



# IRELAND

## DETAILED ASSESSMENT OF OBSERVANCE OF BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

May 2014

This Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision on Ireland was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in April 2014.

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## DETAILED ASSESSMENT OF OBSERVANCE

### BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

April 2014

Prepared By  
**Monetary and Capital  
Markets Department**

This Detailed Assessment Report was prepared in the context of an IMF stand-alone Reports on the Observance of Standards and Codes (ROSCs) mission in Ireland during September-October, 2013, led by Antonio Pancorbo, IMF, and overseen by the Monetary and Capital Markets Department, IMF. Further information on ROSCs can be found at <http://www.imf.org/external/NP/rosc/rosc.aspx>

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## GLOSSARY

AML	Anti-Money Laundering
ASB	Accounting Standards Board
ASP	Administrative Sanctions Procedure
BCBS	Basel Committee for Banking Supervision
BCP	Business Continuity Plan
BCPs	Basel Principles for Effective Banking Supervision
CBCIR	Central Bank and Credit Institutions (Resolution) Act 2011
CDD	Customer Due Diligence
CBI	Central Bank of Ireland
CJA 2010	Criminal Justice Act 2010
COREP	Common Reporting
CP	Core Principle
CRD	Capital Requirement Directive
CRR	Capital Requirement Regulation
CT1	Core Tier 1 Capital
CTF	Counter Terrorist Finance
DGS	Deposit Guarantee Scheme
DOF	Department of Finance
DTA	Deferred Tax Asset
EBA	European Banking Authority
EC	Essential Criteria
ECB	European Central Bank
FATF	Financial Action Task Force
FMP	Financial Measures Program
FRA	Full Risk Assessment
FRR	Financial Risk Review
FSB	Financial Stability Board
ICAAP	Internal Capital Adequacy Assessment Process
KRI	Key Risk Indicator
PRISM	Probability Risk and Impact System
RABs	Recognized Accountancy Bodies
RMP	Risk Mitigation Program
RPL	Related Party Lending
S.I.	Statutory Instrument
SRC	Supervisory Risk Committee
SREP	Supervisory Review and Evaluation Process
SRU	Special Resolutions Unit

## Introduction

**1. Ireland has significantly enhanced the legal framework to support banking supervision and implemented a risk-based supervisory approach, and compliance with the Basel Core Principles for Effective Banking Supervision (BCPs) is satisfactory.** This reflects the continued strengthening of the supervisory process undertaken by the authorities, which have been achieved in a challenging environment. The financial crisis and subsequent state intervention has transformed the Irish banking system and while acute crisis conditions have abated there is continued elevated stress within the system and vulnerabilities persist. Added to this is the continued pressure on industry to meet forthcoming higher regulatory standards, most notably the new Capital Requirements Directive and Regulations (CRD IV/CRR). In addition to substantial regulatory and legislative changes, the supervisory authorities have also had to adjust to the challenges of transition brought by re-design of the regulatory architecture.

**2. The Central Bank of Ireland (the Central Bank) has implemented the foundation for a risk-based supervisory approach.** In 2011 the Central Bank implemented a new framework for banking supervision called Probability Risk and Impact System (PRISM) to provide a structured framework for banking supervision. PRISM is the tool the Central Bank utilizes to employ resources based on the risk profile of the bank and its systemic significance. PRISM is based on: (i) a multi-step process to identify, measure and grade the banks' risk profile and risk management processes, (ii) a blend of onsite and offsite activities supported, and (iii) a follow-up system to track corrective action.

**3. The authorities have made significant progress in strengthening the legal framework and supervisory structure to support banking supervision.** The Central Bank Reform Act 2010 combined the functions of the Financial Services Authority of Ireland into the Central Bank. The Central Bank has responsibility for licensing, regulating and supervising banks in Ireland. The Central Bank (Supervision and Enforcement) Act 2013 was enacted in July 2013 (with a commencement date of August 1, 2013) and it enhances the Central Bank's enforcement authority by harmonizing the requirements across all the financial sectors supervised by the Central Bank. The Enforcement Act also provides the Central Bank regulation-making powers on conduct of business and corporate governance and also increases the amount of administrative sanction fines for an individual and a firm. The Central Bank Credit Institution Resolution Act (CBCIR) was enacted in 2011. The Act establishes a resolution regime and the Central Bank established a Special Resolution Unit to make the legislation operational. The Central Bank was designated as the competent authority under the Criminal Justice (Money Laundering and Terrorist Financing) Act (CJA) 2010 for supervising compliance with the act by banks. In 2010 the Central Bank issued the Code of Practice on Lending to Related Parties (RPL) and the Corporate Governance Code.

**4. A risk-based supervisory approach has been implemented based on consolidated supervision, and PRISM, a process to profile banks by risk.** Within PRISM, banks are assigned one of four Impact ratings: High, Medium High, Medium Low, and Low. PRISM allows the Central Bank a framework to adopt a consistent way of thinking about risk across supervised institutions and to allocate resources based on impact and probability.

**5. The Central Bank has increased resourcing with a more intrusive approach to supervision.** The PRISM framework allows for a structured approach to resource allocation and planning of supervisory activities. Built into PRISM is an ongoing monitoring capability that will pick up changes in risk profile through the use of financial ratios that, if triggered, will prompt supervisory attention/intervention. The risk rating in PRISM is updated after a supervisory activity is completed and in this way it is an ongoing measure of risk. Impact in PRISM measures the impact to the system of an individual bank failing. Banks that maintain a predominantly retail banking footprint are viewed as representing the greatest risk to the system and are assigned High Impact ratings. Resources, supervisory attention and intrusiveness are increased where the impact rating is higher and resources are prioritized for the High Impact banks. High Impact banks receive ongoing monitoring through offsite supervision, frequent onsite reviews, and ongoing engagement with bank senior management. As the Impact rating decreases, the level of supervision also decreases.

**6. However, some issues require continued attention.** The issues include: reviewing the provisioning requirements to determine whether they accurately reflect the current market conditions, continued implementation of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (as amended) (CJA 2010), strengthening the monitoring of compliance with the related party lending code, and amending legislation to codify the operational independence of the Central Bank.

**7. While there is no observed political interference, the Central Bank is encouraged to seek legislative changes to codify and foster the independence of the Central Bank.** This could be achieved by stipulating in the Central Bank Act the exact conditions under which the Commission can be dismissed or removed by the Minister for Finance. Other legislative changes that would ensure independence include: (i) providing the Central Bank the authority to revoke a license or deny a licensing application without having to seek approval by the Minister, (ii) not including the Secretary General of the Department of Finance on the Central Bank commission, and (iii) eliminate the need for the Minister to approve the levy schedule.

**8. There is a need to expand the coverage of related party transactions covered by the RPL Code and strengthen the Central Bank monitoring of compliance with the code.** The RPL Code is comprehensive but only covers lending transactions and not, for example, asset purchases or deposits. Additionally, the Central Bank monitoring of compliance relies to a large extent on offsite review of reports filed by the banks. However, the reports do not provide information on the terms of the loans or dates of approval by the Board.

**9. Supervision of AML/CFT compliance in banks should be strengthened.** The CJA 2010 is comprehensive, and with the implementation of the Criminal Justice Act 2013 it was further strengthened. The Central Bank has enhanced its supervisory approach to AML/CFT compliance and has conducted in-depth onsite inspections and offsite analysis through the collection of risk assessment questionnaires. The CJA 2010 is comprehensive but the Central Bank's position would be strengthened if statutory guidelines, approved as envisaged by Section 107 of the CJA 2010, were issued. The extent of onsite reviews and the supervisory action following the reviews to enforce compliance should be reviewed to ensure that an appropriate base line, premised on sufficient

onsite testing, is established and that strong corrective action requirements are implemented. Additionally, branches of member state banks should be subject to AML monitoring.

**10. Currently the Central Bank Banking Supervision Divisions are operating below approved staffing level.** The Central Bank operates under Civil Service pay scales and hiring rules which makes the salaries un-competitive with industry. Civil Service provides job security and other benefits that may offset the pay differential but increasingly bank supervision requires highly skilled staff as bank products and risk measurement techniques become more complex. The Central Bank is encouraged to review its turnover rates in skilled staff and determine reasons for turnover, consult other central banks to gauge how they attract skilled staff and determine how they achieved exemption from Civil Service pay limitations. It is also important to review advancement opportunities tailored to technical experts.

**11. This assessment of the Basel Core Principles (BCP) was conducted<sup>1</sup> from September 25 to October 10, 2013 as part of the ROSC of the financial system of Ireland undertaken by the International Monetary Fund (IMF)<sup>1</sup>.** It reflects the regulatory and supervisory framework in place as of the date of the assessment. It is not intended to represent an analysis of the state of the banking sector or crisis management framework.

## Information and Methodology Used for Assessment

**12. This assessment has been prepared according to the Revised Core Principles (BCP) Methodology issued by the BCBS (Basel Committee of Banking Supervision).** The current assessment was thus performed according to a revised content and methodological basis as compared with the previous BCP assessment carried out in 2006. It is important to note that the two assessments will not be directly comparable, as the revised BCP have a heightened focus on risk management and its practice by supervised institutions and its assessment by the supervisory authority, and is therefore a more demanding measure of the effectiveness of a supervisory framework (see box for more information on the Revised BCP).

**13. The Irish authorities chose to be assessed against the Essential and Additional Criteria but to be graded against only the Essential Criteria.** To assess compliance, the BCP Methodology uses a set of essential and additional assessment criteria for each principle. The smaller number of additional criteria (AC) are recommended best practices against which the Irish authorities chose to be assessed but not graded, as provided for in the assessment methodology. The assessment of compliance with each principle is made on a qualitative basis. A five-part grading system is used: compliant; largely compliant; materially noncompliant; noncompliant; and non-applicable. This is explained below in the detailed assessment section. The assessment of compliance with each Core Principle (CP) is made on a qualitative basis to allow a judgment on whether the criteria are fulfilled

<sup>1</sup> The assessment was conducted by Christopher Wilson, IMF and José Tuya, Consultant.

in practice. Effective application of relevant laws and regulations is essential to provide indication that the criteria are met.

### **Box 1. The 2012 Revised Core Principles**

**The revised BCPs reflect market and regulatory developments since the last revision, taking account of the lessons learnt from the financial crisis in 2008-2009.** These have also been informed by the experiences gained from FSAP assessments as well as recommendations issued by the G-20 and FSB, and take into account the importance now attached to: (i) greater supervisory intensity and allocation of adequate resources to deal effectively with systemically important banks; (ii) application of a system-wide, macro perspective to the micro-prudential supervision of banks to assist in identifying, analyzing and taking pre-emptive action to address systemic risk; (iii) the increasing focus on effective crisis preparation and management, recovery and resolution measures for reducing both the probability and impact of a bank failure; and (iv) fostering robust market discipline through sound supervisory practices in the areas of corporate governance, disclosure and transparency.

**The revised BCPs strengthen the requirements for supervisors, the approaches to supervision, and supervisors' expectations of banks.** The supervisors are now required to assess the risk profile of the banks not only in terms of the risks they run and the efficacy of their risk management, but also the risks they pose to the banking and the financial systems. In addition, supervisors need to consider how the macroeconomic environment, business trends, and the build-up and concentration of risk inside and outside the banking sector may affect the risk to which individual banks are exposed. While the BCP set out the powers that supervisors should have to address safety and soundness concerns, there is a heightened focus on the actual use of the powers, in a forward-looking approach through early intervention.

**The number of principles has increased from 25 to 29.** The number of essential criteria has expanded from 196 to 231. This includes the amalgamation of previous criteria (which means the contents are the same), and the introduction of 35 new essential criteria. In addition, for countries that may choose to be assessed against the additional criteria, there are 16 additional criteria.

**While raising the bar for banking supervision, the Core Principles must be capable of application to a wide range of jurisdictions.** The new methodology reinforces the concept of proportionality, both in terms of the expectations on supervisors and in terms of the standards that supervisors impose on banks. The proportionate approach allows assessments of banking supervision that are commensurate with the risk profile and systemic importance of a wide range of banks and banking systems

**14. The assessment was carried out on the basis of the legal framework governing the regulation and supervision of banks, principally the Central Banking Acts, the CJA 2010 and other relevant regulations and guidelines.** A review of prudential returns, licensing

documentation, and supervisory analysis records was also performed. The Team also examined on-site supervision reports and off-site analysis documentation. In addition, BCP assessors held extensive meetings with officials of the Central Bank, the Department of Finance, Financial Intelligence Unit, and additional meetings with auditing firms and sector participants from domestic and international banks. The authorities provided a self-assessment of the CPs rich in quality and comprehensiveness, as well as detailed responses to additional questionnaires, and facilitated access to supervisory documents and files, staff and systems.

**15. The standards were evaluated in the context of the Irish financial system's structure and complexity.** The CPs must be capable of application to a wide range of jurisdictions whose banking sectors will inevitably include a broad spectrum of banks. To accommodate this breadth of application, a proportionate approach is adopted within the CP, both in terms of the expectations on supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. An assessment of a country against the CPs must, therefore, recognize that its supervisory practices should be commensurate with the complexity, interconnectedness, size, and risk profile and cross-border operation of the banks being supervised. In other words, the assessment must consider the context in which the supervisory practices are applied. The concept of proportionality underpins all assessment criteria. For these reasons, an assessment of one jurisdiction will not be directly comparable to that of another.

**16. The assessment does not include the Irish Credit Union Sector.** The Central Bank considered that it was not appropriate at the time of the mission to conduct an assessment due to the significant amount of legislative and regulatory developments which have been recently implemented as part of Ireland's financial sector reform commitments under the EU-IMF financial support program for Ireland.

**17. The BCPs are an independent benchmark and compliance determinations are not adjusted for local legislation.** The EU has implemented a number of rules and supervisory practices that member states must follow, some of these practices may not meet the BCP requirements. The authorities highlighted some of these discrepancies, particularly as they relate to the supervision of EU banking branches that require less host involvement than required by the BCPs.

**18. The mission appreciated the very high quality of cooperation received from the authorities.** The mission extends its thanks to staff of the Central Bank who provided excellent cooperation, including extensive provision of documentation and access.

## INSTITUTIONAL AND MARKET STRUCTURE - OVERVIEW

**19. The Central Bank Reform Act, 2010, created a new single unitary body – the Central Bank of Ireland - responsible for both central banking and financial regulation.** The new structure replaced the previous related entities, the Central Bank and the Financial Services Authority of Ireland and the Irish Financial Services Regulatory Authority. The Central Bank of Ireland has overall prudential responsibility for the authorization, regulation and supervision of Credit Institutions operating in Ireland. Credit Institutions regulated by the Central Bank of Ireland include Banks, Building Societies and Designated Credit Institutions. In addition, the Central Bank of Ireland is responsible for oversight of liquidity, Anti-Money Laundering and conduct of business for branches of non-Irish licensed banks operating in Ireland.

**20. The Central Bank of Ireland is an economic and sectoral regulatory authority charged with the regulation and supervision of financial services in the State; and, as such, a public body subject to administrative law.** In particular, the Central Bank exercises a number of key functions in relation to financial regulation: first, the function of making rules or setting standards; second, the function of licensing persons who wish to engage in regulated financial services activity; and thirdly, the disciplinary or enforcement function.

**21. The objectives in supervising Credit Institutions are twofold: (i) to foster a stable banking system; and (ii) to provide a degree of protection to depositors with individual credit institutions.** As set out in the Central Bank Act 1942 (as amended) the Bank shall perform its functions and exercise its powers in a way that is consistent with-

- a. The orderly and proper functioning of financial markets,
- b. The prudential supervision of providers of financial services, and
- c. The public interest and the interest of consumers.

**22. In relation to the prudential supervision of providers of financial services the Central Bank of Ireland operates a risk based approach to supervision.** In 2011 the Central Bank of Ireland introduced a new framework for the supervision of regulated firms called Probability Risk and Impact System (PRISM) to provide a structured framework for credit institution supervision.

**23. The Constitution of Ireland vests the sole and exclusive power of making laws for the State in the Oireachtas (the National Parliament: consisting of the President, a House of Representatives called Dáil Éireann and a Senate called Seanad Éireann).** Primary legislation consists of Acts of the Oireachtas, also called statutes, which are enacted by the Oireachtas in a particular manner. Acts of the Oireachtas are passed by both Houses of the Oireachtas, and signed into law by the President. Primary legislation which concerns the financial services market in the State, and in particular the securities market or industry, is invariably initiated by the Minister for

Finance. The Central Bank cannot itself initiate primary legislation which is an aspect of the constitutional and parliamentary system.

## PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION

### A. Macroeconomic Overview

**24. Ireland has pulled back from a severe banking crisis with the support of the EU-IMF program.** The program that began in December 2010 followed an exceptionally deep banking crisis at a public cost of €64.1 billion (some 40 percent of GDP). Policy implementation has generally been strong, the fiscal framework has been strengthened, the financial sector has been stabilized, and spreads on Irish sovereign bonds have fallen to their lowest level since early 2010. However, risks to economic recovery remain large: Public debt is high and still growing; the banking system is not yet serving financing needs, including of the job-intensive SME sector; households must contend with heavy debts and depleted net wealth; high unemployment compounds the financial distress, undermines skills, and drives emigration; the euro area crisis creates uncertainty for exports, financial markets, and fixed investment.

**25. Credit risk remains high as a result of weak profitability and revenue.** Overall financing conditions for non-financial corporations (NFCs) have weakened. The volume of new lending by Irish banks to NFCs has remained below 12 percent of GDP since 2011, below the pre-bubble level of around 20 per cent in 2003-05. Nominal interest rates on NFC loans up to €1 million are higher suggesting higher real interest rates for small and medium enterprises (SMEs), which are particularly sensitive to bank lending conditions because they have few other sources of finance. Developments in the commercial property market are relevant to NFCs as real estate provides an important asset and source of collateral for them.

**26. NFC debt levels are high, but debt owed to Irish banks is falling.** This is due to net loan repayments, write-downs of bad debts and transfers of loans to the state-run National Asset Management Agency (NAMA). NAMA was created in 2009 to acquire nonperforming, property-related loans from the domestic banking sector. NFC sector's net debt remained stable because of corresponding acquisitions of debt instrument assets. Given that bonds and other debt securities are not a significant component of Irish corporate finance, a wider range of financing sources than Irish banks could potentially mitigate the effects of domestic financial sector risks on firms. High indebtedness raises the sensitivity of Irish firms to interest rate shocks. Interest rate changes are transmitted rapidly to NFCs because of the prevalence of floating-rate loans and short-term lending.

**27. Mortgage arrears remain a key risk to financial stability.** The overall level of mortgage arrears on both owner occupier and buy-to-let mortgages is a cause for concern and is high relative to other developed-country banking crises. Unemployment is a significant driver of mortgage arrears. Changes to employment conditions are likely to be modest and may relieve arrears only marginally.

**28. In early 2013, the Central Bank of Ireland announced measures, including the publication of performance targets for the main mortgage banks, to address the mortgage arrears problem.** Additionally, new legislation alters the personal insolvency arrangements in Ireland substantially. Changes include a reduced bankruptcy term, from twelve years to three, and the introduction of non-judicial insolvency procedures for dealing with both secured and unsecured debt. Preliminary estimates suggest 15,000 people could avail of the main non-judicial settlement arrangements within 12 months, with a further 3,000 applying for bankruptcy.

**29. Mortgage arrears have increased significantly since 2009. The total outstanding balance on all mortgage loans in arrears of more than 90 days was €27.3 billion at end-June 2013.** The acceleration in longer-term arrears is of particular concern from a financial stability perspective. Overall, recent data show that while there has been a decline in the formation of new arrears in recent months, the number of longer-term arrears cases has increased significantly.

**30. At end-June 2013, 12.7 percent of accounts of principal dwelling houses (PDH) were 90 days or more in arrears, an increase of 9.4 percentage points since the data were first collected at end-September 2009.** At end-June 2013, 7.4 per cent of the total stock of PDH accounts was more than 360 days in arrears, and just over half of these were more than 720 days in arrears. In relation to buy-to-let (BTL) accounts, the 90-days arrears rate was 20.4 per cent at end-June, while more than 12.9 per cent of all BTL accounts were 360 days or more in arrears.

**31. Banks thus far have concentrated on altering the repayment terms of a mortgage loan on either a temporary or permanent basis.** At end-June 2013 there were almost 80,000 PDH accounts classified as restructured, of which 53 per cent were not in arrears. The large number of restructured accounts not in arrears suggests that mortgage lenders have been proactive in managing 'pre-arrears' cases, in an effort to slow early arrears formation. Of the total stock of 142,892 PDH accounts 90 days or more in arrears at end-June, 37,048 or 26 per cent were classified as restructured.

**32. Overall, conditions in the residential property market remain fragile.** Despite house price increases in recent months, mortgage lending remains at low levels and residential property construction remains at long-term lows. Furthermore, the national figures hide the fact that a two-tier property market has emerged. The market in the metropolitan area of Dublin, where supply is reported to be at its lowest level since early 2007, appears to be stabilizing. Prices in Dublin have registered year-on-year growth each month since the start of 2013 and rents are increasing at a greater pace than in other areas. However, prices outside of Dublin continue to decline. Commercial property is of additional relevance from a financial stability perspective at present, given, for instance, the exposure of NAMA to the market.

**33. Irish households' balance sheets remain vulnerable due to high levels of debt and the challenges in servicing it.** Financial accounts data show a decrease in household net worth during the first three months of 2013, following consecutive quarters of growth in the latter half of 2012. The household sector remains highly indebted. In absolute terms, household debt is in the region of

€172 billion, which equates to over 200 per cent of disposable income and over 100 per cent of GDP. This makes the household sector in Ireland among the most indebted in Europe.

**34. Personal consumer expenditure has declined in recent years, contributing to the drag on domestic economic activity.** Despite emerging signs of recovery since, the exceptionally weak level of consumer demand in the first quarter of the year means a drop in consumer spending seems likely for the year as a whole. The latest forecasts indicate modest growth in consumption for 2014, on the back of an improving labour market, which should help reduce the drag on economic activity.

**35. The Department of Finance projects the government deficit to narrow from 7.3 per cent of GDP in 2013 to 2.9 per cent in 2015 (meeting the three per cent deficit target required under the external assistance program and EU fiscal framework).** The recent liquidation of IBRC and replacement of government-issued Promissory Notes with a portfolio of longer-term non-amortizing Irish government bonds should help return the public finances to a sustainable position. The Department of Finance forecasts average nominal GDP growth of 2.6 per cent per annum over the years 2013 to 2015. The path of output growth falling below forecast constitutes a risk of not meeting the three per cent deficit target set for 2015. Lower growth would worsen the state of the public finances given the size of the debt ratio.

## B. Overview of the Banking Sector

**36. Irish banks' balance sheets have continued to reduce across the industry, driven by on-going deleveraging by the retail banks and repayments levels exceeding the volume of new business written.** There has been a slight increase in net interest income for domestic retail banks in the 2013 interim reports although they are yet to return to profitability. International banks report reduced net interest income in the past year. The only sector to record a profit in March 2013 is international wholesale.

**37. In terms of banks' solvency position, while the core tier 1 ratios for the domestic banks continue to deteriorate, they remain above the 7% target level under Basel III.** The Irish domestic banks also remain above the 10.5% target imposed under Ireland external support program with the EU and IMF. The majority of the international retail banks received capital injections from their parents in 2013 in line with Central Bank requirements. The international wholesale banks average CT1 ratio is skewed significantly (due to two institutions with considerably larger CT1 ratios), however, they still hold a very healthy ratio (30.07%) when these institutions are excluded. On aggregate, both domestic and international institutions are meeting their minimum CRD capital requirements (8%).

**38. The stock of impaired mortgages and SME loans has continued to rise and is the main short-term risk.** Mortgage arrears have been driven by the fall in property prices, the elevated unemployment rate and the extensive output loss associated with the crisis since 2008. Data show 12.7 per cent of the total stock of primary dwelling loans were in arrears for more than 90 days in June 2013, compared with 12.3 per cent in March 2013. A second challenge involves the domestic

banking sector reconfiguring its business models to focus on the core business of lending to the real economy. After nearly a decade of decline, Irish bank margins remain very narrow and banks are still reliant on central-bank funding.

**39. Cost-to-income ratios continue to remain under pressure.** Costs associated with restructuring and the establishment of loan workout units has been considerable. In an environment of balance sheet consolidation and a lower income base, domestic banks need to rationalize operations further in order to return to a stable, profitable business model.

**40. Domestic banks benefited from a decline in the flow of impaired loans, which, however, remain the single biggest determinant of overall losses.** The gains from debt buybacks and revaluations on NAMA transfers realised in 2011 were not as significant in 2012. Anaemic income prospects and the unresolved mortgage arrears problem mean that the short-term outlook for bank profitability remains weak.

**41. The deleveraging of banks' balance sheets under the Financial Measures Program (FMP) remains on track and at a lower cost than initially foreseen.** The focus on the sale of overseas assets, together with previous transfers of commercial property type assets to NAMA, has resulted in smaller and more concentrated loan books. Irish loans now account for more than two thirds of the total, while the relative share of mortgage lending has increased to over 58 per cent.

**42. The ratio of provisions to nonperforming loans increased marginally in the second quarter of 2013.** Differences persist between individual institutions reflecting varying sectoral and geographic exposures. High cover ratios are necessary given the scale of the Irish nonperforming loan problem in order to meet potential losses.

**43. Progress in tackling mortgage arrears has been slow.** The focus of lending institutions has often been on forbearance measures. The number of accounts over two years in arrears increased by 43 per cent between Q3 2012 and Q2 2013 to 4.3 per cent of outstanding mortgage accounts. In this regard, the Central Bank of Ireland outlined new measures to address mortgage arrears on 13 March 2013, including the publication of performance targets for the main mortgage lenders. Banks will be required to meet specific targets for proposing and concluding sustainable solutions for borrowers in arrears over 90 days.

**44. A review of the Code of Conduct on Mortgage Arrears has been completed with the new code coming into effect since July 1st 2013.** Among the issues dealt with are the restrictions placed on contacting borrowers, the definition of a non-cooperative borrower and the circumstances under which lenders can offer distressed borrowers an arrangement which provides for the removal of tracker interest rates, but only as a last resort, where the only alternative option is repossession of the home. Other initiatives which have been implemented to facilitate resolutions include the introduction of legislation to address the Dunne judgment and the establishment of the Insolvency Service of Ireland to administer the new debt settlement arrangements outlined in the Personal Insolvency Act.

**45. Basel III will be phased in on a gradual basis in the EU until 2019 and is expected to reduce the banks' headline capital ratios.** The regulatory changes that contribute most to the reduction are the treatment of deferred tax assets, pension-fund deficits, and shortfalls on provisions for expected losses. Banks' published pro-forma ratios show an average common equity tier 1 ratio of around nine per cent for the domestic banks. This ratio includes €5.3 billion in Government preference shares which remain eligible until December 2017.

### C. Bank Resolution

**46. IBRC was formed in 2011 through the merger of Anglo Irish Bank and Irish Nationwide Building Society, both of which had been taken fully into public ownership.** Promissory Notes were issued by the Irish State to Anglo Irish Bank and Irish Nationwide Building Society in 2010 to ensure compliance with regulatory capital requirements. The Promissory Notes were obligations with a non-standard amortising structure and represented Irish sovereign debt. IBRC subsequently used the Promissory Notes (combined with other assets) to access exceptional liquidity assistance (ELA) lending from the Central Bank of Ireland.

**47. On February 7th 2013, the Irish Bank Resolution Corporation Act 2013 was passed by the Parliament of Ireland, the Oireachtas, and signed into law by the President, providing for the winding up of IBRC under a special liquidation regime.** As a result, the Central Bank of Ireland took ownership of the collateral held against exceptional liquidity assistance lending to IBRC of €39.45 billion, consisting of Promissory Notes, National Asset Management Agency (NAMA) bonds and other assets.

**48. NAMA, through a newly established special purpose vehicle, acquired the floating charge over IBRC's assets from the Central Bank of Ireland, and issued government guaranteed NAMA bonds to the Central Bank of Ireland in exchange.** In addition, a consequence of the liquidation was the termination of IBRC's market repo of the 5.4 per cent Irish 2025 bond, which was also acquired by the Central Bank of Ireland. The liquidation resulted in the Central Bank of Ireland acquiring, on behalf of the Eurosystem, the assets it held as collateral against standard Eurosystem borrowing by IBRC of €333 million. The excess value of this collateral over the amount of lending extended to IBRC was returned to the special liquidator. The Central Bank did not suffer any loss on its lending to IBRC under exceptional assistance lending.

**49. The Central Bank of Ireland will sell the bonds as soon as possible providing that conditions of financial stability permit.** The disposal strategy will maintain full compliance with the prohibition on monetary financing enshrined in the EU's Treaty on the Functioning of the European Union. The transaction contributes to financial stability by allowing IBRC to be resolved in a definitive manner, ending its reliance on exceptional liquidity arrangements, and replacing the related non-standard Promissory Notes with standard government bonds.

## D. Accounting and Auditing

**50. Company law requires listed entities to prepare their group financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.** All other entities have the option to adopt either local Generally Accepted Accounting Principles (GAAP) or IFRS. Accordingly listed Irish licensed credit institutions prepare their group financial statements in accordance with IFRS. They have the option to adopt local GAAP or IFRS at the entity level. However please note that, in the main, local GAAP has converged with IFRS.

**51. Company law requires auditors in Ireland (including auditors of Irish licensed credit institutions) to apply International Standards of Auditing (UK and Ireland) as issued by the FRC.** These standards are based on the International Standards on Auditing as issued by the International Auditing and Assurance Standards Board ('IAASB'), supplemented with additional standards and guidance to address specific UK and Irish legal and regulatory requirements; and additional guidance that is appropriate in the UK and Irish national legislative, cultural and business context. In addition auditors are required to comply with Ethical Standards published by the FRC, professional ethics requirements in legislation and any standards of professional conduct issued by the auditor's own Recognized Accountancy Body. Failure to apply these standards may result in disciplinary actions from the auditor's applicable oversight bodies.

**52. The Irish Auditing and Accounting Supervisory Authority ('IAASA') oversees how the 'Prescribed Accountancy Bodies' ('PABs') exercise supervision of all their members (auditors, accountants and students), including inspecting audit firms and audit work, as well as investigation of complaints and disciplining where appropriate.** Members of the PABs are regulated by the PABs themselves subject to the Bye-Laws of the institutions to which they belong. Thus the PABs are the primary supervisors of members of the Accountancy Bodies with IAASA having a secondary, less active, 'oversight' role. This is a model of State supervised regulation rather than direct regulation.

## E. Payment Systems Framework in Ireland

**53. The clearing and settlement of retail payments in Ireland is conducted through two companies, namely The Irish Retail Electronic Payments Clearing Company Limited (IRECC) and the Irish Paper Clearing Company Limited (IPCC), each of which constitutes a payment system for the purposes of Part 11 of the Central Bank Act, 1972.** IPCC clears paper payment instruments, mainly cheques, while IRECC clears retail electronic payment instruments (both debit and credit). Settlement takes place in TARGET2. IRECC and the IPCC operate under the auspices of the Irish Payment Services Organization Limited (IPSO), the representative body of the Irish payments industry. Regular contact is maintained by the Central Bank of Ireland with IPSO and with each of the two clearing companies in order to promote sound co-operation and communication

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within the industry generally and to deal with any issues requiring the attention of the Central Bank, as overseer. The Central Bank is also represented on the Board of IPSO and on the Boards of each of the clearing companies, primarily in an observer capacity.

**54. The Central Bank is directly engaged in the oversight of the domestic retail payments system.** The oversight process involves the regular monitoring of developments and planned changes in payment systems, assessing them against applicable oversight principles/standards and, where necessary, fostering change. The focus of the Central Bank is on promoting payment and settlement systems that are safe and efficient, and that can be assessed on a fair and equitable basis by all credit institutions with a requirement to do so. As regards the oversight of cross-border payment and securities settlement systems, the Central Bank is engaged in cooperative oversight arrangements (mainly pertaining to oversight assessments and the development of oversight standards).

## F. Trade in Irish Securities

**55. Trade in Irish securities—Government Bonds, equities and other securities— are all settled in infrastructures physically located outside Ireland.** Irish Government Bonds are settled in Euroclear Bank in Belgium while equities and other securities are settled in the Euroclear UK and Ireland Crest system in the United Kingdom. The Central Bank provides euro settlement services for securities settled in the CREST system. There are no central counterparties (CCPs), Central Securities Depositories (CSDs) or Trade Repositories (TRs) located in Ireland.

## G. Financial Safety Net (Deposit Insurance)

**56. Deposits held with banks, building societies and credit unions authorised in Ireland are protected by the Deposit Guarantee Scheme (DGS) in the event of a credit institution being unable to repay deposits.** All eligible deposits up to a limit of €100,000 per person per institution are guaranteed to be repaid by the DGS. DGS protection includes deposits held at branches of authorised Irish institutions operating in other EU member states. In general the DGS protects deposits belonging to individuals, small companies, partnerships, clubs, associations, schools etc. It excludes deposits belonging to large and medium sized companies, public authorities, insurers, pension funds, collective investment schemes, banks and certain other financial institutions.

**57. The DGS is obliged to issue compensation to depositors duly verified as eligible within 20 working days of a credit institution failing.** The DGS is administered by the Central Bank of Ireland and is funded by the credit institutions covered by the scheme. Each credit institution is required to maintain a Deposit Protection Account (DPA) equivalent to 0.2 per cent of their total deposits, in order to fund the DGS. The DGS was established under the terms of the European Communities (Deposit Guarantee Schemes) Regulations, 1995 (S.I. No.168 of 95) and amended by European Communities (Deposit Guarantee Schemes) (Amendment) Regulations, 2009 (S.I. No. 228 of 2009).

## H. Exceptional Liquidity Assistance (ELA)

**58. One of the functions of the Central Bank, similar to other central banks, is to grant Exceptional Liquidity Assistance to a credit institution when this is deemed necessary for financial stability purposes.** ELA is one of the ways that the Central Bank of Ireland has responded to the financial crisis. This is distinct and separate from regular funding operations carried out for monetary policy implementation purposes through the ECB. The Central Bank Act 1942 provides the statutory basis for the Bank to provide emergency liquidity assistance. Section 5B(d) provides the Bank with a general power to lend against security to credit institutions, which may be exercised in pursuit of the Bank's financial stability objective provided by Section 6A(2)(a) of the 1942 Act.

**59. In recent years the Bank has provided Exceptional Liquidity Assistance (ELA) to the banking system for financial stability purposes.** At end-December 2012, the Bank had extended ELA of €40 billion (€11.5bn in 2009, €49.5bn in 2010 and €42bn in 2011). In February 2013, on the liquidation of IBRC, the Bank's ELA operations ceased.

## I. Recovery and Resolution

**60. The Central Bank Credit Institution Resolution Act (CBCIR) was enacted in 2011 and establishes the resolution regime.** The Special Resolution Unit (SRU) was established within the Central Bank to operationalize this legislation. An essential aspect of the legislation is the requirement for the SRU to be operationally separate from the supervisory areas. The CBCIR does not apply to institutions covered by the Credit Institutions (Stabilization) Act 2010 ('CISA') – this emergency legislation was introduced during the banking crisis to deal with domestic banks requiring State support. While this Act remains in place, the CBCIR will not apply to those banks covered by CISA. CBCIR does apply to credit unions, IFSC licensed banks and foreign owned banks licensed to operate in the jurisdiction.

**61. The CBCIR permits the Central Bank to request recovery plans from institutions.** In addition it confers powers on the Bank to resolve credit institutions where recovery is deemed not to be likely. Resolution action is taken by the Central Bank under powers vested in the Governor. The Governor instructs the SRU team to lead any such action on the Bank's behalf, with support from the supervisory functions. The CBCIR is relatively new legislation and has not yet been used to resolve an authorised credit institution in this jurisdiction. The recovery plan aspect of the legislation has yet to be fully implemented. It should be noted that the Central Bank implementation may be deferred pending a review of the proposed arrangements under an EU proposed Directive on Crisis Management and Bank Resolution.

## SUMMARY OF THE RESULTS

### *Responsibility, Objectives, Powers, Independence, Accountability and Cooperation (CPs 1-3)*

**62. The Central Bank is the sole authority responsible for the supervision of the banking system.** The legislation describes the Central Bank objective as “the proper and effective regulation of financial services and markets.” In addition to safety and soundness of prudential supervision, the Central Bank is responsible for monitoring bank compliance with consumer protection regulation and AML/CFT legislation.

**63. The Central Bank is vested with discretionary powers to address areas of weaknesses or non-compliance that are buttressed by a recently enhanced regulatory framework.** The legislative enhancements include the Central Bank Reform Act 2010 and the Central Bank (Supervision and Enforcement) Act 2013 which strengthen the fit and proper monitoring regime, the Central Bank information gathering authority and broaden the range of matters subject to enforcement such as corporate governance, systems and control and minimum competency requirements. Another significant piece of legislation is the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA2010) that establishes requirements for banks and makes the Central Bank the competent authority for monitoring compliance.

**64. The Central Bank is currently operating below its approved staffing levels.** The prompt staffing of vacancies would enhance the Central Bank ability to conduct its activities.

**65. The Central Bank has authority to issue enforceable policies and codes to regulate the banking system; in addition, it can directly impose license conditions through existing legislation.** For example, the Central Bank has, inter alia, issued a code on related party lending, placed requirements on banks to address operational risk, established an approval/notification process for significant acquisitions, and increased requirements on banks to monitor country risk. In the area of AML/CFT the CJA 2010 is comprehensive but the Central Bank’s position would be strengthened if statutory guidelines, approved as envisaged by Section 107 of the CJA 2010, were issued.

**66. Although there is no observed interference, certain legal provisions in relation to the role of the Minister for Finance raise concerns over independence.** The Minister for Finance may remove a member of the Central Bank Commission “if in the Minister’s opinion it is necessary or desirable to do so to enable the Commission to function effectively.” The legislation does not establish a concrete definition of conditions that must be met before the Minister may evoke this option. Other areas of concern include the need to obtain Ministerial approval to increase industry levies to fund banking supervision. Although the Central Bank is the licensing authority it must seek Ministerial approval to deny an application for a banking license or to revoke a license.

### ***Ownership, Licensing, and Structure (CPs 4-7)***

**67. The Central Bank grants banking licenses to entities which may have unregulated corporate parents, domestically and cross-border.** As a result, the newly licensed bank operates under a ring-fence regime from the time it opens due to the lack of supervisory authority by the Central Bank over the parent. The Central Bank lacks authority to perform fit-and-proper reviews on management of the unregulated parent and to take enforcement action on parent. Until the enactment of the Central Bank (Supervision and Enforcement) Act 2013, almost at the time of the BCP assessment, the Central Bank also lacked authority to require submission by the parent of information needed for supervision. Options to address the lack of access to parent may include at time of licensing imposing restrictions on the license and require agreement from parent company and management to provide the Central Bank the information and to comply with fit-and-proper requirements.

### ***Methods of Ongoing Supervision (CPs 8-10)***

**68. The PRISM model is the centerpiece of the supervisory framework which is used to assign bank risk ratings and allocate supervisory resources and determines supervisory intensity and frequency.** Activities such as onsite reviews and intrusive supervision techniques are mainly allocated to High Impact banks. The supervisory approach for banks that fall into the two lower impact categories (Medium-Low and Low) relies heavily on reactive processes. A primary concern is whether the calibration of PRISM is appropriate. Offsite supervision processes are largely automated, where there is a reliance on triggers of financial ratios rather than analysis of regulatory returns. In addition, the quality, frequency and depth of qualitative data to assess risk are limited (as is onsite activity). In the case of Low Impact banks, no minimum frequency of onsite reviews and engagement with banks are prescribed by PRISM. A reactive approach to supervision for this cohort of banks and a reliance on exception reporting does not allow for sufficient opportunity to accurately identify, assess and mitigate risk in a bank. A build up of risks across a number of lower impact banks in aggregate could create vulnerabilities in the banking system and, moreover, could create reputational risk for the Central Bank and a threat to the integrity of banking system. A more proactive approach would mitigate this risk.

**69. Focusing the supervisory process primarily on the impact of a failure will distort the allocation of resources since the supervisory approach is supposed to be preventive/corrective to maintain safety and soundness and not on the impact of resolution.** Supervisory activities to identify risk insufficient for banks with an impact rating below High, particularly the two lower impact ratings. More attention needs to be paid to verification of self-assessment of compliance with regulations and assessment of risk profile. Setting up the supervisory scope should focus on bank-specific risks, so even between high risk banks there should be a difference in activities being performed and greater flexibility in the suite of supervisory activities.

**70. The Central Bank employs a mix of off- and on-site supervisory activities.** Built into PRISM is an ongoing monitoring capability that will pick up changes in risk profile through the use of financial ratios and key risk indicators (KRIs) that, if triggered, will prompt supervisory

attention/intervention. KRIs are categorized into five risk areas: capital, liquidity, credit, business model/strategy and market risk. There are, however, no KRIs for and interest rate risk in the banking book and only a single indicator for market risk. The KRIs form a key feature of exception reporting framework designed for lower impact rated banks where analysis of regulatory returns is automated. The KRIs should be expanded to ensure all material risks are monitored to detect changes in risk profile.

### ***Corrective and Sanctioning Powers of Supervisors (CP 11)***

**71. The Central Bank is equipped with sufficient discretionary enforcement powers to address areas of weaknesses in banks or their non-compliance with applicable laws, regulations or supervisory instructions.** The Central Bank (Supervision and Enforcement) Act 2013 provides the Central Bank with expanded authority to require preventive and corrective action over a broad range of activities.

**72. A well designed enforcement process is in place and it is linked to PRISM to ensure supervisory action is initiated promptly when a situation is identified.** A risk mitigation program (RMP) is utilized when the Central Bank identifies an issue that the bank must remediate. The RMP sets out the basis of the issue, the prescribed action, the required outcome and sets the timeline to achieve correction.

**73. The Central Bank follows an Administrative Sanctions Procedure (ASP) when bringing possible enforcement action.** The Central Bank may issue a supervisory warning and the ASP permits the Central Bank to enter into settlements with firms and persons concerned in the management of the firm and following an Inquiry to impose a range of sanctions, from a caution or reprimand to fines and the disqualification of individuals from being concerned in the management of a regulated financial service provider.

### ***Consolidated and Cross-Border Banking Supervision (CPs 12- 13)***

**74. The Central Bank applies prudential standards on a group wide basis where it is responsible for consolidated supervision.** The Central Bank undertakes supervisory activities to understand the overall structure of the banking group for which it is ultimately responsible and supervises and monitors material activities, including nonbanking activities conducted by entities in the wider group, both domestic and cross-border. The Central Bank collects and analyses financial and other information which it considers adequate to ensure effective consolidated supervision of banking groups. The central bank takes action when risks arising from the banking group and other entities in the wider group are identified as potentially jeopardizing the safety and soundness of the bank and banking group. Home-Host relationships are working well particularly supervisory colleges.

### ***Corporate Governance (CP 14)***

**75. The Central Bank has issued a Corporate Governance Code which goes beyond the minimum requirements of the CRD and sets out the corporate governance obligations which must be adhered to by all financial institutions.** The Code provides detailed guidance across a number of elements of corporate governance such as the role of the Board, role of senior management and requirement for an annual compliance statement. The Central Bank also has extensive powers as regards the fitness and probity of the directors and holders of certain senior management positions.

***Prudential Requirements, Regulatory Framework, Accounting and Disclosure (CPs 15-29)***

**76. Supervisors evaluate the adequacy of risk management strategies, policies, processes and limits established by a bank through periodic risk assessments and engagement with bank senior personnel.** For onsite risk reviews, the Central Bank has dedicated Credit, Treasury, Risk Analytics (Quantitative Models Unit & Portfolio Analytics and Stress testing Unit) and Business Model Analytics teams which analyze credit institution's risk management processes. These teams are also used in assessing offsite reporting by banks. Under the Central Bank's risk-based approach to supervision, the level of monitoring and frequency of analysis performed by the specialist teams varies according to the size, scale and complexity of the institution according to its PRISM impact rating. For the highest impact banks, frequency of these engagements is on-going and actions are updated in the risk mitigation programs within PRISM which is an effective system for tracking the status of issues and remediation. Where onsite activities are not performed, unless an event occurs, considerable reliance is placed on self assessments to make ongoing assessments of risk management. The range of qualitative and quantitative information to assess the status of risk management such as business continuity was not sufficient to reliably monitor the robustness of arrangements on an ongoing basis.

**77. To assess asset soundness and credit risk management, resources are heavily weighted towards the High Impact banks which are the banks of greatest systemic importance and the largest exposure to credit risk.** Routine supervisory activities for High Impact banks provide the supervisor with a variety of inputs to assess credit risk management processes against changes in market and macroeconomic conditions. Analysis of regulatory data and enhanced reporting requirements enable the supervisor to detect changes in risk profile on an ongoing basis. Equally, for High Impact banks, the routine supervisory activities are adequate to make an assessment of the Board's involvement in developing and regularly approving the credit risk management strategy and significant policies and processes. It was evidenced that supervisors are going beyond routine tasks and minimum activities prescribed by PRISM.

**78. Where an onsite review of loans files is performed, the supervisor (with the assistance of credit risk specialists) has the opportunity to assess whether senior management has implemented the credit risk strategy approved by the Board and whether underwriting practices are consistent with policy and prudent for market conditions and the economic environment.** The frequency and depth of onsite credit risk reviews for lower risk institutions and the allocation of credit risk specialists to assist in the assessment process could be enhanced to form an accurate and timely assessment of the credit risk environment. For the banks assigned PRISM

Impact ratings of below High (especially Medium Low and Low), the variance analysis might not necessarily provide insight into the application of credit risk management processes until after risks have begun to crystallize resulting in breaching Central Bank triggers for supervisory attention.

**79. The Central Bank has updated and expanded its guidance regarding provisioning and valuation practices and performed more frequent and in-depth onsite assessments.** Over the course of the last several years, the Central Bank has allocated considerable resources in an effort to encourage prudent provisioning practices with a significant focus on the covered banks. The update guidance by the Central Bank goes beyond that of other authorities in the region where IFRS is applied. The banking sector has also been subject to various externally led balance sheet exercises. There are a number of examples demonstrating the impact of the various activities in increasing the conservatism of banks' loan loss provisioning practices.

**80. Supervisory activities should place greater reliance on onsite verification of bank processes, particularly in terms of: assessing processes for the early identification of problem assets; application of prudent valuations for collateral; and, testing assumptions that feed into provisioning models.** There was evidence to suggest this process had commenced with the covered banks but was yet to be extended across the sector (with due regard to proportionality). Greater frequency and depth of analysis through onsite reviews will allow the supervisor an ability to more accurately verify bank provisioning practices by loan sampling and testing of assumptions to ensure they remain consistent with actual experience and are adjusted in a timely fashion to reflect changes in market conditions and the economy. Through this process, the supervisor will be better able to deem whether provisions are adequate for prudential purposes.

**81. In 2010 the Central Bank issued a Code of Practice on Lending to Related Parties.** The code establishes requirements for transactions with affiliates to be at arms' length and has a broad definition of related parties. However, only lending transactions are covered by the Code and items such as asset purchases and deposit terms are excluded.

**82. A country risk policy was issued in August 2013 and is in the process of implementation.** The policy is comprehensive and the Central Bank is in the process of developing monitoring procedures and conducting reviews. One bank examination has been conducted (with another examination ongoing) to test compliance and another was in-process at time of the BCP assessment. Monitoring compliance with the policy will require improved reporting by the banks, incorporation into the PRISM process and reviews of bank compliance. Additionally banks will need to implement the internal processes to meet the policy requirements.

**83. A detailed operational risk policy has been implemented and a number of onsite reviews conducted.** A report to be filed by banks has been implemented and the first reports are to be filed as of September 30, 2013.

**84. Anti-Money Laundering legislation was implemented in 2010. The scope of the legislation is comprehensive and the Central Bank is in the process of implementing its monitoring and enforcement program.** While the Central Bank has a strategy in place to deliver

supervisory coverage, elements of this strategy remain to be implemented to accomplish effective supervision in this area including analysis of data from risk assessments and in-depth inspections to (a) underpin the publication of the findings from the in-depth inspections, (b) inform sector wide risk mitigation actions and (c) identify targets for thematic inspections. While the CJA 2010 is comprehensive the Central Bank's position would be strengthened if statutory guidelines, approved as envisaged by Section 107 of the CJA 2010, were issued. In addition, to the onsite inspections carried out, compliance assessments, in the form of risk assessment questionnaires have been carried out on 21banks.

## A. Summary Compliance with the Basel Core Principles

Core Principle	Grade	Comments
1. Responsibilities, objectives and powers	C	The CBI is the primary regulator of the Irish financial system. Its objectives include proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected.
2. Independence, accountability, resourcing and legal protection for supervisors	MNC	<p>Although there is no observed interference, the legislation provides for the approval of the Minister for Finance for: setting the levy structure to fund supervision, denying a license application, involuntary revocation of a banking license.</p> <p>The CBI is the licensing authority but must receive Minister for Finance consent to deny a license application or revoke a license approved based on false information.</p> <p>The Minister may remove Commission members for specified reasons which are broad in nature and interpretation. The Secretary General of the Department of Finance sits on the CBI Commission in an ex-officio capacity.</p>
3. Cooperation and collaboration	C	The CBI is responsible for the regulation of financial service providers and markets in Ireland, and ensuring financial stability.
4. Permissible activities	C	No additional comments.
5. Licensing criteria	C	The CBI issues licenses to banks owned by unregulated entities. These banks are ring-fenced since the CBI lacks authority to perform fit and proper reviews on senior management in the unregulated parent, or take enforcement action against the unregulated parent.
6. Transfer of significant ownership	C	No additional comments.
7. Major acquisitions	LC	Requirement for major acquisition reviews was implemented in August 2013. Too early for a record of compliance and enforcement to be reviewed.

<b>Core Principle</b>	<b>Grade</b>	<b>Comments</b>
8. Supervisory approach	C	The CBI employs a mix of off- and on-site supervisory activities. The PRISM model is the centerpiece of the supervisory framework which is used to assign bank risk ratings and allocate supervisory resources and determines supervisory intensity and frequency of supervisory activities.
9. Supervisory techniques and tools	MNC	A primary concern is whether the calibration of PRISM is appropriate for the mix of onsite and offsite supervision for Medium Low and Low Impact banks. Analysis of regulatory returns should be strengthened as well as greater focus on testing and sampling of risk management processes.
10. Supervisory reporting	C	No additional comments.
11. Corrective and sanctioning powers of supervisors	C	The CBI has an adequate range of supervisory tools to bring about timely corrective actions. Its enforcement powers were recently enhanced by the introduction of the Central Bank (Supervision and Enforcement) Act 2013. This gives the Central Bank greater information gathering powers and also provides for new sanctions and increased monetary penalties under the Administrative Sanctions Procedure.
12. Consolidated supervision	C	The CBI undertakes supervisory activities to understand the overall structure of the banking group for which it is ultimately responsible and supervises and monitors material activities (including nonbanking activities conducted by entities in the wider group, both domestic and cross-border.
13. Home-host relationships	C	
14. Corporate governance	LC	For those banks assigned a rating of Medium-low and Low, the range and frequency of supervisory activities to assess governance is not adequate to assess the robustness of governance (EC2). Does not appear to be an adequate level of attention to a board's stewardship and understanding of risk and corporate governance (EC8).
15. Risk management process	LC	The range of qualitative and quantitative information to assess the status of business continuity was not sufficient to reliably monitor the robustness of arrangements on an ongoing basis (EC12). The frequency of onsite testing and verification of model validation results needs to be enhanced

Core Principle	Grade	Comments
		(EC6).
16. Capital adequacy	C	No additional comments.
17. Credit risk	LC	The frequency and depth of onsite credit risk reviews for lower risk institutions and the allocation of credit risk specialists to perform file reviews is not sufficient to maintain an accurate assessment of credit risk for these credit institutions (EC3). For the banks assigned PRISM Impact ratings of Medium Low and Low, the variance analysis might not necessarily provide insight into the application of credit risk management processes until after risks have begun to crystallize resulting in breaching Central Bank triggers for supervisory attention (EC1).
18. Problem assets, provisions, and reserves	LC	Greater frequency and depth of onsite reviews of loan loss provisioning practices (e.g. testing of assumptions against experience, recognition of default, prudent valuations)
19. Concentration risk and large exposure limits	C	No additional comments.
20. Transactions with related parties	MNC	Only credit transactions are covered by the regulation. Compliance monitoring is mainly offsite (with some onsite testing) but reports filed by banks lack information to monitor terms, rates and other requirements of the RPL Code.
21. Country and transfer risks	LC	Requirements issued in August 2013. The CBI has developed a monitoring process and is conducting initial reviews to determine compliance.
22. Market risk	LC	In terms of onsite examinations of market risk, coverage by the Treasury Team has been limited, though proportional based on either the complete absence or very low level of traded market risk in most banks supervised. Insufficient testing of implementation of policies and procedures onsite to accurately assess the effective implementation of controls, especially in regard to verify that marked-to-market positions are prudently valued and revalued frequently. CBI's oversight of internal models on an ongoing basis is inadequate to ensure models are fit for purpose and calculating capital accurately (EC4).

Core Principle	Grade	Comments
23. Interest rate risk in the banking book	LC	While detailed reviews are conducted by the treasury team on High Impact banks, treasury team support is provided to lower impact banks as part of their Full Risk Assessments. As these are less frequent they are supplemented by the use of the quarterly risk dashboards and the twice yearly meetings with the head of the treasury team at which the main findings of the reviews conducted on the High Impact Banks are shared. A less intensive process is used for lower Impact banks with a reliance on a self assessment.
24. Liquidity risk	C	The Bank requires each credit institution to establish and maintain a liquidity strategy and liquidity policy. Central Bank requires each credit institution to establish a contingency funding plan, developed by management and approved by the Board.
25. Operational risk	LC	First monitoring reports filed by banks as at September 30, 2013. Effectiveness of monitoring and enforcement cannot be assessed at this time.
26. Internal control and audit	LC	No requirement in regulations for the Board to take responsibility for establishing the internal control environment, although the regulations do require banks to maintain internal controls. For banks with an Impact rating below High, the supervisory activities to assess the effectiveness of the internal control function will rely upon desk based review of exception reporting without a sufficient suite of supporting documentation to make an accurate assessment of the effectiveness of the control environment required by EC4 and EC5.
27. Financial reporting and external audit	LC	The Central Bank does not have the power to reject and rescind the external auditor as required by EC6. Existing legislation does not provide the Central Bank with the power to influence the scope of the external audit or establish the standards for such an audit.
28. Disclosure and transparency	C	The Central Bank will ensure that the financial statements have an auditor's opinion expressing the opinion that they give a true and fair view.
29. Abuse of financial services	MNC	Branches of foreign banks have not been incorporated in AML compliance reviews. Additionally, most reviews of compliance have been through the review of risk assessment questionnaires sent to banks with limited onsite testing. While the CJA 2010 is comprehensive the

Core Principle	Grade	Comments
		<p>CBI's position would be strengthened if statutory guidelines, approved as envisaged by Section 107 of the CJA 2010, were issued.</p> <p>The CBI has not issued specific requirements for internal audit and/or external experts to independently evaluate the relevant risk management policies, processes and controls for AML.</p> <p>There is no requirement to appoint a relevant dedicated officer to whom potential abuses of the banks' financial services are reported. The CBI is planning to issue communications following its inspections setting out principal findings and its expectations as to how compliance with the CJA 2010 can be demonstrated.</p>

## Detailed Assessment

**85. To determine the observation of each principle, the assessment has made use of five categories: compliant; largely compliant, materially noncompliant, noncompliant, and non-applicable.** An assessment of “compliant” is given when all EC and ACs are met without any significant deficiencies, including instances where the principle has been achieved by other means. A “largely compliant” assessment is given when there are only minor shortcomings, which do not raise serious concerns about the authority’s ability to achieve the objective of the principle and there is clear intent to achieve full compliance with the principle within a prescribed period of time (for instance, the regulatory framework is agreed but has not yet been fully implemented). A principle is considered to be “materially noncompliant” in case of severe shortcomings, despite the existence of formal rules and procedures and there is evidence that supervision has clearly not been effective, the practical implementation is weak or that the shortcomings are sufficient to raise doubts about the authority’s ability to achieve compliance. A principle is assessed “noncompliant” if it is not substantially implemented, several ECs are not complied with, or supervision is manifestly ineffective. Finally, a category of “non-applicable” is reserved for those cases that the criteria would not relate the country’s circumstances. In addition, a Principle would be considered not applicable when, in the view of the assessor, the Principle does not apply given the structural, legal and institutional features of a country.

**86. Table 2 below provides a detailed principle-by-principle assessment of the BCP.** The Table is structured as follows:

- **The “description and findings” sections** provide information on the legal and regulatory framework, and evidence of implementation and enforcement.
- **The “assessment” sections** contain only one line, stating whether the system is “compliant,” “largely compliant,” “materially non-compliant,” “non-compliant” or “not applicable” as described before.
- **The “comments” sections** explain why a particular grading is given. These sections are judgmental and also reflect the assessment team’s views regarding strengths and areas for further improvement in each principle.

## A. Detailed Assessment of Compliance with the Basel Core Principles

<b>Supervisory Powers, Responsibilities and Functions</b>	
<b>Principle 1</b>	<b>Responsibilities, objectives and powers.</b> An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. <sup>3</sup> A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns. <sup>4</sup>
<b>Essential criteria</b>	
<b>EC1</b>	The responsibilities and objectives of each of the authorities involved in banking supervision <sup>5</sup> are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.
Description and findings re EC1	The CBI is the single authority responsible for prudential banking supervision. The CBI's responsibilities are defined in Section 6 A (2) (b) of the CBI Act as: <i>"the proper and effective regulation of financial service providers and markets,"</i> and as such are publicly disclosed. The Central Bank Act 1942 (CBI Act) states that the CBI has the following objectives: the stability of the financial system overall; the proper and effective regulation of financial institutions and markets, while ensuring that the best interests of consumers of financial services are protected; the efficient and effective operation of payment and settlement systems; the provision of analysis and comment to support national economic policy development; and, the discharge of such other functions and powers as are conferred on it by law. The CBI is responsible for licensing and monitoring anti-money laundering regulation compliance in banks.
<b>EC 2</b>	The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.
Description and findings re EC2	The responsibilities and objectives of the CBI regarding banking supervision are clearly set out in legislation and are also published in the CBI's Annual Report and Strategic Plan. The stated objectives in supervising Credit Institutions are: (i) to foster a stable banking system and (ii) to provide a degree of protection to depositors with individual credit institutions.  As a central bank the CBI also has broader responsibilities, including inter alia: monetary policy (as part of the ESCB); financial market operations; payments and settlements; and other financial services supervision. Banking supervision is not subordinate to any of these

<sup>3</sup> In this document, "banking group" includes the holding company, the bank and its offices, subsidiaries, affiliates and joint ventures, both domestic and foreign. Risks from other entities in the wider group, for example nonbank (including non-financial) entities, may also be relevant. This group-wide approach to supervision goes beyond accounting consolidation.

<sup>4</sup> The activities of authorising banks, ongoing supervision and corrective actions are elaborated in the subsequent Principles.

<sup>5</sup> Such authority is called "the supervisor" throughout this paper, except where the longer form "the banking supervisor" has been necessary for clarification.

	or to the other responsibilities of the CBI. Banking supervision is adequately funded and represented by a Deputy Governor. The primary function of the Banking Supervision Divisions is the onsite and off-site supervisions of all Irish licensed credit institutions.
<b>EC3</b>	Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile <sup>6</sup> and systemic importance. <sup>7</sup>
Description and findings re EC3	<p>Minimum prudential standards are established through primary legislation (e.g. Central Bank Acts), secondary legislation (e.g. Statutory Instruments (SI) implementing Directives such as the CRD) or through regulatory requirements issued by the CBI. Regulatory requirements may be attached as a condition on the license of an individual bank or of all banks. The CBI, under Section 10 of the CBI Act 1971, issues regulatory requirements. The CBI also issues "policy" and "Codes" which are enforceable.</p> <p>The CBI has powers to impose requirements on banks primarily under regulation 70 of SI 661 of 2006, under Section 10 of the CBI Act 1971 and the CBI (Supervision and Enforcement) Act 2013. The CBI also notifies appropriate authorities (e.g. Irish police) for possible criminal sanctions where contraventions of the Central Bank Acts are designated as a criminal offense. The CBI pursues corrective/enforcement action through an Administrative Sanctions Procedure (ASP). The CBI may require the bank to implement a risk mitigation program (RMP) to address more routine issues. For more serious issues a supervisory warning or direction may be issued. Under Part IIIC of the CBI Act 1942, an inquiry may be held that may lead to the imposition of sanctions/fines.</p> <p>The CBI has the ability to increase individual prudential requirements for banks. This includes powers under the Statutory Instruments implementing the CRD (including inter alia the ability of the supervisor: to impose additional capital requirements; to impose a specific provisioning methodology; or to reduce risk profile) and powers under the Central Bank Act 1971 (to increase minimum prudential standards by imposing additional license requirements on a bank or banking group under Section 10 of the Act). Regulation 70 enables the CBI to require any credit institution <i>"that does not meet the requirements of any law of the State giving effect to take the necessary actions or steps at an early stage to address the situation."</i></p> <p>Regulation 70 has been used to impose additional capital requirements in the case of the banks subject to the Central Bank's Prudential Capital Assessment Review (PCAR), most recently in March 2011 and to re-issue a RMP to an institution that did not comprehensively address the program in the first instance.</p> <p>The CBI has imposed additional prudential requirements on individual banks, such as limiting deposit-taking activities (i.e. no deposits of less than €500,000). In addition, the CBI's liquidity requirements, as set out in the "Requirements for the Management of Liquidity Risk," were imposed as an additional license requirement on all banks.</p>

<sup>6</sup> In this document, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank.

<sup>7</sup> In this document, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in the BCBS paper on *Global systemically important banks: assessment methodology and the additional loss absorbency requirement*, November 2011.

<b>EC4</b>	Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate.
Description and findings re EC4	Banking laws in the EU are continuously updated and generally implemented at European level by way of Directives. Irish laws are also updated as necessary and EU directives must be transposed into national law by EU Member States. Member States may choose the transposition methodology but are subject to review for completeness. As a result, banking laws are generally developed at EU level and consulted on a trans-European level (e.g. by the EU Commission) as Directives are developed and passed. As such, they are updated as necessary in a European context. For example, the Basel Committee for Banking Supervision (BCBS) Basel II text was implemented via the CRD in the EU. This directive updated the previously implemented Codified Banking Directive and consolidated banking capital and prudential requirements. Since 2010 there have been significant revisions to CBI legislation, including enhancements to enforcement authority in 2013.
<b>EC5</b>	The supervisor has the power to: <ul style="list-style-type: none"> <li>(a) have full access to banks' and banking groups' Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations;</li> <li>(b) review the overall activities of a banking group, both domestic and cross-border; and</li> <li>(c) Supervise the activities of foreign banks incorporated in its jurisdiction.</li> </ul>
Description and findings re EC5	Section 17A and section 18 of the Central Bank Act 1971 give powers to the CBI to inspect the books, records and provides access to the management and boards of banks. <p>The primary legislative powers apply at a consolidated, sub-consolidated or solo level. This means that authorized CBI officers can inspect the books and records of group consolidated entities or subsidiaries of foreign-owned banks. The legal provisions are detailed in S.I. 475 of 2009, in that it sets out when consolidated supervision is applicable. Part 3 of the CBI (Supervision and Enforcement) Act 2013 has extensive authorized officer powers and general information gathering powers to "associated enterprises" when the CBI is the consolidated supervisor. Part 3 of the Act also provides powers, which can be used outside the State and in relation to "related undertakings" of a regulated financial service provider.</p> <p>Supervisory authority extends to all banks operating in Ireland regardless of home country.</p>
<b>EC6</b>	When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system, the supervisor has the power to: <ul style="list-style-type: none"> <li>(a) take (and/or require a bank to take) timely corrective action;</li> <li>(b) impose a range of sanctions;</li> <li>(c) revoke the bank's license; and</li> <li>(d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.</li> </ul>
Description and findings re EC6	The CBI may require under regulation 70 of S.I. 661 that, when it has determined that a bank does not meet the requirements of the CRD, that bank must take the necessary actions or steps at an early stage to address the situation.

	<p>(a) As well as enforcement capability (including ASP actions), the measures available to the CBI under the CRD include the following:</p> <ul style="list-style-type: none"> <li>(i) obliging credit institutions to hold own funds in excess of the minimum level set out in the CRD;</li> <li>(ii) requiring the reinforcement of the arrangements, processes, mechanisms and strategies implemented to comply with the CRD (namely the systems and processes of internal control);</li> <li>(iii) requiring credit institutions to apply a specific provisioning policy or treatment of assets, in terms of own funds requirements;</li> <li>(iv) restricting or limiting the business, operations or network of credit institutions; and</li> <li>(v) requiring the reduction of the risk inherent in the activities, products and systems of credit institutions.</li> </ul> <p>(i) The CBI may, with the consent of the Minister, revoke a license.</p> <p>(b) Section 45 of the Central Bank (Supervision and Enforcement) Act 2013 provides the authority of the CBI to issue “directions” requiring the bank to effect corrective action. A CBI direction may require the bank to dispose of assets, suspend a certain activity for a period not to exceed 12 months, raise capital, make changes to internal systems and controls and address violations of law.</p> <p>(c) The Credit Institutions (Resolution) Act 2011 (CBCIR) establishes the process to deal with resolution of failed or failing banks. The CBI must apply to court before resolving a bank. The liquidation is governed by company law and the liquidator is appointed by the CBI. The CBI and the Minister for Finance are represented on the liquidation committee.</p>
<b>EC7</b>	The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.
Description and findings re EC7	<p>The CBI supervises “Home” banks on a consolidated basis (including all bank and nonbank subsidiaries), up to and including financial holding companies, and the prudential and regulatory requirements are imposed at financial holding company or parental level under the CRD. S.I. 475 of 2009 deals with the ability to review the activities of parent companies to determine the safety and soundness of the bank concerned, and the overall banking group.</p> <p>Foreign-owned subsidiaries are subject to solo supervision, in that they are required to comply with minimum prudential requirements on a subsidiary basis. EU banking groups are also subject to home-host cooperation and supervision. Consolidated supervision takes account of all group companies (including unregulated subsidiaries) and all regulated entities must comply with the minimum regulatory requirements on a solo basis. Discretion from this requirement is only available where the subsidiaries are unregulated. For unregulated parents, the CBI monitors the financial condition through information obtained from the Irish operation and publicly available financial statements and applies fit and proper requirements to controlling owners but not to senior management when the licensing application is reviewed. Additionally, the Irish operation is ring-fenced from the unregulated parent.</p>

	<p>S.I. 475 of 2009 deals with the ability to review the activities of parent companies to determine the safety and soundness of the bank concerned and the overall banking group. S.I. 475 of 2009 transposes the relevant parts of the CRD in this regard. Furthermore, the CBI (Supervision and Enforcement) Act 2013 enhances the CBI's powers in relation to getting information (general information-gathering power and authorized officer powers) not just from banks themselves but also from "related persons." These powers can be exercised outside the State (subject to appropriate liaison with the appropriate authorities in the relevant jurisdiction). Also, section 18 of the CBI Act 1971 can be exercised against an "associated company" or "related body."</p> <p>In terms of consolidated position, Regulation 15(a) of S.I. 661 of 2006 provides that parent credit institutions in the State shall comply with the CRD on the basis of their consolidated financial situation.</p>
<b>Assessment of Principle 1</b>	Compliant
Comments	
<b>Principle 2</b>	<b>Independence, accountability, resourcing and legal protection for supervisors.</b> The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.
<b>Essential criteria</b>	
<b>EC1</b>	The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision.
Description and findings re EC1	<p>The CBI is an independent statutory body that must act in accordance with the Treaty on the Functioning of the European Union and the ESCB Statute and within the confines of the statutory regime of Irish financial services law (primarily the Central Bank Act 1942 and the designated enactments and statutory instruments listed in Schedule 2 of that Act). The CBI has full regulatory and supervisory powers to supervise the banking system and take enforcement action without consultation or interference. However, as set out below, there are situations where the CBI is required to consult with, or in specific circumstances receive approval from, the Minister for Finance e.g. involuntary revocation of license, application of levies, and denial of a license application. In relation to industry interference, while the CBI consults with industry participants or industry representative bodies, such participants do not have any legislative basis upon which to interfere in the decision-making process of the Central Bank.</p> <p>The Governor/Deputy Governor and senior Central Bank Management appear before the Joint Oireachtas Committee on the performance and discharge of its duties.</p> <p>The process for the appointment and dismissal of the Governor and Commission of the CBI is set out in the CBI Act 1942. However, the internal governance structures are not set out in legislation and are determined by the CBI itself. The Governance Structures of the CBI are explained in public documents.</p> <p>The framework by which the CBI establishes and enforces minimum prudential standards</p>

	<p>for banks is set down in legislation and regulations which are updated when required.</p> <p>Where deemed necessary, the CBI has the power to take action against a bank, including imposing financial penalties and ultimately revoking a banking license (the latter can only be done with the consent of the Minister for Finance). The CBI's decisions can be appealed to the Irish Financial Services Appeals Tribunal and can also be judicially reviewed.</p> <p>The CBI must also prepare and submit to the Minister for Finance a strategic plan every three years which is also laid before the Houses of the Oireachtas (section 32B of the Central Bank Act 1942).</p> <p>The CBI is required to prepare a statement relating to the CBI's performance in regulating financial services under chapter 2A Article 32L of the Central Bank Act 1942 (inserted by the Central Bank Reform Act 2010).</p>
<b>EC2</b>	<p>The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed.</p>
Description and findings re EC2	<p>The appointment of the Central Bank Commission (Board), Governor and Deputy Governors (which include the Deputy Governor for Financial Regulation) are transparent and set out in the Central Bank Act 1942. This Act also stipulates the circumstances in which the above can be removed.</p> <p><u>Commission Member:</u> In relation to the appointment of Commission members:</p> <p style="padding-left: 40px;">(1) <i>The Commission comprises-</i></p> <p style="padding-left: 80px;">(a) <i>the persons for the time being holding or performing the duties of the following offices:</i></p> <p style="padding-left: 120px;">(i) <i>Governor;</i></p> <p style="padding-left: 120px;">(ii) <i>Head of Central Banking;</i></p> <p style="padding-left: 120px;">(iii) <i>Head of Financial Regulation;</i></p> <p style="padding-left: 120px;">(iv) <i>Secretary General of the Department of Finance, and</i></p> <p style="padding-left: 80px;">(b) <i>at least 6, but no more than 8, other members appointed by the Minister.</i></p> <p>Section 24B of the Central Bank Act 1942 limits a Commission member to holding the position for a period of 5 years unless he or she previously ceases to hold that office in accordance with a provision of this Part. May be renewed once.</p> <p>Section 25 of the Central Bank Act 1942 provides that the Minister may remove an appointed member of the Commission from office:</p> <p style="padding-left: 40px;">(a) <i>for proven misconduct or incompetence, or</i></p> <p style="padding-left: 40px;">(b) <i>if in the Minister's opinion it is necessary or desirable to do so to enable the Commission to function effectively.</i></p> <p><u>Governor</u> Section 19 of the Central Bank Act 1942 states:</p>

	<p>The Governor shall be appointed by the President on the advice of the Government. A person appointed as Governor holds office for 7 years from the date of the person's appointment. The President, on the advice of the Government, may appoint a person holding office as Governor for a further period of seven years to take effect at the end of the person's current period of appointment.</p> <p>Section 21 of the Central Bank Act 1942 states:</p> <p>(1) <i>The President may, on the advice of the Government, remove the Governor from office on the ground that the Governor has, because of ill-health, become permanently incapacitated from carrying out the responsibilities of Governor.</i></p> <p>(2) <i>The President may, on the advice of the Government, remove the Governor from office on one or more specified grounds of serious misconduct.</i></p> <p>The current Governor is a number of years into his 7 year contract while the previous Governor served longer than the 7 year term. The current Governor is the first not to come from the Secretary General position at The Department of Finance. The recently appointed Deputy Governor for Financial Regulation and the prior one were from other member EU states.</p>
<b>EC3</b>	The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives. <sup>8</sup>
Description and findings re EC3	<p>The CBI annually publishes its objectives and the extent of achievement of those objectives. The CBI must also prepare and submit to the Minister for Finance a strategic plan every three years. This plan is also laid before the Houses of the Oireachtas (section 32B of the Central Bank Act 1942).</p> <p>The CBI is required to prepare a statement relating to the CBI's performance in regulating financial services under chapter 2A Article 32L of the Central Bank Act 1942 (inserted by the Central Bank Reform Act 2010).</p> <p>Within one month after receiving a performance statement from the CBI, the Minister will lay it before each House of the Oireachtas.</p> <p><i>The Governor or a Head of Function may be requested by a Committee of the Oireachtas to-</i></p> <p>(a) <i>attend before the Committee, and</i></p> <p>(b) <i>provide that Committee with information relating to the Bank's performance statement, the Governor or Head of Function shall-</i></p> <p>(i) <i>appear before the Committee, and</i></p> <p>(ii) <i>subject to section 33AK(1A), provide the Committee with such information relating to the performance statement as the Committee requires.</i></p> <p>The CBI published its Annual Performance Statement on its financial regulatory activities for 2012 in April 2013. The Governor/Deputy Governor and senior management have appeared before the Joint Oireachtas Committee on the performance and discharge of their duties.</p>
<b>EC4</b>	The supervisor has effective internal governance and communication processes that enable

<sup>8</sup> Please refer to Principle 1, Essential Criterion 1.

	<p>supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest.</p>
Description and findings re EC4	<p>The governance of the CBI is structured to ensure that decisions are taken at the appropriate level and in a timely manner. This is reflected in a number of ways:</p> <p>The Commission has approved a 'delegation of powers' framework together with an extensive assignment of responsibilities pursuant to section 32A of the Central Bank Act 1942. This framework clearly sets out the decisions that are permitted to be taken by specified staff, thus ensuring that decisions are taken at the appropriate level. In addition, the delegation of power should allow for timelier decision-making.</p> <p>In terms of the decision-making process, two significant committees have been established by the Central Bank: the Policy Committee and the Supervisory Risk Committee.</p> <p>The CBI Act 1942 sets out requirements in relation to avoiding conflicts of interest for specific positions: Commission member (Section 24), Governor (Section 19 &amp; 20), Deputy Governor (Section 23).</p> <p><u>Conflict of Interest</u></p> <p>All staff of the Central Bank of Ireland is subject to the Staff Code of Ethics and Behavior and the Employee Trading Rules. The code of ethics requires that staff do not put themselves in the position that might give rise to an actual or apparent conflict between the discharge of their official duties and their personal, financial or other interests. In addition the code requires that staff, in particular senior officers, should not be active members of any political party or organization.</p> <p>The employee trading rules requires staff to abstain from being a party to any economic or financial transactions that may hinder their independence and impartiality and should avoid any situation liable to give rise to a conflict of interest. The purpose of the trading rules is to:</p> <ul style="list-style-type: none"> <li>• Maintain standards of conduct within the Central Bank at the highest level of integrity; and</li> <li>• Avoid any potential insinuation of insider trading, conflict of interest or other abuses of confidential information.</li> </ul>
EC5	<p>The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.</p>
Description and findings re EC5	<p>The CBI staff is qualified with both supervisory and industry experience. Since the onset of the financial crisis the CBI has significantly increased its specialist-staff complement in the areas of risk analytics, credit and treasury.</p> <p>The CBI ensures that conflict of interest issues do not arise through a number of means including legislation and internal codes.</p> <p>In addition to the legislative requirements detailed in EC 4, all staff of the CBI is subject to the Staff Code of Ethics and Behavior and the Employee Trading Rules. The code of ethics requires that staff do not put themselves in the position that might give rise to an actual or apparent conflict between the discharge of their official duties and their personal, financial or other interests. In addition the code requires that staff, in particular senior officers, should not be active members of any political party or organization.</p>

	<p>The employee trading rules requires staff to abstain from being a party to any economic or financial transactions that may hinder their independence and impartiality and should avoid any situation liable to give rise to a conflict of interest.</p> <p>Staff is also required to disclose any shareholdings that they have to ensure transparency and highlight potential conflicts of interest.</p> <p>The CBI takes steps to ensure that information which it has provided and which it receives remains confidential. Staff is required by legislation (the Central Bank Act, 1942 section 33AK) to preserve the confidentiality of information. In addition, internal information security policies are in place within the Central Bank.</p> <p>Discussions with industry by the mission disclosed the consensus that CBI staff is professional, that the CBI has increased its skills base and adds value through the supervisory process.</p>
EC6	<p>The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes:</p> <ul style="list-style-type: none"> <li>(a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised;</li> <li>(b) salary scales that allow it to attract and retain qualified staff;</li> <li>(c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks;</li> <li>(d) a budget and program for the regular training of staff;</li> <li>(e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups; and</li> <li>(f) a travel budget that allows appropriate on-site work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (e.g., supervisory colleges).</li> </ul>
Description and findings re EC6	<p>The CBI applies levies on the banks to fund its regulatory duties/activities. The amount of the levy must be approved by the Minister. The ability to charge these levies is set out in the CBI Act 1942. These supervisory activities include both supervisory staff costs and non-staff costs such as external experts, training etc. The CBI considers that the Banking Supervision Divisions are adequately resourced to perform their supervisory functions.</p> <p>The Staffing</p> <ul style="list-style-type: none"> <li>(a) The CBI constantly evaluates both the level of staff and the skillsets of these staff to ensure that the requisite level of resources is available to carry out its duties.</li> <li>(b) As a Public Sector entity the CBI cannot offer the same level of remuneration and benefits as is available in the private sector. However, as the CBI operates within a hierarchical grading structure it has flexibility in relation to the entry point of new staff within this structure, and therefore has some ability to compete with the private</li> </ul>

sector. In addition, greater certainty of tenure than the private sector and a defined benefit pension scheme are tools that can be used to attract staff.

