-money laundering (AML) and countering the financing of terrorism (CFT) obligations under the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA 2010).

The Anti-Money Laundering Division delivers on the Central Bank's mandate under the CJA 2010 through:

- effective risk-based supervision of AML/CFT and financial sanctions (FS) compliance;
- contribution and input into AML/CFT legislative and policy developments; and
- authorisation of trust or company service providers that are subsidiaries of credit and financial institutions.

### *Policy and Risk*

The Policy and Risk Directorate supports the work of both the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct. The Directorate oversees the development and implementation of regulatory policy in relation to credit institutions, insurance undertakings, investment firms, investment funds, and securities and markets both domestically and internationally. It is also responsible for the maintenance, enhancement and support of the Central Bank's Supervisory Risk framework (PRISM) and for the quality assurance of its implementation.

The core objectives of the Directorate are:

- to develop and maintain the Central Bank's domestic regulatory and policy framework for prudential and conduct supervision;
- to contribute to the formation and implementation of European and international regulation;
- to lead the development and maintenance of the Central Bank's risk-based framework for supervision (PRISM);
- to provide support and assurance for supervisors' implementation of the Central Bank's policy and supervisory frameworks; and
- to promote a high quality and effective policy environment across the Central Bank.

### **1.9 Funding of Financial Regulation**

The purpose of this new section is to provide greater insight to Central Bank stakeholders on how the cost of financial regulation activities is governed and funded.

#### *Background Information*

In accordance with Section 32D of the Central Bank Act, 1942, the Commission of the Central Bank may, with the approval of the Minister for Finance, make regulations requiring regulated entities to pay a levy to the Central Bank. The Central Bank's total funding requirement for financial regulation activity is determined on an annual basis by the resources required to discharge its legal responsibilities under domestic and EU law.



## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK



The amount to be recouped, the net Annual Funding Requirement (nAFR), reflects the relevant proportion of the 2017 budgeted cost of regulation adjusted for balances from the prior year. Costs include supervision activities in addition to costs related to the Central Bank's consumer protection, AML and financial stability mandates. A substantial disclosure, "Funding of Financial Regulation Activities", is set out in the notes to the Statement of Accounts. Please refer to the Central Bank Annual Report 2017.

Each year, the Industry Funding Regulations (and accompanying Schedule) are signed into law by a senior officer, on behalf of the Central Bank Commission and take effect upon approval by the Minister for Finance. The Regulations set out the basis on which levies are applied to individual regulated entities within industry funding categories. There are currently 14 industry funding categories (A to N) in the Regulations.

In response to a joint public consultation with the Department of Finance on funding the cost of financial regulation (CP95), the Minister for Finance agreed to a phased movement towards 100% industry funding, i.e. charging financial service providers directly for the full cost of their supervision rather than, in effect, the general public paying for a portion of such costs through subvention from the Central Bank. This subvention effectively reduces the dividend available for payment to the Exchequer and imposes a burden on the taxpayer. Further increases beyond 2017 will be subject to Ministerial agreement.

### *Significant Changes in 2017*

The main changes to the 2017 Funding Regulations are contained in the publication, A Guide to Industry Funding Regulations 2017, available on the Central Bank's website<sup>3</sup>.

The changes in 2017 reflect:

- (a) A phased movement towards 100% Industry Funding commencing in 2017 with an initial movement to 65% for most Industry Funding categories;
- (b) A new methodology for the calculation of 2017 levies payable by banks, similar to that used by the ECB;
- (c) The segmentation of EEA insurers into three categories for levying purposes to reflect the size and nature of business written. As a result, large firms and those writing motor insurance business are required to pay significantly more than previously; and
- (d) Securities and Investment Firms and Fund Service Providers operating in Ireland on a Freedom of Establishment Basis are subject to a minimum levy.

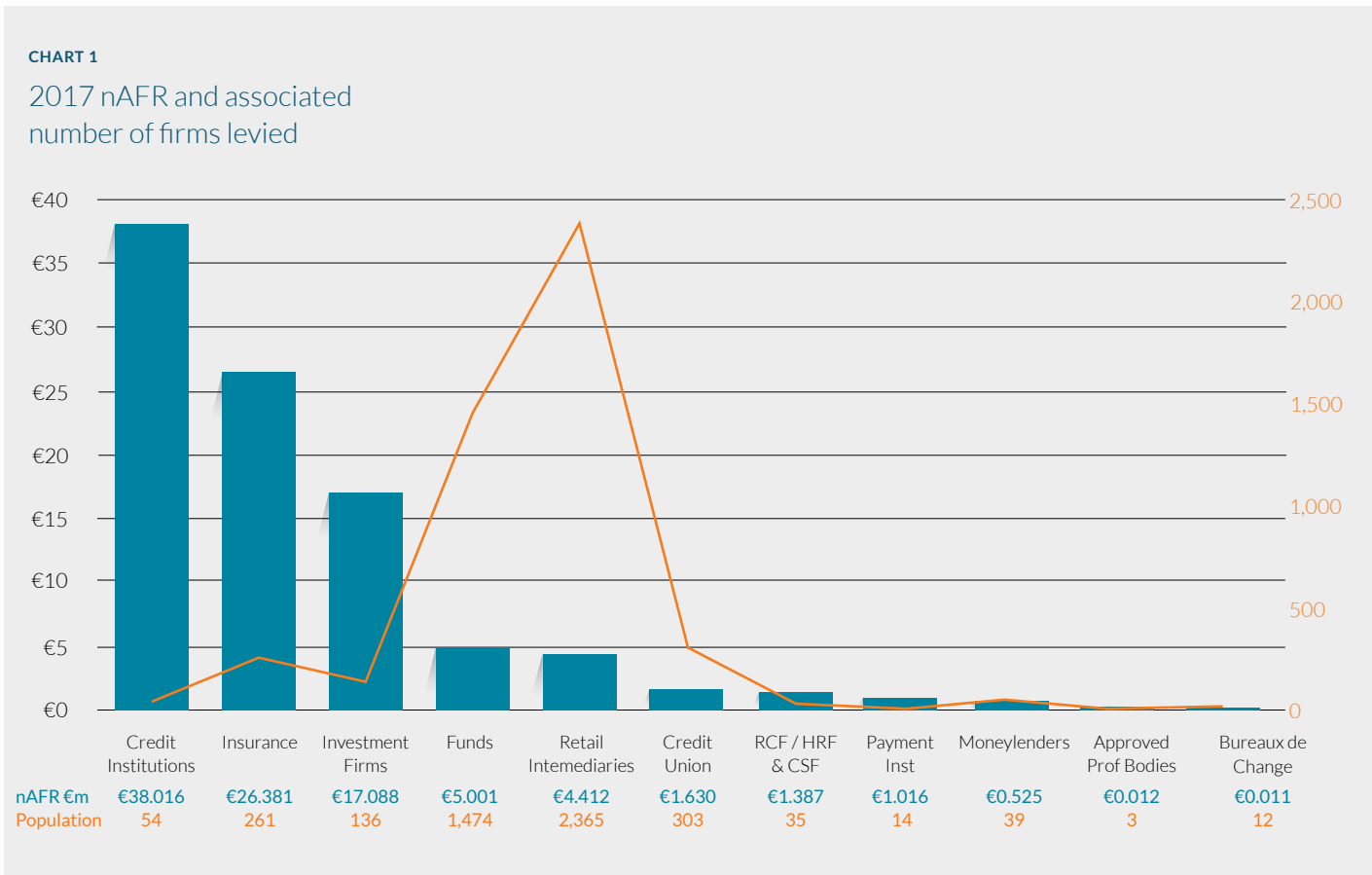
The Minister for Finance agreed to a phased movement towards 100 per cent Industry Funding, i.e. charging financial service providers directly for the full cost of their supervision rather than, in effect, the general public paying for a portion of such costs.

<sup>3</sup><https://centralbank.ie/docs/default-source/Regulation/how-we-regulate/fees-levies/industry-funding-levy/guidance/a-guide-to-industry-funding-regulations-2017.pdf>

OVERVIEW OF FINANCIAL  
REGULATION IN THE CENTRAL BANK

*Cost of financial regulation*

CHART 1 below sets out the amount to be raised from each industry funding category in 2017. It illustrates the relationship between the funding requirement and the associated populations for each category. The funding requirement is a consequence of the underlying regulatory cost and appropriate recovery rate. In this regard, banks which participated in the Eligible Liabilities Guarantee Scheme<sup>4</sup> in 2009 have, since then, fully funded the costs associated with their regulated activity – this, along with the underlying cost of their regulation, helps to explain why this category contributes more than other categories. In some instances, high funding values arise from relatively low population counts (e.g. banks) whereas, in other instances, the opposite holds true - some high volume categories represent a relatively low proportion of overall funding (e.g. retail intermediaries).



<sup>4</sup>Credit Institutions which had participated in the Eligible Liabilities Guarantee Scheme 2009 are required to fund 100% of supervisory costs. Where appropriate, individual credit institutions are also required to fully fund costs incurred by the Central Bank in carrying out any external review of the institution. (<http://www.irishstatutebook.ie/eli/2009/si/490/made/en/print>)

OVERVIEW OF FINANCIAL  
REGULATION IN THE CENTRAL BANK

**1.10 Service standards for processing applications and contact management**

The Central Bank publishes two half-yearly reports<sup>5</sup> outlining its performance against Service Standards that it has committed to in respect of:

- (i) Authorisation of Financial Service Providers and Investment Funds,
- (ii) Processing of F&P applications, and
- (iii) Contact Management.

The service standards were met or exceeded for 98% of the targets for which applications were received.

**FIGURE 6**  
2017 Service Standard  
Performance



<sup>5</sup> Service Standards for H1 2017 and Service Standards for H2 2017

OVERVIEW OF FINANCIAL  
REGULATION IN THE CENTRAL BANK

1.11 Supporting the Work of the Regulatory Teams

*Implementation of the Regulatory Transactions Strategy*

The Regulatory Transaction Division (RTD) is responsible for the centralisation, streamlining and automation of core regulatory transactions, such as the F&P, Returns Management and Contact Management processes, thus improving the consistency of decision making for regulatory transactions, reducing regulatory, reputational and operational risk and delivering a clearly measurable and transparent service with improved turnaround times. A new online authorisation service for Funds and Fund Service Providers was delivered in Q1 2017 replacing the paper-based system in operation. An additional Supervisory Levy for new investment funds was also introduced in Q4 2017.

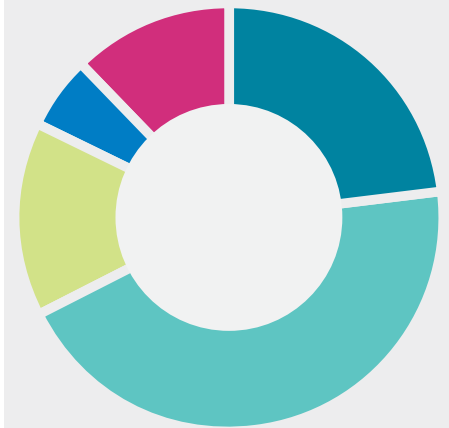
An efficient and effective online Regulatory Transactions Service was delivered by RTD during 2017, as follows:

- F&P - Assessed applications from persons seeking approval to hold senior positions at regulated firms under the F&P Regime in accordance with Service Standards, and processed resignations from persons relinquishing Pre-Approval Controlled Functions (PCFs);
- Online Returns –Supported all Regulated Financial Service Providers (RFSPs) in submitting existing and new regulatory returns online via the Online Reporting System (ONR) System;
- Funds and Fund Service Providers Authorisations – Assessed online applications for Funds and Fund Service Providers in accordance with Service Standards; and
- Contact Management Service – Continued to provide a general contact management/query handling service for the Central Bank in accordance with published Service Standards. A caller satisfaction survey for the Contact Centre was conducted in November 2017, with 94% of regulatory callers either satisfied or very satisfied with the service (up from 93% in 2016) and 98% of public callers either satisfied or very satisfied with the service (up from 83% in 2016).

RTD has a number of strategic actions in 2018. These items include developing a strategy for contact management, enhancing the online Fund Authorisations System, implementing a new F&P system for delivery in 2019. In addition, due to the Central Bank’s experience with managing online applications, it is participating in the development of an SSM Authorisation portal for F&P applications and other applications, which will enable digitalised and direct submission of bank applications to the ECB.

CHART 2

Number of queries dealt with by the Regulatory Transaction Contact Centre



Consumer Protection*	4926
Funds & FSPs & Investment Firms	9490
Credit Unions	3135
Credit Institutions	1219
Insurance/Reinsurance Undertakings	2547

## OVERVIEW OF FINANCIAL REGULATION IN THE CENTRAL BANK

### *Staff Recruitment*

The Central Bank has continued to devote considerable time and senior management engagement on recruitment and development of its staff in order to ensure it has the capacity and capability to deliver on its supervisory mandate. In 2017, this included both general campaigns for specified role types (e.g. supervisors) and targeted campaigns in areas such as risk and analytics. 168 people joined the Central Bank, to fill vacancies in Regulation.

This is a net increase of 84 in 2017. More than 100 vacancies remain to be filled, at both senior and entry levels. This is primarily due to the growth in headcount to support additional activity, such as Brexit. The average length of tenure of people working within the regulation areas now stands at 6.6 years.

### *Supporting staff development and implementation of the Central Bank's policy and supervisory frameworks*

Extensive training, advice and assistance is provided to Central Bank staff to support them in their professional development and in the delivery of their roles, including for example, access to the One Bank Curriculum, provision of an Academic and Professional Training Scheme, soft skills training, and technical training.

In 2016, the Central Bank designed and delivered a comprehensive technical and business skills curriculum (the One Bank Curriculum) for almost 300 new staff. The programme aims to enhance the depth and breadth of technical knowledge, skills and competence across the Central Bank. In 2017, the Central Bank supplemented the existing programme with interim technical training, with over 500 staff participating. Development of future accredited phases of the One Bank Curriculum will continue in 2018.

In 2017, nine staff completed the Central Bank's National College of Ireland accredited Certificate in Financial Regulation with high numbers of staff completing other qualifications relevant to their roles.

There has been extensive training and technical support provided in 2017 to all supervisory staff. Examples of technical training delivered include training on preparedness for MiFID II; the new insurance supervision frameworks and related IT tools; the EU Benchmark Regulation; the Central Bank Investment Firm Regulations; IFRS9; and CRDIV.

A dedicated PRISM IT support team dealt with over 545 queries from supervisors in 2017. The Policy and Risk Directorate also responded to a total of 882 queries from both internal and external stakeholders on policy issues.

### *Policy Network*

The Policy Network runs a programme of events open to all staff of the Central Bank with an interest in policy-making, to give them an opportunity to enhance their knowledge and keep up-to-date on policy developments within the Central Bank and externally. In 2017, there were 15 events including external speakers such as: former Taoiseach John Bruton; MEP Brian Hayes; Sir Jon Cunliffe, Deputy Governor at the Bank of England; and Dr Scott Bauguess, US Security and Exchange Commission Deputy Chief Economist and Deputy Director.

The Policy Network's programme of in-house events for staff and the Central Bank's engagement with our stakeholders and the wider regulatory community will continue in 2018.





Banc Ceannais na hÉireann  
Central Bank of Ireland

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An overhead photograph of a meeting around a large, light-colored conference table. Several people are seated around the table, some looking at documents or laptops. The scene is brightly lit, and a large yellow cube-shaped object is visible in the upper right corner. A semi-transparent teal and green diagonal overlay covers the bottom half of the image, where the title text is placed.

# Achievement of the Strategic Responsibilities of the Central Bank

# Achievement of the Strategic Responsibilities of the Central Bank

The Central Bank’s Strategic Plan 2016-2018 Framework, as illustrated below, demonstrates the interdependencies between the achievement of the Central Bank’s mission and vision, and the achievement of the desired outcomes we have specified for our Strategic Enablers and Strategic Responsibilities.

FIGURE 7

The Central Bank’s Strategic Framework 2016-2018



This chapter provides a summary of Central Bank outputs and results that were achieved in 2017 in relation to the four Financial Regulation Strategic Responsibilities set out above; specifically:

- Consumer Protection;
- Supervision and Enforcement;
- Regulatory Policy Development; and
- Recovery and Resolution<sup>6</sup>.

<sup>6</sup> Notably under the Strategic Responsibility, Recovery and Resolution, significant aspects to this responsibility lie with the the Central Banking pillar, namely where the Central Bank acts as the National Resolution Authority and Macroprudential Authority under the BRRD.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### 2.1 Consumer Protection

**Desired outcome:**

**Regulated firms act in the best interests of consumers**

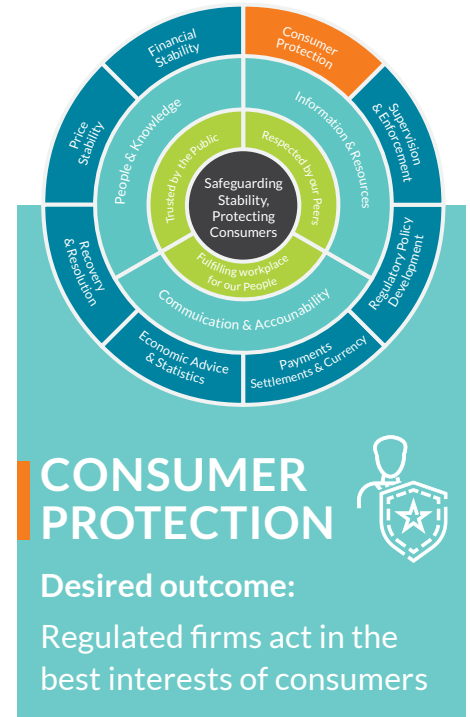
In February 2017, the Central Bank published its Consumer Protection Outlook Report setting out its priority themes for the year to:

- Work to develop a positive consumer-focused culture within regulated firms, including by undertaking targeted Consumer Protection Risk Assessments;
- Ensure the consumer protection framework remains effective by undertaking consumer research to inform future developments, review, develop and enhance the protections in place, and to influence and shape European and international developments; and
- Monitor and enforce compliance with the required standards through themed reviews and inspections.

Within the structure of the “5Cs Framework” - consumer, confidence, compliance, challenge and culture, key actions and activities undertaken in 2017 to achieve this desired outcome included:

#### 2.1.1 Consumer

- The Central Bank continued to develop and review the consumer protection framework to enhance the protections in place for consumers, informed by the findings of our consumer-focused research (see [CASE STUDY 1](#)).
- In September 2017, revised Minimum Competency requirements were published to take account of developments in knowledge and competence in various EU Directives and enhance the existing requirements to include a new specified function for persons directly involved in the design of retail financial products (see [CASE STUDY 3](#)).
- The Central Bank also continued to progress its engagement and influence on various consumer protection committees at the ESAs, while also providing technical support to the Department of Finance on the negotiation and transposition of EU legislation into Irish law. During 2017, this included the transposition of the Payments Service Directive (PSD2), MiFID II, the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-based Retail Products (PRIIPs) Regulation.
- To raise awareness and inform wider policy discussion three Consumer Protection Bulletins were published in 2017 covering Motor Insurance; Social Media Monitoring; and Current Accounts and Switching.
- The Central Bank contributed to the work of FinCoNet, the international organisation of financial consumer protection supervisory authorities as a member of its Governing Council and through chairing FinCoNet’s Standing Committee 2 - Digitalisation of high cost lending, which published a Report on the Digitalisation of Short-Term, High-Cost Consumer Credit in December 2017.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK



### CASE STUDY 1:

#### Consumer Research

In mid-2016, the Central Bank established a dedicated consumer research team to undertake research of consumer behaviours, attitudes and perceptions of priority consumer protection issues. Some industry and stakeholder research is also undertaken by the team to provide further input to our work.

During 2017, the Central Bank published the following research reports, each of which have provided a strategic input to the Central Bank's consumer protection work:

- **Consumers' Experience of the Motor Insurance Claims Process Research (February 2017):** findings supported the outcome of a thematic inspection of motor insurance providers' treatment of insurance claims;
- **Mortgage Switching Research (April 2017):** findings were used to inform the Consultation Paper on Enhanced Mortgage Measures (on Transparency and Switching) published in August 2017;
- **Consumer Understanding of Commission Payments (November 2017):** findings from this research were used to inform the consideration of policy proposals outlined in the Consultation Paper on Intermediary Inducements, also published in November 2017;
- **Consumer Experience of Purchasing Gadget Insurance (December 2017):** findings are being used to support an ongoing thematic review of add-on insurance; and
- **Industry Research on the Digitalisation of Financial Services (June 2017):** findings were used to inform the content of a Discussion Paper on the Consumer Protection Code and the Digitalisation of Financial Services, also published in June 2017.

A variety of methodologies were used to complete this research, including quantitative surveys (on and offline), qualitative focus groups and analysis of behavioural biases in consumer decision-making, as well as engagement with academia, research forums and other regulators.

