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Ms Brid Dunne
Clerk to the Joint Committee
Joint Committee on Finance,
Public Expenditure and Reform, and Taoiseach
Leinster House
Dublin 2

7 June 2017

Dear Ms Dunne,

Thank you for your letter dated 28 April 2017, enclosing a copy of the transcript relating to Mr Jonathan Sugarman's attendance at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach on 13 April 2017.

The matters set out in the transcript of the Joint Committee have been considered by the Central Bank and a response is set out below. In this response, I have outlined the actions undertaken by the Central Bank at the time the breach was reported in 2007 and in response to subsequent allegations made in 2010. I have also set out some additional information on the legislation for persons making protected disclosures to the Central Bank, which was introduced in 2013; the supervisory framework in place for Significant Institutions within the Single Supervision Mechanism (SSM); and the Regulatory Reporting Thematic Inspection referred to within the transcript.

Unicredit Bank Ireland plc

As set out on the UniCredit Bank Ireland plc (UCI) website, UCI is a wholly owned subsidiary of UniCredit S.p.A., based in the International Financial Services Centre in Dublin. The principal business areas of UCI are credit and structured finance (loans, bonds, securitisations, other forms of asset financing), treasury activities (money market, repos, eonia and other interest rate swaps, foreign exchange, futures), issue of certificates of deposit and structured notes. UCI does not operate accounts for individuals and does not offer personal loans.

While we are normally precluded from commenting on firm specific matters, there is significant relevant material already in the public domain. As previously disclosed, in August 2007, the Central Bank received a letter from UCI reporting a breach of the 2006 Requirements for the Management of Liquidity Risk ('the Liquidity Requirements'). The letter outlined that "substantial intergroup lending on 13 August 2007" caused the breach, and that once the breach was identified, it was rectified immediately. UCI confirmed that it was in compliance with its liquidity requirements on 14 August 2007 (the following day). An inspection was subsequently undertaken by the Central Bank in October 2007 and the Central Bank was satisfied that the breach did not suggest a wider or more systematic erosion of the overall liquidity position of UCI.

Following additional claims in 2010 in the media and in Seanad Éireann that numerous breaches at this regulated firm took place in the months following the introduction of the Liquidity Requirements in 2007, a further investigation was carried out by an independent third party upon the instruction of the Central Bank. This firm was engaged in order to provide assurance that UCI was in compliance with relevant liquidity requirements. This investigation did not highlight any further breaches.

Protected disclosures

Since 1 August 2013, new legislation for persons making protected disclosures to the Central Bank came into force under the Central Bank (Supervision and Enforcement), Act, 2013. The Central Bank has established a whistle-blower desk and put in place policies and procedures to ensure such disclosures are received in a confidential forum and are dealt with appropriately.

In broad terms, where a person makes a disclosure in good faith to the Central Bank or one of its employees, and the person making the disclosure has reasonable ground for believing that the disclosure will show that there has been a breach of, or offence under, the financial services legislation or the concealment or destruction of evidence relating to such an offence or breach and provides their name, the disclosure is a protected disclosure. The legislation also introduced an obligation on certain categories of approved persons in regulated firms to disclose breaches of financial services legislation to the Central Bank.

Any correspondence received by the Central Bank through its protected disclosure channel is treated seriously and examined thoroughly. We also take our responsibilities regarding the protection of those making the disclosure with the utmost seriousness.

Single Supervisory Mechanism (SSM)

Prior to 4 November 2014, the Central Bank had overall responsibility for the authorisation and supervision of credit institutions operating in Ireland. Since this date, a number of supervisory responsibilities and decision-making powers for banks moved to the European Central Bank (ECB) through the establishment of the SSM. The ECB is responsible for all core supervisory responsibilities as defined in Council Regulation (EU) No. 1024/2013 ("SSMR"). For Significant

Institutions, such as Unicredit Bank S.p.A., a Joint Supervisory Team ("JST"), led by the ECB and consisting of Supervisors from the ECB, Central Bank and other relevant National Competent Authorities (NCAs) directly supervise these firms. The JST is responsible for prudential supervision of Significant Institutions. As part of our ongoing supervisory engagement, the liquidity positions of banks under the supervision of the Central Bank and ECB are monitored on a regular basis.

In addition to assigning supervisory resources to regulate Significant Institutions, the JST is supported by a number of divisions, one of which is an Inspection Division within the Central Bank, created in late 2014. The inspection teams conduct in-depth investigations of risks, risk controls and governance within credit institutions deploying a number of inspection types: full scope, ad hoc, targeted, follow-up and thematic based on the supervisory risk assessment. The on-site inspections are conducted in an independent manner with respect to the on-going supervision, in close liaison with the JSTs.
In the transcript provided there was reference to the recently publicised 'Thematic Inspection of Regulatory Reporting by International Banks'. This inspection was undertaken to inform the Central Bank as to the quality of the regulatory reporting frameworks and to provide assurance as to the quality and accuracy of regulatory returns. The regulatory reporting requirements for banks have expanded in response to the financial crisis, as it is essential that bank regulators have timely and accurate information in order to evaluate capital adequacy, large exposures and liquidity in firms. It is vital that banks have a robust regulatory reporting framework as the Central Bank places reliance on regulatory returns to enable it to monitor banks and to act in a timely manner where risks arise.

The key themes arising from this inspection included, inter alia, a lack of comprehensive procedural documentation, inadequate resources in the regulatory reporting function, weaknesses in the three lines of defence, errors in calculations and accuracy of returns and finally data quality assurance and data reconciliation. However, as part of this onsite inspection, no instances of breaches of liquidity ratios were identified by the Inspection Team.

A risk mitigation programme was issued to each of the individual credit institutions, following the completion of the inspection, in order to remediate the deficiencies identified within their firm. In cases where the findings identified were deemed material, the ECB/Central Bank reserves the right to take further supervisory action up to and including enforcement action. The ECB/Central Bank will continue to use supervisory and inspection resources to ensure that the issues identified are comprehensively remediated.

I trust the above actions undertaken by the Central Bank following the matters previously raised satisfy you that these allegations have been fully investigated.

Yours sincerely,

Ed Sibley
Director of Credit Institutions Supervision
Central Bank of Ireland