- (c) The CBI can, where required, commission external experts to conduct supervisory tasks. Under the Central Bank (Supervisory and Enforcement) Act 2013 the cost of these external experts can be applied directly to the banks. The Central Bank (Supervision and Enforcement) Act 2013 provides extensive new powers in relation to third-party skilled persons reports (Part 2) and enables the CBI to appoint non-employees as authorized officers who will be able to use the extensive new authorized officer powers under this act.
- (d) The CBI as an organization has a significant training budget which staff in Banking Supervision can avail of. In addition, Banking Supervision has its own training budget which is utilized for specific supervisory training identified as part of its Training Needs Analysis. Banking Supervision has a training policy and curriculum which set out Banking Supervision management's commitment to training, an individual's personal responsibility for training, sources of training available and the core curriculum. This curriculum is kept under ongoing assessment, as are the providers of such training. Each member of the banking divisions are required to undertake the core curriculum and can then build on this with more advanced/specialized training to suit their own personal learning needs and the requirements of their role.
- (e) The CBI operates a centralized technology budget. Divisions that wish to implement new technology projects present a business case to senior management for assessment.
- (f) Banking Supervision has a significant travel budget which facilitates staff undertaking travel that is relevant to their roles.

#### Staffing

Category	2010	2012
Front line supervisor	66	49
Projects	4	6
Risk specialists – Supervision Support (credit, treasury, business model, risk model)	26	24
Stress testing	2	5
Divisional Operations (admin, reporting, policy)	15	12
Special resolutions		
<b>Grand Total</b>	<b>113</b>	<b>96</b>

Turnover rate		
Category	2011	2012
Front line supervisor	4.5%	1.8%
Projects	0.0%	0.0%
Risk specialists (credit, treasury, business model, risk model)	7.7%	16.7%
Stress testing	0.0%	12.5%
Support (admin, reporting, policy)	13.3%	0.0%
Special resolutions	0.0%	0.0%

	<b>Grand Total</b>	<b>6.2%</b>	<b>5.6%</b>
	There has been a doubling of banking supervision resources since the beginning of the current financial crisis (i.e. July 2007) with a consequential increase in levies to reflect this.		
EC7	As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill-sets identified.		
Description and findings re EC7	Banking Supervision Division management undertakes regular Training Needs Analysis. The purpose of this exercise is to identify any gaps/weaknesses in the current complement of staff and to identify future gaps based on the supervisory strategy/plan. The results of this exercise are utilized to devise training plans and highlight recruitment requirements. The identified gaps are factored into the individual Performance Management and Development Plans of staff members. In addition, the Central Bank employs the PRISM system to determine the impact rating of banks, which is then used to determine the requisite allocation of staff. The actual level of staff is compared to the model allocation on an ongoing basis.		
EC8	In determining supervisory programmes and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available.		
Description and findings re EC8	<p>PRISM is the framework through which the CBI determines supervisory programs and allocates resources, taking into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available.</p> <p>PRISM assigns all supervised firms to one of four possible impact categories based on a quantitative assessment of the impact of their failure upon (inter-alia) the economy/financial stability, the taxpayer and the consumer. These impact categories are High, Medium High, Medium Low and Low.</p> <p>Supervisory resources are allocated to each firm on the basis of this impact assessment. A program of minimum supervisory engagement has been developed for each of the four impact categories. Resource buffers are in place to supervise above the minimum (i.e. to take account of the fact that some banks pose a higher probability risk than others notwithstanding that they may have the same impact categorization).</p>		
EC9	Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.		
Description and findings re EC9	<p>The CBI and its employees have statutory protection from being liable in damages for actions carried out while performing the functions of the CBI provided that they have not acted in bad faith. While the CBI does not currently have a formal policy in place in relation to the provision of costs for staff defending their actions the practice to date has been that the Central Bank does support its staff.</p> <p>Section 33AJ of the Central Bank Act 1942 states:</p> <p style="margin-left: 40px;">(1) <i>This section applies to the following persons:</i></p> <p style="margin-left: 80px;">(a) <i>the Bank;</i></p> <p style="margin-left: 80px;">(b) <i>the Governor;</i></p>		

	<p>(ba) the Heads of Function;  (bb) the Secretary General of the Department of Finance, in his or her capacity as an ex-officio member of the Commission;  (bc) the appointed members of the Commission;  (b) the Registrar of Credit Unions;  (c) the Registrar of the Appeals Tribunal;  (d) employees of the Bank;  (e) agents of the Bank.</p> <p>(1) A person to whom this section applies is not liable for damages for anything done or omitted in the performance or purported performance or exercise of any of its functions or powers, unless it is proved that the act or omission was in bad faith.</p> <p>In the past 5 years there have been no cases of litigation taken against the Central Bank of Ireland arising from its supervisory functions, nor has it had to pay any compensation arising from this role.</p>
<b>Assessment of Principle 2</b>	Materially Noncompliant
Comments	<p>The Minister may remove an appointed member of the Commission from office if, in the Minister's opinion, it is necessary or desirable to do so to enable the Commission to function effectively. To date the Minister has not utilized this power. The CBI has requested that this legislative provision be repealed, however the Department of Finance has indicated that it will not be taking any action on the basis of this request.</p> <p>The CBI can only revoke a banking license (i.e. where revocation is not being sought by the license holder) with the prior consent of the Minister for Finance.</p> <p>The CBI may not deny a license application or revoke a license granted based on false information without the consent of the Minister of Finance.</p> <p>The Secretary General of the Department of Finance is a member of the CBI commission.</p> <p>The CBI must seek approval of the Minister to increase levies imposed on the industry when it considers that current levels are insufficient to properly perform its function.</p> <p>The CBI staff are held to equivalent civil/public service pay scale and conditions. Banking Supervision is currently operating with vacancies and turnover in key skilled positions is high.</p> <p>The record shows that there has been no evidence of interference by the Minister for Finance, through the relevant legislative provisions highlighted above, in the operational independence of the Central Bank. The legal framework should be amended to document the practice and ensure its continuity as players change.</p> <p>Although, as a matter of practice, the CBI reimburses staff for legal expenses, this is done ex-post.</p>
<b>Principle 3</b>	<b>Cooperation and collaboration.</b> Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential

	information. <sup>9</sup>
<b>Essential criteria</b>	
<b>EC1</b>	Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC1	<p>The Central Bank is responsible for the supervision of financial service providers and markets in Ireland in addition to having responsibility for financial stability. Other relevant domestic authorities include the Garda Síochána (the Irish Police force), Revenue Commissioners, Director of Corporate Enforcement, Competition Authority and National Consumer Agency. In addition, liaising is required from time to time with the Department of Finance and/or Minister for Finance. There is specific provision in European and domestic legislation, in addition to agreed protocols with some of these agencies, to allow for cooperation and sharing of confidential information.</p> <p>There are formal gateways in domestic legislation to both mandatorily report to and share information with the relevant authorities. There are informal, non-legal arrangements in place for cooperation and the sharing of information (e.g. Department of Finance, Office of the Director of Corporate Enforcement (ODCE)).</p> <p>In 2008 an MoU was agreed between the Central Bank and the Irish Auditing and Accounting Supervisory Authority (IAASA). IAASA is the regulatory body charged with responsibility for oversight of the auditing profession in Ireland. It allows, inter alia, for exchange of relevant information and cooperation in respect of investigation work of either party.</p> <p>An MoU between the Central Bank and the Department of Finance has been in place since 2011 in relation to oversight of the banking sector (this in addition to an MoU on Financial Stability, in place since 2007), and the State supported credit institutions. It sets out the respective responsibilities of the parties (and recognizes the statutory functions of the Central Bank), the general principles for cooperation and information exchange, and confirms in particular that the provisions of Section 33AK of the Central Bank Act 1942 and of professional secrecy in the CRD apply.</p> <p>Section 33AK of the Central Bank Act 1942 is the key piece of legislation regarding coordination and collaboration between the domestic authorities involved in financial sector regulation. Sections (3) and (5) are the main sections: Subsection (3) – <u>Requires</u> the Central Bank to <u>report</u> certain matters to the bodies; and Subsection (5) – <u>Enables</u> the Central Bank to <u>disclose</u> confidential information to relevant parties.</p> <p>Section 33AK(3) states:</p> <p style="padding-left: 40px;"><i>(a) Subject to subsection (1)(b) and paragraph (b), the Bank shall report, as appropriate, to-</i></p>

<sup>9</sup> Principle 3 is developed further in the Principles dealing with “Consolidated supervision” (12), “Home-host relationships” (13) and “Abuse of financial services” (29).

- (i) *the Garda Síochána, or*
- (ii) *the Revenue Commissioners, or*
- (iii) *the Director of Corporate Enforcement, or*
- (iv) *the Competition Authority, or*
- (iva) *the National Consumer Agency, or*
- (v) *any other body, whether within the State or otherwise, charged with the detection or investigation of a criminal offence, or*
- (vi) *any other body charged with the detection or investigation of a contravention of-*
  - (I) *the Companies Acts 1963 to 2001, or*
  - (II) *the Competition Act 2002, or in so far as any commencement order under that Act does not relate to the repeal of provisions of the Competition Acts 1991 and 1996, which would otherwise be subsisting those Acts,**any information relevant to that body that leads the Bank to suspect that-*
  - (A) *a criminal offence may have been committed by a supervised entity, or*
  - (B) *a supervised entity may have contravened a provision of an Act to which subparagraph (vi) relates.*

In terms of EU law, Article 47 of the CRD is the most relevant:

*Articles 44(1) and 45 shall not preclude the exchange of information within a Member State, where there are two or more competent authorities in the same Member State, or between Member States, between competent authorities and the following:*

- (a) *authorities entrusted with the public duty of supervising other financial organisations and insurance companies and the authorities responsible for the supervision of financial markets;*
- (b) *bodies involved in the liquidation and bankruptcy of credit institutions and in other similar procedures; and*
- (c) *persons responsible for carrying out statutory audits of the accounts of credit institutions and other financial institutions; in the discharge of their supervisory functions.*

*Articles 44(1) and 45 shall not preclude the disclosure to bodies which administer deposit-guarantee schemes of information necessary to the exercise of their functions. In both cases, the information received shall be subject to the conditions of professional secrecy specified in Article 44(1).*

In addition, as regards financial crime, the Central Bank must report to the Gardaí and the Revenue Commissioners any suspicion it forms of a contravention of Irish anti-money laundering or terrorist financing laws (Criminal Justice (Anti-Money Laundering and Terrorist) Financing Act 2010).

Given the Central Bank is responsible for the safety and soundness of banks and financial stability, an internal framework has been established to facilitate cooperation and sharing of information between the respective areas. Various committee structures have been established to support the governance arrangements: the Governor's Committee, the Senior Leadership Committee, the Financial Stability Committee, the Supervisory Risk Committee and the Policy Committee. Key supervision staff attends several Committees, i.e.

	<p>the Directors of Credit Institutions and Insurance Supervision attends both Supervisory Risk Committee and Policy Committee.</p> <p>The Supervisory process also formally takes account of financial stability considerations – for example, the PRISM framework (see CP8) includes an assessment by the Financial Stability Division of environmental risk (which includes macro-economic risks and sector-specific risks). There was evidence to suggest that the feedback loop between financial stability and bank supervision has been strengthened over the last several years.</p> <p>In terms of the arrangements for environmental risk (which includes macro-economic risks and sector-specific risks), there are other domestic authorities with which the Central Bank collaborates and shares information. These authorities have (i) an interest in the overall stability of the financial system (e.g. Department of Finance), and (ii) responsibility for monitoring compliance with other relevant legislation (e.g. company law, data protection, financial crime and fraud).</p> <p>Evidence suggested that these arrangements worked in practice:</p> <ul style="list-style-type: none"> <li>- Consultation on formal supervisory decisions (e.g. bank license applications, material M&amp;A activity requiring supervisory approval, responding to formal Department of Finance Consultations with the Central Bank Governor). The PRISM framework requires the assessment of Environmental Risk (with subcategories of Macroeconomic and Sector Specific Environmental Risk). Ratings and rationales on these are agreed centrally between Financial Stability, Risk division and supervisory divisions. These assessments are available to supervisors to import (see CP8) and amend as necessary.</li> <li>- Reporting breaches of certain regulatory requirements to the Gardaí.</li> <li>- Reporting suspicions of unlawful conduct, financial crime, and or fraud to the Gardaí Síochána, Revenue Commissioners, ODCE as appropriate</li> <li>- Formal consultations with the Minister for Finance where he intends to exercise his powers in relation to the banking system (e.g. Direction/Transfer Orders provided for in the CISA 2010).</li> <li>- Quarterly reporting to the Minister on banks' compliance with the Credit Institutions (Financial Support) Scheme 2008.</li> </ul>
<b>EC2</b>	<p>Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.</p>
Description and findings re EC2	<p>The Central Bank is responsible for supervision of banks which are at the head of, or part of, banking groups which involve foreign supervisory authorities, located both within and outside the EU. As both a Home and Host supervisory authority, the Central Bank co-operates and shares relevant information on an ongoing basis with other foreign supervisory authorities.</p> <p>In the context of cooperation and sharing of confidential information with foreign</p>

supervisors (from a banking supervision perspective), there is provision in European and domestic legislation for cooperation and sharing of confidential information with supervisors both within and outside the EU. These are supplemented with other non-legal (informal) arrangements such as MoUs and 'multilateral cooperation agreements' made with other competent authorities. Examples of Bilateral MoUs include: Bahrain, Belgium, Canada, Denmark, Dubai, Malaysia and U.S. and examples of Multilateral MoUs include: U.S. (Federal Reserve Board, OCC and FDIC signed in April 2013).

The Central Bank Act, 1942 – Section 33AK(5), make specific provisions for the sharing of information with foreign supervisors, particularly subsections (d) & (e).

*(5) Subject to subsection (1A), the Bank may disclose confidential information-  
[...]*

*(d) to an authority in a jurisdiction other than that of the State duly authorized to exercise functions similar to any one or more of the statutory functions of the Bank and which has obligations in respect of nondisclosure of information similar to the obligations imposed on the Bank under this section, or*

*(e) to any institution of the European Community because of the State's membership of the Community, or to the European Central Bank for the purpose of complying with the Rome Treaty or the ESCB Statute, or*

*(6) Any person or entity to whom confidential information is provided under subsection (3)(a) or (5) shall comply with the provisions on professional secrecy in the Supervisory Directives in holding and dealing with information provided to them by the Bank.*

The relevant EU law is CRD – Articles 44-52 (Exchange of Information and Professional Secrecy); 131 & 132 (Supervision). Exchange of information and professional secrecy is contained with Article 44: Member States shall provide that all persons working for or who have worked for the competent authorities, as well as auditors or experts acting on behalf of the competent authorities, shall be bound by the obligation of professional secrecy. No confidential information which they may receive in the course of their duties may be divulged to any person or authority whatsoever, except in summary or collective form, such that individual credit institutions cannot be identified, without prejudice to cases covered by criminal law. Nevertheless, where a credit institution has been declared bankrupt or is being compulsorily wound up, confidential information which does not concern third parties involved in attempts to rescue that credit institution may be divulged in civil or commercial proceedings.

The other relevant Articles include 46 – 52 which sets out the framework for member states to cooperate in an effort to strengthen the stability, including integrity, of the financial system, allowing for the exchange of information between the competent authorities and the authorities or bodies responsible under law for the detection and investigation of breaches of company law.

By way of a practical example, formal arrangements are in place where the Central Bank leads supervisory Colleges in respect of the two High Impact banking groups in Ireland. These Colleges have been in operation for a number of years and comprise both EU and non-EU supervisors. The relevant EU supervisor concerned is subject to the provisions of the CRD in addition to a Multilateral Cooperation Agreement being in place, and MOUs have been agreed with respect to the relevant non-EU supervisors. The minutes from the

	<p>Colleges showed good levels of cooperation between the attendees conducting a joint risk assessment of the group, reaching decisions on capital adequacy, and sharing plans on future supervisory activities.</p> <p>Joint Risk Assessment Documents (JRADs) have been agreed in both years. These Colleges have been overseen by EBA observers. There is also ongoing cooperation and exchange of information between the various supervisors throughout each year.</p> <p>The Central Bank is a host member of a number of Colleges, both within and outside the EU (e.g. UK, Italian, German, US and Canadian banking groups). The Central Bank is a signatory to MOUs and/or Multilateral Cooperation Agreements in respect of participation at these Colleges and many involve input into JRAD reports, and agreeing capital decisions. Cooperation is also ongoing with these supervisors. These Colleges also agree the broad supervisory plans and work focus for the year ahead.</p> <p>The Central Bank also works very closely with other supervisors throughout the year and collaborates on supervisory assessment and approvals. For example, supervisors work together with other regulators on plans by banks to establish new business, transfer some or all of their business between jurisdictions, repatriate capital/revenue reserves, develop liquidity/funding arrangements etc. In practice, for lower risk PRISM Impact banks the engagement with Home supervisors is mainly centered mainly around the formal college arrangement, whereas for High Impact banks the engagement is considerably more frequent, less informal and supervisor to supervisor.</p>
<b>EC3</b>	<p>The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.</p>
Description and findings re EC3	<p>In the context of sharing confidential information, safeguards are provided for in law as to the purposes for which shared information may be used – i.e. the professional secrecy provisions of the CRD (see below), which are given effect in domestic law through Section 33AK(5) – (The nature and type of such engagement is described in EC1 &amp; EC2 above).</p> <p>In addition to the legal provisions, on a practical basis the provision of confidential information is done through MOUs with other authorities. These MOUs require, inter alia, that confidential information shared will only be used in the performance of regulatory and supervisory functions and subject to any restrictions agreed, and/or must recognize the professional secrecy obligations under EU and domestic law.</p> <p>Sections 33AK(5)(d) &amp; (6) of the Central Bank act 1942 provide that any information shared of a confidential nature must comply with the professional secrecy provisions of the supervisory directives (e.g. CRD). Directive 2006/48/EC ('CRD') provides, inter alia, for cooperation and sharing of confidential information between competent authorities, both within and outside of the EU. These provisions are specifically set out in Articles 44 to 52.</p> <p>Supervisory teams participate in Colleges and exchange confidential information as required throughout the supervisory period. These exchanges are governed by the above legal provisions. In addition, MOUs and Multilateral Cooperation Agreements are also in place which set out clear principles surrounding sharing of confidential information.</p>
<b>EC4</b>	<p>The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The</p>

	<p>supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.</p>
Description and findings re EC4	<p>The Central Bank is subject to strict legal requirements in relation to confidentiality of information. These are set out in domestic law and require that the Central Bank cannot provide confidential information except in specified circumstances, i.e. with the consent of the authority that provided the information; where required for criminal proceedings; or where it is being provided to another supervisory authority subject to the same professional secrecy laws. Sections 33AK(5)(d) &amp; (6) of the Central Bank Act 1942 provide that any information shared of a confidential nature must comply with the professional secrecy provisions of the supervisory directives. Articles 44 to 52 of the EU Directive provides for cooperation and sharing of confidential information between competent authorities, both within and outside of the EU.</p> <p>As referred to in EC3 above, the Central Bank is a signatory to a number of MOUs. These provide, inter alia, that it can only use confidential information received for certain purposes, must obtain the permission of the authority that shared it in certain circumstances, and must inform the other authority of mandatory or legal requests to disclose and use best endeavours to resist these requests.</p> <p>The Central Bank is not, at present, subject to the provisions of the Freedom of Information Act (as is the case with Government Departments and certain public bodies). This legislation gives the public the right to access documents and records of these bodies, although there are exemptions to protect information relating to key areas of Government activity, parliamentary and court matters as well as third party information of a personal, commercial or confidential nature.</p> <p>The Central Bank exercises its powers under Section 33AK of the Central Bank Act 1942 not to share confidential information. For example, the Central Bank receives requests from members of the public, other agencies/institutions, media, and parliamentary members to access information relating to individual banks. This approach and exercise of Central Bank powers is applied to all confidential information in its possession, whether produced internally, received from banks, or received from other supervisory authorities.</p> <p>No examples have been identified of the Central Bank being legally compelled to pass on information received from another supervisor and having to use best efforts to resist the demand (or vice versa).</p>
EC5	<p>Processes are in place for the supervisor to support resolution authorities (e.g. central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions.</p>
Description and findings re EC5	<p>The CBCIR was enacted in 2011. This act establishes an effective resolution regime for certain institutions at the least cost to the State. The Special Resolution Unit (SRU) was established within the Central Bank to operationalize this legislation.</p>

While operationally separate, both the Supervisory Function and the Special Resolution Unit (SRU) sit within the Central Bank. This allows for interaction and information sharing at an earlier stage. A MOU is envisaged between the supervisory and resolution units to formalize the interaction between the units, especially in the areas of:

- Early notification of distress in an entity (to assist resolution planning)
- Consideration of triggers
- Development of Recovery & Resolution (R&R) plans

The CBCIR Act 2011 does not, however, apply at present to those credit institutions that come under the remit of emergency legislation introduced during the banking crisis to deal with those domestic institutions which needed State support. These are the institutions of greatest systemic importance in this jurisdiction.

These institutions are, however, in receipt of significant State support, and are also subject to a heightened level of supervisory and legal requirements and oversight. In effect these institutions have been and will be in a recovery and resolution process for some time. It would be the intention that if, and when, they come out of the regime of State support they will be covered under the provisions of the CBCIR Act 2011.

While the Central Bank has not required recovery plans from all credit institutions, recovery plans have been requested from the two largest banking groups in Ireland. Within Europe the forthcoming Banking Recovery and Resolution Directive will contain minimum requirements with respect to recovery and resolution planning for credit institution and investment firms

In respect of recovery and resolution plans, the CBCIR Act 2011 permits the Central Bank to request recovery plans from institutions. SRU has prepared draft recovery plan guidelines for institutions and anticipate that these guidelines will be subject to consultation with industry and the Minister for Finance prior to being finalized. These guidelines prepared in line with the discussion paper on the topic produced by the European Banking Authority (EBA) Sub Group on Crisis Management and will be finalized after the Banking Recovery and Resolution Directive has been implemented.

The CBCIR Act 2011 is relatively new legislation and has not been required to be used to resolve a licensed bank in this jurisdiction.

The Deposit Guarantee Scheme is administered by the Payments and Securities Settlements Division of the Central Bank. An MOU has been agreed between Payments and Securities Settlements Division, Banking Supervision and the SRU. It sets out the responsibilities of each party in respect of the operation of the Irish Scheme.

The Deposit Guarantee Scheme (DGS) was established under the terms of:

- The European Communities (Deposit Guarantee Schemes) Regulations, 1995 (S.I. No.168 of 95) and amended by European Communities (Deposit Guarantee Schemes) (Amendment) Regulations, 2009 (S.I. No. 228 of 2009); and
- The Financial Services (Deposit Guarantee Scheme) Act 2009.

The DGS was invoked for the first time in respect of the liquidation of Irish Bank Resolution Corporation in February 2013. The liquidation was initiated under special legislation rather than under the CBCIR Act 2011. The terms of the IBRC Act 2013 provided that a Special

	<p>Liquidation Order by the Minister for Finance constituted a compensation event for the purposes of the DGS.</p> <p>As at 30 April, the DGS had paid out €9.6 million in compensation to 594 eligible depositors in accordance with the rules of the scheme. The Special Liquidators continue to review deposits held by customers who also hold loans, to establish if a right of set off applies. These investigations may identify additional accounts which qualify for DGS compensation and further payments will be made in due course.</p> <p>A coordinating committee was established within the Central Bank to oversee the supervisory and compensation aspects of the liquidation.</p>
<b>Assessment of Principle 3</b>	Compliant
Comments	<p>The Central Bank is responsible for the regulation of financial service providers and markets in Ireland, and ensuring financial stability. There is provision in European and domestic legislation for cooperation and sharing of confidential information with supervisors both within and outside the EU. In addition there are other non-legal (informal) arrangements such as MoUs and 'multilateral cooperation agreements' made with other competent authorities. Evidence suggested these arrangements were working effectively.</p> <p>Formal and information arrangements are in place between the relevant authorities to facilitate cooperation and coordination, importantly between the Central Bank and the Minister for Finance. An MoU between the Central Bank and the Department of Finance has been in place since 2011 in relation to oversight of the banking sector and State supported credit institutions.</p> <p>The Central Bank leads supervisory colleges for two systemic banking groups in Ireland as well as participating in joint risk assessments. Evidence showed the process working in practice to share relevant information, conduct joint risk assessments and coordinate supervisory activities where possible.</p> <p>The CBCIR Act 2011 does not currently apply to those credit institutions that come under the remit of emergency legislation introduced during the banking crisis to deal with those domestic institutions which needed State support which are the institutions of greatest systemic importance in this jurisdiction. To mitigate this gap, these institutions which are, in receipt of significant State support are also subject to a heightened level of supervisory and legal requirements and oversight. In effect these institutions have been and will be in a recovery and resolution process for some time. It would be the intention that if, and when, they come out of the regime of State support they will be covered under the provisions of the CBCIR Act 2011.</p> <p>The Central Bank has not required recovery plans from all credit institutions. However, recovery plans have been requested from the two largest domestic banking groups in Ireland). Ireland is not a Home supervisor for any G-SIBs.</p>
<b>Principle 4</b>	<b>Permissible activities.</b> The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word "bank" in names is controlled.
<b>Essential criteria</b>	

<b>EC1</b>	The term “bank” is clearly defined in laws or regulations.
Description and findings re EC1	<p>The terms “credit institution” and “banking business” are defined in legislation. Only bank license holders can conduct banking business or hold themselves out as banks. The range of activities that may be conducted by banks is specified (activities are detailed in Annex 1 of Directive 2006/48/EC). The use of the word “bank” and its derivations are tightly controlled by the CBI (with prior CBI approval being required where the term bank is proposed for use by a nonbank organization). Only institutions that are licensed and subject to supervision as banks (with defined exceptions as set out in the response to EC4) may accept deposits from the public. The CBI publishes a detailed list of licensed institutions on a daily basis.</p> <p>The powers of the CBI in this area are outlined in Sections 7 and 8 of the CBI Act, 1971.</p>
<b>EC2</b>	The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.
Description and findings re EC2	<p>The activities which may be conducted by banks are set out at Annex I of Directive 2006/48/EC. The Directive requires that <i>'Member States shall require credit institutions to obtain authorization before commencing their activities'</i>.</p> <p>In addition, banks may also provide the services and activities detailed in Sections A and B of Annex I to Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (MiFID), when referring to the financial instruments provided for in Section C of Annex I of that Directive.</p> <p>Notwithstanding the general range of permissible activities, the activities which may be undertaken by individual institutions may be restricted by the CBI, particularly when a banking license is being awarded, to those activities which it is proposed will be undertaken as set out in the banking license application. Any further activities not detailed in the banking license application would then require prior CBI approval before they could be undertaken.</p> <p>Schedule to S.I. No. 395 of 1992 / European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992, lists a range of activities which are subject to mutual recognition by EU regulators when conducted by banks. The only activity that a bank could not engage in is that in relation to insurance. It may be able to do so through a subsidiary or parent but the bank itself cannot carry on insurance business.</p> <p>CRD (2006/48) has been largely transposed into Irish law by the CBI Act 1971, S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009 in relation to banks. Section 7 of the CBI Act 1971 requires that any person who wishes to carry on “banking business” must be authorized by the CBI. “Banking business” is defined in section 2(1) of the CBI Act 1971.</p>
<b>EC3</b>	The use of the word “bank” and any derivations such as “banking” in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.
Description and findings re EC3	<p>It is unlawful to carry out banking business or represent oneself as a banker without holding a banking license (which can only be issued by the Central Bank).</p> <p>Prior permission of the CBI is required if a company wishes to use the word ‘bank’, ‘banker’ etc. Irish credit institutions or branches of European Economic Area (EEA) credit institutions operating in Ireland do not require an exemption for trading names with the word bank,</p>

	<p>banking or banker in the title. There are procedures in place which banking supervision staff follows in assessing such applications.</p> <p>Sections 7 and 8 of the CBI Act, 1971 address use of the terms 'bank', 'banker.'</p> <p>Since 2011, the CBI has approved 11 applications for use of the word 'Bank', with one application being rejected. In addition, the CBI issued a "non-objection" in relation to one application on the basis that Irish credit institutions or branches of EEA credit institutions operating in Ireland do not require an exemption for trading names with the word bank, banking or banker in the title.</p>
<b>EC4</b>	The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks. <sup>10</sup>
Description and findings re EC4	Section 7 of the Central Bank Act 1971 provides that: <i>'Subject to the provisions of this Act, a person, other than a Bank, shall not, in or outside the State, carry on banking business or hold himself out or represent himself as a banker or as carrying on banking business or on behalf of any other person accept deposits or other repayable funds from the public, unless he is the holder of a license.'</i>
<b>EC5</b>	The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.
Description and findings re EC5	<p>The CBI publishes on its website the following information:</p> <ul style="list-style-type: none"> <li>• Register of Credit Institutions (which includes branches of foreign banks, and foreign banks which provide services on a cross-border basis in Ireland). This is updated on a daily basis.</li> <li>• Register of designated credit institutions under the Asset Covered Securities Act 2001. This is also updated on a daily basis.</li> <li>• An annual list of bank license holders at the end of the previous year.</li> </ul> <p>This data can be easily located by the public as the 'Registers' icon appears on opening the Central Bank Homepage.</p>
<b>Assessment of Principle 4</b>	Compliant
Comments	
<b>Principle 5</b>	<b>Licensing criteria.</b> The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management) <sup>11</sup> of the bank and its

<sup>10</sup> The Committee recognizes the presence in some countries of nonbanking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

<sup>11</sup> This document refers to a governance structure composed of a board and senior management. The Committee recognizes that there are significant differences in the legislative and regulatory frameworks across countries

(continued)

	wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition-(including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.
<b>Essential criteria</b>	
<b>EC1</b>	The law identifies the authority responsible for granting and withdrawing a banking license. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.
Description and findings re EC1	<p>The CBI is the authority for licensing of banks. The denial of a licensing application, requires the consent of the Minister for Finance. In these cases, the views of the CBI will be considered by the Minister for Finance.</p> <p>The CBI is also the competent authority for supervising banks and imposes prudential conditions on all newly licensed banks. These may be adjusted to reflect the nature and/or complexity of the bank. The Authorization Team meets with the Supervision team in advance of and following authorization.</p> <p>Article 6 of the CRD refers to the requirement for credit institutions to obtain authorization before commencing their activities. Article 9 refers to those circumstances in which the competent authority shall not grant authorization.</p> <p>Section 9(1) of the CBI Act 1971 identifies the CBI as the competent authority for both granting and withdrawing a license. However, it should be noted that in specified circumstances Ministerial approval will be required for the withdrawal of a license. Section 9(1) states that <i>“Subject to the provisions of this section, the Bank may, in its discretion, grant or refuse to grant to any person applying to it for the grant thereof a license authorizing the holder to carry on banking business.”</i> Section 11(1) of the Central Bank Act 1971 advises that <i>the Central Bank may revoke a license where the license holder so requests however Ministerial consent is required in other specified circumstances.</i></p> <p>Section 10 of the CBI Act 1971 states that the CBI has the ability to impose conditions/requirements on all newly-licensed banks where relevant.</p> <p>Section 18 of the CBI Act 1971 enables the CBI to request that certain information or</p>

regarding these functions. Some countries use a two-tier board structure, where the supervisory function of the board is performed by a separate entity known as a supervisory board, which has no executive functions. Other countries, in contrast, use a one-tier board structure in which the board has a broader role. Owing to these differences, this document does not advocate a specific board structure. Consequently, in this document, the terms “board” and “senior management” are only used as a way to refer to the oversight function and the management function in general and should be interpreted throughout the document in accordance with the applicable law within each jurisdiction.

	<p>returns are provided to it. These may be requested only where the CBI is of the view that the information or returns are necessary for the proper performance of its functions.</p> <p>Section 23 of the Central Bank Act 1971 enables the Central Bank to require credit institutions to maintain specified ratios.</p>
<b>EC2</b>	<p>Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or-supervisor determines that the license was based on false information, the license can be revoked.</p>
Description and findings re EC2	<p>The CBI has the power to set criteria for licensing banks, reject an application if the criteria are not fulfilled or if the information provided is not adequate and revoke a banking license if it was granted based on false information (Ministerial consent is required in this instance). The CBI also needs Minister for Finance consent to deny an application.</p> <p><u>Criteria for authorization</u></p> <p>Article 6 of the CRD <i>“Member States shall require credit institutions to obtain authorization before commencing their activities. Without prejudice to Articles 7 to 12, <b>they shall lay down the requirements for such authorization</b> and notify them to the Commission.”</i></p> <p>Section 9(4) of the CBI Act 1971 states that <i>“An application for a license shall be in such form and contain such particulars as the Bank may from time to time determine.”</i> This would allow the CBI to reject an application based on inadequate information.</p> <p>Section 6(1) of S.I. 395 of 1992 permits the CBI to set a higher capital requirement than €5 million if deemed necessary.</p> <p>The CBI’s regulatory document entitled <i>“Banking License Application under the CBI Act, 1971 (as amended) – Guidelines on completing and submitting Banking License Applications”</i> gives guidance on the criteria for applying for a banking license.</p> <p>Section 9 of the CBI Act 1971 states:</p> <p>9.-</p> <p>(1) <i>Subject to the provisions of this section, the Bank may, in its discretion, grant or refuse to grant to any person applying to it for the grant thereof a license authorizing the holder to carry on banking business.</i></p> <p>(1A) <i>The Bank shall not grant a license under this section to an applicant unless the applicant satisfies the Bank that-</i></p> <p>(a) <i>it is a body corporate,</i></p> <p>(b) <i>its registered office and its head office are both located in the State,</i></p> <p>(c) <i>it is a credit institution that is authorised for the purposes of the Recast Credit Institutions Directive,</i></p> <p>(d) <i>its business as a credit institution is directed by at least 2 persons who are of good repute and have sufficient experience to direct that business, and</i></p> <p>(e) <i>those persons’ direction of that business is real and not merely nominal.</i></p> <p>(2) <i>The Bank shall not refuse to grant a license without the consent of the Minister</i></p>

	<p><i>and unless it is satisfied that the grant of the license would not be in the interest of the orderly and proper regulation of banking, and the Minister shall not grant his consent to the refusal unless he is satisfied that the grant of the license would not be in the interest of the orderly and proper regulation of banking.</i></p> <p><u>Revoke authorisation if granted on basis of false information</u></p> <p>Section 11(1) of the CBI Act 1971, which transposes article 17 of the CRD, is key states:</p> <p><i>The Bank may-</i>  [...]  (b) <i>with the consent of the Minister, revoke a license if the holder of the license-</i>  [...]  (iiv) <i>has obtained the license through false statements or any other irregular means.</i></p> <p>Article 17 of the CRD states that <i>"The competent authorities may withdraw the authorization granted to a credit institution only where such an institution:</i>  [...]  b) <i>has obtained the authorization through false statements or any other irregular means.</i></p>
<b>EC3</b>	The criteria for issuing licenses are consistent with those applied in ongoing supervision.
Description and findings re EC3	<p>The criteria for issuing licenses are consistent with those applied in ongoing supervision. The regulatory document entitled <i>"Banking License Application under the Central Bank Act, 1971 (as amended) – Guidelines on completing and submitting Banking License Applications"</i> states:</p> <p><i>"Each potential applicant must assess whether its proposed business model</i></p> <ul style="list-style-type: none"> <li>• <i>Requires a banking license (including meeting the definition of "banking business" in the Act)</i></li> <li>• <i>Complies with the Central Bank's requirements; and</i></li> <li>• <i>Will comply with the requirements that must be adhered to by credit institutions on an ongoing basis."</i></li> </ul> <p>In addition, the <i>"Checklist for completing and submitting Bank License Applications"</i> completed by applicants during the application process seeks information on all the criteria which banks are required to comply with on an ongoing basis. In particular, section 7 requires details of the <i>"Organization of the Applicant and Governance Arrangements."</i> Detailed information is also sought on <i>"Risk Oversight"</i> which includes:</p> <ul style="list-style-type: none"> <li>• Audit;</li> <li>• Compliance;</li> <li>• Risk Management;</li> <li>• Treasury;</li> <li>• Financial Control;</li> <li>• Credit;</li> <li>• Internal Controls/Policies;</li> <li>• Anti-Money Laundering Procedures;</li> <li>• Conflict of Interest;</li> <li>• Liquidity;</li> <li>• Outsourcing; and</li> <li>• Reporting Structures.</li> </ul>

	<p>For example, one of the criteria for issuing licenses is that the proposed corporate governance structure is in compliance with the Central Bank's regulatory document entitled "<i>Corporate Governance Code for Credit Institutions and Insurance undertakings</i>." All licensed banks are also required to comply with this code on an ongoing basis and the applicant's ability to comply at the outset would be considered as part of the application process.</p> <p>Where, as part of the banking license application, the applicant bank proposes providing services into an EU Country on a cross-border basis or branch basis, the CBI writes to the host country to notify it of the bank's intention to passport its services into that country. The notifications are not issued until the entity has received its banking license.</p>
<b>EC4</b>	<p>The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.<sup>12</sup> The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future.</p>
Description and findings re EC4	<p><u>Bank applicants owned by credit institutions</u></p> <p>The CBI reviews the proposed legal, managerial, operational and ownership structures of both the applicant bank and the group to ensure that the structures at both solo and group level would not hinder (i) effective supervision on a consolidated basis and/or (ii) effective implementation of corrective measures in the future.</p> <p><u>Bank applicants owned by corporates</u></p> <p>In accordance with the CRD, the CBI issues licenses to subsidiaries of unregulated entities. Those structures may reduce the transparency of transactions between the parent and the regulated Irish entity. Additionally, the CBI performs fit and proper review on the controlling owner but not on management of the unregulated parent. To mitigate risks that may arise from the unregulated parent, the CBI imposes additional conditions at applicant level to ensure that the proposed legal, managerial, operational and ownership structures of the bank and its wider group do not hinder supervision. The CBI can impose conditions such as ring-fencing the Irish entity from the rest of the group or requiring it to submit specified documentation relating to both it and the group on a regular basis (Section 18 of the Central Bank Act 1971 requires that the bank shall "<i>provide the Bank, at such times, or within such periods, as the Bank specifies from time to time, with such information and returns concerning the relevant business carried on by the person as the Bank specifies from time to time</i>").</p> <p>The CBI also lacks enforcement power over unregulated parent or its management.</p> <p>Section 8(1) of S.I. 395 of 1992 requires that the CBI consults with the competent authority in another Member State before it grants an authorization to a credit institution in any case in which that credit institution is a subsidiary or fellow subsidiary of a credit institution authorized in that Member State.</p> <p>Section 9(1) of the CBI Act 1971 requires that the applicant is a body corporate, that its registered office and its head office are both located in the State, that its business as a credit institution is directed by at least 2 persons who are of good repute and have</p>

<sup>12</sup> Therefore, shell banks shall not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)

	<p>sufficient experience to direct business, and that those persons' direction of that business is real and not merely nominal.</p> <p>In the period, 2008 to 2013, the following banking licenses have been processed:</p> <ul style="list-style-type: none"> <li>• One on behalf of a US corporate - granted</li> <li>• One conversion of a building society into a licensed credit institution – granted</li> <li>• Three mortgage banks – granted</li> <li>• One credit institution – granted</li> </ul>
<b>EC5</b>	The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.
Description and findings re EC5	<p>All qualifying shareholders (greater than 10% shareholding) who are natural persons are required to submit an Individual Questionnaire (a form completed by the proposed shareholder that requests information such as prior experience, skills, expertise, other directorships and shareholdings etc.). This form is reviewed by the Regulatory Transactions Division within the CBI to determine suitability. Where the shareholder is a company or bank the CBI seeks detailed financial information on same. It also ensures that the promoter of the new bank has sufficient funds to establish a bank and to provide additional capital where required. For unregulated, cross-border parent company, the CBI lacks authority to perform fit and proper tests on senior management.</p> <p>The CBI's <i>"Checklist for completing and submitting Bank License Applications"</i> requires full details of the owners, ownership structure, sources of initial capital and the ability of shareholders to provide additional financial support where needed. Sections 2 (Overview of Parent/Group), 4 (Ownership Structure), 9 (Capital, Funding and Solvency) and 10 (Financial Information and Projections) are particularly relevant. The CBI ensures that the Applicant has sufficient funds to meet all regulatory obligations. This is evidenced by financial statements, etc. The CBI also requests a bank statement of the applicant bank prior to bank license being issued to ensure that the funds have been lodged.</p> <p>Regulation 7(1) of S.I. 395 of 1992 requires that the CBI be notified of the identity of all persons having a qualifying holding in the applicant and the size of the holding in question.</p> <p>Regulation 7(2) of S.I. 395 of 1992 requires that the CBI must be satisfied as to the fitness and probity of all qualifying shareholders such that they will exercise their rights in the interest of the orderly and proper regulation of credit institutions in the State.</p>
<b>EC6</b>	A minimum initial capital amount is stipulated for all banks.
Description and findings re EC6	<p>The CBI requires all banks to hold the initial capital amount of €5 million in accordance with legislation. As part of the CBI's business model analysis and financial analysis, the team ascertains how much capital is actually required to support the planned business both on a base and stressed position. Therefore, in reality, newly licensed banks will be required to hold much more capital depending on size, strategy, anticipated level of RWAs, etc. The capital must be in the form of cash. The CBI would require the promoter to have sufficient funds to cover the share capital required and ongoing capital requirements, and would not permit the initial disbursement of capital to occur with borrowed funds.</p> <p>Article 9 of the CRD (as transposed into Irish legislation by Regulation 6(1) of S.I. 395 of 1992) requires that authorization will not be granted unless the bank has initial capital of €5</p>

	million.
<b>EC7</b>	The licensing authority, at authorization, evaluates the bank's proposed Board members and senior management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank. <sup>13</sup> The licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks.
Description and findings re EC7	<p>There is legislation in place and standards governing the fit and proper regime which the applicant's proposed board and senior management must undergo. As part of this, the CBI is responsible for evaluating all of the proposed board members and certain identified senior management. The criteria used include those listed below. In addition, after the bank is licensed, the CBI continues to have oversight over the approval of all directors and senior managers. The CBI also reviews the board as a whole to ensure that it has adequate skill and expertise.</p> <p>On 1 October 2010, Part 3 of the CBI Reform Act 2010 introduced a statutory system for the regulation by the CBI of persons performing controlled functions (CF) or pre-approval controlled functions (PCF) in regulated financial service providers (including credit institutions).</p> <p>There are 18 senior positions in banks which are designated as Pre-Approval Controlled Functions (PCF). They include functions such as Chief Executive Officer, Directors or Heads of Compliance, Risk, and Retail Sales. CBI approval is required before appointments may be made to these positions.</p> <p>On 1 December 2011, the CBI issued Standards of Fitness and Probity ('the Standards') which apply to all persons performing CFs or PCFs in regulated financial service providers, including credit institutions. A regulated financial service provider is not allowed appoint a person to perform a controlled function unless firm is "satisfied on reasonable grounds" that the person complies with the Standards and that the person has agreed to abide by the Standards. In order to comply with the Standards, a person is required to be:</p> <ol style="list-style-type: none"> <li>a) competent and capable;</li> <li>b) honest, ethical and to act with integrity; and</li> <li>c) financially sound.</li> </ol> <p>In relation to the criterion of skills and experience in relevant financial operations commensurate with the intended activities of the bank, the Standards require the person applying for a PCF role to have the qualifications, experience, competence and capacity appropriate to the relevant function. The person must be able to demonstrate that he or she:</p> <ol style="list-style-type: none"> <li>a) has professional or other qualifications and capability appropriate to the relevant function;</li> <li>b) has obtained the competence and skills appropriate to the relevant function, whether through training or experience gained in an employment context;</li> </ol>

<sup>13</sup> Please refer to Principle 14, Essential Criterion 8.

- c) has shown the competence and proficiency to undertake the relevant function through the performance of (i) previous functions which, if carried out at present, would be subject to this Code, (ii) current controlled functions, or (iii) any role similar or equivalent to the functions that are covered by this Code. If the person performed a function in a regulated financial service provider which, if performed at present, would be subject to this Code, and that regulated financial service provider received State financial support, consideration shall be given to the competence and skills demonstrated by that person in that function and to the extent, if any, to which the performance of his or her function may have contributed to the necessity for such State financial support.

In relation to criminal activities or adverse regulatory judgments, the relevant standards are:

- (1) A person must be able to demonstrate that his or her ability to perform the relevant function is not adversely affected to a material degree where the person has, in any jurisdiction:
- a) been convicted of an offence either of money laundering or terrorist financing (or their equivalents);
  - b) been convicted of an offence which could be relevant to that person's ability to perform the relevant function; or
  - c) had a finding, judgment or order made against him/her involving fraud, misrepresentation, dishonesty or breach of trust or where the person is subject to any current proceedings for fraud, misrepresentation, dishonesty or breach of trust.
- (2) The CBI has issued non statutory guidance on the approach to be taken if holder of a controlled function has been declared bankrupt or have a criminal conviction. The regulated financial service provider should:
- Seek and obtain signed written confirmation from the person performing or proposing to perform a CF as to whether or not any of the circumstances set out in the Standards (e.g. criminal conviction) apply to that person. Where the person confirms that one of more of the circumstances apply, the person must be in a position to demonstrate that his or her ability to perform the CF is not adversely affected to a material degree by that matter.
  - Require from the person concerned any underlying documents relevant to the matter (for example, a final decision or report and/or key correspondence).
  - Make an assessment based on all of the information received as to whether the matter is material to the performance of the CF.
- The question of what is material to a particular CF, however, is a matter for the regulated financial service provider. The following matters would be relevant in assessing the matter:
- a) its seriousness
  - b) the relevance of those to the duties that are to be performed
  - c) repetition and duration of the behavior;
  - d) the passage of time since the matter under consideration; and
  - e) evidence of rehabilitation.

The Fitness and Probity process is assessed at two levels. The initial assessment is completed by Regulatory Transactions Division, as per above. The second level check is

completed by the relevant supervisory division, who take a holistic view in relation to the applicant's role in a particular regulated institution.

If the PCF advises that it has worked for entities supervised by other competent authorities or for other entities supervised by the CBI those other competent authorities and/or supervision teams are also contacted for any observations/comments they may wish to make on the applicant PCF.

Article 11 of the CRD (as transposed by Section 9 of the CBI Act 1971) requires that there must be at least two persons who effectively direct the business of the bank. In addition, these persons must be of sufficiently good repute and have sufficient experience to perform such duties.

Under the CBI's Corporate Governance Code there are additional requirements relating to board members and certain senior management positions and the overall composition of the board. For example, the Code requires, inter alia, the following:

- The board of an institution shall be of sufficient size and expertise to oversee adequately the operations of the institution and shall have a minimum of 5 directors (7 directors where the institution is deemed to be a "Major" institution)
- The majority of the board shall be independent non-executive directors
- Directors must attend a majority of board meetings
- Each board member shall have sufficient time to devote to the role of director and associated responsibilities
- The number of directorships held by each director shall be limited.
- Appointments to the board cannot proceed where any potential conflicts of interest emerge which are significant to the overall work of the board
- Institutions shall review board membership at least once every three years. A formal review is required every 9 years. The renewal frequency shall consider the balance of experience and independence sought.
- There also detailed guidelines relating to the following: Chairman, CEO, Independent Non-Executive Directors, Non-Executive Directors and Executive Directors

In relation to the conflicts of interest, the CBI reviews the directorships, shareholdings and executive tasks carried out by the individual to ensure that there are no apparent conflicts of interest. In addition, the bank itself is required to check all applicants' fitness and probity. The Guidance advises that *"probity may also include individuals ensuring that they act without conflicts of interest."*

In relation to determining whether or not the *"licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks"* the Corporate Governance Code also contains a number of requirements including the following:

- Independent Non-Executive Directors (INEDs) must bring an independent viewpoint to the deliberations of the board that is objective and independent of the activities of the management and of the institution
- The Executive Directors, INEDs and Non-Executive Directors shall have a knowledge and understanding of the business, risks and material activities of the institution to enable them to contribute effectively
- The Executive Directors, INEDs and Non-Executive Directors shall comprise of individuals with relevant skills, experience and knowledge (such as accounting, auditing and risk management)

	<ul style="list-style-type: none"> <li>The CEO shall have relevant financial services expertise, qualifications and background. He/she shall have the necessary personal qualities, professionalism and integrity to carry out his or her obligations.</li> </ul>
<b>EC8</b>	The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank. <sup>14</sup>
Description and findings re EC8	<p>All banking license applications are reviewed by the CBI's Business Model Unit (within Banking Supervision Division) in conjunction with the authorization team. An assessment is carried out of whether or not the bank's proposed strategic and operating plans are feasible. Usually this review will result in questions going back to the applicant seeking further details or clarification.</p> <p>In relation to corporate governance, risk management and internal controls including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourcing functions, these are assessed in detail using the CBI's internal procedures for same. The <i>"Checklist for completing and submitting Bank Licence Applications"</i> contains detailed information on these areas with supporting documentation. For example, in relation to outsourcing, there is a checklist of 13 questions to assist the examiner in assessing the policy in place.</p> <p>Article 7 of the CRD requires that <i>"applications for authorization to be accompanied by a program of operations setting out, inter alia, the types of business envisaged and the structural organization of the credit institution."</i></p> <p>Section 9(4) of the Central Bank Act 1971 requires that <i>"An application for a license shall be in such form and contain such particulars as the Bank may from time to time determine."</i></p> <p>The "Corporate Governance Code for Credit Institutions and Insurance Undertakings" includes requirements to ensure that appropriate and robust corporate governance frameworks are in place and implemented to reflect the risk and nature of those institutions. The definition of Corporate Governance contained in the Code is as follows:  <i>"Procedures, processes and attitudes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholder and other stakeholders – and lays down the rules and procedures for decision-making."</i></p> <p>All requirements in the Code are relevant for ensuring that the applicant has appropriate governance in place.</p> <p>Requirement 6.3 of the Code requires that:  <i>"All institutions shall have robust governance arrangements which include a clear organizational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to</i></p>

<sup>14</sup> Please refer to Principle 29.

	<p><i>which it is or might be exposed, adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, remuneration policies and practices that are consistent with and promote sound and effective risk management both on a solo and at group level. The system of governance shall be subject to regular internal review."</i></p> <p>In addition, section 6 of the CBI's <i>"Checklist for completing and submitting Bank Licence Applications"</i> requires full information to be submitted on the legal structure of the applicant while section 7 requires details of the "Organisation of the Applicant and Governance Arrangements." Detailed information is also sought on Risk Oversight which includes:</p> <ul style="list-style-type: none"> <li>• Audit;</li> <li>• Compliance;</li> <li>• Risk Management;</li> <li>• Treasury;</li> <li>• Financial Control;</li> <li>• Credit;</li> <li>• Internal Controls/Policies;</li> <li>• Anti-Money Laundering Procedures;</li> <li>• Conflict of Interest;</li> <li>• Liquidity;</li> <li>• Outsourcing; and</li> <li>• Reporting Structures.</li> </ul>
<b>EC9</b>	<p>The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.</p>
Description and findings re EC9	<p>All banking license applications are reviewed by the Business Model Unit in conjunction with the Authorization Team. Together they assess the following:</p> <ol style="list-style-type: none"> <li>1. Whether or not the bank has adequate financial strength to support the proposed strategic plan of the bank; and</li> <li>2. Financial information on the principal shareholders of the bank.</li> </ol> <p>The application submitted is based on the CBI's <i>"Checklist for completing and submitting Bank Licence Applications"</i> which contains the following specific section dealing with financials and strategy:</p> <ul style="list-style-type: none"> <li>• Section 9 – Capital, Funding and Solvency – includes 5 year projections and solvency ratios</li> <li>• Section 10 – Financial Information and Projections – includes previous 3 years of audited accounts for the group, projected income statement, balance sheet, prudential ratios and capital structure, projected key financial indicators and stress test of financials assuming a down turn. (NB: all projected financials are for a period of 5 years)</li> </ul> <p>In relation to financial information on the principal shareholders the following information is received:</p> <ul style="list-style-type: none"> <li>• Where the shareholder is an individual, an Individual Questionnaire which sets out, inter alia, details of directorships, past employments and shareholdings. Where the private shareholder is the owner of a company the financials of the company are also assessed</li> </ul>

	<ul style="list-style-type: none"> <li>• Where an individual holds shareholdings or interests in other companies, the financials of those companies</li> <li>• Where shareholders are companies, the financial statements for those companies to ensure that the finances are satisfactory</li> </ul> <p>Article 6 of the CRD requires that <i>“Member States shall require credit institutions to obtain authorization before commencing their activities. Without prejudice to Articles 7 to 12, they shall lay down the requirements for such authorization and notify them to the Commission.”</i></p> <p>This is transposed into Irish legislation by Section 9(4) of the Central Bank Act 1971 which states that <i>“An application for a licence shall be in such form and contain such particulars as the Bank may from time to time determine.”</i></p> <p>As part of the CBI’s license application criteria it requires various financial information to be submitted.</p>
<b>EC10</b>	<p>In the case of foreign banks establishing a branch or subsidiary, before issuing a license, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision.</p>
Description and findings re EC10	<p>The following process is followed:</p> <ul style="list-style-type: none"> <li>• In relation to EEA, the home supervisor sends the CBI a notification form; therefore it is implicit that the home competent authority has no objection if not stated here.</li> <li>• In relation to subsidiaries being set up, the CBI contacts (in writing) the home supervisor for the foreign bank and ascertains if there are any issues with the subsidiary bank setting up in Ireland. It also requests the following as part of the banking application (see Section 2 of the <i>“Checklist for completing and submitting Bank License Applications”</i>): <ul style="list-style-type: none"> <li>○ Details on the parent/group including: background; ownership/structure (including details on the organization structure); the legal structure of each of the entities in the organization structure; details on activities, lines of business, debt ratings for parent/group; and confirmation that the board of the parent has approved the submission of the application.</li> <li>○ Confirmation must be submitted that <i>“the supervisory authority in the country of origin of that bank or group exercises effectively its supervisory responsibilities on a consolidated basis.”</i></li> <li>○ The applicant must confirm that they have obtained the prior consent of their home country supervisory authority</li> </ul> </li> <li>• In relation to cross border operations, a notification is also received advising that a bank from another EU jurisdiction intends to commence activities in the country on a cross border basis (notification is in a format agreed at European level). In this instance it is inherent that the home supervisor practices global consolidated supervision.</li> </ul> <p><u>Branches</u></p> <p>Regulation 20(1) of S.I. 395 of 1992 (underlying CRD articles 23 and 25) requires that: <i>“A credit institution authorized and supervised by the competent authority of another Member State may carry on business in the State by establishing a branch or any other means in any one or more of the activities set out in the Schedule provided that the undertaking or provision of these activities is in accordance with the authorization of the credit institution in that Member State and the requirements of these Regulations are</i></p>

	<p><i>complied with in full.</i>"</p> <p>Regulation 23(1) requires that where a notification of a branch setting up in Ireland is received by the CBI, the CBI shall within two months of the receipt of the information notify the parent credit institution of all the enactments and regulatory provisions applying to the conduct of banking business or the proposed operations of the branch in the State.</p> <p><u>Subsidiaries</u></p> <p>Regulation 8(1) of S.I. 395 of 1992 requires that:</p> <p><i>"The Bank shall consult the competent authority in another Member State before it grants an authorization to a credit institution in any case in which that credit institution is a subsidiary or fellow subsidiary of a credit institution authorized in that other Member State or is under common control with one or more credit institutions authorized in that other Member State."</i></p> <p><u>Cross Border</u></p> <p>Regulation 20(1) also covers the provision of activities on a cross border basis. The regulation does not refer to the host competent authority contacting the home competent authority to determine whether or not global consolidated supervision is carried out; however, the fact that the home competent authority issues the notification to the host competent authority under Article 28 of the CRD means that it is implicit that the parent bank will be carrying out consolidated supervision as it is subject to the CRD.</p> <p>Article 24 of the CRD requires that the competent authorities of the home Member State shall ensure the supervision of the financial institution which is passporting with regards to own funds, acquiring transactions, prudential supervision, sharing of information and the right to sanction.</p>
<b>EC11</b>	The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the license approval are being met.
Description and findings re EC11	<p>While there are no specific policies and processes for monitoring of newly licensed banks, there are detailed policies and processes in place for monitoring (i) the business and strategic goals of all supervised banks and (ii) whether or not all licensed banks are complying with the requirements imposed on them. The policies and processes differ depending on the risk impact rating of the bank.</p> <p>For banks, the minimum engagement under PRISM requires that the business model and strategic goals of the bank are analyzed as part of a FRA (carried out on different frequencies depending on impact of the bank). Completion of the minimum engagement model for relevant banks intensifies where necessary based on the identification or crystallization of risk.</p> <p>In addition, supervision teams will prioritize newly licensed banks as part of work plans within the PRISM requirements.</p>
<b>Assessment of Principle 5</b>	Compliant
Comments	Licenses are granted to cross-border unregulated corporate parents in line with the requirements of the CRD. The CBI does not perform fit and proper tests on senior management of the unregulated parent, and cannot take enforcement action on the

	parent. As a result the banks are ring-fenced from inception.
<b>Principle 6</b>	<b>Transfer of significant ownership.</b> The supervisor <sup>15</sup> has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.
<b>Essential criteria</b>	
<b>EC1</b>	Laws or regulations contain clear definitions of “significant ownership” and “controlling interest.”
Description and findings re EC1	<p><u>Significant Ownership</u>; the CBI uses a definition of “Qualifying holding” which is the legal definition of “significant ownership.” The definition of qualifying holding per Article 4(11) of Directive 2006/48/EC, which was transposed via Regulation 2(1) of S.I. 395 of 1992; that is, “a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise significant influence over the management of that undertaking.”</p> <p><u>Controlling Interest</u>; regulation 4 of S.I. 395 of 1992, Article 4(9) of the CRD, defines “Control” as including “any power, whether arising from a contract or agreement or otherwise, whereby one party can direct the affairs of another and a parent undertaking shall be deemed to control its subsidiaries. The reference to “one party” could include parties acting in collusion depending on the particular circumstances concerned.</p>
<b>EC2</b>	There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest.
Description and findings re EC2	<p>Prior approval of the CBI is required for Acquiring Transactions (as defined in Regulation 14 of S.I. 395 of 1992). An Acquiring Transaction refers to an acquisition by one person or more than one person acting together of a qualifying holding (as defined in the response to EC1) in a credit institution or an increase in a qualifying holding which results in the acquirer reaching or exceeding thresholds of 20%, 33% or 50% ownership. The Acquiring Transaction Notification Form is published on the CBI’s website.</p> <p>The prior approval of the CBI is required for acquiring transactions in accordance with the following legislation:</p> <ol style="list-style-type: none"> <li>1. Article 19 of the CRD (2006/48/EC) [as amended], which was transposed into Irish legislation by Regulation 14 of S.I. 395 of 1992 [as amended] and set out above. This applies to: <ul style="list-style-type: none"> <li>• The acquisition, directly or indirectly, of a “qualifying holding” in a target entity</li> <li>• The direct or indirect increase in a “qualifying holding” whereby (i) the resulting holding would reach or exceed the following “prescribed percentages:” 20%, 33% and 50% of the capital of, or voting rights in, a target entity or (ii) a target entity would become the proposed acquirer’s subsidiary</li> <li>• The disposal, directly or indirectly, of qualifying holdings in a target entity</li> </ul> </li> </ol>

<sup>15</sup> While the term “supervisor” is used throughout Principle 6, the Committee recognizes that in a few countries these issues might be addressed by a separate licensing authority.

	<p>2. Chapter VI of Part II of the CBI Act, 1989 (as amended). While this Act is mostly superseded by S.I. 395 of 1992 (above) the following types of transaction still fall to be approved under this Act:</p> <ul style="list-style-type: none"> <li>• Acquiring transactions which are not subject to notification and prudential assessment under S.I. 395 of 1992 – that is, transactions which represent an increase in shareholding which does not of itself result in the shareholding reaching or exceeding the prescribed thresholds. An example would be an increase in a shareholding from 75% to 85%</li> </ul> <p>In the past 12 months there have been 20 approvals under Statutory Instrument No. 395 of 1992.</p>
<b>EC3</b>	<p>The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.</p>
Description and findings re EC3	<p>The CBI has the legal power to reject applications and reverse a purported acquisition. Regulation 14(3) of S.I. 395 of 1992 requires that an acquiring transaction notification shall include sufficient information to enable the CBI to consider the proposed acquisition against the criteria in paragraphs (1) and (2) of Regulation 14(C) (as set out below), and in particular shall include information on who the proposed acquirers are, the individuals to be responsible for management, how the proposed acquisition is to be financed (including details of any proposed issue of financial instruments) and the structure of the resulting group. It has not been necessary for the CBI to reject any applications.</p> <p><u>Rejection of a Proposal</u></p> <p>Regulation 14(G) of S.I. 395 of 1992, transposing Article 19(a) (2) of the CRD, provides that the CBI may oppose a proposed acquisition when there are reasonable grounds based on a review of: suitability of acquirer, financial soundness, reputation, experience, possible impact on compliance with regulation, transparency of structure, whether there are reasonable grounds to suspect that, in connection with the proposed acquisition, money laundering or terrorist financing (within the meaning of Article 1 of Directive 2005/60/EC [Note OJ L 309, 25.11.2005, p. 15.]) is being or has been committed or attempted, or that the proposed acquisition could increase the risk of money laundering or terrorist financing.</p> <p>When information provided by the proposed acquirer concerned in its notification under paragraph (1) or (2) of Regulation 14 is <u>incomplete</u>, or the proposed acquirer has not provided information in response to a request under paragraph (5) or (8) of Regulation 14(B), the CBI may request additional information.</p> <p>Regulation 14(I)(2) of S.I. 395 of 1992, transposing Article 21(1) of the CRD, provides that if a proposed acquirer purports to complete a proposed acquisition in contravention of paragraph (1) of Regulation 14(I) (i.e. without prior notification to or approval by the Central Bank), then:</p> <ol style="list-style-type: none"> <li>(a) <i>the purported acquisition is of no effect to pass title to any share or any other interest, and</i></li> <li>(b) <i>any exercise of powers based on the purported acquisition of the holding concerned is void.</i></li> </ol>

	<p><u>Provision of false information</u></p> <p>While the provision of false information in an application is an offence (Regulation 14(L) of S.I. 395 of 1992), the legislation does not refer specifically to the powers of the CBI in circumstances where the CBI has approved a transaction based upon 'false' information. If an issue of provision of false information was discovered prior to CBI approval then the application could be rejected on the grounds that it was "incomplete." If it was discovered post-approval then the Central Bank would go to Court under Regulation 14(M) in order to have the transaction reversed.</p>
<b>EC4</b>	The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.
Description and findings re EC4	<p>Credit institutions are required to provide shareholder information annually to the CBI. Institutions provide:</p> <ol style="list-style-type: none"> <li>1. A list of shareholders or beneficial owners of 10% or more of the share capital.</li> <li>2. Where shares are registered in the name of a nominee, a list identifying the ultimate beneficial owner of the shares, where the nominee shares constitute more than 5% of the shares or of the voting rights attaching to the shares in a credit institution.</li> </ol> <p>This information is reviewed by the supervision teams.</p> <p>Regulation 14(K) of S.I. 395 of 1992, transposing Article 21 of the CRD, provides that a credit institution shall, at times specified by the CBI and at least once a year, notify the CBI of the names of shareholders or members who have qualifying holdings and the size of each such holding.</p>
<b>EC5</b>	The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor.
Description and findings re EC5	<p>Regulation 14(I)(2) of the S.I. 395 of 1992, transposing Article 21(1) of the CRD, provides that if a proposed acquirer purports to complete a proposed acquisition in contravention of paragraph (1) of Regulation 14(I) i.e. without prior notification to or approval by the Central Bank, then:</p> <ol style="list-style-type: none"> <li>(a) the purported acquisition is of no effect to pass title to any share or any other interest, and</li> <li>(b) any exercise of powers based on the purported acquisition of the holding concerned is void.</li> </ol>
<b>EC6</b>	Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.
Description and findings re EC6	<p>The suitability of a major shareholder is assessed at the time of acquisition of the holding as set out in the procedures "Acquiring Transactions – assessing an application to acquire an interest of greater than 10 per cent in a credit institution" This provides guidance for assessing suitability and also provides that the requirements set out in Directive 2007/44/EC (as transposed into Irish law by S.I. 395 of 1992) be adhered to in the assessment of applications by supervisors.</p> <p>A requirement for banks to provide notification to the CBI on an ongoing basis in relation to material negative information was imposed by means of a license condition on all banks.</p>
<b>Assessment of</b>	

<b>principle 6</b>	Compliant
Comments	
<b>Principle 7</b>	<b>Major acquisitions.</b> The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.
<b>Essential criteria</b>	
<b>EC1</b>	Laws or regulations clearly define: <p>(a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and</p> <p>(b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.</p>
Description and findings re EC1	<p><u>Prior Approval</u></p> <p>Credit Institutions are required, by means of a license condition imposed in August 2013, pursuant to Section 10(3) of the CBI Act 1971 and Section 17 of the Building Societies Act 1989, to seek the prior approval of the CBI for Major Acquisitions.</p> <p>A Major Acquisition is defined as a transaction in which a credit institution acquires an interest (this includes an investment) which is equal to or greater than 9% of the Own Funds of the credit institution in any undertaking that falls outside of the EU Acquiring Transaction regime. (An Acquiring Transaction refers to an acquisition by a person or more than one person acting together of a qualifying holding in a credit institution or an increase in the qualifying holding held resulting in the acquirer reaching or exceeding 20%, 33% or 50%. Major Acquisitions refer to acquisitions by credit institutions.) The CBI's Policy on Major Acquisitions also provides for certain other categories of exemption from the requirement for prior approval but not prior notification.</p> <p>The CRD, Articles 120-122, as transposed in Ireland via S.I. 661 of 2006 and S.I. 395 of 1992, stipulate specific limits on holdings by credit institutions in other bodies corporate and qualifying holdings outside the financial sector and powers of the CBI in enforcing these limits.</p> <p>Regulation 62 of S.I. 661 of 2006 (European Communities (Capital Adequacy of Credit Institutions (Regulations) 2006 is important to note in this regard (as is part 7 of S.I. 661 in general). It provides that :</p> <ul style="list-style-type: none"> <li>• <i>A credit institution shall ensure that it does not have in an undertaking a qualifying holding the amount of which exceeds 15% of its own funds, unless the undertaking is a permitted undertaking.</i></li> <li>• <i>A credit institution shall ensure that the total amount of the institution's qualifying holdings in undertakings (other than permitted undertakings) do not exceed 60% of its own funds.</i></li> <li>• <i>The limits set out in paragraphs (1) and (2) may be exceeded only in exceptional circumstances.</i></li> <li>• <i>Where paragraph (3) applies to a credit institution, the Bank shall require the institution to increase its own funds or to take other equivalent measures.</i></li> </ul>

- For the purposes of this Regulation, a permitted undertaking is one of the following:
  - a credit institution;
  - a financial institution;
  - an undertaking that carries on one or more activities that either are a direct extension of banking, or involve the provision of services that are ancillary to banking (such as leasing, factoring, the management of unit trusts and the management of data processing services).

Regulation 64 of S.I. 661 transposes Article 120 of the CRD concerning qualifying holdings of credit institutions outside the financial sector.

- Regulation 64(1) provides that the CBI may not apply these limits in paragraphs (1) and (2) of Regulation 62:
  - To holdings in insurance companies or in re-insurance companies.
  - If the CBI provides that 100% of the amounts by which a credit institution's qualifying holdings exceed these limits must be covered by Own Funds and that these shall not be included in the minimum Own Funds calculation under regulation 19.
- Regulation 64(3) sets out that where these limits in paragraphs (1) and (2) of Regulation 62 are exceeded, the amount to be covered by own funds shall be the greater of the excess amounts.

Regulation 15 of S.I. 395 of 1992 should also be noted. It is very similar to regulation 62 of S.I. 661 of 2006, in that there is no provision for CBI approval. However, Regulation 15(6) is noteworthy in that it states:

*"The Bank may prescribe rules and standards for the application of this Regulation to credit institutions either generally or in particular."*

Furthermore, Regulation 15(4) permits the CBI, where it has reason to believe that a credit institution has exceeded the limits, to require credit institutions to increase the amount of own funds, to dispose of specified shareholdings in a relevant body corporate or to take other measures specified by the CBI to meet these limits. 'Relevant body corporate' for the purposes of S.I. 395 of 1992 does not include a body corporate that is a credit institution or a financial institution or insurance or re-insurance companies.

a) Prior-event notification

Credit institutions are required, by means of a license condition imposed in August 2013 pursuant to Section 10(3) of the Central Bank Act, 1971, and Section 17 of the Building Societies Act, 1989 to provide prior notification to the CBI (prior approval is not required) of the following:

- a) Acquisitions that fall outside of the EU Acquiring Transaction regime which exceed 5% of the Own Funds of the Credit Institution but are less than 9% of Own Funds.
- b) Debt restructuring where the overriding purpose is to maximize the amount of credit that can be recovered;
- c) Short term acquisitions that are held for sale investments;
- d) Indirect acquisitions by independently managed funds where the transaction is in line with the funds objectives;
- e) Activities of nominee companies established by the credit institution that are acting on the nominees behalf; and,

	<p>f) Undertakings falling within Regulations 62, 63(1) and (2) and 64(1) of Statutory Instrument 661 of 2006 (European Communities (Capital Adequacy of Credit Institutions) Regulations 2006).</p> <p>g) The disposal of any undertaking which was previously approved under the Major Acquisitions regime.</p> <p>In addition to the above, credit institutions, in respect of which the CBI is the consolidating supervisor, are required to notify the CBI in advance of major acquisitions (as defined) by other non-regulated entities within the license holder's group.</p> <p>For b) to f) above prior notification is required where the interest being acquired exceeds 5% of the own funds of the credit institution. There is no upper limit.</p> <p>In addition, from August 2013, Credit institutions are required to notify the CBI of major acquisitions by other entities in the banking group which are not regulated by the CBI. The CBI will review such acquisitions in order to satisfy itself that they do not expose the credit institution to any undue risks or hinder effective supervision. In the event that the Central Bank is concerned with the risks arising or the impact on supervision resulting from such acquisitions, it may require the credit institution to take measures to insulate itself from the acquisition.</p> <p>Requirements for prior approval and notification were imposed on credit institutions in August 2013 pursuant to Section 10(3) and Section 18 of the Central Bank Act 1971 and Section 17 of the Building Societies Act 1989.</p> <p>In the last five years six "Major Acquisitions" (as defined under a previous regime which had no legal basis) were approved by the CBI. No applications were denied.</p>
<b>EC2</b>	Laws or regulations provide criteria by which to judge individual proposals
Description and findings re EC2	<p>CBI Policy sets out criteria for supervisors in assessing Major Acquisitions proposals. The criteria are as follows:</p> <ol style="list-style-type: none"> <li>1. The potential impact of the acquisition on the credit institution.</li> <li>2. Whether the proposed acquisition will expose the credit institution to undue risks.</li> <li>3. Whether the credit institution has the financial, managerial and organizational capacity to handle the proposed investment. This is particularly important where the undertaking being acquired is involved in nonbanking related activities.</li> <li>4. Whether the acquisition falls within the scope of the credit institution's internal control and risk management framework.</li> <li>5. Whether the proposed acquisition will hinder effective supervision.</li> <li>6. Whether the proposed acquisition will hinder effective implementation of corrective measures in the future (i.e. whether the proposed acquisition creates an obstacle to the orderly resolution of the credit institution).</li> <li>7. In relation to overseas acquisitions, the effectiveness of supervision in the host country and the ability of the Central Bank to exercise supervision on a consolidated basis (including information flows from the host country).</li> <li>8. The impact, if any, on financial stability.</li> </ol> <p>Criteria by which to judge individual proposals are set out in the Policy which was imposed on credit institutions in August 2013 pursuant to Section 10(3) of the Central Bank Act 1971 and Section 17 of the Building Societies Act 1989. Items 1 to 5 inclusive have been included</p>

	in the license condition.
<b>EC3</b>	Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future. <sup>16</sup> The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis.
Description and findings re EC3	<p>The criteria as set out in the Policy by which the CBI will review applications are as follows:</p> <ol style="list-style-type: none"> <li>1. Whether the proposed acquisition will expose the credit institution to undue risks.</li> <li>2. Whether the proposed acquisition will hinder effective supervision.</li> <li>3. Whether the proposed acquisition will hinder effective implementation of corrective measures in the future (i.e. will the proposed acquisition create an obstacle to the orderly resolution of the credit institution).</li> <li>4. In relation to overseas acquisitions, the effectiveness of supervision in the host country and the ability of the Central Bank to exercise supervision on a consolidated basis (including information flows from the host country).</li> </ol> <p>The CBI has the power to prohibit banks from undertaking transactions which fall within the ambit of the Acquiring Transactions regime.</p> <p>The requirements of the Policy were imposed on credit institutions in August 2013 pursuant to Section 10(3) of the Central Bank Act 1971 and Section 17 of the Building Societies Act 1989.</p> <p>In addition to the Policy on Major Acquisitions, the CBI also requires prior approval for the following:</p> <ul style="list-style-type: none"> <li>• Establishment of a subsidiary outside the EEA where that subsidiary is a bank or other licensed entity;</li> <li>• Establishment, formation or taking part in forming a company, other body corporate or an unincorporated body of persons which is a non-licensed subsidiary, in the European Economic Area or elsewhere.</li> <li>• Establishment of a branch in a non-EU(Third Country)</li> </ul>
<b>EC4</b>	The supervisor determines that the bank has, from the outset, adequate financial, managerial and organizational resources to handle the acquisition/investment.
Description and findings re EC4	<p>There is a requirement in the Policy that supervisors assess whether the credit institution has the financial, managerial and organizational capacity to handle the proposed investment.</p> <p>The requirements of the Policy were imposed on credit institutions in August 2013 pursuant to Section 10(3) of the Central Bank Act 1971 and Section 17 of the Building Societies Act 1989.</p>

<sup>16</sup> In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

<b>EC5</b>	The supervisor is aware of the risks that nonbanking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in nonbanking activities.
Description and findings re EC5	<p>The CBI requires that supervisors, in assessing Major Acquisitions applications, consider whether the credit institution has the financial, managerial and organizational capacity to handle the proposed investment. The Policy states that this assessment “<i>is particularly important where the undertaking being acquired is involved in nonbanking related activities.</i>”</p> <p>As part of the supervisory review process, the CBI will assess the governance and internal capital assessment process to determine the level of own funds required. This should include an assessment of the risks nonbanking activities can pose to a banking group – for example, analyzing unregulated entities such as special purpose vehicles established for securitization purposes, assessing their liquidity requirements, level of implicit support, significant risk transfer, etc. The CBI may impose supervisory measures to address deficiencies identified.</p> <p>CBI supervisors are aware of the risks posed by nonbanking (including non-regulated) entities and activities to banking groups. This is primarily the case for nonbanking activities which are regulated by other divisions within the CBI, e.g. insurance entities. While the mitigation of such risks and the approval of acquisitions is the responsibility of the relevant supervision teams in those divisions, there is regular formal (e.g. internal CBI colleges) and informal contact between the banking group supervisors (who are the ‘lead regulators’) and those supervisory teams. This ensures that the banking group supervisors are fully aware of the risks which those entities pose to the banking group.</p> <p>The requirements of the Policy were imposed on credit institutions in August 2013 pursuant to Section 10(3) of the Central Bank Act 1971 and Section 17 of the Building Societies Act 1989</p>
<b>Assessment of Principle 7</b>	Largely Compliant
Comments	In August of 2013 the CBI implemented the legal framework and process to meet the requirements of this CP. However, currently there is no evidence of the effectiveness of the process and the regulation.
<b>Principle 8</b>	<b>Supervisory approach.</b> An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.
<b>Essential criteria</b>	
<b>EC1</b>	<p>The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks:</p> <p>(a) which banks or banking groups are exposed to, including risks posed by entities in the wider group; and</p> <p>(b) which banks or banking groups present to the safety and soundness of the banking system</p>

	<p>The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis.</p>
Description and findings re EC1	<p>PRISM is the methodology used by the Central Bank for determining and assessing on an ongoing basis the nature, impact and scope of risks to which banks or banking groups are exposed. The supervisor is required to apply, at a minimum, the engagement model appropriate for their firm's impact category as specified under PRISM. While PRISM prescribes a minimum supervisory plan of activities on a specified frequency, supervisors can, and do, go beyond the minimum in performing supervision of the banks.</p> <p>Risk assessment under PRISM is judgment based comprising qualitative and quantitative assessments as appropriate. Supervisors are required to provide a rationale on the PRISM system to support their probability risk rating. The 12 point risk rating scale is non-numeric and, as such, supports the philosophy of judgment based supervision. The rating scale is divided into four Impact categories of High, Medium High, Medium Low and Low and within each Impact category the supervisor can assign a positive, negative or neutral rating.</p> <p>PRISM has ten risk categories: credit; market; operational; insurance; capital; liquidity; governance; strategy/business model; environment and conduct. Several categories have sub-categories, such as credit risk, which is broken down into inherent risk, quality of control and concentration. Inherent risk and quality of controls are assessed within the same risk category to determine a net risk rating. Each risk category is assigned a rating by the supervisor which reflects the risk of failure from that risk category. The ten risk categories form the basis of the overall probability risk rating. Standardized weightings are assigned to each of the ten risk categories.</p> <p>With regard to the specific risks identified, business focus is captured under Strategy/Business Model Risk, the assessment of which derives from the engagement model task of Business Model Analysis conducted for High Impact banks and from the Full Risk Assessment (FRA) for Medium High and Medium Low Impact banks.</p> <p>Group structure is assessed under business model analysis and governance reviews for High Impact banks and as part of the full risk assessment for Medium High and Medium Low Impact banks. Structural complexity is considered as part of Governance which provides supervisors a framework to consider resolvability of banks.</p> <p>The quality and effectiveness of internal controls is assessed on a per risk basis via the engagement with the bank and other external stakeholders such as the external auditor. An assessment of risk management and the control environment at a bank is an integral component of onsite reviews (Financial Risk review such as a credit risk visit, operational risk etc. or a Full Risk Assessment). In addition, Risk Management Quality is a discreet sub-category of Governance in PRISM.</p> <p>With regard to comparisons between banks, there are pre-determined peer groups within PRISM. The facility to create customized peer group reports was also provided as part of PRISM in May 2012. Additionally, specialist treasury and credit teams within the Banking Supervision divisions prepare detailed packs on a quarterly basis for higher impact banks which includes peer analysis for liquidity and credit risk.</p> <p>The minimum frequency and intensity of the supervision of banks and banking groups is a</p>

function of its impact categorization (i.e. the assessment of the impact of a bank's failure on the economy, the taxpayer and consumers). The impact assessment is purely quantitative and is conducted on an ongoing basis as new impact metric data become available (typically on a quarterly basis).