The Central Bank established a dedicated consumer research team to undertake research of consumer behaviours, attitudes and perceptions of priority consumer protection issues.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### 2.1.2 Confidence

- The overriding objective of the Tracker Mortgage Examination is to ensure the fair treatment of tracker mortgage customers by ensuring that lenders conduct a complete review of their mortgage loan books to assess compliance with both contractual and regulatory requirements relating to tracker mortgages. In situations where customer detriment is identified from the Tracker Mortgage Examination, the Central Bank requires lenders to provide the appropriate redress and compensation in line with the Principles for Redress developed by the Central Bank, which seek to ensure fair outcomes for affected customers (see [CASE STUDY 2](#))



ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

CASE STUDY 2:

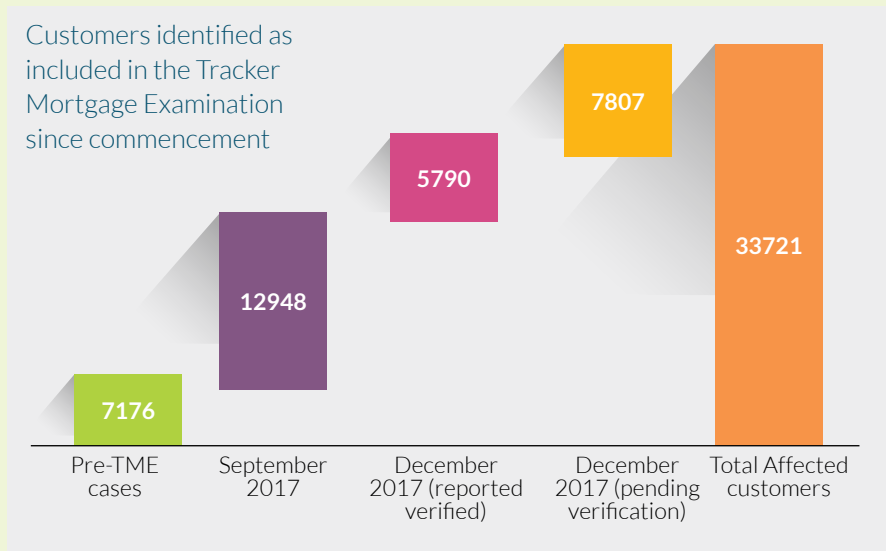
Tracker Mortgage Examination

The Tracker Mortgage Examination (TME) is the largest, most complex and significant supervisory review that the Central Bank has undertaken to date in respect of the consumer protection mandate. The Examination involved an initial review of more than two million mortgage accounts by lenders to identify the number of in-scope accounts.

The Tracker Mortgage Examination Framework requires lenders to identify all affected customers and to address customer detriment in line with the Central Bank’s Principles for Redress. These principles along with supplemental guidance clearly set out the Central Bank’s expectations of the lenders to provide appropriate redress and compensation to affected customers when tracker mortgage related issues are identified.

The end-2017 figures show that lenders have been forced to pay €316m in redress and compensation. More will follow, as the remainder of the 33,700 customers that were denied tracker products or charged the wrong rates receive redress and compensation and as claims submitted to the independent appeals processes are adjudicated.

While the Central Bank’s view is that the vast majority of customers have now been identified, it will continue to review, challenge and verify the work undertaken by the lenders and complete our intrusive inspection programme. This work aims to ensure that all affected customers are identified; that all Tracker Mortgage Examination Framework requirements including stopping the harm have been met; and that any emerging issues are addressed. On-site work may also assist in the gathering of evidence for enforcement investigations and inform additional actions the Central Bank may take.

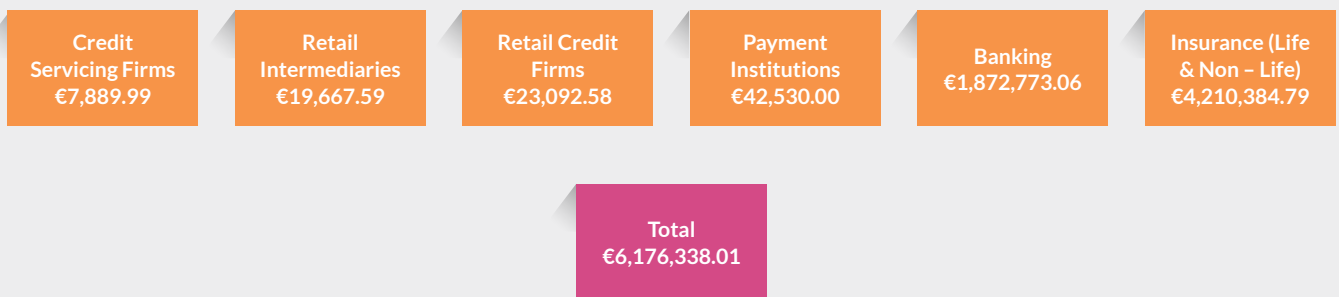


## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

- The following consumer restitution has been made by firms in each sector both on foot of errors reported by firms (required by the Code) and also as a result of issues identified through supervisory activity.

**FIGURE 8**

Restitution made by firms in each sector



### 2.1.3 Compliance

- The Central Bank continued to target retail intermediaries that were not meeting the minimum standards in terms of complying with reporting and other obligations. The objective was to target a culture of non-compliance, which can often signal other issues in those firms, that can impact negatively on consumers. At 31 December 2017, the compliance rate for the submission of Annual Returns reached 97%.
- The series of thematic inspections undertaken during 2017 included reviews of insurance brokers acting as managing general agents on behalf of insurance companies, firms' compliance with minimum competency standards and the sale of add-on/niche insurance, such as gadget insurance (underpinned by our research findings in this sector) (see [CASE STUDY 1](#)).
- As well as requiring enhancements to firms' practices, our supervisory interventions resulted in a number of voluntary and involuntary revocations of firms' authorisations, and enforcement actions against firms which failed to meet minimum regulatory standards.
- Three Retail Intermediary Times Newsletters were published in 2017, covering a range of important compliance issues. Furthermore, two Retail Intermediary Roadshows were held in 2017, covering a range of industry topics such as Enforcement, Authorisations, Policy and Investor Compensation.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK



### 2.1.4 Challenge

- The Consumer Protection Directorate acts as a gatekeeper for firms proposing to engage in financial sectors<sup>7</sup> to ensure that only those firms that clearly demonstrate they meet the required standards are authorised to provide financial services.
- As well as processing applications for authorisation in line with published service standards and statutory obligations, the Central Bank introduced PSD2-compliant application forms so firms could make an application under that Directive ahead of time, and moved from granting mortgage intermediary authorisations for a fixed period to issuing authorisations for an indefinite term. These measures provide greater certainty for applicants and so facilitate greater competition in both the payments and mortgage markets, while also ensuring that the highest standards are set and met by the firms authorised.
- The Central Bank reviewed applications from credit servicing firms (i.e. firms which service loans sold by regulated lenders to unregulated firms) under the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015. This included assessment of those firms against the detailed Authorisation Requirements and Standards introduced by the Central Bank on foot of that legislation. We expect to progress the remaining applications to decision stage in 2018.

These measures provide greater certainty for applicants and so facilitate greater competition in both the payments and mortgage markets, while also ensuring that the highest standards are set and met by the firms authorised.

<sup>7</sup>The Consumer Protection Directorate is responsible for the authorisation and supervision of payment institutions, electronic money institutions, bureaux de change, retail intermediaries (investment intermediaries, insurance intermediaries, mortgage intermediaries and mortgage credit intermediaries, credit servicing firms, debt management firms, retail credit firms, home reversion firms and moneylenders).

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 3:

#### Minimum Competency

The Central Bank first introduced minimum competency standards, a key component of the Central Bank's consumer protection measures, in 2007 and, in doing so, Ireland became a leader in Europe in introducing professional knowledge and competence requirements. The minimum competency standards set out statutory minimum professional standards for staff of financial service providers when they are dealing with consumers in relation to retail financial products. The standards are now a longstanding feature of the regulatory regime in Ireland, where the Central Bank has worked closely with the relevant professional educational bodies in putting in place the appropriate qualifications to meet the requirements.

The initial 2007 standards were updated in 2011 and, following a further review in 2016, the Central Bank issued, on 1 September 2017, a revised Minimum Competency Code (MMC) and new Minimum Competency Regulations 2017 (the Regulations), which together replace the former Code. These most recent changes take account of recent EU developments in the area of professional knowledge and competence requirements contained in the Mortgage Credit Regulations, MiFID II and IDD. The revised standards took effect from 3 January 2018.

The changes arising from these developments include:

- A requirement on a regulated firm to ensure that, in addition to obtaining a relevant recognised qualification, staff have obtained the competence and skills appropriate to the relevant function, through experience or training gained in an employment context;
- A requirement for at least one key staff member involved in the design of a retail financial product to meet a prescribed standard of minimum competency;
- A requirement of six hours of continuous professional development each year for board members of a mortgage credit intermediary; and
- A requirement on regulated firms to carry out an annual review of staff members' development and experience needs.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### 2.1.5 Culture

- In March 2017, the Central Bank published its new CPRA Model, setting out its approach to carrying out CPRAs and describing the Central Bank's expectations of firms in implementing or enhancing their frameworks for managing risks to consumers. Over the course of the year, the Central Bank conducted targeted CPRAs at eight firms, with a specific focus on elements of the culture module.
- The Central Bank continued to challenge boards and senior management of firms to demonstrate how they are managing risks and delivering the right outcomes for their customers. In 2017, meetings dedicated to current and emerging consumer protection risks and culture were held with CEOs and/or boards of credit institutions/other lenders. The Central Bank also emphasised, at a number of external speaking events throughout the year, the importance of implementing fit-for-purpose consumer risk management frameworks.



ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

**2.2 Supervision and Enforcement**

**Desired outcome:**

**Regulated firms are financially sound and safely managed**

In 2017, the Central Bank continued its programme of risk-based, intrusive, outcome-focused supervision, anchored in PRISM (and for banks in SSM) supervisory methodologies, and underpinned by enforcement action where necessary and appropriate. This included day-to-day supervisory team engagement with regulated firms; in-depth and intensive inspections; and high quality analysis designed to support and challenge the supervisory work, with particular focus on key risks such as financial resilience, Brexit and cybersecurity. Throughout, the Central Bank challenges firms to demonstrate that they:

- have sufficient financial resources, including under a plausible but severe stress test;
- are well governed, have an appropriate culture, with effective risk management and control arrangements in place, which are commensurate with their nature, scale and complexity;
- have capitally accretive business models over the long-term;
- can recover if they get into difficulties and, if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs; and
- conduct themselves in a manner that complies with applicable legislation and safeguards the integrity of the market.

Key actions and activities undertaken in 2017 to achieve this desired outcome included:

**2.2.1 Authorisations enquiries and applications received were processed in a transparent, predictable and consistent manner**

Arising from Brexit, there has been a significant increase in enquires from regulated firms regarding material expansions of their existing Irish operations or for new authorisations.

The Central Bank Commission approved an expansion in the regulatory staff numbers in the Central Bank to ensure we have the resources to both authorise and supervise changes to existing regulated firms or new entrants to the market (see **CASE STUDY 4**).

**Challenging firms' preparedness for Brexit**

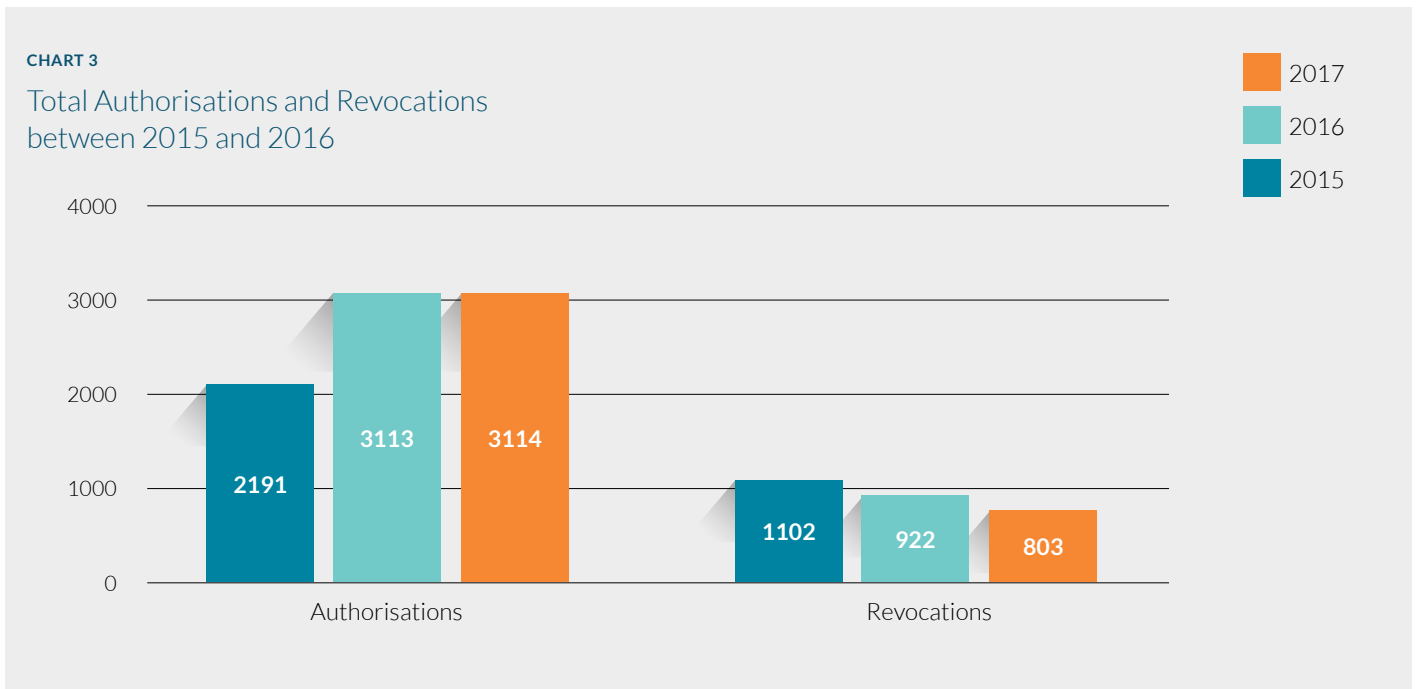
Through regular supervisory engagement with firms, published FAQs, speeches and industry roundtables, the Central Bank emphasised the need for firms to plan appropriately to mitigate the risks for their business strategies and models arising in the context of Brexit, including the need to consider the potential impact of a "hard" Brexit (with no deal or transition period). Supervisors continue to engage with firms on the appropriateness of their plans and to challenge those firms where such contingency planning is considered inadequate. At a European level, the Central Bank is actively engaged with the SSM, SRB and ESAs in monitoring contingency planning by firms and identifying trends, potential gaps in planning and emerging risks for firms.



ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

*A transparent, predictable and consistent authorisations process*

The Central Bank fulfills a gatekeeper role in controlling which firms enter, and also stay in, the Irish market. During 2017, the Central Bank continued this work across the sectors in which it authorises firms, with 295 firms authorised excluding post-authorisation amendments, not including investment funds authorised and prospectuses approved (please refer to “Funds authorisation and prospectus approvals” for further information on funds authorisations). In each case, the Central Bank required the applicants to clearly demonstrate that they satisfied the relevant requirements, while providing a fair and transparent process, with strong engagement with applicant firms to assist them in navigating the application process.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 4:

#### Authorisations and Expansions of Business as a Result of Brexit

Across the financial services sector the purpose of either expanding current operations or establishing a new firm in Ireland is to ensure the firm can continue to service EU-based clients after the UK has left the EU. Such firms are currently preparing for a 'scenario where they won't be able to provide services to EU clients through Freedom of Establishment or Freedom of Services from a UK entity.

The Central Bank has been operating within, and influencing, the European policy stances on Authorisations and Brexit across European networks including those at the SSM and ESAs. This is essential in driving a consistent regulatory approach to minimise the risk of regulatory arbitrage across the EU27 and to ensure that potential new firms and significant expansions are based on strong business cases with a comprehensive understanding of risks and mitigants.

To meet additional authorisation activity, and to address the risks inherent in the business models of these applicants, many of which are complex and significantly large in scale, the Central Bank has implemented a number of initiatives:

- The Central Bank's authorisation teams were expanded to ensure timely and effective engagement with all firms making enquires, and those progressing to formal application. In this regard all applications of significant scale have a dedicated assessment team. The Central Bank is continuing to evolve its approach, recognising the changing nature, scale and complexity of financial services firms operating, or seeking to operate, in Ireland.
- Detailed, sector specific guidance is available to potential applicants on the process for applying for the relevant category of authorisation applicable to their business. A detailed FAQ document on Brexit has been published and updated where necessary.
- A collaborative engagement model has been implemented across the Central Bank's directorates and with the ESAs. This ensures that Central Bank expertise is utilised and that engagement with the Central Bank both from an applicant's perspective and between the Central Bank and the European supervisory authorities is seamless.
- Three Brexit Roundtables were held with stakeholders, to hear views and concerns and ensure an appropriate and effective flow of information for those advising firms applying for authorisation.
- Additional governance frameworks have been implemented to oversee and support the programme of work.
- The Central Bank reported publicly on a half-yearly basis on its performance against specified service standards. 98% of performance standards were met in 2017.

CONTINUED

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

As a result of the initiatives implemented, the Central Bank:

- Demonstrated its commitment to be engaged, efficient, open and rigorous in its assessment of applications.
- Adopted a structured, robust and risk-based process that seeks to ensure firms demonstrate compliance with EU and Irish authorisation requirements.
- Continues to be committed to meeting the resourcing challenge that an increase in authorisation activity poses.

To date, external stakeholders and applicants have responded positively to the Central Bank's approach. For example, EIOPA visited the Central Bank in May 2017 as part of an international peer review of the authorisations process, and acknowledged that a comprehensive, transparent authorisation process exists in Ireland.

Work will continue into 2018 and the Central Bank will engage with stakeholders in a responsive and transparent manner, whilst also ensuring that we implement our statutory obligations efficiently and effectively.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### 2.2.2 Our goal is day-to-day supervision that is intensive and intrusive, anchored by PRISM and SSM methodologies, and consistent with European and International good practice.

Regulation and supervision of firms continues to evolve both domestically and internationally. Since the onset of the financial crisis, multiple reforms have sought to address the root causes of the crisis and other issues. During 2017, significant supervisory focus was directed to ensuring regulated firms make the necessary improvements to be more resilient against emerging risks.

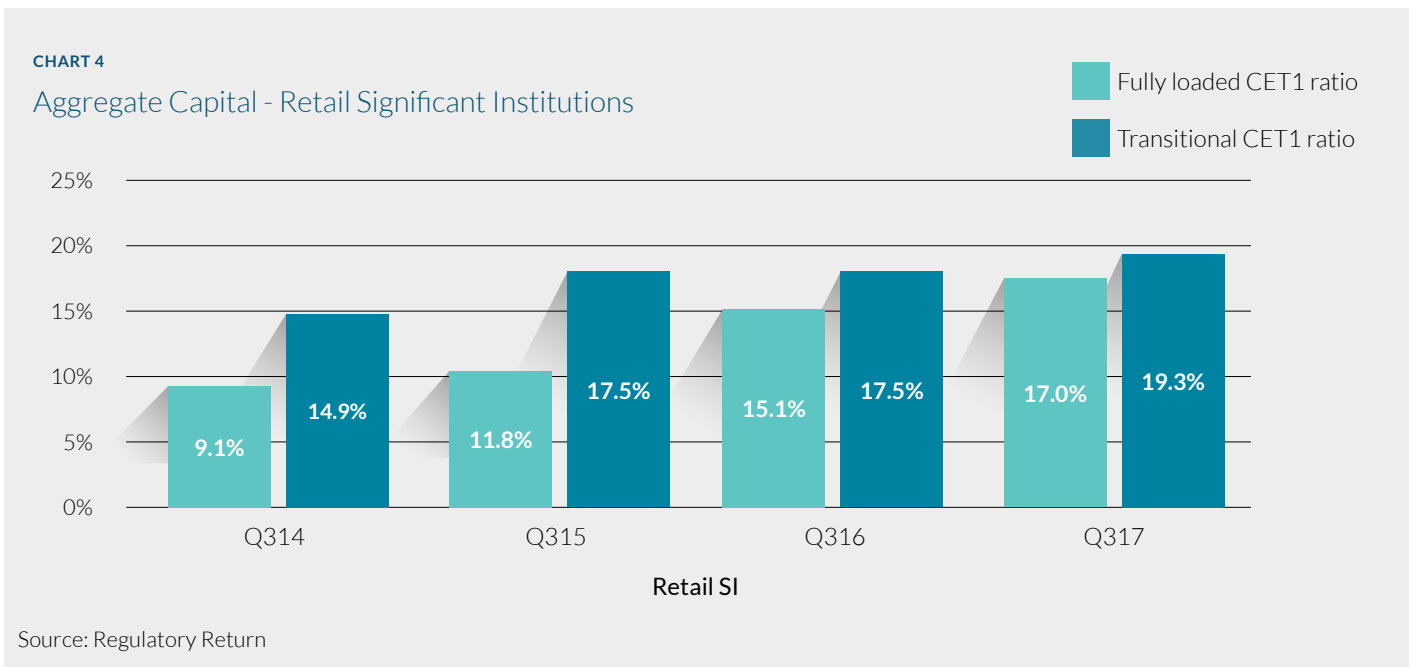
#### *Banking Supervision*

- **Business Model Sustainability:** Sustainable profitability is recovering for most Irish credit institutions, although conduct costs and low interest rates are still weighing on earnings. Improvements were reflected in the Supervisory Review and Evaluation Process (SREP) assessment where appropriate. Credit institutions are implementing transformation programmes to manage their cost bases, support revenue generation, improve IT capabilities and strengthen their overall business models. The Central Bank, through its ongoing supervision, on-site inspections, analysis, and macro prudential policy mortgage measures, continues to ensure that credit institutions loan underwriting remains prudent, thus ensuring compliance with resilience enhancing measures for borrowers and credit institutions.
- **NPL Resolution:** The Central Bank's approach to NPL resolution is focused on ensuring credit institutions are sufficiently capitalised, hold appropriately conservative provisions, and have fit for purpose resolution strategies and operations while ensuring the fair treatment of customers. Supervisory activities coupled with improved economic circumstances continue to drive reductions in NPLs, which have reduced for fifteen consecutive quarters. Nevertheless, despite a 60% reduction since the Q4 2013 peak, as at September 2017, NPL levels remain elevated at over €34bn. (Refer **CASE STUDY 5**).
- **Thematic Reviews:** During 2017, there has continued to be considerable supervisory engagement and inspection work across credit institutions. There have also been thematic reviews and inspections undertaken in areas including Regulatory Reporting, IFRS9 preparedness, Data, Risk Governance and Compliance. Institutions have continued to remediate issues identified in previous inspections and supervisory engagement, however despite this, there remains considerable room for improvement across institutions. Governance, risk appetite and culture will remain important areas of focus in 2018.