The impact metrics for banks are:

- Total balance sheet and off-balance sheet size
- Concentration of lending
- Intra-financial system assets
- Retail deposit base
- Core Tier 1 capital

The minimum engagement plan with banks as prescribed by PRISM is a function of the Impact on financial stability from a bank failure, rather than the risk of failure of the individual bank. Banks with a significant domestic presence in terms of deposits and liabilities are more likely to be assigned a higher Impact rating and as a consequence receive greater supervisory attention through PRISM.

Within the PRISM model, the assessment of each risk category reflects the risk of failure attributed to the particular category.

From a resourcing perspective, the impact categorization of a firm determines the minimum number of supervisors allocated to that firm. Resource buffers are also determined with reference to the impact category of each firm. These resource buffers are managed at divisional level to engage with firms above the minimum as required.

Prism is an ongoing assessment and is updated as a result of any onsite or offsite supervisory activity i.e. Financial Risk Review (equivalent to an onsite examination such as a credit, market or operational risk review) or through analysis of regulatory returns (FINREP, COREP). It is therefore intended to be a continuous risk assessment.

The PRISM methodology captures group-wide risks in several key areas depending upon the nature of the subsidiary. Business Model Risk would capture group-wide risks. In the circumstance of an insurance subsidiary within a banking group (which is a feature for one of the Very High Impact banks) the risk from the insurance subsidiary will be included in several risk categories: the Insurance Risk Category and equally taken into consideration in the capital section.

The Risk Governance Panel is an opportunity for group issues to be discussed where the responsible supervisor for each of the regulated entities within the group meet and discuss ratings, RMPs and future supervisory plans.

In the circumstance where the Central Bank is a Host supervisor, the supervisor will take into consideration the risk profile of the parent. For example, when rating liquidity risk, the Central Bank will take into consideration the parent liquidity risk profile especially in the circumstance when the group pursues a group funding model.

Processes to compare the risk profile of an individual bank against its peer group are provided for in the PRISM system and predominantly used in preparation for risk Governance Panels.

Triggers are built into PRISM to alert supervisors if there has been a change in financial

	<p>ratios – these are Key Risk Indicators (KRIs). Numerous KRIs are built into PRISM covering the balance sheet and the risk categories of capital, credit, liquidity, market risk and strategy/Business Model, including (but not limited to):</p> <ul style="list-style-type: none"> <li>- <b>Capital.</b> CET1 ratio (solo and consolidated); Balance Sheet Leverage Ratio (solo and consolidated); Pillar 1 solvency ratio (solo and consolidated).</li> <li>- <b>Credit.</b> Provisions coverage ratio of impaired assets; largest 10 exposures as a percentage of total drawn loans to customers</li> <li>- <b>Liquidity.</b> Wholesale funding as a percentage of total funding (solo and consolidated); liquid assets as a percentage of total funding; and liquidity ratio sight to 8 days.</li> <li>- <b>Market Risk.</b> Market risk capital as a percentage of total capital.</li> <li>- <b>Business Model/Strategy.</b> Cost to income ratio (solo and consolidated), net interest income to total loans and advances (solo and consolidated).</li> </ul> <p>Data that feeds into the KRIs is sourced from bank’s submissions across FINREP, COREP, Liquidity Return, the Quarterly Summary Financial Return (QSFR) and other relevant returns (Impairment Provisions and Large Exposures).</p>
EC2	<p>The supervisor has processes to understand the risk profile of banks and banking groups and employs a well defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis.</p>
Description and findings re EC2	<p>PRISM is the framework supervisors use to understand banks’ risk profiles and to establish a forward looking view of the profile. The engagement model which is implemented by the supervisory teams, provides the operational context through which risk assessments are conducted. In conducting their risk assessments, supervisors have access to different types of guidance material contained within PRISM regarding the risk assessment process and engagement with banks. The guidance material is an important part of the methodology to help ensure consistency.</p> <p>Risk Guidance Materials have been written for each of the ten probability risk categories and each of the twenty four sub-categories. The materials are updated on an ongoing basis to ensure their continued relevance and are designed to support supervisors in making informed judgments in a structured fashion. For a given sub-category the materials:</p> <ol style="list-style-type: none"> <li>(i) explain the sub-category in question;</li> <li>(ii) outline key questions for the supervisor to consider;</li> <li>(iii) contain information specific to certain sectors; and</li> <li>(iv) provide sample characteristics of high, medium high, medium low and low probability risk for each sub-category.</li> </ol> <p>The guidance materials are web-based, which allows the material to be easily consulted and/or quickly updated with new information on risk categories, thus maintaining their relevance. The guidance materials can be accessed through links from the PRISM modules. Similarly, engagement task guidance is provided for the components of the engagement model that identify the major stages of the process and key questions to consider. More detailed processes/procedures can be appended to the guidance, as can useful links which provides supervisors with an opportunity to broaden their knowledge on the particular subject of the guidance they are reviewing. The guidance materials are amended to reflect new supervisory practices to the degree that legislation and experience demand change.</p> <p>The centrally available assessments (i.e. those generated by Consumer, Financial Stability</p>

	<p>and Risk Divisions (rather than the supervision teams) in relation to Conduct and Environmental risks) also provide context against which the risks facing banks can be assessed and monitored.</p> <p>Finally, supervisors monitor movements in quantitative KRIs on an ongoing basis via the PRISM system.</p> <p>Engagement with institutions is not designed to be an exercise in compliance, but rather a forward looking assessment of risk. The results and findings from previous supervisory engagements will direct the focus of future engagements. For covered institutions, this will include an assessment of how these banks will return to viability. Submission and assessment of liquidity and capital management plans are a key element of forward looking analysis performed by supervisors (i.e. three year capital management plan).</p> <p>Regulation 66 of S.I. 661 of 2006, transposing Article 124 of the CRD, obliges the Central Bank to review the arrangements, strategies, processes and mechanisms implemented by credit institutions to comply with the CRD and evaluate the risks to which credit institutions are or might be exposed taking into account the technical criteria set out in Annex XI of that Directive.</p> <p>More generally, Section 5A of the Central Bank Act 1942 (as amended) stipulates in effect that the Central Bank has the power to do whatever is necessary for, or in connection with, or reasonably incidental to the performance of its functions. Section 6A of the Central Bank Act 1942 stipulates that one of those functions is the proper and effective regulation of financial services providers and markets while ensuring that the best interests of consumers of financial services are protected.</p>
<b>EC3</b>	The supervisor assesses banks' and banking groups' compliance with prudential regulations and other legal requirements.
Description and findings re EC3	<p>The Central Bank's "PRISM" engagement model sets out a strategy for minimum supervisory engagement. It provides a tool to assist supervisors to undertake systematic and structured assessment of risks in firms and to ensure compliance with prudential requirements and legislation including the CRD, EBA guidelines and Central Bank guidelines.</p> <p>In addition, the PRISM system has alert functionality, which assists supervisors to prioritize their work and focus on emerging risks and trends and potential or actual breaches of regulatory requirements.</p> <p>There was evidence which showed the Central Bank taking action as a result of its analysis of bank's non-compliance with the regulations.</p>
<b>EC4</b>	The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account cross-sectoral developments, for example in nonbank financial institutions, through frequent contact with their regulators.
Description and findings re EC4	<p>The macro-economic environment is assessed for supervisors by the Central Bank's Financial Stability Division and Risk Division, working with BSD, as part of their monitoring of environmental risk. The assessment currently focuses on the following main areas:</p> <ol style="list-style-type: none"> <li>1. Risk of disorderly sovereign defaults in the euro area;</li> <li>2. Domestic sovereign debt sustainability;</li> <li>3. Economic growth covering:</li> </ol>

	<p>- International risks to Irish economic growth - Domestic risks to Irish economic growth.</p> <p>In addition to the macroeconomic risk, the environmental risk assessment attributes ratings and describes sector specific risk aspects. Currently, the focus is on the following for retail banks:</p> <ol style="list-style-type: none"> <li>1. Business Environment</li> <li>2. Funding/Liquidity Risk</li> <li>3. Asset Encumbrance</li> <li>4. Increasing Regulation</li> <li>5. Personal Insolvency Bill and Mortgage Arrears Resolution Strategy</li> <li>6. Taxation</li> <li>7. Consumer Implications</li> </ol> <p>The above ratings and assessments are updated at a minimum frequency of twice-yearly, but this is augmented where it is felt that circumstances have changed sufficiently to require an update. In their assessment of probability risk categories, supervisors take account of the macro-economic environment and in particular in any review of the balance sheet, investments, funding/liquidity risk and earnings/income profile. The Central Bank of Ireland is the single prudential regulator for financial services in Ireland. Risk Division therefore produces the environmental risk assessments not only for banking but also for investment firms, insurance and credit unions sector. The cross-sector team produces analysis of emerging risks which is communicated to supervisors.</p>
<b>EC5</b>	<p>The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.</p>
Description and findings re EC5	<p>The responsibility for bank supervision and financial system stability falls under the Central Bank. Arrangements have been put in place to strengthen the feedback loop between systemic risk analysis and bank supervision. The Financial Stability Division (FSD) within the Central Bank publishes a Macro Financial Review twice per year which identifies risks to financial stability. In forming their view, the FSD will meet with supervisors and the risk specialist teams that have been involved in meeting with banks throughout the period. The results of this analysis are updated in Environment Risk as a risk category in PRISM which the supervisor will consider when assessing a bank.</p> <p>Supervisors are assisted in their identification, monitoring and assessment of the build-up of risks, trends and concentrations within and across the banking system as a whole by the Central Bank's research work, such as its Research Technical Papers and Economic Letters.</p> <p>With regard to problem assets, supervisors are assisted in preparation for the PCAR by the development of loan loss forecast models. The Financial Stability Division initiated the modelling of Loan Loss Forecasting (LLF), which is delivering improved capability to forecast loan losses as part of the Central Bank's oversight and supervisory functions. Models are being developed for asset classes such as Mortgages, Commercial Real Estate,</p>

Corporate, Small and Medium Enterprises (SME), Micro-SME and Non-Mortgage Retail. Specifically, LLF is delivering a model development framework which:

- is capable of providing an independent and credible estimate of future loan losses, under various scenarios;
- is capable of being used as the key input to the PCAR;
- can incorporate those areas of specific importance to the Central Bank and key stakeholders, including overlays, assumptions and policy changes; and
- is ultimately capable of being maintained and updated by the Central Bank, independent of third party support.

An example of proactively addressing negative implications for Irish financial stability is the replacement of Loan-to-Deposit Ratios with an Advanced Monitoring Framework (AMF). The introduction of the AMF removed the requirement for each bank to meet specific funding targets within prescribed timeframes. Those funding targets may have induced the banks to take individual actions which had negative implications for Irish financial stability. The AMF should ensure that the FMP banks will become compliant with Basel III liquidity requirements in a timely manner and move to a more sustainable funding profile in the future.

In accordance with Regulation 67 of S.I. 661 of 2006, implementing Article 129 of the CRD, where the Central Bank is responsible for supervision on a consolidated basis of EU parent credit institutions and credit institutions by EU parent financial holding companies, it shall:

- Coordinate the gathering and dissemination of relevant or essential information in going-concern and emergency situations;
- Co-ordinate supervisory activities in going concern situations, including in relation to Articles 123 (Regulation 65 concerning ICAAP), 124 (Regulation 66 of S.I. 661 of 2006 concerning supervisory review) and 136 (Regulation 70 concerning supervisory measures), and in Annex V of the CRD (concerning the organisation and treatment of risks), in cooperation with the other competent authorities involved; and
- Plan and coordinate supervisory activities in cooperation with the other competent authorities involved, and if necessary with other Central Banks, in preparation for and during emergency situations, including adverse developments in credit institutions or in financial markets using, where possible, existing defined channels of communication for crisis management.

Planning and coordination of supervisory activities referred to above include exceptional measures in accordance with Article 132(3)(b) of CRD, preparation of joint assessments, implementation of contingency plans, communication to the public. Furthermore where the Central Bank is responsible for supervision on a consolidated basis it shall, in accordance with Article 67(A), further transposing Article 129 of the CRD, make reasonable efforts to reach a joint decision with the other competent authorities concerned on:

- (a) The application of Regulations 65 and 66 of S.I. 661 of 2006 to determine the adequacy of the consolidated level of own funds held by the group with respect to its financial situation and risk profile; and
- (b) The required level of own funds for the application of Regulation of Regulation 70(4) of S.I. 661 of 2006 regarding a specific level of additional own funds in cases where deficiencies are identified with the internal capital adequacy assessment process (Regulation 65 of S.I. 661 of 2006) and Governance arrangements (Regulation 16 of S.I. 395 of 1992)

<b>EC6</b>	Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.
Description and findings re EC6	<p>Section 93(1) of the CBCIR Act 2011 allows the Central Bank to prepare a Resolution Report where it has previously requested a Recovery Plan from a credit institution. While the Central Bank received the power to request recovery plans and to produce resolution plans under the CBCIR Act 2011 in October 2012, a local recovery and resolution plan regime has not yet been implemented. The Special Resolutions Unit has developed guidelines for the banks for the production of recovery plans, which would precede the development of resolution plans.</p> <p>While there are some national authorities making progress in relation to the production of recovery plans for G-SIFIs the Central Bank is awaiting EU/international developments in the area, especially with respect to the CRD, Notwithstanding this and in line with EBA recommendations, the Central Bank has requested recovery plans from two high impact credit institutions.</p> <p>Resolution planning is at only an early stage and has not been fully implemented across all credit institutions.</p>
<b>EC7</b>	The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.
Description and findings re EC7	<p>The legal basis for resolution handling is derived from: The Credit Institutions and Central Bank (Resolution) Act 2011; Section 106 of the CBCIR Act 2011 allows the Central Bank to issue codes of practice relating to the operation of the Act; and Section 107 allows the Central Bank to issue guidelines or policy statements in relation to the exercise of the functions conferred by the Act – all of which are subject to prior consultation with the Minister for Finance. To date, the Central Bank has not used these powers.</p> <p>The CBCIR Act 2011 provides the Central Bank with the power to take action prior to a bank failing. Section 9 of the Act sets out a number of conditions which must be met before the Central Bank can intervene – these are qualitative and quantitative in nature. In the absence of simple financial triggers for intervention, and recognising the last resort nature of the powers, the Central Bank has taken a pragmatic approach. Banking Supervision Divisions, under a draft MoU, will inform the Standing Resolution Committee (SRU) when a bank begins to exhibit signs of financial or regulatory distress. From this point, the SRU will begin to plan for a failure. At the point where Banking Supervision Divisions determine that they have exhausted the supervisory tools and approach, they will inform a Standing Resolution Committee, which will consider the situation and, where appropriate, recommend that the SRU begin preparing a resolution case for the Governor to consider.</p> <p>The framework for resolution planning and handling is yet to be fully implemented. The CBI has undertaken considerable work in terms of crisis management and supervision in periods of stress.</p>
<b>EC8</b>	Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw

	<p>the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this.</p>
Description and findings re EC8	<p>Unauthorized Providers Unit (UPU), a unit within the Enforcement Directorate, deals with issues of unauthorized activity that are fully outside of the regulatory perimeter, i.e. where the firm is not a regulated firm. Where an issue arises in relation to unauthorized activity being conducted by a regulated firm, this is referred to the relevant supervision team for escalation/close-out.</p> <p>If the UPU receives a query or complaint in relation to a firm which is alleged to be acting as a bank or offering banking services in the absence of an appropriate authorization/license, it writes to the firm seeking clarification of its regulatory status and a written description of its activities. If the firm is regulated by the Central Bank, and is alleged to be acting outside of the scope of its authorization, the query will be referred to the firm's prudential supervisor for it to take appropriate action. Any allegation of unauthorized banking which is brought to the attention of the UPU is referred to the Police (Garda Bureau of Fraud Investigation) pursuant to the Central Bank's obligations under Section 33AK.</p> <p>It is an offence to carry on "banking business" without an authorization; see section 7 of the Central Bank Act 1971 and section 58(1) of the Central Bank Act 1971 (this area is dealt with in CP4). Section 59 of that Act states that the Central Bank may bring a summary prosecution for any offence in this regard. An Garda Síochána prosecute any offences brought on indictment.</p> <p>In 2011/2012, a complaint was referred to the Central Bank in respect of two unauthorized firms. On the basis that these firms were purporting to be based in/operating in Ireland and were using the word 'bank' in their titles, the Central Bank issued a warning (pursuant to the Central Bank's statutory powers) to alert the public that neither firm held any authorization or license, nor were they appropriately licensed in another EEA member state as a credit institution with authority to provide services in Ireland under a passporting arrangement.</p> <p>A further complaint was referred in respect of another entity purporting to be based in Ireland and using the word 'bank' in its title. The UPU wrote to the website registrant and the entity's website was removed. This entity was claiming to operate from the premises of a licensed credit institution in Dublin, so the matter was referred to Banking Supervision for them to contact the licensed entity to alert them. A warning was not issued in respect of this entity.</p>
<b>Assessment of Principle 8</b>	Compliant
Comments	<p>The PRISM methodology supports a structured and proportionate approach to supervision that has a strong linkage between impact and supervisory intensity. The framework allows for a structured approach to resource allocation and planning of supervisory activities. Built into PRISM is an ongoing monitoring capability that will pick up changes in risk profile through the use of financial ratios that, if triggered, will prompt supervisory attention/intervention. The risk rating in PRISM is updated after a supervisory activity is completed and in this way it is an ongoing measure of risk.</p> <p>Impact in PRISM measures the impact to the system of an individual bank failing. Banks</p>

	that maintain a predominantly retail banking footprint represent the greatest risk to the system and are assigned High Impact ratings. Resources, supervisory attention and intrusiveness are increased where the impact rating is higher and resources are directed to the High Impact banks. High Impact banks receive ongoing monitoring through offsite supervision, frequent onsite reviews and ongoing engagement with bank senior management. As the Impact rating decreases, the level of supervision also decreases.
<b>Principle 9</b>	<b>Supervisory techniques and tools.</b> The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor employs an appropriate mix of on-site <sup>17</sup> and off-site <sup>18</sup> supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its on-site and off-site functions, and amends its approach, as needed.
Description and findings re EC1	<p>The Central Bank employs a mix of on-site and off-site supervision. The Central Bank uses a variety of information, such as prudential reports (Common Reporting (COREP), Financial Reporting (FINREP), and Quarterly Summary Financial Return etc.), statistical returns, etc., to regularly review and assess the safety and soundness of banks, evaluate material risks, and identify necessary corrective actions.</p> <p>The Central Bank determines that information provided by banks is reliable and obtains, as necessary, additional information on the banks and their related entities. Prudential Reports are reviewed at a high level by a specialist Prudential Reporting team who conduct some on site testing and in greater detail by the supervision teams.</p> <p>The supervisory engagement model is determined by PRISM, based on the impact of each institution (details of the engagement model are set out under CP8), to ensure that Banking Supervision resources are primarily directed towards those institutions which have the highest impact. As a result, the on-site presence (which can also include attendance at internal bank senior management meetings, such as Credit and Treasury meetings) is significantly higher for the High Impact institutions than for Medium Low Impact institutions.</p> <p>The following are the primary engagement tasks through which supervisors identify and</p>

<sup>17</sup> On-site work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.

<sup>18</sup> Off-site work is used as a tool to regularly review and analyze the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further off-site and on-site work, etc.

assess risk and evaluate internal control frameworks:

- (a) financial risk reviews and full risk assessments;
- (b) business model analysis;
- (c) review of the outcome of stress tests undertaken by the bank;
- (d) governance reviews, including risk management and internal control systems;
- (e) meetings with senior management and Board members;
- (f) meetings with internal and external auditors;
- (g) horizontal peer reviews; and
- (h) model validation reviews.
- (i) The Supervisory Review and Evaluation Process (ICAAP review)
- (j) participation in supervisory colleges
- (k) Thematic reviews

The Central Bank communicates its findings to banks as appropriate and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect their safety or soundness. The Central Bank uses its analysis to determine what follow-up work is required, if any.

In carrying out this role supervision teams are assisted by specialist units, for example Credit, Treasury, Business Model Analytics, Financial Reporting, Portfolio Analytics and Stress testing and Quantitative models amongst others. The minimum level of on-site and off-site supervision is prescribed for (i) specific review types (such as Financial Risk Reviews (FRRs)) and (ii) engagement with the Management Team of the banks.

The Supervision Team should at a minimum carry out 6 FRRs for a High Impact firm over a two year period.

Full Risk Assessments (FRAs) are carried out on a 2-4 year cycle for Medium High institutions. At a minimum, 10% of Medium low banks are subject to a Full Risk Assessment on an annual basis. In recognition of the important position banks occupy in the financial services system, the Central bank determined that no Irish licensed bank could be categorized as Low impact notwithstanding the results of the impact assessment. A number of branches operate on a cross border basis in Ireland. As the scope of the Central Bank's responsibilities for these entities extends only to liquidity, anti-money laundering and conduct of business these firms have been categorised as Low Impact.

While unscheduled inspections are not carried out (firms are given advance notice of on-site inspection) specific elements of a review are unscheduled such as requesting walkthroughs of specific areas (for example systems used for regulatory reporting, booking trades etc) and selecting loan files.

Thematic inspections are carried out and generally driven by the Consumer Directorate and more recently the Reporting Unit has been conducting sample testing in selected institutions.

Banking Supervision carries out thematic reviews in areas such as Regulatory Reporting, Effectiveness of Risk Committees and Effectiveness of Internal Audit.

The **minimum** level of supervisory engagement for each bank is determined by PRISM, with reference to the impact of its failure (further details are set out under CP8). While

	<p>there is commonality of some engagement tasks regardless of which impact category a firm is assigned (e.g. meeting with a CEO), the depth and intensity of <b>minimum</b> engagement is greater for higher impact firms than for lower impact firms. It should be noted however that notwithstanding the minimum engagement model, Banking Supervision is resourced to supervise above the minimum engagement model assigned for each of its firms so it can (and does) engage well above the minimum as determined by divisional management. With the benefit of the experience of the Irish banking collapse, it is clear that the firms/firm types which caused the greatest impact as a result of their failure are now assigned the largest share of resources.</p> <p>The Legal powers of the CBI in the context of this EC are derived from:</p> <ul style="list-style-type: none"> <li>- Section 18 of the Central Bank Act 1971 obliges holders of licences and others to provide Bank with required information and returns.</li> <li>- Part 3 of the Central Bank (Supervision and Enforcement) –Act provides powers for authorised officers</li> <li>- Regulation 66 of S.I. 661 of 2006, implementing Article 124 of the CRD, obliges the Central Bank to review the arrangements, strategies, processes and mechanisms implemented by the credit institutions to comply with the CRD and evaluate the risks to which the credit institutions are or might be exposed, taking into account the technical criteria set out in Annex XI of that Directive.</li> <li>- Regulation 70 of S.I. 661 of 2006, implementing Article 136 of the CRD, enables the Central Bank to require any credit institution that does not meet the requirements of [any law of the State giving effect to the [Recast Credit Institutions Directive] (CRD)] to take the necessary actions or steps at an early stage to address the situation. Supervisory measures in this regard include requiring credit institutions to: (i) hold additional own funds; strengthen capital via net profits; reinforce governance and internal capital adequacy assessment processes; apply specific provisioning policy; restrict / limit business operations; or reduce risk inherent in the credit institution’s business products and systems.</li> </ul> <p>The Central Bank regularly assesses its supervisory approach and engagement model. The Central Bank’s Supervision Support Team continually reviews the quality of supervision via firm specific reviews, survey reviews etc. Internal Audit also conduct reviews on the implementation of the risk based approach to supervision. In addition, an independent review commenced in Quarter 2, 2013, which is due to report towards the end of this year.</p>
<b>EC2</b>	<p>The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the on-site and off-site functions.</p>
Description and findings re EC2	<p>The planning module in PRISM sets out the minimum level of engagement with institutions; this is dependent on the impact category of the institution. PRISM guidance materials set out the processes to follow in conducting reviews of credit institutions and the Supervisory Support Team (SST), a unit within the Risk Division, carries out reviews of the practical implementation of PRISM and the quality of supervision, to ensure that reviews are conducted on a thorough and consistent basis.</p> <p>The supervision teams are responsible for on-site and off-site supervision and are responsible for developing a supervision plan. The Supervision Team is supported by specialist teams as mentioned in EC1; there is regular and scheduled coordination and</p>

	<p>information sharing between supervision teams and specialist units.</p> <p>The Governance Review process set out in PRISM includes the following guidance for review planning:</p> <ul style="list-style-type: none"> <li>- Objective of the Governance Review;</li> <li>- Stages in the Analysis Process;</li> <li>- Initial planning;</li> <li>- Visit preparation;</li> </ul> <p>Firm inspection;</p> <ul style="list-style-type: none"> <li>- Visit;</li> <li>- Analysis, quality assurance and write-up.</li> </ul> <p>The process includes an estimate of the duration of each stage and the appropriate time to spend on-site and off-site.</p>
<b>EC3</b>	<p>The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available information. The supervisor determines that information provided by banks is reliable<sup>19</sup> and obtains, as necessary, additional information on the banks and their related entities.</p>
Description and findings re EC3	<p>The CBI uses a mix of information sources to assess the safety and soundness of banks and the sector. The CBI receives a full suite of regulatory returns including: COREP; FINREP; Large Exposure; Sectoral Limits; Related Party Lending; Liquidity Returns; Funding Reports; Impairment Return; Quarterly Summary Financial Return; and Deposit Protection. These returns are analyzed by supervision staff on a periodic basis, for High and Medium High Impact banks. To assess the reliability of data, the CBI performs a range of activities. For example, a high level review of regulatory returns is performed by the Financial Reporting Unit in Banking Supervision. Once this is conducted, the supervision team will perform a detailed analysis of the data identifying trends and underlying drivers which will be used in conjunction with the findings arising from the supervisors' engagement to probability risk rate the firm. A combination of detailed analysis of key risk indicators and regulatory returns is carried out for all banks (irrespective of impact category). For banks in the lower two Impact categories the analysis of regulatory returns is automated.</p> <p>In advance of meetings with officers of a bank however, supervisors would review supplementary data on the returns and request additional relevant information (e.g. MI data used by the bank, risk appetite statements, risk policies, limits, Board and Board sub-committee meeting minutes, Board and Committee terms of reference). On average, one such meeting is held on a quarterly basis with Medium Low banks, the character of which is robust and intrusive.</p> <p>The legal basis for the submission of regulatory returns and other supervisory material is derived from Section 18 of the Central Bank Act 1971 which obliges holders of licenses and others to provide the Central Bank with required information and returns. Regulation 65 and 66 of the CRD covers the ICAAP and SREP respectively.</p>

<sup>19</sup> Please refer to Principle 10.

	<p>Credit institutions are required under Regulation 72 of S.I. 661 of 2006, transposing Article 145 of the CRD, to adopt a formal policy to comply with disclosure requirements and to have policies for assessing the appropriateness of these requirements, including their verification and frequency. In accordance with Regulation 72, credit institutions are to publicly disclose, on at least an annual basis, the information set out in Part 2 of Annex XII of the CRD concerning technical criteria on transparency and disclosure. The CBI also receives a multitude of other information which it uses to assess bank risk, including:</p> <ul style="list-style-type: none"> <li>• Audit Reports: from Internal and External Audit.</li> <li>• Internal Capital Adequacy Assessment Process (ICAAP) submissions</li> <li>• Annual information – such as financial statements, Banking Supervision Assets and Liabilities return, reconciliation between financial statements and regulatory returns.</li> <li>• Annual Compliance Statements with Regulatory Codes, e.g. Annual Compliance Statement with the Corporate Governance Code and Annual Internal Audit on compliance with the requirements for the management of liquidity risk.</li> <li>• Publicly available information such as media reports, reports from rating agencies, analyst reports, etc.</li> <li>• Pillar III disclosures by institutions.</li> <li>• Evidence to support the implementation of RMPs.</li> </ul> <p>Key Risk Indicator Review: Once a key risk indicator limit is breached or threshold for same is breached a detailed analysis is carried out by the supervisor, which can include requesting further quantitative or qualitative information for the bank, with a detailed rationale for closure to be provided within the PRISM system. Supervisors will also determine what the movement suggests about the bank's risk profile. The depth of regulatory returns review is determined by the impact category as opposed to inherent risk.</p> <p>Regulatory Returns Review: Supervisors carry out detailed analytical work on the condition of High and Medium High banks. A supervisory tool has been developed (banking cube) to ensure that at a minimum supervisors carry out analysis of movements in excess of thresholds of all regulatory returns and trend analysis on a quarterly basis. The tool also allows supervisors to investigate irregular completion of returns (for example supervisors will be able to review risk weights applied and can investigate when changes are expected). Supervisors are required to comment on the validity of all movements, to investigate as necessary and to make judgements about the risk profile of the firm before the return is signed off. The submission of data by banks is validated through investigative questioning; recalculating data using regulatory rules (for example limits to Hybrid instruments); and on-site testing (thematic reviews, full risk assessment and financial risk reviews).</p>
<b>EC4</b>	<p>The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as:</p> <ol style="list-style-type: none"> <li>(a) analysis of financial statements and accounts;</li> <li>(b) business model analysis;</li> <li>(c) horizontal peer reviews;</li> <li>(d) review of the outcome of stress tests undertaken by the bank; and</li> <li>(e) analysis of corporate governance, including risk management and internal control systems.</li> </ol> <p>The supervisor communicates its findings to the bank as appropriate and requires the bank</p>

	to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.
Description and findings re EC4	<p>The Central Bank uses a variety of tools to regularly review and assess the safety and soundness of banks and the system such as:</p> <ul style="list-style-type: none"> <li>- <b>Reviews of the annual accounts</b> of banks (and, where appropriate, of the quarterly accounts)</li> <li>- <b>Business Model Reviews are required every two years</b> for High Impact institutions. In completing an FRA for Medium High/Low Impact institution (see CP8) a business model analysis is completed. The objective of the review is to aid the supervisor in assessing the risks the firm is taking, its vulnerabilities, its capacity to identify risks/threats and its ability to react appropriately in a timely manner. It will also identify the operational flexibility of an organisation to respond to major shocks, e.g. recession, liquidity crisis, etc.</li> <li>- <b>Reviews of the outcome of stress tests on an annual basis in completing FRA and ICAAP reviews</b> This supervisory activity is performed for all banks as directed by the CRD. For banks with an Impact rating of Medium High and Medium Low for the year when a FRA has not been performed, a self assessment questionnaire is completed by the bank and supported by aspects of the ICAAP – business plan, capital plan, risk appetite statement, material changes in the ICAAP etc</li> <li>- <b>Horizontal peer reviews</b> are conducted by the Treasury and Credit Teams for High and some Medium High Impact institutions. Peer group analysis reports are available in PRISM and provide a comparison on KRIs, and show overall trends for same. It should be noted that some Medium High and Medium Low Impact institutions do not have relevant peers for comparison purposes</li> <li>- <b>Governance reviews</b> are required every two years for High Impact institutions. In completing an FRA for Medium High/Low Impact institutions, a governance review is conducted. The objective of the review is to establish that the institution is managed in a sound and prudent manner, if the “seat of control” is the Board and not a parent company or other affiliate. The supervisors in their assessments also give consideration to the culture of the Board, the attributes it values in its directors, its expectations of directors in terms of their engagement and the interplay between members of the executive and the Board. In addition, corporate governance is reviewed on an annual basis as part of an ICAAP review and institutions are required to submit an annual statement of compliance with the Corporate Governance Code.</li> <li>- Pillar 3 reports are reviewed when available as part of offsite supervision to inform the overall risk assessment or supervisory activities.</li> </ul> <p>Following a process where a supervisor has investigated an institution, such as an FRA or a review/inspection, the findings of the review are communicated to the institution. Initial findings can be informally communicated at a meeting with the senior management team, with a formal letter to follow. Where areas of weakness are identified, a RMP is developed to ensure that the institution takes the appropriate action to mitigate any particular vulnerability. RMP are authorised either by a RGP or, when no RGP is planned, by a</p>

	<p>member of the divisional management team. The purpose of the RGP is to bring together a wide variety of experience and expertise to help supervisors reach high quality judgments on how to appropriately take forward supervisory activities. If breaches of regulation/legislation are identified during an inspection, the Supervision Team will escalate the violation to Divisional Management. The violation will be documented in the report of the inspection and the Supervision Team will complete an escalation report for the SRC, with possible referral to the Enforcement Directorate.</p>
<b>EC5</b>	<p>The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.</p>
Description and findings re EC5	<p>The objective in Section 6A (2) (a) of the Central Bank Act, 1942 (as amended by the Central Bank Reform Act, 2010), in relation to the “stability of the financial system overall” gives the Central Bank of Ireland a leading role in the area of macro-prudential policy. There are also legislative provisions for co-operating with a range of public bodies whose actions have a material impact on financial stability, without prejudice to their respective mandates. The Central Bank of Ireland has employed tools, which are macro-prudential in nature, both pre-emptively (i.e., imposing sector capital requirements in 2006 in an attempt to curb mortgage lending) and as a tool of crisis management (i.e., in 2011 imposing capital and loan-to-deposit requirements) under the Financial Measures Program.</p> <p>The Central Bank is currently developing a national macro-prudential framework in line with ESRB recommendations. The Financial Stability Division is undertaking analytical work to support this framework.</p> <p>The implementation of Basel III in Europe via an amended CRD and CRR (collectively CRD IV) will come into force on 1 January 2014 and will allow for the implementation of certain macro-prudential measures such as additional capital buffers and broader macro-prudential discretions. The new framework requires Member States to designate an authority (the “Designated Authority”) responsible for taking measures necessary to prevent or mitigate systemic risk or macro-prudential risks posing a threat to financial stability at national level, when appropriate. Although in the Irish case, the Designated Authority has not yet been formally confirmed, the Department of Finance (DoF) has indicated its intention to assign the Central Bank of Ireland to this role. The Central Bank is currently actively engaging with DoF on the transposition of CRD IV and also intends to issue a revised CRD implementation document on its intended exercise of discretions and options available to it as competent authority in due course.</p> <p>As mentioned above, the Central Bank of Ireland Act 1942 provides that the stability of the financial system overall is one of its key objectives. As part of this, the Central Bank identifies, assesses and communicates banking risks through the preparation and publication of the Macro Financial Review conducted by the Financial Stability Division. The Minister for Finance also has legislative responsibility for financial stability, in terms of proposing legislation and Government policy that promotes financial stability. The Central Bank and Department of Finance have an agreed MoU in this area.</p> <p>Within the Central Bank, the Deputy Governors for Financial Regulation and Central</p>

	<p>Banking report to the Governor who has overall responsibility for Financial Stability. The Governor chairs a Financial Stability Committee (FSC). The FSC advises the Governor on issues central to the fulfillment of the mandate of the Central Bank, to contribute to financial stability in Ireland and the Euro area. The FSC's role involves monitoring and assessing both domestic and international economic and financial developments, highlighting potential areas of concern relevant to the Irish financial system and drawing conclusions from the analysis. A key focus of the committee is to identify potential actions that can be taken to mitigate risks to financial stability and to follow up on past measures. Formulation of specific actions may be delegated by the Governor to management within or outside the FSC. Actions may take the form of consideration, implementation, and review of micro-prudential and/or macro prudential policy instruments.</p> <p>In addition, the Financial Stability Division in conjunction with the Risk Division provides an environmental risk assessment for PRISM, which contributes to individual risk scores.</p> <p>In terms of stress tests, the Central Bank has conducted sector-wide macro stress tests in the past, but in recent years supervisory stress tests, Asset Quality Reviews, Balance Sheet Assessments and Data Integrity Verification exercises - under the PCAR process have been conducted by the Central Bank (with the assistance of external bodies) to determine the Covered Banks capital requirements. In preparation for the next loan level PCAR exercise in 2014, the Central Bank has undertaken the development of loan loss forecasting models for four asset classes: residential mortgages, non-mortgage retail, micro SME and SME/Corporate. The Central Bank communicates its findings to industry through press releases/conferences and updating the Central Bank web-site. The Central Bank communicates its findings to banks via meetings with the senior management team and formal letters or requirements in the case of supervisory stress test results. The Central Bank requires banks to take actions, such as maintaining capital at a specific level.</p> <p>In addition, the Financial Stability Division in conjunction with the Risk Division provides an environmental risk assessment for PRISM, which contributes to individual risk scores. In terms of stress tests, the Central Bank has conducted sector-wide macro stress tests in the past, but in recent years supervisory stress tests under the PCAR process have been conducted by the Central Bank to determine the Covered Banks capital requirements. The Central Bank communicates its findings to industry through press releases/conferences and updating the Central Bank web-site. The Central Bank communicates its findings to banks via meetings with the senior management team and formal letters or requirements in the case of supervisory stress test results. The Central Bank requires banks to take actions, such as maintaining capital at a specific level.</p>
<b>EC6</b>	The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.
Description and findings re EC6	The PRISM guidelines for High Impact institutions require the team to meet the Internal Audit function on an annual basis. Medium High Impact institutions are required to meet the Internal Audit function every two years. While the minimum engagement model for Medium Low firms does not prescribe a minimum engagement level with Internal Audit, notwithstanding, supervisors can and do include such meetings in their supervisory engagement. Supervisors have met with the Internal Audit functions in 30% of the Medium Low bank population since PRISM roll-out. PRISM engagement model for Internal Audit as follows:

	<p>High – annual Med high every two years Med Low/Low – no frequency.</p> <p>There is no requirement for an IA function in the regulations issued by the Central Bank although the EBA guidelines GL44 set out the requirements for internal control functions. For High Impact banks it is expected that an IA function be in place. The PRISM guidelines for meeting with the Internal Auditor state that the objective of the meeting is to determine the adequacy of the procedures and satisfy the supervisor as to the effectiveness of policies and practices followed, and that management takes appropriate corrective action in response to internal control weaknesses. Central Bank has confirmed to all Irish licensed banks that EBA guidelines constitute Central Bank guidance and must be complied with.</p> <p>Thematic reviews of the effectiveness of Internal Audit functions across the banking system are also carried out by the Central Bank. Analysing and forming a view of the effectiveness of the Internal Audit function is a key element of the Governance Review as set out in the PRISM guidelines. According to the minimum engagement model, Governance Reviews are required at least every two years for High Impact institutions and as part of an FRA for Medium High and Medium Low Impact firms. In Q1 2011, the Central Bank carried out a thematic review of the “effectiveness of the internal audit function” across the banking and insurance sectors (a sample of banks and insurance entities were included in the review). Letters issued to the banks involved in Q3 2011.</p>
<b>EC7</b>	<p>The supervisor maintains sufficiently frequent contacts as appropriate with the bank’s Board, non-executive Board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank’s Board and senior management on the assumptions made in setting strategies and business models.</p>
Description and findings re EC7	<p>Engagement with the Board is determined by a bank’s impact category. The purpose of contact with the Board is to develop an understanding and assessment of matters such as business models, strategy, structure, governance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. During the meeting with key personnel, Central Bank staff will advise of the PRISM rating, the key drivers and RMP issues as well as the forthcoming supervision action plan.</p> <p>The Central Bank also has robust engagement with institutions where it identifies weaknesses, for example, where a Board Risk Committee has approved changes to risk strategies and appetite without due consideration or challenge.</p> <p>The minimum frequency of engagement with a Board is determined by the impact category of the institution as follows:</p> <ul style="list-style-type: none"> <li>• <u>High Impact</u> – at least on an annual basis, supervisors meet the CEO, CFO, CRO, Chairman, Senior Non-Executive Director, Internal Audit and External Auditor. In addition, teams meet with middle management functions, e.g. control functions, treasury, credit, etc.</li> <li>• <u>Medium High</u> – at least on an annual basis, supervisors meet the CEO, CFO, Chairman, Senior Non-Executive Director, External Auditor and on a 2-year cycle CRO and Internal</li> </ul>

	<p>Auditor. They also meet with senior and middle management with day-to-day responsibility for credit, market, operational and liquidity risks.</p> <ul style="list-style-type: none"> <li>• <u>Medium Low</u> – with due regard to risk and on a staggered basis, over an 18-24 month cycle supervisors meet with the CEO, CFO, Chairman, Senior Non-Executive Director and External Auditor. On a two-year cycle they meet with the CRO.</li> <li>• <u>Low</u> – not specified (note there are no Irish licensed banks in this rating category).</li> </ul> <p>The Central bank in its engagement with credit institutions will meet with the full board when presenting results from the RGP. On an annual basis, meetings will be held with individual Board members i.e. INED and Chair separately.</p> <p>The power to meet with and question bank staff is set out in Section 17A part (e), of the Central Bank Act 1971, outlining the powers of authorised persons with respect to holders of licenses. Section 17A part (e) covers requests to any person who appears to the authorised person to have information relating to the records, or to the business, of the license holder or related body, to answer questions with respect to those records or that business.</p> <p>There are also new extensive powers provided in the Central Bank (Supervision and Enforcement) Act 2013 which enhance matters, i.e. Part 3 in relation to Authorised Officers and a new general information gathering power</p> <p>While the minimum engagement model with senior management is outlined above, in practice, supervision teams have contact with and meet senior management on a much more regular basis for the High impact banks. During meetings with the Board members of an institution and the senior management team supervisors challenge the current strategy, including assumptions made in developing the strategy. The typical questions to ask when challenging the strategy of an institution are set out in the PRISM guidelines.</p>
<b>EC8</b>	<p>The supervisor communicates to the bank the findings of its on- and off-site supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent Board members, as necessary.</p>
Description and findings re EC8	<p>The PRISM engagement model involves a schedule of ongoing meetings between supervisors and senior management (CEO, CRO, CFO, Head of Internal Audit) and board members (Chairman and senior INEDs). The frequency of meetings is determined by the impact rating of a particular bank. For banks rated Medium-Low and Low, engagement with bank's management will not typically take place.</p> <p>The Central Bank communicates the findings from on-site and off-site reviews via written letter with a RMP attached. The Central Bank meets with the Board and the Senior Management Team to discuss the RMP. Supervisors and senior management of the Central Bank also frequently meet with banks' senior management and board members in relation to specific prudential and consumer protection matters, e.g. in relation to recapitalisations; asset deleveraging; mortgage arrears resolutions and distressed credit operation capabilities; internal model methods for capital purposes; and new business applications, amongst other matters.</p>

<b>EC9</b>	The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.
Description and findings re EC9	<p>PRISM requires supervisors to ensure that deadlines for the completion of RMP actions are met. PRISM allows the supervisor to monitor, track and close RMP actions. Supervisors follow up on the implementation of RMPs through desk top analysis and on-site inspections, dependent on the nature of the particular mitigation required. The CBI can also engage Third party or independent party validation to ascertain the extent to which RMPs have been implemented. For example, if an institution is required to implement a credit policy, supervisors will complete a desk top review of the policy and will then visit the institution to test its implementation.</p> <p>The planner facility allows the supervisor to see when RMP actions are falling due. As soon as the supervisor receives an RMP response from a firm, the supervisor is required to change the action's status in PRISM to 'Results Under Review'. Supervisors should review RMP actions within three weeks of their becoming due, assess their success, change their status to concluded and provide a closure narrative. PRISM has the facility to generate reports highlighting to Divisional Management the RMPs that are overdue; these reports show institutions that are late in meeting RMP deadlines and reviews by supervisors that have not been completed within the three week requirement. In certain circumstances, for example when an on-site visit is required, it is possible to extend the review beyond three weeks. If action points are not addressed, the supervisor escalates internally by following the Central Bank's escalation policy. In addition, in certain circumstances the Central Bank writes to the Board of the bank.</p>
<b>EC10</b>	The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.
Description and findings re EC10	<p>The Central Bank has imposed a requirement on credit institutions to notify the Central Bank in advance of any substantive changes in activities, structure and overall condition. In addition, there are notification requirements (within regulatory requirements and legislation) that cover changes in activities, structure and condition.</p> <p>The legal basis for notifications exist within specific regulatory codes and documents, such as Corporate Governance Code for Credit Institutions and Insurance Undertakings, the Code of Practice for Related Party Lending etc. The Central Bank of Ireland's regulatory codes and documents set out requirements for banks to notify the Central Bank of deviations from/breaches of a code or regulatory document; for example, the Corporate Governance Code requires that <i>"any institution which becomes aware of a material deviation from this Code shall within 5 business days report the deviation to the Central Bank, advising of the background and the proposed remedial action."</i> The Requirements for the Management of Liquidity Risk requires that <i>"where there are breaches or a credit institution foresees a possible breach of the liquidity requirements outlined in this paper, the Financial Regulator must be notified immediately."</i></p> <p>Specific legislation incorporates notification requirements, for example the CRD. Under Regulation 57 (5) of S.I. 661 of 2006, transposing Article 111(4) of the CRD, banks are required to report to the Central Bank without delay exposures that exceed the limits set out in the CRD for Large Exposures. In issuing a banking license the Central Bank requires banks to confirm that they will comply with a set of requirements. In the past the Central Bank has required institutions to confirm they will comply with the requirement that 'the expansion of the range of proposed products beyond</p>

	those in the application to the Central Bank for the banking license will require the prior approval of the Central Bank’.
<b>EC11</b>	The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties.
Description and findings re EC11	<p>The power to require a skilled person review has recently been enacted and is contained in the Central Bank (Supervision and Enforcement) Act 2013.</p> <p>The Central Bank’s ability to gather information from auditors of regulated financial service providers is covered by the Central Bank Act 1997 (as amended), specifically Sections 27 (B) – 27 (F).</p> <p>The use of third parties is set out in the PRISM guidelines on ‘Skilled Person Reviews’. In circumstances where the Central Bank has additional firm-specific needs for information and/or analysis, the supervisor may request the firm to provide a special report prepared by a third party in accordance with a brief from the Central Bank. The supervisor will consider the following:</p> <ul style="list-style-type: none"> <li>a) the competence and capabilities necessary to prepare the report on the matter concerned;</li> <li>b) the ability to complete the report within the period specified by the supervisor;</li> <li>c) any relevant specialized knowledge, including specialized knowledge of the firm, the nature of the business carried on by the firm and the matters to be reported on;</li> <li>d) any potential conflict of interest in reviewing the matters to be reported on, including any arising from the fact that the matters may raise questions relating to the quality or reliability of work previously carried out by the proposed reviewer;</li> <li>e) sufficient detachment, having regard to any existing professional or commercial relationship, to give an objective opinion; and</li> <li>f) previous experience in preparing reports under this Part or reports of a similar nature.</li> </ul> <p>During the course of the review the supervisor will have regular meetings with the skilled person, with progress reports where projects are of longer duration.</p>
<b>EC12</b>	The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.
Description and findings re EC12	<p>The Central Bank of Ireland has implemented <b>three systems</b> to facilitate the processing, monitoring and analysis of prudential information:</p> <ol style="list-style-type: none"> <li>1. Prudential data is submitted to the Central Bank via the online reporting system. This system has the facility to upload the data submitted by banks, and to validate and store the data.</li> <li>2. Viewpoint has the ability to retrieve the prudential information submitted by institutions. It provides the supervisor with the ability to monitor and analyse prudential information through the running of numerous reports, from generating the prudential returns to generating analysis reports. Viewpoint also has a query system, enabling the supervisor to generate large pieces of information in relation to specific return items for trend analysis.</li> </ol>

	<p>3. PRISM allows the supervisor to monitor KRIs and aids the identification of areas requiring follow-up action, with alerts being generated for significant changes in impact metrics, KRIs, new information becoming available, and activity being required in relation to risk mitigation issues. Alerts are only closed once a supervisor has acted upon the alert and provided a narrative within PRISM. PRISM also generates numerous reports, such as alerts listings (both open alerts and those closed within 30 days), RMP issues, engagement models, risk profiles, impact profiles, RGP documents, peer group reports, firm reports and stress test reports.</p>
<b>Additional criteria</b>	
<b>AC1</b>	The supervisor has a framework for periodic independent review, for example by an internal audit function or third party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use, and makes changes as appropriate.
Description and findings re AC1	<p>Section 32 (L) 3 of Part IIIA of the Central Bank Act 1942 sets out the legal basis for periodic independent review: <i>The review of the Bank's regulatory performance required by subsection (2)(b) shall include details of the activities carried out during the relevant year by-</i></p> <p><i>(a) the part of the Bank responsible for internal audit.</i></p> <p>Following the results of the reports into the Banking Crisis the Central Bank reviewed the adequacy and effectiveness of the range of its available supervisory tools. The Central Bank overhauled its approach to supervision with the implementation of PRISM. The task of developing PRISM was assigned to the Risk, Governance and Accounting Policy Division, which is independent of the Supervisory Divisions. To validate the approach, the Central Bank hired independent consultants to opine on the adequacy and effectiveness of PRISM.</p> <p>The rollout of PRISM was completed in November 2012. With this important stage achieved, the senior management team in regulation wanted to undertake a stock take of PRISM and see what improvements could be made, given that many supervisory areas had more than a year's experience with PRISM. An independent assessment as to how effective PRISM has been in the delivery of high quality risk based supervision has commenced with a final report and recommendations being presented to the Governor and Commission at the January 2014 meeting.</p> <p>The Central Bank Internal Audit charter states that <i>"the Internal Audit function is an independent and objective appraisal function, which is required to provide audit assurance that the system of risk management and internal control is adequate to manage and control those risks to which the Bank is exposed. It also assists the Bank in its pursuit of efficiency and effectiveness."</i> The review of the effectiveness of Supervision tools and their use is captured under this objective; Internal Audit recommendations cover both of these areas. Internal Audit's reviews are supplemented by a second line of defense: the Supervisory Support team (SST), a unit within the RGP Division.</p> <p>The principal objective of the SST is to provide senior management with "reasonable assurance" on the practical implementation of PRISM and the quality of supervision, i.e. that PRISM is being implemented appropriately in the supervisory divisions and that the level of supervisory engagement is providing a "reasonable assurance" on the identification and mitigation of risk.</p> <p>It is the responsibility of Divisional Management to ensure that all concerns raised by independent parties are addressed appropriately.</p>

	<p>Examples of independent reviews conducted recently of the supervisory tools include: the Internal Audit carried out in first half of 2012 on the use of PRISM in Banking Supervision; the SST review of the supervision of two banks in Q3 2012; and Independent consultants were hired to opine on the adequacy and quality of the engagement model, impact metrics models, the risk structures and the logic behind PRISM during its development.</p>
<b>Assessment of Principle 9</b>	Materially non compliant
Comments	<p>The Central Bank employs a mix of off- and on-site supervisory activities. The PRISM model is the centerpiece of the supervisory framework which is used to assign bank risk ratings and allocate supervisory resources and determines frequency and intensity of supervisory activities. A primary concern is whether the mix of offsite and onsite supervisory activities prescribed by PRISM for the lower impact ratings is appropriate.</p> <p>The supervisory approach for banks that fall into Medium Low Impact rating rely heavily on reactive processes. Analysis of regulatory returns is largely automated using sensitivity analysis of financial ratios. The quality, frequency and depth of verification of qualitative data to assess risk are limited. Onsite activity prescribed by PRISM for Medium Low Impact banks is on a random-spot check basis with limited coverage by risk specialists. In the case of Low Impact banks (which are all foreign banks branches for which the Central Bank has a very limited prudential supervision mandate set out in the CRD), no minimum frequency of onsite or offsite supervision.</p> <p>A lack of onsite activity which is not supported by a sufficiently detailed offsite analysis does not facilitate an accurate assessment to identify and mitigate risk. A build up of risks across a number of lower impact banks in aggregate could create vulnerabilities in the banking system and, moreover, could create reputational risk for the Central Bank and a threat to the integrity of banking system. A more appropriate mix of onsite and offsite supervision practices (with due regard for proportionality) would encourage a more proactive approach to supervision in an effort to mitigate this risk. In the case of Low Impact banks (foreign bank branches), an absence of a prescribed supervisory cycle for offsite and onsite will not facilitate an assessment of risk in the banking system from this sector.</p> <p>It is acknowledged that supervisors will, and often do, go beyond the minimum engagement model prescribed by PRISM. There was evidence of supervisors mitigating risk when events occurred and addressing risks appropriately. Focusing the supervisory process primarily on the impact of a failure will distort the allocation of resources since the supervisory approach is supposed to be preventive/corrective to maintain safety and soundness and not on the impact of resolution. As a result, supervisory activities to identify risk insufficient for banks with an Impact rating below High. Materially insufficient for Medium Low and Low. Activities such as onsite reviews and intrusive supervision techniques are mainly allocated to High Impact banks. More attention needs to be paid to verification of self assessment of compliance with regulations and assessment of risk profile. Setting up the supervisory scope should focus on bank-specific risks, so even between high risk banks there should be a difference in activities being performed and no need to perform a full suite of activities.</p> <p>KRIs are fed into PRISM which are sourced from a number of returns submitted by the banks across various time buckets (e.g. monthly, quarterly). KRIs are built into capital, liquidity, credit, business model/strategy and market risk. There are, however, no KRIs for</p>

	<p>operational risk and interest rate risk in the banking book and only a single indicator for market risk. The KRIs form a key feature of exception reporting framework especially for lower impact rated banks) and should be expanded to ensure all material risks are monitored (there is a separate risk dashboard for High Impact banks that cover a broader suite of risk metrics for liquidity, and market risk).</p> <p>While the Central Bank received the power to request recovery plans, a local recovery planning regime is yet to be fully developed and implemented. Recovery plans for the two high impact firms have been requested but not received and analysis has not commenced. Processes for resolution handling not fully developed (EC6). The Central Bank of Ireland has employed tools, which are macro-prudential in nature, both pre-emptively (i.e., imposing sector capital requirements in 2006 in an attempt to curb mortgage lending) and as a tool of crisis management (i.e., in 2011 imposing capital and loan-to-deposit requirements) under the Financial Measures Program. The implementation of Basel III in January 2014 will provide the Central Bank further powers to implement certain macro measures such as the CCyB.</p>
<b>Principle 10</b>	<b>Supervisory reporting.</b> The supervisor collects, reviews and analyses prudential reports and statistical returns <sup>20</sup> from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor has the power <sup>21</sup> to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, and market risk.
Description and findings re EC1	<p>The CBI requires the submission of various returns by credit institutions on a regular basis. Both solo and CRD consolidated data are collected. For common reporting (COREP) and financial reporting (FINREP), the two main regulatory returns, the EBA minimum frequency for submission of the COREP is six-monthly (CRD), with no frequency specified for FINREP (CEBS GL06). However, both of these returns are collected quarterly, with monthly submission by the covered banks.</p> <p>In general, CBI powers to require reporting from banks derive from the CBI Act 1971, Section 18, subsections 2 &amp; 3:</p> <p>(2) <i>A person to whom this section applies shall provide the Bank, at such times, or within such periods, as the Bank specifies from time to time, with such information and returns concerning the relevant business carried on by the person as the Bank specifies from time to time.</i></p> <p>(3) <i>A person to whom this section applies shall, at such time or within such period as the Bank specifies, provide the Bank with such information or return (not being information or a return specified under subsection (2)) as it requests in writing concerning the relevant business carried on by</i></p>

<sup>20</sup> In the context of this Principle, “prudential reports and statistical returns” are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27.

<sup>21</sup> Please refer to Principle 2.

	<p><i>the person.</i></p> <p>N.B. "A person" refers to a license holder, in the case of a bank.</p> <ul style="list-style-type: none"> <li>• The CRD, namely S.I. No. 661 of 2006 sets out the requirements for solvency and large exposures reporting.</li> <li>• Reporting on the Code of Practice on Related Parties has been specified by the CBI pursuant to Section 117(3)(a) of the CBI Act 1989.</li> <li>• The quantitative prudential liquidity requirements are imposed under section 23 of the CBI Act 1971 or Section 39 of the Building Societies Act 1989.</li> <li>• The Impairment Return is a condition to which all credit institutions are subject, pursuant to Section 10 of the CBI Act 1971 or Section 17 of the Building Societies Act 1989.</li> </ul>
<b>EC2</b>	The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.
Description and findings re EC2	Full instructions for each return are provided, either by the CBI or by reference to external bodies such as the EBA for the source of instructions. Most regulatory reports are compiled under the CRD rules and under IFRS/Irish GAAP. Where reports are required to be prepared on a different basis, this is clearly stated and instructions are provided.
<b>EC3</b>	The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximizes the use of relevant and reliable inputs and are consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes.
Description and findings re EC3	<p>There is a legal requirement for banks to manage their business in accordance with sound administrative and accounting principles. Reports are compiled under the CRD or IFRS/Irish GAAP using EBA guidelines and templates. Detailed rules on the calculation and/or valuation of items to be reported are set out in the directive or the accounting standards, and banks are obliged to follow these rules in the compilation of regulatory reports. For solvency purposes the CRD specifies that the reporting entity use valuations as per their accounting standards regulation 18(1) of SI 661. Compliance with standards is assessed by supervision teams through both regular monitoring of returns and by review of specific items. The CBI has developed a framework for the analysis of regulatory returns which specifies the type and frequency of review of the main returns. This framework is supported by a suite of reports for use by supervision teams. Valuation methodologies are also reviewed on an ad hoc basis by other teams in the Banking Supervision Division, e.g. the Credit team as part of their on-site file reviews.</p> <p>The CBI has challenged banks' approaches to valuations, for example in relation to provisions, and required adjustments for capital adequacy and regulatory reporting purposes.</p> <p>Regulation 16 of S.I. No. 395 of 1992 / European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 requires that:</p> <p>(1) <i>Every credit institution authorized by the Bank shall manage its business in accordance with sound administrative and accounting principles and shall put in place and</i></p>

	<p><i>maintain internal control and reporting arrangements and procedures to ensure that the business is so managed.</i></p> <p>(2) <i>The Bank may direct a credit institution in writing to furnish to it, within a specified period, such information in relation to the arrangements and procedures referred to in paragraph (1) as the Bank may require and the credit institution shall comply with that direction.</i></p> <p>(3) <i>Subject to paragraph (4), every credit institution shall have robust governance arrangements including-</i></p> <ul style="list-style-type: none"> <li><i>(a) a clear organizational structure with well defined, transparent and consistent lines of responsibility,</i></li> <li><i>(b) effective processes to identify, manage, monitor and report the risks it is or might be exposed to,</i></li> <li><i>(c) adequate internal control mechanisms,</i></li> <li><i>(d) without prejudice to the generality of subparagraph (c), sound administrative and accounting procedures; and</i></li> <li><i>(e) remuneration policies and practices that are consistent with and promote sound and effective risk management.</i></li> </ul> <p>Valuations and assumptions used by a number of High Impact banks in loan loss forecasting and valuation of collateral have been challenged by the CBI, and the banks have had to make adjustments to reported data for impairments and provisions.</p> <p>During on-site meetings with a Medium High Impact bank, a potential concern was highlighted in relation to the appropriateness of the independent third party valuations used in the Commercial Real Estate (CRE) portfolio, a portfolio the Central Bank considers to be one of this bank's higher-risk portfolios. As part of the 2011 RMP, the bank was required to update the Central Bank on the actions taken/or planned actions to be taken in order to ensure that appropriate CRE valuations were used. This bank took appropriate action to ensure that valuations were performed independently of the areas managing the assets, and valuations were reduced (considerably in some cases).</p>
<b>EC4</b>	The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank.
Description and findings re EC4	Data are collected at frequencies ranging from weekly to annually, depending on the nature of the data and the risk profile of the bank. (CBI Act 1971, Section 18, subsections 2 & 3; see EC1 for details).
<b>EC5</b>	In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data).
Description and findings re EC5	Returns are collected from all banks and banking groups subject to consolidated supervision, using the CRD scope of consolidation. All returns have common reporting dates across all banks. Peer group analysis is available using default and custom peer groups. A detailed management information pack for all of the banks is compiled on a quarterly basis, which provides granular bank by bank information in respect of own funds and solvency levels, funding profile, asset quality, overall balance sheet date and profitability metrics. This information is provided on a quarterly basis to the CBI's Supervisory Risk Committee where key issues and trends are highlighted to Committee members.
<b>EC6</b>	The supervisor has the power to request and receive any relevant information from banks,

	as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information.
Description and findings re EC6	<p>Section 18 of the Central Bank Act 1971 allows the Central Bank to request information from any licensed bank for the purpose of supervision.</p> <p>Central Bank Act 1971, Section 18, subsections 2 &amp; 3:</p> <p>(2) <i>A person to whom this section applies shall provide the Bank, at such times, or within such periods, as the Bank specifies from time to time, with such information and returns concerning the relevant business carried on by the person as the Bank specifies from time to time.</i></p> <p>(3) <i>A person to whom this section applies shall, at such time or within such period as the Bank specifies, provide the Bank with such information or return (not being information or a return specified under subsection (2)) as it requests in writing concerning the relevant business carried on by the person.</i></p>
<b>EC7</b>	The supervisor has the power to access <sup>22</sup> all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required.
Description and findings re EC7	<p>The CBI has unrestricted access to all material available to a license holder which the CBI requires for the supervision of any bank or banking group where it is the consolidated supervisor. Material can be requested directly from the institution, or the CBI can appoint an "authorized officer."</p> <p>Central Bank (Supervision and Enforcement) Act 2013:</p> <p>26.-(1) <i>Subject to subsection (2), an authorized officer may at all reasonable times enter any premises-</i></p> <p>(a) <i>which the authorized officer has reasonable grounds to believe are or have been used for, or in relation to, the business of a person to whom this Part applies, or</i></p> <p>(b) <i>at, on or in which the authorized officer has reasonable grounds to believe that records relating to the business of a person to whom this Part applies are kept.</i></p> <p>27.-(1) <i>An authorized officer may do any one or more of the following:</i></p> <p>(a) <i>search and inspect premises entered under section 26 or pursuant to a warrant under section 28;</i></p> <p>(b) <i>require any person to whom this Part applies who apparently has control of, or access to, records, to produce the records;</i></p> <p>(c) <i>summons, at any reasonable time, a person to whom this Part applies-</i></p> <p>(i) <i>to give to the authorized officer such information as the</i></p>

<sup>22</sup> Please refer to Principle 1, Essential Criterion 5.

	<p>authorized officer may reasonably require,  (ii) to provide to the authorized officer any records which the person has control of, or access to, and which the authorized officer may reasonably require, or</p> <p>(d) (iii) to provide an explanation of a decision, course of action, system or practice or the nature or content of any records provided under this section inspect records so produced or found in the course of searching and inspecting premises;</p> <p>(e) take copies of or extracts from records so produced or found;</p> <p>(f) subject to subsection (3), take and retain records so produced or found for the period reasonably required for further examination;</p> <p>(g) secure, for later inspection, any records produced or found and any data equipment, including any computer, in which those records may be held;</p> <p>(h) secure, for later inspection, premises entered under section 59 or pursuant to a warrant under section 61, or any part of such premises, for such period as may reasonably be necessary for the purposes of the exercise of his or her powers under this Part, but only if the authorized officer considers it necessary to do so in order to preserve for inspection records that he or she reasonably believes may be kept there;</p> <p>(i) require any person to whom this Part applies to answer questions and to make a declaration of the truth of the answers to those questions;</p> <p>(j) require any person to whom this Part applies to provide an explanation of a decision, course of action, system or practice or the nature or content of any records;</p> <p>(k) require a person to whom this Part applies to provide a report on any matter about which the authorized officer reasonably believes the person has relevant information;</p> <p>(l) require that any information given to an authorized officer under this Part is to be certified as accurate and complete by such person or persons and in such manner as the Bank or the authorised officer may require.</p> <p>Also, in particular section 29 of the Act which states –</p> <p>29.-(1) An authorized officer may attend any meeting relating to the business of a regulated financial service provider if the authorized officer considers that it is necessary to attend in order to assist the Bank in the performance of any of its functions under financial services legislation.</p> <p>(2) The attendance of an authorized officer pursuant to subsection (1) at a meeting referred to in that subsection does not in any circumstances limit the powers of the authorized officer or of the Bank.</p> <p>Under the above, the Central Bank has access to the Board, management and staff of a bank.</p>
<b>EC8</b>	The supervisor has a means of enforcing compliance with the requirement that the

	information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.
Description and findings re EC8	<p>Compliance with reporting requirements is a legal obligation, subject to sanction by the CBI for any breaches. All regulatory returns must be signed off by a director of a bank. Any material inaccuracy in a return, once discovered by either the reporting bank or the supervisor, is required to be corrected.</p> <p>Where an entity provides incorrect or misleading information to the Central Bank, this may be a prescribed contravention for the purposes of section 33AQ of the Central Bank Act 1942.</p> <p>A prescribed contravention is subject to the powers of sanction under Part IIIC of the Central Bank Act 1942 (which outlines the administrative sanctions procedure – settlements, inquiries, etc.). Persons involved in the management of the entity concerned may be liable for administrative sanction from the Central Bank where they participated in the commission of the contravention concerned. Whether or not a contravention has occurred will be determined by members of the Inquiry appointed by the Central Bank</p> <p>The Central Bank reprimanded a High Impact institution and required it to pay a monetary penalty of €1,960,000 for errors in regulatory reporting. Five contraventions in total were identified.</p>
<b>EC9</b>	The supervisor utilizes policies and procedures to determine the validity and integrity of supervisory information. This includes a programme for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts. <sup>23</sup>
Description and findings re EC9	<p>The CBI has a framework for the analysis of regulatory returns which specifies the type and frequency of review of the main returns. This framework is supported by a suite of reports for use by supervision teams. The CBI has also used external parties to verify data on its behalf. The framework is currently being reviewed with a view to:</p> <ul style="list-style-type: none"> <li>(a) its application across the various risk categories of banks (i.e. PRISM categories);</li> <li>(b) generating supporting data for PRISM alerts; and</li> <li>(c) maximizing use of latest technology.</li> </ul> <p>In addition, the Financial Reporting Unit is undertaking a series of themed regulatory reporting reviews across a sample of banks. There are two reviews, each covering five different banks (i.e. 10 banks). The first review covers FINREP balance sheet compilation and the second review covers COREP market risk calculation. Also, the calculation of risk weighted assets generated using internal models based approaches is being reviewed. The Central Bank is also engaging in a cross European analysis of RWAs through the EBA; this work is ongoing.</p> <p>In 2012 the CBI required a High Impact bank to engage a third party to review its regulatory returns.</p>
<b>EC10</b>	The supervisor clearly defines and documents the roles and responsibilities of external

<sup>23</sup> May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

	experts, <sup>24</sup> including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilized for routine validation or to examine specific aspects of banks' operations.
Description and findings re EC10	<p>There is no specific policy for the engagement of external experts for the review of regulatory returns. However, the CBI operates under public sector procurement rules (tendering, etc.) and when external parties are engaged for any tasks such engagement is subject to a service level agreement, which sets out, inter alia, the roles and responsibilities of both the CBI and the service provider.</p> <p>There is also provision in the Central Bank Act 1989 for the auditors of an institution to report certain matters to the Central Bank, and for the Central Bank to require an auditor to furnish certain information to it. Auditors' duties are elaborated further in Chapter III of the Central Bank Act 1994.</p>
<b>EC11</b>	The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.
Description and findings re EC11	<p>Central Bank Act 1989 – <i>Part II, The Central Bank / Chapter III Licensing and Supervision of License Holders</i></p> <p><i>47. Duties of auditor</i></p> <p><i>(1) If the auditor of a holder of a license-</i></p> <p><i>(a) has reason to believe that there exist circumstances which are likely to affect materially the holder's ability to fulfil his obligations to persons maintaining deposits with him or meet any of his financial obligations under the Central Bank Acts, 1942 to 1989, or</i></p> <p><i>(b) has reason to believe that there are material defects in the financial systems and controls or accounting records of the holder, or</i></p> <p><i>(c) has reason to believe that there are material inaccuracies in or omissions from any returns of a financial nature made by the holder to the Bank, or</i></p> <p><i>(d) proposes to qualify any certificate which he is to provide in relation to financial statements or returns of the holder under the Companies Acts, 1963 to 1986, or the Central Bank Acts, 1942 to 1989, or</i></p> <p><i>(e) decides to resign or not seek re-election as auditor,</i> <i>he shall report the matter to the Bank in writing without delay.</i></p>
<b>EC12</b>	The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.
Description and findings re EC12	CBI follows EBA guidelines and templates for the bulk of its regulatory reporting requirements. The CBI is an active participant in all of the EBA reporting groups and networks. In a recent review of the EBA guidelines for solvency and regulatory reporting, the CBI (in conjunction with its European counterparts) reviewed the existing reporting

<sup>24</sup> May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.

	<p>framework, assessing the usefulness of existing templates and the reporting requirements under CRD IV. This process took a number of years, but this is acceptable as a change in the reporting framework should only occur relatively infrequently (so as to facilitate trend analysis). Data needs are subject to continuous review and, where new requirements are identified, new returns are created or existing returns enhanced.</p> <p>In addition, the CBI is engaging with the ECB in the development of a new reporting framework for Irish banks covered by the single supervisory mechanism.</p>
<b>Assessment re Principle 10</b>	Compliant
Comments	
<b>Principle 11</b>	<b>Corrective and sanctioning powers of supervisors.</b> The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.
Description and findings re EC1	<p>The CBI raises concerns with bank management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the CBI requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board (i.e. the RMP). The CBI requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The CBI follows through conclusively and in a timely manner on matters that are identified through desk-top analysis and onsite engagement with the bank. The CBI's supervisory teams monitor implementation of RMP actions through its PRISM tool.</p> <p>PRISM provides a structured framework for the supervision of banks (and other firms). PRISM sets out and documents guidance to supervisors on how to assess the risk profile of a bank. In addition, PRISM sets out and documents the basis and process for issuing an RMP to a bank and the process for monitoring a bank's compliance with it.</p> <p>RMP actions may be imposed through a number of methods:</p> <ul style="list-style-type: none"> <li>• Where there is a breach of the requirements set out in the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. No. 661/2006), an RMP may be imposed under Regulation 70(2)(e) of S.I. 661/2006. Regulation 70 (4) of S.I. 661/2006 has been used to impose additional capital requirements on credit institutions where the Central Bank has assessed that a credit institution already holds a level of internal capital adequate to cover the nature and level of the risks to which it is or might be exposed.</li> <li>• An RMP can be imposed via Section 10 of the Central Bank Act 1971, which gives the Central Bank the power to impose conditions on licenses.</li> </ul>

	<ul style="list-style-type: none"> <li>• Section 21 of the Central Bank Act 1971 confers broad powers of direction on the Central Bank. If the situation warranted it, the Central Bank could consider directing a credit institution to meet the requirements of an RMP.</li> <li>• More general RMP actions which do not result from a direct breach of CRD requirements are imposed by way of agreement.</li> <li>• Where the CBI has imposed an RMP by way of agreement but it is not satisfied with how a bank has delivered or where a bank has failed to deliver an RMP action, it can escalate the matter by legally imposing the RMP (where a breach of CRD has occurred) using its powers under Regulation 70 of S.I. 661/2006. To date the Central Bank has had to use its powers once in this regard.</li> </ul> <p>RMPs have been issued to all High Impact and certain Medium High Impact and Medium Low Impact banks following risk assessment carried out by the Central Bank.</p> <p>The Central Bank has used its powers under Regulation 70 of S.I. 661/2066 where deemed appropriate. As part of its 2011 FMP and under Regulation 70 of S.I. 661 of 2006, the Central Bank imposed additional capital requirements on credit institutions to cover potential future loan losses to prevent potential breaches of minimum regulatory capital requirements. See CP16 for link to FMP Report.</p>
<b>EC2</b>	<p>The supervisor has available<sup>25</sup> an appropriate range of supervisory tools for use when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.</p>
Description and findings re EC2	<p>The CBI has a range of supervisory tools available to it when a bank is in breach of legislative or regulatory requirements or is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened. The supervisory tools available are the following:</p> <p><u>Risk Mitigation Program</u></p> <p>The CBI uses an RMP where it has identified issues which it requires a credit institution to remediate. Such issues include:</p> <ul style="list-style-type: none"> <li>• A breach of legislative or regulatory requirements</li> <li>• Where an institution is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system</li> <li>• When the interests of depositors are otherwise threatened</li> </ul> <p>The RMP sets out the basis of the issue, the prescribed action for the credit institution to take and the required outcome, and sets out a defined timeline for the action to be taken.</p> <p><u>Legislative Tools</u></p> <ul style="list-style-type: none"> <li>• Under Section 10 of the CBI Act 1971 the CBI has powers to impose conditions on banking licences.</li> <li>• Section 21 of the CBI Act 1971 allows the CBI to give a direction in writing to the holder of a licence.</li> <li>• Regulation 70 of S.I. 661 of 2006 requires the CBI to require any credit institution that does not meet the requirements of any law of the State to take the necessary</li> </ul>

<sup>25</sup> Please refer to Principle 1.

actions or steps at an early stage to address the situation. Such steps could include restricting or limiting the business of a bank; taking actions to reduce the risks in its activities; applying specific provisioning policy; or imposing additional own funds requirements in excess of the minimum required.