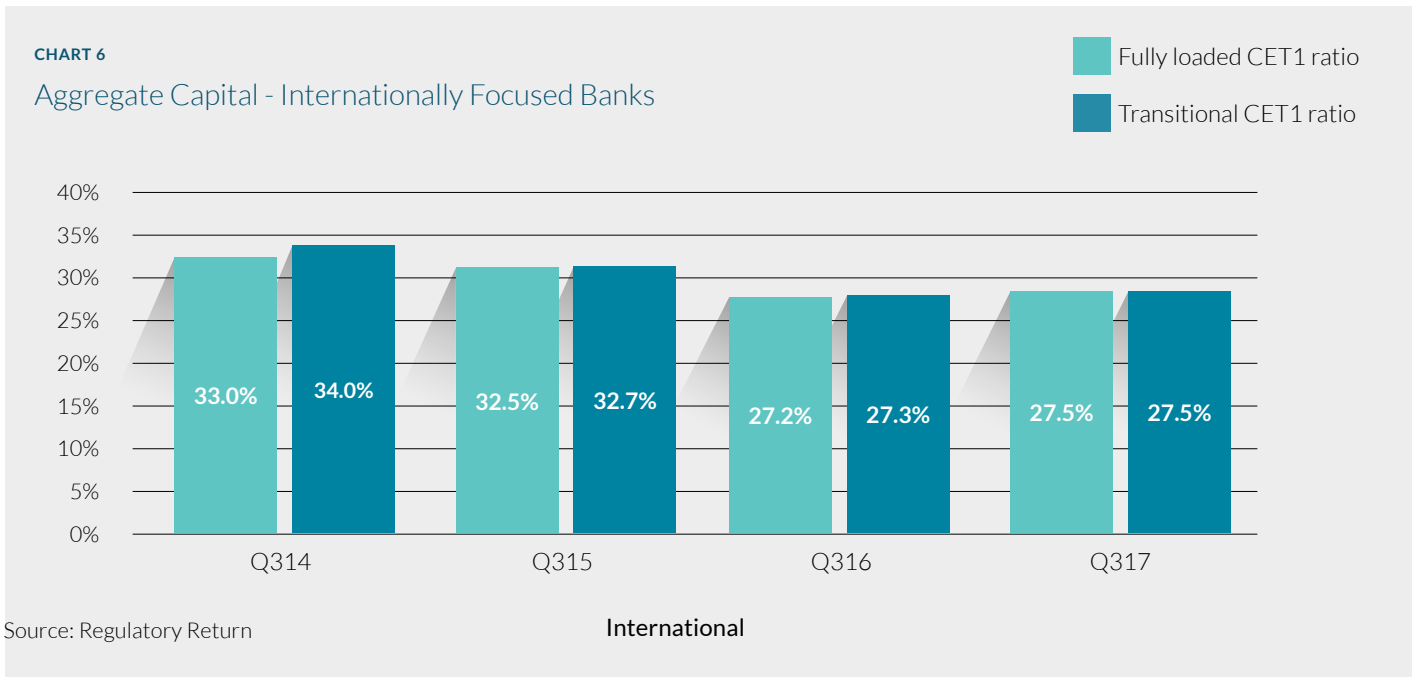
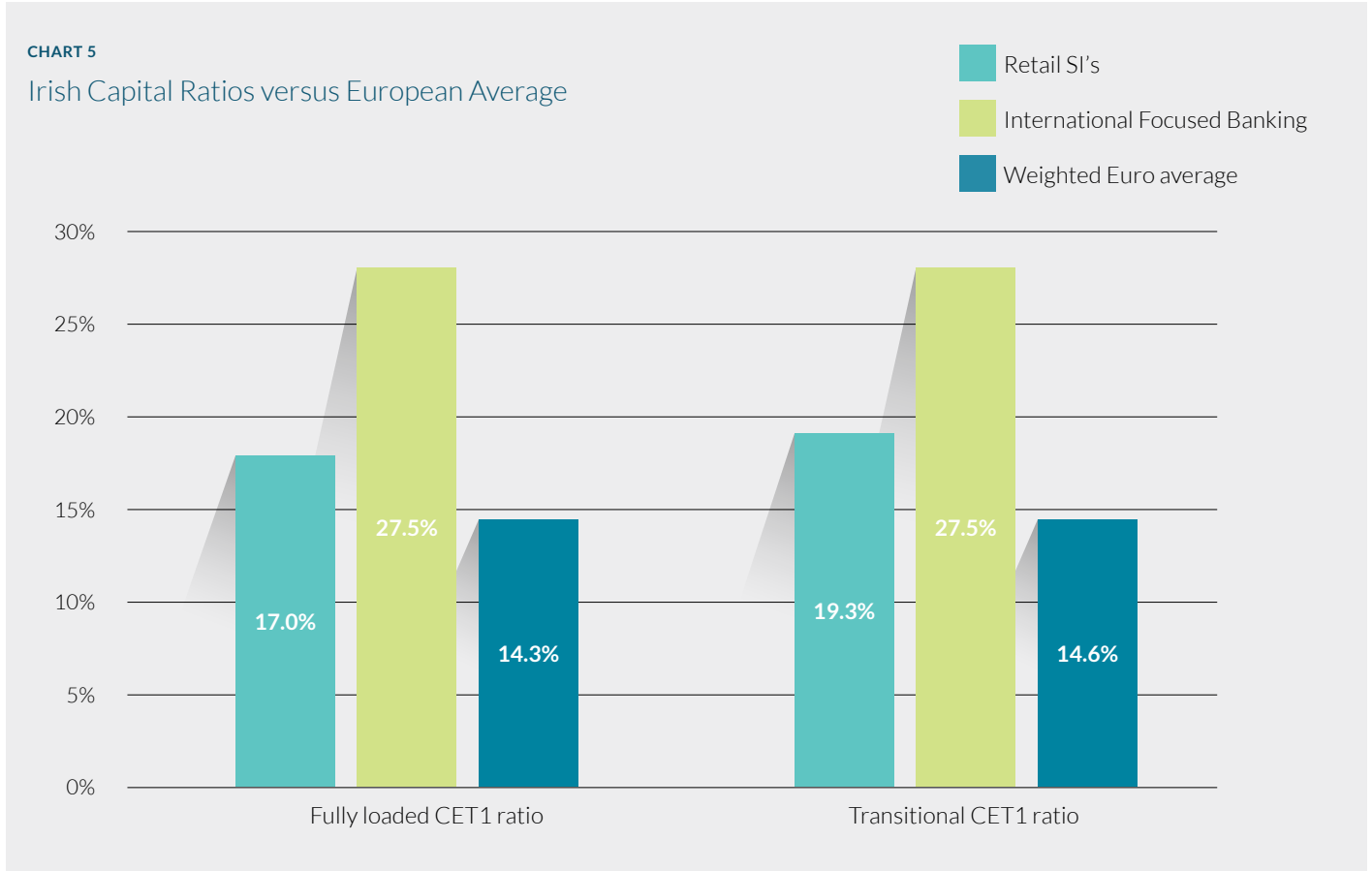
<sup>8</sup>One of the main objectives of the Capital Requirements Directive (CRD IV) / Capital Requirements Regulation (CRR) framework is to increase the resilience of the banking sector by strengthening the quality of regulatory capital. For this purpose, the framework sets stricter rules for the definition of capital, and includes a phasing-out of capital no longer eligible as regulatory capital, such as deferred tax assets. Banks are not expected to meet fully loaded CET1 ratios until 2024, although much of the transition will be complete by 2018.

ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

- Improving Capital Ratios:** The financial strength of the Irish credit institutions, measured by their capital ratios, continues to improve. The aggregate transitional common equity tier 1 (CET1) ratio for the domestically focused retail credit institutions increased by 1.8% to 19.3%, as of September 2017. The fully loaded ratio<sup>8</sup> also improved by 1.9% to 17%, for the same period. This strong positive increase was due to decreasing Risk Weighted Assets (RWAs) coupled with increasing CET1 (as illustrated in **CHART 4**). **CHART 5**, compares the Irish institutions' improved capital ratios to the European averages. The fully loaded CET1 ratio of the international credit institutions operating in Ireland have also increased slightly this year. Their aggregate capital ratio increased by 0.2% to 27.5%. As shown in **CHART 6**, they remain well above European averages.



ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK



- **Targeted Review of Internal Models:** A key deliverable for the Central Bank in 2017 involved supporting the ECB's targeted review of internal risk models (referred to as the TRIM project). This work ensures that the internal models used by credit institutions are fully in line with European best practice and that credit institutions are holding capital levels that are reflective of their risks. In 2017, the focus was largely on mortgages, leading to new and enhanced models being put in place in 2018 to better capture and quantify the risk in this area.
- **Liquidity:** The Liquidity Coverage Ratio (LCR) is a key regulatory measure designed to ensure institutions have an adequate stock of quality liquid assets such as cash, treasury bonds or high quality corporate debt, in order to meet contractual payment obligations over a short period of stress. The LCR measure is a ratio of institutions' quality liquid assets to their net cash outflows. This ratio should be 100% or greater than net cash outflows, over a 30-day stress period. Significant Institutions (SIs) LCR was approximately 140%, as of September 2017. Internationally focused credit institutions LCR was 200%, for the same period. All credit institutions LCR ratio were above the 100% requirement. Overall, retail credit institutions are holding reasonable stocks of high quality liquid assets, and have broad and stable retail funding bases without reliance on a small number of key funding providers. The area of liquidity risk management continues to evolve and mature across the retail credit institutions and continues to be a focus area for banking supervision as credit institutions return to capital markets and begin to issue debt to meet new resolution requirements.
- **Recovery and Resolution Planning:** In general, the standard of recovery plans improved in 2017 with enhancements identified across all sections of recovery plans (governance, strategic analysis, indicators, options, scenarios, preparatory measures, communication plans). Looking forward, the ECB has identified various best practices, including playbooks (what a bank will do in the first hours, days, weeks of a crisis) and dry run (simulation) exercises, to enhance the usability of recovery plans in 2018 and 2019. Banks will be measured on their ability to continue to improve their recovery plans based on this (and other) guidance over the next 12-18 months. Pursuant to the preferred regulatory resolution approach, AIB and Bank of Ireland each incorporated holding companies which became parent entities of the respective banking groups. This is an important step in resolution planning from a structural perspective. In practical terms, it means that any future bail-in of instruments held by external creditors would be expected to take place in the first instance at the level of these holding companies.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 5

#### Supervisory Focus on Non-Performing Loans (NPLs)

During 2017, the resolution of the large stock of NPLs remained a key supervisory priority for the Central Bank and, more broadly, the ECB. The large stock of NPLs on Irish financial institutions' balance sheets heightens the susceptibility of these institutions to future shocks to the Irish economy. Therefore, continued momentum on resolving these loans builds resilience into the financial sector in Ireland. More immediately, from a consumer perspective, these NPLs represent borrowers who are in financial difficulties and the fair treatment of these borrowers is a key concern for the Central Bank.

Given the Central Bank's experience in tackling institutions with high NPLs, Deputy Governor Donnery continued as chair of the ECB's NPL High Level Group (HLG), whose remit is to develop a consistent supervisory methodology across Europe for institutions with high NPLs. As a result, the Central Bank took a leading role in developing the supervisory approach to NPLs at a European level. Publication of the "SSM Guidance to credit institutions on non-performing loans"<sup>9</sup> was a key achievement for the ECB's NPL HLG in 2017. The guidance builds upon the supervisory approach adopted post financial crisis by the Central Bank in tackling the problem in Ireland and includes good practice observed in some Irish institutions. And across the Euro area, the ECB's NPL HLG also completed a "Stocktake of national supervisory practices and legal frameworks related to NPLs"<sup>10</sup> in 2017 to highlight some of the roadblocks preventing the speedy resolution of NPLs in each jurisdiction.

The Central Bank has adopted a deliberate and phased approach to tackling this issue, with significant progress made to date<sup>11</sup>. Figure 1 highlights some of the important milestones during Ireland's NPL resolution journey and the NPL ratio over time. The sequencing of supervisory actions was important and involved: (i) ensuring institutions had sufficient financial resources (both capital and provisions); (ii) the implementation of NPL specific strategies; (iii) the assessment of operational capabilities; and (iv) the formulation of NPL reduction targets. At every stage of the process, the Central Bank communicated supervisory expectations (via publication of relevant guidelines such as Provisioning Guidelines, Collateral Valuation Guidelines, etc.), challenged institutions' progress and completed detailed on-site inspections. All of this prudential activity was supported by the development and implementation of a robust consumer protection framework. The publication of the revised Code of Conduct on Mortgage Arrears in 2013 ensures borrowers are given appropriate protections in relation to their Primary Dwelling Homes (PDHs) to ensure they are treated fairly and remain in their family home in the vast majority of cases.

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<sup>9</sup>[https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance\\_on\\_npl.en.pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf)

<sup>10</sup>[https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.stock\\_taking2017.en.pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.stock_taking2017.en.pdf)

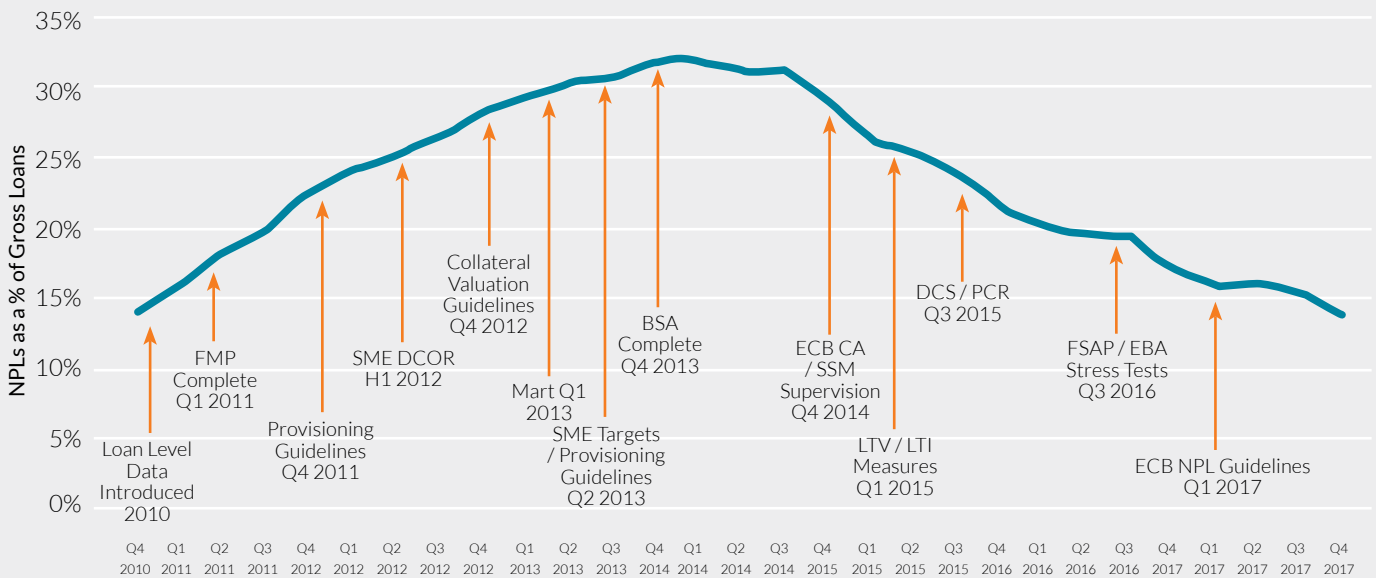
<sup>11</sup><https://www.centralbank.ie/publication/quarterly-bulletins/quarterly-bulletin-2-2018>

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

To ensure institutions continue to progress towards a minimal level of NPLs, the Central Bank’s intensive supervisory engagement ensured ambitious and realistic NPL resolution strategies were in place for 2017, and beyond. The Central Bank continues to monitor individual institution’s performance and has challenged where required. The Central Bank also completed two intrusive credit on-site inspections in 2017 relating to NPLs and identified instances of supervisory expectations not being met. These inspections have led to formal risk mitigation plans being put in place.

The total stock of NPLs across the retail credit institutions has declined by €7.9bn<sup>12</sup> (minus 20.6% in volume terms) year-on-year but remains at an elevated level with an aggregate NPL ratio of 13.7% despite intense supervisory focus. Reducing NPLs, while continuing to ensure borrowers are treated fairly and improving the resilience of financial institutions balance sheets to future shocks, will remain a key priority for the Central Bank in 2018.

### Retail Bank’s NPL Ratio and Important Milestones



Source: Central Bank of Ireland regulatory returns based on data provided by AIB, BoI, PTSB, Ulster Bank and KBC Ireland.<sup>13</sup>

<sup>12</sup>At Q3 2014 the EBA’s harmonised definition of non-performing was introduced. Prior to this date an internal definition was used, which was equivalent to impaired loans and/or arrears > 90 days.

<sup>13</sup>All figures based on Q3 2017 aggregated regulatory data.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### *Credit Unions Supervision*

The statutory mandate of the Registry of Credit Unions (the Registry) is to administer the system of regulation and supervision of credit unions with a view to the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally.

- **Working to ensure strong credit unions in safe hands:** The Registry regulates and supervises credit unions to ensure they are financially sound and safely managed so they can serve the needs of their members. Credit unions are supervised in a manner that is proportionate and appropriate to the nature, scale, and complexity of each individual credit union. In light of sectoral restructuring, emergent sector risks and viability challenges, the Central Bank has continued to adapt and evolve our inspection and supervisory strategy. During 2017 the Central Bank liquidated Charleville Credit Union Limited in accordance with the 2011 Act and the Companies Act 2014. The Central Bank took this action in order to ensure the protection of members' savings. See [CASE STUDY 15](#) in Section 2.4 for further detail.
- **Strategic Business Model Development:** During 2017 the Registry's Business Model Development Unit was engaged on a number of proposals from stakeholders concerning changes to credit union business models and balance sheets including: mortgage lending; asset finance; shared service facilities; retail investment intermediation; and digitised operational models. The Business Model Development Unit presented and contributed to a range of credit union conferences and workshops and also published guidance on longer term lending including mortgage lending. The Registrar approved 32 of the larger credit unions for the Member Personal Current Account Service, which is a suite of payment services.
- **Statistical Publications for Credit Unions:** In order to assist credit unions in analysing their performance relative to their peers and to provide insights to them on key trends based on the Central Bank's analysis of data submitted, the Registry commenced the publication of statistical information releases. During 2017 the Registry published two editions of its Financial Condition Paper, the first in February covering the period 2011 to 2016, and the second in December 2017 covering the period 2012 to 2017, with additional analysis by credit union asset size.
- **Annual Information Seminars:** As part of the Central Bank's approach to proactive engagement with stakeholders, the Registry hosted five Information Seminars during 2017, the theme of which was ensuring that the foundations are in place to safeguard the long-term wellbeing of credit unions. These seminars provide an opportunity for the Registry to engage with credit union directors and management; to provide updates on the Central Bank's regulatory and supervisory work; and to hear credit unions' views on current issues.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### *Insurance Supervision*

- **Embedding Solvency II by Insurance Undertakings:** Annual Reporting under the Solvency II regulations commenced mid-2017. Further details on the feedback and how these new reports are being incorporated into the wider supervisory approach are outlined in [CASE STUDY 6](#) below. Work continued more generally with firms to embed the new regulations. By mid-2017, the remediation envisaged in Solvency II worked and those firms required to improve their solvency coverage ratios (SCR) to at least 100% had done so. Further, the median SCR across all firms remained relatively stable over the year.
- **Supervision of cross-border firms:** There has been extensive supervisory engagement on cross-border business undertaken by Irish regulated insurers. This occurred through a combination of foreign branch inspections, additional reviews of regulatory reporting, the development of new environmental risk analyses of key markets in which Irish firms are operating, and engagement with regulatory peers including a revision to the “General Protocol” which governs the sharing of information between regulatory authorities. This will continue to be an area of focus for us going forward, particularly in the context of Brexit.
- **A focus on business model sustainability:** The assessment of the sustainability of business models was an area of focus in 2017. Detailed work was completed in the non-life area focusing on commercial liability business. Cyber Risk threatens data integrity and business continuity in an ever-interconnected financial system and, given the amount of personal data insurers hold, they are vulnerable to a potential attack. Initial work sought to drive improvements in overall IT governance, together with raising industry and consumer awareness of IT cyber risks.
- **Stress Testing:** For domestic non-life companies, the Central Bank conducted a thematic general insurance stress test exercise. The objective of this was to compare and contrast balance sheet resilience and to assess the range and quality of management actions considered. Overall the review highlighted that the companies’ balance sheets are generally resilient to the stresses.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 6:

#### Reporting to the Supervisory Authority under Solvency II Regulations

The first round of annual results and disclosures under Solvency II were submitted during 2017. Annual reporting to the Central Bank includes detailed quantitative information, narrative supervisory reporting and certifications of accuracy from the directors of insurance undertakings. The Central Bank has reviewed these submissions and providing significant levels of feedback to the industry.