#### Supervisory Warning

CBI may issue Supervisory Warnings which are not underpinned by legislation. These are non-public, and will set out the concerns which the CBI has in relation to certain activities. Supervisory Warnings may be taken into account by the CBI in considering whether to commence/take subsequent enforcement action against a particular entity, but may not be taken into account in imposing sanctions following such action.

Supervisory Warnings may be imposed following a specific referral, or may be imposed in the context of the ASP, where:

- The matter giving rise to concern is minor in nature;
- Immediate remedial action has been taken;
- Full cooperation has been received; and
- Other considerations supporting another enforcement approach do not apply.

#### Enforcement

Under its enforcement powers, the CBI has powers to investigate and take enforcement actions against regulated entities that have failed to comply with relevant regulatory requirements. The formal enforcement actions available to the CBI are:

- (1) The administrative sanctions procedure under Part III C of the CBI Act 1942, which permits the CBI to:
  - a) caution or reprimand,
  - b) direct the refund or withholding of money charged or paid for the provision of a financial service,
  - c) direct payment to the CBI of an amount up to €5,000,000 for corporate bodies and €500,000 for natural persons<sup>26</sup>,
  - d) disqualify natural persons from being concerned in the management of a bank,
  - e) direct payment of all or part of the costs to the CBI of holding an inquiry and investigating a matter,
  - f) direct persons to cease a contravention,
  - g) enter into a settlement with the relevant person;
- (2) Fitness and Probity Investigations under Part 3 of the CBI Reform Act 2010, which permit the CBI or Governor to suspend or prohibit a person from performing a controlled function in a credit institution;
- (3) Revocation of authorization of a bank (with Ministerial consent);
- (4) Summary criminal prosecution.

Internal policies exist in relation to minimum thresholds that must be satisfied before an Enforcement case is accepted and brought forward. However, there is no trigger for a mandatory enforcement action, which is instead left to the judgment of supervisors. The grounds for acceptance of a case into Enforcement are set out in the Enforcement Referral

<sup>26</sup> As outlined further below, the Central Bank (Supervision and Enforcement) Act 2013 increased the maximum amount of fines that may be imposed.

Process and are:

(a) Reliable grounds

The supervisors should have gathered sufficient evidence to demonstrate, on reliable grounds, that a breach has (or a breach has more than likely) occurred. The reliable grounds test is the legal test condition for a referral. 'Reliable grounds' means that sufficient evidence exists/has been gathered to show that it is likely that a breach has occurred (i.e. the 'evidential' value of the referral).

(b) Policy grounds

Supervisors should have given sufficient consideration to the CBI's statutory objectives as articulated by its stated priorities. Supervisors will need to identify the CBI's objectives which are put at risk by the issues being referred, how the referral supports the CBI's strategic objectives and priorities, and a summary of the public message which an administrative sanction would convey. This is the 'policy grounds' condition for a referral.

The CBI (Supervision and Enforcement) Act 2013 enhanced the range of sanctions available. The level of fines was doubled for both firms and individuals, with an alternative calculation of maximum fine for firms based upon 10% of annual turnover. This represents a significant deterrent and thereby increases compliance generally.

The CBI's approach to Enforcement proceedings is documented in its published Outline of the Administration Sanctions Procedure and Inquiry Guidelines. The process of referring cases from the banking supervisory divisions to Enforcement for consideration has been formalized.

**Resolution Powers**

Under its Resolution powers and subject to certain conditions being met (including that the CBI is satisfied that the bank concerned has failed or is likely to fail to meet a regulatory requirement imposed by law, or a requirement or condition of its license, and that the CBI is satisfied that there is a threat to the financial stability of the bank concerned or the financial system in the State), the CBI also has the following powers:

- (a) Appointment of a Special Manager
- (b) Transfer of Engagements
- (c) The ability to create a Bridge Bank
- (d) Liquidation
- (e) Powers to go to court to wind up a bank

The resolution powers conferred on the Governor of the CBI will only be used as a last resort to bring about the orderly resolution of institutions that are about to fail or have already failed.

European legislation applies in relation to bankruptcy of banks, e.g. 2011/48 – The European Communities (Reorganization and Winding-up of Credit Institutions) Regulations 2011, together with the relevant parts of the Companies Acts for companies in liquidation. The Resolution Act provisions might also apply if that Act is used to wind up the bank concerned.

**Appeals Process**

**The Irish Financial Services Appeals Tribunal** was set up as outlined by the Central Bank and Financial Services Authority of Ireland Act 2003. It acts like a court, but is outside the normal court system. It is a forum that can hear appeals relating to some decisions

	<p>made by the CBI and has the authority to decide them.</p> <p>The CBI has entered into settlement agreements and issued public notices for a number of banks.</p> <p>In its Financial Measures Project 2011, under regulation 70 of S.I. 661/2006, the Central Bank required banks to hold capital in excess of the minimum set out in S.I. 661/2006, in order for those banks to maintain adequate capital resources.</p> <p>The Central Bank has issued Supervisory Warnings to a number of firms.</p>
<b>EC3</b>	<p>The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios.</p>
Description and findings re EC3	<p>The CBI has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements based primarily on the following legal powers.</p> <p>Regulation 70 of S.I. 661 of 2006, Section 21 of the Central Bank 1971 and Section 45 of the Central Bank (Supervision and Enforcement) Act, 2013.</p> <p>The CBI commences the corrective action process at an early stage through its RMP. The RMP notices are sent promptly to the bank at the conclusion of supervisory activities that disclose areas in need of attention by the bank. Supervisory Warnings are also being issued at an early stage.</p>
<b>EC4</b>	<p>The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking license.</p>
Description and findings re EC4	<p>In relation to the scenarios described in Essential Criteria 2 above, the Enforcement measures available to the CBI include:</p> <ol style="list-style-type: none"> <li>1. The ASP, which allows the CBI to: <ol style="list-style-type: none"> <li>a) caution or reprimand</li> <li>b) direct the refund of monies charged or paid, or withholding of monies to</li> </ol> </li> </ol>

	<p>be charged or paid</p> <ul style="list-style-type: none"> <li>c) direct payment to the CBI of an amount up to €5,000,000 for corporate bodies and €500,000 for natural persons<sup>27</sup></li> <li>d) disqualify natural persons from being concerned in the management of a bank</li> <li>e) direct payment of all or part of the costs to the Central Bank of holding an inquiry and investigating a matter</li> <li>f) direct persons to cease a contravention</li> <li>g) enter into a settlement with the relevant person</li> </ul> <ol style="list-style-type: none"> <li>2. Fitness and Probity Investigations under Part 3 of the Central Bank Reform Act 2010, which permits the Central Bank or Governor to suspend or prohibit a person from performing a controlled function in a credit institution</li> <li>3. Revocation of authorization of a regulated financial service provider</li> <li>4. Summary criminal prosecution</li> </ol>
<b>EC5</b>	The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein.
Description and findings re EC5	<p>The CBI may initiate administrative sanctions proceedings against both the regulated entity itself and against persons concerned in their management where they have “participated” in a prescribed contravention (section 33AO of the 1942 Act). Such proceedings may be progressed with regards to the regulated entity and person concerned in its management individually and separately, or collectively, or against one but not the other. It is therefore possible to impose sanctions following an ASP on a person concerned in the management without having proceeded against the regulated entity. The sanctions which may be imposed on individuals under Part IIIC of the 1942 Act have been outlined above, and would include the ability to disqualify an individual from being concerned in the management of a bank for such period as specified (section 33AQ(5)(c) of the 1942 Act).</p> <p>The CBI has powers under the fitness and probity regime which allow the CBI to prohibit persons who may exercise significant influence within regulated financial service providers from performing all or part of a controlled function. Should a person be found not to be of sufficient fitness and probity to perform a controlled function, the CBI or Governor may issue a Prohibition Notice prohibiting a person from performing all or part of a controlled function(s), having particular regard to the need to prevent potential serious damage to the financial system in the State and ensure the continued stability of the system, and the need to protect users of financial services (section 43 of the 2010 Act).</p> <p>The CBI’s procedures relating to ASP and the fitness and probity regime have been documented and published.</p>
<b>EC6</b>	The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.
Description and findings re EC6	Regulation 70 of the S.I. 661 of 2006 states that the CBI shall require any bank that does not comply with any law of the State giving effect to Directive 2006/48/EC to take necessary action to address the issue. These steps can include taking an action restricting

<sup>27</sup> The Central Bank (Supervision and Enforcement) Act 2013 increased the maximum amount of fines that may be imposed.

	<p>or limiting the business of a bank.</p> <p>Under Section 21 of the CBI Act 1971 the CBI can direct banks to take corrective and other actions. The direction making powers are broad and specifically include: <i>"On becoming satisfied that it would be in the public interest to do so, or that a prescribed circumstance exists in relation to the holder of a license, the Bank may, by direction given in writing, require the holder to suspend, for a specified period not exceeding 6 months, any specified banking activity except as authorized by the Bank."</i></p>
<b>EC7</b>	The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution).
Description and findings re EC7	<p>The CBI's resolution powers require that before CBI intends to exercise its resolution power in relation to an authorized credit institution that carries on business in a jurisdiction other than that of the State, whether it carries on that business itself or through one or more subsidiaries, the CBI should inform the corresponding authority in that other jurisdiction.</p> <p>The revised CRD requires the establishment of colleges of supervisors, with a view to reinforcing the efficiency and effectiveness of supervision of cross-border banking groups and to facilitating the tasks of the consolidating supervisor and host supervisors. The Central Bank participates in Supervisory Colleges, which promote stronger coordination and cooperation whereby competent authorities reach agreement on key supervisory tasks. These tasks include (but are not limited to):</p> <ul style="list-style-type: none"> <li>• Exchanging information</li> <li>• Views and assessments</li> <li>• Voluntary work-sharing and delegation</li> <li>• Developing a common understanding of the risk profile of the group at both the group and solo levels</li> <li>• Taking due account of macro-prudential risks</li> </ul> <p>The Colleges also play a role in both the preparation for and handling of emergency situations and crisis management.</p> <p>For cooperation among domestic authorities there is also a MoU on Financial Stability between the Central Bank and the Department of Finance entered into in 2007.</p>
<b>Additional criteria</b>	
<b>AC1</b>	Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.
Description and findings re AC1	There are no legal provisions or regulations setting out timeframes for supervisors to take action. Notwithstanding this, the CBI endeavors to act on a timely basis when dealing with corrective action.
<b>AC2</b>	When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of nonbank related financial entities of its actions and, where appropriate, coordinates its actions with them.
Description and findings re AC2	<p>The Central Bank informs the supervisors of nonbank related financial entities which are supervised by the Central Bank of intended action and coordinates its actions with them.</p> <p>In the case of one high impact bank, the bank supervisors coordinated its approach with Insurance supervisors.</p>

<b>Assessment re principle 11</b>	Compliant
Comments	
<b>Principle 12</b>	<b>Consolidated supervision.</b> An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide. <sup>28</sup>
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including nonbanking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardize the safety and soundness of the bank and the banking system.
Description and findings re EC1	<p>The Central Bank collects and analyses financial and other information which it considers adequate to conduct consolidated supervision of banking groups. It collects this data both on a consolidated basis for the banking group and on a solo basis, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure. The legal platform is largely contained within S.I. 475 of 2009.</p> <p>The Central Bank's minimum frequency of supervision and level of intensity depend to a large extent upon the PRISM Impact rating of the credit institution. The PRISM framework that prescribes the supervisory activities to understand the overall group structure of High impact banks is generally comprehensive. For High Impact banks, a range of activities included in the supervisory plan (which is typically annual), will involve an assessment of the activities across the wider banking group. An assessment of the organizational structure by subsidiary with an explanation of activities and an analysis of financial statements forms the basis of offsite supervision.</p> <p>In terms of onsite activities, the following are part of the PRISM activities for a High impact bank: (i) Financial Risk Reviews (minimum of six across a two year period) will consider group structures and foreign operations; (ii) The Governance Category within PRISM requires an assessment of group structure; and (iii) meetings with key personnel will include a consideration of strategy, structure and activities across the banking group. Supervisors have the ability to go beyond the minimum activities prescribed in PRISM. For Medium-High and Medium-Low Impact banks, the key offsite supervision activities that cover the structure and activities of the banking group are part of the Full Risk Assessment (FRA) which is performed on at least a two to four year frequency. Recommendations or conclusions are outlined in the FRA report are presented at the Risk Governance Panel (RGP), after detailed desk-based analysis and onsite examinations have been completed.</p> <p>The Central Bank applies a proportionate approach to supervision of an individual banking group and relies on PRISM guidance and on the expert judgment of its supervisors to decide the extent to which those risks require further examination. The Central Bank reviews the main activities of parent companies, and affiliates (including nonbank), that have a material impact on the safety and soundness of the banking group, and takes</p>

<sup>28</sup> Please refer to footnote 19 under Principle 1.

appropriate supervisory action. The extent of a review uses the same approach as outlined above, i.e. a combination of the judgment of skilled supervisors with reference to the guidance document for reviewing the wider activities including those of foreign offices within the consolidated banking Group.

The Central Bank takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations. Its policy on when or how it conducts these reviews is to adopt a risk-based or proportionate approach, i.e. depending on the risk impact score of the local institution and the materiality of the risks that arise from the activities of foreign offices, and then decide the extent to which those risks require further examination, with reference to the guidance material available to supervisors in PRISM. The Central Bank visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The Central Bank would generally meet the host supervisor during these visits.

The Central Bank reviews whether the oversight of a bank's foreign operations by management is adequate, having regard to their risk profile and systemic importance. It also assesses whether any hindrance exists in host countries which could restrict either the parent entity or the supervisors' ability to access all the material information required of foreign branches/subsidiaries. The College framework provides an effective mechanism for information-sharing and meetings with relevant supervisors to understand the risks in cross border operations.

The legal platform for consolidated supervision is largely S.I. 475 of 2009, in that it sets out when consolidated supervision is applicable. Regulation 70 of S.I. 661 2006, which transposes Article 136 of the CRD (2006/48) – provides the Central Bank with powers to restrict or limit the business, operations or network of credit institutions, or oblige credit institutions to hold own funds in excess of the minimum level set out in the Article 75 of the CRD (2006/48 (transposed via Regulation 19 of S.I. 661 2006). There are also extra direction-making powers in section 37 of the new Supervision and Enforcement Act 2013, which allow the Central Bank to direct a bank to dispose of certain assets. This could be used to direct a bank to take certain actions to alleviate the risk. Another avenue which is clearly envisaged by S.I. 475 is to communicate and cooperate with the other relevant competent authorities to alleviate any risks. Part 3 of the Act also provides powers, which can be used outside the State and in relation to "related undertakings" of a regulated financial service provider. Regulation 18 of S.I. 475 of 2009 relates to general information gathering powers to request information relevant to its supervision of the banking group.

Part 3 of the Central Bank (Supervision and Enforcement) Act 2013 has extensive authorized officer powers and general information gathering powers to "associated enterprises" when the Central Bank is the consolidated supervisor. Regulation 20 of S.I. 475 of 2009 extends the authorized officer powers. Section 21 of the Central Bank Act 1971 – direct to suspend, for a period not lasting six months, the disposal or acquiring of assets

The extent and frequency of the offsite analysis will vary depending on the bank or group's PRISM impact rating and a minimum level of engagement and review is set out for each impact rating. Supervisors of High Impact banks present analysis of the risks across the overall group at least annually at RGPs and are attended by senior Central Bank personnel. Medium High Impact RGPs are held on average every 3 years. The FRA details the material risks of the credit institution and banking group (including nonbanking activities) and assesses how effectively these are being managed within the group. Where actions are

	identified as being required to mitigate any of these key risks which could jeopardise the safety and soundness of the bank or the banking system (credit, liquidity, capital/profitability etc.), they are agreed at these panel meetings before being clearly set out in the SREP letter and attaching RMP.
<b>EC2</b>	The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.
Description and findings re EC2	<p>The Central Bank imposes prudential standards on a consolidated basis and develops its own specific Codes, which have the effect of imposing additional prudential standards on institutions and banking groups by attaching these Codes to banking licenses as appropriate. This framework is based on the prudential standards and requirements of all credit institutions and banking groups as set out in the CRD (as transposed into Irish Law via S.I. 661 of 2006). As regards to collecting financial information, the powers in regulation 20 of S.I. 475 of 2009 are relevant (together with the new enhanced powers in the 2013 Supervision and Enforcement Act). The direction making powers in the new Supervision and Enforcement Act (Part 5) give a reach into this area – see section 37(3) of the Act. The 2013 Act provide a more comprehensive suite of powers.</p> <p>The CBI has a defined “Framework for the Review and Monitoring of Prudential Data Submitted by Credit Institutions” designed to provide the basis for the collection and analyses of prudential data from credit institutions (both on a solo and consolidated basis where a banking group exists) used to identify any prudential issues, inform and confirm its understanding of the institution’s business model, etc.</p> <p>The Central Bank collects and analyses financial and other information which it considers adequate to ensure effective consolidated supervision of banking groups. The overall framework of data consists of a number of returns (COREP, FINREP, Impairment, Liquidity, Large Exposures, Sectoral Lending Limits, Funding, Related Party Lending and Deposit Protection), all of which are reported on a quarterly basis by all banks and banking groups supervised by the Central Bank. Depending on the nature of the data, the Central Bank can require more frequent reporting, e.g. in the case of liquidity, banks are required to submit this information monthly. Where the structure of the banking group warrants it, credit institutions/banking groups are required to submit these both on a solo and consolidated basis – see CP10 for more details.</p> <p>The framework for each report consists of:</p> <ul style="list-style-type: none"> <li>• A description of the report</li> <li>• A description of supporting reports and query facilities for the report</li> <li>• Details of any guidelines in place which support review of the report, together with legal basis</li> <li>• A description of the minimum review process required for each of the reports</li> </ul> <p>In addition to the reporting framework used to assess the prudential standards imposed on banks, the Central Bank interprets and sometimes enhances sections of the CRD or EBA Guidelines and develops its own specific Codes, which have the effect of imposing additional prudential standards on institutions and banking groups by attaching these Codes to banking licences as appropriate.</p> <p>Confirmation of the credit institution or banking group’s compliance with these Codes is</p>

	required on an annual basis, e.g. the 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings.
<b>EC3</b>	The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.
Description and findings re EC3	<p>The oversight of a bank's foreign operations by parent/group management is reviewed by the Central Bank on a proportionate basis, i.e. where the credit institution/banking group's risk profile and systemic importance warrants it. This oversight forms part of the supervisory engagement by examiners with the credit institution. If a situation arises that warrants an on-site inspection by the Central Bank of a foreign entity/branch, then this will be carried out.</p> <p>As part of the FRRs conducted in accordance with the PRISM engagement cycle (i.e. annually for High Impact institutions) these risk assessments incorporate a review of the activities of all subsidiaries and foreign operations as well as interaction with local host supervisors.</p> <p>For High Impact banks, the appropriateness of significant policies is assessed by the Central Bank as part of the FRRs to ensure they are in line with group policies. In addition, the expertise of those directing the business and managing cross border operations is considered by the Central Bank, initially through the Fit and Proper checks performed when key personnel are appointed in foreign operations. On an ongoing basis, an assessment of management in foreign operations will be supplemented with discussions with other supervisors. The College forms the basis of this engagement and for the High Impact banks frequent engagement on a range of topics is performed. Examples of engagement with overseas bank management through onsite visits evident.</p> <p>For Medium High Impact banks and Medium Low Impact banks, the risks associated with the activities of all foreign subsidiaries/branches, as well as those other foreign activities/operations, may be reviewed on a more ad-hoc basis or as part of a themed review of a specific risk. The requirement for any review of foreign operations is assessed by supervisors having regard to both the risk profile and systemic importance of the banking group to the banking system and the potential impact of the risks of foreign operations to the banking group. The specific Central Bank examiner guidance material prompts supervisors to at least consider the materiality of wider group or foreign office activities on the banking group.</p> <p>The Central Bank has a policy on how it assesses local jurisdiction hindrances to the accessibility of information relevant to the branch or subsidiary operating in that jurisdiction, either for the parent bank or home supervisor, and also how it assesses the effectiveness of supervision in the host country.</p> <p>Part 3 of the Central Bank (Supervision and Enforcement) Act has extensive authorised officer powers.</p>

<b>EC4</b>	The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate.
Description and findings re EC4	<p>The assessment of a bank's foreign operations commences with a desk-based review of material activities. Proportionality is then considered regarding the materiality of the operations compared with the overall size. Information gathered from Supervisory Colleges is a key input into this assessment. Formal documented guidance is available to supervisors in PRISM which sets out high-level principles to be considered by supervisors when assessing a bank's foreign operations. For example:</p> <ol style="list-style-type: none"> <li>a. To what extent a review of the activities of other entities (including nonbanking) is required</li> <li>b. How to assess those risks, the level of analysis and the approach to be applied</li> <li>c. Whether any action is needed to address unacceptable levels of risks or activities in which affiliate operations, banking and nonbanking, are engaged</li> </ol> <p>The guidance helps to ensure a consistent approach is applied to assess the level/extent of supervision that the Central Bank expects supervisors to conduct in relation to the activities of cross-border offices, including those of nonbanking entities within the group.</p> <p>The Central Bank visits the foreign offices of institutions periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The local supervisors are always informed of the intended on-site visit and given the opportunity to attend the visit.</p> <p>The legislative basis for the Central Bank's oversight of branches operating in Ireland is set out in the CRD, Articles 30–34 (transposed via S.I. 395 of 1992, Regulations 27, 29 and 34). The legal basis of the CBIs capacity to visit foreign operations of regulated banks is derived from Article 129 of the CRD (2006/48), as transposed via Regulation 67 of S.I. 661 2006, stipulates that the consolidated supervisor has responsibility for coordinating the gathering and dissemination of relevant or essential information, as well as the planning and coordination of supervisory activities. Regulation 7 of S.I. 475 2009 transposes into Irish law the provision outlined in Article 133 of the CRD (2006/48) and specifies that the consolidated supervisor shall require full consolidation (on a proportionate basis) of all the credit institutions and financial institutions which are subsidiaries of a parent undertaking.</p>
<b>EC5</b>	The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action.
Description and findings re EC5	A review of the activities of the parent is completed as part of assessing a bank license application. This may result in a higher solvency ratio; a reduced large exposure limit to affiliate or group companies; or other more onerous conditions attaching to the bank license. Supervisors routinely reassess the ownership structure and the activities of the parent as part of the FRR/FRA. The frequency of these FRAs is dependent on the PRISM Impact rating of the bank. For High Impact banks the frequency for ongoing assessment of the parent is included in the activities prescribed to be performed on an annual basis. For Medium-High Impact this on average every three years in the FRA and less frequent for

	<p>lower impact rated banks.</p> <p>Where it is considered that risks are increasing, examiners can take action up to and including instructing the cessation of particular activities or the imposition of capital add-ons, as well as other supervisory measures.</p> <p>In respect of the activities of affiliated companies, these will be considered as part of the ongoing assessment of the material risks to which an entity is exposed, e.g. where the ancillary activity of an affiliated company could have a significant influence or may be proving to be a strain on the consolidated groups liquidity position, and by extension the liquidity of the entity, examiners can take action up to and including instructing the cessation of particular activities or the imposition of capital add-ons, as well as other supervisory measures.</p> <p>Where the Central Bank identifies any potential concerns in relation to the activities of parent companies or other affiliated companies at time of granting a licence to the banking entity pursuant to Section 9 of the Central Bank Act 1971, it may attach conditions to that licence in line with section 10 of the Central Bank Act 1971.</p> <p>Article 140 of the CRD, as transposed by S.I. 475 of 2009, provides for consolidated supervision of banking groups. Article 136 of the CRD, as transposed by Regulation 70 of S.I. 661 2006, provides the power to undertake supervisory action. However, this power has yet to be tested in respect of instructing any entity supervised by the Central Bank to cease any activity at an affiliated company. There are currently no examples where a supervisor has determined that an activity of an affiliated company has any materially adverse impact on the safety and soundness of the bank or the banking group.</p>
<b>EC6</b>	<p>The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that:</p> <ul style="list-style-type: none"> <li>(a) the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed;</li> <li>(b) the supervision by other supervisors is not adequate relative to the risks the activities present; and/or</li> <li>(c) the exercise of effective supervision on a consolidated basis is hindered</li> </ul>
Description and findings re EC6	<p>The Central Bank has the power to limit the range and location of activities undertaken by consolidating banking groups. This power is derived from Article 136 (a)-(e) of the CRD, as transposed via Regulation 70.2 of S.I. 661 of 2006 which specifically addresses concerns in relation to point (a), as Article 136 refers to these actions being used to address any concerns the Central Bank, as consolidated supervisor, may have in relation to the group's compliance with Article 22 (transposed via Regulation 79 of S.I. 661 2006), which requires robust governance arrangements at any credit institution for the managing and reporting of all risks associated with the activities of that institution.</p> <p>The examples provided by the CBI demonstrate how the activities which can be undertaken by firms within Irish banking groups are restricted to those set out in the banking licence application, and how all subsequent activities require the prior approval of the Central Bank. Similarly, examples are provided:</p>

	<ul style="list-style-type: none"> <li>• where a firm was instructed by examiners to cease any new lending activity, given that it had breached Central Bank sectoral limits</li> <li>• where the firm is required to seek the prior approval of the Central Bank for any new activity as a condition of the licence</li> <li>• where a firm was instructed to cease lending for apartment purchases and restricted to providing property loans to a maximum Loan-to-Value of 80%.</li> </ul>
<b>EC7</b>	In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group. <sup>29</sup>
Description and findings re EC7	<p>As part of the Central Bank's supervisory approach, individual licensed entities which are part of Irish consolidated banking groups are supervised on both a solo and consolidated basis in accordance with the requirements of the CRD. Regulatory reporting obligations are imposed by the Central Bank on each individual bank within the group. As part of the FRR/FRA, the group structure is always assessed and the relationship between all member entities and their activities explained in the RGP Report.</p> <p>Recital 13 of the CRD sets out how the capital requirements are to be applied both at solo and consolidated level and refers to the specific CRD Articles 42, 131 and 141 in terms of collaboration of supervisors and information-sharing. Article 130 of the CRD (2006/48/EC), as transposed via Regulation 68 of S.I. 661 of 2006, provides for the immediate alerting by the consolidated supervisor of the host competent authority where a situation arises within the consolidated banking group which may jeopardise the stability of the financial system in the host country.</p>
<b>Additional criteria</b>	
<b>AC1</b>	For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.
Description and findings re AC1	<p>The Central Bank does not have the power to apply its Fitness and Probity regime to the owners and senior management of parent companies with the exception of owners of the parent company who are natural persons and are qualifying shareholders (greater than 10% shareholding) in the Irish licensed bank. However, the expertise of the parent company senior management is reviewed during license applications and on an ongoing basis, as part of the FRR/FRA. The extent of this assessment depends on the control that the parent has over directing the activities of the banking business and the materiality of the impact of the banking group on the Irish and global financial system. For example, where the banking group could be considered to be Medium Low or Low Impact, assessment of the quality of the management of a parent or owners of the banking group would not be considered a priority. In the case of a High Impact bank, it is considered good practice to consider the fitness and probity of the ownership and senior management of parent companies. However, no official policy exists on this issue.</p> <p>Article 135 of the CRD, as transposed via Regulation 69 of S.I. 661 of 2006, outlines that the Member States shall require the persons directing the business of a financial holding company be of sufficiently good repute and of sufficient experience to perform the duties. This is reinforced in Regulation 17 of S.I. 475 2009, but only extends to the management of</p>

<sup>29</sup> Please refer to Principle 16, Additional Criterion 2.

	<p>a financial holding company – it does not extend to the “corporate” parent companies.</p> <p>The Central Bank Supervisory &amp; Enforcement Act 2013 includes a power to obtain information from an unregulated parent and a right to require that a third-party skilled person report be provided by an unregulated parent, including in respect of the senior management. However, this appears to be the extent of these intended powers in relation to non-regulated parent companies</p> <p>There have been no such examples of the Central Bank attempting to enforce Fitness and Probity standards at parent companies.</p>
<b>Assessment of Principle 12</b>	Compliant
Comments	<p>The CBI undertakes supervisory activities to understand the overall structure of the banking group for which it is ultimately responsible and supervises and monitors material activities (including nonbanking activities conducted by entities in the wider group, both domestic and cross-border). Importantly, the CBI applies prudential standards on a group wide basis where it is responsible for consolidated supervision.</p> <p>The CBI takes action when risks arising from the banking group and other entities in the wider group are identified as potentially jeopardizing the safety and soundness of the bank and banking group. The Central Bank collects and analyses financial and other information which it considers adequate to ensure effective consolidated supervision of banking groups. Legislation provides the Central Bank with the scope to close branches or offices of Irish Licensed banks in foreign jurisdictions. However, the legislation has not been tested to the extent that it provides the power to the Bank to close foreign, affiliated, nonbanking entities within banking groups.</p>
<b>Principle 13</b>	<b>Home-host relationships.</b> Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.
<b>Essential criteria</b>	
<b>EC1</b>	The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors.
Description and findings re EC1	<p>The Central Bank, through the transposition of relevant European legislation and its active participation in Supervisory Colleges, shares information and cooperates with other supervisors for the effective supervision of groups and group entities. The Supervisory Colleges allow for the sharing of information and planning and coordination of supervisory activities. In this regard, the Central Bank receives a significant amount of information on banks for which it is a host supervisor.</p> <p>The Central Bank holds Supervisory Colleges for all banking groups that have material cross-border operations where it is the consolidating supervisor. The operation of these Colleges is consistent with international standards. Membership of the College is</p>

	<p>determined based on the nature (subsidiaries or branches) and significance of the cross-border entities and is consistent with the criteria for the establishment of Colleges.</p> <p>At present the Central Bank is the consolidated supervisor for AIB plc. and The Governor and Company of the Bank of Ireland (BoI), and is the European consolidating supervisor for Citibank Europe plc. In addition to the College setting, the Central Bank engages in bilateral information sharing with other supervisors where deemed relevant; it has established MoUs with a number of other supervisors. Where it is the consolidating supervisor (AIB and BoI), the Central Bank evidenced frequent contact with foreign supervisors.</p> <p>At present there are no formal processes for the exchange of information with other regulators; however, the College setting and the Central Bank's bilateral relationships ensure that it receives the necessary information to carry out its role. In addition, the Colleges allow for the establishment of an agreed communication strategy and the development of a framework for cross-border crisis cooperation and coordination.</p> <p>Subsidiaries of overseas banks operating in Ireland are subject to the same basic standards as those applied to domestic institutions; however, the requirements imposed on domestic institutions may be more onerous given their systemic importance and risk profile. The Central Bank has on-site access to overseas subsidiaries and branches of institutions where it is the consolidating supervisor, and would inform the host supervisor in advance of any such visits. In relation to third country supervisors, information is shared with those supervisors where there is a MoU in place. If the Central Bank was to take action based on information provided by another supervisor, it would (to the extent possible) consult with that supervisor beforehand.</p> <p>At present, all banks (with the exception of two) for which the Central Bank is a host supervisor are subject to consolidated supervision at the parent level.</p>
<b>EC2</b>	<p>Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the banking group<sup>30</sup> and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information.</p>
Description and findings re EC2	<p>The Central Bank uses both the College setting and bilateral communications to ensure that all relevant information is shared in a timely manner. The most significant element of the College forum is that the members communicate their risk assessment of the entities under their supervision. In this regard the Central Bank utilises the templates set out in the CEBS Guidelines for the Joint Assessment of the Elements Covered by the SREP and the Joint Decision Regarding the Capital Adequacy of Cross-Border Groups. These templates require each supervisor to set out its assessment of the entity under headings such as financial position; business and risk strategy; internal governance; and individual risk types. These assessments are fully discussed as part of the college forum and are the main input into the overall Joint Risk Assessment Decision (JRAD).</p>

<sup>30</sup> See Illustrative example of information exchange in colleges of the October 2010 BCBS Good practice principles on supervisory colleges for further information on the extent of information sharing expected.

	<p>The Central Bank has signed agreements with the members of the Colleges. The Agreements cover the exchange of information and confidentiality.</p> <p>Outside of the College setting, the Central Bank has an MoU process in place for formal 'exchange of information' with other supervisors. Rather, the exchange of information occurs on an ad-hoc basis based on requests from to the home supervisor. Given the nature of the banking groups of which the Central Bank is the consolidating supervisor, i.e. a limited number of foreign entities, this process is deemed sufficient at present.</p> <p>Where the Central Bank is a host supervisor it is not party to any formal exchange of information processes; however, membership of supervisory colleges provides the host supervisor with significant levels of information. Additionally, the Central Bank has obtained information through bilateral agreements with other regulators and thus, to date, the lack of a formal exchange of information process has not hindered its ability to receive the necessary information from the home supervisor.</p> <p>Colleges have been established for both AIB and BOI and it is clear from both the Joint Risk Assessment Documents and the minutes of the meetings that information is shared with all members of the college. In addition, the records of the regular bilateral and multilateral teleconference calls provide further evidence of the sharing of information on a timely manner.</p>
<b>EC3</b>	Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups.
Description and findings re EC3	<p>The Central Bank has established annual plans for Colleges which seek to align the work of the individual members to facilitate the Joint Decision, identify areas of commonality where joint work can be undertaken, and agree the meeting schedule and timelines for submission of information. As part of its ongoing supervisory activities, the Central Bank considers the risk emanating from foreign subsidiaries or branches of Irish institutions. In line with its risk-based approach to supervision, the Central Bank will focus its resources on those areas of risk that pose the greatest threat to the institution. In this regard, the Central Bank has carried out inspection work in foreign offices of Irish banks. However, as very few Irish banks have foreign subsidiaries or branches, the requirement for inspections of foreign offices is very low.</p> <p>Supervision plans are agreed during the annual RGP which precedes the Supervisory College allowing host supervisors an understanding of the Central Bank's plans for the forthcoming year. The Central Bank obtains the supervisory plans from host supervisors which allows for a degree of coordination and planning. There were recent examples where the Central Bank had an awareness of Fit &amp; Proper assessments by key Host Supervisors. Article 129(1)(b) of the CRD, as transposed by Regulation 67(1) of S.I. 661 of 2006, provides the legal basis for the establishment of supervisory colleges and the reaching of a joint decision.</p>
<b>EC4</b>	The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.

Description and findings re EC4	<p>The supervisory plan sets out clearly the ongoing communication between the college members including both the regular teleconferences and the submission of information for the Joint Risk Assessment. The communication strategy is based on the relative importance and riskiness of the entities under supervision, with a higher intensity of communication with regulatory authorities responsible for oversight of those entities that pose the highest risk level or that are the most systemically important.</p> <p>In relation to the communication of views and outcomes to the banks, this is discussed as part of the underlying exercise, i.e. inspection, risk assessment, etc. In the situation where the College members or a subgroup of the members undertakes a body of work, the substance of communications to the bank will be agreed by all relevant supervisors in advance of any communication.</p> <p>Article 129 of the CRD, as transposed by Regulation 67 of S.I. 661 of 2006, provides the legal basis for the establishment of Supervisory Colleges and the reaching of a joint decision.</p> <p>The college plans set out clearly the anticipated level of communication between College members. In relation to the communication of information to the bank, the records show the agreement of the members of Colleges on the information issued to the bank.</p>
<b>EC5</b>	<p>Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.</p>
Description and findings re EC5	<p>Within the Central Bank there is a dedicated Special Resolutions Unit (SRU) which liaises with the Banking Supervision Divisions where issues are seen to be arising that may threaten the ongoing viability of a bank.</p> <p>The Central Bank is a member of a Cross Border Stability Group (CBSG) which comprises the Irish Department of Finance; the UK's Prudential Regulatory Authority; the Bank of England; and Her Majesty's Treasury. The purpose of the CBSG is to share information relating to Irish banks that have significant operations in the UK. This group was established during the crisis as a conduit to coordinate and cooperate their efforts and share information.</p> <p>Where the Central Bank is the home supervisor in a College setting, it has established cross-border crisis management frameworks with the other members of the College. These frameworks cover:</p> <ul style="list-style-type: none"> <li>• the definition of "Emergency Situation";</li> <li>• communication between supervisors in an emergency situation;</li> <li>• coordinated supervisory response;</li> <li>• external communications;</li> <li>• simulation exercises; and</li> <li>• contingency planning.</li> </ul> <p>These frameworks are reviewed on an annual basis (at minimum) to ensure they continue to be up to date and relevant.</p>

	The Central Bank recently signed a Cooperation Agreement with Federal Deposit Insurance Corporation FDIC and an agreement to share information.
<b>EC6</b>	Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.
Description and findings re EC6	<p>While the Central Bank received the power to request recovery plans and to produce resolution plans under the CBCIR Act 2011 in October 2012, a local recovery and resolution plan regime has not yet been implemented. The CBCIR has not yet been used to resolve an authorized credit institution in this jurisdiction. The recovery plan aspect of the legislation has yet to be fully implemented. It should be noted that the Central Bank's implementation may be deferred pending a review of the proposed arrangements under an EU proposed Directive on Crisis Management and Bank Resolution. Section 93(1) of the CBCIR Act 2011 allows the Central Bank to prepare a Resolution Report where it has previously requested a Recovery Plan from a credit institution.</p> <p>While there are some national authorities making progress in relation to the production of recovery plans for G-SIFIs the Central Bank is awaiting EU/international developments in the area, especially with respect to the CRD, Notwithstanding this and in line with EBA recommendations, the Central Bank has requested recovery plans from two high impact credit institutions.</p>
<b>EC7</b>	The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.
Description and findings re EC7	<p>All banks licensed by the Central Bank are subject to the same laws and regulations; therefore, the cross-border operations of foreign banks are subject to the same prudential, inspection and regulatory requirements as domestic banks.</p> <p>In relation to EU branches, the level of regulatory oversight is much less than that for a bank licensed by the Central Bank. In the case of branches, the Central Bank's oversight is limited to AML, Liquidity and Conduct of Business supervision. In certain instances, the branches are granted a Liquidity Concession Waiver whereby liquidity oversight is the responsibility of the home regulator at the level of the parent rather than the Central Bank. At present, there are no third-country branches in Ireland; however, if one was established, the Central Bank would undertake a significantly higher level of oversight than for EU branches.</p> <p><u>Licensed Banks</u></p> <p>In order to hold a banking license issued by the Central Bank the entity is required to comply with all relevant legislation, including (but not limited) to the CRD (as transposed into Irish law by various S.I.s) and the Central Bank Acts. In addition, the Central Bank may issue regulatory notices with which the entity must comply, e.g. the Corporate Governance Code for Credit Institutions and Insurance Undertakings; the Requirements for the Management of Liquidity Risk; etc. The Central Bank has also informed all credit institutions that, unless otherwise stated, any guidelines issued by CEBS/EBA are Central Bank guidelines.</p>

	<p><u>Branches</u></p> <p>The legislative basis for the Central Bank's oversight of branches is as set out in the CRD in Articles 29–34 (S.I. 395 of 1992, Regulations 27, 29 and 34).</p> <p>The majority of banks operating in Ireland are cross-border operations of foreign banks. Supervision of these institutions is carried out in accordance with PRISM, which sets out the minimum level of engagement with banks. There is no differentiation within PRISM based on the location of the parent institution. The RGP Papers for cross-border banks provide confirmation that they are not regulated any differently to domestic banks of the same impact rating.</p> <p><u>Branches</u></p> <p>Where a Liquidity Concession Waiver has not been granted, branches must comply with Central Bank liquidity requirements, including reporting requirements.</p>
<b>EC8</b>	The home supervisor is given on-site access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.
Description and findings re EC8	<p>The Central Bank has the power and right to on-site access to local (Irish) offices and subsidiaries of a banking group. In this regard, the Central Bank liaises closely with supervisors of foreign subsidiaries and branches, and has conducted overseas inspections with the agreement of those foreign supervisors. Part 3 of the Central Bank (Supervision and Enforcement) Act 2013 provides the legal basis for such powers.</p> <p>A cross-border onsite inspection will be undertaken where the Central Bank has determined that the foreign entity poses a risk to the Central Bank's statutory role of ensuring financial stability. In this regard, the Central Bank evidenced a number of such assessments in recent years that had been conducted. In situations where the Central Bank is the host supervisor it has facilitated onsite assessments by the home regulator, e.g. FSA, BaFin, Bundesbank.</p>
<b>EC9</b>	The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.
Description and findings re EC9	There are currently no booking offices within the Irish jurisdiction; however, if one were to be established, the Central Bank would adhere to internationally-agreed standards. In relation to shell banks, the Central Bank would not approve or allow the continued operation of such an entity. Section 8 of the Central Bank Act 1971 prohibits the carrying on of banking business without a license.
<b>EC10</b>	A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action.
Description and findings re EC10	The Central Bank, as good practice, would inform another supervisor that it intends to take action as a result of information provided by the other supervisor.
<b>Assessment of Principle 13</b>	Compliant
Comments	
<b>B. Prudential regulations and requirements</b>	

<b>Principle 14</b>	<b>Corporate governance.</b> The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the banks' Boards and senior management, <sup>31</sup> and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance.
Description and findings re EC1	<p>The Central Bank has, in its Corporate Governance Code for Credit Institutions and Insurance Undertakings (the Code), set out clearly defined corporate governance requirements which must be adhered to by all credit institutions. These requirements are proportionate, with 'major institutions', as defined, having more stringent requirements imposed on them. The responsibilities of Board (and the Chief Executive) are detailed in the Code.</p> <p>The Code provides that the Board shall be responsible for appointing a CEO and senior management with appropriate integrity and adequate knowledge, experience, skill and competence for their roles. In addition, the Board shall be responsible for endorsing the appointment of people who may have a material impact on the risk profile of the institution and monitoring on an ongoing basis their appropriateness for the role. The Code also provides that the Board shall ensure that there is an appropriate succession plan in place.</p> <p>The Code requires that all institutions shall have robust governance arrangements which include a clear organizational structure with well defined, transparent and consistent lines of responsibility; effective processes to identify, manage, monitor and report the risks to which it is or might be exposed; adequate internal control mechanisms, including sound administrative and accounting procedures; adequate IT systems and controls; and remuneration policies and practices that are consistent with and promote sound and effective risk management both on a solo basis and at group level.</p> <p>Through the Code, the Central Bank has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.</p> <p>The Code requires the Board to set the business strategy for the institution, understand the risks to which the institution is exposed and establish a documented risk appetite for the institution. The appetite shall be expressed in qualitative terms, and shall also include quantitative metrics to allow the tracking of performance and compliance with agreed strategy (e.g. Value at Risk (VaR), leverage ratio, range of tolerance for bad debts, acceptable stress losses, economic capital measures, etc.). The risk appetite is subject to annual review by the Board.</p> <p>Compliance with the Corporate Governance requirements is assessed by supervisors on a</p>

<sup>31</sup> Please refer to footnote 27 under Principle 5.

	<p>routine basis and action is taken where issues of non-compliance are identified. A contravention of the Code may result in the Central Bank using any of its regulatory powers.</p> <p>With respect to remuneration, the Central Bank has implemented the FSB standards for compensation transposed into Irish law via S.I. 625 2010, effective from 1 January 2011. Supervisors ensure that significant financial institutions' compensation systems give appropriate consideration to risk, capital, liquidity and the likelihood and timeliness of earnings on an ongoing basis, through the utilization of supervisory methods. Examples of remedial action required include overhauls of remuneration policies and implementation of new remuneration processes to ensure the banks' compensation systems give appropriate consideration to risk, capital and liquidity.</p> <p>The Pillar III disclosures are assessed to ensure the remuneration disclosures have been made where appropriate (e.g., this may not be required for subsidiaries of a large EU parent which includes the subsidiaries' disclosures in the group disclosures).</p> <p>The Corporate Governance Code was introduced as a condition to which institutions are subject pursuant to:</p> <ul style="list-style-type: none"> <li>• Section 10 of the Central Bank Act 1971</li> <li>• Section 16 of the Asset Covered Securities Act 2001</li> <li>• Section 17 of the Building Societies Act 1989</li> <li>• Section 24 of the Insurance Act 1989</li> <li>• Regulation 12 of the European Communities (Reinsurance) Regulations 2006 (S.I. No. 380 of 2006).</li> </ul> <p>The Central Bank is given extensive powers as regards the fitness and probity of the directors by Part 3 of the Central Bank Reform Act 2010.</p>
<b>EC2</b>	<p>The supervisor regularly assesses a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner.</p>
Description and findings re EC2	<p>Minimum supervisory activities are prescribed in PRISM and are proportionate to the impact rating assigned to a bank. For High Impact banks, a full governance review should be conducted at least once every two years. In Medium High Impact institutions, it should be reviewed at least once every two-to-four years as part of an FRA. PRISM includes guidance for supervisors regarding suggested activities to perform when assessing governance and include a mix of on-and offsite activities. Guidance material also includes suggested agenda items for meetings with senior management.</p> <p>For High Impact banks, the annual cycle of meetings with the Board and senior management provide the basis for assessing the adequacy of corporate governance. The annual engagement includes meetings with the Chair of the Board and the senior non-executive (independent) director. Preparation for the meeting will typically involve obtaining board minutes and board packs for the last year which will be reviewed to assess the quality of management information submitted to the Board. Supervisors will also meet with senior management such as the CEO, CFO and CRO where corporate governance issues will be considered and discussed. Meetings with the Board and senior management for Medium-High banks is closely aligned with an annual cycle, although for medium Low Impact banks the frequency is 18 months and for Low Impact banks there is no prescribed</p>

frequency for meetings with the Board or senior management. Nonetheless, the supervisor may conduct engagements if a risk is identified.

For High Impact banks, policies and procedures will be reviewed as part of the preparation for Financial Risk Reviews which are performed frequently across a two year cycle (six FRRs are conducted every two years – see CP 8&9 for a fuller explanation of the FRR). For Medium-High banks a full review of governance will be performed as part of the FRA which is performed at a minimum 2-4 years. Material policies and procedures will be assessed as part of the governance review. For banks with an impact rating of Medium-Low and Low, there is no prescribed minimum frequency for receipt or assessment of policies and procedures.

For High Impact banks, the supervisor will include an assessment of a bank's annual report which includes information relating to corporate governance such as number of meetings and Board attendance.

For High Impact and Medium-High Impact banks, the ICAAP is assessed annually. Included in the ICAAP assessment is a review of key policies and procedures. An ICAAP assessment is not required to be conducted annually for Medium Low and Low impact banks, instead a Self-Assessment Questionnaire (SAQ) is completed by the bank and submitted to the Central Bank. The SAQ includes a high level overview of ICAAP information and details on governance such as the institution's definition of Governance Risk and how this is managed. This is reviewed by the Supervision Team and discussed with the institution's management team as required. Meetings with senior management on an individual basis are scheduled every 18 months at minimum. Meetings with the internal audit function take place for High and Medium High Impact banks, to gain insight into some of a bank's internal controls.

On occasion, Banking Supervision conducts thematic reviews which provide a useful source for benchmarking analyses to be performed across institutions

For banks with an Impact rating of Medium-Low and Low the approach to assessing corporate governance is reactive and will not include an assessment of policies and procedures unless a risk is identified. Under the requirements of the Code any institution which becomes aware of a material deviation from the Code shall, within 5 business days, report the deviation to the Central Bank, advising of the background and the proposed remedial action. The Central Bank also requires each institution, irrespective of PRISM rating, to submit an annual compliance statement as set out at Section 25, in accordance with any guidelines issued by the Central Bank, specifying whether the institution has complied with the Code. The statement is signed by the Board.

Information enabling an examiner to evaluate an institution's corporate governance structures is not as readily available as with quantitative-based risks, as regular regulatory reporting is, by and large, redundant for the purpose of governance reviews. However, there are many other sources which examination teams can use to properly evaluate the effectiveness of an institution's corporate governance. Information is obtained through observation and ad-hoc bilateral engagements/meetings, from the production of Central Bank MI reports on regulated firms, and during the SREP engagement/FRA. Oversight committees, responsibilities, reporting lines and interactions between stakeholders are usually examined as part of this engagement.

	For High and Medium High Impact banks, the frequency and range of supervisory activities provides the supervisor with a regular assessment of corporate governance. For those banks assigned a rating of Medium-low and Low, the range and frequency of supervisory activities to assess governance is not adequate to assess the robustness of governance.
<b>EC3</b>	The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight and remuneration committees with experienced non-executive members
Description and findings re EC3	<p>The Central Bank determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group through:</p> <ul style="list-style-type: none"> <li>• Governance reviews;</li> <li>• Reviewing minutes of Board &amp; sub-committees;</li> <li>• Attendance in an observation capacity at meetings;</li> <li>• Reviewing Management Information that goes to the Board and sub-committees;</li> <li>• Other reviews, such as Operational Risk Framework reviews, Outsourcing reviews or specific thematic reviews.</li> </ul> <p>With respect to the appropriate nomination and appointing of board members, the Code requires the following:</p> <ul style="list-style-type: none"> <li>• The Board shall be responsible for endorsing the appointment of people who may have a material impact on the risk profile of the institution, and monitoring on an ongoing basis their appropriateness for the role.</li> <li>• The Board shall be responsible for either the appointment of non-executive directors or, where appropriate, identifying and proposing the appointment of non-executive directors to shareholders. The Board shall ensure that non-executive directors are given adequate training about the operations and performance of the institution. The Board shall routinely update the training as necessary to ensure that they make informed decisions.</li> <li>• The majority of the board shall be independent non-executive directors (this may include the Chairman). However, in the case of institutions that are subsidiaries of groups, the majority of the Board may be group non-executive directors, provided that in all cases the subsidiary institution shall have at least two independent non-executive directors, or such greater number as is required by the Central Bank.</li> <li>• The Board shall review Board membership at least once every three years. Institutions shall formally review the membership of the Board of any person who is a member for nine years or more. It shall document its rationale for any continuance, and so advise the Central Bank in writing.</li> </ul> <p>Adherence by institutions to the Code is monitored on an ongoing basis by supervisors, and action is taken where institutions have been found to be in breach of the Code. In addition to ongoing supervision and in conjunction with PRISM, specific governance reviews will also be carried out to determine compliance. The Central Bank also requires each institution to submit an annual compliance statement as set out at Section 25 of the Code, in accordance with any guidelines issued by the Central Bank, specifying whether the institution has complied with the Code.</p>

	<p>With respect to board structures the code requires the following:</p> <ul style="list-style-type: none"> <li>• The Board shall establish, at a minimum, both an audit committee and a risk committee (except where it is part of a wider group, in which case it may rely on those group committees). Where appropriate, the Board should consider the appointment of a Remuneration Committee and/or Nomination Committee. Major institutions are required to establish Audit, Risk, Remuneration and Nomination Committees. The non-executive directors and, in particular, independent non-executive directors shall play a leading role in these committees; where the functions are carried out at group level, they shall play a leading role in satisfying the Board that the institution’s audit and risk functions are adequately carried out.</li> <li>• An Audit Committee shall be composed of non-executive directors, the majority of directors being independent. The Risk Committee shall ensure that there is an appropriate representation of non-executive and executive directors which is appropriate to the nature, scale and complexity of the business of the institution. Where possible, all members of the Remuneration Committee shall be independent non-executive director; in any event, the majority of members of the Committee shall be independent non-executive directors. The majority of members of the Nomination Committee shall be independent non-executive directors.</li> </ul> <p>In addition to the board’s requirements, the Code also requires major institutions to establish Nomination Committees. Under the Code, Nomination Committees are required to:</p> <ul style="list-style-type: none"> <li>• make recommendations to the Board on all new appointments of both executive and non-executive directors; and</li> <li>• in considering appointments the Nomination Committee, prepare a comprehensive job description, taking into account for board appointments, the existing skills and expertise of the Board and the anticipated time commitment required.</li> </ul> <p>The Supervisor will review the Nomination Committee’s terms of reference to determine its suitability and fitness for purpose as part of the Governance review. This assessment will be performed in line with the PRISM engagement model. Examples were evidenced where the Central Bank had actively considered board composition as an ongoing part of their assessment of governance. The frequency of these reviews are based on the PRISM model and range from annual in the case of High Impact banks to 2-4 years for Medium-High and only reactively for Medium –Low and Low Impact banks.</p>
<b>EC4</b>	Board members are suitably qualified, effective and exercise their “duty of care” and “duty of loyalty.” <sup>32</sup>

<sup>32</sup> The OECD (OECD glossary of corporate governance-related terms in “Experiences from the Regional Corporate Governance Roundtables”, 2003, [www.oecd.org/dataoecd/19/26/23742340.pdf](http://www.oecd.org/dataoecd/19/26/23742340.pdf).) defines “duty of care” as “The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a ‘prudent man’ would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgment rule.” The OECD defines “duty of loyalty” as “The duty of the board member to act in the interest of the

(continued)

Description and findings re EC 4	<p>Part 3 of the Central Bank Reform Act 2010 gives extensive powers to the Central Bank in relation to those persons who perform “controlled functions” (CFs) and “pre-approval controlled functions” (PCFs). Under the Fitness and Probity Regime, a Director is a PCF. Before an institution can appoint a person to a PCF, the Central Bank must have approved the appointment in writing. The approval process requires the submission of an individual questionnaire, which contains a section on ‘Professional Experience, Educational Qualifications, Professional Memberships and Relevant Training’. The Central Bank also has the power to call PCF applicants for interview.</p> <p>In addition, PCFs are required to comply with the Standards of Fitness and Probity and the institution must confirm, after carrying out the necessary due diligence, that it is satisfied on reasonable grounds that those persons are compliant with the Fitness and Probity Standards and that they have obtained those persons’ written agreement to abide by the Fitness and Probity Standards. The Standards require individuals to be:</p> <ul style="list-style-type: none"> <li>a) Competent and capable (this standard requires individuals to have the appropriate qualifications);</li> <li>b) Honest, ethical and to act with integrity; and</li> <li>c) Financially sound.</li> </ul> <p>The effectiveness of Board members is assessed on an ongoing basis through a review of Board minutes and meetings with members of the Board for High and Medium High banks. In addition, for High Impact banks, supervisors may attend Board meetings (in particular, supervisors attended a number of Board meetings of all High Impact banks after the financial crisis).</p> <p>All Board appointments must be made in accordance with Fitness and Probity standards. Interviews with directors allows for further assessment, but may not be explicitly focused on “duty of care” and “duty of loyalty.”</p>
<b>EC5</b>	The supervisor determines that the bank’s Board approves and oversees implementation of the bank’s strategic direction, risk appetite <sup>33</sup> and strategy, and related policies, establishes and communicates corporate culture and values (e.g. through a code of conduct), and establishes conflicts of interest policies and a strong control environment.
Description and findings re EC5	The Central Bank has set out in its Corporate Governance Code corporate governance requirements in relation to strategy, risk appetite and related policies that are required to be adhered to by all credit institutions. Adherence by institutions to the Code is monitored on an ongoing basis by supervisors through various supervisory activities. Action is taken where institutions have been found to be in breach of the Code. In addition to ongoing supervision and in conjunction with PRISM, specific governance reviews will also be carried out to determine compliance. The Central Bank also requires each institution to submit an annual compliance statement as set out at Section 25 of the Code, in accordance with any guidelines issued by the Central Bank, specifying whether the institution has complied with

company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders.”

<sup>33</sup> “Risk appetite” reflects the level of aggregate risk that the bank’s Board is willing to assume and manage in the pursuit of the bank’s business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms “risk appetite” and “risk tolerance” are treated synonymously.

	<p>the Code.</p> <p>However, the Code does not refer to corporate culture and values. Corporate culture and values are reviewed as a PRISM governance risk sub-category, and guidance is provided to the supervisors for the assessment of same.</p> <p>Supervisors also assess the role of the board in approving strategy, risk appetite, policies, etc., In addition, for all High Impact banks, the Deputy Governor (Financial Regulation) and the Director of Credit Institutions Supervision meet with Board members on an ad-hoc basis to discuss issues including strategy implementation, e.g. mortgage arrears resolutions strategy and asset deleveraging.</p> <p>For banks with an Impact rating of Medium-Low and Low, the process to determine that Boards are discharging their responsibilities in relation to the requirements in the Code (e.g. approves and oversees implementation of the bank's strategic direction, risk appetite<sup>34</sup> and strategy, and related policies) is through receipt and review of an annual compliance statement asserting a self assessment by management. While the supervisor will meet periodically with the bank, testing through onsite examination or supporting evidence of compliance is not conducted by the Central Bank. In the case of Low Impact banks, the entire population of which are foreign bank branches, these credit institutions do not have a Board.</p>
<b>EC6</b>	<p>The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit and proper standards in selecting senior management, maintains plans for succession, and actively and critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them.</p>
Description and findings re EC6	<p>Part 3 of the Central Bank Reform Act 2010 introduced a statutory system for the regulation by the Central Bank of Ireland of persons performing CFs or PCFs in regulated financial service providers (including credit institutions).</p> <p>There are 41 senior positions which are PCFs. They include functions such as CEO, Director or Heads of Compliance, Risk, and Retail Sales. The Central Bank's approval is required before appointments may be made to these positions. CFs refer to functions undertaken by staff who exercise a significant influence on conduct of the affairs of the financial service provider, monitor compliance, or perform functions in a customer-facing role. The Central Bank's approval is not required for appointments to these positions.</p> <p>The Central Bank issued Standards of Fitness and Probity (the Standards) that apply to all persons performing CFs or PCFs in regulated financial service providers, including credit institutions. A regulated financial service provider is not allowed appoint a person to perform a CF/PCF unless firm is "satisfied on reasonable grounds" that the person complies with the Standards and that the person has agreed to abide by the Standards. In order to comply with the Standards, a person is required to be:</p> <ol style="list-style-type: none"> <li>a) Competent and capable;</li> <li>b) Honest, ethical and to act with integrity; and</li> <li>c) Financially sound.</li> </ol>

	<p>Failure by a person to comply with the Standards may, inter alia:</p> <ol style="list-style-type: none"> <li>a) Where the approval of the Central Bank is being sought to permit a person to perform a PCF, lead to approval being refused;</li> <li>b) Where a person is performing a CF/PCF, lead to an investigation being conducted in relation to the fitness and probity of that person to perform the relevant function;</li> <li>c) Cause that person to be the subject of a prohibition notice under Central Bank Reform Act 2010.</li> </ol> <p>Board members are assessed in respect of their fitness and probity. Ongoing oversight of approved PCF holders is managed by the respective supervisory divisions</p> <p>The Corporate Governance Code states that the Board shall ensure that there is an appropriate succession plan in place. The Nominations Committee shall be involved in succession planning for the Board, bearing in mind the future demands on the business and the existing level of skills and expertise.</p> <p>The Code also states that the Board shall formally review its overall performance, and that of individual directors, relative to the Board's objectives, at least annually. The review shall be documented.</p> <p>In order to critically oversee senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them, supervisors would carry out a number of activities: meet with the Independent Non-Executive Directors; meet external auditors; and evaluate reviews conducted by Boards against strategy.</p>
<b>EC7</b>	<p>The supervisor determines that the bank's Board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies.</p>
Description and findings re EC7	<p>Compensation requirements were introduced in 2011 that apply to credit institutions. Leading up to the implementation of the new requirements, expectations were communicated to banks. In 2011 a thematic review was performed obtaining compensation policies from all banks.</p> <p>The supervisor determines that the bank's Board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, through the following:</p> <ul style="list-style-type: none"> <li>- Meetings with HR to discuss compensation systems.</li> <li>- Internal Audit reviews. Internal Audit is required to review Remuneration Policies and Practices. Examiners ensure that these reviews are carried out and follow up on any issues identified.</li> <li>- Thematic reviews (review on Remuneration was undertaken in 2011).</li> <li>- Governance Inspection, where remuneration may form part of the review.</li> </ul> <p>With respect to remuneration the Code requires the Board to complete the following:</p> <ul style="list-style-type: none"> <li>• Ensure that the institution's remuneration practices do not promote excessive risk-</li> </ul>

	<p>taking.</p> <ul style="list-style-type: none"> <li>Design and implement a remuneration policy to meet that objective and evaluate compliance with this policy.</li> </ul> <p>In addition to the Board's requirements, the Code also requires major institutions to establish Remuneration Committees. Under the Code, Remuneration Committees are required to establish remuneration policies and procedures within the institution based on best practice and any requirements which the Central Bank may issue.</p> <p>The supervisor reviews the Remuneration Committee's terms of reference to determine its suitability and fitness for purpose.</p> <p>Irish credit institutions also have to comply with remuneration requirements under CRD III. Article 22 of the CRD, as amended by CRD III, lays down the fundamental principle for institutions to ensure that their remuneration policies and practices are consistent with and promote sound and effective risk management. This article indicates that remuneration policies and practices form part of an institution's overarching obligation to have robust governance arrangements in place; this is the basis for all other Pillar II requirements. The further remuneration requirements of CRD III are included in Annex V, Section 11 and Annex XII, Part 2, point 15 of the CRD. Considered together, the remuneration requirements in the annexes are divisible into three blocks: governance (Annex V), risk alignment (Annex V) and transparency (Annex XII). Proportionality, as explained further in these guidelines (from paragraph 19), is relevant for all three blocks.</p>
<b>EC8</b>	The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures that impede transparency (e.g. special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.
Description and findings re EC8	<p>The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures through attendance at board meetings, review of board packs, meetings held with both board members and senior management. The management and mitigation of risks is determined through the ongoing risk assessment of institutions. Over the last several years, the intensity and intrusiveness of these meetings have increased with supervisors placing greater focus on the effectiveness of meetings with the Board of Directors as a mechanism to assess the Board.</p> <p>There is no prescribed supervisory cycle within PRISM for onsite meetings with Low Impact banks unless warranted such as FRAs, FRRs to assess corporate governance. Equally, no minimum prescribed supervisory cycle for analysis of organizational structure or use of special purpose vehicles. For Low Impact banks (i.e. Foreign Bank Branches), the Corporate Governance Code does not apply, instead the assessment is covered by the Home supervisor (legislated for in the CRD).</p>
<b>EC9</b>	The supervisor has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.
Description and findings re EC9	<p>Part 3 of the Central Bank Reform Act 2010 has given the Central Bank powers to (inter alia):</p> <p>a) refuse to appoint a proposed director to any pre-approval controlled function</p>

	<p>where prescribed by the Central Bank pursuant to Part 3 of the Central Bank Reform Act 2010; and/or</p> <p>b) suspend, remove or prohibit an individual from carrying out a controlled function where prescribed by the Central Bank pursuant to Part 3 of the Central Bank Reform Act 2010.</p> <p>Failure by a person to comply with the Standards of Fitness and Probity may (inter alia):</p> <p>a) Where the approval of the Central Bank is being sought to permit a person to perform a pre-approval controlled function, lead to approval being refused;</p> <p>b) Where a person is performing a controlled function (pre-approval controlled functions are also “controlled functions”), lead to an investigation being conducted in relation to the fitness and probity of that person to perform the relevant function;</p> <p>c) Cause that person to be the subject of a prohibition notice under Central Bank Reform Act 2010.</p>
<b>Additional criteria</b>	
<b>AC1</b>	Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank’s Board member or a member of the senior management.
Description and findings re AC1	<p>In completing the online Individual Questionnaire, as part of the Fitness &amp; Probity assessment process, both the applicant and proposing entity give an undertaking to inform the Central Bank of any material changes to the information supplied subsequent to the submission of the declaration. The applicant gives the following undertaking: <i>“I will promptly notify the Central Bank of Ireland of any material changes in the information which I have provided and confirm that I will inform the Central Bank of Ireland in writing of the details of such changes and any other relevant/ material information of which I may become aware at any time after the date of this declaration,”</i> and the proposing entity agrees with the statement <i>“Please confirm the proposing entity will notify the Central Bank of Ireland without delay of any material change in circumstances that would render the information contained in this application out of date/inaccurate.”</i> These notifications are forwarded to the relevant supervisory divisions in respect of ongoing oversight.</p> <p>In addition, any director who has any material concern about the overall corporate governance of an institution, which may be in relation to a Board member or a member of the senior management, shall report the concern without delay to the Board in the first instance and, if the concern is not satisfactorily addressed by the Board within 5 business days, the director shall promptly report the concern directly to the Central Bank, advising of the background to the concern and any proposed remedial action. This is without prejudice to the director’s ability to report directly to the Central Bank.</p>
<b>Assessment of Principle 14</b>	Largely Compliant
Comments	In addition to the requirements outlined in the CRD, the Central Bank has set out in its Corporate Governance Code requirements which must be adhered to by all credit institutions. The requirements of the Code address elements of this CP. For High and Medium High Impact banks, the frequency and range of supervisory activities provides the supervisor with a regular assessment of corporate governance. Evidence showed that for High Impact banks, action is taken where institutions have been found to be in breach of the Code. The Central Bank also has extensive powers as regards the fitness and probity of

	<p>the directors and holders of certain senior management positions.</p> <p>For banks that are assigned Medium-Low and Low Impact ratings, the supervisory process is largely reactive, relying on the bank's submission of a self assessment of compliance with the Code. For certain banks that fall into the lower Impact ratings, unless a red flag is triggered, an assessment by a supervisor of governance arrangements will not be performed on a regular basis. For those banks assigned a rating of Medium-low and Low, the range and frequency of supervisory activities to assess governance is not adequate to assess the robustness of governance (EC2). Does not appear to be an adequate level of attention to senior management's stewardship and understanding of risk and corporate governance for Low Impact banks (EC8).</p>
<b>Principle 15</b>	<p><b>Risk management process.</b> The supervisor determines that banks<sup>35</sup> have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate<sup>36</sup> all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.<sup>37</sup></p>
<b>Essential criteria</b>	
<b>EC1</b>	<p>The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that:</p> <ul style="list-style-type: none"> <li>(a) a sound risk management culture is established throughout the bank;</li> <li>(b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite;</li> <li>(c) uncertainties attached to risk measurement are recognized;</li> <li>(d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff; and</li> </ul>

<sup>35</sup> For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

<sup>36</sup> To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

<sup>37</sup> It should be noted that while, in this and other Principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's Board and senior management.

	(e) senior management takes the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.
Description and findings re EC1	<p>The Central Bank requires institutions to comply with both Irish and EU legislation and guidelines in respect of risk management, and assesses their compliance against these requirements. Regulation 16 of S.I. 395 of 1992 requires every credit institution authorized by the Central Bank to manage its business in accordance with sound administrative and accounting principles and shall put in place and maintain internal control and reporting arrangements and procedures to ensure that the business is so managed.</p> <p>The Central Bank determines compliance with this requirement through periodic risk assessments of banks (including as part of the SREP), or specific thematic reviews. The frequency and granularity of the periodic risk assessments depends on the individual banks' impact scores, in addition to an evaluation of the probability and materiality of the risk (see response to CP8 and CP9). With respect to risk management, seven banks' risk management frameworks, including strategies, risk appetite statements and culture, were examined in a thematic risk review in 2011. Where deficiencies are found in a bank's risk management, RMP items are raised by supervision teams.</p> <p>In addition to ongoing supervision, the Central Bank also requires banks to self-certify compliance with its Corporate Governance Code (under section 25(1)) annually. For example, if banks' risk appetite statements or risk reporting and monitoring by the board are non-compliant with the Code, then this must be highlighted to the Central Bank. Remedial actions are required to be taken by the banks to address non-compliance.</p> <p>The Central Bank's Code of Corporate Governance, EBA guidelines on Internal Governance (September 2011) and relevant legislation form the basis of what the Central Bank expects of the banks' risk management strategies and frameworks. An assessment of the bank's compliance with the relevant legislation and guidelines is conducted as part of the ongoing supervisory engagement (which is based on the Central Bank's PRISM engagement model). PRISM also provides supervisors with guidance for how to conduct the assessment of risk management established by the bank.</p> <p>For High Impact banks, key risk management policies are required to be submitted to supervisors and assessed as part of the Full Risk Assessment and as part of relevant Financial Risk Reviews. While PRISM prescribes a minimum level of engagement, the Central Bank evidenced a significantly greater number of activities with the covered banks (High Impact). The intensity and intrusiveness was commensurate with the complexity and risk of the bank.</p> <p>Where weaknesses are identified through ongoing supervisory engagement (as per the PRISM engagement model) with the bank's risk management processes, supervisors raise RMP issues which include outlining the actions required to be taken to resolve the issue identified and the deadline by which supervisors expect the remedial actions to be completed by. In both challenging firms and mitigating risk, supervisors have a range of powers to draw on which are set out in the Central Bank Acts 1942 to 2010 (for example, issuance of directions to firms to make modifications to systems and controls).</p> <p>With regards to recovery and resolution planning, under the Central Bank and Credit Institutions (Resolution) Act 2011 (CBCIR Act 2011), the Central Bank has the power to require a credit institution to produce a recovery plan. The Act states that the Central Bank may direct an authorised credit institution to prepare a recovery plan setting out actions</p>

that could be taken to facilitate the continuation or secure the business of that credit institution where the institution is experiencing financial difficulty. The Central Bank is also complying with the EBA's recommendation on the development of recovery plans by specified credit institutions by 31 December 2013.

A supervisory themed review took place in Q3 2011 which looked at the role and effectiveness of the Board Risk Committee (the Review). The objectives of the Review were to:

1. Assess whether the institution's Risk Committee was adequately fulfilling its role in line with regulatory expectations.
2. Assess whether in discharging this role, the Risk Committee demonstrably adds value to the management of risk in the credit institution.

Other examples of supervisory activities for risk management were evidenced during the mission.

The Corporate Governance Code requires the following:

- 14(1) The Board shall establish a documented risk appetite for the institution.
- 14(3) The Board shall ensure that the risk management framework and internal controls reflect the risk appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the board on compliance with the risk appetite.
- 22(3) The Risk Committee shall oversee the risk management function.
- 22(4) The Risk Committee shall ensure the development and ongoing maintenance of an effective risk management system within the financial institution that is effective and proportionate to the nature, scale and complexity of the risks inherent in the business.

The EBA guidelines on Internal Governance (September 2011) also set out the following:

- 22(2) An institution's risk management framework should establish and maintain internal limits consistent with its risk tolerance/appetite and commensurate with its sound operation, financial strength and strategic goals. An institution's risk profile should be kept within these limits. The risk management framework should ensure that breaches of the limits are escalated and addressed with appropriate follow up.
- 20(3) Business units, under the oversight of the management body, should be primarily responsible for managing risks on a day-to-day basis, taking into account the institution's risk tolerance/appetite and in line with its policies, procedures and controls.
- 20(2) The risk culture should be established through policies, examples, communication and training of staff regarding their responsibilities for risk.
- 20(6) The risk management framework should be subject to independent internal or external review and reassessed regularly against the institution's risk tolerance/appetite, taking into account information from the risk control function and, where relevant, the risk committee.

The Code sets out that the Board shall establish a documented risk appetite for the institution. The appetite shall be expressed in qualitative terms and also include quantitative metrics to allow tracking of performance and compliance with agreed strategy. The Board shall ensure that the risk management framework and internal controls reflect

	the risk appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the board on compliance with the risk appetite.
<b>EC2</b>	<p>The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate:</p> <ul style="list-style-type: none"> <li>(a) to provide a comprehensive “bank-wide” view of risk across all material risk types;</li> <li>(b) for the risk profile and systemic importance of the bank; and</li> <li>(c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank’s risk management process.</li> </ul>
Description and findings re EC2	<p>The Corporate Governance Code requires that “All institutions shall have effective processes to identify, manage, monitor and report the risks to which they are or might be exposed.” (See Code 6(3)). In addition to the Code, EBA Guidelines on Internal Governance (September 2011) outlines the following which banks are expected to comply with:</p> <ul style="list-style-type: none"> <li>• 22(1) An institution's risk management framework shall include policies, procedures, limits and controls providing adequate, timely and continuous identification, measurement or assessment, monitoring, mitigation and reporting of the risks posed by its activities at the business line and institution-wide levels.</li> <li>• 22(2) An institution’s risk management framework should establish and maintain internal limits consistent with its risk tolerance/appetite and commensurate with its sound operation, financial strength and strategic goals. An institution’s risk profile should be kept within these limits. The risk management framework should ensure that breaches of the limits are escalated and addressed with appropriate follow up.</li> <li>• 22(3) When identifying and measuring risks, an institution should develop forward-looking and backward-looking tools to complement work on current exposures.</li> <li>• 22(6) Relevant macroeconomic environment trends and data should be explicitly addressed to identify their potential impact on exposures and portfolios. Such assessments should be formally integrated into material risk decisions.</li> </ul> <p>Regulation 16 of S.I. 395 requires every credit institution authorized by the Central Bank to manage its business in accordance with sound administrative and accounting principles, and to put in place and maintain internal control and reporting arrangements and procedures to ensure that the business is so managed.</p> <p>The Central Bank has dedicated Credit, Treasury, Risk Analytics (Quantitative Models Unit) and Business Model Analytics teams which monitor Business, Credit, Liquidity and Market Risk and Interest Rate Risk in the Banking book. The level of monitoring performed by these teams varies according to the size, scale and complexity of the institution, as well as its PRISM impact rating.</p> <p>In addition to consideration of a bank’s risk management policies and processes as part the PRISM risk assessment process (See CP8 for further details on PRISM engagement), the Central Bank also performs detailed thematic reviews which evaluate a bank’s risk management policies and processes. The focus of these risk assessments and thematic reviews is primarily the policies and processes of material risks, or other risks where there are signs of issues arising.</p>

	<p><u>Examples of supervisory activities include:</u></p> <p>As noted previously, a supervisory themed review took place in Q3 2011 which looked at the role and effectiveness of Board Risk Committees. The review also looked at risk management policies to confirm if:</p> <ul style="list-style-type: none"> <li>• There is an overall risk policy or policies for individual risks</li> <li>• The Board satisfies itself as to the appropriateness of these policies and functions for the institution, and in particular that these policies and functions take full account of Irish laws and regulations and the supervisory requirements of the Central Bank.</li> </ul> <p>It was noted that one bank did not have risk management processes and policies in place for credit concentration risk and interest rate risk in the banking book. Two supervisory measures were imposed in 2010 which were to remain until the Central Bank was satisfied that these issues had been addressed. The supervision team conducted an on-site inspection in 2011 to determine whether the RMP had been implemented and were not satisfied that there was sufficient understanding of these risks at the subsidiary level.</p>
<b>EC3</b>	<p>The supervisor determines that risk management strategies, policies, processes and limits are:</p> <ol style="list-style-type: none"> <li>(a) properly documented;</li> <li>(b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and</li> <li>(c) communicated within the bank</li> </ol> <p>The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the bank's Board where necessary.</p>
Description and findings re EC3	<p>The Central Bank performs both financial risk reviews and full risk assessments and thematic reviews to evaluate a bank's risk management policies and processes. The focus of these assessments is primarily on the policies and processes of material risks, or other risks where there are signals of issues arising. The reviews of these policies are conducted by supervisors to ensure, inter alia, that management strategies, policies, processes and limits are properly documented, regularly reviewed and updated to reflect changing risk appetites, risk profiles and market and macroeconomic conditions, and that they are communicated and applied throughout the bank.</p> <p>Probability risk ratings for all institutions under the Central Bank's supervision are updated on an ongoing basis. In completing this update, supervisors must assess the ongoing completeness, quality and appropriateness of risk management policies, strategies and risk limits.</p> <p>In addition, banks are required to submit an annual statement of compliance with the Corporate Governance code which includes confirmation, inter alia, that appropriate risk management strategies and processes are in place. The Central Bank reviews the compliance statement and follows up with regulatory action where deviations from the code are identified. Evidence was provided to support this.</p> <p>In order to assess whether risk management strategies, policies, processes and limits are communicated adequately in the bank, a number of actions are taken, including:</p>

	<ul style="list-style-type: none"> <li>• Review of internal reporting, such as CRO reports, with a specific emphasis on ensuring material exceptions to policies, processes and limits are advised to the Board.</li> <li>• Compliance reporting.</li> <li>• Internal audit reports.</li> <li>• Operational risk logs, to identify issues of non-compliance, and specifically any issues which may be endemic.</li> <li>• Onsite interviews with personnel in various levels in the bank, to assess their knowledge and understanding of risk management strategies, policies, processes and limits.</li> </ul> <p>Policies are reviewed by supervision teams as part of onsite reviews. For example, the operational risk policies (outsourcing, new product approval and business continuity) of one bank were reviewed as part of an onsite inspection. Many were found to be inadequate or out-dated.</p> <p>The approach to ongoing supervision of risk management policies and practices is similar for Medium Low impact banks, albeit with less intensity. However, it should be noted that these are reviewed as part of the full risk assessment. Furthermore as part of the ICAAP assessment of medium low banks, banks submit a self-assessment questionnaire (SAQ) and a copy of the bank's risk appetite and business strategy. The risk appetite statement and strategy is reviewed on an annual basis. The minimum engagement model prescribed by PRISM for Medium-Low and Low banks will rely upon a compliance statement as the tool to assess compliance with this EC. The annual statement of compliance with the Code will not necessarily involve testing, sampling or assessing supporting material by the supervisor. Unless an exception is self reported, limited analysis and verification is preformed to make an accurate determination that risk management policies, strategy and risk limits are reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions.</p>
<b>EC4</b>	<p>The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.</p>
Description and findings re EC4	<p>The Corporate Governance Code requires that adequate arrangements are in place to ensure regular reporting to the Board on compliance with the institution's risk appetite (section 14(3)). The Code also seeks to ensure that there are effective processes in place in banks to identify, manage, monitor and report the risks to which they are or might be exposed (section 6(3)).</p> <p>The EBA Guidelines on Internal Governance (September 2011) set out that regular and transparent reporting mechanisms should be established so that the management body and all relevant units in an institution are provided with reports in a timely, accurate, concise, understandable and meaningful manner, and can share relevant information about the identification, measurement or assessment and monitoring of risks (22(7)).</p> <p>The Guidelines also set out that the CRO (or equivalent position) is responsible for providing comprehensive and understandable information on risks, enabling the management body to understand the institution's overall risk profile (section 27(2)). The</p>

	<p>Central Bank's requirements for the management of liquidity place an onus on senior management to provide the Board and the Asset and Liability Committee (ALCO) with relevant and timely information with regard to liquidity risk. Liquidity reporting to the Board and the ALCO should be carried out more frequently in times of stress (section 3(2)(2)).</p> <p>A bank's ICAAP is the process by which the Central Bank expects the bank to obtain sufficient information to assess its capital adequacy relative to its risk profile. The ICAAP should form an integral part of the management process and decision-making culture of the institution. These requirements are set out in EBA Guidelines on the Application of the Supervisory Review Process Under Pillar 2 (GL03). In addition, the Central Bank's Fitness and Probity Regime, which came into effect on 1 December 2011, seeks to ensure that a person performing a PCF or CF, as set out in Part 3 of the Central Bank Reform Act, has the relevant qualifications, experience, competence and capacity appropriate to the relevant function which they are carrying out.</p> <p>In order to evaluate the quality and sufficiency of information received by the Board and senior management, supervisors review Board/relevant committee packs. These are requested and reviewed on a more frequent basis for the covered banks; however, they are also received as needed from the international banks. The Central Bank has found deficiencies in management information and board reporting in a number of banks and has addressed this through RMP actions and supervisory measures. There was sufficient evidence to show that supervisors undertook analysis of Board packs and relevant information in preparing for scheduled meetings (such as with the Independent Non-Executive Director and Chair of the Board which are two of the routine meetings with banks prescribed in the PRISM engagement model). The assessment of risk was often shown to be an integrated process linking back to liquidity and capital. This was most evident in the covered banks and High Impact banks with heightened supervisory intensity and where the ICAAP formed part of the overall assessment process. For those banks that submitted a summary ICAAP (i.e. SAQ) a less detailed assessment was performed.</p>
<b>EC5</b>	<p>The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk profile. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies.</p>
Description and findings re EC5	<p><u>Capital</u></p> <p>While the Central Bank expects all banks to assess their internal capital adequacy on an ongoing basis, the frequency of submission of ICAAP data to the Central Bank is governed under Regulation 66(4) of S.I. 661 of 2006 and is a function of the following:</p> <ul style="list-style-type: none"> <li>• The nature, size and systemic importance of the credit institution.</li> <li>• The outcome of the credit institution's most recent SREP.</li> <li>• Any changes to the credit institution's governance arrangements or business.</li> <li>• The consequence of any merger or acquisition activity to which the credit institution might be exposed.</li> </ul> <p>The Central Bank has also completed two PCARs (2010 and 2011) for the Irish covered banks. The PCAR (see CP16) assessed the capital requirements arising for expected base and potential stressed loan losses, and other financial developments, over a 3 year time horizon. This exercise will be completed in 2013 in conjunction with the EBA stress tests.</p> <p><u>Liquidity</u></p>

	<p>The Central Bank has established requirements for the management of liquidity risk (June 2009)</p> <p>All banks are required to produce regular reporting returns to the Central Bank covering capital adequacy and allocation, liquidity and solvency. These are reviewed and analysed by supervision teams and anomalies/erroneous movements are queried. This allows the Central Bank to monitor institutions' capital, solvency and liquidity. For example the Treasury Team receives daily liquidity reports from the covered and large wholesale banks.</p> <p>The specialist liquidity team within Banking Supervision division reviews the liquidity strategies of banks through thematic reviews. For example, a thematic review of the ALCO and a review of behavioural assumptions applied by 7 banks was conducted in 2012, and a transfer pricing and deposit behaviour review was completed Q1 2013. A market risk review was also conducted in 2011.</p>
<b>EC6</b>	<p>Where banks use models to measure components of risk, the supervisor determines that:</p> <ul style="list-style-type: none"> <li>(a) banks comply with supervisory standards on their use;</li> <li>(b) the banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and</li> <li>(c) banks perform regular and independent validation and testing of the models</li> </ul> <p>The supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.</p>
Description and findings re EC6	<ol style="list-style-type: none"> <li>1. The Central Bank determines during model validation reviews that banks comply with supervisory standards on their use</li> <li>2. The Central Bank also determines that there is an appropriate level of understanding at both senior management and Board level around the use and limitation of internal models used for the determination of regulatory capital.</li> <li>3. Banks are required to perform regular and independent validation and testing of their internal models and the supervisor (in conjunction with the Central Bank's Quantitative Model review team) assesses whether the model outputs appear reasonable as a reflection of the risks assumed.</li> </ol> <p>A regulatory Notice was issued by the Central Bank in December 2006 which outlines its policy and procedures for institutions that wish to apply for the use of the IRBA for the calculation of their regulatory capital requirements for credit risk pursuant to Directive 2006/48/EC and Directive 2006/49/EC, the CRD.</p> <p>The Central Bank challenges the banks' model processes, as outlined by the banks themselves, and determines whether they is adequate. Supporting evidence was provided during the mission.</p> <p><u>Pillar I Models</u></p> <p>For Pillar I, the approval process is as outlined in the CRD, and model performance is reviewed on a yearly basis for high impact banks. At present, this yearly review is limited to the covered banks and two international subsidiary banks (with significant Irish retail exposures). However, not all bank's internal models are reviewed on this same frequency. For all other banks (all international banks), once the model is approved, no further formal</p>

reviews are carried out on an ongoing basis, including ongoing assessment of Board and senior management understanding of models. Home regulators, however would perform their own monitoring of the other centrally developed models.

The decision on whether to subject a bank's Pillar 1 IRB models to periodical [ongoing] reviews is dependent on whether:

- (a) the Central Bank is a consolidating or host supervisor,
- (b) the models are centrally or locally developed, and
- (c) central or local data have been used.

Based on these criteria, ongoing reviews mainly focus on: (a) banks where the Central Bank is the consolidating supervisor, and (b) host institutions where models are calibrated to Irish experience (and the institution has material retail exposures in Ireland).

- In relation to host institutions operating under IRB, the Central Bank will only exercise its obligation to feed into the "joint decision" process (provided under Article 129(2) of the CRD) where the institution has material exposures in Ireland. The Central Bank will rely on the home supervisor to ensure adequacy of models that are used for regulatory capital purposes (Pillar 1) where the institution is lower-impact.
- The review [as part of the model approval process] of centrally developed models used by host institutions for their non-retail exposures shall only focus on: (a) model governance, (b) the use test, (c) senior management understanding, and (d) impact of such models from regulatory capital and solvency ratio perspective.

#### Approach

The reviews are done in accordance with the Central Bank's overall supervisory framework, which takes into account the proportionality principle. The reviews also take into consideration the Credit RWA Supervisory Framework/procedures for IRB model performance reviews developed by the Central Bank's Risk Modeling Unit.

#### Frequency and Depth

The frequency and depth of the individual reviews take into account the proportionality principle (PRISM impact rating of the relevant institution). All material approved models used by banks where the Central Bank is a consolidating supervisor, and those used by host institutions for their Irish retail exposures, are reviewed on an annual basis.

#### Coverage of IMA and AMA Models

Currently, there is only one institution using the IMA approach to market risk. No home institution has so far been approved to use AMA for operational risk. At present, five host institutions use the AMA for operational risk. Where a host institution applies to use a group AMA on an allocation basis, the Central Bank is required to ensure that the local staff of the host institution has good knowledge of the group model and the allocation process. The approval of AMA models to be used by subsidiaries based in Ireland is done taking into account the provisions of Article 129 (2) of the CRD, and hence the Central Bank has a right to feed into the Joint decision process.

#### Pillar II Models

For Pillar II models, the Central Bank assesses the reasonableness of models by comparison with the output, if available, of its own Central Bank models or by expert judgment if unavailable. This process is generally carried out as part of SREP process, and thus at its most frequent, is completed on a yearly basis. Similar to Pillar 1 models, the home

regulators of the international banks under the Central Bank's supervision would perform their own monitoring of centrally developed models.

The Central Bank does not grant regulatory approval for the use of Pillar 2 models/Economic Capital Models. However, where a bank uses the output of such models to inform the allocation of capital to specific risk types, as part of the Pillar 2 process, then the Central Bank would review the outputs from such models and the underlying assumptions. The review of such models (ECAP), which is normally done as part of the ICAAP review process, is aimed at determining the degree of reliance to be placed by the Central Bank on the outputs from such models in determining Pillar 2 capital add-ons. The output of Central Bank's 'capital toolbox' together with its view on the bank's general model assumptions and model parameters would feed into the decision on whether to rely on the bank's own estimate from its ECAP models.

#### Credit Models

As part of the ongoing Banking Supervision engagement plan, the Credit Team conducts regular on-site inspections in credit institutions to review samples of borrower loan files. The Credit Team adopts a risk based approach and selects loans files of borrowers with higher risk credit grades i.e. watch risk and impaired risk. While on-site, the Credit Team reviews pertinent customer data such as the most recent credit reports, up to date financial information and collateral valuation reports. The primary objective of an on-site loan file inspection is to provide Banking Supervision with an informed view on a credit institutions credit risk management process and controls. Two of the primary areas of focus include:

- i. the reliability of a credit institution's credit grading system – as part of this process, the Credit Team review credit grade model outputs to check that credit institution internal credit risk rating systems reflect the credit risk profile of borrower exposures.
- ii. the adequacy of impairment provisions – as part of this process the Credit Team reviews DCF model inputs and outputs where a borrower exposure is classified as impaired risk, to evaluate the provision calculation and to check that the provision is sufficient to absorb likely loan losses based on point-in-time data.

The Credit Team completes an individual Credit Review template for all loan files examined.

On completion of the on-site loan file reviews work, the Credit Team completes a Summary Report to outline review findings, with recommendations made where appropriate to strengthen credit controls and to mitigate risks identified. In circumstances where deficiencies are identified with regard to a credit institution's credit grading (reliability) / DCF model outputs (provision adequacy), this will be reflected in the findings. The Summary Report is subsequently forwarded to the relevant Supervisory Team. On receipt of the Summary Report, a RMP is agreed with Banking Supervision management.

Supervisors, having drawn conclusions, may meet with the CRO / CCO and CEO of the bank to discuss the review findings and to obtain feedback which may allow them to refine the conclusions. A post-review letter is then sent to the credit institution addressed to the CEO to formally communicate significant findings and to highlight credit control weaknesses identified during the review. The letter will also outline risk mitigation actions required and a time line for the completion of the actions. The bank will be required to respond with an appropriate action plan to address the review findings. The RMP is uploaded to PRISM to ensure timely follow up and tracking.

Testing of Board and Senior Management Understanding at Application Stage

The banks are required to carry out a self-assessment of quality of senior management understanding of models as part of application for approval of new IRB models. Following on from this, the Central Bank carries out an onsite assessment of the level of senior management understanding of rating systems – by interviewing specific senior management within the relevant institutions.

The overall assessment of senior management understanding feeds into the assessment of the use test and the decision on whether to approve the relevant models or on the conditions to be placed on approval of such models. (See examples below which detail the work performed in this regard.)

Ongoing Review of Senior Management Understanding of models including an evaluation of their capability to understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use.

As part of the Central Bank's Pillar II reviews, the Central Bank seeks to ensure that Board/Senior management have an appropriate knowledge of models, which includes an understanding of their limitations and uncertainties relating to the output of the models and the risk inherent in their use. (See examples below which detail the work performed in this regard.)

In Autumn 2011, a bank applied for permission to use an F-IRB model to calculate their Pillar I charge for their branch banking Ireland portfolio. They submitted their documentation as required under the CRD and the Central Bank had a period over which it consulted with the bank to clarify issues via face-to-face meetings, conference calls and emails. The conclusion of the process was that approval for use of the F-IRB method was given on the condition that their process around calculating downturn Loss Given Defaults (LGDs) was improved, and a review of the factor weights in their Probability of Default (PD) models was carried out. To date, the bank is not yet using F-IRB for this portfolio.

Testing of Board and Senior Management Understanding at Application Stage

Specifically for, one institution which sought approval for IRB model, the senior management interviewed included:

- Head of Business;
- Member of the designated approval committee; and
- Divisional head of credit.

The key elements of rating systems considered included: (a) IRB concepts, (b) use of ratings, (c) key material drivers of PD, LGD and Cash Flow, (d) discriminatory power of the model, (e) model life cycle, (f) IRB stress testing, and (g) challenge and model weaknesses (amongst others)

The overall assessment of senior management understanding fed into the decision on whether to approve the relevant models or on the conditions to be placed on approval of such models. The Central Bank was not satisfied with the level of understanding and recommended that a condition be placed on any permission requiring the senior management understanding program to be improved in terms of its scope, frequency and depth of training provided, with a specific timeframe, with the aim of demonstrating compliance with the requirements for senior management understanding in Annex VII, Part 4 of the CRD.

<b>EC7</b>	The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs, and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use.
Description and findings re EC7	<p>The EBA Guidelines on Internal Governance stipulate that institutions shall have effective and reliable information and communication systems covering all its significant activities (section 30(1)). Information systems, including those that hold and use data in electronic form, should be secure, independently monitored and supported by adequate contingency arrangements. An institution should comply with generally accepted IT Standards when implementing IT systems (section 30(2)). The Corporate Governance Code requires that the board shall ensure that it receives timely, accurate and sufficiently detailed information from risk and control functions (section 14(6)). The Central Bank's 2009 requirements for the management of liquidity risk provides details of what is expected from the Management Information System and Internal Controls employed in managing liquidity (section 3(4)).</p> <p>The Central Bank recently developed a new IT framework and assessment methodology and this has been rolled out within the last two months. The methodology provides the Central Bank with a structured approach for reviewing the IT capability of banks. The Central Bank's framework includes an in-depth online assessment tool which is used as the basis for challenging senior bank management. In addition, the framework encompasses a review of IT policies and procedures and IT internal audit reports etc.</p> <p>On an ongoing basis, supervisors evaluate the capability of a bank to produce close to real-time management information across their portfolios to aggregate total exposure positions.</p>
<b>EC8</b>	The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products, <sup>38</sup> material modifications to existing products, and major management initiatives (such as changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board.
Description and findings re EC8	<p>EBA Guidelines on Internal Governance (GL44) section 23 states that:</p> <ul style="list-style-type: none"> <li>• An institution shall have in place a well-documented New Product Approval Policy ("NPAP"), approved by the management body, which addresses the development of new markets, products and services and significant changes to existing ones.</li> <li>• An institution's NPAP should cover every consideration to be taken into account before deciding to enter new markets, deal in new products, launch a new service or make significant changes to existing products or services.</li> <li>• The NPAP should set out the main issues to be addressed before a decision is made.</li> <li>• The risk control function should be involved in approving new products or</li> </ul>

<sup>38</sup> New products include those developed by the bank or by a third party and purchased or distributed by the bank.

	<p>significant changes to existing products.</p> <p>In line with EBA Guidelines on Internal Governance (section 23) the Central Bank requires that institutions have in place a well-documented NPAP, approved by the management body, which addresses the development of new markets, products and services and significant changes to existing ones. The risks inherent in new products, changes to existing products or processes are required to be set out and should be subject to a multidisciplinary review.</p> <p>It is not a prerequisite that the Board or a subcommittee approve all new products, however in line with the EBA guidelines, the Central Bank does require that a new product policy and process is in place which is approved by the management body. In the aforementioned RMP, the Central Bank did request that significant new products be signed off by the Board or a nominated subcommittee. For example in respect of the new advanced forbearance mortgage products launched by banks, these were approved by the boards of the relevant banks.</p> <p>In terms of Board and Senior management understanding of risks inherent in in new products, material modifications to existing products, and major management initiatives the Central Bank expects members of the management body, both individually and collectively, to have the necessary expertise, experience, competencies, understanding and personal qualities to properly carry out their duties. In addition, it is expected that members of the management body should acquire, maintain and deepen their knowledge and skills to fulfill their responsibilities. Section 11(3) of the Corporate Governance Code also requires that the non-executive and executive directors shall have a knowledge and understanding of the business, risks and material activities of the institution to enable them to contribute effectively.</p> <p>Compliance with these provisions is monitored through corporate governance reviews in conjunction with vetting of new directors and senior managers through the fitness and probity regime. As part of the Central Bank's fitness and probity regime, the Central Bank seeks to ascertain that directors and senior management are competent for the role which they are being proposed for. This includes ensuring that they have an understanding of all risks of the banks. Banks certify compliance with the Corporate Governance Code by submitting an annual compliance statement under section 25(1). In addition as part of the PRISM engagement activities supervisors meet with banks senior management and directors (frequency of meeting dependent upon the impact categorization of the bank). These meetings would cover a number of topics including, inter alia, risks inherent in new products, material modifications to existing products, and major management initiatives.</p> <p>New product approval process in the institutions under supervision is assessed as part of the assessment of the banks' operational risk framework, utilising the guidance provided in Banking Supervision's Operational Risk Assessment Methodology. The frequency of this review is dependent on whether a signal of risk exists.</p>
<b>EC9</b>	<p>The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.</p>

Description and findings re EC9	<p>As part of its ongoing supervision, the Central Bank reviews the risk management functions of Irish licensed banks to determine if, inter alia, (i) they are sufficiently and adequately skilled (ii) there are clear delineations between the first and second lines of defense and (iii) the functions have appropriate access to the banks' Boards. This assessment is conducted through meetings with relevant personnel (including with the CRO, which is a defined PRISM engagement task), review of executive/board risk committee or other relevant minutes (to identify any issues which may call into question the independence, authority or adequacy of resourcing of the risk management function). In some cases (predominately for the covered banks) supervisors attend Risk Committee meetings (both Board and Executive risk committees) and credit review meetings to validate independence, authority and ability of the Risk function.</p> <p>Supervisors of all High Impact institutions meet with the Internal Auditor at least once a year. A key focus of those meetings is the annual audit plan, and ensuring the plan is sufficient in scope, targeting all areas across the bank. This includes the risk management function. The Central Bank's Corporate Governance Code also requires that the bank's system of governance shall be subject to regular internal review. (6(3))</p> <p>Guidelines on the Application of the Supervisory Review Process under Pillar 2 identify the need for a risk control function in large, complex and sophisticated institutions, and state that a risk control function should be established to monitor each of the material risks to which the institution is exposed. The Central Bank requires institutions to have a risk control function which is proportionate to the nature, scale and complexity of the institution.</p> <p>The Corporate Governance Code requires Credit Institutions to meet the following criteria in relation to risk management functions:</p> <ul style="list-style-type: none"> <li>• 14(3) The Board shall ensure that the risk management framework and internal controls reflect the risk appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the Board on compliance with the risk appetite.</li> <li>• 22(3) The role of the Risk Committee shall be to advise the Board on risk appetite and tolerance for future strategy, taking account of the Board's overall risk appetite; the current financial position of the institution; and, drawing on the work of the Audit Committee and the External Auditor, the capacity of the institution to manage and control risks within the agreed strategy. The Risk Committee shall oversee the risk management function.</li> <li>• 22(4) The Risk Committee shall ensure the development and ongoing maintenance of an effective risk management system within the financial institution that is effective and proportionate to the nature, scale and complexity of the risks inherent in the business.</li> </ul> <p>The Central Bank also requires banks to adhere to Section D part IV of the EBA Guidelines on Internal Governance (GL 44) in establishing their risk management function.</p> <p>The regular engagement with bank's key risk management personnel (predominantly the CRO), provide an opportunity to assess the adequacy of risk management within a bank in terms of quality of staff, issues being addressed and level of independence. Preparation for these meetings involved obtaining and reviewing risk material. Outside of the engagement with the CRO, supervisors will assess the adequacy of resources, authority and independence through the onsite risk activities: FRR and FRA processes.</p>
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<b>EC10</b>	The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.
Description and findings re EC10	<p>The Corporate Governance Code requires that the governance structure put in place by each institution shall be sufficiently sophisticated to ensure that there is effective oversight of the activities of the institution taking into consideration the nature, scale and complexity of the business being conducted (6(4)). All institutions shall have robust governance arrangements which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, remuneration policies and practices that are consistent with and promote sound and effective risk management both on a solo basis and at group level. The system of governance shall be subject to regular internal review. (6(3))</p> <p>In addition to the above, the Central Bank requires banks to comply with guidelines on the Application of the Supervisory Review Process under Pillar 2 (GL03) which state:</p> <ul style="list-style-type: none"> <li>• The risk management function should be a central organisational feature of an institution. It should be structured in a way that permits it to achieve its objectives of implementing risk policies and managing risk within the institution. Large, complex and sophisticated institutions could consider establishing risk management functions to cover each material business line.</li> </ul> <p>Section 13.7 of the Central Bank's Corporate Governance Code requires that removal from office of the head of a Controlled Function (including the CRO) shall be subject to prior Board approval. The Central Bank does not, however, seek that this removal be disclosed publicly.</p> <p>CRO is deemed a PCF under the Central Bank's fitness and probity regime, thus a comprehensive assessment is conducted of the individual prior to a letter of non-objection to the appointment issuing by the Central Bank. When a person who holds a PCF resigns (even in the case of removal) from that position, the following information must be provided to the Central Bank:</p> <ul style="list-style-type: none"> <li>• Full name of person resigning</li> <li>• Financial Service Provider name and number</li> <li>• PCF held</li> <li>• Date of resignation</li> <li>• Reason given for resignation (including copy of resignation letter)</li> <li>• Contact details for person resigning, including email address and postal address (The Central Bank may contact PCF who have resigned in the course of regulation of Financial Service Providers)</li> <li>• Contact details for Financial Service Provider</li> </ul> <p>While the Central Bank does not require that the removal of a CRO be disclosed publicly, a record of such a removal would be maintained by the Central Bank and would be taken into account should that person ever seek appointment for a pre-approval role in the future.</p>
<b>EC11</b>	The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk,

	interest rate risk in the banking book and operational risk.
Description and findings re EC11	The Central Bank has issued a significant number of standards and guidance to banks on a range of prudential requirements covering: credit risk; market risk; operational risk; Corporate Governance; liquidity risk; and capital, amongst others. It has also issued codes on conduct of business rules. In addition, the Central Bank requires institutions to ensure that their operations are consistent with all EBA guidelines unless otherwise instructed (as outlined in the Central Bank's notice entitled "Implementation of the CRD" (28 December 2006, as amended January 2011).
<b>EC12</b>	The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialize and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.
Description and findings re EC12	<p>The Central Bank's notice entitled "Implementation of the CRD" (28 December 2006, as amended January 2011) advised that institutions should be guided by the paper published by BCBS entitled "Sound Practices for the Management of Operational Risk." Principle 7 of this paper specifically outlines that banks should have in place contingency and business continuity plans to ensure their ability to operate on an ongoing basis and limit losses in the event of severe business disruption.</p> <p>Section E(31) of EBA's Guidelines on Internal Governance outlines specific requirements for banks in respect of business continuity including the following:</p> <ul style="list-style-type: none"> <li>• An institution shall establish a sound business continuity management to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruption.</li> <li>• An institution should carefully analyse its exposure to severe business disruptions and assess (quantitatively and qualitatively) their potential impact, using internal and/or external data and scenario analysis.</li> <li>• On the basis of the above analysis, an institution should put in place: <ul style="list-style-type: none"> <li>○ Contingency and business continuity plans to ensure an institution reacts appropriately to emergencies and is able to maintain its most important business activities if there is disruption to its ordinary business procedures.</li> <li>○ Recovery plans for critical resources to enable it to return to ordinary business procedures in an appropriate timeframe. Any residual risk from potential business disruptions should be consistent with the institution's risk tolerance/appetite.</li> </ul> </li> <li>• Contingency, business continuity and recovery plans should be documented and carefully implemented.</li> </ul> <p>BCBS also produced a paper in August 2006 entitled High Level Principles for Business Continuity. Banks are expected to be guided by these principles.</p> <p>Supervisors assess the appropriateness of banks' contingency arrangements generally, as part of thematic operational risk reviews. The frequency of these reviews is increased if</p>

	<p>there are signals of risk, where supervisors have determined that there are indicators of this risk being material to the bank. Banking Supervision's Methodology for the Assessment of Operational Risk outlines typical signals of business continuity risk which assist in the determination of whether a risk is material to a given bank, and also outlines typical expected mitigants of these risks. As noted previously, where deficiencies are identified in this area, RMP actions are raised accordingly.</p> <p>The quality and depth of analysis of BCP as part of routine offsite supervision was insufficient to detect deficiencies. There was a scarcity of regular routine reports regarding the status of bank continuity arrangements for supervisors to monitor this risk adequately. The regime was largely exception based after an event. In terms of onsite analysis, onsite review of business continuity is assessed as part of operational risk within the FRR/FRA. Given operational risk is assessed thematically, the process is not systematic to identify higher inherent risk banks, especially for the higher impact banks.</p> <p>In light of a recent systems issue at a major bank, the retail banks in Ireland were required to review their business continuity plans and specifically examine the risks of a similar issue arising in their own institutions. In addition, operational risk reviews have been completed in many of the banks, including consideration of business continuity risk. Further, IT risk assessment completed in one of the major banks, with consideration of disaster recovery planning - this is being rolled out further.</p>
<b>EC13</b>	<p>The supervisor requires banks to have forward-looking stress testing programmes, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing programme and determines that it captures material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing programme:</p> <ul style="list-style-type: none"> <li>(a) promotes risk identification and control, on a bank-wide basis</li> <li>(b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks;</li> <li>(c) benefits from the active involvement of the Board and senior management; and</li> <li>(d) is appropriately documented and regularly maintained and updated.</li> </ul> <p>The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing programme or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process</p>
Description and findings re EC13	<p>The Central Bank requires banks to comply with both European and international legislation and guidelines in respect of stress testing. Annex VII, Part 4 of the CRD (2006/48/EC - Points 40-42) requires a credit institution to have in place sound stress testing processes for use in the assessment of its capital adequacy. Stress testing shall involve identifying possible events or future changes in economic conditions that could have unfavorable effects on a credit institution's credit exposures and assessment of a credit institution's ability to withstand such changes. Annex V of the CRD (2006/49/EC - 2G) advises that a bank's stress testing process shall particularly address illiquidity of markets in stressed market conditions; concentration risk; one way markets; event and jump-to-default risks; non-linearity of products; deep out-of-the-money positions; positions subject to the</p>

gapping of prices; and other risks that may not be captured appropriately in the internal models. The shocks applied shall reflect the nature of the portfolios and the time it could take to hedge out or manage risks under severe market conditions.

(a) promotes risk identification and control, on a bank-wide basis

The Central Bank Stress Testing and Capital Planning Supervisory Framework, which forms a basis of evaluation of a bank's stress testing practices and which is an in-house implementation of EBA guidelines on stress testing (GL 32) and general best practice in this area, requires regulated institutions to ensure that:

- Stress testing is conducted on a firm-wide basis covering a range of risks in order to deliver a complete and holistic picture of the institution's risks.
- Stress testing is performed for all material risks types including: market, credit, operational and liquidity risk with scenarios addressing all the material risk types; main risk factors; and institution-specific vulnerabilities.
- Stress testing explicitly covers complex and bespoke products such as securitised exposures, and for scenarios to factor in (a) illiquidity/gapping of prices, (b) concentrated positions, (c) one-way markets, (d) non-linear products, (e) jump-to-default, and (f) significant shifts in correlations and volatility.
- Stress tests are performed on specific portfolios and specific types of risks that affect them.
- Banks must fully articulate the role of stress tests in identification of concentration and business risk.

(b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks

The Central Bank Stress Testing and Capital Planning Supervisory Framework require regulated institutions to:

- Ensure that Stress Testing is based on exceptional but plausible effects.
- Incorporate system-wide interactions and feedback effects within scenario stress tests and specifically to incorporate simultaneous occurrence of events across the institution.
- Ensure that Stress Testing programme covers a range of scenarios with different severities including scenarios which reflect a severe economic downturn.
- Be aware of the possible dynamic interactions among risk drivers.
- Take into account simultaneous pressures in funding and asset markets and the impact of a reduction in market liquidity on exposure valuation.
- Develop reverse stress tests as one of their risk management tools to complement the range of stress tests they can undertake.

Some of the specific considerations expected to be taken into account in scenario formulation could include:

- expectations with regard to collateral valuations;
- trading strategies of the institution;
- market disturbance, breakdown in correlations;
- failure of hedging techniques;
- illiquid markets; and
- Major failure in systems/processes/people.

There should also be a good mix of historical and hypothetical scenarios. Supervisory reviews, as part of the Pillar 2 process, involve the evaluation and challenge of severity of and assumptions around firm-wide stress testing. This is achieved through benchmarking

and expert judgment. The reverse stress test also acts as a complement to the range of the adopted stress scenarios.

(c) benefits from the active involvement of the Board and senior management

The Central Bank Stress Testing and Capital Planning Supervisory Framework requires regulated institutions to:

- Provide evidence of senior management participation in review and identification of potential stress scenarios.
- Demonstrate that there has been candid discussion on modeling assumptions between the board and risk managers.
- Ensure that stress testing programme is actionable and informs decision-making at all appropriate management levels of the institution, e.g. reviewing limits and reviewing strategy. Specifically, stress testing should be sufficiently integrated into the institution's risk management frameworks and senior management decision-making.
- Demonstrate that the outcome of a reverse stress test has appropriately feed into contingency planning.
- Ensure that the Stress Testing Committee, where in place, is involved in the discussion of: design; assumptions; results; limitations; and implication of stress testing.

(d) is appropriately documented and regularly maintained and updated

The Central Bank Stress Testing and Capital Planning Supervisory Framework requires regulated institutions to:

- Have written policies and procedures to facilitate the implementation of the stress testing programme.
- Ensure that stress testing is reviewed regularly and assessed for fitness of purpose.

S.I. 661 of 2006, which transposes the requirements of the CRD, includes a number of requirements in relation to stress testing:

- A credit institution shall conduct periodic stress tests of their credit risk concentrations including in relation to the realisable value of any collateral taken.
- The stress tests shall address risks arising from potential changes in market conditions that could adversely impact the credit institution's adequacy of own funds and risks arising from the realisation of collateral in stressed situations.
- The credit institution shall satisfy the Central Bank that the stress tests carried out are adequate and appropriate for the assessment of such risks.
- Where a stress test indicates a lower realisable value of collateral taken than would be permitted to be taken into account under paragraphs (1) and (2) or (3) to (6), as appropriate, the value of collateral permitted to be recognised in calculating the value of exposures for the purposes of Regulation 57(1) to (5) shall be reduced accordingly.
- Such credit institutions shall include in their strategies to address concentration risk policies and procedures in the event that a stress test indicates a lower realisable value of collateral than taken into account under paragraphs (1) to (6).

In addition to European and Irish legislation in respect of stress testing, the EBA has also published guidelines in respect of stress testing, which banks are required to comply with GL32, CEBS revised guidelines on stress testing, published August 2010. EBA Guidelines on Internal Governance outline that, to identify and measure risks, an institution should develop forward-looking and backward-looking tools. Forward-looking tools (such as

	<p>scenario analysis and stress tests) should identify potential risk exposures under a range of adverse circumstances. The Central Bank has developed a Stress Testing and Capital Planning Supervisory Framework. This Framework takes into account the proportionality principle.</p> <p>The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing programme or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process. The Central Bank focuses primarily on the results from the bank's models. It specifically reviews macro-economic factors applied by the banks in their models to perform a peer comparison, and a comparison with other scenarios, such as those specified for PCAR 2011 (see CP16 for details on FMP 2011). The Central Bank reviews the output of the models and assesses their plausibility (which again may involve a peer comparison), and whether they adequately cover all material risks in the portfolio. Banks are also required to demonstrate the firm-wide nature of the stress tests, i.e. that the same tests are applied across all risk types. Their ICAAP is also reviewed to verify that the results of the stress tests are appropriately disclosed (i.e. to the board and senior management), the impact on capital and liquidity levels, and the subsequent actions (where required) taken.</p> <p>In addition, the monitoring of stress testing practice and processes in regulated institutions (as part of the SREP exercise) normally involves a combination of desk-based review and on-site exercises. The desk-based review involves a review of:</p> <ul style="list-style-type: none"> <li>• stress testing framework and methodology documents;</li> <li>• results of internal stress testing;</li> <li>• outcome of gap analysis against EBA guidelines on stress testing (GL 32); and</li> <li>• terms of reference for relevant committees (e.g., stress testing committee).</li> </ul> <p>The on-site work, on the other hand, mainly involves review of governance and overall implementation of stress testing. Specifically, the following areas are covered (subject to the proportionality principle):</p> <ul style="list-style-type: none"> <li>• scenario formulation and selection;</li> <li>• scenario translation methodologies (including challenge);</li> <li>• quantification of impact of selected scenarios on profitability, capital and liquidity; and</li> <li>• use of outputs.</li> </ul> <p>To ensure consistency in the review of institutions, the Risk Modeling Unit has developed a Stress Testing and Capital Planning Framework setting out general expectations.</p> <p>In PRISM, the assessment of the level of capital risk inherent in a regulated institution requires that an examiner takes into account:</p> <ul style="list-style-type: none"> <li>• the quality of stress testing process;</li> <li>• the role of stress testing and scenario analysis in the firm's capital and business planning process; and</li> <li>• the feasibility of proposed contingency measures in a period of general market stress.</li> </ul>
<b>EC14</b>	The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.
Description and findings re EC14	The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval

process for all significant business activities through a number of measures:

Business Model Review

As per PRISM supervisory tasks, for High Impact firms, a business model review assesses, inter alia, if the banks are appropriately taking account of risk in their internal pricing. (These reviews are completed every 2 years).

Remuneration Reviews

These reviews were carried out both in 2010 and 2011. The reviews considered whether risk was incorporated into performance measurement (see practical example for further details).

Operational Risk Reviews

New product approval is assessed as part of supervisors' operational risk assessments under the following categories:

Completeness	<ul style="list-style-type: none"> <li>- Operational risk is considered in approval process and processes</li> <li>- New systems/system upgrades fully assessed for potential operational risk</li> </ul>
Quality	<ul style="list-style-type: none"> <li>- Comprehensive and regular review</li> <li>- Testing of processes</li> <li>- Functional and business areas involved (e.g. I.T., risk and business lines)</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>- Regular review for appropriateness</li> <li>- Internal Audit review of new product approval process and integration with operational risk</li> </ul>

The Central Bank requires banks to take account of both legislation and guidelines to ensure they appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.

New Product Approval Process and Internal Pricing

EBA guidelines on internal governance (September 2011) include a specific section relating to new products (section 23). It outlines the following in respect of ensuring banks appropriately account for risk in new products: formalized new product approval; involvement of risk control functions in the new product approval process; and a compliance function should verify new products comply with legal requirements.

BCBS Principles for the Management of Credit Risk, specifically principle 3, outlines that Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the Board of Directors or its appropriate committee.

BCBS Principles for Sound Liquidity Risk Management and Supervision (September 2008), specifically principle 4, requires that banks should incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval process for all significant business activities (both on and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank as a whole.

	<p><u>Performance Measurement</u></p> <p>New legal requirements on remuneration contained in the amended CRD came into effect on 1 January 2011 and were supplemented by guidelines issued by the EBA (together “the Requirements”). The Central Bank advised all banks, in December 2010, of the Requirements and required banks to take whatever action was necessary to ensure compliance with the Requirements. In 2011, the Central Bank carried out a Remuneration Review. This Review assessed compliance with the CRD, followed up findings from the 2010 Central Bank review and assessed compliance against the EBA guidelines.</p>
<b>Additional criteria</b>	
<b>AC1</b>	The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks.
Description and findings re AC1	<p>Article 123 of Directive 2006/48/EC (as amended) (CRD) requires credit institutions to have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.</p> <p>The Corporate Governance Code requires banks to have in place robust governance arrangements and effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, adequate internal control mechanisms, including: sound administrative and accounting procedures; IT systems and controls; and practices that are consistent with and promote sound and effective risk management.</p> <p>As part of the SREP process and ICAAP review, the Central Bank assesses the processes around all material risks.</p> <p>In relation to reputational and strategic risks, these are considered as part of the Business Model Reviews which are completed by the Central Bank. These reviews look at inter alia, the bank’s strategy and business plan, including an evaluation of the reasonableness of underlying assumptions, determination of earnings at risk and other strategic impediments to achievement of this plan. This would take account of the impact of any reputational issues being faced by the bank.</p> <p>Directive 2006/48 (the CRD) has been largely transposed into Irish law by the Central Bank Act 1971, S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009. Particular regard should be given to regulations 66 and 70 of S.I. 661 of 2006.</p>
<b>Assessment of Principle 15</b>	Largely Compliant
Comments	The Central Bank determines that banks have a comprehensive risk management process in place through a combination of on and off-site supervision in line with the PRISM engagement model. Supervisors evaluate the adequacy of risk management strategies, policies, processes and limits established by a bank through periodic risk assessments, FRAs and FRRs. For onsite risk reviews, the Central Bank has dedicated Credit, Treasury, Risk Analytics (Quantitative Models Unit & Portfolio Analytics and Stress testing unit) and Business Model Analytics teams which analyze credit institution’s risk management processes. These teams are also used in assessing offsite reporting by banks. A specialist team for operational risk does not exist (however an operational risk methodology has been developed and rolled for use by supervisors) and in relation to business continuity (EC12) onsite reviews are largely reactive and is one gap in the supervisory framework. The

	<p>range of qualitative and quantitative information to assess the status of business continuity was not sufficient to reliably monitor the robustness of arrangements on an ongoing basis. While some thematic work has been performed, a systematic approach to test and evaluate continuity arrangements has yet to be completed.</p> <p>The level of monitoring and frequency of analysis performed by the specialist teams is determined by its PRISM impact rating, which sets out the minimum engagement model required. Supervisory engagement over and above the minimum is determined, inter alia, by the probability risk ratings. For High Impact banks, coverage is adequate to make a comprehensive assessment of risk management. For banks with an Impact rating less than High, review and assessment of risk management will be performed through the FRA with a minimum frequency of between 2-4 years. In the event issues arise from the Central Bank's assessment of risk management, actions are updated in the risk mitigation programs within PRISM which is an effective system for tracking the status of issues and remediation.</p> <p>In relation to internal models, the Central Bank conducts a risk-based annual model performance review covering all retail and significant locally developed wholesale models. Accordingly, only high impact firms are subject to an annual performance review (i.e. 5 of the 14 institutions with regulatory approval to use internal models). For the remaining lower impact institutions, the CBI relies on ongoing model performance conducted at the parent level, which regulated by the home country supervisor. For these 9 institutions, a higher level of ongoing assurance through liaisons with the Home country supervisor that models are working effectively should be gained.</p>
<b>Principle 16</b>	<b>Capital adequacy.</b> <sup>39</sup> The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards.
<b>Essential criteria</b>	
<b>EC 1</b>	Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.
Description and findings re EC1	<p>Capital is currently (legal basis) defined under the Capital Requirements Directive (CRD), as transposed by Irish statutory instruments (primarily S.I 661 of 2006, Regulations 3-11, in relation to Own Funds). As with the CRD, the statutory instruments do not explicitly use the terms Core Tier 1, Non-Core Tier 1 and Tier 2, although the substance of the Basel rules on Tier 1 and Tier 2 is reflected in those transposed articles.</p> <p>The CBI defines CT1 in line with the EBA definition of April 2011 applied by EBA for stress</p>

<sup>39</sup> The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The Committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

testing purposes (which complies with the CRD). In addition, when the CBI set higher capital requirements (i.e. 10.5% CT1) on the Irish covered banks in 2011, the CBI defined CT1 using the definition of CT1 as defined in the regulatory policy on Alternative Capital Instruments (ACIs – i.e. CT1 minus non-core Tier 1 and hybrid capital).

The new CRR capital rules will apply from 1 January 2014, however, any Irish licensed bank intending to issue capital instruments now will have to ensure that such instruments are “forward-proofed” and meet the requirements of the CRR.

Hybrid capital instruments which contain an incentive to redeem are treated as innovative instruments and limited to a maximum of 15% of total Tier 1 capital under S.I. 661 of 2006. The EBA guidelines on hybrid capital instruments are also applied. Non-Cumulative preference shares are considered as hybrids; those considered non-innovative may account for a maximum of 50% of total Tier 1 (depending on the specific terms and conditions). They are not included in CT1; the only exception is in the case of emergency state aid instruments, which in specific circumstances have been included in CT1 (this only applies to Irish covered banks). These will cease to count as CT1 post-2017(end of the grandfathering period).

#### Prudential Filters applied for Tier 1 calculation

Irish banks are required to filter out any fair value reserves related to gains or losses on cash flow hedges of financial instruments measured at amortized cost, and any gains or losses on their liabilities measured at fair value that are due to changes in their own credit standing. In addition, they are required by the CBI to comply with the CEBS Guidelines for Prudential Filters on Regulatory Capital.

#### *Deductions from Tier 1*

Deductions entirely from Tier 1:

- Intangible assets.
- Own shares at book value held by the institution, and losses (material or otherwise) of the financial year.
- 

#### *50:50 Deductions*

Other deductions which are currently applied 50 percent from Tier 1 and 50 percent from Tier 2 include:

- Holdings in other credit and financial institutions amounting to more than 10% of their capital, and any subordinated claims and instruments which the bank holds in respect of these institutions.
- Excess over 10% of the bank’s adjusted own funds of holdings in other credit and financial institutions of up to 10% of their capital and any subordinated claims, and instruments which the bank holds in respect of these institutions.
- Participations held in insurance undertakings, reinsurance undertakings and insurance holding companies, and any other capital instruments issued by these entities in which a participation is held.
- IRB Provision shortfall and IRB equity expected loss amounts.
- Securitization exposures not included in risk-weighted assets or in the net positions subject to capital charge, respectively.

Tier 2 capital incorporates lesser quality (in terms of loss absorption and permanence) capital instruments and reserves. For the PCAR banks, Tier 2 capital include state aid in the form of contingent convertible instruments (CoCos) issued in July 2011. The five-year host instruments convert to common equity on a breach of a CT1/Common Equity Tier 1 ratio of 8.25%, or when deemed non-viable by the Central Bank.

Tier 3 capital is made up of short-term (minimum of 2 years) subordinated loan capital and net trading book profits. The Central Bank may require any other reductions (filters/deductions) from a tier of total capital, as it deems necessary.

#### Minimum Capital Requirements

As a minimum requirement, all Irish-licensed banks are required to meet a total capital ratio of 8%, incorporating a minimum ratio of 4% Tier 1 or going-concern capital to RWA. Of the 4% Tier 1, Irish law states that at most half of the capital required may comprise hybrid capital instruments which convert into Article 57(a)-compliant instruments at the initiative of the issuer or in emergency situations, and within that hybrid limit, no more than 35% may be made up of instruments without such convertibility but also without an incentive to redeem, and no more than 15% by instruments with an incentive to redeem. Up to 50% of Tier 2 may comprise dated subordinated debt and fixed term cumulative preference shares. Basel I capital floors using an adjustment factor of 80% or higher, continues to be applied to Irish banks using an IRB approach to credit risk requirement calculations and/or the AMA approach to operational risk requirements.

All banks are required to meet these minimum requirements on a solo basis, unless this requirement is waived by the CBI. Irish-licensed parent institutions and Irish-licensed parent financial holding companies must meet the capital requirements on a consolidated basis. The CBI may permit the exclusion of certain subsidiaries from regulatory consolidation. Subsidiary banks must apply their capital requirements on a sub-consolidated basis if those banks (or their holding company) have a bank/financial institution/asset management company as a subsidiary in a third country, or hold a participation in such an undertaking. The minimum "Initial Capital" required is €5m or higher, as specified by the CBI, comprising fully paid-up shares or reserves (as defined by Article 57(a) and (b) of 2006/48/EC) only. Any authorizations given to banks with Initial Capital less than €5m must be notified by the CBI to the European Commission and EBA. Authorization, including verification of Initial Capital (see CP5), is an iterative process of question and response between the Central Bank and the applicant. Where the own funds of a bank fall below the minimum initial amounts required, the CBI may exempt the institution from those requirements for a specified period in order for the institution to rectify the situation or make arrangements, with the consent of the CBI, for the orderly cessation of deposit-taking and, where appropriate, the winding-up of its affairs

#### Additional Capital Requirements

	<p>The CBI may apply a higher minimum ratio requirement to a bank at the outset of its operations as a condition of license, as described in Principle 5, or to a going concern, as a Pillar 2 measure.</p> <p>Three High Impact rated Irish banks are currently subject to the (FMP) minimum consolidated CT1 ratio of 10.5% until at least the end-2013. While applied as Pillar 2 measures by the CBI, following extensive on-site and off-site examinations (including a prudential capital assessment review (loan loss forecast), data integrity validation and asset quality review), these are structured as minimum requirements (rather than capital additions) and are in the public arena. The CT1 ratio used for the FMP is defined by the CBI as Tier 1 minus hybrids and all Tier 1 deductions (including 50% Tier 1 deductions) as per CRD Regulations. The same High Impact banks also fall under EBA's December 2011 Recommendation, requiring a 9% CT1 amount (EBA stress test definition) to be maintained by the banks once the CRR comes into effect. Due to various null sets for the Irish banks, the PCAR and EBA stress test definitions of CT1 are largely equivalent. In practice, the 8.25% Core Equity Tier 1 trigger (calculated using applicable national Basel III phase-in rules) in the Tier 2 CoCos (see "Tier 2" above) will constitute the minimum capital requirement for the PCAR banks. The average CT1 ratio for the three banks was c.14.67% at June 2013.</p> <p><u>Early Warning and Corrective Action</u></p> <p>Ireland's resolution regime, provides the CBI with the power to direct an authorized credit institution to prepare a recovery plan. The CBI uses a variety of tools to regularly review and assess the safety and soundness of banks. In cases where the CBI has concerns about the bank's capital adequacy levels, it raises them at an early stage, and requires that these concerns be addressed in a timely manner. Where significant corrective action is required, the CBI may oblige the credit institution to hold own funds in excess of the minimum level, restrict the bank's activities (including products) and risks, and/or sanction the bank, as appropriate.</p>
<b>EC2</b>	At least for internationally active banks, <sup>40</sup> the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards.
Description and findings re EC2	Basel II was implemented in the EU via the CRD comprising two Directives, 2006/48/EC and 2006/49/EC. The CRD is applicable to all banks in the EU, not just those which are internationally active. The CRD was transposed into Irish law primarily by S.I. 661 of 2006 (as amended) and S.I. 660 of 2006 (as amended) and applies to all Irish-licensed banks, domestically and internationally-focused. The capital rules, as described in EC1, apply

<sup>40</sup> The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalized on a stand-alone basis.

	therefore to all Irish-licensed banks.
<b>EC3</b>	The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (e.g. securitization transactions) <sup>41</sup> entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements.
Description and findings re EC3	<p>The CBI has powers to impose a specific capital charge, for all material risk exposures, on a bank, restrict or limit its business and operations and reduce the risks inherent in the bank. Regulation 70 of S.I. No. 661 of 2006 provides the CBI with the necessary powers and actions if a bank does not meet the requirements set out in the CRD.</p> <p>Regulation 70 states:</p> <ol style="list-style-type: none"> <li>(1) <i>The Bank (Central Bank) shall require any credit institution that does not meet the requirements of these regulations (i.e. CRD) to take the necessary actions or steps at an early stage to address the situation.</i></li> <li>(2) <i>For the purposes of paragraph (1), the measures available to the Bank shall include the following:</i> <ol style="list-style-type: none"> <li>a) <i>Obliging credit institutions to hold own funds in excess of the minimum level set out in Regulation 19,</i></li> <li>b) <i>Requiring the reinforcement of the arrangements, processes, mechanisms and strategies implemented to comply with Regulation 16(3), i.e. governance arrangements including a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, adequate internal control mechanisms, sound administrative and accounting procedures and remuneration policies and practices that are consistent with and promote sound and effective risk management; and 4 (as inserted by Regulation 79) of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 and Regulation 65,</i></li> <li>c) <i>Requiring credit institutions to apply a specific provisioning policy or treatment of assets, in terms of own funds requirements,</i></li> <li>d) <i>Restricting or limiting the business, operations or network of credit institutions,</i></li> <li>e) <i>Requiring the reduction of the risk inherent in the activities, products and systems of credit institutions.</i></li> <li>f) <i>Requiring credit institutions to limit variable remuneration as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base,</i></li> <li>g) <i>Requiring credit institutions to use net profits to strengthen the capital base.</i></li> </ol> </li> </ol>

<sup>41</sup> Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.

<b>EC4</b>	The prescribed capital requirements reflect the risk profile and systemic importance of banks <sup>42</sup> in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.
Description and findings re EC4	<p>In specific circumstances, where the CBI considers additional capital requirements are warranted to reflect the risk profile and systemic importance of a bank, it can and has applied additional requirements. Adequate powers and laws are available to the CBI to apply risk sensitive capital requirements, impose additional capital requirements and reduce the level of leverage in the financial system.</p> <p>The prescribed capital requirements applied by the CBI are the requirements of the CRD. Regulation 19 of S.I. 661 of 2006 sets out the minimum level of own funds. Regulations 20 to 47 of the S.I. set out minimum own funds requirements for credit risk. Regulations 48 to 51 of the S.I. set out minimum own fund requirements for operational risk.</p> <p>For trading book capital requirements: Annex I of CRD (2006/49/EC), as amended, sets out the minimum capital requirements for position risk (relating to general and specific risk capital requirements); Annex II sets out minimum capital requirements for settlement and counterparty credit risk (settlement/delivery risk); Annex III sets out minimum capital requirements for foreign exchange risk; Annex IV sets out minimum capital requirements for commodities risk; and Annex VI sets out minimum capital requirements for large exposures.</p> <p>Regulation 70 of S.I. 661 of 2006 provides the Central Bank with the necessary powers to set overall capital adequacy standards (see EC3 above).</p> <p>As part of the CBI's FMP 2011, it conducted a PCAR on four of Ireland's main banks, AIB, BOI, IL&amp;P and EBS. The PCAR consisted of 3 elements to derive additional capital requirements:</p> <ul style="list-style-type: none"> <li>• The estimation of independent loan-life and three-year losses under the base and adverse macro-economic scenarios;</li> <li>• The modeling of the impact of these losses on balance sheets and profit and loss accounts; and</li> <li>• The combination of these two steps to produce a capital requirement for each of the four banks.</li> </ul>

<sup>42</sup> In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.

	<p>The consequence of applying conservative assumptions, and of setting demanding capital targets, was to require Irish banks to raise a significant amount of additional capital.</p> <p>The minimum amount of capital the banks were required to raise as a result of the PCAR was, in total, €18.7bn, in order to meet the new ongoing target of 10.5% CT1 in the base and 6% CT1 in the adverse scenario. This was on the basis of the combined results of the three-year projected stress losses derived from BlackRock and the PCAR analysis, before the addition of a conservative capital 'buffer'.</p> <p>In addition to these capital requirements, the CBI added a further capital 'buffer' of €5.3bn across the four banks. This introduced an extra layer of resilience, and recognized the possible, albeit unlikely, emergence of large losses after 2013. The buffer represents a further protective capital layer over and above already conservative provisions, which are based on an even more stressed macroeconomic environment than currently prevails. The CBI imposed these additional capital requirements on the four banks under Regulation 70 of S.I. 661 of 2006 (see details in EC3 above).</p> <p>In addition, banks are eligible to use internal assessment and models to determine capital requirements on a more risk sensitive basis. However, even in cases where the CBI has granted model approval (see EC5 below), it has applied additional layers of conservatism by applying minimum floors to capital requirements, ranging from 80% to 100% of Basel 1 capital requirements. In effect, the CBI, while encouraging banks to adopt more sophisticated forms of risk measurement and management techniques, has not sanctioned a reduction in the actual level of capital requirements. This is mainly due to concerns around data quality and quantity, and banks' experience and ability to model certain assets classes typically deemed low default portfolios in the lead up to the current financial crisis.</p> <p>The CBI also applies risk weights under the least risk-sensitive approach to credit risk, the "Standardized Approach", in line with Basel II, of 35% risk weight for lending backed by residential mortgages in Ireland. This is restricted to owner-occupiers and loans with an LTV of less than 75%. In addition, speculative commercial real estate may be risk weighted at 150%.</p> <p>The application of the FMP 2011 also imposed a program of deleveraging, or 'right-sizing' of the domestic banking system. New capital requirements imposed by PCAR were accompanied by "hard" deleveraging targets in the form of defined loan-to-deposit ratios. LDR targets were applied by the Central Bank under Regulation 70 of S.I. 661 of 2006.</p>
<b>EC5</b>	<p>The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use:</p> <ul style="list-style-type: none"> <li>(a) such assessments adhere to rigorous qualifying standards;</li> <li>(b) any cessation of such use, or any material modification of the bank's processes and</li> </ul>

	<p>models for producing such internal assessments, are subject to the approval of the supervisor;</p> <p>(c) the supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken;</p> <p>(d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and</p> <p>(e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.</p>
Description and findings re EC5	<p>The CBI has an internal model validation review process for assessing internal model applications relating to market and credit risk regulatory requirements. However, the CBI's process for reviewing AMA (operational) risk models is much less tested due to the low number of Irish licensed banks using the advanced approach. No consolidated Irish licensed bank has applied for, or been approved for, the use of AMA.</p> <p>The supervisory review is carried out simultaneously by the supervisors of the individual regulated entities within the group in accordance with Article 129 of the CRD. At the end of the review, the CBI will formulate its own view. Supervisors then agree together on the decision to grant or refuse the permissions sought. Permission, if granted, will be provided within a defined period of receipt of the complete application to each legal entity within the applicant entity. Comprehensive regulations, standards and eligibility criteria must be met by banks using internal models to determine regulatory capital requirements.</p> <p>The annual model performance review (IRBA), which is carried out by the CBI's Risk Modeling Unit in conjunction with the relevant Examination Team, covers all the approved internal models used by home institutions (where the CBI is the consolidating supervisor) and those used by host institutions with significant retail presence in Ireland (i.e. models developed using Irish relevant data and applicable to Irish portfolios).</p> <p>The Risk Modeling Unit has developed internal policies and procedures on Internal Model Approval and Performance Review to guide the model approval process and the annual model performance review exercise. The policy document makes reference to various internal guidance, relevant regulatory requirements and specific methodologies/approaches.</p> <p>Banks are required under Article 129(2) of CRD (Regulation 67(2) of S.I. 661 of 2006) to make an application for internal model approval, on a Group basis, to the supervisor of the parent institution in the European Union. Therefore, Irish licensed banks may apply to the CBI, where it is the home supervisory authority, for regulatory approval to use internal models for the calculation of regulatory capital requirements. Irish licensed entities, which are subsidiaries of an EU parent bank, are also permitted to use internal models where</p>

regulatory approval has been granted under a “Joint Decision” between the CBI and the EU home supervisory authority of its parent institution.

Qualifying standards:

CRD Article 84(2) (Regulation 29(3) of S.I. 661 of 2006) sets out the conditions under which supervisors may grant authorization for the use of the IRBA to set minimum capital requirements. This article requires that the approach is “sound and implemented with integrity” and that certain requirements set out in the remainder of the article and in CRD Annex VII part 4 are met. These requirements apply to all institutions and may not be abrogated in full or in part by supervisors, except where explicitly permitted by the CRD.

Approval to use the AMA can be given only if the competent authority is satisfied that the institution’s systems for measuring operational risk meet the qualifying criteria in Article 310, Chapter 1, and Tittle III of CRD. Regulation 51 of S.I. No. 661 of 2006 sets out the CBI’s powers to allow credit institutions to use the AMA for operational risk capital requirements. Annex X, part 3 of the CRD (2006/48/EC) sets out the qualifying criteria for AMA, including both qualitative and quantitative requirements.

Annex V of Directive 2006/49/EC as amended allows for the CBI to grant approval for banks to calculate their capital requirements for position risk, foreign-exchange risk and/or commodities risk using their own internal risk-management models. Annex V sets out eligibility criteria relating to quantitative and qualitative criteria.

The CBI has developed internal model policies, implementation notices, and model application packs setting out its requirements and processes for internal model use relating to credit, market and operational risk.

*Model Validation Review*

In accordance with the CBI’s CRD/VR/1.2 policy document, the model validation review process consists of 7 stages, which an institution applying for regulatory recognition must comply with. The institution must have documented policies and procedures in place to support its internal model framework. The CBI will assess and challenge the robustness of each of these stages during its review. This framework is applicable to all 3 risk categories (credit, market and operational risk) but is much less tested for operational risk given the low level of use of AMA within Irish licensed institutions.

For IRBA, regulatory model approval is granted in accordance with Article 84 of the CRD (2006/48/EC). Approval is granted in conjunction with a detailed set of conditions covering the follow components:

- Scope of permission for internal model use – legal entities, exposure classes, permanent and temporary exemptions, exclusions of use;
- Capital requirements – legal powers under which capital requirements should be, supervisory minimum floors applied, consolidated capital reporting and permanent

exemptions for portfolios using the standardised capital rules.

- Prerequisites – conditions to be satisfied before permission to use the internal models approach
- Ongoing requirements – model specific elements, including terms and conditions. This includes a general requirement for institutions to report any significant model changes to the Central Bank on an ongoing basis. Specifically, a joint decision (as per Article 129 of the CRD) could contain group-specific or nation-specific terms and conditions.

The ongoing review of credit risk models by the CBI covers three broad areas which include:

- (a) parameter appropriateness,
- (b) deployment of regulatory capital calculation process, and
- (c) RWA forecasting.

Review of parameter appropriateness includes an assessment of reasonableness of inputs and outputs (PDs, Exposure at Defaults (EADs), LGDs, etc.) while assessment of the quality of deployment covers governance, ownership and testing of the end-to-end capital calculation process. The last IRB model performance review was presented to the RGP in December 2012 and the remedial actions were communicated to the banks. The actions are currently being tracked, and all are due for closure by the end of the year. The ongoing review of IRB models focus on the three institutions where the CBI is the consolidating supervisor and the two institutions with significant retail presence in Ireland.

For market risk, banks which have approval to use an internal value-at-risk model are required to submit details of any back-testing exception within 5 working days of occurrence. In practice, the CBI assesses 500 days of back-testing data during the model validation review stage.

The Central Bank has powers under paragraph 8 of annex V of CRD II to revoke the market risk model's recognition or impose appropriate measures to ensure that the model is improved promptly if numerous over-shootings indicate that the model is not sufficiently accurate.

In practice, the CBI applies add-on factors for both qualitative and quantitative weaknesses. For IRBA, where the bank ceases to comply with the IRBA requirements, Regulation 29 of S.I. 660 of 2006 requires the bank to either present to the CBI a plan for a timely return to compliance or demonstrate that the effect of non-compliance is immaterial. A proposal to revoke an Article 129(2) decision can be made by the consolidating supervisor, a host supervisor, or the institution itself. The Article 129(2) decision can be revoked by joint agreement of the consolidating supervisor and the host supervisors or, in the absence of an agreement, by the consolidating supervisor alone. A host supervisor cannot revoke an Article 129(2) decision acting on its own. The CBI can, however, direct a bank to cease using an IRBA model for regulatory capital purposes if it has been found, through the CBI's

	annual model performance review or via an ad-hoc analysis, to not be fit for purpose.
<b>EC6</b>	<p>The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).<sup>43</sup> The supervisor has the power to require banks:</p> <p>(a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and</p> <p>(b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.</p>
Description and findings re EC6	<p>The CBI requires all banks to have an ICAAP process, as per Article 123 of the CRD. Within the institution's internal governance framework, the ICAAP is a process to ensure that the management body (both supervisory and management functions):</p> <ul style="list-style-type: none"> <li>• Adequately identify, measure, aggregate and monitor the institution's risks.</li> <li>• Hold adequate internal capital in relation to the institution's risk profile.</li> <li>• Use sound risk management systems and develop them further.</li> </ul> <p>It is the responsibility of the institution to define and develop its ICAAP. Article 124 of the CRD sets out the CBI's requirements in respect of the SREP. Under the SREP, the CBI assesses banks' ICAAPs, including the adequacy of capital held for all material risks (both pillar 1 and pillar 2 material risks, i.e. risk profile). As per EBA guidelines, institutions should conduct appropriate stress tests which take into account, for example, the risks specific to the jurisdiction(s) in which they operate and particular stages of the business cycle.</p> <p>In July 2011, three banks subject to the FMP issued contingent convertible Tier 2 instruments which were subscribed by the State. These instruments convert to common equity on a going-concern basis once a pre-defined trigger is breached and at the point of non-viability, as identified by the CBI, and are intended to bolster the banks' CT1 levels in periods of stress. Under Basel III/CRD IV, a countercyclical buffer may be applied to banks' domestic and external exposures as deemed appropriate by the CBI to counteract overheating markets and/or sectors. This specific buffer is available to Member States of the EU to be phased in at a minimum from 2016 onwards. The CRD, and in particular supervisory review under Pillar 2, requires institutions to take a forward-looking view in their risk management, strategic planning and capital planning. The CBI has also adopted the EBA guidelines on stress testing. These guidelines outline the criteria and standards for stress testing that the Central Bank expects banks to adopt and review on a regular basis.</p>
<b>AC1</b>	For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.

<sup>43</sup> "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyses and reverses stress testing.

Description and findings re AC1	The minimum requirements and regulations relating to capital, including the definition of capital, the risk coverage, the method of calculation, the scope of application and capital required, are applied to all banks with no exceptions, including for non-internationally active banks. As described in the ECs above, capital adequacy requirements applied to all Irish licensed banks are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.
<b>AC2</b>	The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks. <sup>44</sup>
Description and findings re AC2	All banks are required to meet risk-based minimum capital requirements on a solo basis. Irish-licensed parent institutions and Irish-licensed parent financial holding companies must also meet the capital requirements on a consolidated basis. The Central Bank may permit the exclusion of certain subsidiaries from regulatory consolidation and/or may conditionally allow the subsidiaries to be incorporated in the parent's calculations, obviating the need for a solo return by the subsidiary ("solo consolidation"). Subsidiary banks must apply their capital requirements on a sub-consolidated basis if those banks (or their holding company) have a bank/financial institution/asset management company as a subsidiary in a third country, or hold a participation in such an undertaking.
<b>Assessment of Principle 16</b>	Compliant
Comments	
<b>Principle 17</b>	<b>Credit risk.</b> <sup>45</sup> The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk <sup>46</sup> (including counterparty credit risk) <sup>47</sup> on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.
Description and	At a minimum, all credit institutions are required to comply with the CRD. In relation to

<sup>44</sup> Please refer to Principle 12, Essential Criterion 7.

<sup>45</sup> Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

<sup>46</sup> Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities.

<sup>47</sup> Counterparty credit risk includes credit risk exposures arising from OTC derivative and other financial instruments.

findings re EC1	<p>credit risk management processes, the CRD requires that credit-granting be <i>“based on sound and well-defined criteria”, “the process for approving, amending, renewing, and re-financing credits [...] be clearly established”, “the ongoing administration and monitoring of their various credit risk bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions, [...] be operated through effective systems” and “diversification of credit portfolios be adequate given the credit institution’s target markets and overall credit strategy”</i> (Annex V of the 2006/48/EC (see Paragraphs 3-5).</p> <p>The CRD is supplemented by the EBA Guidelines GL 44 which expand on the requirements of Article 22 and Annex V and establish governance expectations generally. Any deficiencies identified by the bank itself, in the absence of remedying measures, must be backstopped under the requirements of Article 123 of 2006/48/EC (Regulation 65 of S.I. 661 of 2006), which mandates that appropriate levels of internal capital be held by a bank <i>“to cover the nature and level of the risks to which they are or might be exposed.”</i></p> <p>The requirements contained in Annex V of the CRD (2006/48/EC) form part of the more general governance provisions contained within Article 22 of 2006/48/EC (as transposed by Regulation 16 of the European Communities (Licensing and Supervision of Credit Institutions) Regulations, 1992, (S.I. 395 of 1992)) and Annex V, paragraph 2. These provisions require that every bank manages its business in accordance with sound administrative and accounting principles, including internal control and reporting arrangements and procedures, and must be satisfied that comprehensive risk management policies, strategies and systems are commensurate with the scope, size and complexity of all the bank’s activities, given the macro-environment.</p> <p>The Central Bank issued <i>“Impairment Provisions for Credit Exposures”</i> (Oct 2005) which contains requirements for credit risk management policies and procedures and is the most specific in terms of minimum expectations for credit risk (Part 1, 3.1).</p> <p>Under the Banking Supervision engagement model, the Central Bank supervises the banks in accordance with the PRISM framework through the assessment of a bank’s ‘Quality of Credit Risk Controls’.</p> <p>The CBI adopts a differentiated approach to its supervision of credit risk depending upon the Impact risk rating. The following approaches are adopted based upon the Impact rating of the bank:</p> <p><b>High Impact banks</b></p> <p>High Impact banks have a dedicated credit specialist resource that assist the Examination Team with supervising the credit institution in relation to credit risk. These credit specialists will, inter alia, assess: Governance and culture; Skills and resources; Concentration risk; Credit approval process; Credit monitoring process; Credit control and collections; Impairment and provisions; and Management information and modeling. The assessment of a High Impact banks’ credit risk profile is based upon analysis of quarterly prudential returns and is supplemented by more frequent management information given the prevailing economic conditions.</p> <p>The <i>“Covered Credit Institutions”</i> submit:</p> <ul style="list-style-type: none"> <li>• Quarterly Summary Financial Return (QSFR) – loan losses, nonperforming loans, and additional information on loans.</li> </ul>
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- Arrears return – extensions/rollovers, restructured loans.
- 3 years of QSFR data is available.
- 3 years of “Impairment Provisions” data is available.

Offsite analysis involves the assessment of the following information:

- Analysis of quarterly prudential returns
- Reviewing Credit Management Information on a monthly or quarterly basis depending on the size of the institution.
- Reviewing strategy documentation and implementation plans for Distressed Loan Portfolios (Mortgage, SME & Real Estate).
- Reviewing supporting documentation for Risk and Credit Committees.

The results of the analysis is fed into PRISM upon completion.

The Examination Teams undertake quarterly reviews of regulatory returns which cover impairments, nonperforming loans, trends in the loans book, etc. The Examination Team also engage with the credit institution on an ongoing basis to discuss credit risk issues.

Regular meetings with key bank personnel are conducted: for example quarterly with divisional heads of credit and in the case of a number of High Impact banks monthly meetings were held with the CEO in relation to Mortgage Arrears. Key credit risk policies are assessed on an annual basis.

Onsite supervision is a combination of regular meetings with bank executives and onsite examination. The regular meetings with the bank include meetings with Heads of Credit and observing Credit Risk Committee meetings.

An onsite Credit Risk Review for High Impact banks is typically performed on at least a two year cycle and will involve representatives from the Credit Risk Team and the supervision team. The review will assess documentation and will meet with staff from all lines of defense – challenging the process of credit risk assessment throughout the credit risk lifecycle from loan origination to ongoing monitoring and hind-sighting and IA. When performing a FRR on Credit Risk the CBI assesses a broad range of documentation including the following: Risk Appetite Statement; Impairment Policy; Credit Policy; Collateral Valuation Policy; Risk Framework; Credit Review Procedures & Controls; Collateral Security Procedures and Credit Grading Management & Procedures. While the onsite aspect of the review includes sample testing of loan files to ascertain compliance with policy documentation, these reviews will typically assess whether the credit risk grading system is being applied in an accurate manner. For example, whether a certain grade applied to an obligor is accurate.

At least annually, a full assessment of credit risk will be conducted for High Impact banks and will be presented to RGP. The process for High Impact banks in terms of offsite supervision and onsite activities provide supervisors an opportunity to determine the credit risk profile of a bank from a number of different perspectives and taking into account various sources of information.

#### **Medium High**

Quarterly analysis of regulatory returns will be performed by supervisors which include a

variety of credit risk information. Quantitative data will be supplemented by Board information when requested. A FRA will be conducted on a minimum frequency between two to four years during which an assessment of credit risk will be performed. Medium High banks receive support from credit specialists where deemed necessary and in particular to lead an onsite file review. Key credit risk policies will be assessed as part of the FRA.

Credit risk will be discussed during meetings with bank senior management. Meetings will take place across various levels of senior management: CEO, CRO, Board and include external auditors.

#### **Medium Low/Low**

As part of the planning cycle a proportion of Medium High and Medium Low firms are included in the annual cycle of Financial Risk Assessments. In addition to this Medium High and Medium Low and Low Impact banks will be subject to variance analysis whereby certain specified deviations in quarterly regulatory return data will trigger supervisory attention. In terms of onsite credit risk reviews, the PRISM engagement model requires an FRA and RGP on a spot/random basis.

10 percent of banks assigned Medium Low Impact will be sampled per year. This equates to an average of one FRA/RGP a year for Medium Low Impact credit institutions. The engagement typically covers:

- Meeting with CRO/CCO/Head of Credit to discuss key credit risks/credit processes.
- Review of firm MI quality and circulation/frequency.
- Review of independence of Credit Risk Function organisation structure.
- Credit Policy – approved by Board annually.
- Desk top review of credit risk MI including asset quality/provision trends.
- Loan file review (small sample).

For Medium low impact banks there is a semi-annual meeting between the credit specialists and the supervisory team to review credit risk in these institutions. For some of the medium low institutions, banks are required to submit an abridged QSFR providing an overview of credit exposures. A full review of credit risk will be conducted during an FRA. In addition, for Medium Low Impact banks credit specialist support is provided to supervision teams when required to attend on-site credit institution meetings with senior risk management personnel and to conduct loan file inspections to assess credit grading reliability and impairment provision adequacy.

While the requirements in the CRD cover the overall credit granting process, it does not refer to a comprehensive bank-wide view of credit risk exposures. Routine supervisory activities for High Impact banks provide the supervisor with a variety of inputs to assess credit risk management processes against changes in market and macroeconomic conditions. Analysis of regulatory data and enhanced reporting requirements enable the supervisor to detect changes in risk profile.

For the banks assigned PRISM Impact ratings of Medium Low and Low, the variance analysis might not necessarily provide insight into the application of credit risk management processes until after risks have begun to crystallize resulting in breaching Central Bank triggers for supervisory attention. The Central Bank does not rely on Variance Analysis alone to determine what Medium High/Medium Low institutions will be subject to

	Financial risk Assessments in any given year. Based on their review of Board Packs, Financial Analysis, meetings with bank executives, the CBI determines its work plan each year.
<b>EC2</b>	The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming, <sup>48</sup> identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.
Description and findings re EC2	<p>For <u>High Impact</u> credit institutions, the Central Bank performs governance reviews at least every two years. These reviews cover credit risk governance. In addition, as part of the SREP process, every year the supervisor and the credit specialist will assess the role of the board and of senior management in respect of credit risk. The Central Bank assessment of credit governance includes an evaluation of the following:</p> <ul style="list-style-type: none"> <li>• The credit competence of the Board</li> <li>• Whether the Board is actively involved in challenging and approving credit strategy on an annual basis</li> <li>• Whether the Board approves and updates the credit risk appetite and credit risk policies</li> <li>• The impact of the credit risk function at executive management level</li> <li>• Whether the Board is provided with comprehensive credit information on a timely basis</li> <li>• The bank's credit model approval committee</li> </ul> <p>The Central Bank reviews, inter alia, the following documentation as part of its offsite supervision to determine that the Board has approved and regularly reviews the Risk Appetite Statement (RAS) in accordance with requirements, and that they have adequate policies and processes that reflect the RAS. Frequency of review will depend upon the PRISM risk rating. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes. These include:</p> <ul style="list-style-type: none"> <li>• RAS</li> <li>• Impairment Policy</li> <li>• Credit Policy</li> <li>• Business Unit Credit Policy Documents</li> <li>• Collateral Valuation Policy</li> <li>• Risk Framework</li> <li>• Credit Review Procedures &amp; Controls</li> <li>• Collateral Security Procedures</li> <li>• Credit Grading Management &amp; Procedures</li> </ul> <p>The review of documentation is supported with on-site and off-site supervision by the Central Bank to observe how policy is implemented on the ground. This may include</p>

<sup>48</sup> "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.

actions such as:

1. Reviewing credit management information on a monthly or quarterly basis.
2. Observing regularly at Risk and Credit Committees.
3. Reviewing supporting documentation for Risk and Credit Committees.
4. Sample testing loan files to ascertain compliance with policy documentation.
5. Requiring Banks to undertake a third-party review of their policy documentation and processes.
6. Regular meetings with Group and Divisional Heads of Credit.
7. Reviewing strategy documentation and implementation plans for Distressed Loan Portfolios (Mortgage, SME & Real Estate).
8. Peer analysis of asset quality trends across the banks where the Central Bank's risk-based supervision is focused.

For Medium High Impact and Medium Low Impact Credit Institutions:

The Central Bank's evaluation of the role of the board and senior management's implementation of the credit risk strategy is largely completed on a desk-top basis with MI being received by supervisors in the form of Board Packs and both Credit and Risk Committee Minutes. An RGP (a full review of capital and risk) is completed every two to four years for Medium High Impact banks and for Medium Low Impact banks on a sample basis which will cover the role of the board and senior management in respect of credit risk.

Credit Risk Committee packs are used to:

- a) evaluate the granularity of the MI received by the Board/committees;
- b) review the minutes for evidence of challenge and/or understanding of the credit risk facing the institution.

For High Impact credit institutions, the RAS, the Credit Policy and the Credit Approval policy would be evaluated against best practice and to also ensure that the policies are in line with the stated risk appetite. For Medium High and Medium Low credit institutions, the credit institutions are required to have an up-to-date Risk Appetite Statement. Credit management structures are evaluated to ensure there is an appropriate division between the business line and the credit risk divisions. At minimum, biennial meetings are scheduled to meet the Head of Credit and/or CRO to discuss the developments within the management of credit risk.

For High Impact banks, the routine supervisory activities are adequate to make an assessment of the Board's involvement in developing and regularly approving the credit risk management strategy and significant policies and processes. Onsite reviews enable the supervisor the opportunity to assess whether senior management has implemented the credit risk strategy approved by the Board. The supervisor reviews credit risk policies at least annually and engages with Board to discuss credit risk.