The key findings and actions in the Central Bank's assessment of this initial reporting are:

- **Quantitative Reporting:** Examples of both compliant and non-compliant reporting were observed. The approach has been to provide very specific feedback to address deficiencies that are evident in firms' submissions. Resubmission is being requested where necessary.
- **Regular Supervisory Report (RSR):** The RSR is forward looking and includes a comprehensive description of the risks and challenges facing the business over the planning horizon. The approach taken by firms to the RSR will inform the Central Bank's view on the strength of their risk management systems as well as their overall risk culture and will also inform PRISM engagement going forward. A "Dear CEO" letter has issued reflecting the Central Bank's assessment of the quality of the RSR.
- **Solvency and Financial Condition Report (SFCR):** The publication of the SFCR enhances transparency for all stakeholder including consumers. The SFCR contains information on the business, governance, risk management, valuation and capital management in addition to a selection of quantitative reporting templates. The Central Bank assessed SFCRs in terms of the accuracy and completeness of the quantitative information appended to the QRTs. A minority of firms were requested to resubmit their SFCRs. A repository of all Irish industry SFCRs has been made available on the Central Bank's website.

Overall, the rate of resubmission where the qualitative reports or SFCRs submitted to the Central Bank are not right first time and fit-for-purpose needs to decrease in 2018.

- **Actuarial Opinions on Technical Provisions Reports:** The Central Bank introduced requirements for a Head of Actuarial Function to annually certify the Solvency II technical provisions and provide detailed reports to Boards to justify the opinion expressed. The Central Bank assessed the opinions and reports. In general, the findings were positive but there were some areas of non-compliance and areas for potential improvement were identified. Feedback was provided to the companies sampled and a general letter has been published on the Central Bank's website. A presentation on the findings was given to the Society of Actuaries in Ireland.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### *Asset Management Supervision*

- **Delivery of the programme of supervision:** The 2017 programme of Full Risk Assessments, onsite and thematic inspections in the asset management sector included thematic reviews, which focused specifically on strengthening governance and internal controls within supervised entities, and an evaluation of investment firm compliance with the ESMA 2012 Guidelines on Suitability. Elsewhere, work continued on completion of Supervisory Review and Evaluation Process (SREP) reviews across the universe of Low Impact firms.

#### **CASE STUDY 7:**

#### MiFID II Heatmapping Project – Assessment of MiFID II preparedness of Asset Management Investment Firms with a key focus on the primary impact areas of the impending regulations

In order to assess the key changes that MiFID II imposed on each investment firm, a gap analysis of the impending regulations against the existing regulations was completed. From this analysis, an assessment framework was developed to assist supervisors in devising agendas for MiFID II engagement meetings with Medium-High impact firms. Upon completion of these meetings, the MiFID II assessment framework was refined and focused on key high-level topics, including areas such as Product Governance, Best Execution, Client Reporting, Suitability and Appropriateness and Transaction Reporting. Arising from this work supervisors created a MiFID II Heatmap in order to assess the industry's overall preparedness and identify the high impact areas that may be a challenge for relevant firms.

This exercise was subsequently extended to the Medium Low and Low Impact firms, which included the issue of a comprehensive MiFID II questionnaire which asked firms to both self-assess their own MiFID II preparedness and highlight the key areas of the regulation impacting on their business models.

Following the creation of the MiFID II Heatmap, there was continuous engagement with these firms seeking updates on the key areas that were affecting the firms. As supervisors sought to drive the investment firms' agenda in their preparation for the impending regulations/legislation, there was increased focus on firms that were highly impacted by the regulations, and whom supervisors felt were behind in their preparations for MiFID II.

Findings from the MiFID II Heatmapping project are a key element in the development of our supervisory strategy for MIFID II compliance in 2018.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

- **MiFID II Heatmapping Project:** The Markets in Financial Instruments Directive 2014/65/EU (MiFID II) seeks to address the growing complexities of financial markets after MiFID I and the weaknesses exposed following the financial crisis of 2008, which came into effect on 3 January 2018. Approximately 90 investment firms under supervision in the Asset Management Supervision Division are impacted by the implementation of new regulations and legislation. In this regard, it was imperative for supervisors to engage with firms on an ongoing basis to assess both their preparedness for the impending regulations, and to gain an insight into what the key impact areas on firms' business models are (see [CASE STUDY 7](#)).

### *Securities and Markets Supervision*

- **Funds authorisation and prospectus approvals:** In 2017, the Central Bank continued its focus on ensuring that the processes in place for assessing applications for the authorisation of investment funds, the registration of ICAVs and the approval of prospectuses for public offering meet the highest standards. This included the authorisation of 829 investment funds, including 1,763 related assessments of the fitness and probity of individuals running such funds, and approval of 1,099 equity and bond prospectus.

It is important to note that the approval of the prospectus by the Central Bank, or any other EU competent authority, is not an attestation as to the validity of the information contained therein. Nor is it an indication as to the quality or suitability of the investment. Instead, it is a verification that the disclosure requirements, laid out in the Prospectus Directive have been met by the issuer. The issuer remains liable for any misleading information contained in, or omitted from, the prospectus.

- **Securities Market Surveillance:** The Central Bank completed a variety of supervisory tasks in the securities markets it supervises. These tasks ranged from the surveillance of transactions through individual transaction reports, conducting enquiries into specific trading activity and providing assistance to other EU authorities.
- **Improved Data Analytics in the field of Securities and Markets Supervision:** The Central Bank's work in 2017 included enhancing the level of market data gathered in order to carry out the Central Bank's functions and also enhancing the Central Bank's capacity to interrogate that data to inform its supervisory interventions (see [CASE STUDY 8](#)).

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 8:

#### Improved Data Analytics in the field of Securities and Markets Supervision

The Central Bank continued to develop and enhance the infrastructure to receive all data related to market surveillance, market abuse and investment fund supervision. This data is a key driver of the Central Bank's supervisory strategy for securities and markets supervision, including informing supervisory judgements and actions concerning particular firms or funds. New reporting technology was also implemented to receive the vastly increased volume of data under MiFID II.

As part of its data analytics and supervisory strategy, the Central Bank procured a global debt securities dataset and fully integrated it onto the Central Bank's data network. This external data is used to validate investment fund regulatory reporting and is a powerful tool in improving data quality within industry. The Central Bank now has the capability to carry out more focused research on investment funds and consider cross cutting themes like credit quality, liquidity, duration and volatility.

The Central Bank has also acquired the ESMA TRACE dataset of European Market Infrastructure Regulation (EMIR) derivative reports based on the complex ISO 20022 XML format. This is now in production and is proving a rich source of data. The Central Bank continues to receive daily EMIR derivative reports bi-laterally from each trade repository. This gives the Central Bank a unique ability to interrogate and compare both datasets and provides a more accurate and complete view of derivative trading by Irish entities including investment funds. The Central Bank's analysts have produced a large number of dashboards, business reports, custom tools and focused research, which uses data to empower supervision to be more effective as the number of supervised entities increase.

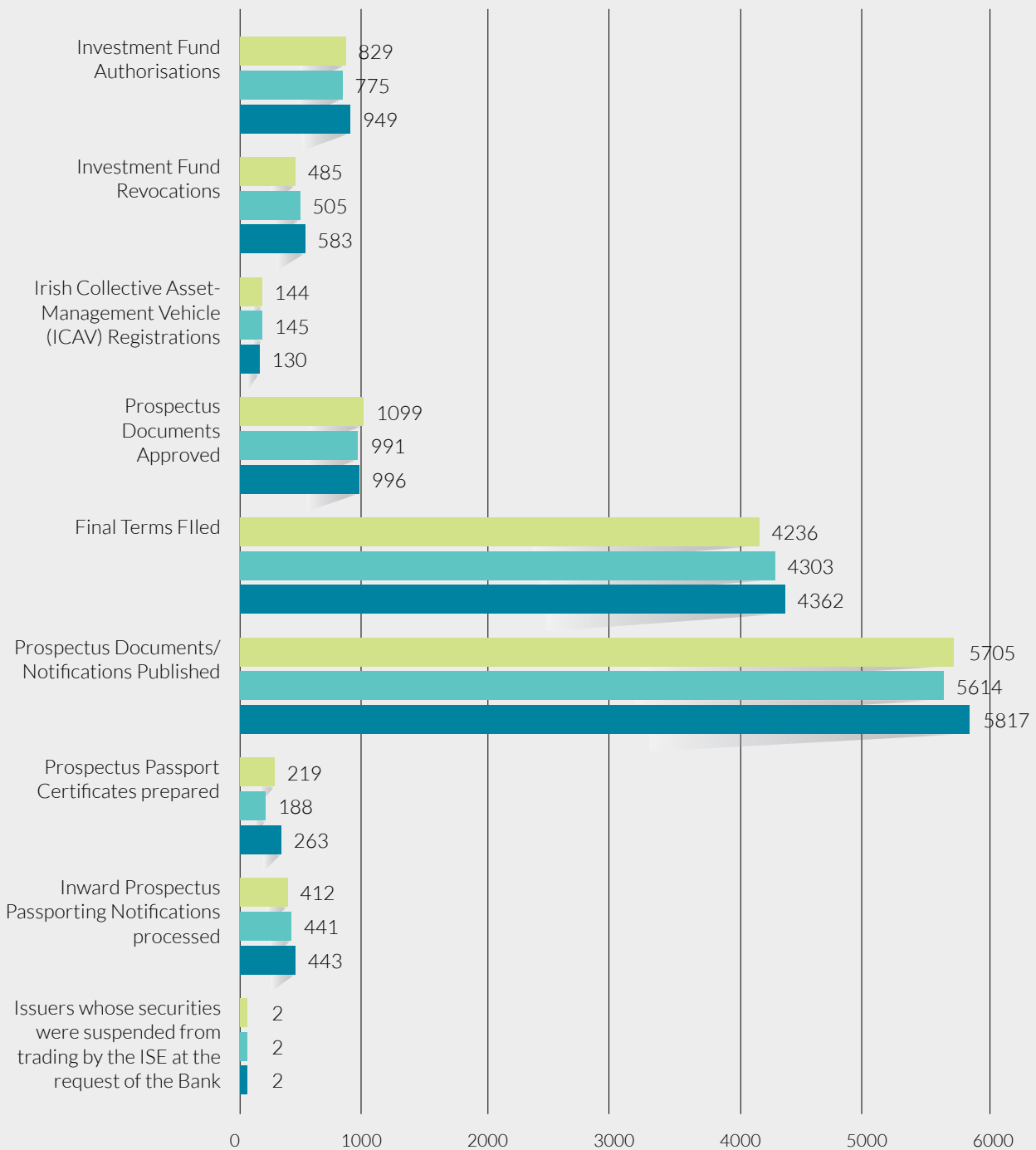
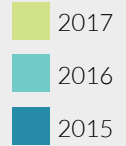
The Central Bank is also in the process of acquiring metadata on investment fund performance to complement regulatory reporting data received and enable supervisors to effectively validate and challenge investment fund financial returns with regard to accuracy and data quality; and to supervise and oversee risk, leverage and liquidity in the sector.



ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

CHART 7

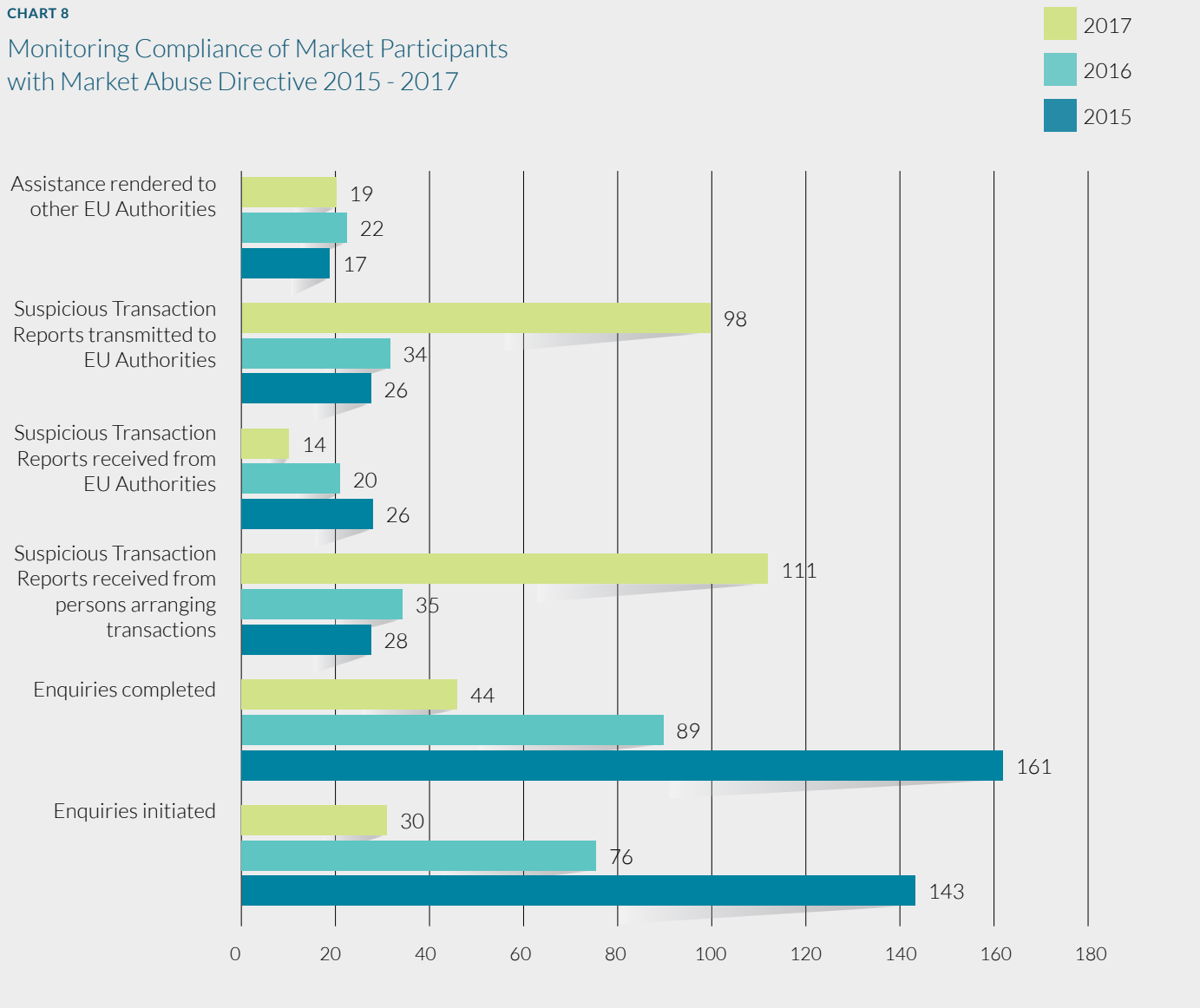
Investment Fund Authorisation, ICAV Registration and Prospectus Approval Statistics 2015 - 2017



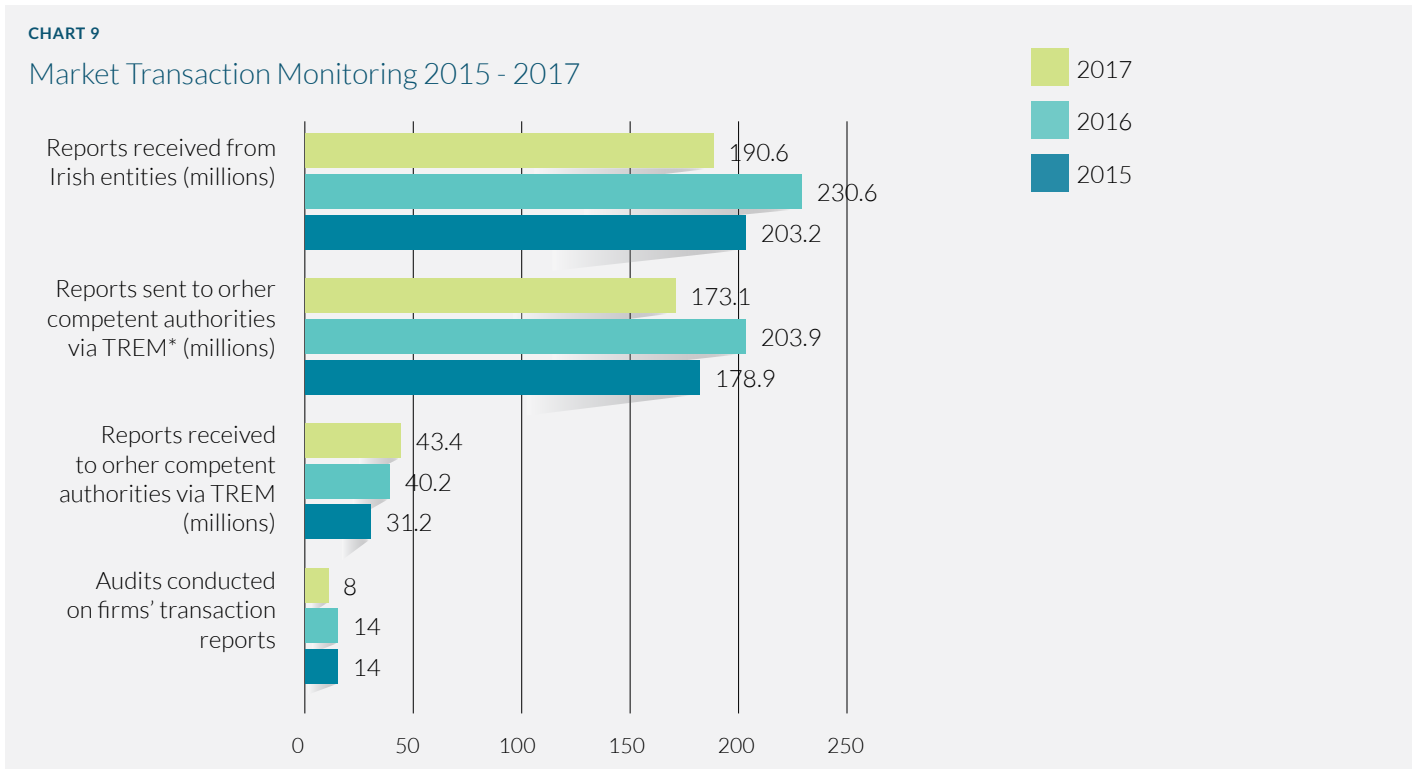
ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

CHART 8

Monitoring Compliance of Market Participants with Market Abuse Directive 2015 - 2017



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK



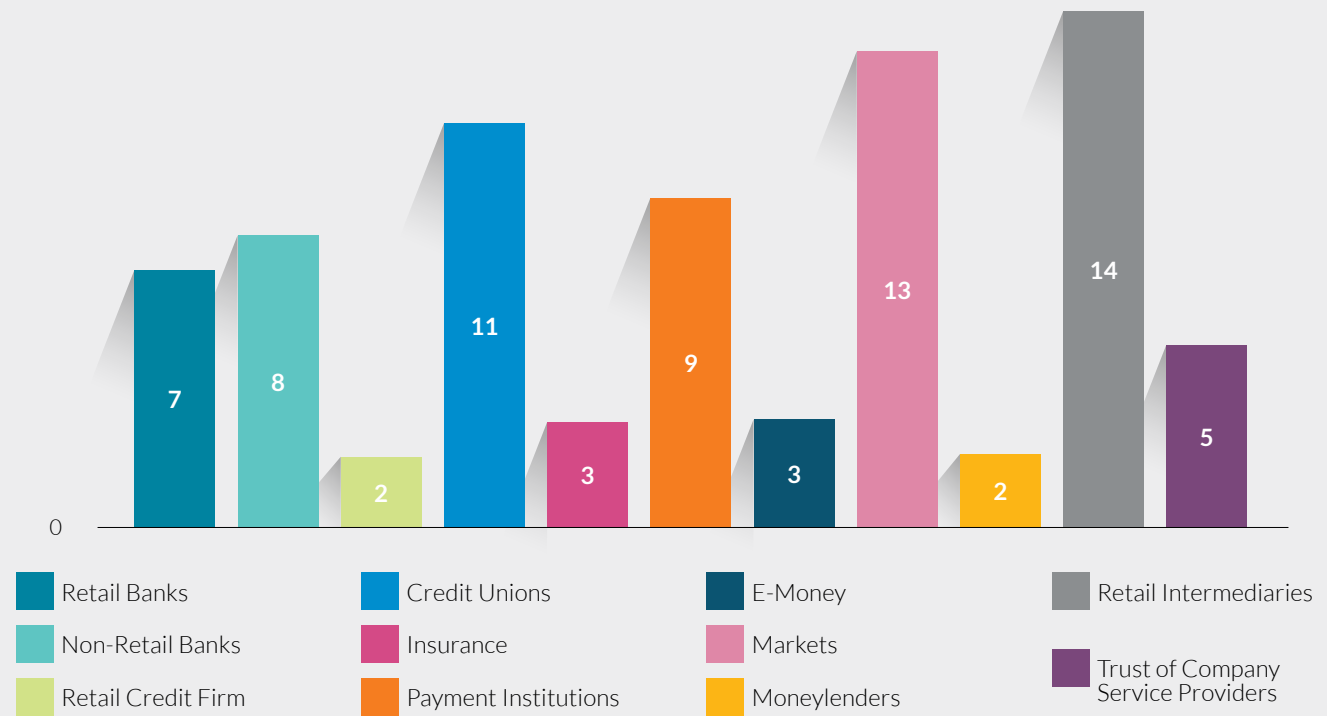
### Anti-Money Laundering (AML) and Counter Terrorist Financing (CFT) Risk-Based Supervision

- Financial Action Task Force (FATF):** The effectiveness of the Central Bank's AML supervision was assessed by the FATF as part of its evaluation of Ireland's AML framework. The strong performance in the FATF assessment was a significant achievement by the Central Bank in 2017. As a result Ireland is now one of only two countries in the EU to achieve a rating of "substantial" level of effectiveness, for AML supervision under the Fourth Round of Mutual Evaluations. The evaluation led to positive findings and limited recommendations for improvements for the Central Bank's AML supervision. Further information is contained in Chapter 5.
- AML/CFT risk assessment module:** A bespoke AML/CFT risk assessment module within PRISM was rolled out in 2017 in which AML/CFT supervisory engagement and risk rating on PRISM is separate and distinct from prudential and consumer supervisory engagements and risk ratings. This risk-based approach ensures that firms with a higher level of risk are subject to more frequent and comprehensive supervision, while also providing for responsive inspections based on specific intelligence. The Central Bank continued to apply a graduated risk-based approach to AML/CFT supervision. It carried out 77 on-site inspections, held 83 review meetings and issued 309 Risk Evaluation Questionnaires to firms for completion.
- Outreach to industry:** A key component of the Central Bank's AML/CFT supervision strategy is communications and outreach to industry and during 2017, the Central Bank published bulletins on Suspicious Transaction Reports and Customer Due Diligence as well as participating in over 20 speaking engagements around Ireland.

ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

CHART 10

2017 AML and CFT Inspections



CASE STUDY 9:

AML/CFT Supervision

In line with the Central Bank’s risk-based approach to AML/CFT supervision, a high risk firm was selected for inspection in early 2017. Arising from the inspection of the firm, material deficiencies were identified in key areas including AML/CFT risk assessment, policies and procedures, customer due diligence, transaction monitoring, suspicious transaction reporting and training. The Central Bank requested that the firm take immediate action to remediate the deficiencies identified. Given the nature and extent of the deficiencies identified, the Central Bank indicated to the firm that it would seek to direct the firm to cease providing services, until such time as the deficiencies identified were fully remediated. In March 2017, the firm decided to cease activity immediately and formally sought revocation of its authorisation from the Central Bank.

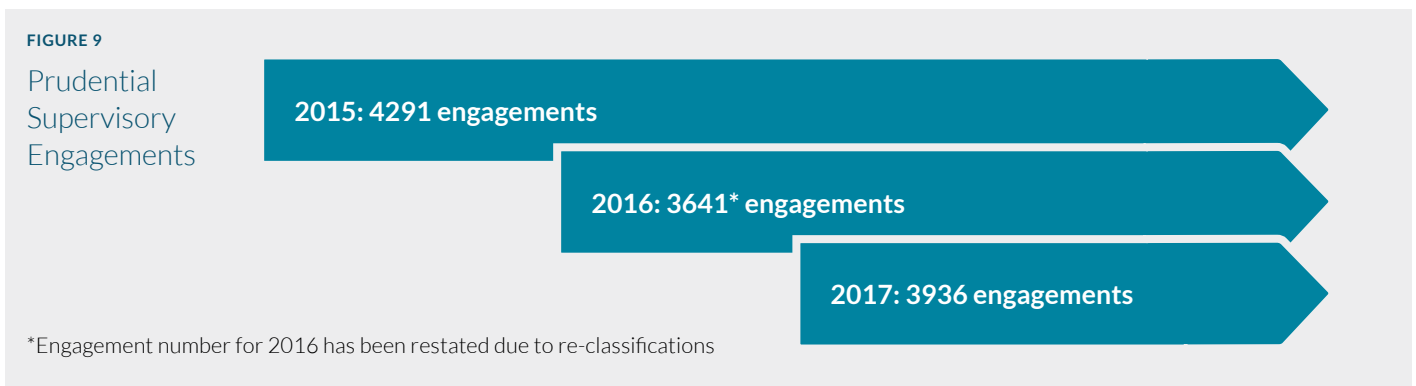
The Central Bank expects firms to be aware of their AML/CFT obligations and have robust AML/CFT controls in place. Over the past number of years, these expectations have been set out in sectoral reports/bulletins, and are regularly communicated to industry through events and presentations.

ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

2.2.3 Supervisory engagement was enhanced through the use of thematic inspections and data analysis.

**Supervisory Engagements and Themed Inspections**

On-site inspections activity has deepened considerably in terms of intensity and intrusiveness, starting in banking supervision in late 2014 and extending to insurance and the asset management sector more recently. The Central Bank’s analytical capabilities were strengthened and a number of additional work streams added to enhance overall supervisory outcomes.



*On-site inspections and thematic reviews*

During 2017 on-site inspections and thematic reviews covered a wide range of topics as set out in **FIGURE 10** below. In most instances these inspections resulted in a number of key findings which were discussed with the regulated firms and culminated in comprehensive risk mitigation plans for each of the institutions. In other instances, the Central Bank’s output was in the form of “Dear CEO Letters”. Examples of some key findings from these inspections are highlighted in case studies 10 and 11.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 10:

#### CAST Thematic Reviews – Implementation of Client Asset Risk Management Requirements by Investment Firms

The Client Asset Regulations 2015 (CAR) came into effect in October 2015. The Central Bank's Client Asset Specialist Team (CAST) undertook a themed review during Q1 2017 to assess how investment firms, who are permitted to hold client assets, have implemented the new CAR Risk Management requirements; to evaluate how the role of the Head of Client Asset Oversight (HCAO) is discharged; and to evaluate how the Client Asset Management Plan (CAMP) has been developed and embedded.

A sample of five investment firms was selected, capturing a diverse range of business models, and with different levels of exposure to client asset risks. The review was split into two stages, an initial desk-based review, followed by an on-site inspection of each selected entity.

The thematic review highlighted that while firms have made significant progress in implementing the CAR Risk Management requirements, further work is required in order to strengthen and improve the industry practices that have developed. The review confirmed that the role of the HCAO was being discharged by individuals with relevant knowledge, experience and authority, who were, in most instances, adequately independent of the performance of day-to-day client asset processes.

All selected firms had a CAMP in place with adequate base content captured. However, it was apparent that the depth and scope of CAMPs varied across the sample firms. CAST identified that further work is required to develop and embed the CAMP and improve its effectiveness.

Following each individual on-site inspection, CAST determined the necessary recommendations/risk mitigation actions in relation to each of the five sample firms. The aim of the inspection series was to collate common findings, including good practices observed, into an industry letter, which was published on 20 April 2017. The letter was issued directly to all investment firms permitted to hold client assets under their authorisation, in the form of a "Dear CEO Letter". Finally, the Central Bank referenced the findings from the Client Asset thematic review at industry events.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 11:

#### Thematic On-site Inspection of Outsourcing by Life Insurance Undertakings in the Cross-Border Life Insurance Sector

Outsourcing was identified as a priority area for review given the fact that many firms in this sector outsource critical activities to Third Party Administrators. Additionally, Solvency II has imposed new requirements with respect to oversight of outsourcing arrangements and it was considered timely to investigate compliance with the relevant legislation and guidance.

The inspection considered the governance and operational risk of outsourcing arrangements in place in seven firms and their third party administrators. As part of the review, the inspection team spent up to a week onsite at each firm and related third party administrator involved.

The thematic inspection identified that weaknesses exist in the following areas:

- Board and Committee oversight in relation to performance of outsource providers;
- Roles and responsibilities of three lines of defence including the Risk Function and Internal Audit Function with respect to oversight of outsourced activities;
- Business continuity and exit planning undertaken by companies to ensure appropriateness of arrangements in place and alignment with the companies' risk appetite and business needs. Also ensuring necessary arrangements are fully reflected in the outsourcing contracts in place;
- Documentation of policies and procedures in relation to operation and oversight of critical activities, including roles and responsibilities; and
- Full compliance with Solvency II requirements related to the contents of Outsourcing Agreements and Outsourcing Policies was not always observed.

Good practices were also identified including first line oversight of outsourced activities, regular and layered governance forums between the parties, and examples of strong independent verification controls were observed. However, it was noted that these practices varied significantly between companies and were not evident in all of the companies inspected.

Company specific findings and recommended actions have been communicated directly to the relevant companies, and will inform ongoing supervisory engagement with these firms during 2018.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### 2.2.4 Enforcement powers were used effectively to achieve strong outcomes and credible deterrence.

Trust and confidence in financial services, underpinned by high standards, with integrity at their core, are key objectives for industry as well as for regulators. Where these standards are not achieved, the Central Bank will use its full array of enforcement and supervisory powers to address bad practices and behaviours. By taking enforcement action, the Central Bank seeks to deter poor practices, ensure compliance and effect redress.

The Central Bank issues public statements at the conclusion of enforcement actions. These statements are vital to the delivery of the Central Bank's strategy of credible deterrence and to ensure that enforcement operates in a transparent manner, informing the financial sector and consumers about the issues identified, how a firm or individual fell below the expected standard, why a particular regulatory response was adopted and what lessons are available generally from the particular case.

#### *Enforcement Outcomes*

Where firms and individuals fail to comply with their regulatory requirements, enforcement action serves to impose dissuasive and proportionate sanctions, in order to achieve widespread compliance. The Central Bank's enforcement powers include:

- **Revocations and Refusals of Authorisations:** The Central Bank revoked the authorisations of six firms which failed to comply with their authorisation requirements in 2017. In addition, the Central Bank refused one application for authorisation from an applicant regulated financial service provider.
- **Administrative Sanctions:** During 2017, the Central Bank sanctioned 11 financial institutions pursuant to its Administrative Sanctions Procedure (ASP); imposing fines totalling €7,239,970.

Four of the ASP cases concerned breaches of anti-money laundering (AML) obligations; resulting in fines totalling €6,550,000. The firms sanctioned comprised of two retail banks (The Governor and Company of the Bank of Ireland; Allied Irish Banks, p.l.c), a credit union (Drimnagh Credit Union Limited) and a cross-border insurer (Intesa Sanpaolo Life dac), highlighting that AML compliance is a continuing priority for the Central Bank across all financial services sectors.

A further notable outcome was the sanction imposed on Merrion Stockbrokers Limited in December 2017 for inadequate systems or controls to ensure that individuals working within the firm complied with the F&P Standards. This was the Central Bank's first action of this type and was significant because it sent a message to firms that they too play a role in ensuring that the right type of individuals are working in regulated firms. Although the Central Bank vets senior individuals as part of its gatekeeper role, firms are the gatekeeper for all other individuals in the sector and are responsible on an ongoing basis for ensuring that all individuals working for them comply at all times with the F&P Standards.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 12:

#### Sanctions imposed in respect of breaches of the Criminal Justice Act

The Central Bank fined and reprimanded the Governor and Company of the Bank of Ireland (BoI) in May 2017 for 12 breaches of the Criminal Justice Act 2010. This was the Central Bank's third enforcement action for AML/CFT failures by a retail bank.

The Central Bank's investigation identified significant failures in the firm's AML/CFT framework, including:

- Inadequate risk assessment;
- Delays in reporting suspicious transactions; and
- Weaknesses in the firm's policies and procedures in relation to customer due diligence, trade finance and correspondent banking.

The fine of €3,150,000 reflected the high volume and range of breaches uncovered, the higher money laundering/terrorist financing risk of the retail banking sector and BoI's central role in the Irish financial services system.

- **Cases at Inquiry**

**INBS:** The substantive oral hearing in the Inquiry concerning alleged regulatory breaches by Irish Nationwide building Society (INBS) and five persons formerly concerned in its management commenced in late 2017 and will continue throughout 2018. Mr Michael Fingleton, former CEO of INBS, is one of the individuals whose conduct is being considered by the Inquiry. Mr Fingleton's challenge to the Inquiry proceedings was dismissed by the High Court in 2016. Mr Fingleton appealed this decision on various grounds and this appeal was heard on 20 June 2017. The Court of Appeal's decision was delivered in April 2018.

**Quinn Insurance Limited (QIL):** The Inquiry into various alleged regulatory breaches by QIL and two persons formerly concerned in its management continued throughout 2017, namely Mr Liam McCaffrey and Mr Kevin Lunney. In 2017, Messrs McCaffrey and Lunney instituted proceedings seeking to challenge the Inquiry on a number of grounds. The High Court heard these proceedings in June 2017, and ultimately dismissed all of the challenges brought, confirming that the Inquiry process is constitutional, and that the power of the Central Bank to recover its investigative and Inquiry costs is lawful.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### Tracker Mortgage Investigations

Two enforcement investigations in relation to tracker mortgage-related issues arising in permanent tsb plc and Ulster Bank Ireland DAC continued throughout 2017. In December 2017, an enforcement investigation was commenced against a further lender and more will follow. As outlined in the “Tracker Mortgage Examination Progress Report” (December 2017), the Central Bank expects that all of the main lenders will face enforcement investigations.

### F&P Investigations

The Central Bank issued two prohibition notices in 2017 using its powers under the F&P regime. In June a prohibition notice issued to Ms Anne Butterly, the former managing director of Rush Credit Union, which was placed into liquidation by the Central Bank in November 2016, for her role in misappropriating funds at Rush Credit Union. As a result, Ms Butterly is prohibited from holding roles in the financial services sector indefinitely.

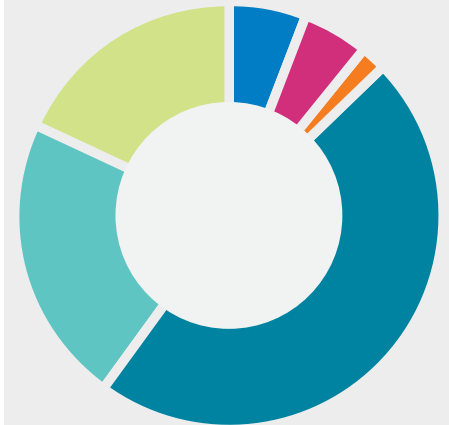
A further prohibition notice was issued by the Central Bank in December 2017 to another individual and a decision will be made on publication of the notice in due course. The Central Bank also conducted F&P investigations into persons currently working in regulated firms in 2017; four investigations were ongoing at end-year.

### F&P Applications & Assessments

The Central Bank’s mandate to deliver proper and effective regulation of financial institutions and markets is effected through a range of tools, one of which involves the assessment of applications by sector and by status. In 2017, when compared with 2016, there was a reduction in the number of applications both returned as incomplete (37%) and withdrawn by the applicant (13%).

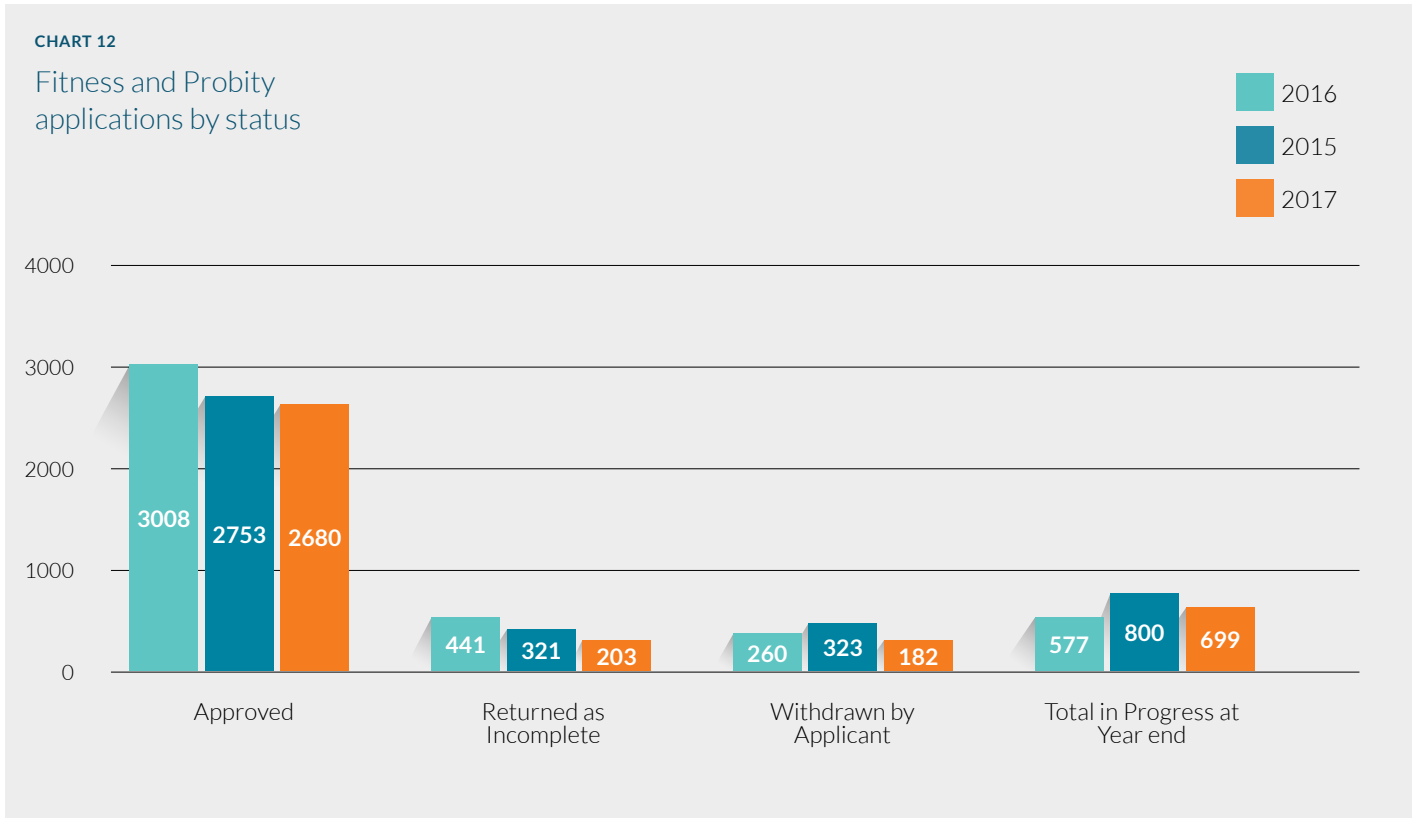
CHART 11

Fitness and Probity applications by sector



Funds & Fund Providers	47%
Insurance/Reinsurance Companies	18%
Credit Unions	5%
Consumer Protection**	22%
Investment Firms (MiFD and IIA)	6%
Credit Insitutions	2%

ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK



As part of the Central Bank’s gatekeeper function, the Enforcement Division is involved in assessments where there are specific F&P concerns regarding individuals who are seeking approval to work in senior positions in firms. In 2017, the Enforcement Division was involved in 25 F&P assessments. Of these assessments, seven of the applications were withdrawn during the process, typically before or after an interview with the Enforcement and the Supervisory Divisions.

The Central Bank was also responsible in 2017 for defending a refusal of an individual’s application for approval as an authorised person on F&P grounds before the Irish Financial Service Appeals Tribunal (IFSAT). Enforcement lodged submissions defending the Central Bank’s decision but ultimately the appellant withdrew the appeal and IFSAT awarded costs to the Central Bank.

The Enforcement Division also assumed responsibility as the national ‘horizontal function’ with a specific remit to ensure continuity in all SSM F&P assessments in the state. Together with supervisory colleagues, the Enforcement Division was involved in 17 SSM F&P assessments in 2017, each involving one or more interviews with the applicants. One applicant withdrew from the assessment process following a second interview.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 13:

#### The Gatekeeper process in operation

An individual applied for non-executive board positions with a credit servicing firm and a fund. These applications were received in close succession.

The Central Bank had concerns as to whether the individual was sufficiently competent to perform the particular roles and in particular whether the individual understood the responsibilities of a non-executive director. The assessment process involved two interviews to test this.

Following these interviews, the Central Bank notified the applicant that after consideration of the relevant information it was minded to refuse the application. Having considered this preliminary opinion of the Central Bank, the applicant subsequently withdrew his application.

It is a criminal offence for an unauthorised firm/person to provide financial services in Ireland that would require an authorisation under the relevant legislation. Investigations into unauthorised activities by the Central Bank play a key role in consumer protection, as consumers who deal with unauthorised firms/persons will not have access to the following protections:

- investor compensation schemes;
- the services of the Financial Services and Pensions Ombudsman;
- the directors and senior management of unregulated firms are not subject to the Central Bank's F&P Regime; and
- unregulated firms are not subject to prudential requirements such as regulatory capital requirements or safeguarding of client funds.

In 2017, the Central Bank dealt with 217 queries from the public in relation to alleged unauthorised activity and investigated 153 new cases of alleged unauthorised activity. The Central Bank published 26 warning notices, naming 27 unauthorised firms. The Central Bank's Unauthorised Providers Unit presented to the Retail Intermediary Roadshows this year to highlight the role of the Central Bank with respect to unauthorised providers of regulated financial services.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### *Protected Disclosures*

The receipt of protected disclosures reports is an important supervisory tool in allowing members of the public or staff members of regulated entities to provide such reports in a confidential form to the Central Bank. Various supervisory actions have been initiated by the Central Bank following the receipt of protected disclosures reports including: enforcement action, on-site inspections conducted, RMPs issued and firms placed on a watch list.

In 2017, the Central Bank experienced a substantial increase in the number of disclosures made to the Protected Disclosures Desk; 93 protected disclosures received in 2017 compared to 50 in 2016.

The Central Bank receives protected disclosures under a number of distinct regimes both at European and domestic levels and a particular area of focus over the past year has been to ensure that its processes are adapted to take account of these different emerging regimes (e.g. European Union (Market Abuse) Regulations 2016 and the European Union (Payment Services) Regulations 2018). The Central Bank has dedicated email, telephone and postal address for persons wishing to make protected disclosure reports. All details are contained on a dedicated section of the Central Bank's website.



ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

**2.3 Regulatory Policy Development**

**Desired outcome:**  
**Regulatory frameworks are appropriate and effective.**

A high-quality and effective regulatory framework is essential in ensuring firms operate to high standards. It provides the basis for supervising and enforcing the key principles of organisational and financial soundness, consumer protection, and effectively functioning markets.

The Central Bank engages actively in the European regulatory policy process, contributing to the development of regulatory frameworks and supporting the work to transpose those rules into Irish law.