For Medium High Impact banks, the annual meeting with the Chair of the Board and executive management (CEO & CFO) provide an opportunity to frequently assess the implementation of the Board's credit risk management strategy. For Medium Low Impact banks the engagement with the Chair and senior management is on an 18 month cycle. For Low Impact banks, engagement with Senior management is not prescribed in PRISM and unless in exception will a supervisory activity enable the supervisor to make an accurate assessment of whether senior management has implemented the Board's credit risk

	management strategy.
<b>EC3</b>	<p>The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including:</p> <ul style="list-style-type: none"> <li>(a) a well documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments;</li> <li>(b) well defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures, and identifying the appropriate approval authority for the size and complexity of the exposures;</li> <li>(c) effective credit administration policies and processes, including continued analysis of a borrower's ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in the case of securitization exposures); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system;</li> <li>(d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's Board and senior management on an ongoing basis;</li> <li>(e) prudent and appropriate credit limits, consistent with the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff;</li> <li>(f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board where necessary; and</li> <li>(g) effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.</li> </ul>
Description and findings re EC3	<p>The Central Bank performs an annual review of a broad range of documentation and management information to determine that credit risk policies have been effectively implemented, including (but not limited to),</p> <ol style="list-style-type: none"> <li>1. RAS [(a) and (e)]</li> <li>2. Impairment Policy [(a) and (b)]</li> <li>3. Credit Policy [(a) and (b)]</li> <li>4. Business Unit Credit Policy Documents [(a) and (b)]</li> <li>5. Collateral Valuation Policy [(a) and (b)]</li> <li>6. Risk Framework [(a) and (e)]</li> <li>7. Credit Review Procedures &amp; Controls [(g) and (e)]</li> <li>8. Collateral Security Procedures [(a)]</li> <li>9. Credit Grading Management &amp; Procedures [(a)]</li> </ol> <p>The Central Bank also challenges the banks in relation to the frequency of the internal review of each of their policy documents. The challenge process frequency depends upon the engagement model in PRISM based on Impact classification.</p>

	<p>The review of documentation is supported with on-site and off-site supervision by the Central Bank to observe how policy is implemented on the ground. This includes actions such as:</p> <ol style="list-style-type: none"> <li>1. Reviewing credit management information on a monthly or quarterly basis. [(d)]</li> <li>2. Observing regularly at Risk and Credit Committees. [(f)]</li> <li>3. Reviewing supporting documentation for Risk and Credit Committees. [(f)]</li> <li>4. Sample testing loan files to ascertain compliance with policy documentation; analysis of the borrower's ability and willingness to repay under the terms of the debt monitoring of documentation; legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system. [(c)]</li> </ol> <p>The Central Bank evaluates lower risk institutions on a similar basis, generally without the benefit of on-site file reviews. Areas of focus can include:</p> <ul style="list-style-type: none"> <li>• Review of credit policies to ensure adherence with the RAS. Adherence to these policies is tested through the Exceptions Report. This report highlights any exceptions to policy and would be the subject of discussion with senior credit risk management. [(a)]</li> <li>• Review of credit approval policies for appropriateness, including assessment of individual discretions, domestic discretions and in the case of a subsidiary, the level of Parent/Group approval required under the policy. [(e)]</li> <li>• Copies of Credit Approval documents can be requested to monitor the depth of assessment provided to Credit Committee and therefore the basis for approval in relation to the credit policies in place. [(e)]</li> <li>• Review of credit grading policy to assess the appropriateness and granularity of the approach. [(g)]</li> <li>• Quality assurance of credit risk to ensure an appropriate level of "4-eyes principle" review. [(g)]</li> <li>• Assessment of the valuation policy against the CRD; and best practice in a stressed environment. [(g)]</li> <li>• Review frequency and quality is monitored against requirements and internal policies. [(g)]</li> <li>• Regulatory returns are monitored, including Connected Clients, Large Exposures and Sector Reports, as well as a review of the Exceptions Report to credit appetite. [(a)]</li> </ul> <p>The Central Bank demonstrated examples where they had implemented their framework to assess credit risk management. For High Impact banks, the framework provided several opportunities to assess that banks had implemented a properly controlled credit risk environment. Several examples were evidenced in this regard, especially for the covered banks but also for certain other high impact banks. In several examples, supervisors were going over and beyond minimum activities prescribed by the PRISM framework. Supervisors employed a variety of tools to assess the control environment for credit risk exposures, which seemed appropriate for the market and macroeconomic conditions.</p> <p>This approach had not been extended to all banks but was heavily skewed to the High Impact banks which accounted for the bulk of banking assets.</p>
<b>EC4</b>	The supervisor determines that banks have policies and processes to monitor the total

	indebtedness of entities to which they extend credit and any risk factors that may result in default including significant un-hedged foreign exchange risk.
Description and findings re EC4	<p>Banking Supervision Examination Teams, supported by credit specialists, assess High Impact credit institution policies and processes that monitor the total indebtedness of borrowers and risk factors that may result in default. This work is conducted by reviewing credit monitoring policy and procedures to check that they are aligned to strategy, are up to date, are sufficiently detailed and are approved by the Board on an annual basis.</p> <p>Credit specialists evaluate credit risk information to ensure it is sufficient to manage loans. Credit reports are assessed to ensure they enable executives to monitor obligors overdue for reviews and identify loan arrears in a timely manner. The quality of management information reported to the Board and Risk Committee is also assessed to ensure pertinent credit risk information regarding asset quality is reported at both portfolio level and large exposure level.</p> <p>To support this work, Banking Supervision credit specialists undertake credit inspections of sample loan files to evaluate and challenge the bank's approach to monitoring the total indebtedness of borrowers. As mentioned in the above EC's, the depth and frequency of onsite credit risk reviews are typically performed in line with a bank's PRISM Impact rating and will not be performed for Medium Low and Low Impact banks.</p> <p><u>Establishment of a Central Credit Register</u></p> <p>Banks are required to monitor the total indebtedness of their borrowers, with a particular focus on multi-banked customers. Their capacity to do this will be further enhanced by the introduction of a statutory credit register (which is a requirement of Ireland's financial support programme with the IMF, EC and ECB). Legislation is due to be enacted by end-2013, and the indicative implementation date of the Central Credit Register is 2015-2016.</p>
<b>EC5</b>	The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.
Description and findings re EC5	<p>Under Paragraph 12(1) of the EBA GL44, which are applied by the Central Bank, it is made explicit that "<i>members of the management body shall engage actively in the business of an institution and shall be able to make their own sound, objective and independent decisions and judgments.</i>"</p> <p>Paragraph 12(3) of the same document requires that members of the management body should have a "<i>limited number of mandates or other professional high time-consuming activities</i>", and that these other mandates should be disclosed to the bank. Paragraph 12(6) states that the "<i>management body should have a written policy on managing conflicts of interests for its members.</i>"</p> <p>In order to determine that credit decisions are free of conflicts of interest and made on an arm's length basis, the Central Bank reviews the following information:</p> <ul style="list-style-type: none"> <li>• Credit Framework Document</li> <li>• KPIs set for credit functionaries as part of their performance appraisals</li> <li>• Internal Audit and Quality Assurance Reports</li> <li>• Quarterly Related Party Lending returns submitted to the Central Bank</li> </ul> <p>This enables the Central Bank to determine whether:</p> <ul style="list-style-type: none"> <li>• the credit function is independent of the sales function;</li> <li>• the credit function remuneration is independent of sales volumes; and</li> </ul>

	<ul style="list-style-type: none"> <li>• there is an appropriate credit quality assurance/internal function.</li> </ul> <p>The Central Bank's Code of Practice on Lending to Related Parties (2010) provides direction for credit decision-making where the credit is specifically being extended to related parties. Under Paragraph 6(a) of this Code, the Central Bank requires that such lending be on an arm's length basis (unless it forms part of the general remuneration package of staff), and under Paragraphs 6(b) to (i), requires that such lending be subject to appropriate management oversight and limits. Credit institutions are required by the Central Bank to submit quarterly reports and seek prior approval for certain loans greater than €1 million, as per the Code. This Code is imposed pursuant to Section 117 of the Central Bank Act 1989.</p>
<b>EC6</b>	The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities.
Description and findings re EC6	Historically, the Central Bank did not require that a credit institution's credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital (and including especially risky or exposure which are not in line with the mainstream of the bank's activities) to be decided by the bank's Board or senior management. However, this requirement was imposed on credit institutions under section 10 of the Central Bank Act 1971 in August 2013.
<b>EC7</b>	The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.
Description and findings re EC7	<p>Licensed banks operating in Ireland are required to comply with the minimum calculation and reporting requirements contained in Article 74 of 2006/48/EC (as transposed by Regulation 18 of S.I. No.661 of 2006. In addition, Section 18 of the Central Bank Act 1971 allows the Central Bank and the ECB with the power to require additional information or returns from banks where they consider it "<i>necessary to have that information or return for the proper performance of the functions imposed, or the proper exercise of the powers conferred, on it by law.</i>"</p> <p>Part 3 of the Central Bank (Supervision and Enforcement) Act 2013 provides for extensive authorised officer powers.</p> <p>Through these powers, the Central Bank has full access to information in the credit and investment portfolios, and to the staff responsible for managing, monitoring and reporting on the credit risk.</p> <p>Under the PRISM framework, Central Bank monitors significant information on loan portfolios (Drawn/Undrawn, Geography, Sectoral, Grades, Arrears, Impairment, Provisions, etc.) across all credit institutions. In addition, credit analysts are copied with internal credit institution management information packs (e.g. Board, Executive, Credit, Risk and Policy Committees). Copies of all information circulated to these committees (and all regular Credit Risk reporting packs) are available to supervisors and are regularly reviewed to assess portfolio trends, management priorities and key messages.</p> <p>Supervisors have access to, and engage with, bank officers in a manner which reflects the risk impact rating of each institution. Supervisors meet regularly with Heads of Function in Credit, Risk, Credit Review, Asset Restructuring and Internal Audit.</p>
<b>EC8</b>	The supervisor requires banks to include their credit risk exposures into their stress testing

	programmes for risk management purposes.
Description and findings re EC8	<p>The Central Bank requires credit institutions to have a stress testing process and framework. Under EBA Guidelines on Stress Testing, GL32, all credit institutions exposed to credit risk as a material risk are subject to credit risk stress testing. As part of the SREP process, the Risk Modeling Team assesses bank's stress testing processes at a high level. Where shortcomings are identified, required actions to address the issues are outlined within the RMP.</p> <p>In the majority of banks, credit risk is considered the main driver of loss and therefore receives the most focus when assessing stress test programmes.</p> <p>The Central Bank has adopted the EBA Guidelines on stress testing. These Guidelines outline the criteria and standards for stress testing that the Central Bank expects banks to adopt and review on a regular basis. Of particular relevance to this EC are:</p> <ul style="list-style-type: none"> <li>○ Guideline 6 (sensitivity analyses for specific portfolios or risks);</li> <li>○ Guideline 7 (scenario analyses);</li> <li>○ Guideline 14 (use of stress testing outputs); and</li> <li>○ Guideline 19 (relating to supervisory use of stress testing outputs), which supplements Article 124 and Annex V of 2006/48/EC (as transposed by Regulation 66 of S.I. 661 of 2006), which lay down the supervisory review and evaluation process.</li> </ul> <ul style="list-style-type: none"> <li>● Regulation 65 of S.I. 661 of 2006, transposing Article 123 of 2006/48/EC, requires banks to have forward-looking strategies and processes in place relating to internal capital:       <ul style="list-style-type: none"> <li>○ Regulation 65(1) requires banks to have in place "<i>sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed</i>", including credit risks.</li> <li>○ Regulation 65(2) requires that the strategies and processes referred to in paragraph 65(1) shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the credit institution concerned.</li> </ul> </li> </ul> <p>A significant focus of the Central Bank has been placed on improving banks' ability to forecast 'expected' credit losses and 'adverse' credit losses. Banks' outputs have been sense checked against one another, as well as against independent estimates produced by the Central Bank as part of the PCAR. Where banks' outputs did not appear credible, they were required to focus on improving their forecasting methodology. In 2011, as part of the PCAR, the Central Bank conducted rigorous stress test of banks' credit portfolios and compared its results against the results of the banks' own credit risk stress tests. This resulted in the covered banks being required to raise €24bn in additional capital to cover 3 year stressed losses. The Central Bank also participated in the EBA stress tests.</p> <p>In addition, for Medium High Impact and Medium Low Impact banks, Central Bank analysis aims to ensure:</p> <ol style="list-style-type: none"> <li>1. That the scenarios (which are often set at Group level) are relevant to the local entity and that adequate governance is in place to ensure that risks specific to the subsidiary are appropriately evaluated.</li> <li>2. That the scenario translation methodology is adequately robust.</li> </ol>

<b>Assessment of Principle 17</b>	Largely Compliant
Comment	<p>Resources are heavily weighted towards the High Impact banks where the overwhelming level of credit risk in the Irish banking system resides. Routine supervisory activities for High Impact banks provide the supervisor with a variety of inputs to assess credit risk management processes against changes in market and macroeconomic conditions. Analysis of regulatory data and enhanced reporting requirements enable the supervisor to detect changes in risk profile. Equally, for High Impact banks, the routine supervisory activities are adequate to make an assessment of the Board's involvement in developing and regularly approving the credit risk management strategy and significant policies and processes. It was evidenced that supervisors are going beyond routine tasks and minimum activities prescribed by PRISM.</p> <p>Where an onsite review is conducted which includes loan file reviews, this process provides the supervisor with the opportunity to assess whether senior management has implemented the credit risk strategy approved by the Board and whether underwriting practices are consistent with policy and prudent for market conditions and the economic environment. The frequency and depth of credit risk assessment for Medium High and Medium Low institutions is performed in accordance with the PRISM engagement model and is informed by the amount of credit risk an institution is exposed to. In this regard in performing its annual planning process the Central Bank is informed by a range of sources of information in reaching a view with regard to what Medium High and Medium Low institutions should be subject to a detailed credit risk review as part of the Financial Risk Assessment. The frequency and depth of onsite credit risk reviews for lower risk institutions and the allocation of credit risk specialists to perform file reviews is not sufficient to maintain an accurate assessment of credit risk for these credit institutions (EC3).</p> <p>For the banks assigned PRISM Impact ratings of below High (especially Medium Low and Low), the variance analysis might not necessarily provide insight into the application of credit risk management processes until after risks have begun to crystallize resulting in breaching Central Bank triggers for supervisory attention (EC1).</p> <p>For Medium High Impact banks, the annual meeting with the Chair of the Board and executive management (CEO &amp; CFO) provide an opportunity to frequently assess the implementation of the Board's credit risk management strategy. For Medium Low Impact banks the engagement with the Chair and senior management is on an 18 month cycle. For Low Impact banks, engagement with Board and Senior management is not prescribed in PRISM and unless in exception will a supervisory activity enable the supervisor to make an accurate assessment of whether senior management has implemented the Board's credit risk management strategy (EC2).</p>
<b>Principle 18</b>	<b>Problem assets, provisions and reserves.</b> <sup>49</sup> The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves. <sup>50</sup>
<b>Essential criteria</b>	

<sup>49</sup> Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

<sup>50</sup> Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

<b>EC1</b>	Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.
Description and findings re EC1	<p>As per the CRD (Article 22 of 2006/48/EC), banks are required to have robust governance arrangements to manage risk. Specifically in relation to problem assets, provisions and reserves, all banks need to comply with the requirements contained within 'Impairment Provisions for Credit Exposures' published in October 2005. More recently the Central Bank issued updated guidance: firstly in December 2011 "Impairment Provisioning and Disclosure Guidelines" and a further update in May 2013. While all credit institutions need to comply with the 2005 requirements, only Covered banks are required to comply with the 2011 and 2013 requirements (although supervisors do advise institutions that the 2013 Guidelines are examples of better practice).</p> <p>The obligation for banks to formulate policies and processes for identifying and managing problem assets is contained within Part 1 of the <i>Qualitative Requirements of "Impairment Provisions for Credit Exposures 2005</i> (hereafter 'Impairment Provisions Guidelines 2005'). The Impairment Provisions Guidelines 2005 oblige the board and senior management to exercise effective oversight over all aspects of credit risk management including problem assets and provisioning. The Impairment Provisions require the board of directors to be responsible for "reviewing the adequacy of provisions for impairment losses and amounts written off."</p> <p>Section 3.4 of the Impairment Provisions Guidelines 2005 oblige banks to review the impairment policy at least annually to ensure that it is still appropriate for the business the credit institution undertakes and the economic environment. Furthermore, that this review will include a "review and sign off on the processes and systems for credit risk, and the methodology used in determining the level of impairment provisions."</p> <p>In performing its supervision, the Central Bank requires banks to have fit-for-purpose policies and processes for identifying and managing problem assets. The Central Bank's primary focus in this area has been on the High Impact banks as identified under the PRISM model. This has been an area of significant focus for the Central Bank in the past number of years as it is concerned that High Impact banks' policies and processes are very weak in this area. The focus has been primarily on the domestic mortgage and SME/Real Estate portfolios, as these are the most distressed loan assets.</p> <p>The Central Bank evaluates problem assets and provisions for Medium High Impact and Medium Low Impact banks primarily on a desk-top basis. For these banks, desk-based supervision is supplemented by thematic reviews of problem assets and provisions. While Medium High Impact and Medium Low Impact banks don't have a dedicated credit specialist, such resources are made available to those supervisory teams whose banks are holding challenged assets.</p>
<b>EC2</b>	The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes

Description and findings re EC2	<p>The Central Bank adopts a proportional approach to its supervision of regulated banks, with resources heavily weighted towards the High Impact banks with the greatest risk-weighted assets (as determined by PRISM).</p> <p><b>High Impact Banks</b></p> <p>The Central Bank reviews the following documentation to determine the adequacy of bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels:</p> <ol style="list-style-type: none"> <li>1. RAS</li> <li>2. Impairment Policy</li> <li>3. Credit Policy</li> <li>4. Business Unit Credit Policy Documents</li> <li>5. Collateral Valuation Policy</li> <li>6. Risk Framework</li> <li>7. Credit Review Procedures &amp; Controls</li> <li>8. Collateral Security Procedures</li> <li>9. Credit Grading Management &amp; Procedures</li> </ol> <p>The review of documentation is supported with on-site and off-site supervision by the Central Bank to observe how policy is implemented on the ground. This includes actions such as:</p> <ol style="list-style-type: none"> <li>1. Reviewing Credit Management Information on a monthly or quarterly basis.</li> <li>2. Observing regularly at Risk and Credit Committees.</li> <li>3. Reviewing supporting documentation for Risk and Credit Committees.</li> <li>4. Sample testing loan files to ascertain compliance with policy documentation.</li> <li>5. Requiring Banks to undertake a third party review of their policy documentation and processes.</li> <li>6. Regular meetings with Group and Divisional Heads of Credit.</li> <li>7. Reviewing strategy documentation and implementation plans for Distressed Loan Portfolios (Mortgage, SME &amp; Real Estate).</li> <li>8. Peer analysis of asset quality trends across the banks where risk-based supervision is focused.</li> </ol> <p><b>Medium High and Medium Low Impact Banks</b></p> <p>The Central Bank evaluates the appropriateness of provisioning levels for banks through the desk-top analysis of relevant policies; including: credit policy, impairment policy, valuation policy, risk management framework, credit grading policy, credit approval policy, and credit review policy. Supervisors discuss provisions for impaired loans with bank management to assess adequacy. Credit grading against collateral valuations is also discussed. Should an on-site file review be required, the Central Bank's credit team or an independent third party may complete the review.</p> <p>The engagement model is that Medium Low Impact credit institutions have a FRA and RGP on a spot/random basis with a 10% sample of all ML Impact banks per year. This equates to an average of one FRA/RGP a year for Medium Low Impact credit institutions. The engagement typically covers:</p> <ul style="list-style-type: none"> <li>• Meeting with CRO/CCO/Head of Credit to discuss key credit risks / credit processes</li> <li>• Review of firm MI quality and who receives it/frequency</li> <li>• Review of independence of credit risk function organisation structure</li> <li>• Credit Policy – approved by Board annually</li> </ul>
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- Desk-top review of credit risk MI including asset quality/provision trends
- Loan file review (small sample)

In respect of all institutions, in order to challenge the robustness/appropriateness of banks' provisioning levels, the credit specialists keep informed of market conditions, particularly in distressed sectors (e.g. Hotels, Real Estate, Hospitality). They review external publications (e.g. real estate market reports, sectoral papers on the hotel & pharmacy industries) and engage with market experts (e.g. insolvency practitioners, property valuers, risk management experts, NAMA).

The Central Bank has engaged 3<sup>rd</sup> parties in 2011, 2012 and 2013 to conduct targeted reviews of bank's credit grading systems through Asset Quality Reviews (AQR). These reviews focus on the quality of the credit process, the accuracy of internal credit grading and the robustness of the provision levels, classification of asset performance and identification of forbearance. In addition, specific file reviews which have been completed in the past eighteen months by the Central Bank in a significant number of institutions. In several cases, banks increased their provisions as a direct result of these reviews.

AQRs were completed by Blackrock Solutions in the covered banks across Real Estate, SME, Mortgage and Corporate loan portfolios.

The Central Bank engaged 3<sup>rd</sup> party accountancy firm to assess provisioning policies of retail banks in preparation for the development of the Impairment Provisioning and Disclosure Guidelines (December 2011).

The data included below highlights the level of intensive engagement between the Central Bank and the banks as part of its mortgage arrears engagement. Banks included in this process include 8 high impact banks.

- |             |  |
|-------------|--|
| Oct<br>2011 | <ul style="list-style-type: none"> <li>• Central Bank requested mortgage lenders to submit distressed asset resolution strategies by end November</li> </ul>   |
| Dec<br>2011 | <ul style="list-style-type: none"> <li>• Central Bank reviewed submissions</li> </ul>  |
| Feb<br>2012 | <ul style="list-style-type: none"> <li>• Deputy Governor met 7 main lenders to discuss common themes</li> <li>• Central Bank issued specific feedback to each lender on strategies submitted</li> </ul>  |
| Apr<br>2012 | <ul style="list-style-type: none"> <li>• Central Bank undertook review of DCOR in the three main retail banks</li> </ul>   |
| May<br>2012 | <ul style="list-style-type: none"> <li>• Central Bank completed DCOR review &amp; provided feedback to boards of the three main retail banks</li> <li>• Lenders were asked to submit board approved projected segmentation of book across treatment options</li> </ul> |
| Jun 12      | <ul style="list-style-type: none"> <li>• Central Bank reviewed board approved submissions &amp; reverted with feedback</li> </ul>  |

A similar level of supervisory oversight is currently underway in relation to the SME/Real Estate portfolios. The Central Bank commissioned Blackrock Solutions (BRS) in 2012 to complete a SME DCOR exercise in two high impact banks. This was an all-encompassing assessment of how these institutions manage problem SME assets. Following the SME DCOR, the Central Bank has requested strategy documents and implementation plans to address weaknesses identified from all banks active in the Irish SME market. It is currently

	<p>challenging institutions on their SME submissions.</p> <p>In response to slow progress in addressing the high quantum of mortgage arrears (both PDH &amp; BTL), the Central Bank has established targets for the resolution of cases &gt;90 days past due for 6 specified licensed banks (by reference to Regulation 16 of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 through the Mortgage Arrears Resolution Targets paper. Within this paper, institutions are reminded of the regulatory powers contained in Regulation 65 of the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006, and how these may be applied if the targets are not met.</p> <p>For the High Impact banks, the Central Bank demonstrated examples of enhanced attention paid to the adequacy of bank's provisioning policies and practices to establish appropriate levels of provisions. The Central Bank has increased its engagement with High Impact banks over the course of the last three years to monitor application of its new provisioning and impairment guidance. While the Central Bank does not prescribe a methodology for calculating provisions, (accounting policies are prescribed by Companies Law), the Central Bank has been actively encouraging banks to adopt a more conservative approach to provisioning when applying its accounting for loan loss provisions under IFRS (the mandatory effective date of IFRS 9 is anticipated to be 1 January 2015).</p> <p>In addition to the various stress testing and balance sheet analytical exercises, the Central Bank has performed onsite reviews in High Impact banks (and in particular the Covered Banks) to evaluate bank's provisioning models.</p>
<b>EC3</b>	The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures. <sup>51</sup>
Description and findings re EC3	<p>Section 3 of the Impairment Provisions for Credit Exposures (26 October 2005) applies to all credit exposures, but does not explicitly mandate responsibility for, or require documentation of, impairment provisioning of off-balance sheet exposures. Part II of the guidance, which applies to IFRS/FRS 26 reporting banks, requires that impairment of off-balance sheet transactions should be made after the initial recognition of the asset.</p> <p>Credit institutions currently report loan commitments, financial guarantees and other commitments to the Central Bank on a quarterly basis through their FINREP submissions. Supervisors undertake a review of off-balance sheet exposures in the FINREP submissions periodically.</p> <p>Supervisors of Medium Low Impact credit institutions monitor and investigate material movements in loan commitments, financial guarantees and other commitments via the BI Cube format.</p> <p>Additionally, credit institutions currently include contingent liabilities in their annual report, which is reviewed by supervisory teams. Credit Institutions currently report "Impairment Provisions" to the Central Bank on a quarterly basis through their online submissions. This return includes provisions for both on and off balance sheet exposures (e.g. provisions on committed but unfunded loans, or provisions on letters of credit).</p>

<sup>51</sup> It is recognized that there are two different types of off-balance sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning), and those that cannot be unilaterally cancelled.

	<p>Current Banking Supervision procedure is that supervisory teams undertake a periodic review of "Impairment Provisions" submissions. This includes monitoring, understanding, and challenging (if required) the aggregate movement in impairment provisions on both on- and off-balance sheet exposures.</p>
<b>EC4</b>	<p>The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.</p>
Description and findings re EC4	<p><b>High Impact Banks</b></p> <p>The Central Bank's primary focus in this area has been on the High Impact banks as identified under the PRISM model. In terms of policies and processes, the Central Bank reviews a comprehensive suite of banks' documents and challenges their appropriateness through ongoing engagement with banks and onsite reviews. The Central Bank conducts loan-level file reviews to assess both the provisioning process and the realism of recovery expectations (such as "cure rates") together with a peer analysis of asset quality trends. A significant number of specific file reviews have been completed in the past eighteen months by the Credit Team.</p> <p>The 2011 Provisioning Guidelines for the covered banks encouraged banks to broaden their impairment policies and procedures under the following guiding principles:</p> <ol style="list-style-type: none"> <li>1. Recognise their incurred loan losses as early as possible within the context of IFRS;</li> <li>2. Adopt a more conservative approach to the measurement of impairment provisions across all loan portfolios; and</li> <li>3. Significantly improve the number and granularity of their asset quality and credit risk management disclosures which will enhance users understanding of their asset quality profiles and credit risk management practices.</li> </ol> <p>For retail banks, since 2012 the Central Bank has conducted regular on-site reviews of mortgage banks' collections capability and operations. This entails assessments of credit institutions' mortgage Arrears Support Units, including collection processes and procedures. The Central Bank has focused its attentions on the operational effectiveness of retail credit institutions' arrears collections units, and has typically not focused on their arrears units policies.</p> <p><b>Medium High and Medium Low Impact Banks</b></p> <p>The Central Bank evaluates the timeliness and conservatism of provisions for these banks through desk-top analysis of relevant policies, including impairment policy, credit grading policy, valuation policy, and credit review policy. The timeliness and conservatism of provisions are areas of considerable subjectivity. However, discussions with senior credit management and senior risk management are undertaken to form a view of the current provisioning practices. The Central Bank Impairment guidelines, while only explicitly applying to covered institutions, should be considered best practice here. These require early recognition of loss and a general conservatism regarding the estimation of provisions.</p> <p>Under IFRS banks apply an incurred loss approach to loan loss provisioning. For retail residential mortgage portfolios that are collectively managed which account for approximately 50 percent bank total assets, nonperforming loans are collectively managed and utilize internal models for the calculation of provisions. The assumptions that feed the models are based on historical loss data and include factors such as: emergence period, cure rates, and assumptions regarding valuation of collateral (peak to trough). In the</p>

	<p>absence of prescription in the Central Bank powers, the assumptions vary widely across the banks. The Central Bank has placed considerable emphasis on influencing banks policies and assumptions. One example included a High Impact bank which imposed a provision overlay in their annual accounts following a Central Bank review.</p> <p>While the Central Bank has had success influencing banks to increase the level of conservatism in their provisioning practices, particularly ensuring greater conservatism in the assumptions that input into provisioning models, there is a significant build-up of mortgage arrears in the system.</p>
<b>EC5</b>	<p>The supervisor determines that banks have appropriate policies and processes, and organizational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (e.g. 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (e.g. rescheduling, refinancing or reclassification of loans).</p>
Description and findings re EC5	<p><b>High Impact banks</b></p> <p>In recent years the higher risk banks have revised their policies in the context of deteriorating market conditions. The Central Bank has reviewed these documents to establish their appropriateness for early identification of deteriorating assets and ongoing oversight of problem loans. Furthermore, banks have enhanced their MIS systems to classify asset quality into various cohorts, to ensure transparency of asset quality. In addition, most banks have separated their loan portfolios between distressed/non-distressed and core/non-core.</p> <p>The review of documentation is supported with intensive on-site and off-site supervision by the Central Bank to observe how policy is implemented on the ground. This includes actions such as:</p> <ol style="list-style-type: none"> <li>1. Reviewing Credit Management Information on a monthly or quarterly basis.</li> <li>2. Observing regularly at Risk and Credit Committees.</li> <li>3. Reviewing supporting documentation for Risk and Credit Committees.</li> <li>4. Sample testing loan files to ascertain compliance with policy documentation.</li> <li>5. Requiring Banks to undertake a third party review of their policy documentation and processes.</li> <li>6. Regular meetings with Group and Divisional Heads of Credit.</li> <li>7. Reviewing strategy documentation and implementation plans for Distressed Loan Portfolios (Mortgage, SME &amp; Real Estate).</li> <li>8. Peer analysis of asset quality trends across the banks where risk-based supervision is focused.</li> </ol> <p>In ongoing Central Bank prudential supervision activities, there is significant focus around the adequacy of Distressed Credit Operations (homogenous retail books and non-retail books) in credit institutions. This includes an assessment of the bank's resources and operational capabilities within the distressed credit operations and portfolio resolutions area.</p> <p>In terms of testing High Impact banks' treatment of assets to determine the appropriateness of provisioning standards, the Central Bank has conducted several</p>

	<p>thematic and bank specific onsite reviews to assess the banks' capabilities and readiness in relation to early identification of deteriorating assets and ongoing management of problem assets. The Central Bank commissioned BlackRock Solutions in 2012 to complete separate DCOR exercises in Mortgage and SME portfolios. For example, the SME DCOR assessed two High Impact banks in terms of:</p> <ul style="list-style-type: none"> <li>A. Organisational Structure and Resource Capacity</li> <li>B. Skill and Experience of Staff as well as Quality of Training</li> <li>C. Workout Strategy and Execution Ability</li> <li>D. Relevant Documentation and Management Information Systems, including KPIs</li> <li>E. Data and Reporting Related to Outsourced and/or Delegated Functions</li> <li>F. Quality Assurance and Monitoring</li> </ul> <p>Following the SME DCOR Review, the Central Bank requested strategy documents and implementation plans to address weaknesses identified from all banks active in the Irish SME market. The third phase of this work commenced in 2013. The purpose of these reviews is to see evidence of the strategies being implemented on the ground. Loan file reviews were conducted throughout 2013 as banks' implementation plans are rolled out.</p> <p><b>Medium High Impact and Medium Low Impact Banks</b></p> <p>The Central Bank evaluates the appropriateness of policies and procedures for the early recognition of arrears in these banks using a desk-top approach. The frequency of the review will be determined by the risk profile and PRISM prescribes a minimum frequency FRA of between 2-4 years. A desk-top review of a bank's arrears collections capabilities will be undertaken.</p> <p>In quarter 4, 2012, the Central Bank employed an arrears collections expert to lead credit institutions to move from short-term forbearance on mortgage arrears to more sustainable options, with adequate operational capacity to implement. The expert has been assisting the Central Bank in the on-site reviews of MARS implementation and arrears management and collection capability and implementation. These reviews cover all retail credit institutions.</p> <p>The Central Bank has performed and continues to perform on-site reviews of Arrears Support Units. A key output is an evaluation of the banks' capacity to deal with the volume of arrears in-flow through inbound and outbound call activities and the capacity to handle the back-book (old) arrears. The Central Bank is performing continuous assessment of ASUs throughout 2013.</p> <p>Following the SME DCOR Review, the Central Bank requested strategy documents and implementation plans to address weaknesses identified from all banks active in the Irish SME market.</p>
<b>EC6</b>	<p>The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.</p>
Description and findings re EC6	<p>The Central Bank's primary focus in this area has been on the higher risk banks as identified under the PRISM model. The Central Bank reviews related policy documents for higher risk banks on an annual basis, as well as monthly/quarterly management information on a regular basis. It examines the quality and appropriateness of the information. A list of documentation obtained and reviewed includes:</p>

	<p><u>Annually</u></p> <ul style="list-style-type: none"> <li>• Impairment Policy</li> <li>• Credit Policy</li> <li>• Business Unit Credit Policy Documents</li> <li>• Collateral Valuation Policy</li> <li>• Credit Grading Management &amp; Procedures</li> <li>• Year-end Impairment papers presented to Risk Committee</li> <li>• Loan loss projection reports</li> </ul> <p><u>Monthly/Quarterly</u></p> <ul style="list-style-type: none"> <li>• Interim impairment papers presented to Risk Committee</li> <li>• Credit information packs (classification of assets, provisioning &amp; asset quality trends supported by management commentary)</li> <li>• Review quality of information furnished to risk committees and boards</li> <li>• Management information specific to distressed loans</li> <li>• Internal audit reports – quality assurance &amp; controls</li> <li>• Quarterly Summary Financial Return – a quarterly return from High and Medium High impact institutions which details information on loan portfolios (Drawn/Undrawn; Geography; Sectoral; Grades; Arrears; Impairment; Provisions; etc.)</li> <li>• Market information sourced on each of SME, Residential Mortgages, Real Estate and Corporate</li> <li>• Regular meetings with Heads of Function in Credit, Risk, Credit Review, Asset Restructuring and Internal Audit</li> <li>• The Regulatory Document on <u>Impairment Provisions for Credit Exposures (2005)</u> requires quarterly reporting on provisioning levels as per the CRD asset classes</li> </ul> <p>Having reviewed documentation and management information, the Central Bank analyses asset quality trends across banks and highlights areas of concern with follow-up action required. In addition it has, on occasion, highlighted its concerns to the banks' external auditors.</p> <p>The Central Bank obtains information on a regular basis regarding asset classification and provisioning. This information is submitted as required regulatory returns (see CP10 for details) on a quarterly basis and further information can be requested by the supervision team as part of either a thematic review or a FRR/FRA. Impairment policy, credit grading policy, valuation policy, and credit review policy documents can also be included. For High Impact covered banks, the Central Bank identified weaknesses in the adequacy of covered banks' policy documentation in relation to provisioning. The Central Bank required covered banks to improve their policies/documentation through the publication of <u>Impairment Provisioning and Disclosure Guidelines</u> in December 2011. These guidelines have resulted in banks updating their provisioning documentation/policies and processes to include, inter alia, the treatment of forborne loans, the widening of impairment triggers and increased disclosure in their annual accounts.</p> <p>For Medium High Impact and Medium Low Impact credit institutions – on a quarterly basis, credit institutions submit impairment provisions, nonperforming loans and write-off information to the Central Bank which is reviewed by the examination teams for any material movements and trends. Any material movements are queried with the relevant credit institution and inform the Central Bank's supervisory engagement.</p>
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	The frequency and depth of analysis for the larger High Impact banks is sound and provides the supervisor with an opportunity to assess bank's documentation. Equally, the desk based review for Medium-High banks is adequate.
<b>EC7</b>	The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g. if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.
Description and findings re EC7	<p>As part of the Central Bank's assessment of asset classification and the adequacy of provisioning in High Impact banks, it reviews related policy documents on an annual basis as well as monthly/quarterly management information on a regular basis. It reviews the quality and appropriateness of the information. A list of documentation obtained and reviewed includes:</p> <p><u>Annually</u></p> <ol style="list-style-type: none"> <li>1. Impairment Policy</li> <li>2. Credit Policy</li> <li>3. Collateral Valuation Policy</li> <li>4. Credit Grading Management &amp; Procedures</li> <li>5. Year-end Impairment papers presented to Risk Committee</li> <li>6. Loan loss projection reports</li> </ol> <p><u>Monthly/Quarterly</u></p> <ol style="list-style-type: none"> <li>1. Interim impairment papers presented to Risk Committee</li> <li>2. Credit information packs (classification of assets, provisioning &amp; asset quality trends supported by management commentary)</li> <li>3. Review quality of information furnished to risk committees and boards</li> <li>4. Management information specific to distressed loans</li> <li>5. Internal audit reports – quality assurance &amp; controls</li> <li>6. Quarterly Summary Financial Return – a quarterly return details information on loan portfolios (Drawn/Undrawn; Geography; Sectoral; Grades; Arrears; Impairment; Provisions; etc.)</li> <li>7. External market information relating to SME, Residential Mortgages, Real Estate and Corporate</li> </ol> <p>Supervisors meet regularly with Heads of Function in Credit, Risk, Credit Review, Asset Restructuring and Internal Audit.</p> <p>Having reviewed documentation and management information, the Central Bank analyses asset quality trends across banks and highlights areas of concern where provisions are deemed inadequate to cover potential losses. On a number of occasions, this has prompted asset quality file reviews. In addition supervisors have, on occasion, highlighted their concerns to the banks' external auditors.</p> <p>A full risk assessment is presented to the Central Bank RGPs. In this regard, the Central Bank has the power to require banks to increase their capital where it is concluded that loan loss provisioning does not fully reflect losses expected to be incurred.</p>

	<p><u>Medium High Impact / Medium Low Impact Credit Institutions:</u> On a quarterly basis, credit institutions submit information on impairment provisions, nonperforming loans and write-offs to the Central Bank, which is reviewed by the examination teams for any material movements and trends. Any material movements are queried with the relevant credit institution and inform the Central Bank's supervisory engagement.</p> <p>Deficiencies identified by the Central Bank in a bank's management of credit risk (including provisioning) may be addressed through the measures included in Article 136 of 2006/48/EC (as transposed by Regulation 70 of S.I. 661 of 2006), among others, as detailed in CP11.</p> <p><u>Prudential Capital Assessment Review (PCAR) - 2011</u> The PCAR assessed the capital requirements of the covered banks arising for expected base and potential stressed loan losses over a three year time horizon (2011-2013). As a result of the exercise Covered banks' provision projections were deemed inadequate and all were required to raise additional capital to cover projected loan losses under a stress case scenario.</p>
<b>EC8</b>	<p>The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realizable value, taking into account prevailing market conditions.</p>
Description and findings re EC8	<p>The Central Bank's primary focus in this area is in relation to the valuation of real estate, noting that this is the most common form of collateral on which the banks place reliance for value. Little reliance is placed on un-collateralised guarantees due to the significant destruction of wealth in the economic downturn.</p> <p>In the 2011 guidance paper 'Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future' the Central Bank provided industry enhanced guidance for provisioning which applies to all credit institutions. While the paper has the status of guidance, the Central Bank considers that the guidelines and recommendations contained therein represent appropriate process and procedures for credit institutions in considering property security valuation. The Central Bank does, as a matter of course, scrutinise the application of these guidelines as part of its ongoing supervision.</p> <p>As part of the Central Bank's on-site file reviews, supervisors observed that there was inconsistent assessment of collateral value both across and within institutions. They made recommendations that banks review, in the context of the guidance document, their collateral valuation approach. Policies were sought to be developed and implemented where they were absent. These file reviews covered all impact categories of banks, with a greater focus on the higher impact banks.</p> <p>The Central Bank evaluates the appropriateness of mechanisms to assess the value of risk mitigants in Lower Impact banks using a combination of a desk-top approach and, where appropriate, onsite interview of the CRO (on a biennial basis at a minimum, as per the PRISM requirements). The effectiveness of credit risk mitigants is subject to extensive discussion with the bank, including an understanding of credit derivatives in place and assessment of the effectiveness of guarantees and collateral as credit risk mitigants.</p> <p>The Central Bank's loan file reviews focus heavily on the realism of recovery expectations.</p>

	Inherent in this is the quality of the collateral assessment. Examples of loan files reviews where supervisors subsequently challenged the banks' mechanisms for regularly assessing collateral include a number of High Impact banks.
<b>EC9</b>	<p>Laws, regulations or the supervisor establish criteria for assets to be:</p> <p>(a) identified as a problem asset (e.g. a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and</p> <p>(b) reclassified as performing (e.g. a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).</p>
Description and findings re EC9	<p><u>High Impact Banks</u></p> <p>The Central Bank monitors problem asset identification in the following ways:</p> <ul style="list-style-type: none"> <li>• Quality of the grading model inputs.</li> <li>• Frequency of loan reviews – e.g. are loans reviewed at least annually.</li> <li>• Level of overdue credit reviews.</li> <li>• Challenge the quality of credit assessment through loan file reviews (this would include the assessment of credit grade, collateral valuation, repayment capacity &amp; debt analysis).</li> <li>• Assess the loan review process and relevant controls.</li> <li>• Bank policies to identify emerging credit risk.</li> </ul> <p><u>Medium High Impact and Medium Low Impact Banks</u></p> <p>Assessment of a particular exposure as a "problem asset" and any subsequent re-classification of such an exposure as "performing" does not, in effect, take place at a granular or individual loan level in Medium High Impact and Medium Low Impact firms. A high-level general assessment does, however, take place with regard to overall exposures on a sovereign or sectoral or specific credit exposure basis, with reference to ongoing trends in nonperforming loans, loan loss provisions, and credit write-downs. These discussions are held within the context of a firm's overall capital sufficiency levels. A desk-top review by Banking Supervision would incorporate Credit Grade Policy, Credit Review Policy, Credit Policy, etc. Furthermore, Business Model Analysis (including an assessment of local knowledge of group models) can be carried out by Banking Supervision support functions such as the Risk Analytics Unit.</p> <p><i>Reclassified as Performing</i></p> <p>With regard to mortgage, SME and CRE lenders, the Central Bank has brought increasing focus during 2011/12 on the movement of problem assets from short term forbearance to medium/long term resolution options. Its work has focused on the Mortgage Arrears Resolution Strategy and, more recently, the SME Resolution Strategy. There has been minimal reclassification of problem loans as performing in the current economic environment. As the banks begin to reclassify their problem assets to performing, the Central Bank will monitor and challenge in line with the powers outlined above.</p> <p>In relation to the reclassification of IRB exposures previously designated as defaulted, the prudential requirements of Paragraph 47 of Part 4 of Annex VIII of 2006/48/EC requires that, where no trigger of default continues to apply, the bank should rate the obligor or facility as they would for a non-defaulted exposure.</p>

	<p>The Central Bank guidance on restoration of exposure to unimpaired status for IFRS/FRS 26-reporting banks is contained in Section 7 of Part II of the Impairment Provisions for Credit Exposures (October 2005), and replicated for the covered banks in Section 5.9.6 of the Impairment Provisioning and Disclosure Guidelines 2011.</p> <p>Problem Assets (Covered Banks): Ongoing supervision, including a number of specific initiatives (e.g. AQR; DCOR; Income Recognition and Re-Aging; Data Integrity and Validation; Loan File Review Deep Dives (across all institutions); On-Site Reviews) have helped to identify problems and devise mitigation plans where appropriate.</p> <p>Reclassified as Performing (Covered Banks): Assessments were completed by the Central Bank in 2012, with the assistance of Ernst and Young, in respect of interest recognition on impaired loans and arrears re-aging practices within the FMP banks.</p>
<b>EC10</b>	<p>The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.</p>
Description and findings re EC10	<p>The Central Bank assesses the Credit MIs which go to the Boards of High Impact banks under a broad range of headings, including, inter alia:</p> <ul style="list-style-type: none"> <li>○ Asset quality of banks <u>loans across each asset type.</u></li> <li>○ <u>More detailed analysis on problem sectors.</u></li> <li>○ Loan loss performance versus projections – variances explained.</li> <li>○ Trend analysis across portfolios.</li> <li>○ Frequency of presentation of MIS to Board and delegated committees.</li> </ul> <p>The Central Bank completes peer analysis across high-risk institutions to identify where gaps exist. This may prompt a risk mitigation action. In terms of compliance, some banks provide excellent information to their Boards. In other instances, Central Bank has pointed to gaps in information being provided to the Board (two High Impact banks) and has captured appropriate risk mitigation actions for inclusion in the RMP.</p> <p>The assessment by the supervisor that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio also takes place for Medium High Impact and Medium Low Impact firms. Elements such as the classification of assets, the level of provisions and reserves, and major problem assets would be incorporated to some degree within the assessment of the appropriateness of information included within the Board Pack.</p> <p>In addition, note that under Section 3.1 of the <u>Impairment Provisions for Credit Exposures (October 2005)</u> senior management are specifically responsible for:</p> <ul style="list-style-type: none"> <li>• <i>"evaluating the sensitivity and reasonableness of key assumptions used in the impairment provision assessment and measurement system, this may include the performance of stress tests to incorporate economic conditions that may affect credit exposures"</i></li> <li>• <i>"providing the board with regular reports on the adequacy of impairment provisions and amounts written off"</i></li> </ul> <p>The internal audit/independent credit review functions are required, under 3.3 of the same document, to conduct biennial reviews of the credit risk assessment process, including the</p>

	<p>adequacy of provisioning and stress testing, and report back to senior management and the board on their findings. Any weaknesses identified are required to be addressed "on a timely basis."</p> <p><u>Central Bank Risk Governance Panel 2011 – for a High Impact institution</u>  <i>Findings:</i> Central Bank reported that the bank's Board is not presented with bank specific key credit quality metrics such as book quality, provisions, grade migration and growth etc. for corporate markets division. The bank does not have a system of tracking SME forbearance.  <i>Conclusions:</i> Central Bank directed, as an intended outcome, that the bank's Board should have sufficient data to perform its oversight role of credit risks and that the Board should be able to assess the quantum and type of forbearance on the SME book.  <i>Action:</i> In order to achieve that intended outcome, the following RMP actions were out in place:</p> <p>The bank is required to ensure that specific data of sufficient granularity is provided to the Board, including key credit metrics for the Global Restructuring Group portfolio. The bank is required to devise a system to facilitate tracking, monitoring and reporting of SME forbearance.</p>
<b>EC11</b>	<p>The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.</p>
Description and findings re EC11	<p>Individual assessment of Significant Exposures is mandated for all IFRS/FRS 26 reporting banks. These accounting standards apply to all credit institutions. The Central Bank's <u>Impairment Provisions for Credit Exposures (October 2005)</u> state that "<i>Exposures should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis for individually significant exposures.</i>" The Central Bank does not require banks to set specific thresholds for the purpose of identifying significant exposures or to regularly review the level of this threshold. As part of the process to review the provision policy of High Impact firms, the Central Bank examines the threshold used by credit institutions for the assessment of individual impairment provisions. As a general rule the thresholds used by firms have been deemed reasonable. If a situation occurred whereby the Central Bank believed that the threshold limit was too high, then the credit institution would be instructed to reduce the threshold.</p> <p>Supervisors are required to review impairment provision data and credit policies for lower impact banks in accordance with the Central Bank PRISM supervision engagement model.</p> <p>For High Impact banks, the Central Bank reviews the following:</p> <p><u>Annually</u></p> <ol style="list-style-type: none"> <li>1. Impairment Policy</li> <li>2. Business Unit impairment Policy Documents</li> <li>3. Year-end Impairment papers presented to Risk Committee</li> <li>4. Loan loss projection reports</li> </ol> <p><u>Monthly/Quarterly</u></p> <ol style="list-style-type: none"> <li>1. Interim impairment papers presented to Risk Committee</li> <li>2. Credit information packs (classification of assets, provisioning &amp; asset quality trends</li> </ol>

	<p>supported by management commentary)</p> <ol style="list-style-type: none"> <li>3. Management information specific to distressed loans</li> <li>4. Internal audit reports – quality assurance &amp; controls</li> <li>5. Quarterly Summary Financial Return – a quarterly return from which details information on loan portfolios (Drawn/Undrawn; Geography; Sectoral; Grades; Arrears; Impairment; Provisions; etc.)</li> </ol> <p>Individual assessment of Significant Exposures is mandated for all IFRS/FRS 26 reporting banks in Section 5.1 of the <u>Impairment Provisions for Credit Exposures (October 2005)</u> and again in Section 5.8 of the <u>Impairment Provisioning and Disclosure Guidelines (2011)</u> specifically for the covered banks.</p> <p>Central Bank identified that, for one High Impact institution, individual/specific provisions were calculated on facilities greater than \$10m under group policy. Central Bank advised the bank of its view that the cut-off of \$10m was too high. The bank subsequently amended its specific provision threshold to \$0.</p>
EC12	<p>The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.</p>
Description and findings re EC12	<p>The Central Bank assesses concentration risk trends in the covered institutions through analysis of their management information. Concentration risk has increased for the covered institutions as a result of the deleveraging process with increasing geographic concentration to the Irish market. The Central Bank's focus in assessing trends in concentration risk is on the banks' back books, as there is little/no new business being written by these institutions. The Central Bank regularly assesses trends and concentrations in risk and risk build-up across the High Impact credit institutions in relation to problem assets through the quarterly Credit Panel meetings, which are attended by senior Banking Supervision executives. At these meetings, the Credit Panel evaluates detailed credit risk data and considers the adequacy of impairment provisions by individual bank and also on a peer group basis.</p> <p>CEBS Guidelines on the management of concentration risk under the supervisory review process (<u>GL31</u>) set out that as "<i>concentration risk is not fully addressed in the context of Pillar 1</i>", banks must address "<i>any resultant underestimation of risk...by allocating capital, where necessary, through the framework of Pillar 2.</i>" Hence, as part of the ICAAP process, banks are expected to make an assessment of the level of capital that is required to address any shortfall in the Pillar 1 process.</p> <p><b>Legal/Regulatory Basis</b></p> <p>The CRD has been largely transposed into Irish law by the Central Bank Act 1971, S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009. The Central Bank (Supervision and Enforcement) Act 2013 enhances the powers of the Central Bank generally in relation to credit institutions. Particular regard should be had to regulation 66 and 70 of S.I. 661 of 2006. There are also extra powers in this area in the direction making powers in the Central Bank (Supervision and Enforcement) Act 2013 – see section 37(3) in relation to the disposal of assets and liabilities. See also section 40(2)(a) of the Act which will give the Central Bank powers in the area of making regulations on the management of risks to which banks may</p>

be exposed to.

Section 5 of Annex V of Directive 2006/48/EC (as amended) requires banks to have written policies and procedures in relation to concentration risk. It states "*The concentration risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures (e.g. to a single collateral issuer), shall be addressed and controlled by means of written policies and procedures.*" These requirements are further elaborated in Sections 3(5) and 10(18) of Annex V in relation to diversification of credit portfolios and funding and the various Guidelines issued by CEBS/EBA.

In relation specifically to Large Exposures, Article 106 of 2006/48/EC (as amended), transposed by Regulation 52 of S.I. 661 of 2006, defines "exposures" as "*any asset or off-balance sheet item referred to in Section 3, Subsection 1 [standardised approach to credit risk which refers to "claims or contingent claims" on particular exposure classes], without application of the risk weights or degrees of risk there provided for.*" Derivative exposures may be calculated according to the Original Exposure Method, Market-to-Market Method or Internal Model Method. All elements entirely covered by Own Funds may, with the agreement of the Central Bank, be excluded from the determination of "exposures", provided that such Own Funds are not included in the bank's Own Funds for the purposes of its capital adequacy ratio or in the calculation of other monitoring ratios.

To facilitate this analysis as part of the SREP process, the Central Bank collects data on the top 100 credit exposures as well as a sector breakdown across the portfolio. This is run through an internal model, with generic correlations linked to probability of default, to estimate potential Pillar II requirements/add-ons for 'name concentration' (on large exposures) and 'sector concentration'. This is compared with the output of the methods/models banks use within their ICAAP. Where the model used by a bank is considered inadequate, a Pillar II add-on may be imposed in line with the output of the Central Bank model until such time as the bank has addressed issues related to their approach to the measurement of credit concentration risk.

Medium to long term forbearance measures are typically agreed at a later date subsequent to borrower compliance with short term forbearance measures and receipt of detailed borrower information.

- (1) The Code of Conduct on Mortgage Arrears (CCMA), which came into force in January 2011, lays out a set of rules governing how credit institutions treat mortgage borrowers in arrears. This includes the Mortgage Arrears Resolution Process (MARP), which is used when dealing with arrears and pre-arrears customers. The 5 steps for the MARP are: communication; financial information; assessment; resolution and appeals.
- (2) As per IAS 39, interest accrued (not collected) enters the income statement while the loan is still performing and nonperforming. Interest accrued (not collected) does not enter the income statement if a loan is deemed to be impaired.
- (3) This is not covered by a specific regulation. Mortgage interest capitalization is generally associated with arrears/missed payments being rescheduled. The impairment and provisioning guidelines apply restrictions to the release of provisions based on 6 months subsequent performance. Policies vary by bank with regard to criteria which may apply.

The Central Bank of Ireland's [Impairment Provisioning and Disclosure Guidelines \(December 2011\)](#) states that the following guidelines are required to be followed by covered institutions when considering the impact of forbearance measures on the methodology for assessing impairment:

- Loan pools which are subject to forbearance measures should be separated from the remaining non-forborne loan pools.
- Non-forborne loan pools may need to be further stratified based on similar risk characteristics.
- When calculating the collective impairment provisions, particularly for mortgage portfolios, certain model inputs which are based on historic data may require management judgment to be applied to adjust historic data to reflect current economic circumstances and the granting of forbearance measures.
- For example, where a borrower is up to date with their revised terms, having previously received forbearance measures, the historic roll rates to default may appear lower than the underlying risk profile of the loan pool.
- The LGD could be higher on forborne loan pools than those applied to the non-forborne loan pools.
- The PD applied to forborne loan pools will be higher than the non-forborne pools. The Central Bank also requires the history of PDs relating to such forborne loan pools to be recorded and disclosed in the annual report over time.

Section 5.9.6 – Restoration of Exposure to Unimpaired Status – states that an impaired exposure should only be restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible in accordance with the terms of the agreement. Objective evidence must exist subsequent to the initial recognition of the impairment to justify restoration to unimpaired status. Typically, this should take place when:

- The covered institution has received repayment of the loan's past due principal and interest, none of the principal and interest is due and unpaid, and the covered institution expects repayment of the remaining contractual principal and interest as scheduled in the agreement;
- The counterparty has resumed paying the full amount of the scheduled contractual principal and interest payments for a reasonable period and all remaining contractual payments (including full compensation for overdue payments) are deemed to be collectible in a timely manner; or
- The exposure becomes well secured and is in the process of collection.

A covered institution's determination of the ultimate collectability of an exposure should be supported by a current, well-documented credit evaluation of the counterparty's financial condition and other factors affecting the prospects for repayment, including consideration of the counterparty's repayment performance and other relevant factors.

The Central Bank leverages off the review and sampling work undertaken by credit institutions' external auditors annually when they sign-off on financial statements. Sections 26 and 27 of the [Central Bank Act 1997](#) require that copies of the banks' audited financial statements are provided to the Central Bank. Supervisors typically receive and review annual post-audit reports and management letter reports prepared by external auditors annually, which contain auditor comments on provisioning and loan quality. External auditors do not review loan classification and processes for the Central Bank; however, they will audit loan classification and processes as part of their annual audit.

	<p>The Central Bank's <a href="#">Auditor Protocol 2011</a> provides a framework for annual bilateral and trilateral meetings between the Central Bank, the credit institution's external auditor, and the credit institution to enable both the Central Bank and the auditors of firms to achieve fulfillment of both parties' statutory powers. Typically, for High Impact institutions, supervisors will meet with external auditors before and after the annual financial statement audit to discuss, inter alia, loan classification and provisioning.</p> <p>The Banking Supervision Credit Team performs thematic reviews on loan portfolios which will assess impaired and non-impaired loans. The Central Bank can take supervisory measures if dissatisfied with loan classifications.</p>
<b>Assessment of Principle 18</b>	Largely Compliant
Comments	<p>Over the course of the last several years, the CBI has allocated considerable resources in an effort to encourage prudent provisioning practices with a significant focus on the covered banks. The Central Bank has updated and expanded its guidance regarding provisioning and valuation practices and performed more frequent and in-depth onsite assessments. The update guidance by the Central Bank goes beyond that of other authorities in the region where IFRS is applied. Problem assets, provisions and reserves have been an integral part of the Central Banks' engagement with credit institutions through on-site testing of compliance with the revised Guidelines. The banking sector has also been subject to various externally led balance sheet exercises. There are a number of examples demonstrating the impact of the new Guidelines in increasing the conservatism of banks' loan loss provisioning practices.</p> <p>The banking sector has gone through a severe crisis and there continues to be significant stress on banks' balance sheets. While the Central Bank has expanded its guidance regarding provisioning practices, it does not have direct legislative power to reclassify assets and/or increase provisions which impacts its direct influence on provisioning practices. Also, the Central Bank does not have the legal power to overrule a decision (e.g. on provisioning) by a bank's own external auditor. Instead, the Central Bank will rely upon their powers to increase capital in the event provisions are assessed as inadequate as per Regulation 70 of SI 661. Furthermore, through the framework set up in the Auditor Protocol 2011, the Central Bank discusses and challenges loan loss provisioning.</p> <p>In terms of supervisory activities, supervisors monitor and track changes in provisioning and asset quality through periodic analysis of regulatory returns and ad hoc data requests, supplemented by annual review of policies. An assessment of asset quality and provisioning will be performed as part of an FRR or FRA. Supervisory activities should place greater reliance on onsite verification of bank processes, particularly in terms of: assessing processes for the early identification of problem assets; application of prudent valuations for collateral; and, testing assumptions that feed into provisioning models. There was evidence to suggest this process had commenced with the High Impact banks but was yet to be extended across the sector (with due regard to proportionality). Below High Impact banks, an assessment of provisioning is performed via a desk based review. Greater frequency of onsite supervision will allow an ability to verify bank provisioning practices by loan sampling and testing of assumptions to ensure they remain consistent with actual experience and are adjusted in a timely fashion to reflect changes in market conditions and the economy. Through this process, the supervisor will be better able to deem whether provisions are adequate for prudential purposes (EC7). Given the updated guidance by the Central Bank only applies to High Impact banks, a greater onsite presence will allow</p>

	supervisors the ability to identify approaches which depart materially from the Central Bank's guidance but remain compliant with accounting standards.
<b>Principle 19</b>	Concentration risk and large exposure limits. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties. <sup>52</sup>
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk. <sup>53</sup> Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured.
Description and findings re EC1	<p>Various European and Irish regulations require credit institutions to have policies and procedures relating to concentration risk, including off-balance sheet exposures. Concentration risk regulation includes: Section 5 of Annex V of Directive 2006/48/EC, Article 106 of Directive 2006/48/EC, and EBA Guidelines on the implementation of the revised large exposures regime 2009.</p> <p>Section 5 of Annex V of Directive 2006/48/EC as amended requires banks to have written policies and procedures in relation to concentration risk. These requirements are further elaborated in Sections 3(5) and 10(18) of Annex V, in relation to diversification of credit portfolios and funding, and in the various Guidelines issued by CEBS/EBA.</p> <p>Paragraph 34 of Guideline 3 of the CEBS Guidelines on the management of concentration risk under the supervisory review process) which has been endorsed by the CBI, clarifies that <i>"risk drivers which could be a source of concentration risk should be identified"</i> by banks, covering <i>"all risk concentrations which are significant to the institution [...], including on- and off- balance sheet positions and committed and uncommitted exposures, and extending across risk types, business lines and entities."</i></p> <p>In relation specifically to Large Exposures, Article 106 of 2006/48/EC as amended (transposed by Regulation 52 of SI 661) defines "exposures" as <i>"any asset or off-balance sheet item referred to in Section 3, Subsection 1 [standardized approach to credit risk which refers to "claims or contingent claims" on particular exposure classes], without application of the risk weights or degrees of risk there provided for."</i></p> <p>CEBS Guidelines on the management of concentration risk under the supervisory review process set out that as <i>"concentration risk is not fully addressed in the context of Pillar 1"</i>, banks must, address <i>"any resultant underestimation of risk...by allocating capital, where necessary, through the framework of Pillar 2."</i> Through the SREP process, the Central Bank's</p>

<sup>52</sup> Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.

<sup>53</sup> This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.

	<p>Risk Modeling Unit:</p> <ul style="list-style-type: none"> <li>• will examine the approach used by a bank to estimate the capital required in relation to credit concentration risk</li> <li>• can also perform an analysis of the level of capital required in relation to credit concentration risk</li> </ul> <p>To facilitate this analysis as part of the SREP process, the CBI collects data on the top 100 credit exposures as well as a sector breakdown across the portfolio. This is run through an internal model, with generic correlations linked to PD, to estimate potential Pillar II requirements/add-ons for 'name concentration' (on large exposures) and 'sector concentration'. This is compared with the output of the methods/models banks use within their ICAAP. Where the model used by a bank is considered inadequate, Pillar II add-ons may be imposed in line with the output of the CBI model until such time as the bank has addressed issues related to their approach to the measurement of credit concentration risk.</p>
<b>EC2</b>	The supervisor determines that a bank's information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk concentrations and large exposure <sup>54</sup> to single counterparties or groups of connected counterparties.
Description and findings re EC2	<p>CBI staff reviews bank internal reports and Board minutes to determine the involvement of the Board and the level of information provided.</p> <p>The EBA has developed common reporting templates and guidelines in relation to large exposures reporting pursuant to EU directive 2009/111/EC (CRD II).</p> <p>The revised large exposures regime has been applied since 31 December 2010. The CBI achieves compliance with Essential Criteria 2 primarily through the periodic submission of the Large Exposure and concentration regulatory reports by licensed credit institutions, and the subsequent review undertaken by CBI supervision teams of the returns. During the ICAAP process concentrations are reviewed as are management controls and when necessary and appropriate additional capital add-ons imposed.</p> <p>The CBI receives quarterly reports on concentrations risk by sector, geography and industry. The reports are input for analysis conducted by CBI.</p>
<b>EC3</b>	The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board.
Description and findings re EC3	<p>The CBI performs Large Exposure return reviews, reviews of risk appetite statements (for selected credit institutions), reviews of Board Management Information, and selected reviews of credit institutions' risk policies and procedures.</p> <p>The Credit Team and the Examination Teams, through regular reviews of High Impact credit</p>

<sup>54</sup> The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (i.e. it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see "*Measuring and controlling large credit exposures*", January 1991).

	<p>institutions' Management Information and credit risk policies (including Risk Appetite Statements), assess risk concentrations against risk appetite.</p> <p>For Medium High Impact and Medium Low Impact credit institutions, concentration risk is assessed by Examination Teams through the large exposure regulatory returns, and (on a less frequent basis) via FRAs, through review of RAS and ICAAP portal submissions through which credit institutions identify their risk appetite and management of concentration risk.</p> <p>Guideline 5 of the CEBS Guidelines on the management of concentration risk under the supervisory review process requires banks to <i>"set top-down and group-wide concentration risk limit structures (including appropriate sub-limits across business units or entities and across risk types) for exposures to counterparties or groups of related counterparties, sectors or industries, as well as exposures to specific products or markets. The limit structures and levels should reflect the institution's risk tolerance and consider all relevant interdependencies within and between risk factors. The limit structures should cover both on- and off- balance sheet positions and the structure of assets and liabilities at consolidated and solo levels. The limit structures should be appropriately documented and communicated to all relevant levels of the organization."</i></p> <p>Article 124 of 2006/48/EC as amended (as transposed by Regulation 66(1)-(3) of S.I. 661) provides the legal basis for supervisory review and assessment, supplemented by CEBS Guidelines on Supervisory Review and Assessment contained in Section 5 of CEBS Guidelines on the management of concentration risk under the supervisory review process (GL31).</p> <p>The CBI's Impairment Provisions for Credit Exposures paper of 2005 is a requirement for all licensed credit institutions. The paper places various requirements on credit institutions vis-à-vis credit concentration risk, namely:</p> <ul style="list-style-type: none"> <li>○ As part of the measurement of portfolio provisions, credit institutions should be cognizant of credit concentration risk. Credit risk concentrations are based on similar or positively correlated risk factors, which, in times of stress, have an adverse effect on the creditworthiness of each of the individual counterparties making up the concentration. Such concentrations include, but are not limited to: significant exposures to an individual counterparty or group of related counterparties; credit exposures to counterparties in the same economic sector or geographic region; credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and indirect credit exposures arising from a credit institution's credit risk mitigation techniques (e.g. exposure to a single collateral type or to credit protection provided by a single entity).</li> <li>○ A credit institution should have in place effective internal policies, systems and controls to identify, measure, monitor, and control their credit risk concentrations. The internal policies, systems and controls should be clearly documented and should include a definition of the credit risk concentrations relevant to the credit institution and how they and their corresponding limits are calculated. A credit institution's management should conduct periodic stress tests of its major credit risk concentrations and review against expectations.</li> </ul>
<b>EC4</b>	The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed.

Description and findings re EC4	<p>All licensed credit institutions are required to identify, aggregate and report single name credit concentrations and concentrations to connected counterparties to the CBI on a quarterly basis through the large exposures return for an example. These requirements are on a statutory basis and are set out in Section 5 of CRD, Articles 106-119) and in the CBI paper of December 2010 Large Exposures Return Notes on Compilation. Credit institutions are required to:</p> <ol style="list-style-type: none"> <li>1. Submit details of Group (G) and Unconnected (U) exposures. All large exposures (i.e. those exposures greater than 10% of own funds) should be reported up to a maximum of 70. This will be divided into a maximum of 30 to non-credit institutions, 20 to credit institutions and 20 to sovereigns. If there are less than 70 large exposures, sufficient exposures should be reported to bring the total number of exposures up to 30 to non-credit institutions, 20 to credit institutions and 20 to sovereigns. Where there are not sufficient exposures to bring the number reported up to 70 this must be indicated in the Notes section of the return. For institutions that report on a Group Consolidated basis, the number of exposures reported should be 50 for non-credit institutions, 30 for credit institutions and 30 for sovereigns.</li> <li>2. Submit details of connected clients</li> <li>3. Submit quarterly reports on credit exposures broken down by sectors, industry, geography.</li> </ol> <p>Reporting formats for Large Exposures, Related Party Lending and the Report on sectoral limits have been prescribed by the Central Bank under Section 117(3)(a) of the Central Bank Act 1989 in the case of Large Exposures pursuant to Article 110 of 2006/48/EC as amended (transposed by Regulation 56 of S.I. 661 of 2006). These reports are submitted quarterly. Funding concentration risk reporting is required monthly from the higher risk banks, as identified by PRISM. These reports are without prejudice to the rights and powers of the Central Bank to otherwise request specific information at any point in time.</p> <p>The CEBS Guidelines on the management of concentration risk under the supervisory review process highlight the currency risks that may emerge from a concentration on foreign currency funding and on lending to foreign borrowers whose sources of income are in a mismatched currency.</p> <p>CBI does regularly receive details on credit exposure by sector and geography for retail credit institutions via the QSFR. Outputs are analyzed by Credit Team and presented quarterly at the Credit Panel, a meeting of senior Central Bank staff and management from various divisions.</p>
<b>EC5</b>	<p>In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis.</p>
Description and findings re EC5	<p>The CBI has the discretion under the "EBA Guidelines on the Implementation of the Large Exposures Regime" to define an exposure as connected.</p> <p>Article 4(45) of Directive 2006/48/EC as amended defines a "Group of Connected Clients", and this definition is referenced in S.I. 661 of 2006 – "<i>Group of Connected Clients</i>" means:</p> <p>(a) <i>two or more natural or legal persons, who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others; or</i></p>

	<p>(b) <i>two or more natural or legal persons between whom there is no relationship of control as set out in point (a) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would be likely to encounter funding or repayment difficulties.</i>"</p> <p>The CBI requires banks to apply the CEBS Guidelines on the implementation of the revised large exposures regime (2009), Part I of which elaborates on the concepts and identification of relationships of "control" and "economic interconnectedness." Paragraph 24 of the Guidelines clarifies that <i>"in cases of divergence between the opinion of the institution and that of the competent authority, it is the competent authority which decides whether a client must be regarded as part of a group of connected clients."</i></p>
<b>EC6</b>	<p>Laws, regulations or the supervisor set prudent and appropriate<sup>55</sup> requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.</p>
Description and findings re EC6	<p>The CBI has fully implemented the large exposures regime as set out in the CRD, and transposed it into Irish law. This regime defines any exposure in excess of 10% to be a large exposure and limits the exposure to any individual client or group of connected clients to a maximum of 25% of own funds. The regime includes both on- and off-balance sheet, and where there is an exposure to underlying assets, a credit institution shall assess the scheme, its underlying exposures, or both. For that purpose, a credit institution shall evaluate the economic substance of the transaction and the risks inherent in its structure. All large exposures are reported to the Central Bank on a quarterly basis and are assessed for any significant changes in exposures and for new exposures that have been added since the previous reporting period.</p> <p>The Large Exposures and Related Party Lending Reports must be signed by a director before submission to the Central Bank, thus ensuring that they are cognizant of and monitoring the exposures. In addition, any related party lending must be approved by the Board or a subcommittee established for the purposes of related party lending that reports directly to the Board, and loans to a related party exceeding €1m require the prior approval of the Central Bank.</p> <p>The Large Exposure regime allows the CBI to determine a group of connected counterparties where there is a divergence of opinion between the credit institutions and the CBI. This is set out in paragraph 24 of the CEBS Guidelines on the implementation of the revised large exposures regime, published 11 December 2009. This determination is done on a case-by-case basis.</p> <p>The CBI checks credit institutions' compliance on a quarterly basis with large exposure limits. This review is done to ensure that these limits are not exceeded.</p> <p>The general principle is that all banks on an individual basis must comply with the Large</p>

<sup>55</sup> Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. As of September 2012, a new Basel standard on large exposures is still under consideration.

Exposures requirements of the CRD, unless this requirement for solo compliance is waived under Article 69 of 2006/48/EC as amended (as transposed by Regulation 14 of S.I. No.661 of 2006). Where the waiver has been applied, measures must be taken by the group to ensure the "satisfactory allocation of risks within then group."

Regulation 57(1) of S.I. 661 of 2006 (transposing Article 111 of 2006/48/EC as amended) states that *"A credit institution shall not incur an exposure to a client or group of connected clients the value of which, after taking into account the effect of any credit risk mitigation in accordance with Regulations 52, 58, 59, 60 and 60A, exceeds 25 per cent of its own funds."*

In addition Regulation 57(2) states *"If a client is an institution or a group of connected clients that includes one or more institutions, that value shall not exceed the higher of 25 per cent of the credit institution's own funds or €150,000,000. However, the sum of the value of exposures, after taking into account the effect of any credit risk mitigation in accordance with Regulations 52, 58, 59, 60 and 60A, to all groups of connected clients that are not institutions shall not exceed 25 per cent of the credit institution's own funds."* The Regulation goes on to state that if the binding limit is €150,000,000, this should not exceed a reasonable limit in terms of the credit institution's own funds and should not be higher than 100 per cent, except if allowed by the Central Bank (Central Bank) on a case-by-case basis. In line with the CRD, the Central Bank has partially or fully exempted some exposures (e.g. high credit quality exposures) from the limits above.

Article 106 of 2006/48/EC as amended (transposed by Regulation 52 of S.I. No.661 of 2006) defines "exposures" as *"any asset or off-balance sheet item referred to in Section 3, Subsection 1 [standardized approach to credit risk which refers to "claims or contingent claims" on particular exposure classes], without application of the risk weights or degrees of risk there provided for."* Derivative exposures may be calculated according to the Original Exposure Method, Market-to-Market Method or Internal Model Method. All elements entirely covered by Own Funds may, with the agreement of the Central Bank, be excluded from the determination of "exposures", provided that such Own Funds are not included in the bank's Own Funds for the purposes of its capital adequacy ratio or in the calculation of other monitoring ratios. Specific exclusions from exposures are outlined in Article 106(2) of 2006/48/EC as amended (Regulation 52(b) of S.I. 661 of 2006). Guidance on how to measure exposure to clients or groups of connected clients in the case of schemes with underlying assets is provided in Part II of the CEBS Guidelines on the implementation of the revised large exposures regime, 2009.

Guideline 1 of the CEBS Guidelines on the management of concentration risk under the supervisory review process requires that the *"management body should understand and review how concentration risk derives from the overall business model of the institution. This should result from the existence of appropriate business strategies and risk management policies."*

Article 109 of 2006/48/EC as amended transposed by Regulation 52 of S.I. No.661 of 2006 mandates that supervisors *"shall require that every credit institution have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying and recording all large exposures and subsequent changes to them."*

Article 124 of 2006/48/EC as amended (as transposed by Regulation 66(1)-(3) of S.I. 661 provides the legal basis for supervisory review and assessment, supplemented by CEBS

	Guidelines on Supervisory Review and Assessment contained in Section 5 of the CEBS Guidelines on the management of concentration risk under the supervisory review process.
<b>EC7</b>	The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programmes for risk management purposes.
Description and findings re EC7	<p>The CBI has imposed EBA Guidelines on concentration risk and stress testing, and assesses compliance with these guidelines through periodic reviews of High Impact credit institutions' stress testing programs during SREPs. These reviews are undertaken by the Risk Analytics Unit of Banking Supervision. These typically feed into RGPs, and where necessary RMPs. For Medium High Impact credit institutions, the Risk Analytics Unit also undertakes a review of the stress testing programs (including the impact of risk concentrations) as part of the FRA.</p> <p>The CBI has adopted the CEBS Guidelines on the management of concentration risk under the supervisory review process which specifically addresses concentration risk within stress testing in Guidelines 2, 4, 7, 12, 16 and 19 and the CEBS Guidelines on Stress Testing which also covers concentration risk.</p> <p>As part of the assessment of stress testing and reverse stress testing, supervisors consider whether banks consider scenarios which test the ability to withstand impacts on entities to which the bank has high concentration. Depending on the business model, this might focus on scenarios and mitigation around withdrawal of funding from the parent, default of top exposures, operational events around key systems, etc.</p> <p>As part of the 2011 SREP, a number of weaknesses were identified in a High Impact credit institution's stress testing framework, one area being their ability to pick up risk concentrations. As part of the RMP, in developing their framework, the credit institution was required to <i>"introduce scenarios that will assist in the identification of interdependencies between exposures which may only become apparent during stressed conditions. This is to assist in identification of 'hidden' concentrations. This should include impact of breakdowns in correlations and significant shocks to specific sectors."</i></p>
<b>Additional criteria</b>	
<b>AC1</b>	<p>In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the following:</p> <p>(a) ten per cent or more of a bank's capital is defined as a large exposure; and  (b) twenty-five per cent of a bank's capital is the limit for an individual large exposure to a private sector nonbank counterparty or a group of connected counterparties.</p> <p>Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialized banks.</p>
Description and findings re AC1	<p>Regulation 54 of S.I. No 661 of 2006 (transposing Article 108 of 2006/48/EC as amended) states that a bank's <i>"exposure to a client or group of connected clients shall be considered a large exposure where its value is equal to or exceeds 10% of its Own Funds."</i></p> <p>Regulation 57(1) of S.I. No 661 of 2006 transposing Article 111 of 2006/48/EC as amended states that <i>"A credit institution shall not incur an exposure to a client or group of connected clients the value of which, after taking into account the effect of any credit risk mitigation in accordance with Regulations 52, 58, 59, 60 and 60A, exceeds 25 per cent of its own funds."</i></p>

	<p>In addition Regulation 57(2) states <i>"If a client is an institution or a group of connected clients that includes one or more institutions, that value shall not exceed the higher of 25 per cent of the credit institution's own funds or €150,000,000. However, the sum of the value of exposures, after taking into account the effect of any credit risk mitigation in accordance with Regulations 52, 58, 59, 60 and 60A, to all groups of connected clients that are not institutions shall not exceed 25 per cent of the credit institution's own funds."</i> The Regulation goes on to state that if the binding limit is €150,000,000, this should not exceed a reasonable limit in terms of the credit institution's own funds and should not be higher than 100 per cent, except if allowed by the Central Bank on a case-by-case basis. In line with the CRD, the Central Bank has partially or fully exempted some high credit quality exposures from the limits above.</p> <p>The CBI allows deviations from these limits for a limited period of time under Regulation 57(5) of S.I. No.661 of 2006 (transposing Article 111(4) of 2006/48/EC as amended) on an exceptional basis, provided the exposure is reported without delay to the Central Bank.</p>
<b>Assessment of Principle 19</b>	Compliant
Comments	
<b>Principle 20</b>	<b>Transactions with related parties.</b> In order to prevent abuses arising in transactions with related parties <sup>56</sup> and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties <sup>57</sup> on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.
<b>Essential criteria</b>	
<b>EC1</b>	Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of "related parties." This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case by case basis.
Description and findings re EC1	In 2010 the CBI introduced a Code of Practice on Lending to Related Parties which was imposed on all credit institutions on a legislative basis. The code sets out an extensive list of connected persons and clients for the purpose of limiting related party lending including spouse, partners, children, people between whom there is such a level of interconnectedness they must be regarded as a single risk etc. Additionally, the code defines a related party as a director, senior manager, a significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding as well as a connected person of any of these persons.

<sup>56</sup> Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

<sup>57</sup> Related party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as, dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.

The CBI has prescribed a comprehensive definition of 'related party' in its RPL Code which applies to prudential requirements and regulatory reporting to the CBI.

The RPL Code applies only to *lending* (which includes loans, quasi loans or credit transactions which results in an exposure or potential exposure, including guarantees) to related parties, but there are other laws and regulations (e.g. Companies Acts, accounting standards) in Ireland which address requirements and public disclosures regarding transactions other than lending. However, these other laws are not enforceable by the CBI because the legislators in Ireland have allocated responsibility to the Central Bank for the enforcement of financial services legislation and Central Bank regulatory requirements. The legislators have assigned responsibility for the enforcement of other laws/requirements referred to above to other agencies e.g. ODCE for company law, the RABs and IAASA for oversight of auditors, IAASA is the competent authority under the Transparency Directive Regulations for checking certain Issuers' compliance with reporting under the relevant reporting framework.

The RPL Code came into force on 1 January 2011. It was imposed pursuant to Section 117 of the Central Bank Act 1989 on banks incorporated in the State licensed under Section 9 of the Central Bank Act 1971 and on building societies authorized under the Building Societies Act 1989. It also applies to designated credit institutions registered under the Asset Covered Securities Act 2001. Separately from the RPL Code, the reporting requirements described in Section 7 of the RPL Code were imposed pursuant to Section 117(3) (a) of the Central Bank Act 1989.

The RPL Code contains the following definitions that are of relevance to understanding the 'related parties' captured by the RPL Code:

Related Party: A related party is defined as:

- (i) a director,
- (ii) a senior manager, or
- (iii) a significant shareholder of the credit institution, or
- (iv) an entity in which the credit institution has a significant shareholding, as well as
- (v) a connected person of any of the aforementioned persons.

Senior Management: Members of management of the institution or persons who report directly to the Board of Directors or the chief executive (howsoever described) of the credit institution.

Significant Shareholder: A person who holds, either themselves or in aggregate with their connected persons, a significant shareholding. Governments are excluded from this definition.

Significant Shareholding: 10% or more of the shares or voting rights in the credit institution or business.

Connected Persons and Clients:

- (a) a spouse, domestic partner or child (whether natural or adopted) of a person;
- (b) two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others; or
- (c) two or more natural or legal persons between whom there is no relationship of

control as set out in point (b) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

*Notes relating to differences between Basel definition and RPL Code definitions of 'transactions' captured:*

The RPL Code applies only to lending, and thus aims to capture credit risk. It includes lease agreements, derivatives and write-offs.

The RPL Code does not cover service contracts.

The RPL Code does not specifically cover asset purchases and sales (although it captures Repos) or construction contracts.

The RPL Code only deals with lending; it does not address claims or borrowings.

In terms of exposures captured by the code it covers all loans, defined as loans, quasi-loans or credit transactions which result in an exposure or potential exposure, including guarantees. Therefore in terms of related parties definition and coverage of credit exposure the code is very extensive.

There is no evidence to suggest that service contracts, asset purchases or sales, or claims or borrowings are prevalent in the Irish Banking sector and therefore the CBI is of the view that its RPL Code captures the vast majority of the Related Party transactions. However, as stated previously, there are other laws and regulations (e.g. Companies Acts, accounting standards) in Ireland which address requirements and public disclosures regarding transactions other than lending. For example, The Companies Acts include the following rules in respect of Substantial Property Transactions:

- The Companies Act prevents directors or persons connected to directors from purchasing certain non-cash assets from the company at a price which is other than arm's length and without express permission from the members of the company in general meeting
- Non-cash assets are defined as being property or an interest in property other than cash.
- The thresholds are as follows:
  - €63,487 (IR£50,000); or
  - 10% of the value of the net assets per the latest set of financial statements or if there are no financial statements prepared the called-up share capital of the company

However, if the asset is valued at less than €1,270 (IR£1,000) then it is exempt from the terms of this section altogether.

Although the accounting standards cover some of these issues, they are not enforceable by the CBI and they do not address other requirements of the RPL concerning arms-length requirements, etc.

The code also applies significant qualitative and quantitative requirements on credit institutions such as:

Qualitative

1. A credit institution cannot grant a loan to a related party on more favourable

	<p>terms than a loan to a non-related party;</p> <ol style="list-style-type: none"> <li>2. A loan to a related party, or a variation in the terms of such a loan requires the prior approval of the Board or a sub-committee of the Board established specifically to deal with related party lending;</li> <li>3. Any loan in excess of €1m requires the prior approval of the Central Bank. the assessment of such requests includes an assessment of the terms and conditions of the loan;</li> <li>4. Policies and processes must be established by the credit institution to prevent (i) members of staff of the credit institution benefitting from lending to a related party and (ii) persons related to the borrower from being part of the process of granting and managing a loan to such a borrower.</li> <li>5. An obligation on senior management to report at least quarterly to the Board of any deviations from a policy, process or limit requirement of the code. Any such deviations must also be reported to the Central Bank within five business days of the deviation being identified</li> <li>6. The credit institution shall not (i) engage in a practice, (ii) enter into an arrangement, (iii) execute a document, or (iv) structure or restructure a loan in order to avoid its obligations under the code.</li> </ol> <p>Quantitative</p> <p>The code imposes severe restrictions on a credit institution’s exposures to related parties:</p> <ol style="list-style-type: none"> <li>1. Exposures to any one of the credit institution’s directors or senior management, and persons connected to them, including exposures to any business in which the director or senior manager has a significant shareholding 0.5% of Own Funds. The aggregate of such exposures shall not exceed 5.0% of Own Funds</li> <li>2. Exposure to one of its significant shareholders including exposures to businesses in which the significant shareholder has a significant shareholding. 5.0% of Own funds, aggregate not to exceed 15% of Own Funds.</li> <li>3. Exposures to a client or group of connected clients in which the credit institution has a significant shareholding. 5.0% of Own funds, aggregate not to exceed 15% of Own Funds.</li> </ol> <p>Oversight of the Code</p> <p>The Central Bank oversees compliance with the code as follows:</p> <ol style="list-style-type: none"> <li>1. Assesses all loans in excess of €1m prior to a credit institution being in a position to grant the loan;</li> <li>2. All credit institutions must report all related party exposures to the Central Bank on a quarterly basis; and</li> </ol> <p>As part of its ongoing supervision the Central Bank carries out desk top analysis to ensure that the policies and processes in place are in compliance with the code and additionally supplements this with on-site testing to ensure that loans to related parties have followed the policies and processes.</p>
<b>EC2</b>	<p>Laws, regulations or the supervisor require that transactions with related parties are not undertaken on more favorable terms (e.g. in credit assessment, tenor, interest rates, fees, amortization schedules, requirement for collateral) than corresponding transactions with non-related counterparties.<sup>58</sup></p>

<sup>58</sup> An exception may be appropriate for beneficial terms that are part of overall remuneration packages (e.g. staff receiving credit at favorable rates).

Description and findings re EC2	See EC1.
<b>EC3</b>	The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related party transactions.
Description and findings re EC3	<p>The RPL Code requires, inter alia:</p> <ul style="list-style-type: none"> <li>• Loans to related parties or any variation of the terms require prior Board approval, or approval by a Subcommittee of the Board established specifically to deal with related party lending. That Subcommittee is required to report directly to the Board. Board members with conflicts of interest shall be excluded from the approval process (Requirement 6(b)).</li> <li>• Actions in respect of the management of such loans (for example, grace periods, interest roll-ups, loan write-offs) require prior Board approval or approval by a Subcommittee of the Board established specifically to deal with related party lending where that Subcommittee reports directly to the Board (Requirement 6(c)).</li> <li>• Approval is required from the Central Bank prior to extending loans to a related party that exceeds €1million (Requirement 6(d)).</li> <li>• The Board of the credit institution is obliged to put policies and procedures in place over related party lending, ensure adherence thereto, monitor and report on such loans. (Requirements 6(e), (f), (g), and (h)).</li> <li>• Limits are imposed on a credit institution's lending to related parties, both on an individual level and on an aggregated basis (Requirement 6(i))</li> <li>• Detailed quarterly reporting requirements to the Central Bank (requirement 7(a)) are imposed, including the reporting of deviations from the RPL Code to the Central Bank (Requirements in section 7 of the RPL Code) within 5 business days of the discovery of the deviation and furthermore management of the institution is required to report to its Board on at least a quarterly basis, for timely action by the Board, any deviation from a policy, process or limits.</li> <li>• Requirement 6(j) contains an anti-avoidance provision which aims to prevent firms from engaging in practices, entering arrangements, structuring or restructuring loans or executing documents in such a manner as to avoid the requirements of the RPL Code.</li> </ul>
<b>EC4</b>	The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction.
Description and findings re EC4	<p>The purpose of the RPL code is to prevent persons benefiting from related party transactions and/or persons related to such a person from being part of the process of granting and managing the transaction.</p> <p>The CBI's monitoring of compliance with the RPL Code is conducted primarily through RPL</p>

	<p>reports that are received quarterly and are reviewed by Supervision teams. Additionally, themed reviews of Loans to Directors in covered banks were conducted. A report was published in March 2009 and supervisors followed up on the findings of these reviews. Supervisors compare/check reconciliations between disclosure of Related Party Transactions in the annual audited financial statements and the quarter-end RPL report coinciding with year-end for High Impact banks; as per PRISM guidelines those banks rated lower than High Impact do not routinely conduct a year-end reconciliation. Supervisors check the public disclosure of Loans to Directors and to Connected Persons (conditions/directions imposed in August 2009).</p> <p>Requirements relating to Lending to Related Parties are set out in Sections 6 &amp; 7 of the RPL Code and are summarized in Criteria 2 &amp; 3 above.</p>
<b>EC5</b>	Laws or regulations set, or the supervisor has the power to set on a general or case by case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.
Description and findings re EC5	See EC1
<b>EC6</b>	The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.
Description and findings re EC6	As set out in Criteria 4 above, the Central Bank's monitoring of compliance with the RPL Code is conducted primarily through RPL reports that are received quarterly, which are reviewed by supervision teams. Additionally, themed reviews of loans to directors in covered banks were conducted. A report was published in March 2009 and supervisors followed up on the findings of these reviews. Supervisors compare/check reconciliations between disclosure of Related Party Transactions in the annual audited financial statements and the quarter-end RPL report coinciding with year-end. Supervisors also check the public disclosure of loans to directors and to connected persons (conditions/directions imposed in August 2009) and the maintenance of Registers (conditions imposed in May 2010). The Central Bank ensures these 'Mail Merge' letters imposing conditions/directions are included on its website.
<b>EC7</b>	The supervisor obtains and reviews information on aggregate exposures to related parties.
Description and findings re EC7	There are requirements in section 7 of the RPL Code, imposed pursuant to Section 117(3) (a) of the Central Bank Act 1989, relating to private, prudential reporting to the Central Bank on a quarterly basis by credit institutions of lending to related parties. The CBI issued a template for RPL reporting within its 'Related Party Lending Return Notes on Compilation', which is very detailed and is required on a quarterly basis. The main risk metrics that are tracked by supervisors are compliance with the limits in Requirement 6(i) of the RPL Code as set out in EC1. Supervisors also monitor movements in RPL by category of related party from quarter to quarter. Breaches (if any) of the limits in requirement 6(i) are

	<p>reported to the Deputy Heads and Heads of Banking Supervision Divisions, including a NIL Return if there are no breaches. Other metrics, such as quarterly movements, are monitored by supervision teams. At their discretion supervisors would escalate issues to Deputy Heads/Head of Division. A reporting matrix is currently being developed which will include related party lending. This will result in a standardized management reporting format and will be tailored to the impact ratings under PRISM, i.e. greater detail for High Impact credit institutions.</p> <p>Supervisors also review the annual financial statements of banks, which contain public disclosures on Related Party Transactions.</p>
<b>Assessment of Principle 20</b>	Materially Noncompliant
Comments	<p>A primary risk in related party lending is the abuse by related parties in borrowing with preferential rates or terms or receiving higher interest on deposits with the bank. The reports collected by the CBI do not contain information to monitor this risk. Onsite reviews are infrequent and do not offset the lack of offsite information which is the primary focus of CBI supervision to monitor compliance with the RPL requirements</p> <p>The CBI's RPL code became effective on January 1, 2011 and was revised in 2013. The RPL Code focuses on lending, and thus aims to capture credit risk, which represents the most significant element of related party transactions in the banking system. It includes lease agreements, derivatives and write-offs. The CBI is therefore satisfied that the RPL Code captures the vast majority of Related Party Lending transactions. In addition, there are other laws and regulations (e.g. Companies Acts, accounting standards) in Ireland which address requirements and public disclosures regarding transactions other than lending. However, these are not enforceable by the CBI but by other relevant Irish authorities.</p> <p>The RPL Code does not:</p> <ul style="list-style-type: none"> <li>• Cover service contracts.</li> <li>• Specifically cover asset purchases and sales (although it captures Repos) or construction contracts.</li> <li>• Address claims or borrowings (i.e. deposits)</li> </ul> <p>Compliance with the Code is primarily monitored through the reports filed by the banks supplemented with onsite testing. However, the reports do not contain sufficient information to monitor terms and conditions of the loans, to determine compliance that transactions are at arms' length or received Board approval. Requirement 6(d) of the RPL code requires prior Central Bank approval for loans over €1million, the Questionnaire for applications for approval contain details of the terms and conditions of the exposure, the application must be accompanied by relevant minutes of the credit Committee approval of the loaned and there must be a confirmation that the loan will be transacted on an arm's length basis. The limited extent of onsite testing does not sufficiently offset the reporting deficiency.</p>

<b>Principle 21</b>	<b>Country and transfer risks.</b> The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk <sup>59</sup> and transfer risk <sup>60</sup> in their international lending and investment activities on a timely basis.
<b>Essential criteria</b>	
<b>EC1</b>	The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, take into account market and macroeconomic conditions and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures.
Description and findings re EC1	<p>The Country Risk Policy was imposed on all credit institutions as a license condition on 23 August 2013 in accordance with Section 10(3) of the Central Bank Act, 1971 and Section 17 of the Building Societies, Act 1989. A breach of a license condition is enforceable through the Administrative Sanctions Process (see CP 11 for specific details on the sanctions process).</p> <p>The Policy (section 2, "Supervisory Approach") provides that the CBI, in reviewing the effectiveness of a credit institution's management of country risk and the adequacy of provisions made, will determine compliance with all elements of this essential criterion.</p> <p>Section 2 provides for the following:</p> <ul style="list-style-type: none"> <li>• In determining its supervisory approach, the CBI will have regard to the Basel Committee's Core Principles for Effective Banking Supervision. In addition, the CBI will have regard to the size and complexity of a credit institution's international lending and investment activities and other factors set out in the policy in considering whether the credit institution has appropriate systems to control Country Risk and maintains adequate provisions for such risk.</li> <li>• In reviewing the effectiveness of a credit institution's Country Risk management and the adequacy of provisions made, the CBI will: <ul style="list-style-type: none"> <li>○ Determine whether a credit institution's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of Country Risk. The CBI will also determine if the policies and processes are consistent with the risk profile, systemic importance and risk appetite of the credit institution (taking into account market and macroeconomic conditions), and provide a comprehensive bank-</li> </ul> </li> </ul>

<sup>59</sup> Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporates, banks or governments are covered.

<sup>60</sup> Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: *IMF paper on External Debt Statistics – Guide for compilers and users*, 2003.)

	<p>wide view of Country Risk exposure. Exposures (including, where relevant, intra-group exposures) should be identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Credit institutions are required to monitor and evaluate developments in Country Risk and take appropriate mitigating action when necessary.</p> <ul style="list-style-type: none"> <li>○ Determine whether a credit institution’s strategies, policies and processes for the management of Country Risks have been approved by the credit institution’s Board on an annual basis, and determine that the Board oversees management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the credit institution’s overall risk management process.</li> <li>○ Determine whether credit institutions have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis, and that these systems ensure adherence to established country exposure limits.</li> <li>○ Review the adequacy of provisioning by credit institutions against Country Risk.</li> <li>○ Require credit institutions to conduct stress test scenarios and to include appropriate scenarios into their stress testing programs for risk management purposes to reflect Country Risk analysis.</li> <li>○ Regularly obtain and review management information on a timely basis on the Country Risk of credit institutions. The CBI will obtain additional information, as needed (e.g. in crisis situations).</li> </ul> <ul style="list-style-type: none"> <li>● Determination by the CBI of compliance by credit institutions is underway.</li> </ul>
<b>EC2</b>	The supervisor determines that banks’ strategies, policies and processes for the management of country and transfer risks have been approved by the banks’ Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks’ overall risk management process.
Description and findings re EC2	<p>The Policy (section 2, “Supervisory Approach”) provides that the CBI, in reviewing the effectiveness of a credit institution’s management of country risk and the adequacy of provisions made, will determine that banks’ strategies, policies and processes for the management of country and transfer risks have been approved by the banks’ Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks’ overall risk management process. The role of the Board and senior management is set out at section 3.1 of the Policy.</p> <p>The Central Bank is conducting reviews to determine compliance.</p>
<b>EC3</b>	The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.
Description and findings re EC3	The Policy (section 2, “Supervisory Approach”) provides that the CBI, in reviewing the effectiveness of a credit institution’s management of country risk and the adequacy of provisions made, will determine that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.

	The Central Bank currently requires reporting on credit exposures by geographical region in the Quarterly Summary Financial Return covering ROI, UK, USA & 'Other' which provides aggregate data on sector exposure by region.
<b>EC4</b>	<p>There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include:</p> <p>(a) The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate.</p> <p>(b) The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate.</p> <p>(c) The bank itself (or some other body such as the national bankers association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.</p>
Description and findings re EC4	The Policy (section 3.11) provides for each institution to determine the appropriate level of provisions in relation to Country Risk (option (c) of the essential criterion). The Policy sets out general guidelines in relation to the setting of provisions which must be adhered to by credit institutions. The adequacy of provisioning is subject to review by the CBI. Determination by the CBI of compliance by credit institutions with these requirements has commenced following the imposition of the Policy on credit institutions.
<b>EC5</b>	The supervisor requires banks to include appropriate scenarios into their stress testing programmes to reflect country and transfer risk analysis for risk management purposes.
Description and findings re EC5	The Policy (section 3.9) provides that credit institutions should conduct stress testing analysis of their Country Risk exposures in order to monitor actual and potential risks.
<b>EC6</b>	The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (e.g. in crisis situations).
Description and findings re EC6	<p>The Policy (section 5) provides for regular reporting to the CBI by credit institutions of their Country Risk exposures and provisions.</p> <p>The Central Bank currently receives quarterly data on lending stock by sector and by country.</p>
<b>Assessment of Principle 21</b>	Largely Compliant
Comments	The country risk policy, which has the enforceability of a regulation, was imposed on banks at the end of August, 2013. The policy imposes requirements on the banks that comply with the requirements of the Core Principle. Testing of compliance with the Country Risk Policy commenced in Q3 2013 (one inspection to test adherence to the policy has been completed with a further inspection ongoing) and further reviews will form part of the

	<p>Credit Team's Engagement Plan for 2014.</p> <p>Notwithstanding that the Country Risk Policy is new; the CBI has been conducting reviews for some time in relation to Sovereign Risk (a subset of Country risk) as part of its concentration risk assessments. In two cases issues were identified which resulted in Pillar II capital additions amounting to more than €1.5bn.</p>
<b>Principle 22</b>	<b>Market risk.</b> The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.
Description and findings re EC1	<p>Supervisory and specialist engagement with respect to market risk is dependent on the impact rating of an institution (as described in CPs 8 &amp;9) however should a M/H or M/L impact bank have a high level of market risk or a complex nature to its market risk the treasury team will be asked to provide additional support beyond the usual support for such banks. The top seven institutions by impact score are supervised by a market risk specialist supporting the supervision team with the remaining banks conducting supervision and assessment of market risk by the individually assigned supervision team (the risk specialist for market risk sits within the Treasury Team). The risk specialist deploys an individual bank and peer analysis of inherent, control and concentration of market risk by a bottom up methodology. The same materials are available for the examination teams with the lower impact ratings. To promote the use of these materials and to facilitate the wider use across the remaining examination teams, twice-yearly meetings are held between the Treasury Team and those examination teams. These meetings are also set up so that the Treasury Team can guide the examination teams on specific market risk matters and to promote best practices among these lower impact assessment banks.</p> <p>For High Impact banks the treasury team will allocate a treasury analyst (one analyst to 1 or 2 banks). This analyst will conduct all aspects of market risk monitoring and analysis throughout the year. For M/H and M/L impact banks, a treasury analyst will provide support at the time of the FRA and for other ad hoc reviews. The supervision team will monitor risks otherwise, with the support of the treasury team's risk dashboard, risk assessment framework and twice yearly meetings with the head of the treasury team.</p> <p>The Quantitative Risk teams provide additional specialist support in the form of validation and evaluation of risk models.</p> <p>At the upper end of the scale (High Impact banks), there is ongoing onsite and offsite regulatory supervision. Contact with High Impact institutions involves: regular ALCO attendance; monthly meetings with Head of Treasury/Asset Liability Management (ALM); and weekly Treasury calls. For institutions rated Medium High Impact and Medium Low</p>

Impact, an institution will receive a periodic onsite and offsite work and analysis of information in accordance with PRISM guidelines. For lower risk impact firms, the Treasury Team provides a resource to assess the market risk aspects of the FRA. This involves both onsite and offsite work. In addition, the findings of the risk reviews conducted for the high impact firms are shared with the examination teams of the lower impact teams firms to help identify common issues. Quarterly risk dashboards are also submitted by the lower impact banks which aid risk monitoring. Evidence of this was provided during the mission.

Market risk is also assessed by way of periodic thematic/risk reviews. For example, during a recent review in 2012 of 7 High Impact banks' ALCO role and effectiveness, banks were assessed on governance across both market and liquidity risk. This review addressed governance by the Board and senior management; experience and skills; the understanding of risk and challenges to risk management; identification of responsibility, resourcing and reporting of risk management; the appropriateness and effectiveness of behavioural assumptions, IRRBB and stress testing; and the quality and discussion of management information circulated to the committee and an assessment of market risk that is conveyed to the Board members of the bank. A risk review on structural market risk was concluded in May 2013.

Directive 2006/49/EC provides the basis for the regulation of market risk and banks are required to apply all EBA (formerly CEBS) market risk guideline documents and bulletins. Directive 2006/48 and Directive 2006/49 have been largely transposed into Irish law by the Central Bank Act 1971, S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009 in relation to banks. Particular regard should be given to Regulations 66 and 70 of S.I. 661 of 2006. Regulation 66 allows the Central Bank to review the arrangements, strategies, processes and mechanisms implemented by credit institutions to comply with the Directive 2006/49/EC (S.I. 661/2006) and evaluate the risks to which credit institutions are or might be exposed. Regulation 70 enables the Central Bank to require any credit institution *"that does not meet the requirements of [any law of the State giving effect to the [Recast Credit Institutions Directive]] to take the necessary actions or steps at an early stage to address the situation"*

Among the guidance documents used to focus the work of supervisors are:

- EBA "High level principles for Risk Management" – February 2010
- EBA "Guidelines on stress testing" – August 2010
- BCBS "Principles for sound stress testing and supervision" – May 2009
- BCBS "Principles for the Management and Supervision of Interest Rate Risk" – July 2004
- BCBS "Revisions to the Basle II Market Risk Framework" – February 2011

Market risk is analysed using the above listed documents as a foundation. These principles give guidance to best market practice by the application of a system of identification, measurement and assessment of market risk of the firm. The sources of material market risk (IRBBB, basis, currency, credit spreads and derivatives), once identified, are subject to the control structure of the firm within its own limit and control framework.

Market risk is analysed under three broad headings:

- Inherent Market Risk
- Quality of Control and Market Risk Processes
- Concentration of Market Risk

	<p>Inherent Market Risk</p> <ul style="list-style-type: none"> <li>• Risk Tolerance</li> <li>• Product type</li> <li>• Market Risk Strategy</li> <li>• Balance Sheet Structure</li> <li>• Identification of all Market Risk</li> </ul> <p>Quality of Control and Market Risk Processes</p> <ul style="list-style-type: none"> <li>• Governance</li> <li>• Risk/ Capital Model Validation</li> <li>• Skill and Knowledge</li> <li>• Limits – Risk Tolerance</li> <li>• Limits – Monitoring</li> <li>• Policy and Procedure</li> <li>• MIS Reporting</li> <li>• Stress Testing</li> <li>• New Product Process</li> <li>• Internal Audit Process</li> </ul> <p>Concentration of Market Risk</p> <ul style="list-style-type: none"> <li>• Diversification</li> <li>• Illiquid Financial Products</li> <li>• Illiquid and Volatile Financial Products</li> </ul> <p>The Treasury Team has developed a risk dashboard which captures risk metrics for market risk (traded and non-traded) and liquidity for the High Impact banks. The dashboard is populated by banks on a monthly or quarterly basis depending on impact and forms the basis of enhanced supervisory attention for this cohort of banks. The dashboard allows peer group comparison.</p> <p>Of the banks supervised, only 24 had a pillar 1 market risk capital requirement at 30 June 2013. Of these only 11 exceeded €1m and only 2 exceeded €100m. In terms of onsite examinations of market risk, the Treasury Team has conducted two full risk reviews in 2012 for High Impact banks and has either performed or advised on the market risk assessment of three lower impact banks. The treasury team, under its market risk assessment framework, also assesses, on a quarterly basis, all high impact banks' market risk against a number of sub-component criteria. This involves both onsite and offsite work. Given current market and macroeconomic conditions, the High Impact banks have received an elevated amount of attention by the risk specialists in the Treasury Team, supporting offsite analysis and attending meetings with bank senior management. Analysis of market risk through onsite reviews will generally be performed by the supervision team supported by the treasury team. In addition to the work of the Central Bank, external consultants had been engaged previously to conduct balance sheet analysis of the major banks in the past which included an evaluation of market risk.</p> <p>In terms of inherent market risk across the sector, banks have managed down their risk profile with a scaling back in exposure. Profile of trading books was relatively benign with few exotic instruments traded and typical trading strategy adopted by banks is to support customer flow and for hedging purposes.</p>
<b>EC2</b>	The supervisor determines that banks' strategies, policies and processes for the

	management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
Description and findings re EC2	<p>Supervisors determine that banks have an adequate market risk management process in a number of ways. In the case of the 7 credit institutions covered by the treasury team this is assessed:</p> <ul style="list-style-type: none"> <li>• by reference to preparatory work for the completion of the quarterly Treasury Probability Risk rating review exercise.</li> <li>• from the Central Banks internal reviews of returns received from the credit institutions.</li> <li>• during the course of supervisors' engagement with the Treasurer at regular scheduled meetings.</li> <li>• during thematic reviews, e.g. the ALCO Thematic Review, the Market Risk Thematic Review and the Risk Review conducted on an individual credit institution.</li> <li>• via ad hoc requests for information on topics that may have come to light in other institutions.</li> </ul> <p>The assessment of market risk in the remaining institutions forms part of the relevant supervision team's work. Each team will determine whether or not there is a Trading Book within these institutions. When a Full Risk Assessment is carried out, the examination teams will call upon the support of the Treasury Team to assist in its assessment of market risk. Meetings will be organized with the relevant credit institution with either the direct or indirect involvement of the Treasury Team, items arising will be followed up. For Medium High Impact banks these risk assessments are conducted every 2 to 4 years. In the case of the Medium Low Impact banks, the risk assessments are performed on a sample basis with c.10% being reviewed annually. Examination teams will use guidance material from PRISM, and in some cases use the Market Risk Treasury RAG status to guide them through the risk assessment. The examination teams revert to the Treasury Team with queries where advice and support is provided.</p> <p>In 2011, two High Impact banks were subject to a thematic Market Risk Review to establish the consistency of processes with the Risk Appetite Statement, risk strategy, risk profile and capital supporting the risk. These reviews also examined the roles and responsibilities of committees and officers of each bank for the identification, measuring, monitoring and control of market risk. Thematic reviews are regularly conducted by the Treasury team in consultation with the bank examination team. These reviews are focused mainly on the High Impact banks. A Medium High Impact bank may be added for peer review analysis when required based upon the market risk scope. Currently there is a Structural Market Risk Review underway on the 7 banks where Treasury Analysts are assigned; this is currently being finalized.</p> <p>Directive 2006/49/EC provides the basis for reviewing market risk and S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009 in relation to banks set out the requirements.</p> <p>For the High Impact banks subject to enhanced supervision, the level of engagement with the bank allows the supervisor to review and assess the implementation of market risk policies and procedures. The level of traded market risk being run is very low for most banks (as established from risk dashboards and review of banks' own MI). Of the banks</p>

	<p>supervised, only 24 had a pillar 1 market risk capital requirement at 30 June 2013. Of these only 11 exceeded €1m and only 2 exceeded €100m. This has impacted on the focus of onsite engagement by both the treasury and examination teams. The treasury team has been directly involved in assessing the market risk of 8 of the 11 banks mentioned above including all of the top 7.</p> <p>The depth of onsite testing and verification by supervisors and, in particular with support from risk specialists, was not at a level and frequency to accurately confirm that policies and procedures approved by the Board had been effectively implemented.</p>
<b>EC3</b>	<p>The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including:</p> <ul style="list-style-type: none"> <li>(a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management;</li> <li>(b) appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff;</li> <li>(c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary;</li> <li>(d) effective controls around the use of models to identify and measure market risk, and set limits; and</li> <li>(e) sound policies and processes for allocation of exposures to the trading book.</li> </ul>
Description and findings re EC3	<p>In the case of the 7 credit institutions covered by the treasury team:</p> <ul style="list-style-type: none"> <li>• Over time and with experience, the supervisor familiarises themselves with the market risk management environment/structure of the bank by going on-site to better examine the relevant internal governance structure and to get a fuller understanding of the information systems capabilities for Market Risk reporting. This is conducted on a more granular level via Risk Reviews, etc. Risk Reviews are conducted on the 7 credit institutions where Treasury Analysts are assigned.</li> <li>• Refer to CP15 EC7 for details on the Central Bank's IT assessment framework [(a)]</li> <li>• The supervisor considers the limit size set out in the RAS of the institution. This might occur during normal scheduled engagement between the supervisor and the Treasurer, during a themed review, or during the annual RGP exercise. RGPs and Market Risk Themed Reviews have made specific reference to this aspect. [(b)]</li> <li>• The supervisor will monitor "exception tracking and reporting" in a number of ways, e.g. from details in the ALCO pack, attendance at ALCO, attending meetings and reviews with both Market Risk team and the Internal Audit team, etc. [(c)]</li> <li>• The risk modeling team will assess the appropriateness and robustness of the risk measurement model for the quantification of market risk, e.g. has the risk-measurement model captured a sufficient number of risk factors of their portfolio?</li> </ul>

	<p>Has the risk-measurement model captured nonlinearities risk, correlation risk and basis risk? In addition, effective controls around the use of models and set limits have also been assessed, e.g. product type, market risk strategy, risk tolerance (or risk limits setting), model validation. [(d)]</p> <ul style="list-style-type: none"> <li>Supervisors determine that policies exist for allocation of exposures to the trading book through ad-hoc review of an institution's trading book policy statement and an assessment of the RAS. From the RAS, the supervisor can assess the allocation of appropriate limits. Market risk policies must adhere to the EBA guidance documents, and the operation of the processes that measure and monitor market risk in the trading book. [(e)]</li> </ul> <p>The Financial Risk Review is the principal activity to assess whether policies and procedures establish an appropriately controlled market risk environment. The FRR/FRA provides the supervisor an opportunity to engage a bank's Chair and representatives from senior management regarding the control environment for market risk. Preparation for these meetings and conducting the FRR/FRA will include analysis of a range of information sources, including market risk policies.</p>
<b>EC4</b>	<p>The supervisor determines that there are systems and controls to ensure that banks' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modeling for the purposes of valuation, the bank is required to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.</p>
Description and findings re EC4	<p>It is a minimum requirement of the CRD that the systems and controls ensure MTMs on trading portfolios are carried out daily. Confirmation of this is received at bilateral meetings between the CRO or Head of Market Risk in preparation for the annual RGP for High Impact banks. In addition this aspect is covered in the Treasury Market Risk RAG status which is reviewed by the Treasury Team quarterly and which contributes to the Market Risk Probability Risk of that institution.</p> <p>Each supervisor builds up an understanding of the internal governance of the institution by reviewing its policies and strategies. The Market Risk RAG status – which is refreshed quarterly – asks about the availability of daily limit monitoring systems for Market Risk Management purposes. The BIS principles for Market Risk Management are the cornerstone and set the expected standards for engagement with the credit institutions. Therefore both in ongoing engagement and in the more detailed format, i.e. Thematic Reviews when conducted on selected institutions – daily Mark to Market (MtM) reporting is the preferred standard. RAG status reviews, Themed Reviews, ALCO attendance, Policy reviews all combine to ensure that best practice is measured.</p> <p>The treasury team has been directly involved in assessing the market risk of 8 of the 11 banks with Pillar I market risk capital requirements greater than €1 million, including all of the top 7. The main activity to assess systems and controls for traded portfolios is largely through the FRA for lower impact banks, which is a less intensive activity and for market</p>

	<p>risk typically attended by the risk specialists. However, this is largely a function of the fact that most banks are running little or no traded market risk. Of the banks supervised, only 24 had a pillar 1 market risk capital requirement at 30 June 2013. Of these only 11 exceeded €1m and only 2 exceeded €100m. Where previous reviews, prior knowledge of the bank and/or the risk dashboards we receive confirm the lack of traded market risk less resources are directed to this area. This is monitored to ensure any changes to this are identified in a timely manner.</p> <p>The CRD establishes minimum expectations for validation of internal models by an independent unit within the bank.</p>
<b>EC5</b>	The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.
Description and findings re EC5	<p>Credit institutions are obliged to hold a precise minimum level of capital and to report compliance with this capital position to the Central Bank monthly as prescribed by the Central Bank Act 1971, S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009 in relation to banks.</p> <p>The Central Bank places primary reliance on the work conducted by the internal and external auditor to ensure that valuation adjustments are applied as required. As a secondary measure, supervisors review the findings of the internal/external auditor, make enquiries if significant adjustments are made, and consequently make judgment on further action.</p>
<b>EC6</b>	The supervisor requires banks to include market risk exposure into their stress testing programmes for risk management purposes.
Description and findings re EC6	<p>Market risk exposures are required to be included within a bank's stress testing programme under the requirements of the CRD Annex V point 10 which requires that policies and processes for the measurement and management of all material sources and effects of market risks shall be implemented by banks.</p> <p>In addition, the EBA Guidelines on Stress Testing (GL32), covers trading book risk as well as the other main risk types.</p>
<b>Assessment of Principle 22</b>	Largely Compliant
Comments	<p>High Impact banks have been subject to enhanced supervisory attention over the course of the last several years due to heightened risk profile of banks and current market conditions. For example, supervisors meet with Treasurers on a monthly basis, often perform monitoring calls weekly, and attend ALCO meetings periodically. Preparation for these engagements will include receipt and analysis of ALCO packs and MI that is submitted to the Board. High Impact banks are subject to enhanced monitoring through a risk dashboard that is populated monthly and reviewed by risk specialists and supervisors. These activities provide the supervisor opportunity to assess the inherent risk profile in traded portfolios and risk mitigants.</p> <p>The treasury team has been directly involved in assessing the market risk of 8 of the 11 banks with Pillar I market risk capital requirements greater than €1 million, including all of the top 7. In all but one case this has involved an element of onsite examination. Assessment of the control environment for the majority of banks has been performed</p>

	<p>within the Full Risk Assessment process, which is less frequent than a Financial Risk Review. In the context of a very limited level of market risk in Irish licensed banks, there is a reliance on exception reporting to identify risk, and insufficient testing of implementation of policies and procedures onsite to be able to accurately assess the effective implementation of controls, especially in regard to verify that marked-to-market positions are prudently valued and revalued frequently.</p> <p>CBI's oversight of internal models on an ongoing basis is inadequate to ensure models are fit for purpose and calculating capital accurately (EC4). While models are approved at the time of implementation, ongoing oversight of models in terms of validation and stability of model outcomes not performed on an ongoing basis, unless triggered by an event.</p>
<b>Principle 23</b>	<b>Interest rate risk in the banking book.</b> The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk <sup>61</sup> in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments.
Description and findings re EC1	<p>The Central Bank imposes regulations and guidelines on Irish licensed banks in respect to the management of IRRBB. Banks are required to apply all EBA (formerly CEBS) IRRBB guideline documents and bulletins. Particular regard should be given to Regulations 66 and 70 of S.I. 661 of 2006. As per Directive 2006/48/EC, interest rate risk in the non-trading book is treated under the ICAAP/SREP framework.</p> <p>The SREP takes the form of qualitative reviews of the documented processes and resulting management reports together with on-site assessments of both technical and senior management. The review of Pillar II ICAAPs conducted by supervisors have a particular focus on the identification of sources of IRRBB and the adequacy of processes to manage this risk. Furthermore, Pillar II ICAAP reviews include quantitative assessments of IRRBB such as structural basis risk, pre-payment risk, yield curve risk, re-pricing risk, etc. The quantitative reviews conducted as part of SREPs are documented in the RGP reports. The ICAAP reviews have a particular focus on the identification of interest rate risks and the adequacy of processes to manage this risk, for example, how banks are to monitor, control, mitigate and report its IRRBB.</p> <p>As part of the ICAAP, a high level, independent quantitative assessment by the Central Bank is conducted to assess the adequacy of banks' estimated IRRBB capital.</p>

<sup>61</sup> Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.

Volatility of earnings is an important focal point for IR analysis because of the reduced earnings that pose a threat to a bank's capital adequacy. The type of the IR risks to which banks are exposed include re-pricing-maturity risk, yield curve risk, basis risk, option risk, prepayment risk and pipeline risk. Pressure on bank net interest margins is currently a topic for domestic banks as well as the impact from mortgage tracker products which limit banks' ability to re-price the portfolio.

Two types of IRRBB limits have been adopted by banks:

1. Risk perspective (i.e. limits the total quantum of risk that may be taken):
  - a. Group treasury limit (i.e., overall portfolio VaR limit, Probable Maximum Loss limit, etc.);
  - b. Instrument type limit (i.e., Interest rate limit, FX limit, derivative limits, such as delta and/or vega limits, etc.);
  - c. Nominal (Cash) based Limits.
2. Financial perspective (i.e. limits the potential for earnings volatility):
  - a. Earnings Constraint;
  - b. Embedded Value Limits;
  - c. Stop Loss Limits.

The IR risk measures and limits are reported through a bank's ICAAP portal/report submission. For those banks that do not submit an ICAAP (Medium Low), a Self-Assessment Questionnaire is submitted. In these submissions, a bank's risk appetite, risk profile, macroeconomic conditions & the risk of a significant deterioration in market access, management of risk and quantification of risk are reported to the supervisors.

The Central Bank's supervisory risk framework (PRISM) prescribes the engagement with banks and is used as guidance to assess IR and the effectiveness of IR management and control systems in operation. PRISM is graduated according to the impact assessment of each individual bank and arising from this the prescribed level of engagement is applied. Supervisors assess the adequacy of risk management which is based on a review of whether the bank's framework is in accordance with BCBS principles.

Onsite supervision includes thematic reviews (e.g. in the course of the ALCO Thematic Review or the Risk Review conducted on an individual credit institution) and regular scheduled meetings with the Treasurer and Risk Management.

For Medium High Impact and Medium Low Impact institutions when a Full Risk Assessment is carried out the examination teams call in the support of Treasury in respect of IRRBB. Meetings will be organised with the relevant credit institution, items arising will be followed up. These FRAs are carried out in accordance with the PRISM engagement cycle. During the course of normal engagement by the examination teams they will use guidance material from PRISM and, in some cases, use the Market Risk Treasury RAG status. The examination teams revert to the Treasury Team with queries, or seeking advice if deemed necessary. In addition to the guidance material in PRISM to assess IRRBB, the following material is used by supervisors:

- BCBS108: Principles for Measuring Interest Rate Risk
- CEBS guidelines on Technical aspects of the management of interest rate risk arising from non-trading activities under the supervisory review process [s](#)
- CEBS CP32: CEBS guidelines on stress testing

There has been progress in improving the Interest Rate Risk in Banking Book (IRRBB)

	<p>frameworks within the Irish banking system. The SREP reviews have had a particular focus on improving banks' policies, infrastructure and implementation of policy. A less intensive process is used for lower Impact banks with a less frequent risk assessment and reliance on self assessment. The ongoing engagement with the High Impact banks has allowed the supervisor to assess banks' approach and strategy for mitigating IRR as market conditions change. A less frequent engagement model for lower Impact banks (as prescribed by PRISM) is nonetheless supported by quarterly risk dashboards which facilitates monitoring of risk changes and a twice yearly meeting between the examination team and the head of the Treasury Team which facilitates exchange of information, including findings of the risk reviews conducted for the High Impact banks that may be relevant to the M/H and M/L impact banks. A less frequent engagement model for lower Impact banks (as prescribed by PRISM) will not typically allow supervisors an opportunity to assess whether banks are regularly reviewing their strategies and risk profile to make adjustments where necessary in the context of market developments.</p>
<b>EC2</b>	<p>The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank's Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively.</p>
Description and findings re EC2	<p>For High Impact credit institutions covered by the Treasury team, as a bank conducts its review of policies and processes, supervisors follow developments either through attendance at ALCO's or through analysis of ALCO packs. During this review, the supervisor will assess that policies and processes are appropriate and complete.</p> <p>The supervisory plan includes attendance at the ALCO meetings of 7 High Impact banks. A monthly conference/onsite meeting is held to discuss the month-to-month change in risk profile in line with business flow. ALCO agenda items include the important policies which will be reviewed by that supervisor.</p> <p>The supervisor will also conduct either face-to-face meetings or a scheduled conference call with the Treasurer. On the agenda of these meetings, topics/issues included in these discussions are sometimes requests for policy documents, and questions on whether they are implemented effectively. In preparation for these ongoing engagements and for the FRR, supervisors will obtain and review Board-approved policies and ALCO packs. In instances where specific Thematic Reviews are being conducted by the Supervisor on the credit institution, these Board approvals would be specifically requested.</p> <p>For Medium High Impact and Medium Low Impact Institutions the assessment of IRRBB in these institutions forms part of the relevant supervision team's work. When a FRA is carried out, the supervision team can call in the support of Treasury resources in respect of the IRRBB exposures if material and applicable. Guidance materials prepared by Treasury are applied by the supervision team.</p> <p>Ongoing engagement with High Impact banks subject to enhanced supervision will entail analysis of changes in policies and processes which can be discussed with senior management and the Board. For banks assigned an Impact rating lower than High, the supervisor, with support from the treasury team, will assess whether policies and processes are effectively implemented as part of the FRA, albeit not to the same extent as for High Impact banks. Themed risk reviews were conducted for the high impact banks, in 2012 on ALCO/ALM and in 2013 on Structural Market Risk. This amounted to 12 reviews in total. These covered all the main aspects of strategy, policies and processes for the management</p>

	of interest rate risk.
<b>EC3</b>	<p>The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment including:</p> <ul style="list-style-type: none"> <li>(a) comprehensive and appropriate interest rate risk measurement systems;</li> <li>(b) regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions);</li> <li>(c) appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff;</li> <li>(d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary; and</li> <li>(e) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management.</li> </ul>
Description and findings re EC3	<p>For High Impact credit institutions the interest rate systems are reviewed for appropriateness and detail for each individual bank. The supervisor becomes familiar with the interest rate risk management environment/structure of the bank by going on site to better understand the relevant internal governance structure and the information systems capabilities for IRRBB reporting. This is also conducted at a more granular level via Risk Reviews, etc. Risk Reviews are agreed by the Treasury Team and inserted in the year planning exercise with time allocated. As an example of the greater level of detail taking place in a Risk Review: during the last Market Risk/IRRBB Thematic Review, a supervisor followed a trade(s) from origination to settlement.</p> <p>Supervisors review model assumptions and periodic reviews both by internal and external audit.</p> <p>The Risk Appetite Statement and the attached IRRBB policy document are assessed for appropriateness for the bank's business and the formation and utilisation of Board-approved limits. Supervisors consider the limit size permitted by the risk appetite statement of the institution. This might occur during normal scheduled engagement between supervisors and the Treasurer, during a themed review, or during the annual RGP exercise. RGPs and Market Risk Themed Reviews have made specific reference to this aspect.</p> <p>Supervisors will monitor "exception tracking and reporting" in a number of ways, e.g. from details in the ALCO pack, attendance at ALCO, attending meetings and reviews with both Market Risk team or Internal Audit team, etc.</p> <p>Supervisors review operational risk logs and will examine the effectiveness of risk controls under the EBA guidelines of operational risk in a market related environment. Supervisors conduct an analysis of the effectiveness of the particular systems used by the bank. Supervisors review breaches, triggers and changes in limits in relation to underlying business flow with the independent risk management function of the bank. The minutes</p>

	<p>and submissions contained in the ALCO pack are under constant review for effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure. The Central Bank's IT assessment framework is set out at CP15 EC7.</p> <p><u>For Medium High Impact and Medium low Impact institutions:</u></p> <p>The assessment of IRRBB in these institutions forms part of the relevant examination team work. When a Full Risk Assessment is carried out, the examination teams call in the support of the Treasury Team in respect of IRRBB. Meetings will be organised with the relevant credit institution, and items arising will be followed up. These FRAs follow the PRISM engagement model. During the course of normal engagement by the examination teams they will use guidance material from PRISM and in some cases use the Market Risk Treasury RAG status. The examination teams revert to the Treasury Team with queries, or seeking advice if deemed necessary.</p>
<b>EC4</b>	The supervisor requires banks to include appropriate scenarios into their stress testing programmes to measure their vulnerability to loss under adverse interest rate movements.
Description and findings re EC4	<p>The Central Bank requires banks to test the effect of a 200bps shift (this is compared with the Central Bank estimate to ensure accuracy) in the yield curve. Banks with more complex exposures are expected to test the effects of more varied tilts and twists in the yield curve so that vulnerabilities are appropriately understood.</p> <p>The stress testing of market risk as it applies to the banking book is assessed by the supervisor. This assessment determines that this criterion is adhered to for those banks that are categorised to be of High Impact. For the remaining banks, an assessment is performed as part of the ICAAP review process. The Quantitative Models team within Banking Supervision division assess IRRBB stress tests through collection of data on the banking book profile. This assessment is performed for banks that have a Treasury Analyst assigned.</p> <p>The requirement for more sophisticated scenarios for more complex banks is not mandated under the existing requirements. However, where deemed necessary, banks are required to perform a set of sensitivity tests to examine, for example, various yield curve movements (parallel, tilt and twist), basis risk and behavior assumptions under various scenarios.</p>
<b>Additional criteria</b>	
<b>AC1</b>	The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardized interest rate shock on the banking book.
Description and findings re AC1	<p>At a minimum, as part of the ICAAP process, banks are expected to assess the impact of the standardised interest rate shock, i.e. impact on NPV of assets and liabilities from 200bps parallel shift. While the standardised shock is a minimum requirement, larger banks would be expected to run more sophisticated models to measure exposure to IRRBB. This includes VaR models which consider the various interest rate curves to which the bank is exposed as well as the effect of issues such as optionality. Similarly, taking account of the principle of proportionality, larger banks would be expected to monitor their exposure to various shifts/twists in the yield curve on an ongoing basis.</p> <p>The Central Bank runs an independent test of the standardised calculation, and also assesses the effect of observed extreme 1-year movements at each re-pricing bucket. Where it is assessed as a material risk, banks would be expected to hold Pillar 2 capital to cover IRRBB.</p>

	<ul style="list-style-type: none"> <li>• Directive 2006/48 and Directive 2006/49 have been largely transposed into Irish law by the Central Bank Act 1971, S.I. 661 of 2006, the amended S.I. 395 of 1992 and S.I. 475 of 2009 in relation to banks.</li> <li>• Particular regard should be given to Regulations 66 and 70 of S.I. 661 of 2006. <ul style="list-style-type: none"> <li>○ Regulation 66 allows the Central Bank to review the arrangements, strategies, processes and mechanisms implemented by the credit institutions to comply with that Directive and evaluate the risks to which the credit institutions are or might be exposed.</li> <li>○ Regulation 70 enables the Central Bank to require any credit institution "<i>that does not meet the requirements of [any law of the State giving effect to the [Recast Credit Institutions Directive]] to take the necessary actions or steps at an early stage to address the situation.</i>"</li> </ul> </li> </ul> <p>Risk Analytics sent to each bank a detailed questionnaire seeking responses to a series of questions which examine the inherent interest rate risk in the banking book, the control and management process, and the concentration of risk under the following headings:</p> <ol style="list-style-type: none"> <li>a) Risk Appetite and Tolerance</li> <li>b) Risk Management Framework</li> <li>c) Interest Risk Exposure Profile</li> <li>d) Data Sources</li> <li>e) Quantification of IRRBB</li> <li>f) Mitigation of IRRBB</li> <li>g) Controlling Exposure to IRRBB</li> <li>h) Stress Testing</li> <li>i) Monitoring and Reporting of IRRBB</li> <li>j) Capital Allocation to IRRBB</li> </ol>
<b>AC2</b>	The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.
Description and findings re AC2	The Central Bank periodically issues an IRRBB questionnaire where an update on the internal capital measurement systems is required. This is intended to provide a high level background on the management of interest rate risk from both a qualitative and quantitative perspective. Following on from this, the Central Bank gathers information on a bank's internal approach to measuring interest rate risk, assesses it for reasonableness, and compares with an internal Central Bank estimate. Where it is considered material/relevant, the Central Bank may also engage in onsite discussion with those responsible for the management of IRRBB in the institution to assess internal understanding, as well as processes and controls around the risk.
<b>Assessment of Principle 23</b>	Largely Compliant
Comments	The Central Bank determines the adequacy of the management of IRRBB under the Pillar II SREP process. The SREP reviews have had a particular focus on improving banks' policies, infrastructure and implementation of policy in relation to IRRBB. The Central Bank's methodology for assessing IRRBB involves the use of benchmarks (200 bps parallel shift and a 99% historical shift) when performing an ICAAP review. For example, in the past 12 months, as part of the SREP process, the Central Bank has assessed IRRBB in a number of banks across all impact categories (including medium low impact). The assessment consisted of a combination of both on-site and off-site reviews. Evidence was provided demonstrating that capital add-ons have been imposed on banks arising from these reviews where deficiencies were identified.

	<p>The ongoing engagement with the High Impact banks has allowed the supervisor to assess banks' approach and strategy for mitigating IRR as market conditions change.</p> <p>Ongoing monitoring of changes in a bank's IRR profile not well developed in offsite analysis. KRIs within PRISM did not contain metrics related to IRRBB and data is only submitted once per year. A less frequent engagement model for lower Impact banks (as prescribed by PRISM) will not typically allow supervisors an opportunity to assess whether banks are regularly reviewing their strategies and risk profile to make adjustments where necessary in the context of market developments. A less frequent engagement model for lower Impact banks (as prescribed by PRISM) is somewhat mitigated by these risk dashboards and dialogue with the treasury team on matters arising from risk assessments of the High Impact banks.</p> <p>The treasury team has operated a market risk assessment framework over the last two years that assesses the banks' market risk (including IRRBB) through a combination of risk monitoring, risk reviews and compliance assessment. Lack of IRRBB metrics on PRISM have been addressed by inclusion in the risk dashboard that is submitted by banks either monthly or quarterly depending on impact rating.</p>
<b>Principle 24</b>	<p><b>Liquidity risk.</b> The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.</p>
<b>Essential criteria</b>	
<b>EC1</b>	<p>Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards.</p>
Description and findings re EC1	<p>The Central Bank has prescribed liquidity requirements on authorised credit institutions under its Regulatory Document "Requirements for the Management of Liquidity Risk" ("Liquidity Requirements"). The prudential liquidity requirements apply to every credit institution licenced by the Central Bank on a consolidated basis, irrespective of their activity being local or international, except where in a very limited number of cases the CBI grants exemptions according to pre-defined criteria.</p> <p>These Liquidity Requirements impose quantitative and qualitative prudential requirements on credit institutions authorised in Ireland that are to be met on an ongoing basis. The Quantitative Ratios are required to be submitted to the Central Bank as part of the maturity mismatch calculation report. The mismatch is broken up into seven time buckets:</p> <ol style="list-style-type: none"> <li>a. Sight to 8 days;</li> <li>b. Over 8 days to 1 month;</li> <li>c. Over 1 month to 3 months;</li> </ol>

- d. Over 3 months to 6 months;
- e. Over 6 months to one year;
- f. 1 to 2 years; and
- g. 2 + years.

The quantitative limits only apply to the first two ratios (sight to 8 days & over 8 days to 1 month). The first ratio (sight to 8 days) needs to be 100% and the second ratio (8 days to 1 month) needs to be 90%. All other ratios are monitored (see 6.3 Limits of the Liquidity Requirements).

For the High Impact and Medium High Impact institutions, the liquidity risk matrix which determines the liquidity RAG status has been compiled using the Basel standards as stated below).

The impact rating of a credit institution prescribes the level of supervision, ranging from ongoing supervision (High Impact) to less intensive (Medium Low Impact). Medium Low Impact firms are looked at when there is a significant movement in the metrics uploaded to PRISM or when information comes to the supervisor's attention that requires supervisory action. For the Medium Low Impact firms, two meetings per annum are scheduled between the Treasury Team and the examination team leads to discuss the findings of the examination teams' liquidity assessments. These examination team leads use the same RAG status as used by the Treasury Team for their High Impact firms.

In terms of offsite supervision, only High & Medium-High Impact firms are the regulatory returns analysis performed. Medium-Low & Low Impact firms are not actively subject to offsite supervision unless the returns trigger a red flag built into the system. Offsite supervision is calibrated in a similar way in terms of Impact and for High & Medium Impact firms the engagement is routine and frequent.

Responsibility for the supervision of liquidity risk is in line with the PRISM engagement model. Certain High Impact Institutions are assigned a dedicated analyst from the Treasury Team. Other High Impact institutions receive part of the time of an assigned treasury analyst. Medium High Impact institutions receive part of the time of an assigned analyst if deemed necessary. Responsibility for the analysis of liquidity risk in other institutions is performed by the supervision teams. The Treasury Team is available to provide support and guidance to the supervision teams in these cases.

Both quantitative and qualitative liquidity requirements must be adhered to by all authorised credit institutions (both local and international) in Ireland. These are set out in the following laws, regulations and prudential requirements.

- 1) Annex XI of CRD, implemented via Reg. 66 of S.I. 661 of 2006
- 2) Annex V of CRD, implemented via Reg. 66 of S.I. 661 of 2006
- 3) Central Bank Regulatory Document for Credit Institutions, "Requirements for the Management of Liquidity Risk", 29 June 2009
- 4) Central Bank Corporate Governance Code for Credit Institutions and Insurance Undertakings. Section 12.3: "*A full understanding of the nature of the institution's business, activities and related risks.*"

The treasury team analyses Liquidity Risk under eight broad headings. These were formulated using the principles from the paper 'Basel III: International framework for liquidity risk measurement, standards and monitoring, (Dec 2010)'.

Among the guidance documents used to focus the work of supervisors are:

- EBA 'Guidelines on Liquidity Cost Benefit Allocation, (Oct 2010)';
- EBA 'Guidelines on Liquidity Buffers and Survival Periods, (Dec 2009)';
- BCBS 'Principles for Sound Liquidity Risk Management and Supervision, Sept 2008'.

The frequency of reports submitted to the Central Bank is also dependent on the impact of the credit institution:

- 1) All licenced credit institutions are required to submit the following liquidity returns on line via the Central Bank's Viewpoint IT system:
  - Liquidity Return/Maturity Mismatch (weekly/monthly)
  - Deposit Protection Return (monthly)
  - FINREP (monthly/quarterly)
  - Funding Composition Report (monthly for Medium High Impact or higher/Quarterly for Medium Low Impact or lower)
- 2) All covered credit institutions are required to submit the following liquidity reports in addition to the above:
  - Guaranteed Liabilities Return (monthly)
  - Liquidity Forecasting Analysis (quarterly)
- 3) All High Impact or Medium High Impact credit institutions are required to submit the ICAAP portal yearly. This includes the identification, measurement, monitoring, control and reporting of Pillar 2 risks, i.e. liquidity
- 4) All Medium Low Impact credit institutions are required to submit a Self-Assessment Questionnaire yearly. An ICAAP will only be submitted by the credit institution if requested by the supervisor.
- 5) All firms involved in Asset Covered Securities are required to submit
  - Asset Covered Securities Return (quarterly)

Section 1.4.3 of the liquidity Requirements sets out the instances where branches of EEA and non-EEA credit institutions may be exempted from the liquidity requirements subject to certain undertakings by the branch's head-office and confirmations from the Home Supervisor. Section 1.4.1 permits, on 'an exceptional bilateral basis' an exemption from the quantitative requirements only to be given to a credit institution. To date, only one Irish licensed bank has been granted such an exemption.

The legal requirements on the credit institutions to submit the above information to the Central Bank is stipulated by the following:

- 1) Central Bank Act, 1971 – Section 23, "Regulation of ratios between assets and liabilities of holders of licences"
- 2) 'Requirements for the Management of Liquidity Risk (June 2009)', Central Bank. "Qualitative and Quantitative Requirements"
- 3) European Communities (Deposit Guarantee Scheme) Regulations 1995 (S.I. 168 of 1995)
- 4) Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009
- 5) Memorandum Of Understanding – European Commission, International Monetary Fund and European Central Bank
- 6) Basel III/CRD IV – introduction for the first time of international liquidity standards of minimum liquidity requirements LCR & NSFR ratios, with additional liquidity monitoring metrics focused on maturity mismatch, concentration of funding and available unencumbered assets. Currently not a legal requirement; will be in the future

	7) Directive 2006/48/EC, implemented via Regulation 66 of S.I. 661 of 2006, Annex XI of CRD and Annex V of CRD
<b>EC2</b>	The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.
Description and findings re EC2	<p>The impact rating of a credit institution on the Irish economy prescribes the level of supervision as iterated above in criteria 1. The Treasury Team's approach to analysing liquidity is shared with the supervision teams of the lower impact banks to ensure a consistent approach. However, in general these banks have lower levels of liquidity risk and are less exposed to markets and macroeconomic conditions. For the banks analysed by the treasury team under the liquidity matrix (8 credit institutions in total), the banks are analysed in the context of the markets – both on and off balance sheet – and macroeconomic conditions in which they operate.</p> <p>The Treasury Team has developed a risk rating framework (risk dashboard) to evaluate the liquidity risk profile of an authorised credit institution. Under the risk rating framework, Liquidity Risk is analysed under 8 broad headings as stated above, which takes into account market and macroeconomic conditions.</p> <p>Section 3 of the Liquidity requirements requires each credit institution to establish a liquidity policy, to be reviewed on an ongoing basis. The liquidity policy must include a "strategy for the ongoing management of liquidity risk that is consistent with the risk tolerance of the credit institution" (3.1); Scenario analysis is to include institution specific and market factors and assumptions about the behaviour of a credit institution's assets, liabilities and off-balance sheet activities under stress should be reviewed regularly to ensure their continued appropriateness (3.6). In addition the policy must give regard to access to funding: market access must ensure sufficient access to funding from a range of sources in the financial market (3.8).</p>
<b>EC3</b>	The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance
Description and findings re EC3	<p>The impact rating of a failure of a credit institution on the Irish economy prescribes the level of supervision, as iterated above in EC1. Section 3.1 of the Liquidity Requirements explicitly sets out the expectations for Boards to be responsible for liquidity risk management in developing a strategy for ongoing management and establishing an ALCO structure to manage liquidity on a practical level. In this section, the liquidity policy is required to be reviewed and approved at least annually by the Board. Section 3.4 sets out the minimum expectations for management information to be provided to the Board with appropriate and timely information.</p> <p>Section 3.3 entitled Internal Controls sets out the expectations that reporting of limit breaches is immediately brought to the attention of ALCO and the Board.</p> <p>Section 3.6 of the Liquidity Requirements deals with scenario analysis and stress testing including treatment of assumptions. The procedures regarding scenario analysis, stress tests and assumptions must include:</p> <ul style="list-style-type: none"> <li>• Procedures for the performance and analysis of a range of stress and</li> </ul>

	<p>“what-if” scenarios, considering institution-specific and market factors, including the frequency of performance;</p> <ul style="list-style-type: none"> <li>• Procedures for the action to be taken by management in the event of certain stress results;</li> <li>• A timetable for the performance of stress testing and scenario analysis is to be prepared at the commencement of each financial year and the outcome of these examinations are to be reported to the Board on an annual basis; and</li> <li>• Assumptions about the behaviour of a credit institution’s assets, liabilities and off-balance sheet activities under stress should be reviewed regularly to ensure their continued appropriateness in the context of the credit institutions activities.</li> </ul> <p>The following requirements with regard to stress testing of liquidity must be adopted by credit institutions:</p> <ul style="list-style-type: none"> <li>• Stress testing must be completed on a quarterly basis by all institutions for both a bank-specific and industry-wide liquidity stress situation.</li> <li>• Each institution should consider further whether it is appropriate to perform both a <i>moderate</i> and severe entity-specific stress test, in addition to the minimum criteria prescribed above.</li> <li>• Institutions are to document: (i) an acceptable mismatch between inflows and outflows under each scenario and (ii) the strategic responses which would be required and available to the credit institution in cases where these acceptable mismatches are breached. For example, if the stress testing identifies an unacceptable gap, an entity should consider the types of action it would take depending on the magnitude of the gap, the severity and likelihood of the stress scenario. These may include: <ul style="list-style-type: none"> <li>○ Sell appropriate assets or repo assets;</li> <li>○ Requisition the marginal lending facility; or</li> <li>○ Draw down committed lines.</li> </ul> </li> </ul> <p>These stress testing requirements are quantitative and are in addition to the qualitative requirements outlined in section 3.6 of the Requirements. Central Bank teams will examine the reporting of stress testing results to the Board, as required in section 3.6, as part of their ongoing work. In addition to this work, the Treasury Team will ensure that the responsibilities of the Board are carried out – these include developing a strategy for the ongoing management of liquidity risk that is consistent with the risk tolerance of the credit institution; assigning a management structure to identify, measure, monitor and control liquidity risk; approving the liquidity policy; etc.</p> <p>Certain institutions rated High Impact receive a dedicated analyst from the Treasury Team. Other High Impact institutions receive part of the time of an assigned treasury analyst. Medium High Impact institutions receive part of the time of an assigned analyst if deemed necessary. Responsibility for the analysis of liquidity risk in other institutions is performed by the supervision teams. The Treasury Team is available to provide support and guidance to the supervision teams in this case.</p> <p>Under the Treasury Team risk rating framework a bank’s liquidity risk framework is analysed under the following categories</p>
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	<ol style="list-style-type: none"> <li>1) Governance and Culture</li> <li>2) Measurement and Forecasting</li> <li>3) Liquidity Management</li> <li>4) Liquidity Contingency Planning</li> </ol> <p>Credit institutions are required to submit to the Central Bank the results of three types of stress scenarios: 1) idiosyncratic, 2) market wide and 3) combination of both. These are submitted monthly for High Impact and Medium High Impact institutions, and Quarterly for Medium Low or Low Impact credit institutions. The legal/regulatory basis for the supervision of liquidity risk is based on the following:</p> <ul style="list-style-type: none"> <li>• Regulation 66 and 70 of S.I. 661 of 2006.</li> <li>• The liquidity risk framework was formulated using the “Requirements for the Management of Liquidity Risk (29 June 2009).” The framework also incorporates the principles of the Basel Committee “Principles for Sound Liquidity Risk Management and Supervision” – September 2008</li> <li>• Basel Committee “Principles for sound stress testing and supervision” – May 2009</li> <li>• BCBS ‘Basel III: International framework for liquidity risk measurement, standards and monitoring, (December 2010)’.</li> </ul> <p>Among the guidance documents used to focus the work of supervisors are:</p> <ul style="list-style-type: none"> <li>• EBA ‘Guidelines on Liquidity Cost Benefit Allocation, (October 2010)’;</li> <li>• EBA ‘Guidelines on Liquidity Buffers and Survival Periods, (December 2009)’.</li> <li>• CEBS/EBA guidelines on stress testing (GL32) annex 5, (August 2010).</li> </ul> <p>As part of the SREP (ICAAP) process, reviews of liquidity policy and contingency plans are carried out yearly.</p> <p>A recent thematic review was conducted to assess liquidity contingency planning. This review included a sample of 7 credit institution (local and international). In another recent review of banks’ ALCOs’ role and effectiveness, banks were assessed on governance across liquidity risk. This ALCO review addressed a number of areas, including stress testing and the quality and discussion of management information that is circulated to the ALCO committee and the Board members of the bank.</p>
<b>EC4</b>	<p>The supervisor determines that banks’ liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment including:</p> <ol style="list-style-type: none"> <li>(a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks’ business and their role in the financial system and that is approved by the banks’ Boards;</li> <li>(b) sound day-to-day, and where appropriate intraday, liquidity risk management practices;</li> <li>(c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide;</li> <li>(d) adequate oversight by the banks’ Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner</li> </ol>

	<p>consistent with the banks' liquidity risk appetite; and</p> <p>(e) regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.</p>
Description and findings re EC4	<p>Assessment for 7 High Impact and one Medium High Impact is an ongoing process, and involves examination of:</p> <p>(a) A bank's risk appetite by monitoring ALCO packs and Board Papers.</p> <p>(b) Liquidity risk management practises – by attending Alco meetings, meeting with the Treasurer to discuss ALCO agenda and papers, and by performing Risk Reviews on aspects of Liquidity Management.</p> <p>(c) Information systems by analysing MI capability to ensure high standard of output which displays liquidity risk exposures.</p> <p>(d)/(e) Board's policy approval of liquidity policies to ensure that it matches the RAS, and that these policies are kept under review.</p> <p>For High Impact banks, both onsite and offsite regulatory supervision is constant. Contact with High Impact institutions involves: monthly meeting with Head of Treasury /ALM; weekly liquidity risk calls; and scheduled Risk Reviews. The Treasury Team provides support to the examination teams of these banks by way of semi-annual meetings, access to the Treasury Team's risk reviews and risk assessment framework as well as support for risk assessments.</p> <p>The Treasury Team's onsite work includes a monthly meeting with the Head of ALM to discuss recent ALCO agenda items and ALCO MI. As previously mentioned, 4 Risk Reviews will take place during the course of 2013 to deal with the following topics:</p> <ul style="list-style-type: none"> <li>• Funds Transfer Pricing;</li> <li>• Structural Market Risk;</li> <li>• Contingency Funding Plan; and</li> <li>• Funding strategy and Liquidity Stress Testing.</li> </ul> <p>Regular meetings are scheduled with heads of functions (ALM, Treasury, Risk, and Internal Audit) as appropriate to the bank's risk rating. Regular assessment and testing is conducted on the quality of liquidity governance, measurement, management, reporting and performance against liquidity targets. The offsite work involves constant review of funding and maturity profile in order to gather a strong understanding of the bank's funding structure and strategy.</p> <p>Inherent in this assessment methodology is consistency. Banks can be compared with peers across the sector. This allows for more efficient identification of best practices or of emerging trends in banks in a peer group.</p> <p>For Medium High Impact and lower impact banks, the assessment of liquidity strategy, processes and policies is done as part of the FRA, the frequency and duration of which is as per PRISM guidance.</p>
<b>EC5</b>	<p>The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (e.g. credit, market, operational and reputation</p>

	<p>risk) may impact the bank's overall liquidity strategy, and include:</p> <ul style="list-style-type: none"> <li>(a) an analysis of funding requirements under alternative scenarios;</li> <li>(b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress;</li> <li>(c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits;</li> <li>(d) regular efforts to establish and maintain relationships with liability holders; and</li> <li>(e) regular assessment of the capacity to sell assets.</li> </ul>
Description and findings re EC5	<p>The requirements are set out in Sections 3 and 8 of the Liquidity Requirements where the CBI requires each credit institution to establish a liquidity policy, which will be reviewed as part of the ongoing regulation of the institution.</p> <p>While HQLA can be used in the calculation of the liquidity mismatch ratio, there is no stipulation in the rules for a minimum HQLA as long as there are sufficient net inflows to meet the minimum ratio requirements.</p> <p>As well as the qualitative requirements included in the liquidity policy, Section 5.2 sets out overriding criteria for determining the characteristics of marketable assets including concentration and depth of market. Section 3.8 sets out requirements for market access. Requirements are also set out in the instructions for ICAAP submission, Section 4, Section 5.4 and Section 9.</p> <p><u>The Legal/Regulatory Basis is as follows:</u></p> <ul style="list-style-type: none"> <li>• Regulation 66 and 70 of S.I. 661 of 2006.</li> <li>• Central Bank Requirements for the Management of Liquidity Risk (June 2009). Imposed via : <ul style="list-style-type: none"> <li>Quantitative Requirements: <ul style="list-style-type: none"> <li>○ Central Bank Act 1971, Section 23</li> <li>○ Building Societies Act 1989, Section 39</li> <li>○ Trustee Savings Bank 1989, Section 31</li> </ul> </li> <li>Qualitative Requirements: <ul style="list-style-type: none"> <li>○ EC (Licensing and Supervision of Credit Institutions) Regulation 1992 (Regulation 16 S.I. 395 of 1992)</li> </ul> </li> </ul> </li> <li>• Quantitative Requirements &amp; Qualitative Requirements are also imposed as conditions to which all credit institutions are subject to: <ul style="list-style-type: none"> <li>○ Central Bank act 1971 Section 10,</li> <li>○ Building Societies Act 1989 Section 17</li> <li>○ Trustee Savings Bank 1989 Section 12</li> <li>○ Asset cover securities Act 2001 Section 16</li> </ul> </li> <li>• Directive 2006/48/EC, implemented via Regulation 66 of S.I. 661 of 2006, Annex XI of CRD and Annex V of CRD: <ul style="list-style-type: none"> <li>○ Annex XI, Section 1(e)</li> <li>○ Annex V, Section 10</li> </ul> </li> </ul>
<b>EC6</b>	<p>The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for</p>

	<p>addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.</p>
<p>Description and findings re EC6</p>	<p>The Central Bank requires each credit institution to establish a Contingency Funding Plan (section 3.9 of the Liquidity Requirements), developed by management and approved by the Board of Directors as part of the liquidity policy which will be reviewed as part of the ongoing regulation of the institution. At a minimum, the CFP is to:</p> <ul style="list-style-type: none"> <li>• Identify the triggers that are used as signs of an approaching crisis and who has responsibility for monitoring and reporting on these triggers, e.g. a predetermined drop in deposits, a predetermined decline in the value of shares, or a higher cost of funding vis-à-vis other credit institutions;</li> <li>• Outline individual responsibilities in the event of the credit institution experiencing liquidity problems, in particular the person with responsibility for liaison with the media, shareholders and the Central Bank should be outlined;</li> <li>• Outline procedures for timely and relevant information flows to senior management in the event of a crisis;</li> <li>• Outline procedures for making up cash flow shortfalls will be outlined e.g. selling assets, establishing new lines of funding etc., in both normal and stressed conditions;</li> <li>• Outline identify and quantify all sources of funding by preference of use in various scenarios extending from normal circumstances to a severe industry stress;</li> <li>• Address strategy with respect to altering the behaviour of assets and liabilities;</li> <li>• Address circumstances when the plan should be utilised; and</li> <li>• Outline names, contact details and geographical location of personnel responsible for contingency planning.</li> </ul> <p>The extent of review of a credit institutions contingency funding plan is dependent on the impact of the credit institution. The Treasury Team has developed a risk rating framework to evaluate the liquidity risk profile of an authorised credit institution for Medium High Impact or higher (eight broad headings).</p> <p>For the 8 banks assessed by the Treasury Team, a Risk Review of CFPs is one of the four scheduled reviews to be conducted in 2013. Prior to this, as part of the team's liquidity risk assessment framework, CFPs were reviewed as part of the probability risk scoring process. The more detailed 2013 reviews will add more depth and peer comparisons.</p> <p>As with all such reviews, the review document will be made available to the examination teams of Medium High Impact and Medium Low impact banks, and discussed with them at the semi-annual meetings with the Treasury Team.</p> <p>Contingency planning is covered by the PRISM guidance material on liquidity risk and forms part of the material reviewed by examination teams when conducting FRA, the frequency of which are determined by the impact rating of the bank, as per PRISM. The Treasury Team's Liquidity Risk Assessment Framework is also used for some of these banks</p>

	and has specific metrics on CFP.
<b>EC7</b>	The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programmes for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.
Description and findings re EC7	<p>The Central Bank both requires banks to conduct a variety of stress tests and also assesses whether the results of these are used by the banks to inform CFP and setting of Risk Appetite.</p> <p>Section 8 of the Liquidity Requirements stipulates the frequency and nature of stress tests to be performed by credit institutions including: stress tests must be completed on a quarterly basis for both bank specific and industry-wide stress situations; and moderate and severe scenario is considered where appropriate. The assumptions need to be documented. Section 3.8 details the various parameters a bank needs to consider.</p> <p>A series of Risk Reviews is scheduled by the Treasury Team for 2013 onwards and includes CFP, Liquidity Stress Testing and Funding Strategy. These will add to the quality of the assessment. These will also be used to inform the assessment of the Medium High Impact and lower impact banks.</p> <p>Also, each institution is required to submit a monthly liquidity return and a Treasury Funding Report. This information is analysed in terms of funding composition, behavioural assumptions on cash flow of both assets and liabilities, monitoring of liquidity ratios and EBA stress test results (idiosyncratic, systematic and combined).</p>
<b>EC8</b>	The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.
Description and findings re EC8	<p>FMP banks (3 High Impact institutions) with any sizable foreign currency transformation requirements are either deleveraging that part of the portfolio or have matched that part of the balance sheet. The FMP banks are monitoring and reporting foreign currency exposure quarterly to the Troika and Central Bank. None of the non-FMP banks have significant foreign currency transformation requirements.</p> <p>The COREP return requires banks to submit their Foreign Exchange Risk Total Positions in Non-Reporting Currencies to the Central Bank. This return also shows the net position per currency. Foreign currency is not regarded as significant ("significant" being &gt;5%). The banks' ability to transfer liquidity from one currency to another across legal entities is only analysed for covered institutions.</p>

	<p>The qualitative requirements are set out in Section 3 of the Central Bank, regulatory document for credit institutions "Requirements for the Management of Liquidity Risk (29 June 2009)." The Central Bank requires each credit institution to establish a liquidity policy, which will be reviewed as part of the ongoing regulation of the institution. At a minimum the policy is to include:</p> <p>3.7 Foreign exchange</p> <ul style="list-style-type: none"> <li>- Document limits placed on foreign currency mismatches individually and/or in aggregate</li> <li>- Document Limits placed in cases where the currency is not freely available</li> <li>- Analysis of foreign currency liquidity under various scenarios</li> </ul> <p>The quantitative requirements are set out in Section 7 ("Foreign exchange business") of the Central Bank regulatory document for credit institutions, "Requirements for the Management of Liquidity Risk (29 June 2009)." The Central Bank requires the credit institution to report the liquidity position in all currencies combined. Balances and flows denominated in the foreign currencies should be converted into the operational currency, for the purpose of completing the quarterly prudential liquidity return.</p> <p>As part of the CRDIV/CRR, from Q1 2014, credit institutions will be required to submit separate liquidity returns on a significant currency basis, i.e. where the institution has aggregate liabilities in a foreign currency amounting to or exceeding 5% of the institutions total liabilities, or has a significant branch as defined in CRDIV in a host Member State using a foreign currency. The credit institutions shall monitor their liquidity needs separately for each currency. This analysis and reporting requirement will be completed under a stressed scenario. Maturity mismatches for significant foreign currencies will be analysed as part of the Central Bank's analysis of the CRR Maturity Ladder reporting template, due to be submitted by institutions in 2014.</p> <p>Each quarter, the Irish covered banks (3 High Impact banks) submit comprehensive liquidity forecasting analysis as part of the EU-IMF Financial Support programme for Ireland. This includes balance sheet and FX funding gap (USD/GBP) forecasting out to end of 2014.</p>
<b>Additional criteria</b>	
<b>AC1</b>	<p>The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.</p>
Description and findings re AC1	<p>The Central Bank does not impose specific limits on asset encumbrance. Levels of encumbrance are monitored via the risk dashboards and discussed with the banks. What may be an acceptable level of asset encumbrance will vary from case to case. In some cases it may be a function of a bank's funding model e.g. covered bond bank. In some cases it may be a function of temporary reliance on secured central bank funding while a deleverage programme is executed. The banks report the level of asset encumbrance monthly – this information is contained in the "Dashboard" received from the High Impact banks. The topic of "Asset Encumbrance" has also been raised in recent papers circulated by the ESRB. These papers involve proposals to increase the level of reporting and regulation on "Asset Encumbrance", but falls short of requiring limits to be applied and positions of these banks against limits to be reported. The paper provides implementation</p>

dates for commencement of this new regulation by the relevant National Supervisory Authorities at a time in the future. The Central Bank will be working to comply with these new standards and implementation dates. Separately, one High Impact bank was given an RMP for delivery by end March 2013 to improve their management and internal reporting of asset encumbrance. They have completed this RMP to the satisfaction of Banking Supervision.