The Central Bank ensures that prudential and conduct regulation is maintained and implemented on an ongoing basis, having regard to the changing environment and new activities and products developed by firms and markets.

**Key actions and activities undertaken in 2017 to achieve this desired outcome include:**

**2.3.1 The Central Bank influenced the EU and International Regulatory Framework**

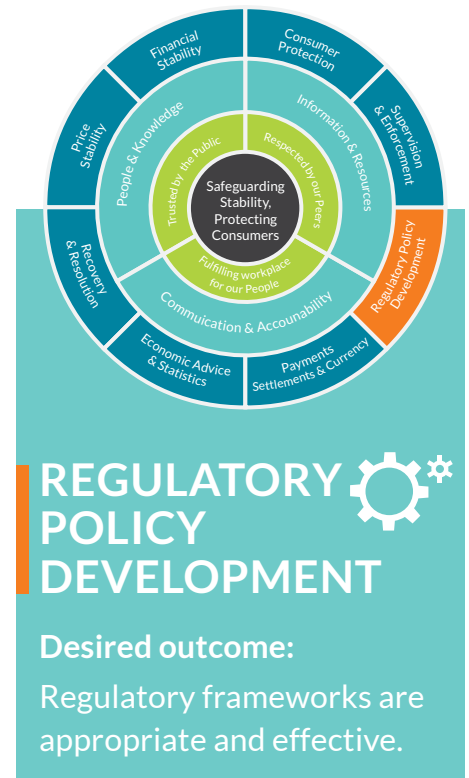
Ireland is part of the broader European System of Financial Supervision. This includes the European Central Bank (ECB), the Single Supervisory Mechanism (SSM); the European Systemic Risk Board (ESRB); the European Supervisory Authorities (ESAs), including the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA); and National Competent Authorities (NCAs), such as the Central Bank.

In the banking sector, the ECB is ultimately responsible for supervision, discharged through the SSM, which comprises the ECB and NCAs. In the insurance and markets sectors, supervision is the responsibility of the NCAs, operating as part of the wider European regulatory environment.

Staff from across the Central Bank play an active role in networks and working groups to share knowledge and experience with the aim of delivering high quality regulation both from a prudential and consumer perspective. The Policy and Risk Directorate leads and coordinates this engagement with the ESAs and plays an important role in monitoring and analysing developments at EU level and ensuring there is an effective flow of information across the Central Bank.

**SSM**

The Central Bank provides technical and policy advice on issues arising at the SSM Supervisory Policies Network and the SSM Supervisory Board. Throughout 2017, this included the development of the ECB's Opinion on Amendments to the Union framework for capital requirements of credit institutions and investment firms and on a number of Brexit related policy stances (including on authorisations, supervisory equivalence and booking models).



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

The Central Bank has been active in sharing its knowledge and experience with the Network of Enforcement and Sanctions Experts and the Network of Authorisations Experts and seeks to influence the direction of enforcement and authorisations policy through the networks.

The Central Bank chairs the SSM F&P working group, which works to develop policy stances to ensure a higher level of harmonisation of F&P assessments across the SSM.

### *ESRB*

The asset management sector, and investment funds in particular, has experienced strong growth over the past decade. The potential for systemic risk arising from investment fund activities remains under scrutiny by prudential and financial stability authorities. During 2017, the ESRB's Expert Group on Investment Funds, chaired by the Central Bank, presented five draft Recommendations concerning liquidity and leverage risks in investment funds to the ESRB's General Board. The purpose of the ESRB Recommendations is to address potential systemic risks related to liquidity mismatch and the use of leverage in investment funds.

The ESRB Recommendations cover liquidity management tools including:

- EU legislative provisions to limit the extent to which the use of liquidity transformation in open-ended alternative investment funds contributes to the build-up of systemic risks;
- Investment fund stress testing;
- Undertakings for Collective Investment in Transferable Securities (UCITS) reporting requirements; and,
- Guidance on Article 25 of the Alternative Investment Fund Managers Directive, which permits national competent authorities to impose leverage limits on alternative fund managers in certain circumstances.

The General Board adopted the package of Recommendations with the intention of making them public once the statutory procedure involving the European Council is finalised.

### *ESAs*

Brexit was a focus at the ESAs during 2017 with relevant output from all three during the year, this included:

- One general and three sector-specific ESMA Opinions related to Brexit aimed at fostering consistency in authorisation, supervision and enforcement related to the relocation of entities from the United Kingdom to remaining EU members;
- ESMA's supervisory convergence work was expanded in 2017 with the establishment of a Supervisory Co-ordination Network in which the Central Bank also participates. The network is focused on authorisation and supervision issues related to investment firms, asset managers and trading venues seeking to relocate to one of the EU 27 members due to Brexit;

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

- An EBA Opinion on Brexit to ensure the consistent application of EU legislation to businesses seeking to establish or enhance their EU27 presence in order to retain access to the EU Single Market; and
- An EIOPA Opinion on supervisory convergence in light of the United Kingdom withdrawing from the European Union seeking to foster convergence and consistency in the authorisation processes across Member States.

### *EBA*

Key outputs from the EBA in 2017 were the following:

- An Opinion on the design and calibration of a new prudential framework for investment firms, specifically tailored to the needs of investment firms' different business models and inherent risks;
- Revised Guidelines on Internal Governance aimed at further harmonising institutions' internal governance arrangements, processes and mechanisms across the EU, in line with the new requirements in this area introduced in the CRD IV;
- Joint EBA and ESMA Guidelines on the assessment of the suitability of members of management bodies and key function holders;
- Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses. The Guidelines are part of the EBA's work on the implementation of IFRS 9 and its interaction with prudential requirements; and
- Two public consultations relating to the new EU Securitisation framework in 2017 on: (i) the draft Regulatory Technical Standards (RTS) specifying the requirements for originators, sponsors and original lenders related to risk retentions; and (ii) the draft RTS specifying criteria for the underlying exposures in securitisation to be deemed homogeneous.

### *EIOPA*

Key outputs from EIOPA in 2017 were the following:

- Following the implementation of Solvency II, convergence on supervisory outcomes across Member States continued to be one of EIOPA's strategic priorities with further work undertaken on the EIOPA supervisory handbook to drive this convergence. The Central Bank worked with EIOPA and other supervisors across Europe to ensure that the European Insurance regulations, and the supervisory framework which underpins them, are implemented as intended. The Central Bank also participated in a number of EIOPA Peer Reviews. Please refer to Section 5.1 for further detail on the completion of the Financial Action Task Force (FATF) mutual evaluation of Ireland;
- An "Opinion on the Harmonisation of Recovery and Resolution Frameworks for Insurers in the EU" addressed to the European Union, aimed at addressing the variety of approaches to recovery and resolution in the European Union, and questioned the extent to which these may be barriers to the resolution of cross-border insurance groups;



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

- As part of its review of the Solvency Capital Requirement (SCR), as required by the Solvency II Directive, EIOPA provided advice to the European Commission on a number of areas of the SCR with further advice to be provided in Q1 2018.

### ESMA

Key outputs from ESMA in 2017 were the following:

- The Central Bank was re-elected as chair of ESMA's Investment Management Standing Committee (IMSC). The IMSC issued opinions on: UCITS share classes; asset segregation under UCITS and AIFMD; depositary delegation rules for CSDs; and draft implementing technical standards and guidelines under the EU Money Market Fund Regulation.
- A number of MiFID II related Guidelines were published, including: transaction reporting; order record keeping and clock synchronisation; the calibration, publication and reporting of trading halts; the management body of market operators and data reporting services providers; and product governance requirements. ESMA issued MiFID II Technical Standards on the scope of the consolidated tape for non-equity financial instruments and package orders for which there is a liquid market. ESMA also issued a series of MiFID II-related Opinions and Q&As.
- ESMA is mandated to take an active role in building a common supervisory culture among national competent authorities to promote sound, efficient, and consistent supervision throughout the European Union. The Supervisory Convergence Standing Committee (SCSC) helps in the co-ordination of this work. The Central Bank is also involved in the ESMA Supervisory Convergence Work Programme, having participated in a peer review on the compliance function guidelines. The purpose of this review was to assess compliance by National Competent Authorities with the Guidelines, identify good practices and potential areas for improvement. A final report was published by ESMA in November 2017.

### *Consumer Protection and Financial Innovation*

The Central Bank also participated in the consumer protection and financial innovation work of the three European Supervisory Authorities and FinCoNet, to influence the future shape of consumer protection.

### AML/CFT

The Central Bank provided input into AML/CFT policy development at European and international level as well as actively participating in national AML/CFT committees, including:

- Playing a leading role in the FATF mutual evaluation of Ireland that was published in September 2017, and inputting into national implementation plans that have arisen from the recommendations in the mutual evaluation report. The Central Bank also participated at FATF working groups and plenary meetings throughout the year. Please refer to Section 5.1 for further detail on the completion of the Financial Action Task Force (FATF) mutual evaluation of Ireland;

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

- In addition to attending and actively contributing to quarterly meetings of the European Supervisory Authorities' AML Committee (AMLC), the Central Bank was a member of AMLC working groups, including Central Contact Points of Payment Service Providers and E-Money Issuers, the Virtual Currencies Task Force and the Joint Task Force of Agents of Payment Institutions and E-Money Distributors; and
- Providing technical assistance to government departments on transposition of the 4th EU AML Directive and proposed EU AML changes under the 5th EU AML Directive.

### *ESAs Review*

The European Commission proposed a series of legislative measures to strengthen the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB) in September 2017. This followed a consultation on the operations of the ESAs in the first half of 2017 to which the Central Bank provided a response in May. The legislative measures, which are currently under consideration by the Council of Ministers and the European Parliament, are being closely monitored by the Central Bank in order to provide technical analysis and assistance to the Department of Finance during the negotiations.

The Central Bank attended a hearing on the proposals at the Oireachtas Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach in November 2017. During the hearing, the Central Bank delivered an opening statement and presented its views from a regulatory and supervisory perspective on the various issues. The Central Bank's contribution in relation to the proposals is expected to continue throughout 2018.

### *Joint Committee of the ESAs*

During 2017, the Central Bank actively participated in the work of the Joint Committee of the three ESAs. Key outputs from the Joint Committee included:

- Publication of two reports on the risks and vulnerabilities in the EU financial system;
- Development of Level 3 Q&As on the PRIIPs Regulatory Technical Standards;
- Publication of the 2017 list of Financial Conglomerates;
- Drafting the content of the 2018 Joint Opinion on the Money Laundering/Terrorist Financing risks affecting the Union's financial sector;
- Development of the criteria for determining when agents and e-money distributors should be considered as establishments for passporting purposes;
- Development of the draft RTS on the criteria Member States should use when deciding whether foreign institutions that operate establishments other than a branch on the Member State's territory should appoint a Central Counterparty (CCP) and what the functions of that CCP should be; and
- Drafting a public feedback document on a discussion paper on the use of Big Data in financial institutions.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### 2.3.2 The Central Bank contributed to and supported the ongoing development of a strong international and domestic Regulatory Framework and Central Bank Policy and Supervisory frameworks were implemented

#### *MiFID II*

The revised Markets in Financial Instruments Directive and the Market in Financial Instruments Regulation (together MiFID II) comprise a new legislative framework to ensure fairer, safer and more efficient markets and facilitate greater transparency for all participants. The protection of investors is strengthened through the introduction of new requirements on product governance, investment advice, responsibilities of management bodies, inducements, transparency and best execution. MiFID II represents one of the most significant changes to securities market regulation in Europe since the financial crisis.

MiFID II came into force on 3 January 2018 in Ireland by the European Union (Markets in Financial Instruments) Regulations 2017 (SI No 375 of 2017). The implementation of the new MiFID II regulatory framework is a key action of the Strategic Plan 2016-2018.

In order to ensure the Central Bank's preparedness for MiFID II, as a national competent authority, staff across the organisation:

- Engaged at a European level in relation to the negotiation and finalisation of various level two and three measures;
- Overhauled the authorisation process;
- Provided technical assistance to the Department of Finance on the statutory instrument which implements MiFID II in Ireland; and
- Delivered MiFID II technical training.

A major MiFID II Implementation Programme was launched to successfully implement and operationalise the provisions of MiFID II. Throughout 2017, the Central Bank drove awareness of the impact of MiFID II through effective engagement with external stakeholders, in particular, the assessment of regulated firms to ensure that there is an appropriate level of preparedness for the new investor protection and product governance obligations (see earlier [CASE STUDY 7](#)) and also by participating in industry events. The programme also included new technology to receive the increased level of trade transaction reporting. The project will continue into 2018.

The Central Bank's regulatory requirements for investment firms are set out in the Central Bank Investment Firms Regulations 2017. These Regulations were amended in order to address some changes arising from MiFID II implementation, particularly in the context of the Central Bank's requirements regarding client assets.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK



### *Submission to the Law Reform Commission's Issues Paper on Regulatory Enforcement and Corporate Enforcement*

In December 2017, the Central Bank provided a submission to the Law Reform Commission's Issues Paper on Regulatory Enforcement and Corporate Enforcement.

The submission contains observations on the Central Bank's enforcement powers and recent legislative reform, and some specific observations on criminal powers, individual responsibility for regulatory breaches and reckless decision-making. It then sets out some experience-based responses to the issues covered in the Law Reform Commission's paper, specifically the standardisation of regulatory powers, civil financial sanctions, the coordination of regulators and jurisdiction for regulatory appeals.

The Law Reform Commission's work, which the Central Bank supports, is part of ongoing efforts to ensure that regulators are not hampered in achieving their full potential and delivering a credible threat of enforcement.

### *Reducing risk in the Banking sector*

The European Commission presented a package of legislative proposals for credit institutions and investment firms in November 2016 proposing amendments to the CRR, the CRD, the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR) proposals. The package's primary objective is to reduce overall risks in the banking sector by implementing a set of financial regulation reforms in EU law agreed at the international level following the 2008 financial crisis. During 2017, the Central Bank provided extensive technical advice to the Department of Finance throughout the Financial Services' Working Party negotiations on the prudential elements of the package. The IFRS 9 and large exposures transitional arrangements elements of the package were successfully concluded with the European Parliament on 25 October 2017. The remainder of the package is still under consideration at the EU Council.

IFRS 9 "Financial Instruments" became effective from 1 January 2018. It introduces an Expected Credit Loss Model (ECL) approach to accounting for provisions, which requires more adequate and timely recognition of provisions, replacing IAS 39 'Financial Instruments: Recognition and Measurement' and the Incurred Loss Model. During 2017, the Central Bank contributed to initiatives in respect of IFRS 9 including:

- The EBA's second qualitative and quantitative impact assessment of IFRS 9;
- Finalisation of the EBA Guidelines on Credit Institutions' Credit Risk Management Practices and accounting for Expected Credit Losses;
- Development of transitional arrangements to phase in the regulatory capital impact of IFRS 9;
- Development of an Operational Tool for use in the SSM Thematic Review on IFRS 9;
- Withdrawal of the existing Impairment Provisioning and Disclosure Guidelines; and
- Publication of a statement outlining supervisory expectations (aligned with SSM expectations) for Irish institutions in the context of implementing IFRS 9.

The package's primary objective is to reduce overall risks in the banking sector by implementing a set of financial regulation reforms in EU law agreed at the international level following the 2008 financial crisis.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### *Solvency II*

Embedding the Solvency II regulatory framework remained a focus in 2017. In November, the Central Bank issued a Consultation Paper on the authorisation and supervision of branches of third country insurance undertakings<sup>14</sup>. The consultation was open until early February 2018 and the policy position will be finalised thereafter. In addition, the Central Bank provided technical advice to the Department of Finance on the European Union (Insurance and Reinsurance) (Amendment) Regulations 2017 (S.I. No. 384 of 2017) which transpose the EU legislation into national law. These Regulations were introduced to more accurately reflect provisions of the Solvency II Directive.

### *Department of Finance Cost of Insurance Working Group*

In 2017, the Central Bank continued to participate in the Department of Finance Cost of Insurance Working Group (CIWG). The Department of Finance review, commenced in 2016 to examine a number of issues across the non-life sector, continued throughout 2017 via the CIWG. The CIWG issued a report on the cost of motor insurance in January 2017. Protecting the consumer and providing greater transparency to motor insurance policyholders are key themes of the report and the accompanying recommendations. The Central Bank continues to participate in the next phase of the CIWG's work on the cost of Employers and Public Liability Insurance with a report issued in January 2018 including actions and recommendations.

### *Credit Unions Regulatory Framework*

The overall focus of the Credit Union regulatory framework is to ensure that it remains appropriate, up-to-date and supports prudent development of the sector. Two key areas of focus for 2017 were the Investment Framework for Credit Unions and the F&P Regime for Credit Unions. Two consultation papers were published:

- CP109 "Potential Changes to the Investment Framework for Credit Unions" which proposed additional investment classes for credit unions with associated concentration and maturity limits and credit quality requirements; and
- CP113 "Consultation on Potential Amendments to the F&P regime for Credit Unions" which set out the Central Bank's view that the tailored F&P regime for credit unions remains appropriate and proposed the introduction of three additional pre-approved control functions (PCFs) (Risk Management Officer, Head of Internal Audit and Head of Finance) for credit unions with total assets of at least €100m.

Following consideration of feedback and statutory consultation, the Central Bank published the feedback statement on CP109 in January 2018 with the final amending regulations commenced on 1 March 2018. The feedback statement for CP113 and amending regulations will be published in Q1 2018.

<sup>14</sup> <https://www.centralbank.ie/publication/consultation-papers/consultation-paper-detail/cp115-consultation-on-the-authorisation-and-supervision-of-branches-of-third-country-insurance-undertakings-by-the-central-bank-of-ireland>

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 14:

#### Study on Exchange Traded Funds

Ireland is a European hub for Exchange Traded Funds (ETFs), with 730 Irish authorised ETFs currently authorised and supervised by the Central Bank. These ETFs have over EUR333bn in assets under management. At a global level, ETFs are receiving a significant amount of regulatory attention and this looks set to increase further in 2018. Work streams include those within the Financial Stability Board (FSB), the European Systemic Risk Board (ESRB) and at the International Organisation of Securities Commissions (IOSCO). The Central Bank takes a leading role in each of these work streams and is therefore well placed to influence the outputs and further develop the Central Bank's reputation as a leader in global and European securities regulation.

In May, the Central Bank published a discussion paper to inform the Central Bank's approach to (ETFs) and to assist it in contributing to international policy formulation. There were 27 responses and the paper was well received internationally.

In November, the Central Bank also hosted an international conference on ETFs in Dublin, attended by over 420 people comprising academics, investor representative bodies, industry participants and policy makers. The conference consisted of keynote speeches by Mr Paul Andrews (Secretary General of IOSCO) and Dr Scott Bauguess (Deputy Chief Economist and Deputy Director of the Division of Economic and Risk Analysis from the US SEC) and panel discussions on specific issues related to ETFs. The conference received positive feedback externally, both from other regulatory authorities and industry representatives.

The information gathered as part of the discussion paper and conference will form part of a formal feedback statement to be published by the Central Bank in 2018.

The Credit Union Advisory Committee (CUAC) Implementation group was established in 2017 to oversee and monitor implementation of CUAC's recommendations following its review on Implementation of the Recommendations in the Commission on Credit Unions Report. The group consisting of members from the credit union representative bodies, the Central Bank, the Department of Finance and a CUAC representative met 9 times in 2017 and has provided the Central Bank with papers on longer-term lending limits and engagement with credit unions for consideration.

In November 2017, the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach published a Report on the Review of the Credit Union Sector with specific reference to the Credit Union Advisory Committee Review of Implementation of the Recommendations in the Commission on Credit Unions Report (June 2016).

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

This report made a number of recommendations including recommendations relating to the legislative framework and regulatory requirements for credit unions which will inform our work in 2018.

### *FinTech*

In 2017, the Central Bank established a cross-bank group on FinTech. The FinTech Group is looking at technological innovation across the range of sectors and activities and seeks to ensure that the Central Bank has an holistic view of those developments and considers how the Central Bank responds to them. Details of work planned in relation to developing a Central Bank FinTech strategy in 2018, are set out in Section 3.3.

#### **2.3.4 Development and maintenance of the Central Bank's risk-based framework for supervision (PRISM)**

In 2017, the Central Bank continued to develop and enhance its risk-based supervisory framework and related IT tools (PRISM) for the supervision of authorised firms. In this respect, the Central Bank rolled out a new engagement model within PRISM for the Registry of Credit Unions in December 2017.

The PRISM framework includes the performance of regular quality assurance reviews to assess the Central Bank's supervisory engagement with regulated firms. The quality assurance work seeks to ensure that risks within firms are properly identified, understood and mitigated in a timely manner, and that consistency and quality of supervisory decisions and judgements are maintained.

The Central Bank completed a series of specific Environmental Risk Assessments (ERAs) on a sectoral basis using four lenses; the macroeconomic environment, the operating environment, the financial market environment and the regulatory environment. ERAs assist senior management and supervisors in conducting their forward-looking risk assessments of regulated firms. The impact of Brexit, regulatory developments, financial market valuation, political instability, and the domestic and international economies were all key drivers of ERAs in 2017.

ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

2.4 Recovery and Resolution<sup>15</sup>

**Desired outcome:  
Frameworks are in place to ensure failed or failing regulated firms go through orderly resolution**

Regulation 7(1) of the BRRD Regulations 17 requires the staff involved in carrying out the functions as resolution authority to be structurally separate from and subject to separate reporting lines to the staff involved in other functions of the Central Bank, including staff carrying out the supervisory functions. Regulation 7(1) of the BRRD Regulations require adequate structural arrangements to be put in place where the resolution authority and the competent authority are the same entity, without prejudice to the necessary exchange of information between the areas.

In order to implement a structural separation, the Central Bank’s resolution functions are located in the Central Banking pillar. In this way, the functions of the Central Bank, as resolution authority, are structurally separated from the supervisory and other functional areas. The structural separation ensures operational independence and the avoidance of conflicts of interest.

2.4.1 Continued progress was made in recovery and resolution planning with action taken as required.

There has been significant progress in recovery and resolution planning in the last two to three years. However, more work needs to be done by regulated firms to develop credible and executable recovery plans, and to address impediments to resolution - including the raising of Minimum Requirement for own funds and Eligible Liabilities (MREL) for credit institutions, and addressing operational continuity issues. The absence of a resolution framework for insurance undertakings is a concern, and will be a focus of the Central Bank’s engagement in European forums in 2018.

**Resolution Planning**

The Central Bank, in conjunction with the Single Resolution Board (SRB), further developed resolution plans for the Irish licensed banks in 2017. In addition to the establishment of holding companies by the two largest domestic retail banks, which significantly enhances their resolvability, resolution plans for all Irish banks and in-scope investment firms were further developed. In the 2017 resolution planning process, there was a focus on the identification and removal of impediments to resolvability, identification of critical functions and further advancement of the operationalisation of the bail-in tool and the other resolution tools contained in the Bank Recovery and Resolution Directive (BRRD).

**RECOVERY AND RESOLUTION**

**Desired outcome:  
Frameworks are in place to ensure failed or failing regulated firms go through orderly resolution**

<sup>15</sup> Notably under the Strategic Responsibility Recovery and Resolution, significant aspects to this responsibility lie with the Central Banking Pillar, namely where the Central Banks acts as the National Resolution Authority and Macroprudential Authority under the BEED.



## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

In order to ensure resolution actions can be executed effectively, close cooperation between the resolution and other relevant authorities is required. In order to facilitate decision-making with respect to cross-border institutions, the BRRD provides for the creation of resolution colleges at which relevant authorities can share their views on resolution matters for the relevant institution. The Central Bank hosted and participated in a number of resolution colleges in 2017 for Irish and non-Irish parented institutions.

### *Recovery Plans*

Engagement with institutions during 2017 has driven significant improvement in credit institutions' recovery options and planning frameworks; however, credit institutions still have further work to complete to ensure that they have credible, appropriate recovery plans for a variety of eventualities. Through ongoing review and engagement in 2018, the Central Bank will work to ensure that effective recovery plans are in place.

### *Undertake Resolutions*

The Central Bank liquidated Charleville Credit Union Limited in accordance with the 2011 Act and the Companies Act 2014 during 2017. The Central Bank took this action in order to ensure the protection of members' savings. See [CASE STUDY 15](#) for further detail.

### *Assist Consolidation*

Restructuring of the credit union sector, with the aim of putting weaker and non-viable credit unions on a more financially and operationally sound basis, effected by way of mergers of individual credit unions, continued during 2017, albeit at a reduced level compared to 2016, with 18 voluntary transfers and one liquidation taking place. The number of registered credit unions at 31 December was 288, compared to 313 at the start of 2017.

The Credit Union Restructuring Board (ReBo) which was established on a statutory basis on 1 January 2013 to facilitate and oversee the voluntary restructuring of the credit union sector, concluded its role in facilitating and incentivising transfer projects at 31 March 2017. Twenty cases in progress were handed over to the Central Bank, of which seven subsequently completed, one ceased and the balance are still progressing. A further 22 new transfer projects commenced post-ReBo.

## ACHIEVEMENT OF THE STRATEGIC RESPONSIBILITIES OF THE CENTRAL BANK

### CASE STUDY 15:

#### Charleville Credit Union Limited (in liquidation)

On 13 November 2017, liquidators were appointed to Charleville Credit Union Limited (Charleville). Since 2009, the Registry had extensive regulatory engagement with Charleville concerning its reserve position, credit risk, governance and viability. Charleville failed to address these matters in a sustained manner and also failed to comply with its obligation to raise and maintain the required minimum reserve of 10% of total assets. At the time of the liquidator's appointment, regulatory reserves were below the minimum of 10% of total assets.

Since March 2016, when it decided to pursue a transfer of engagements (ToE) strategy, Charleville attempted, and failed, to implement any ToE. Following the final failed attempt at a TOE, the Central Bank formed the view that:

- it was unlikely that a viable ToE could be implemented;
- it was not in the interests of its members for Charleville to be allowed further time to try to identify another potential transferee; and
- it was not in the interests of the members of Charleville, nor the credit union sector as a whole, for the Central Bank to exercise any further forbearance with regard to their inability to comply with its regulatory obligations.

On 13 October 2017, following an application by the Central Bank<sup>16</sup>, the High Court appointed Joint Provisional Liquidators to Charleville and subsequently confirmed the appointment of the joint liquidators to Charleville on 13 November 2017. All members' savings were fully protected in Charleville. Following the invocation of the Deposit Guarantee Scheme, payments issued to approximately 10,900 members of Charleville with the compensation paid amounting to approximately €39.2 million, representing over 98% of eligible deposits covered by the scheme.

Credit union services were restored to the Charleville area through two credit unions, Mallow Credit Union Limited and Kilmallock Credit Union Limited.

<sup>16</sup> <https://centralbank.ie/docs/default-source/news-and-media/press-releases/wesley-murphy-affidavit.pdf>



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A photograph of a modern office interior. The space is characterized by large glass walls and a clean, minimalist design. In the foreground, there are several blue armchairs and a white coffee table. In the background, people are seen working at desks and in a meeting area. The lighting is bright and even.

# Our Strategic Priorities for 2018

# Our Strategic Priorities for 2018

The Central Bank's mission statement is "Safeguarding Stability, Protecting Consumers". To help achieve this mission, our goal is a financial system that is well-managed, well-regulated, and serves the needs of the economy and consumers over the long term. The Central Bank's supervisory objectives are to ensure consumers' interests are protected and to safeguard financial stability by seeking to ensure that regulated firms:

- act in the best interests of consumers;
- are financially sound and safely managed with sufficient financial resources;
- are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them;
- have frameworks in place to ensure failed or failing providers go through orderly resolution; and
- have sustainable business models which are profitable over the long term.

This is all underpinned by a robust regulatory framework and methodologies: effective, intrusive, analytical, evidence-based and outcome-focused supervision; and a credible threat of enforcement action where necessary and appropriate.

The Central Bank's priorities for 2018 include core supervisory activity; on-site inspection activity; strengthening the Central Bank's approach to the delivery of its financial conduct mandate; the Tracker Mortgage Examination; driving forward a consumer and risk-focused culture agenda, including diversity in regulated firms; Brexit; financial innovation; and the use of data analytics to enhance our supervisory approach.

This chapter provides a summary of Central Bank priorities for 2018 in relation to the key Financial Regulation Strategic Responsibilities set out below, specifically:

- Consumer Protection;
- Supervision and Enforcement; and
- Regulatory Policy Development.

## OUR STRATEGIC PRIORITIES FOR 2018

### 3.1 Consumer Protection

**Desired outcome:**

**Regulated firms act in the best interests of consumers**

The Central Bank's mission statement is "Safeguarding Stability, Protecting Consumers". In pursuit of a well-functioning, well-managed and well-regulated financial services system that is underpinned by a strong culture of compliance, with firms and individuals within firms acting in the best interests of their customers, backed up by comprehensive and enforceable legislation, rigorous supervision, a credible threat of enforcement and powers of redress when consumers have suffered detriment.

#### 3.1.1 The Consumer Protection Framework

A key element of the Central Bank's role is ensuring that the consumer protection regulatory framework is fit for purpose and working for consumers. This is particularly important in the face of emerging trends and products, and the pace and scale of technological innovation in the delivery of products and services to consumers:

- The Central Bank will continue to support the Department of Finance with its work to transpose key EU directives into Irish law, as well as working to review and update existing codes to reflect the changes arising from the new European legislation.
- Following publication of research and a Consultation Paper on mortgage switching measures, enhanced mortgage switching measures to be included in the Central Bank's Consumer Protection Code, will be finalised in 2018.
- Following publication of a Consultation Paper on Intermediary Inducements in November 2017, the Central Bank will bring forward additional measures to be included in the Consumer Protection Code that seek to avoid conflicts of interest arising from inducement arrangements, and provide greater transparency for consumers in this area.
- A Consultation Paper proposing enhancements to the Consumer Protection Code for Licensed Money Lenders was published in March 2018.
- The Central Bank will continue its ongoing monitoring of market developments and will conduct consumer research to inform its work, including publishing this research and key trends observed in the market, in order to inform the wider discussion of consumer protection issues.

#### 3.1.2 Consumer Protection Supervision

The Central Bank will continue to challenge firms through its supervisory work to consistently deliver fair outcomes for their customers:

- The ongoing Tracker Mortgage Examination is a key priority for the Central Bank and it is expected that all relevant lenders will have made redress and compensation payments by mid-2018. Further updates will be issued in 2018 as the Tracker Mortgage Examination progresses.



## OUR STRATEGIC PRIORITIES FOR 2018

- The Central Bank will conduct a review of culture in the five main retail banks in 2018. The review will be underpinned by the enhanced CPRA Model, which facilitates the Central Bank in determining how firms identify and manage consumer risks, including the risk that a firm's culture does not promote and support the protection of consumers. The Central Bank is working with the Dutch Central Bank (De Nederlandsche Bank), recognised leaders in the supervision of behaviour and culture, who will participate in on-site inspections at lenders.
- The Central Bank will engage with firms' boards and senior management to ensure that there is a clear focus from the top on embedding and measuring firms' own cultural change programmes.
- Systems failures and errors will be monitored to ensure that firms are delivering on their obligations to ensure that consumers are kept fully informed of any issues, and that the impact on the consumer is dealt with in a timely and appropriate way.
- The Central Bank will advance its initiatives to facilitate smaller firms in better understanding their responsibilities, including hosting roadshows around the country and the publication of newsletters for a number of industry sectors.
- The Central Bank will also commence/complete a range of thematic inspections/reviews, including:
  - aspects of lending to SMEs by retail banks;
  - insurance companies selling niche/add-on insurance; and
  - payment institutions' safekeeping of client funds.

### 3.1.3 Gatekeeper

The Central Bank will continue to act as gatekeeper, by assessing applications from firms and individuals seeking authorisation to provide financial services and granting authorisations to only those who meet the minimum standards:

- The Central Bank will assess the authorisation applications of firms transitioning from PSD1 to PSD2, with all firms which submit applications by 13 April 2018 having their authorisation assessment completed by the statutory deadline of 13 July 2018.
- The Central Bank will also assess applications from new firms seeking authorisation as a payment institution or electronic money institution under PSD2. During 2018, these applications will be progressed in line with the relevant authorisation requirements and standards.
- Applications for authorisation from other retail sectors including bureaux de change, retail intermediaries, debt management firms, retail credit firms, credit servicing firms and moneylenders will continue to be assessed in line with the relevant authorisation requirements and standards.

OUR STRATEGIC PRIORITIES FOR 2018

**3.2 Supervision and Enforcement**

**Desired outcome:**

**Regulated firms are financially sound and safely managed**

In 2018, the Central Bank will continue its programme of risk-based, intrusive, outcome-focused supervision, anchored in PRISM (and for banks in SSM) supervisory methodologies, and underpinned by enforcement action where necessary and appropriate.

This will be achieved through day-to-day supervisory team engagement with regulated firms; in-depth and intensive inspections; and high quality analysis designed to support and challenge the supervisory work, with particular focus on current challenges and evolving priorities such as Brexit, MiFID II and NPLs.

**3.2.1 Core Supervisory Activity**

The Central Bank will continue to mitigate risks identified through its intrusive supervisory engagement plan. In 2018, this will include a wide range of existing supervisory methods including on-site inspections and deep dives, in addition to the regular series of desktop reviews and meetings, to achieve supervisory goals. The intense level of regular engagement with the institutions will continue as part of how the Central Bank supervises regulated firms. The Central Bank will also continue to follow-up on outstanding supervisory remediation actions across institutions, ensuring appropriate closure of the actions and embedding of the changes in the institutions.

Having a robust on-site inspection capability complements the day-to-day supervisory work undertaken. The Central Bank will continue with its risk-based programme of supervisory engagement in 2018. The engagement model provides for regular scheduled on-site inspections of higher-risk firms, with reducing frequency and intensity of engagements for non-high risk firms. The Central Bank will also continue to undertake thematic and targeted inspections in areas that are of high concern and influenced by emerging risks in the relevant sector.

The Central Bank continues to invest in its analytics infrastructure. The methodologies and tools used in data analysis are constantly evolving with potential to increase the efficiency and effectiveness of supervisory capability. The Central Bank will continue to enhance the tools available to it, to enhance its risk-based and data-driven approach to supervision. The Central Bank will also seek to develop its use of data to assist in the supervision of firms by identifying outliers which will be subject to further investigation, where appropriate. The use of analytical tools and techniques will also be used to identify firms to be included in thematic inspections.

In 2018, this will be achieved as follows:

- For banks, there will be a comprehensive onsite-inspection programme covering a wide range of areas including EBA/SSM 2018 Stress Tests, credit risk, regulatory reporting, operational risk, business models and pricing to drive improvement in the overall prudential risk profiles of the retail banks and to contribute to safeguarding stability of the financial system. There will also be a continuation of the targeted review of internal models (TRIM).



## OUR STRATEGIC PRIORITIES FOR 2018

- The Registry of Credit Unions aims to refine its proportionate supervisory approach to ensure more frequent and intensive engagement with larger credit unions and more targeted supervision of smaller credit unions.
- The Insurance on-site inspections team will focus on risk management frameworks in groups; business model analysis of cross border business (with a focus on companies selling non-life products to small businesses and consumers); and reporting and data quality and governance.
- In the asset management sector, inspection methodologies will be developed to implement best practices in the examination of risk with a particular focus on operational, governance, conduct and IT risks. The Client Asset Specialist Team will maintain its level of engagement with all firms authorised to hold client assets and investor money, a key feature of which is regular on-site inspection activities.
- Monitoring of AML/CFT compliance of firms in sectors with a lower risk of money laundering and terrorist financing will be conducted through random spot check inspections and through communications and outreach to industry. A comprehensive programme of AML/CFT/FS review meetings will supplement these on-site inspections.

Nonetheless, as with any organisation, and in any year, there will always be particular issues and priorities that warrant highlighting.

### 3.2.2 Brexit & Authorisations

Brexit will be a key area of supervisory focus and it is expected that institutions' business plans are sufficiently robust to address the impact of Brexit in whatever form it takes. Supervisors will engage actively with industry, in particular those firms and funds with exposure to the UK to ensure that they are appropriately prepared for all Brexit scenarios, and will continue to challenge firms on the impact Brexit may have on their market and business models, to ensure that firms are proactively undertaking contingency planning. The work of the Central Bank's Brexit Taskforce will continue in this regard, maintaining a watching brief over preparedness and potential impacts of Brexit across the financial services sector.

Arising from Brexit, a number of UK operations are planning to relocate their banking, insurance, MiFID business and payment institutions into Ireland or materially expand their existing Irish operations. The scale and complexity of these new business models and operations substantially increases the potential for conduct-related risk, particularly wholesale conduct. The Central Bank will have responsibility for the supervision of wholesale conduct and is developing a risk-based supervisory strategy for wholesale conduct supervision including authorisation and inspection capabilities. The Central Bank will also continue to enhance its approach to market surveillance and supervision, taking into account the impact of MiFIR and the Central Bank's expanded remit and obligations in this area.



## OUR STRATEGIC PRIORITIES FOR 2018

The authorisation process forms a key part of the Central Bank's gatekeeper role. Assessing applications for authorisation will be a particular focus for the Central Bank in 2018 with the expected increase in applications for authorisation as a result of Brexit. The Central Bank has recruited additional authorisation resources in order to process these applications. Furthermore, staff from other supervisory areas, with particular areas of expertise, will be temporarily redeployed if necessary.

The Central Bank will be open and engaged with firms seeking authorisation or expansion of business to ensure that proposals are fully comprehensive regarding the business strategy, governance and management of risks. The assessment of each application received will be made in line with legislation and requirements, including SSM as applicable, and will be completed within required timelines.

Authorisation decisions will be supported by appropriate and proportionate analysis in line with the developing policy implementation stances that are agreed within the Central Bank and across the European fora. The Central Bank will continue to be part of, and influence, the development of these policy decisions regarding the authorisations process itself and also the consequences for the supervision of any new firms or business models.

One of the biggest challenges for the Central Bank in 2018 will be the potential impact and increased workload arising from the outcome of Brexit.

### 3.2.3 Sector Specific Priorities

The advent of new regulations and directives including MiFID II, PSD2 and the prudential impacts of the new IFRS9 accounting standards and GDPR will result in a broadening of our supervisory approach. This will include identification and monitoring of the new and increased risks that accompany the introduction of these new requirements and legislation, as well as changing technology. Examples of sector specific priorities for 2018 include:

- Compliance with MiFID II will be a key area of focus for supervisory engagement in 2018. During the first half of the year, supervisors will seek to assess the implementation by firms of the new regulations. In the second half of the year, there will be a focus on targeted firm visits and thematic reviews. This will include assessing compliance with requirements under product governance, fees and disclosure and research.
- Embedding Solvency II as well as promoting supervisory convergence with European regulatory colleagues will be a key focus. The Central Bank expects to see a successful transition of Solvency II to "business as usual".
- The Central Bank's longer-term objective is for banks to reduce NPLs to insignificant levels, ensure their business models are robust and that they are well governed, adequately capitalised, well funded and resolvable.

## OUR STRATEGIC PRIORITIES FOR 2018

- The Central IT Risk Team comes into effect in 2018 with responsibility for conducting on-site inspections and supporting ongoing supervision in the areas of IT and Cyber Risk across all regulated sectors such that the IT risks institutions face is managed and mitigated appropriately. This will build upon the cross-sector work of the IT Experts in 2017 and enhance the Central Bank's understanding and oversight of the IT risks and the maturity and effectiveness of associated risk controls in the regulated firms.
- There will be an increase in cross-sector on-site inspections in the areas of governance, culture, and operational risks (including outsourcing), in order to share the knowledge and experience across all regulated sectors and strategically deploy our inspection resources to most effectively reduce the risks that institutions encounter.
- The Central Bank will develop analytical models to provide a better insight into understanding the impact of changes to credit union business models. The Central Bank will also publish statistical information in order to assist credit unions in analysing the performance of their credit union relative to peer groups and provide insights to credit unions on key trends, which may inform them in the development of their strategies.
- The Central Bank will develop and enhance the technology infrastructure to receive and analyse all data related to securities markets and investment fund supervision. Making optimal use of the rich dataset that MiFIR, EMIR, the Organisation for International Investment (OFII) and AIFMD provides is a priority. This will assist and inform the Central Bank's supervisory judgements on market abuse cases, markets surveillance and supervisory actions concerning particular firms or funds. Furthermore, it will enable the Central Bank to meet the challenges of authorising, supervising and inspecting a portfolio of diverse and increasingly complex business models and sectors.

## OUR STRATEGIC PRIORITIES FOR 2018

### 3.2.4 Effective use of Enforcement powers to achieve credible deterrence and promote compliance

The Central Bank will continue its targeted use of enforcement and sanctioning powers in order to hold regulated firms and individuals to account where their behaviour fails to meet the required standards, with the public communication of enforcement outcomes serving to promote compliance with core standards and behaviours within the financial services industry generally.

In 2018, this will be achieved by:

- Rigorously progressing a range of enforcement actions against firms and individuals across the full spectrum of the regulated sector;
- Progressing the tracker mortgage related enforcement investigations into permanent tsb plc and Ulster Bank Ireland DAC, as well as the further enforcement investigation into a third lender which commenced in December 2017. As set out in the Central Bank's "Tracker Mortgage Examination Progress Report – December 2017", it is expected that all of the main lenders will face enforcement investigations and that all investigations will have commenced by the end of 2018. All enforcement measures will be considered in these investigations, including taking cases under the Central Bank's Administrative Sanctions Procedure and, if there is evidence that individual behaviour does not meet the required standards, the Central Bank's F&P regime;
- Continuing to assist the ongoing Inquiries into INBS, QIL and the various individuals who are the subject of these inquiries. Enforcement will also defend any further legal challenges to these Inquiries;
- Supporting supervisory colleagues in ensuring that the Central Bank has a robust gatekeeper function, preventing those who do not meet the required standards of F&P from entering the sector; and
- Maintaining and deepening the Central Bank's strong working relationship with other law enforcement and regulatory bodies, such as the Garda National Economic Crime Bureau, the Office of the Director of Public Prosecutions, the Financial Services Ombudsman and the Consumer Protection and Competition Commission. The Central Bank will continue to work with these bodies to ensure appropriate enforcement policy coordination as necessary and share experience related to investigatory powers and techniques and related issues of common interest.

OUR STRATEGIC PRIORITIES  
FOR 2018

**3.3 Regulatory Policy Development**

**Desired outcome:  
Regulatory frameworks are appropriate and effective**

**3.3.1 Actively contribute to the development of relevant laws, regulations and technical standards in Europe.**

The Central Bank will continue to positively engage and influence ECB strategy and emerging policy and maintain cooperative and effective relationships within the SSM and with the ESAs.

Ongoing engagement with the ESAs via the Boards of Supervisors and other operational committee meetings will ensure that the Central Bank contributes to the effective development of EU regulation, supporting the ongoing embedding of regulatory developments such as MiFID II and Solvency II. This is also important in terms of building relationships and collaborating with other regulators.

The Central Bank will continue its engagement with key stakeholders, covering work of the FSB, ESRB, IOSCO and the ESAs. This will include providing support for the Central Bank senior management on the Boards of ESMA and IOSCO as well as in support of the Governor in his capacity as chair of the ESRB’s Advisory Technical Committee (ATC).

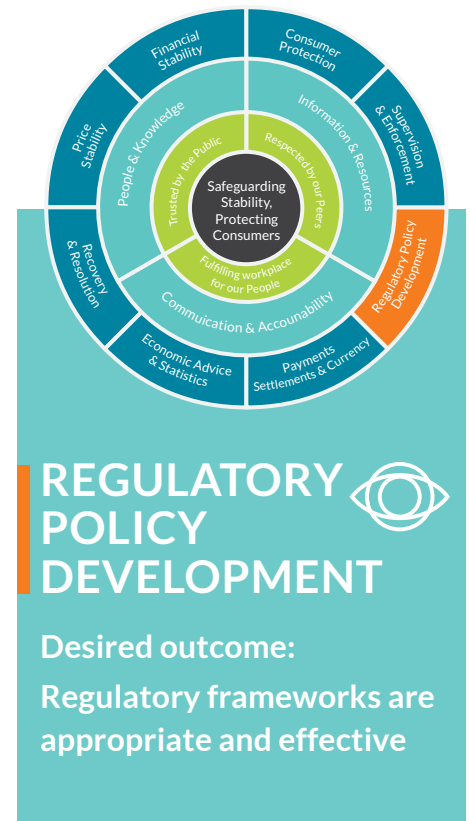
The Central Bank will actively participate at national and international AML/CFT fora, including the Anti-Money Laundering Steering Committee and the ESAs’ Anti-Money Laundering Committee and working groups.

Furthermore, the Central Bank will actively participate in the SSM Enforcement and Sanctions Network, the SSM Network of Authorisation Experts and the ESMA Enforcement Networks and their associated working groups.

**3.3.2 Develop and maintain the Central Bank’s regulation, standards and guidance for firms and markets.**

The Central Bank will continue to provide technical support and advice to the Department of Finance during the following critical negotiations at EU Council:

- Finalising proposed amendments to the CRD and the CRR – The Central Bank will work together with peers in the EBA and the SSM to analyse the implications of these proposals and to develop relevant guidance and technical standards required on foot of the finalised package, as appropriate;
- Electronic Data Information Source (EDIS) negotiations;
- Transpositions of the Money Market Fund Regulation (MMFR) and Prospectus Directive (PDIII) to assist in ensuring that national implementing Statutory Instruments are in place by the relevant dates;
- Covered Bonds - The Central Bank will engage with the Department and stakeholders in relation to any changes that may be warranted to the domestic Covered Bonds framework;



## OUR STRATEGIC PRIORITIES FOR 2018

- IFRS9 - Following implementation on 1 January 2018 there will be a number of initiatives during 2018 to analyse the impact of IFRS9; and
- As the European Commission progresses its proposal for an EU framework on crowd and peer-to-peer finance, the Central Bank will provide technical assistance to the Department of Finance, as required.

The Central Bank will analyse legislative proposals in relation to the cross-border distribution of investment funds; capital requirements for investment firms; and the proposed Regulation for the Recovery & Resolution of a Central Counterparty (CCP).

The Central Bank will undertake work in relation to changes to the Investment Limited Partnerships (1994) legislation as well as in relation to transitioning from Central Bank rulebooks to regulations under the 2013 Central Bank Act in the areas of investment funds, investment firms and markets. The Central Bank will also examine the issue of investment fund pricing errors and breaches of regulatory limits.

The Central Bank intends to explore options to facilitate assigning responsibility to senior personnel in order to address difficulties that regulators can encounter in assigning responsibility to individuals in a regulatory and enforcement context.

The Central Bank will consider submissions to Consultation Paper (CP115) on the Authorisation and Supervision of Branches of Third-Country Insurance Undertakings and will finalise its position on the authorisation of third country branches.

Following MiFID II transposition, the Central Bank will focus on MiFID II implementation, addressing queries from external and internal stakeholders. Where appropriate, the Central Bank will seek to ensure that implementation issues are addressed through ESMA.

In respect of insurance undertakings, the Central Bank will issue guidance on the authorisation and supervision of Solvency II SPVs and provide technical advice and input to the further development of proposals for a Pan-European Pension Product (PEPP).

For credit unions, the Central Bank will publish loan provisioning guidelines and a consultation paper on long-term lending limits.

### **3.3.3 Provide and maintain the policy framework to support effective supervision of regulated firms and markets.**

The continued review and evolution of the PRISM framework will be a priority in 2018, with particular focus on the Impact Model within PRISM and its supporting metrics. Other areas of focus include the Central Bank's supervisory approach across the Consumer Protection Directorate and the Asset Management Supervision Directorate. This will include a review of the PRISM guidance to reflect current supervisory practices and recent regulatory changes including drafting new guidance addressing cultural assessments in firms and wholesale conduct.

## OUR STRATEGIC PRIORITIES FOR 2018

Quality assurance will be provided to senior management on the effectiveness of our supervisory approach through a range of internal reviews and Risk Governance Panels.

Building on the guidance issued in 2016, the Central Bank will continue work on the development and implementation of the Central Bank's internal IT and Cyber Risk Strategy throughout 2018.

The Central Bank will develop an organisation-wide FinTech strategy, building on our initiatives and contributions at an EU and international level to date. This will include the development of an engagement model on FinTech. The strategy will feed into the Central Bank's work domestically and at EU and international fora.

### **3.3.4 Develop a financial regulation policy response to Brexit-related developments**

The Central Bank will continue to be actively involved in the development and framing of the financial regulation policy response to Brexit while recognising the political dimension and that certain issues must be dealt with at Government level.

The Central Bank will monitor Brexit developments via its Brexit Task Force to ensure an integrated and comprehensive understanding of the key risks arising while continuing to develop an analysis of the key risks from a supervisory and regulatory perspective in order to determine the appropriate regulatory response. The Central Bank will update our published Brexit FAQs to communicate these policy responses.

In a European context, the Central Bank will be closely involved in the work of the ECB/SSM and the three ESAs, with a view to shaping a common approach to the key financial regulatory and supervisory issues that emerge as a result of Brexit. This work aims to mitigate against regulatory and supervisory arbitrage as UK firms seek to relocate aspects of their business to other EU Member States in order to maintain a capacity to operate across the EU on a freedom of services or freedom of establishment basis post Brexit. It is essential to ensure that, regardless of where a firm relocates to, it can expect a consistent application of the applicable EU regulatory standards and intrusive ongoing supervision of its activities. To the extent possible, the ESAs will also consider and seek to address risks to consumers and users of financial services.

The Central Bank will also meet regularly with the Department of Finance and key industry stakeholders to share information and assist in developing respective responses to Brexit related issues.



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# Internal Audit

# Internal Audit

The objective of Internal Audit is to act as the independent “third line of defence” within the Central Bank’s governance framework. It is the responsibility of the Central Bank’s operational management to establish appropriate systems of internal controls. Thus, operational management acts as the first line of defence. The risk management, control, compliance and oversight functions established and deployed by management represent the second line of defence. Internal Audit provides independent, objective assurance and consulting activities designed to add value and to improve the performance of the Central Bank’s tasks and activities. In doing so, it assists the Central Bank in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

During 2017, Internal Audit conducted audits across a number of Financial Regulation areas including: the Registry of Credit Unions’ Supervisory Framework and Inspections Model and the Quality Assurance of the Supervisory Functions. All issues identified are routinely followed up by Internal Audit to ensure that approved action plans are implemented.

As part of its intelligence gathering and to ensure that Internal Audit keeps abreast of developments and risks within the organisation, Internal Audit regularly attended a number of executive committee meetings and also held meetings with a large number of divisions across the organisation.

Internal Audit submitted regular reports to the Audit Committee on the outcome of all audits including progress in implementing recommendations from previous audits. A three-year plan is prepared on a rolling basis which is approved by the Audit Committee annually.

The Internal Audit Committee (IAC) is the internal audit function for the SSM. One of the responsibilities of the IAC is to conduct audit assurance work as stipulated by the audit plan and as a result, the Central Bank participated in the audit of On-going Supervision – Planning and Monitoring in 2017.





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# International Peer Review

# International Peer Review

## 5.1 Completion of the Financial Action Task Force (FATF) Mutual Evaluation of Ireland

The FATF is an intergovernmental agency that sets the global AML and CFT standards. FATF regularly monitors the progress of its members (Ireland is a member since 1991) in implementing its recommendations through a mutual evaluation process (MER).

The FATF carried out an evaluation of Ireland's AML Framework under its FATF MER over a 14-month period that culminated in publication of the final report in September 2017. The achievement of a positive outcome for Ireland from the FATF MER was a priority for the Central Bank in 2017 as it recognises the importance placed by the Central Bank on safeguarding the integrity of the financial system and protecting consumers by having a robust AML supervisory regime that meets international standards.

The Central Bank played a leading role throughout the MER, which included input into the evaluation of six of the immediate outcomes and over 20 of the FATF technical standards. As such, the Central Bank was key in Ireland achieving positive findings and limited recommendations for improvements on AML financial supervision, which led to a "substantial" level of effectiveness rating for the immediate outcome on supervision meaning only moderate improvements, are required.

This was a significant achievement as Ireland is only the second EU country to achieve such a rating under the Fourth Round of Mutual Evaluations.

## 5.2 EIOPA Peer Reviews

EIOPA's peer review panel conducts regular peer reviews to highlight best practices; strengthen consistency in the application of EU law; and enhance supervisory convergence within the European Economic Area. Such reviews provide NCAs with a means of comparing practices and identifying opportunities to build supervisory convergence in specific and prioritised areas.

Typically, a peer review first consists of a questionnaire issued to all NCAs. Based on these results, a number of NCAs are selected for an on-site visit from the peer review panel. The review panel comprises representatives from different NCAs who have the necessary independence, seniority and expertise in supervisory practices. A final report is published which highlights best practice and may feed into future EIOPA guidance.

### 5.2.1 Q4 2016 Peer Review of Key Functions - Proportionality Principle

Insurance undertakings are expected to have in place proportionate and effective systems of governance which provides for sound and prudent management of their business. In this regard, Solvency II requires insurance undertakings to set up four key functions: compliance, risk management, actuarial and internal audit. The functions are required to be operationally independent, however, different functions may be combined and held by the same individual if deemed appropriate and proportionate to the nature, scale and complexity of the relevant undertaking.

## INTERNATIONAL PEER REVIEW

In Q4 2016, the review panel launched a peer review on how NCAs apply the proportionality principle when assessing key functions, particularly when assessing combinations, subordinations and outsourcing of key functions.

A final report is expected from EIOPA in 2018, at which point the Central Bank will consider any necessary changes to supervisory processes.

### **5.2.2 Q2 2017 Peer Review – Probity Assessment of Board Members and Major Shareholders**

This peer review assessed supervisory practices and processes for the assessment of propriety (i.e. the assessment of probity) of Board Members and Qualifying Shareholders. It also looked at how to supervise fit and proper requirements on an ongoing basis, including cross border cooperation and communication.

A member of staff from the Central Bank's Insurance Directorate is leading this peer review on behalf of EIOPA. The peer review report is expected to be finalised by EIOPA in 2018.

### **5.2.3 Q2 2017 Peer Review – Authorisations Process**

The Central Bank was visited by EIOPA in May 2017 as part of their SPOT (Supervisory Practice Oversight Team) visit programme, reviewing the authorisations process across Germany, France, Belgium, Malta, Luxembourg and Ireland. EIOPA acknowledged a comprehensive, transparent authorisation process in place in Ireland. Key to this is the publication of processes, checklists and guidance on the Central Bank website.

The output of this review helped develop the guidance titled "EIOPA Opinion on supervisory convergence in light of United Kingdom withdrawing from the EU". The stated main aim of the guidance "is to foster convergence and consistency of authorisation processes across Member States".



## Appendix 1: List of Published Documents

### Consumer Protection Research Published in 2017

Name	Date
Consumers Experience of the Motor Insurance Claims Process Research – February 2017	01/02/2017
Mortgage Switching Research – April 2017	11/04/2017
Industry Research on the Digitalisation of Financial Services – June 2017	29/06/2017
Consumer Understanding of Commission Payments – November 2017	22/11/2017
Consumer Experience of Purchasing Gadget Insurance – December 2017	05/12/2017

## APPENDIX 1 LIST OF PUBLISHED DOCUMENTS

## Consultation Papers

Name	Date (opened)	Date (closed)
CP107 Consultation on the Protection of Retail Investors in relation to the Distribution of CFDS	06/03/2017	29/05/2017
CP108 New Methodology to Calculate Funding Levies, Credit Institutions, Investment Firms, Fund Service Providers and EEA Insurers	27/03/2017	28/04/2017
CP109 Consultation on Potential Changes to the Investment Framework for Credit Unions	11/05/2017	28/06/2017
CP110 Consultation on the Implementation of Competent Authority Options and Discretions in the European Union (Capital Requirements) Regulations 2014 and Regulation (EU) No 575/2013	23/06/2017	04/08/2017
CP111 Consultation Paper on the Second Edition of the Central Bank Investment Firms Regulations including changes related to MiFID II	26/07/2017	28/04/2017
CP112 Enhanced Mortgage Measures: Transparency and Switching	26/07/2017	10/11/2017
CP113 Consultation on Potential Amendments to Fitness and Probity Regime for Credit Unions	08/09/2017	10/11/2017
CP114 Consultation Paper on Non-Life Insurance Amendments to the Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007	09/11/2017	09/02/2018
CP115 Consultation on the Authorisation and Supervision of Branches of Third-Country Insurance Undertakings by the Central Bank of Ireland	13/11/2017	05/02/2018
CP116 Intermediary Inducements - Enhanced Consumer Protection Measures	22/11/2017	22/03/2018

## SME Market Report

Name	Date
SME Market Report 2016H2	30/01/2017
SME Market Report 2017H1	25/07/2017

## Discussion Papers

Name	Date (opened)	Date (closed)
Discussion Paper 6 - Exchange Traded Funds	15/05/2017	11/08/2017
Discussion Paper 7 - Digitalisation and Consumer Protection Code	29/06/2017	27/10/2017



## Glossary

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**AIFMD – Alternative Investment Funds Managers Directive** – An EU directive that looks to place hedge funds, private equity and any other alternative investment firms into a regulated framework, in order to monitor and regulate their activity.

**AML – Anti-Money Laundering** – A set of procedures, laws or regulations designed to stop the practice of generating income through illegal actions.

**ASP – Administrative Sanctions Procedure** – Where a concern arises that a prescribed contravention has been or is being committed, The Central Bank may investigate. The Administrative Sanctions Procedure provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement.

**BRRD – Bank Recovery and Resolution Directive** – It establishes a common approach within the European Union (EU) to the recovery and resolution of banks and investment firms.

**CET1 – Common Equity Tier 1** – The Tier 1 common capital ratio is a measurement of a bank's core equity capital compared with its total risk-weighted assets.

**CFT – Countering the Financing of Terrorism** - Measures to be taken to prevent terrorist financing are set out in the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 as amended by the Criminal Justice Act 2013. Credit and financial institutions are obliged to take measures to prevent the financing of terrorism such as carrying out customer due diligence, ongoing monitoring, reporting of suspicious transactions, training and having in place effective policies and procedures.

## GLOSSARY

**CIWG - Cost of Insurance Working Group** - The group was established by the Department of Finance in early 2016 to identify and examine the drivers of the cost of motor insurance and to recommend short, medium and longer term measures to address issues arising.

**CPRA - Consumer Protection Risk Assessment** - This is a supervisory model introduced in 2016 which will allow for better testing and monitoring of firms' progress in embedding fit-for-purpose consumer protection risk management frameworks.

**CRD - Capital Requirements Directive** - A supervisory framework in the EU which reflects the Basel II and Basel III rules on capital measurement and capital standards.

**CRR - Capital Requirements Regulation** - The Capital Requirements Regulation (EU) No. 575/2013 is an EU law that aims to decrease the likelihood that banks go insolvent.

**CSD - Central Securities Depository** - an entity which provides a central point for depositing financial instruments (securities), for example bonds and shares.

**CUAC - Credit Union Advisory Committee** - The Credit Union Advisory Committee was established under section 180 of the Credit Union Act 1997 and acts as an adviser to the Minister for Finance on matters relating to credit unions.

**EBA - European Banking Authority** - The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

**ECB - European Central Bank** - The ECB is the central bank of the Eurosystem.

**EMIR - European Market Infrastructure Regulation** - EMIR implements increased transparency in respect of derivatives, by way of reporting of all derivative contracts (including exchange traded derivatives to trade repositories). Provides for a specific clearing system of derivatives, which breach certain thresholds, provides risk mitigation techniques and sets out requirements for both Central Counterparties and trade repositories.

**EIOPA - European Insurance Occupational and Pensions Authority** - EIOPA was established to support the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries.

**ESA - European Supervisory Authorities** - These Authorities work together in a network, interacting with the existing national supervisory authorities in order to ensure the financial soundness of the financial institutions themselves and to protect users of financial services.

## GLOSSARY

**ESCB – European System of Central Banks** – The ESCB comprises the ECB and the national central banks (NCBs) of all EU Member States whether they have adopted the euro or not.

**ESMA – European Securities and Markets Authority** – ESMA is an independent EU Authority that contributes to safeguarding the stability of the EU's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

**ESRB – European Systemic Risk Board** – The ESRB oversees the financial system of the EU in order to prevent and mitigate systemic risk.

**ETF – Exchange Traded Funds** - An Exchange Traded Fund is an investment fund that trades on a stock exchange, much like a share.

**F&P – Fitness and Probity** - The core function of the Fitness and Probity Regime is to ensure that persons in senior positions within RFSPs are competent and capable, honest, ethical and of integrity and also financially sound.

**FATF – Financial Action Task Force** – Sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

**FS – Financial Sanctions** – Financial sanctions are restrictive measures imposed on individuals or entities in an effort to curtail their financial activities.

**FSB – Financial Stability Board** – The FSB is responsible for macro-prudential actions aimed at preventing and mitigating systemic risks to financial stability.

**FSPs – Fund Service Providers** – Funds service providers is the collective term used to describe the parties providing services to a fund/collective investment scheme.

**IFRS9 – International Financial Reporting Standards** – is a reporting standard issued by the International Accounting Standards Board (IASB). It contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

**IFSAT – Irish Financial Services Appeals Tribunal** – The Appeals Tribunal is an independent tribunal which will hear and determine appeals from aggrieved parties against certain decisions of the Central Bank.

**IMSC – Investment Management Standing Committee** – The committee is responsible for fostering supervisory convergence among national competent authorities, implementation of new rules and providing guidance on existing requirements for the investment funds sector.



## GLOSSARY

**IOSCO – International Organisation of Security Commissions** – The International Organisation of Securities Commissions (IOSCO) is the international body that brings together the world’s securities regulators and is recognised as the global standard setter for the securities sector.

**LCR – Liquidity Coverage Ratio** - The LCR is designed to ensure financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions.

**LIF – Low Impact Firms** – Low impact firms are regulated entities that are considered by the Central Bank to have a low potential adverse impact on the financial stability and the consumer.

**MCC – Minimum Competency Code** – Minimum professional standards for staff of financial service providers when they are dealing with consumers in relation to retail financial products.

**MiFID – Markets in Financial Instruments Directive** – MiFID is the EU legislation that regulates firms who provide services to clients linked to financial instruments (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

**MiFIR – Markets in Financial Instruments Regulation** – The MiFIR Regulation encompasses the rules and guidelines on execution venues, transaction execution as well as pre- and post-trade transparency.

**NCA – National Competent Authority** – The NCA is the legally delegated or invested authority that has the power to perform a designated function.

**NPL – Non-Performing Loans** – A non-performing loan is a loan that is in default or close to being in default.

**OSI – On-Site Inspection** – These are in-depth investigations of risks, risk controls and governance with a pre-defined scope and time frame at the premises of a credit institution. These inspections are risk-based and proportionate.

**PCF – Pre-approval Controlled Function** - These are positions whereby prior approval must be sought from the Central Bank prior to appointing an individual to that role or function.

**PRISM - Probability Risk and Impact System** - The Central Bank’s risk-based framework for the supervision of regulated firms.

**RMP – Risk Mitigation Plan** – A document that is prepared by the institution to foresee risks, estimate impacts, and define responses to issues.

**RTS – Regulatory Technical Standards** - These are standards developed by the European Commission and define the way in which NCAs and market participants must operate.

## GLOSSARY

**RWAs – Risk Weighted Assets** – RWAs represent is a bank’s assets or off-balance-sheet exposures, weighted according to risk.

**SCR – Solvency Capital Requirements** – The SCR reflects a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.

**SCSC – Supervisory Convergence Standing Committee** – The SCSC helps build a common supervisory culture among NCAs to promote sound, efficient, and consistent supervision throughout the EU.

**SEP – Supervisory Engagement Plans** – Engagement plans developed with regulated service providers depending on their risk profile.

**SIs – Significant Institutions** – A significant institution is a bank to which such importance is attached that it is directly overseen by the ECB.

**SRB – Single Resolution Board** – The SRB is a decision-making body which is charged with ensuring that resolution decisions across participating Member States are taken in a coordinated and effective manner.

**SREP – Supervisory Review & Evaluation Process** – The aim of the Pillar 2 processes is to enhance the link between an institution’s risk profile, its risk management and risk mitigation systems, and its capital planning.

**SRM – Single Resolution Mechanism** – The SRM ensures an orderly resolution of failing banks.

**SSM – Single Supervisory Mechanism** – The Single Supervisory Mechanism (SSM) refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries.

**TRIM – Targeted Review of Internal Models** – A project to assess whether the internal models currently used by banks comply with regulatory requirements, and whether they are reliable and comparable.

**UCITS – Undertakings for Collective Investment in Transferable Securities** – UCITS is a mutual fund based in the EU and can be sold to any investor within the EU under a harmonised regulatory regime.



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