Banking Supervision applies a maturity mismatch approach to the monitoring of liquidity risk of each credit institution as outlined in Central Bank – ‘Requirements for the Management of Liquidity Risk (June 2009)’. The approach set out in the ‘Requirements’ requires credit institutions to analyse their cash flows under various categories and place them in predetermined time bands depending on the time cash is received and paid out. The prudential liquidity ratios focus on the first two time bands, 0-8 days and over 8 days to 1 month, and the composition of available liquid assets to create sufficient liquidity to cover expected outflows including behavioral assumptions. These statutory Liquidity Ratios are set at 100% and 90% respectively. The Central Bank has the discretion on a case-by-case basis to impose liquidity requirements on an institution, which may require it to maintain maturity mismatch ratios different from the standard limits imposed.

Section 5.4 “Encumbered Assets” of the Central Bank regulatory document for credit institutions, “Requirements for the Management of Liquidity Risk (29 June 2009)”, details the treatment of Encumbered Assets for liquidity reporting purposes. Encumbered assets consist of:

- securities pledged as collateral and not available to the institution for the period that they constitute collateral;
- securities transferred by the reporting credit institution as part of a sale and repurchase agreement for the duration of the agreement;
- receivables that are currently nonperforming/impaired and on which impairment has been identified on individual loans;
- low grade securities; and
- shares in affiliated companies.

The Central Bank requires credit institutions to report liquidity ratios across various time bands each week/month/quarter depending on the impact, e.g. High Impact credit institutions are required to submit weekly and monthly liquidity returns online.

Each institution is also required to submit a Treasury Funding Report. This is submitted monthly for institutions with dedicated Treasury analyst. For all other institutions, it is submitted quarterly/monthly depending on the supervision team requirement. This information is analysed in terms of funding composition.

*In addition, Annex V, Section 10, of Directive 2006/48/2006: “Credit institutions shall distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. They shall also take into account the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account as well as their eligibility and shall monitor how assets can be mobilised in a timely manner.”*

As well as the above, supervisors closely monitor liquidity mismatches and forecasting in the covered institutions, and the possible necessity for Emergency Liquidity Assistance. Each quarter, the Irish covered banks (i.e. 3 High Impact banks) which have existing

	<p>drawings from the Central Bank, or have had such drawings in the past six months, are deemed High Liquidity Risk probability. Banking Supervision, working with the Financial Markets Division, monitors the availability of each credit institution’s collateral for ECB monetary operations such as the MRO and LTRO.</p> <p>The Treasury Team risk rating framework (as detailed above) evaluates the unencumbered assets under the heading “8. Funding Composition and Stability” for High Impact and Medium High Impact banks. This is not performed for Medium Low Impact banks as supervision is carried out on a reactive basis.</p> <p><b>Legal/Regulatory Basis</b></p> <ul style="list-style-type: none"> <li>• Requirements for the Management of Liquidity Risk (June 2009), Central Bank document – Section 4.2 “Limits and Monitoring Ratios”</li> <li>• Basel III/CRD IV – introduction for the first time of international liquidity standards of minimum liquidity requirements LCR &amp; NSFR ratios, with additional liquidity monitoring metrics focused on maturity mismatch, concentration of funding and available unencumbered assets</li> <li>• Directive 2006/48/EC, Annex V and Annex XI, implemented via Regulation 66 of S.I. 661 of 2006</li> </ul> <p><b>Practical Example</b></p> <ol style="list-style-type: none"> <li>1) Thematic Review on Funds Transfer Pricing was completed in early 2013.</li> <li>2) Unencumbered liquid assets are submitted weekly/monthly via the liquidity return online.</li> <li>3) “Use of Collateral” report is received from the Central Bank Organisational Risk division weekly. This report details the collateral used in the ECB.</li> </ol> <p>As stated above, there is no system-wide process initiated by Banking Supervision which requires that levels of encumbrance on balance sheets are maintained within acceptable limits. However, the banks report to the Central Bank the level of asset encumbrance monthly – this information is contained in the “Dashboard” received from the High Impact banks.</p>
<b>Assessment of Principle 24</b>	Compliant
Comments	<p>The Central Bank has prescribed liquidity requirements for authorized credit institutions which are not lower than Basel standards. Supervision of liquidity risk is in line with the PRISM engagement model. The Bank requires each credit institution to establish and maintain a liquidity strategy and liquidity policy. Central Bank requires each credit institution to establish a contingency funding plan, developed by management and approved by the Board. Frequency of reports submitted to the Central Bank is dependent on the impact of the credit institution. The Central Bank requires banks to conduct a variety of stress tests and also assesses whether the results of these are used by the banks to inform Contingency Funding Planning and setting of Risk Appetite.</p>
<b>Principle 25</b>	<b>Operational risk.</b> The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market

	and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk <sup>62</sup> on a timely basis.
<b>Essential criteria</b>	
<b>EC1</b>	Law, regulations or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase).
Description and findings re EC1	<p>The CBI requires that banks manage operational risk in line with the CRD, which states that:</p> <ul style="list-style-type: none"> <li>• <i>"Credit institutions shall have a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. They shall identify their exposures to operational risk and track relevant operational risk data, including material loss data. This system shall be subject to regular independent review.</i></li> <li>• <i>The operational risk assessment system must be closely integrated into the risk management processes of the credit institution. Its output must be an integral Part of the process of monitoring and controlling the credit institution's operational risk profile.</i></li> <li>• <i>Credit institutions shall implement a system of management reporting that provides operational risk reports to relevant functions within the credit institution. Credit institutions shall have procedures for taking appropriate action according to the information within the management reports. Policies and processes to evaluate and manage the exposure to operational risk, including to low-frequency high-severity events, shall be implemented. Without prejudice to the definition laid down in Article 4(22), credit institutions shall articulate what constitutes operational risk for the purposes of those policies and procedures.</i></li> <li>• <i>Contingency and business continuity plans shall be in place to ensure a credit institution's ability to operate on an ongoing basis and limit losses in the event of severe business disruption."</i></li> </ul> <p>Recognizing that supervisors must be satisfied that banks have robust and effective operational risk policies and procedures in place that are suitable for their business, the CBI has designed an <a href="#">Operational Risk Assessment Methodology</a> that provides supervisors with a practical means for the assessment of operational risk in a banking environment. It provides a step-by-step process to help scope, plan and manage an operational risk examination and specific guidance to assess operational risk across four dimensions:</p> <ol style="list-style-type: none"> <li>1. Operational Risk Management Framework: Recognizing the criticality of assessing the robustness of bank's [own] Operational Risk Framework, the CBI's Methodology focuses on: <ul style="list-style-type: none"> <li>- The completeness of a bank's Framework</li> </ul> </li> </ol>

<sup>62</sup> The Committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

	<ul style="list-style-type: none"> <li>- The quality of each component of the bank's Framework</li> <li>- The effectiveness of the bank's Framework in practice</li> </ul> <p>2. Operational Risk Exposure: Recognizing that a bank's Operational Risk Management Framework should ensure that all material risks are identified and managed, the CBI's framework provides supervisors with the tools and guidance to:</p> <ul style="list-style-type: none"> <li>- Identify the major risks that a bank faces and to assess exposure to different risk types</li> <li>- Form an objective view of aggregate risk exposure as a challenge to a bank's own assessment</li> <li>- Identify risks that are unacceptably high, poorly managed or absent from the bank's Framework</li> </ul> <p>3. Regulatory Compliance: As compliance with Operational Risk Regulation is a minimum, the CBI's framework enables supervisors to:</p> <ul style="list-style-type: none"> <li>- Determine which regulatory requirements apply to the bank they are supervising</li> <li>- Assess compliance with those requirements</li> </ul> <p>4. Capital Adequacy: The methodology includes guidance and tools to enable supervisors to:</p> <ul style="list-style-type: none"> <li>- Assess and challenge the adequacy of Operational Risk capital levels</li> <li>- Determine when a Pillar 2 capital add-on may be appropriate (training has been provided to Supervisors in relation to same)</li> </ul> <p>The assessment framework, has been rolled-out and is embedded in the PRISM framework. The methodology recognizes differences in the scale and structure of institutions and provides guidance on priority areas of assessment where particular types of operational risk are deemed prevalent across the industry. This guidance is refreshed annually. While the exact scope of an assessment is decided by individual supervisors and management, any full assessment is expected to address those priority areas.</p> <p>In terms of the frequency with which operational risk is assessed on-site, reviews are undertaken as part of a FRR/FRA. These are completed on an ongoing basis for High Impact institutions and every two to four years for Medium High Impact institutions. Reviews are carried out on a spot basis for Medium Low Impact institutions.</p> <p>The Assessment Methodology was implemented in mid-2012. A revision was released in Q1 2013 and the document will be reviewed and revised annually.</p> <p>CRD (2006/48/EC) - Title V, Chapter 2, Section 4: " Minimum Own Funds Requirements for Operational Risk" and the related Annex V and Annex X states:</p> <p style="padding-left: 40px;"><i>"The scope of the review and evaluation referred to in paragraph (1) shall be that of the requirements of the [Recast Credit Institutions Directive].</i></p> <p style="padding-left: 40px;">[...]</p> <p style="padding-left: 40px;"><i>Regulation 70 allows for the Central Bank to require a bank to take necessary actions and steps "requiring the reduction of the risk inherent in the activities, products and systems of credit institutions."</i></p> <p>The CBI, under these provisions, has applied an Operational Risk Assessment Methodology</p>
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	<p>to ensure that Banks have adequate and sound Operational Risk management practices. The assessment methodology has, in turn, been derived from a series of regulatory guidance and best practice sources including:</p> <ul style="list-style-type: none"> <li>○ CRD (2006/48/EC) – Title V, Chapter 2, Section 4: “Minimum Own Funds Requirements for Operational Risk” and the related Annex V and Annex X.</li> <li>○ GL10 Guidelines on the implementation, validation and assessment of Advanced Measurement &amp; Internal Ratings Based Approaches.</li> <li>○ GL21 Compendium of Supplementary Guidelines on implementation issues of operational risk.</li> <li>○ GL25 Guidelines on operational risk mitigation techniques.</li> <li>○ GL32 Guidelines on Stress Testing.</li> <li>○ GL35 Guidelines on the management of operational risks in market-related activities.</li> <li>○ GL45 EBA Guidelines on AMA extensions and changes.</li> <li>○ BCBS Principles for the Sound Management of Operational Risk.</li> <li>○ BCBS Operational Risk - Supervisory Guidelines for the Advanced Measurement Approaches.</li> </ul>
<b>EC2</b>	<p>The supervisor requires banks’ strategies, policies and processes for the management of operational risk (including the banks’ risk appetite for operational risk) to be approved and regularly reviewed by the banks’ Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively.</p>
Description and findings re EC2	<p>The CBI requires banks to manage operational risk in line with CRD requirements as set out above, which require that <i>“The management body shall approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the credit institution is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.”</i> The Corporate Governance Code requires:</p> <ul style="list-style-type: none"> <li>• The Board shall establish a documented risk appetite for the institution. The appetite shall be expressed in qualitative terms and also include quantitative metrics to allow tracking of performance and compliance with agreed strategy. The risk appetite should be subject to annual review by the Board.</li> <li>• The Board shall ensure that the risk management framework and internal controls reflect the risk appetite, and that there are adequate arrangements in place to ensure that there is regular reporting to the Board on compliance with the risk appetite.</li> <li>• The (Board) Risk Committee shall oversee the risk management function.</li> <li>• The (Board) Risk Committee shall ensure the development and ongoing maintenance of an effective risk management system within the financial institution that is effective and proportionate to the nature, scale and complexity of the risks inherent in the business.</li> </ul> <p>As set out in CP14, supervisors are responsible for assessing bank compliance with the Corporate Governance Code. In addition, the Operational Risk Assessment Methodology which, as set out in EC1, is the principal assessment tool applied by the Central Bank, directs supervisors to specifically assess the role of the Board of Directors and management in defining, regularly reviewing and monitoring adherence to operational risk policies, procedures and risk appetite. Guidance for assessing the core risk processes that should be in place is also set out. In each case supervisors are provided with guidance to assess the completeness of the firm’s framework, policies and process as well as guidance to assess</p>

	the quality of those components and their practical effectiveness. Criteria for specific assessment of the role of the Board and management are also defined
<b>EC3</b>	The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process.
Description and findings re EC3	The Operational Risk Assessment Methodology is premised on the need to assess the practical substance of a firm's Operational Risk Framework as well as the quality of its design. Supervisors are provided with guidance on assessing the consistency and robustness of the implementation of the framework and guided to take a clear view on its effectiveness. This point of assessment is built into all components of the Methodology and supervisors do assess and determine the effectiveness of strategy, policies and processes.
<b>EC4</b>	The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.
Description and findings re EC4	<p>The Operational Risk Assessment Methodology defines taxonomy of different operational risk types in line with Basel II categories. For each risk type, supervisors are provided with guidance to assess the inherent risk exposure, the quality and effectiveness of controls and mitigants and residual exposure. Specific guidance is provided to help supervisors understand where risks are liable to manifest in the firm, the functions within the firm that should be addressing those risks and the types of controls and mitigants that should be in place. Supervisors are required to set out their judgment of each risk in the scope of their assessment and, for consistency and comparability, a common mechanism for rating each risk type from inherent to residual risk is set out.</p> <p>A range of different Business Continuity Management and Disaster Recovery type risks are identified (IT/Communications failure; damage to physical assets; industrial relations disputes; etc.) in the taxonomy. Clear guidance is provided (as described above) to enable supervisors develop a view of the robustness of Firm's provisions and mechanisms to prevent and recover from disruption. That guidance has been developed in line with known best practice and standards in the financial services industry and includes provisions concerning Business Continuity Management and Disaster Recovery organization, contingency planning and testing.</p> <p>Specific provisions for the assessment of payment and settlements systems are included in the revised (Q1 2013) version of the assessment methodology.</p>
<b>EC5</b>	The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management.
Description and findings re EC5	The CBI has engaged a third party provider, to assist in the development of an assessment methodology and framework for reviewing the IT capability of Irish licensed credit

findings re EC5	<p>institutions.</p> <p>The Risk Taxonomy and risk assessment guidance within the Operational Risk Assessment Methodology identifies a range of risk types related to Information Technology. Specific risk types concerning the robustness of IT systems, data integrity, disaster recovery, and information security have been identified along with the guidance to enable supervisors to effectively assess those risks and related controls and mitigants. Further, assessment of the robustness of the firm's IT infrastructure is identified as a 'priority risk' within the Methodology meaning that it should form part of any full assessment undertaken. Particular emphasis is placed on analyzing the complexity of systems and related business operations and any potential fragilities that exist.</p>
<b>EC6</b>	<p>The supervisor determines that banks have appropriate and effective information systems to:</p> <ul style="list-style-type: none"> <li>(a) monitor operational risk;</li> <li>(b) compile and analyze operational risk data; and</li> <li>(c) facilitate appropriate reporting mechanisms at the banks' Boards, senior management and business line levels that support proactive management of operational risk.</li> </ul>
Description and findings re EC6	<p>The Assessment Methodology aims to enable a supervisor assess the robustness of a firm's Operational Risk MI and supporting systems across a number of dimensions:</p> <ul style="list-style-type: none"> <li>- The adequacy and robustness of a technology supporting a firm's bottom-up risk processes;</li> <li>- A firm's ability to monitor operational risk levels across key areas of exposure;</li> <li>- A firm's ability to capture loss events and near miss events; and</li> <li>- The quality of a firm's internal MI for management, Operational Risk/ Risk Committees and the Board itself.</li> </ul> <p>Key areas of assessment focus include:</p> <ul style="list-style-type: none"> <li>- Risk and Control Self-Assessment toolset (or equivalent). Specific assessment criteria are set for such tools and surrounding processes.</li> <li>- Loss Capture Database. Again Supervisors are provided with guidance to assess the robustness of loss data capture and the processes and procedures underpinning same.</li> <li>- Operational risk MI and metrics – Specific guidance is provided in terms of assessing both completeness and quality and, importantly, in terms of assessing the appropriate use of information generated (effectiveness).</li> </ul> <p>In addition to assessing the robustness of these tools, supervisors utilize the information they hold to support assessment of a banks operational risk profile and the quality and effectiveness of its operational risk management.</p> <p>As set out in EC1, supervisors carry out assessments as part of the annual FRR, as part of the cycle of Financial Risk Assessments and as bank and external factors dictate (i.e. when operational risks levels are elevated due to significant events or near misses and/or when external factors increase operational risk exposure).</p>
<b>EC7</b>	<p>The supervisor requires that banks have appropriate reporting mechanisms to keep the</p>

	supervisor apprised of developments affecting operational risk at banks in their jurisdictions.
Description and findings re EC7	Firms are required to report Operational Risk Capital levels (and as required the underlying analyses including operational risk events and developments driving those capital assessments) to the Central Bank. A new operational risk reporting framework which requires both quarterly and semi-annual reporting to the CBI has been implemented. Reporting requirements will provide supervisors with structured information and data concerning banks operational risk exposure and management and will enable supervisors to cross-compare and benchmark banks.
<b>EC8</b>	<p>The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. The outsourcing risk management programme covers:</p> <ul style="list-style-type: none"> <li>(a) conducting appropriate due diligence for selecting potential service providers;</li> <li>(b) structuring the outsourcing arrangement;</li> <li>(c) managing and monitoring the risks associated with the outsourcing arrangement;</li> <li>(d) ensuring an effective control environment; and</li> <li>(e) establishing viable contingency planning.</li> </ul> <p>Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank.</p>
Description and findings re EC8	The CBI has in place specific standalone guidelines to assess new outsourcing arrangements put in place by banks (and the contracts underlying same) and the processes involved in third-party selection (in line with EBA guidelines). The Operational Risk Assessment Methodology includes specific assessment provisions (also in line with EBA guidelines and other best practice) to enable supervisors to determine that banks are effectively considering, and putting in place procedures to manage and monitor, the risks associated with outsourcing deals and that adequate (bank and provider) contingency arrangements exist to assure business continuity in the event that the third party provider encounters operational difficulties in delivering against their commitments to the bank. The Methodology also provides guidance on the types of measures (Service Level Agreements, etc.) that supervisors should expect to see in place in banks for the ongoing management and monitoring of service and operational quality.
<b>Additional criteria</b>	
<b>AC1</b>	The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (e.g. outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities).
Description and findings re AC1	The Assessment Methodology specifically identifies a range of priority risk types that supervisors should consider in full assessments. This group of items reflects the Central Bank's view of risks that are currently prevalent across the industry and so merit specific attention. It is intended that the list of priority risks will be reviewed and revised at least annually (including the Q1 2013 revision of the Methodology).

	As set out in EC1, supervisors carry out assessments as part of the annual FRR, as part of the cycle of Financial Risk Assessments and as bank and external factors dictate (i.e. when operational risks levels are elevated due to significant events or near misses and/or when external factors increase operational risk exposure).
<b>Assessment of Principle 25</b>	Largely Compliant
Comments	A detailed operational risk policy has been implemented and a number of onsite reviews conducted. A report to be filed by banks has been implemented and the first reports are to be filed as of September 30, 2013. Effectiveness and adequacy of monitoring cannot be fully assessed at this review due to the recent implementation of the report that will play an important role in monitoring compliance.
<b>Principle 26</b>	<b>Internal control and audit.</b> The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent <sup>63</sup> internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.
<b>Essential criteria</b>	
<b>EC1</b>	<p>Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank's Board and/or senior management and deal with organizational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorized trading and computer intrusion). More specifically, these controls address:</p> <ul style="list-style-type: none"> <li>(a) organizational structure: definitions of duties and responsibilities, including clear delegation of authority (e.g. clear loan approval limits), decision-making policies and processes, separation of critical functions (e.g. business origination, payments, reconciliation, risk management, accounting, audit and compliance);</li> <li>(b) accounting policies and processes: reconciliation of accounts, control lists, information for management;</li> <li>(c) checks and balances (or "four eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and</li> <li>(d) safeguarding assets and investments: including physical control and computer access.</li> </ul>

<sup>63</sup> In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

Description and findings re EC1	<p>The CRD sets out broad requirements that set the platform for a bank's internal control framework. Under Article 22 of EU Directive 2006/4/EC banks are required to have <i>"transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risk it is exposed to, and adequate internal control mechanisms, including sound administrative and accounting procedures."</i></p> <p>Section 16 of S.I.395 of 1992 transposes the EC (Licensing and Supervision of Credit Institutions) Regulations 1992. It requires that <i>"every credit institution authorised by the Central Bank shall manage its business in accordance with sound administrative and accounting principles and shall put in place and maintain internal control and reporting arrangements and procedures to ensure that the business is so managed."</i> Section 16 of S.I.395 of 1992 also requires that <i>"every credit institution shall have robust governance arrangements including:</i></p> <ul style="list-style-type: none"> <li><i>(a) a clear organisational structure with well defined, transparent and consistent lines of responsibility;</i></li> <li><i>(b) effective processes to identify, manage, monitor and report the risks it is or might be exposed to;</i></li> <li><i>(c) adequate internal control mechanisms;</i></li> <li><i>(d) sound administrative and accounting procedures; and</i></li> <li><i>(e) remuneration policies and practices that are consistent with and promote sound and effective risk management.</i></li> </ul> <p><i>Every credit institution shall ensure that the arrangements, processes and mechanisms referred to (above) are comprehensive and proportionate to the nature, scale and complexity of the activities of the institution."</i></p> <p>The Central Bank's Corporate Governance Code requires banks to have <i>"adequate internal control mechanisms, including sound administrative and accounting procedure, IT systems and controls, remuneration policies and practices that are consistent with and promote sound and effective risk management"</i> (Section 6.3).</p> <p>Through the interaction of the Code and regulations, the Central Bank requires banks to have internal control frameworks that are adequate for the operating environment.</p> <p>Section 12.1 of the Code is the most specific requirement in relation to the role of the Board which states that the board of each institution is responsible for:</p> <ul style="list-style-type: none"> <li>- the effective, prudent and ethical oversight of the entity;</li> <li>- setting the business strategy for the institutions; and</li> <li>- ensuring that risk and compliance are properly managed in the institution.</li> </ul> <p>The Code and Regulations do not necessarily specify the full responsibilities of the Board in relation to all aspects of this EC (a) – (c), nonetheless, the Regulations do require the controls to be in place and in conjunction with the Code requires the Board to be generally responsible for the prudential oversight of the institution.</p> <p>Where the Central Bank considers that a credit institution does not have an appropriate balance of skills and resources of back office, control and operational management, it has the power to require credit institutions to comply with deficiencies in its compliance with the CRD via Regulation 70 of S.I.661 of 2006. Also, through the Central Bank's power to place conditions on specific banking licenses (Section 10 of the Central Bank Act 1971), it</p>
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	can require a credit institution to provide a greater balance in the skills and resources of the back office, control functions and operational management relative to the business origination units.
<b>EC2</b>	The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units.
Description and findings re EC2	<p>The Corporate Governance Code (section 14.5) requires the Boards of credit institutions to ensure that key control functions such as risk management are independent of business units and have adequate resources and authority to operate effectively. Credit Institutions submit a compliance statement to the Central Bank annually identifying any deviation from the Code. Supervisors assess compliance with Section 14.5 through day-to-day supervision, receipt and review of the ICAAP portals followed by a SREP full risk assessment, and via the review of credit institutions' annual compliance statements.</p> <p>The Central Bank has recently developed guidance for supervisors to assist in assessing the balance between back office/control and front office/business functions. The guidance has assisted supervisors making their assessments of staff in control functions.</p> <p>Supervisors typically receive and review Post-Audit Reports and Management Letter Reports written up by external auditors annually. These reports highlight internal control and management reporting observations which are used by supervisors to identify weaknesses, with potential follow up with the credit institution. These external audits also review and sample, inter alia, accounting policies, processes, checks and balances, reconciliation of accounts, control lists, segregation of duties, cross-checking, and sign-offs.</p> <p>As per PRISM requirements, supervisors meet with credit institutions' CFO (at a minimum annually for High Impact firms, and every 18 months for Medium High Impact firms). This engagement will discuss, inter alia, the finance function, its access to the board, and its expertise and authority within the organisation. PRISM also requires supervisors to periodically meet with the Head of Internal Audit, external auditors and a senior non-executive director, all of which would discuss bank controls and operational management.</p> <p>Supervisors for High Impact and Medium High Impact credit institutions review Board and governance forum packs and minutes on a monthly or quarterly basis to monitor internal controls. The review of Medium Low Impact credit institutions depends on the frequency of Board meetings and the business activity of the bank and review of packs ranges from monthly to bi-annually.</p> <p>In addition to reporting of breaches that banks are required to submit to the Central Bank, supervisors will perform onsite reviews, with a minimum frequency determined by PRISM. Supervisors will go beyond the minimum engagement model when required as evidenced through the attention dedicated to the major banks (i.e. High Impact). The onsite review - such as a Full Risk Assessment (FRA) or a Financial Risk Review (FRR) - will provide the supervisor the opportunity to make an accurate and comprehensive assessment of the skills, resourcing and authority of the back office in relation to the front office.</p> <p>The Central Bank has demonstrated sound practices to evaluate the effectiveness of a</p>

	<p>bank's internal control functions through an appropriate mix of offsite and onsite activities. For Medium Low impact banks supervisors make judgments on the internal control functions based on interactions with the firms including meetings with the Senior Management Team – CRO and CFO at a minimum every 18 months and ongoing interaction with finance and compliance functions. Supervisors also review internal audit reports on liquidity and ICAAP on an annual basis. Supervisors may request internal audit to complete work on specific risk areas and depending on the quality of response we will make a judgment on effectiveness.</p> <p>For those banks where the impact rating is below Medium High, supervisor will typically rely upon self identification mechanisms, exception reporting and adverse triggers of non-compliance with the Code or Regulations as the most likely sources of identifying weaknesses in the effectiveness in control functions. Engagement with bank senior management such as the CRO, CFO, Head of Internal Audit will not typically be undertaken (unless where risks have been identified) to test and challenge the skills and resources of back office functions as an effective means of performing a check and balance to the business units. For the lower impact rated institutions, the Central Bank deploys a significantly reduced range of supervisory activities to assess a bank's control functions i.e. desk top review of self annual compliance statement. The Central Bank does not require a bank to have an Internal Audit function and in the case of lower Impact banks, there is the option to utilise the services of a Group IA function. While the Central Bank does not specifically require banks to have an Internal Audit function, all Irish licensed banks either have a local internal audit function or are explicitly covered by the group internal audit function.</p>
<b>EC3</b>	<p>The supervisor determines that banks have an adequately staffed, permanent and independent compliance function<sup>64</sup> that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function.</p>
Description and findings re EC3	<p>There is no specific requirement within the Corporate Governance Code or Regulations for banks to maintain a permanent compliance function, however, the Central Bank applies the EBA Guidelines on Internal Governance (GL44) in which Section 28 requires credit institutions to establish a compliance function, and to implement a compliance policy which should be communicated to all staff. It states that "<i>in smaller and less complex institutions this function may be combined with or assisted by the risk control or support functions.</i>" It requires that the "compliance function should ensure that the compliance policy is observed and reported to the management body." It also states that "<i>the compliance function should verify that new products and new procedures comply with the current legal environment and any forthcoming changes.</i>" GL44 is not binding in Irish law but the Central Bank has communicated to credit institutions that it requires full compliance. The Central Bank is currently codifying GL44, with a due date of 2013 (dependent on binding technical standards).</p>

<sup>64</sup> The term "compliance function" does not necessarily denote an organizational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.

	<p>Through ongoing engagement with credit institutions, the Central Bank determines whether banks have an adequately staffed, permanent and independent compliance function that assists senior management in managing effectively the compliance risks faced by the bank.</p> <p>Irish licensed, High Impact and Medium High Impact banks have compliance functions in place; Medium Low Impact banks typically have a compliance officer in place.</p> <p>The Corporate Governance Code (section 14.5) requires the Board to ensure that key control functions such as compliance are independent of business units and have adequate resources and authority to operate effectively. At a minimum, Credit Institutions are required to submit a compliance statement to the Central Bank annually identifying any deviation from the Code which is reviewed by supervisors.</p> <p>The Central Bank assesses the fitness and probity of incoming Heads of Compliance through the Fitness and Probity Standards 2011 and the Central Bank Reform Act 2010. Under the Code, the Head of Compliance is deemed to be "Pre-approval Control Function" (PCF12), which requires the pre-approval by the Central Bank prior to appointment. The process of approval/non-approval entails a desk-top review of the applicant's CV, education and experience, previous regulatory/criminal history. Applicants for such positions will be interviewed by the Central Bank as deemed necessary. This is carried out by the Central Bank's Regulatory Transactions Division in conjunction with Banking Supervision.</p> <p>The assessment of the suitability of a compliance function is typically performed through the course of a FRR/FRA, where supervisors would meet with the Head of Compliance, review any relevant documents, including the compliance policy, terms of reference, compliance plan, organisational charts, resourcing analyses, in addition to compliance updates provided to senior management and the bank's board. Routine monitoring of a bank's compliance function is also performed through review of board packs and the firm's Annual Compliance Statement in accordance with Section 25 of the Corporate Governance Code for Credit Institutions and Insurance Undertakings, which is signed off by members of the bank's board.</p> <p>Supervisory teams for High Impact banks have regular engagement, typically quarterly, with the Head of Compliance to review, <i>inter alia</i>, regulatory issues, the progress of RMP and any other compliance issues. This ongoing engagement would also inform the supervisory assessment of the effectiveness, independence and adequacy of resourcing of the compliance function. These engagements with the higher impact banks was evidenced to be not only frequent but intrusive and challenging.</p> <p>The lower Impact banks will also not typically receive ongoing engagement but will be subject to periodic assessment, desk review and exception reporting.</p>
<b>EC4</b>	The supervisor determines that banks have an independent, permanent and effective internal audit function <sup>65</sup> charged with:

<sup>65</sup> The term "internal audit function" does not necessarily denote an organizational unit. Some countries allow small banks to implement a system of independent reviews, e.g. conducted by external experts, of key internal controls as an alternative.

	<p>(a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business; and</p> <p>(b) ensuring that policies and processes are complied with.</p>
Description and findings re EC4	<p>Through ongoing engagement and themed inspections with credit institutions, the Central Bank determines if banks have an adequately staffed, permanent and independent internal audit function.</p> <p>Supervisors assess compliance with the audit requirements of the Corporate Governance Code through day-to-day supervision, receipt and review of the ICAAP portal followed by a FRR/FRA, and via the review of credit institutions' annual compliance statements.</p> <p>There is not an explicit legal requirement stating that banks must have an internal audit function or to appoint a Head of Internal Audit. The Central Bank does however have the power to require credit institutions to comply with deficiencies in its compliance with the CRD via Regulation 70 of S.I. 661 of 2006. Also, through the Central Bank's power to place conditions on specific banking licences (Section 10 of the Central Bank Act 1971), it can require a credit institution to have an independent, permanent and effective internal audit function.</p> <p>Notwithstanding the above, all High Impact licenced banks in Ireland have a local internal audit function in place. Medium High Impact and Medium Low Impact banks are permitted to rely on the internal audit function of their parent. In High Impact banks, the Head of Internal Audit is permanent and independent position.</p> <p>High Impact credit institutions are required to establish an audit committee (Section 18.1 of the Corporate Governance Code). Medium High Impact and Medium Low Impact credit institutions may in certain circumstances rely on the board to act as an audit committee, or if it is part of a wider group, it may rely on a group audit committee. Some Medium High Impact banks and some Medium Low Impact banks rely on their parent's internal audit function.</p> <p>The Corporate Governance Code (Section 19) stipulates general requirements of the audit committee such as :</p> <ul style="list-style-type: none"> <li>○ the circulation of meeting agendas;</li> <li>○ detailed minutes of meetings;</li> <li>○ the appointment of audit committee members;</li> <li>○ the attendance at audit committee meetings;</li> <li>○ the review of audit committee membership; and</li> <li>○ the reporting of the audit committee to the board.</li> </ul> <p>The Central Bank applies the EBA Guidelines on Internal Governance (GL44).</p> <ul style="list-style-type: none"> <li>• Section 29 requires that the internal audit function "<i>shall assess whether the quality of an institution's control framework is both effective and efficient.</i>" It states that "<i>the internal audit function should have unfettered access to relevant document and information in all operational and control units.</i>" It adds that "<i>the internal audit function should evaluate the compliance of all activities and units of an institution with its policies and procedures.</i>"</li> </ul>

	<ul style="list-style-type: none"> <li>• Section 29 requires that internal audit is not combined with any other function, and that it <i>“should assess whether existing policies and procedures remain adequate and comply with legal and regulatory requirements.”</i> It states that <i>“internal audit work should be performed with an audit plan and detailed audit programs following a risk based approach. It states that “the audit plan should be approved by the audit committee or the management body.”</i> It adds that <i>“internal audit should report directly to the management body and or its audit committee its findings and suggestions for material improvements to internal controls.”</i></li> <li>• Finally, <i>“all audit recommendations should be subject to a formal follow-up procedure by the respective levels of management to ensure and report their resolution.”</i> GL44 is not binding in Irish law but the Central Bank has communicated to credit institutions that it requires full compliance.</li> </ul> <p>For High Impact and Medium High Impact banks, supervisors are required to meet with internal audit at least annually. Additionally, PRISM requires supervisors of High Impact and Medium High Impact firms to meet with a senior non-executive director every year. Medium Low Impact firm supervisors are required to meet with a senior non-executive director every 18 months. If a risk is identified, or a supervisor determines the need, internal audit will be more actively assessed.</p> <p>The Central Bank has also carried out a review of the Effectiveness of Internal Audit Functions in 2011. The objective of the review was as follows:</p> <ol style="list-style-type: none"> <li>1. To assess whether the internal audit function was fulfilling its pivotal role as the so-called “third line of defence” within a credit institution in carrying out independent evaluation and validation of the system of internal controls through risk-based audit procedures; and whether, in turn, the Central Bank is able to place reliance on this function;</li> <li>2. To provide feedback/observations in the form of a letter to the industry on findings from the review based on conclusions drawn from the examination of the institutions selected for inclusion in the review and to issue a press release;</li> <li>3. To inform the development of the Central Bank’s supervisory framework in relation to internal governance.</li> </ol> <p>The review covered 11 credit institutions and 11 insurance undertakings. Overall the review findings demonstrated that, at that time, institutions were broadly in line with Good Practice Standards. In 9 of the 11 credit institutions covered within the scope of the review, it was concluded that the Central Bank can place reliance on the Internal Audit Function to fulfil adequately its pivotal role as a “third line of defence” within the institution to independently evaluate and validate the system of internal controls through risk-based audit procedures.</p>
<b>ECS</b>	<p>The supervisor determines that the internal audit function:</p> <ol style="list-style-type: none"> <li>(a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing;</li> <li>(b) has appropriate independence with reporting lines to the bank’s Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations;</li> <li>(c) is kept informed in a timely manner of any material changes made to the bank’s risk</li> </ol>

	<p>management strategy, policies or processes;</p> <p>(d) has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties;</p> <p>(e) employs a methodology that identifies the material risks run by the bank;</p> <p>(f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and</p> <p>(g) has the authority to assess any outsourced functions.</p>
Description and findings re EC5	<p>As part of the Central Bank's Financial Risk Reviews, carried out annually for High Impact banks and Full Review Assessments once every two years for Medium High Impact Banks, banks' compliance with the EC5 (a) requirement (for internal audit to have sufficient resources that are suitably experienced and trained) is assessed through desk-top reviews of staffing levels at internal audit functions, reviews of internal audit reports, and interviews with the head of internal audit. Supervisors High and Medium High banks meet with the head of internal audit annually (for High Impact) and biennially (for Medium High Impact) and internal audit staffing is discussed.</p> <p>Supervisors review the banks' annual audit plans and completion (or not) of the plan.</p> <p>As part of Full Review Assessments, supervisors assess banks' compliance with EC5(b) and the general governance and reporting lines of internal audit to the Board - Supervisors require internal audit functions to report directly to the board and not to line of business heads.</p> <p>Banks' compliance with EC5(c) is assessed by the Central Bank through periodic meeting with the Head of Internal Audit (for High Impact and Medium High Impact banks). Supervisors typically require internal audit to periodically review the bank's risk management strategy, policies and processes, and report on these to the internal Audit Committee and/or Board.</p> <p>Banks' compliance with EC5(d) is assessed by the Central Bank through a desktop review (for High Impact and Medium High Impact banks) of internal audit terms of reference to ensure that internal audit has full access to and communication with any member of staff as well as full access to records.</p> <p>Banks' compliance with EC5(e) is assessed by the Central Bank through periodic meeting with the Head of Internal Audit (for High Impact and Medium High Impact banks). Supervisors typically require that internal audit completes an annual audit plan which is typically based on its assessment of the material risks and controls.</p> <p>For High Impact and Medium High Impact banks, banks' compliance with EC5(f) is assessed through desktop reviews of annual audit plans, sufficiency of internal audit resources to complete the audit plan, and assessments of how much of audit plans are actually completed. Additionally, for High Impact banks, supervisors periodically meet with the Head of Internal Audit to discuss amongst other things the audit plan.</p> <p>The supervisory teams covering High Impact and Medium High Impact credit institutions</p>

	<p>(except in the case of one High Impact bank which only receives audits which receive a “non-satisfactory” rating) require banks to provide them with all internal audit reports and will follow up, particularly where weaknesses are identified.</p> <p>For Medium Low Impact credit institutions, there is no requirement to meet with the Head of Internal Audit; however, this can be arranged as and when SREP/FRA are completed. The quality of internal audit arrangements for these firms is considered within the firm’s Governance Risk rating, and in so doing supervisors must consider the quality of a bank’s group Internal Audit structures where these are relied upon.</p> <p>Additionally, supervisors also review Audit Committee packs periodically.</p> <p>The Central Bank demonstrated several examples of onsite and offsite activities to assess the effectiveness of the internal audit function, some routine and others more ad hoc used to good effect. The examples demonstrated the ability of the supervisor to ensure banks had adequate control functions commensurate with the risk profile of the operations and where necessary to take action.</p>
<b>Assessment of Principle 26</b>	Largely compliant
Comments	<p>The Central Bank determines whether banks have adequate internal control mechanisms and robust governance arrangements in place through a range of activities, both routine and ad hoc. For the High Impact banks (which represent the bulk of retail assets), supervisors maintain an awareness of the activities in each of the key business units and are able to assess the inherent risk profile and undertake assessments of the control environment. The Central Bank evidenced several examples of onsite and offsite activities to assess the effectiveness of the internal audit function. The examples demonstrated the ability of the supervisor to ensure banks had adequate control functions commensurate with the risk profile of the operations and where necessary to take action.</p> <p>For banks with an Impact rating below Medium High, the supervisory activities to assess the effectiveness of the internal control function will rely upon periodic assessment (i.e. Full Risk Assessment), desk based review of exception reporting.</p> <p>While there is also no explicit legal/regulatory requirement for banks to establish an internal audit function or appoint a head of internal audit, the Central Bank can require that a function or head of Internal Audit be put in place by means of a license condition. However, in practice, all Irish licensed banks either have a local Internal Audit function or are covered by a group Internal Audit function.</p>
<b>Principle 27</b>	<b>Financial reporting and external audit.</b> The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor’s opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.
<b>Essential criteria</b>	

<b>EC1</b>	The supervisor <sup>66</sup> holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data.
Description and findings re EC1	<p>Credit institutions in Ireland are subject to the requirements of the Companies Acts 1963 to 2012 in respect of financial reporting. Banks are required to prepare financial statements in accordance with accounting policies and practices as per the Companies Act (Section 202). It is within the Companies Act that responsibilities for the preparation of financial statements reside and there is no specific provision in this regard in the Central Bank's powers.</p> <p>In addition to the Companies Acts requirements the Central Bank through Section 21.6(d) of the Corporate Governance Code holds the bank's Board responsible for preparation of financial statements. The Code sets out that it is the responsibility of the Audit Committee to review any financial announcements and reports and recommend to the board whether to approve the institution's annual accounts (including, if relevant the group accounts).</p> <p>All publicly quoted EU incorporated companies must prepare their consolidated financial statements in accordance with IFRS as endorsed by the European Commission. The relevant legislation regarding IFRS is S.I. 116 of 2005 (the requirements regarding preparation of financial statements are generally found within the Companies Acts). In other instances there is a choice whether to prepare accounts based on IFRS or Irish generally accepted accounting principles (GAAP). The relevant legislation is Part V of the Companies Act 1963, (particularly sections 148 to 150C inclusive, which deal with requirements regarding both Individual (parent company) and Group accounts under either IFRS or local GAAP).</p> <p>In accordance with Section 202 of the Companies Act 1990 management of the company is responsible for the preparation of the Books of Account. The Books of Account must:</p> <ul style="list-style-type: none"> <li>• Correctly record and explain the transactions of the company;</li> <li>• Enable the financial position of the company to be determined with reasonable accuracy at any time;</li> <li>• Enable the directors to ensure that the annual financial statements comply with the requirements of the Companies Acts 1963 to 2012, and relevant accounting standards;</li> <li>• Enable the annual financial statements of the company to be readily and properly audited;</li> <li>• Be kept on a continuous and consistent basis and entries should be made in a timely manner and should be consistent from one year to the next;</li> <li>• Give a true and fair view of the state of affairs of the company and explain its transactions; and</li> <li>• Be kept in written form or in other form that may be readily accessible and convertible into written form.</li> </ul> <p>The Books of Account must contain:</p> <ul style="list-style-type: none"> <li>• Entries of all monies received and expended by the company and the matters in</li> </ul>

<sup>66</sup> In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.

	<p>respect of which the receipts and expenditure takes place;</p> <ul style="list-style-type: none"> <li>• A record of all assets and liabilities of the company; and</li> <li>• Further specific information depending on whether the company's business involves dealing with goods or the provision of services.</li> </ul> <p>Companies within Ireland have the option of preparing "Companies Act Individual Accounts" (section 149 of the Companies Act, 1963) or financial accounts under the requirements of the IFRS (section 149A of the Companies Act, 1963).</p> <p>Companies Act Individual Accounts may be prepared using Generally Accepted Accounting Standards in UK and Ireland, as issued by the Financial Reporting Council (FRC), which have largely converged with IFRS.</p> <p>Section 5(1) of S.I. 294 of 1992 European Communities (Credit Institutions: Accounts) Regulations (CI Accounts Regulations) similarly requires that credit institutions prepare financial statements under section 149 of the Companies Act 1963 as modified by the CI Accounts Regulations or IFRS.</p> <p>Under Section 205A of the Companies Act 1990 Irish companies are required to include a statement as to whether the financial statements have been prepared in accordance with applicable accounting standards, and that where there is any material departure from applicable accounting standards, the effect of the departure and the reasons for it are noted in the individual accounts and, where relevant, in the group accounts. Where a company fails to comply with these requirements, each company or other entity that forms all or part of that undertaking is guilty of an offence.</p> <p>Banking Supervision correspond with all credit institutions (generally during Q2) seeking certain information, including copies of audited financial statements. Financial statements are not reviewed to determine compliance with IFRS/local GAAP, as this is assumed from sign-off by external auditors, and IAASA is the competent authority for enforcing accounting standards in Ireland in accordance with the Transparency Directive regulations. Nevertheless, issues of concern with the accounts can be raised with the auditors as required.</p> <p>While the Central Bank has no stipulations in relation to the preparation of financial statements and the application of accounting practices, through its supervision it will hold banks to the standards established in the Companies Act.</p>
<b>EC2</b>	<p>The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.</p>
Description and findings re EC2	<p>The requirement that the Board and management be responsible for ensuring that financial statements are issued annually to the public and bear an independent auditor's opinion in accordance with internationally accepted auditing standards is set out in the Companies Act 1963 rather than a requirement set out by the Central Bank.</p> <p>Under Section 148(1) of the Companies Act 1963 the directors of every company shall on a date not later than 18 months after the incorporation of the company and subsequently once at least in every calendar year prepare accounts for the company for each financial year (to be known and in this Act referred to as 'individual accounts'). These accounts are</p>

	<p>required to be laid before the members of the company in the AGM for inspection under Section 159(1).</p> <p>Under sections 193(1) and (2) of the Companies Act 1990 the auditor of a company shall make a report to the members of the company on the individual accounts examined by them and all group accounts, and shall be read at the annual general meeting of the company and shall be open to inspection by any member.</p> <p>Section 13 of S.I. 294 of 1992 European Communities (Credit Institutions: Accounts) Regulations (CI Accounts Regulations) requires that the auditor shall make a report in accordance with section 193 of the Companies Act 1990 and that a bank shall not be subject to an exemption from obtaining an audit.</p> <p>Regulation 54(1) of The European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (S.I. 220 of 2010) requires that all statutory audits are carried out in accordance with international auditing standards.</p> <p>The Financial Reporting Council (FRC) issues auditing standards, based on those standards issued by the International Auditing and Assurance Standards Board, modified to take into account legislative requirements within the UK and Ireland. These standards are referred to as International Standards on Auditing (UK and Ireland) and are comparable to International Standards on Auditing in all material respects.</p> <p>International Standard on Auditing (UK and Ireland) 700, "The Auditors Report On Financial Statements" (as revised in June 2013), requires the auditor to include a statement as to whether the audit has been conducted in accordance with International Standards on Auditing (UK and Ireland) as part of the auditor's report.</p>
<b>EC3</b>	<p>The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.</p>
Description and findings re EC3	<p>The Central Bank, during both on-site and off-site reviews, assesses whether the valuations used for regulatory purposes are reliable and prudent. Where the Central Bank determines that valuations are not sufficiently prudent, the Central Bank requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes. Any differences in valuation practices between the financial statements and prudential reporting would be identified as part of the annual reconciliation process whereby credit institutions are required to reconcile annual financial statements with key COREP and FINREP templates.</p> <p>The Central Bank would expect listed credit institutions to apply IFRS while non-listed entities would be expected to apply a recognised standard (GAAP or IFRS). It should be noted that credit institutions that use the standardised approach to calculate credit risk will use valuations based on accounting standards. Credit institutions on the IRBA will use their internal valuations to calculate credit risk.</p> <p>Companies within Ireland have the option of preparing "Companies Act Individual Accounts" (section 149 of the Companies Act, 1963) or financial accounts under the</p>

	<p>requirements of the IFRS (section 149A of the Companies Act, 1963). Valuation requirements, which are consistent under both reporting regimes, are subject to external audit.</p> <p>Credit institutions are required to file prudential returns based on the following:</p> <ul style="list-style-type: none"> <li>• EBA guidelines on supervisory reporting (COREP – solvency; FINREP – financial information; Large Exposures).</li> <li>• The Central Bank of Ireland guidelines on supervisory reporting (Liquidity, Impairment return, QSFR, Sectoral Return, Related Party Lending Return, etc.).</li> </ul> <p>The FINREP return is based on the accounting standards used in the annual audited financial statements. Classification of the different types of securities portfolios for FINREP reporting purposes follow the same criteria both in terms of classification and valuation rules as those applied in the annual financial statements, i.e. securities are allocated and transferred across these portfolios in line with IFRS/ local GAAP.</p> <p>When IFRS were introduced in Ireland in 2005, the Central Bank, in unison with other banking regulators across Europe, required that 'prudential filters' be applied for regulatory reporting purposes – the COREP returns incorporate these. Prudential filters are adjustments to IFRS based figures required by Banking Supervisors to make IFRS based numbers suitable for regulatory purposes. Prudential filters must also be applied to local GAAP based figures as local GAAP have converged with IFRS. The Central Bank issued letters to credit institutions on 24 December 2004, 21 July 2005 and 29 September 2005 advising them of Central Bank requirements for prudential filters. Letters were also issued on 18 February 2009 regarding pensions and on 22 December 2006, 22 and 23 February 2007 regarding dividends.</p>
<b>EC4</b>	<p>Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit.</p>
Description and findings re EC4	<p>Section 193 of the Companies Act, 1990 sets out the scope of the external audit. Regulation 54(1) of The European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (SI220 of 2010) requires that all statutory audits are carried out in accordance with international auditing standards.</p> <p>The Financial Reporting Council (FRC) issues auditing standards, based on those standards issued by the International Auditing and Assurance Standards Board, modified to take into account legislative requirements within the UK and Ireland. These standards are referred to as International Standards on Auditing (UK and Ireland) and are comparable to International Standards on Auditing in all material respects.</p> <p>The Central Bank currently does not have the power to formally establish the scope of an external audit of a bank or to establish the standards to be followed in performing such audits. In practice, the Central Bank has relied upon its supervisory efforts to influence the scope of external audit with good effect.</p> <p>Additionally if the CBI has a specific area of concern it can undertake one of the following:</p> <ul style="list-style-type: none"> <li>• Carry out an on-site examination in the area of concern;</li> <li>• Issue an RMP to the bank to rectify the situation. Such RMPs can also include the requirement for the firm to initiate an independent assessment of the area of</li> </ul>

	<p>concern; and/or</p> <ul style="list-style-type: none"> <li>• Implement a skilled persons' review of the area of concern.</li> </ul> <p>Section 27E of CBA 1997 allows the Central Bank to commission a report from an auditor of any regulated entity, or an affiliate of the auditor, on all or any of the following:</p> <ol style="list-style-type: none"> <li>a) the regulated firm's accounting or other records;</li> <li>b) the systems (if any) that the regulated firm has in place to ensure that the firm acts prudently in the interests of its members and the interests of those to whom the firm provides financial services;</li> <li>c) any other matter in respect of which the Central Bank requires information about the firm, or the firm's activities, to enable the Central Bank to perform a function imposed on it by or under an Act.</li> </ol> <p>Under Section 47(2) of the Central Bank Act, 1989 the auditor of a bank may be requested to furnish a report on whether the bank has or has not complied with a specified obligation of a financial nature under the Central Bank Acts.</p> <p>Background information:</p> <ul style="list-style-type: none"> <li>• In June 2011 the Central Bank communicated with the Irish Banking Federation (IBF), Irish Insurance Federation (IIF) and Dublin International Insurance and Management Association (DIMA) setting out a proposed response in relation the recommendation by the Comptroller &amp; Auditor General (C&amp;AG). At the same time the Risk, Governance and Accounting Policy Division established a working group with relevant audit bodies and IAASA ('the working group'). The working group has focused on setting out a proposed framework for how auditors should provide assurance on the internal governance arrangements of regulated entities. Significant progress has been achieved in setting out and agreeing a workable and efficient framework. Output to date includes the production of initial drafts of internal governance guidance, guidance for auditors and an initial draft of the auditor's assurance report.</li> <li>• With respect to the legal basis, Risk, Governance and Accounting Policy Division sought to implement a generally applicable standing requirement on auditors in respect of assurance over internal governance via an amendment to the Central Bank Act, 1997. Powers have been included in the Central Bank (Supervision &amp; Enforcement) Act 2013.</li> </ul> <p>In addition to the guidance for industry the Central Bank will, together with the working group, develop specific guidance for Auditors in relation to the provision of assurance over internal governance. At a minimum this guidance will set out:</p> <ul style="list-style-type: none"> <li>• the scope and required form of reporting;</li> <li>• the nature and extent of testing to be performed by the auditor; and</li> <li>• communication protocols between the auditor and Central Bank in relation to findings.</li> </ul> <p><i>Skilled Persons' Reports</i></p> <p>Part 2 of the Central Bank (Supervision and Enforcement) Act 2013 provides the Central Bank with the right, for the purposes of the proper and effective regulation of a financial service provider, to request a report on any matter as required by the Central Bank. The person preparing the report must be sufficiently skilled to prepare such reports and must be nominated or approved by the Central Bank, and therefore the Central Bank is not limited to only using the External Auditor to provide the report.</p>
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<b>EC5</b>	Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, nonperforming assets, asset valuations, trading and other securities activities, derivatives, asset securitizations, consolidation of and other involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting.
Description and findings re EC5	<p>Local auditing standards and Practice Notes determine that audits cover the areas listed in EC5.</p> <p>The FRC issued Practice Note 19(I) The Audit of Banks in the Republic of Ireland in June 2008. The FRC publishes Practice Notes to provide additional guidance for auditors. International Standards on Auditing (UK and Ireland) as issued by the FRC have general application to all audits. Practice Notes assist auditors to apply these standards to particular circumstances and industries. Practice Notes are persuasive rather than prescriptive and are considered indicative of good auditing practice. The Practice Notes are supplementary to the International Standards on Auditing (UK and Ireland).</p> <p>The Irish PNs relevant to regulated entities were developed by the Accountancy Bodies in Ireland, with advice and assistance from the Central Bank, under the auspices of the Institute of Chartered Accountants in Ireland (ICAI). They were then issued by the FRC.</p> <p><i>Other Engagement with Auditing Bodies</i> Additionally the Central Bank engages with the Consultative Committee of Accountancy Bodies – Ireland ('CCAB-I') regarding issues of mutual interest to the Central Bank and auditors, for example, proposed new requirements on auditors arising from EU Directives, domestic legislation or Central Bank requirements and to assist auditors in the development of guidance (Practice Notes, Miscellaneous Technical Statements, Information Notes) to assist auditors of regulated entities.</p> <p>CCAB-I comprises the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Institute of Certified Public Accountants and the Institute of Chartered Accountants in Ireland.</p> <p>Finally the Head of Risk, Governance and Accounting Policy Division is a member of the APB's Irish Stakeholders Group which was established by the FRC to communicate with relevant stakeholders in Ireland.</p> <p><i>Risk, Governance and Accounting Policy Division</i> The Head of the Risk, Governance and Accounting Policy Division of the Central Bank is a member of the Board of IAASA.</p> <p>In relation to auditing standards Risk, Governance and Accounting Policy Division seeks to:</p> <ul style="list-style-type: none"> <li>• assess the implications of new auditing standards and legislation impacting on the supervision of financial institutions and financial stability;</li> <li>• influence debate during the course of the development of these standards and legislation;</li> <li>• monitor developments within Europe and internationally through participation at EBA and IOSCO standing committees and working groups and provide briefings as required on same;</li> <li>• prepare discussion and consultation papers on key issues arising;</li> </ul>

	<ul style="list-style-type: none"> <li>• proactively seek to develop policy initiatives which will result in more effective and efficient regulation e.g. auditor assurance project;</li> <li>• produce and maintain "Frequently Asked Questions" documents in order to provide clarity in relation to key issues for the Central Bank; and</li> <li>• provide technical advice, training and interpretation of issues to the supervision teams within the Central Bank.</li> </ul> <p>Supervisors, as part of the Auditor Protocol meetings would give their opinion with respect to the adequacy of impairment provisioning levels or otherwise and request auditors to take this into account.</p>
<b>EC6</b>	The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards.
Description and findings re EC6	<p>The Central Bank does not have the power to remove an auditor. This power is reserved for shareholders under company law. It is a matter for the Director of Corporate Enforcement to enforce company law while IAASA is the ultimate oversight body responsible for enforcing auditing standards. The Quality Assurance divisions of the Recognised Accountancy Bodies (i.e. those Prescribed Accountancy Bodies whose members may be recognised as auditors under companies legislation) also have a role in monitoring auditors. The Central Bank requested that it be granted a power to remove an auditor of a regulated firm within the Central Bank (Supervision and Enforcement) Bill 2011 but this was rejected by the Department of Finance. While the Central Bank does not have the power to remove an auditor from office immediately, the Central Bank is able to prevent an auditor from being put in office and prevent the auditor from being reappointed in the next report period.</p> <p>The Central Bank has a power to veto the appointment or re-appointment of an auditor of a bank or the filling of a casual vacancy of auditor. Section 46(2) of the Central Bank Act, 1989 provides that, where the Central Bank is of the opinion that it would not be in the interest of depositors or of the 'orderly and proper' regulation of banking, the Central Bank has the power to issue a Direction to the bank not to appoint or not to reappoint a named person to the office of auditor, or the directors not to fill a casual vacancy with a named person as auditor.</p> <p>A credit institution is required to provide the Central Bank with at least 15 days' notice prior to filling the post of the auditor of the firm (Section 46(1) of the Central Bank Act 1989). This power enables the Central Bank to direct the bank not to appoint the proposed auditor.</p> <p>Per Section 160(1) of the Companies Act, 1963, every company is required to appoint an auditor or auditors to hold office from the conclusion of the AGM of the Company until the conclusion of the next AGM of the Company. Whilst the Central Bank is not able to remove an auditor from office during the year, the Central Bank is entitled to prevent the auditor from being reappointed for the next reporting period thus effectively removing that auditor from office.</p> <p>The Central Bank is the central competent authority for the purposes of the Transparency Directive, but IAASA has been designated as the competent authority for the purposes of the financial reporting monitoring and enforcement role (i.e. Article 24(4)(h) of the Directive). Thus, IAASA – through its Financial Reporting Supervision Unit – is responsible</p>

	<p>for monitoring whether the periodic financial reporting (annual and half yearly reports) of Issuers comply with framework requirements set out in the Directive as transposed into Irish law and for taking appropriate action where non-compliance is identified.</p> <p>If the Central Bank suspects that poor quality audits have been performed on a regulated entity, there is a legal 'gateway' under which a complaint can be made to the relevant Recognised Accountancy Body and to IAASA. Section 33AK(5)(w) of the Central Bank Act, 1942 provides the Central Bank with a legal 'gateway' to disclose confidential information to the auditor of an individual supervised entity, subject to subsection 33(1), in accordance with the Supervisory Directives.</p> <p>Section 33AK(5)(x) of the Central Bank Act, 1942 provides the Central Bank with a similar legal 'gateway' to disclose confidential information concerning auditors to 'Oversight Bodies' i.e. the 'Recognised Accountancy Bodies' and IAASA. Note that this provision does not extend to the 'accountant' members of the 'Prescribed Accountancy Bodies'. It has been used to lodge complaints regarding auditors to the Recognised Accountancy Bodies who then assess the complaint in accordance with its own monitoring and disciplinary procedures.</p> <p>Although IAASA currently only carries out an oversight role over the Prescribed Accountancy Bodies, it has the power under existing legislation to intervene in the investigation and disciplinary procedures of the Prescribed Accountancy Bodies. IAASA has the power under Section 23 of the Companies (Auditing and Accounting) Act 2003 to conduct its own enquiries following the receipt of a complaint or on its own initiative. It has the power under Section 24 of the Companies (Auditing and Accounting) Act 2003 to conduct its own investigations if, in its opinion, it is appropriate or in the public interest to do so. IAASA has carried out enquiries in the past but there is no public information available on any Investigations that may be in progress.</p> <p>There is no evidence that the Central Bank has used its power to veto the appointment of an auditor in the past. Neither has it taken legal action against external auditors for negligence relating to a poor quality audit, because the Central Bank has no jurisdiction regarding the oversight of auditors – if there is a suspicion of a poor quality audit the Central Bank has a legal gateway (Section 33AK(5)(x)) to disclose confidential information to the relevant authorities (the Recognised Accountancy Body and to IAASA).</p>
<b>EC7</b>	The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.
Description and findings re EC7	<p>Regulation 77 of the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (S.I. 220 of 2010) sets out the rotation requirements for the key audit partner or partners on public interest entity engagements. The partner responsible for carrying out the engagement must rotate after having completed 7 years on the engagement. The partner is prohibited for involvement with the client for 2 years after the date of rotation.</p> <p>"key audit partner" or "key audit partners" means:</p> <ol style="list-style-type: none"> <li>a) the one or more statutory auditors designated by a statutory audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm, or</li> <li>b) in the case of a group audit, at least the one or more statutory auditors designated by a statutory audit firm as being primarily responsible for carrying out the statutory</li> </ol>

	<p>audit at the level of the group and the one or more statutory auditors designated as being primarily responsible at the level of material subsidiaries, or</p> <p>c) the one or more statutory auditors who sign the audit report.</p> <p>In addition to the application of the International Standards on Auditing (UK and Ireland) auditors are required to apply the Ethical Standards for Auditors as issued by the FRC which are based on the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants.</p> <p>APB Ethical Standard 1 “Integrity, Objectivity and Independence” requires the audit engagement partner to identify and assess the circumstances which could adversely affect the auditor’s objectivity (‘threats’), including any perceived loss of independence, and to apply procedures (‘safeguards’) which will either:</p> <p>(a) eliminate the threat; or</p> <p>(b) reduce the threat to an acceptable level (that is, a level at which it is not probable that a reasonable and informed third party would conclude that the auditor’s objectivity and independence either is impaired or is likely to be impaired).</p> <p>APB Ethical Standard 3 (ES3), “Long association with the audit engagement”, provides requirements and guidance on specific circumstances arising out of long association with the audit engagement, which may create threats to the auditor’s objectivity or perceived loss of independence. It gives examples of safeguards that can, in some circumstances, eliminate the threat or reduce it to an acceptable level. In circumstances where this is not possible, the auditor either does not accept or withdraws from the audit engagement, as appropriate.</p> <p>ES3 requires partner rotation after 5 years and prohibits involvement with the firm for a further 5 years in the case of a listed entity. In practice the audit partner of a public interest entity would adhere to the stricter 5 year rotation period required under ES3 rather than the 7 year rotation period required by Regulation 77 of the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (S.I. 220 of 2010).</p> <p>Supervisors of banks rated High Impact generally seek information on the rotation of engagement partners. However, this is generally not the case for Medium High Impact and Medium Low Impact credit institutions.</p>										
<b>EC8</b>	The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.										
Description and findings re EC8	<p>The following table sets out the requirements for supervisors in respect of meetings with external auditors by impact category for the purposes of meeting their engagement activities under PRISM:</p> <table border="1" data-bbox="399 1583 1417 1881"> <thead> <tr> <th data-bbox="399 1583 607 1633">Impact</th> <th data-bbox="607 1583 821 1633">High</th> <th data-bbox="821 1583 1029 1633">Medium-High</th> <th data-bbox="1029 1583 1243 1633">Medium-Low</th> <th data-bbox="1243 1583 1417 1633">Low</th> </tr> </thead> <tbody> <tr> <td data-bbox="399 1633 607 1881"><b>Required Frequency</b></td> <td data-bbox="607 1633 821 1881">At least annual</td> <td data-bbox="821 1633 1029 1881">At least annual</td> <td data-bbox="1029 1633 1243 1881">Every 18 months</td> <td data-bbox="1243 1633 1417 1881">Not required (Branches are not separate legal entities requiring an audit)</td> </tr> </tbody> </table>	Impact	High	Medium-High	Medium-Low	Low	<b>Required Frequency</b>	At least annual	At least annual	Every 18 months	Not required (Branches are not separate legal entities requiring an audit)
Impact	High	Medium-High	Medium-Low	Low							
<b>Required Frequency</b>	At least annual	At least annual	Every 18 months	Not required (Branches are not separate legal entities requiring an audit)							

	<p>Supervisors of High Impact firms are not required to hold meetings in addition to those under the Auditor Protocol for the purposes of completing the PRISM engagement activities. Auditor Protocol (Paragraph 9) sets out the expectation that there will be at least two formal meetings per year, to take place at the pre-audit stage and the post-audit stage. The Auditor Protocol applies in the first instance to High Impact firms under PRISM.</p> <p>Since October 2011 the Central Bank established a working group which includes the following representatives:</p> <ul style="list-style-type: none"> <li>• the IAASA</li> <li>• the Big 4 Accounting Firms (PWC, Deloitte, KPMG and Ernst &amp; Young);</li> <li>• the Institute of Chartered Accountants Ireland; and</li> <li>• ACCA Ireland.</li> </ul> <p>Additionally the Central Bank engages with the Consultative Committee of Accountancy Bodies – Ireland ('CCAB-I') regarding issues of mutual interest to the Central Bank and auditors, for example, proposed new requirements on auditors arising from EU Directives, domestic legislation or Central Bank requirements and to assist auditors in the development of guidance (Practice Notes, Miscellaneous Technical Statements, Information Notes) to assist auditors of regulated entities.</p>
<b>EC9</b>	<p>The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of a duty of confidentiality.</p>
Description and findings re EC9	<p>The specified circumstances under which the auditor has a duty to report to the Central Bank under prescribed enactments differ slightly depending on the type of regulated entity. However in general the duty extends to any fact or decision concerning the regulated entity (or closely linked entity) of which the auditor becomes aware while carrying out the audit where the auditor has reason to believe that:</p> <ul style="list-style-type: none"> <li>• There are matters affecting the continuous functioning of the firm or that the firm may not be able to fulfill its obligations to repay customers;</li> <li>• There are indications of a material breach of financial services law or regulations or of any related, condition, requirement, code, guideline, notice or direction issued under such law/regulations;</li> <li>• There are material defects in the accounting records, or in the systems of control;</li> <li>• There are material inaccuracies in or omissions from any returns of a financial nature made by the regulated firm to the Central Bank; or</li> <li>• The auditor intends to issue a qualified audit opinion or to resign and not seek re-election as auditor.</li> </ul> <p>Auditors are provided with legal protection from liability under Section 47(6) of the Central Bank, 1989 where such reports are made.</p> <p>International Standard of Auditing (UK and Ireland) 250 Section B – "The Auditor's Right And Duty To Report To The Regulators In The Financial Sector" – addresses the auditor's 'right' and 'duty' to report to regulators in the financial sector.</p>

	<p>The auditor's duty to report relates to those circumstances where the auditor is required by legislation to report certain matters to regulators. There is legal protection for auditors whereby they do not contravene the duty of confidentiality owed to their clients in fulfilling the duty to report to regulators (provided they act in good faith).</p> <p>These obligations are set out in Sections 47 and 47A of the Central Bank Act, 1989 and Regulations 7, 8 and 9 of the Supervision of Credit Institutions, Stock Exchange Member Firms and Investment Business Firms Regulations (also known as the 'Post-BCCI' Regulations – relates to 'closely linked' entities). [This has been amended to include electronic money institutions within the meaning of a credit institution – Regulation 3(3) of the European Communities (Electronic Money) Regulations, 2002 [S.I. 221 of 2002] and UCITS – Article 50a of Directive 85/611/EEC].</p> <p><i>Central Bank Act 1997 – Auditor's duty to report</i></p> <p>27B This subsection places a mandatory annual requirement on the auditor to report as to whether circumstances have arisen which would require the auditor to report to the Central Bank under a prescribed enactment and whether, where required, the financial service provider has complied with the requirement to provide a compliance statement.</p> <p>27C Under this subsection the auditor is required to provide copies of any reports provided to the Board or Management or a 'Nil Return' (confirmation that no report has been issued by the external auditor) to the Central Bank.</p> <p>27D Whenever an auditor of a regulated financial service provider that is a company provides the Director of Corporate Enforcement with a report or other document the auditor must also provide the Central Bank with a copy of that report or document at the same time as, or as soon as practicable after, the original is provided to the Director of Corporate Enforcement. Note the auditor is only required to report to the Director of Corporate Enforcement 'indictable offences' which come to their attention during the course of the audit.</p> <p>27E This subsection provides the Central Bank with a very wide-ranging enabling power (additional to any other powers that the Central Bank has under 'prescribed enactments' that govern the different types of regulated firm) whereby the Central Bank may commission the auditor to report on a number of matters.</p> <p>27F Under this subsection the Central Bank may request a copy of any record or document provided to or obtained by the auditor during the course of their audit.</p> <p>27H This subsection provides auditors and affiliates with certain immunities from liability (additional to any legal protections provided under 'prescribed enactments') and gives them legal protection regarding their duty of confidentiality to their clients so long as they do not act in bad faith in disclosing information to the Central Bank.</p>
<b>Additional criteria</b>	
<b>AC1</b>	The supervisor has the power to access external auditors' working papers, where necessary.
Description and findings re AC1	<p>The Central Bank has such powers. Section 27F of the CBA 1997 provides that the Central Bank may:</p> <p><i>"by notice in writing, require an auditor of a regulated financial service provider, or an affiliate of the auditor, to provide the Bank with a copy of any record or information</i></p>

	<p><i>provided or obtained by the auditor or affiliate in connection with an audit of the financial service provider's accounts that is in the possession of the auditor or affiliate."</i></p> <p>The intention behind this power was to enable the Central Bank to seek access to the working papers of the auditor in relation to such information.</p>
<b>Assessment of Principle 27</b>	Largely Compliant
Comments	<p>It is within the Companies Act that responsibilities for the preparation of financial statements reside and there is no specific provision in this regard in the Central Bank's powers. In addition to the Companies Acts requirements the Central Bank through Section 21.6(d) of the Corporate Governance Code holds the bank's Board responsible for preparation of financial statements. The Code sets out that it is the responsibility of the Audit Committee to review any financial announcements and reports and recommend to the board whether to approve the institution's annual accounts (including, if relevant of the group accounts).</p> <p>The Central Bank does not have the power to reject and rescind the external auditor as required by EC6. This power is reserved for shareholders under company law. It is a matter for the Director of Corporate Enforcement to enforce Company Law while IAASA is the ultimate oversight body responsible for enforcing auditing standards. While the Central Bank does not have the power to remove an auditor from office immediately, the Central Bank is able to prevent an auditor from being put in office and to prevent the auditor from being reappointed in the next report period. In practice, the banks consult widely with the Central Bank regarding their audit arrangements and all banks appoint well recognized audit firms.</p> <p>Existing legislation does not provide the Central Bank with the power to influence the scope of the external audit or establish the standards for such an audit. Supervisors appeared to have reasonable success in influencing the scope of external audits through engagement with the external auditor and the bank. In addition, the CBI seeks to influence accounting and auditing standards through its activities within the European Supervisory Authorities (EBA, EIOPA, ESMA). The CBI also inputs into the audit Practice Notes which have some impact on how audits are completed.</p>
<b>Principle 28</b>	<b>Disclosure and transparency.</b> The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.
<b>Essential criteria</b>	
<b>EC1</b>	Laws, regulations or the supervisor require periodic public disclosures <sup>67</sup> of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed.
Description and findings re EC1	Under Irish law, there are two different types of disclosures that impact credit institutions in relation to providing transparent information on the financial condition and performance

<sup>67</sup> For the purposes of this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules, instead of or in addition to directives issued by the supervisor.

of the entity: (i) those required in the financial statements of the entity; and (ii) those required under Pillar III of the CRD.

(i) Financial Statements

Section 202 Companies Act 1990 (as Amended) requires, inter alia, that directors of companies (including credit institutions) keep proper books of accounts and that these accounts should give a true and fair view. Similar requirements are found in Section 76 of the Building Societies Act, 1989 (as amended).

Credit institutions licensed by the Central Bank of Ireland produce their financial statements in accordance with either (i) IFRS as issued by the IASB and endorsed by the European Commission or (ii) Local (UK & Ireland) (Local GAAP) issued by the FRC (formerly the ASB) and promulgated by the Institute of Chartered Accountants in Ireland. All publicly quoted EU incorporated companies must prepare their consolidated financial statements in accordance with IFRS as endorsed by the European Commission. In other instances there is a choice whether to prepare accounts based on IFRS or Irish GAAP. The relevant legislation governing 'Accounts and Audit' is Part V of the Companies Act 1963.

The financial statements of credit institutions are required to be audited. Until June 2012, auditing standards in the UK and Ireland were developed by the Auditing Practices Board (APB) which reported directly into the FRC Board. As part of the restructuring of the FRC, these matters now fall under the direct remit of the FRC Board and its Codes and Standards Committee, with the input and advice of the Audit and Assurance Council.

IAASA is the independent competent authority in Ireland with statutory responsibility for examining whether the annual and half-yearly financial reports of Issuers coming within the remit of the Transparency Directive are drawn up in accordance with the relevant reporting framework. Issuers that come within the Transparency Directive Regulations (S.I. No. 277 of 2007) are entities whose securities have been admitted to trading on a regulated market situated, or operating, within the EEA. IAASA does not undertake this role for any other set of financial statements. The Central Bank has no role in this area.

The Central Bank monitors that the credit institutions it supervises have issued financial statements under IFRS/Local GAAP and that these financial statements have an auditor's opinion expressing the opinion on whether they give a true and fair view. Banking Supervision requests copies of annual accounts signed off by external auditors, generally during Q2 each year.

(ii) Pillar III of the CRD

Annex XII of the CRD requires banks to make certain disclosures, i.e. Pillar 3 disclosures. Pillar 3 sets out disclosure requirements regarding capital and risk management. The CRD was transposed into Irish law via S.I. 660 and 661 of 2006 European Communities (Capital Adequacy of Credit Institutions) Regulations, 2006. Part 11 of S.I. 661 of 2006 sets out the Pillar 3 disclosure obligations applicable to credit institutions.

In addition, Section 17 of the Central Bank Act 1971 also requires holders of banking licenses to maintain any records as may be specified by the Central Bank from time to time. Section 18 requires the holders of banking licenses to provide the Central Bank with information and returns concerning the relevant business carried on by the credit institution as the Central Bank specifies from time to time.

	<p>In terms of bank public disclosures of financial information, the Central Bank does not play a role in assessing whether the financial statements of credit institutions are compliant with accounting standards.</p> <p>However, in terms of checking for credit institutions' Pillar III disclosures, the Central Bank has a procedure in place with an operational checklist to review compliance. While the Central Bank expects credit institutions subject to the CRD Pillar 3 requirements to comply in full with same, the market discipline nature of the Pillar 3 disclosures has led Ireland to adopt a non-prescriptive approach to the practical aspects of the publication of Pillar 3 information such as timelines, presentation formats, verification of disclosures.</p> <p>Regulation 16 of SI 661 of 2006 provides that EU based parents of credit institutions must comply with the provisions of Part 11 on the basis of their consolidated financial situation and states that significant subsidiaries need only disclose certain more limited information.</p> <p>The Central Bank considers that subsidiaries of EU parent institutions that represent 5% or more of group assets and/or have a market share in any sector or group of connected sectors, which is greater than or equal to 20%, constitutes a significant subsidiary.</p> <p>The Central Bank monitors that the credit institutions it supervises provide adequate and complete Pillar III disclosures where applicable by checking for disclosures of key solvency and risk information against its own checklist.</p>
<b>EC2</b>	<p>The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic business, management, governance and remuneration. The scope and content of information provided and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank.</p>
Description and findings re EC2	<p>The Central Bank monitors whether the credit institutions it supervises have issued financial statements under IFRS/Local GAAP, and on whether these financial statements have an auditor's opinion expressing the opinion that they give a true and fair view. Banking Supervision requests copies of annual accounts signed off by external auditors, generally during Q2 each year.</p> <p>Related party transactions disclosures in the financial statements are compared with reports submitted by credit institutions under the Central Bank's Code on Lending to Related parties (see CP20), while Pillar 3 disclosures are compared with quantitative information submitted by credit institutions in its regular supervisory returns, which provide an ongoing reflection of the firm's business activities.</p> <p>As noted earlier the market discipline nature of the Pillar 3 disclosures has led Ireland to adopt a non-prescriptive approach to the practical aspects of the publication of Pillar 3 information such as timelines, presentation formats, and verification of disclosures. Although the Central Bank is not the competent authority for enforcing compliance with disclosure standards (IAASA is the competent authority as set out in EC4), the Central Bank monitors that the credit institutions it supervises provide adequate and complete Pillar III disclosures where applicable by checking for disclosures of key solvency and risk information against its own internal checklist.</p>

	<p>Credit institutions are required to make public disclosures of related party transactions. Conditions were imposed on banks and directions on building societies by the Central Bank in August 2009 requiring public disclosure of lending to connected persons in their annual financial statements. The Companies Acts 1963 to 2012 include requirements for the company to make certain disclosures in respect of related party lending under sections relating to Directors' remuneration and transactions (including details of lending on 'favourable' terms to connected persons). The Building Societies Act 1989 requires building societies to make certain disclosures regarding transactions with Directors.</p> <p>Disclosures are required regarding related party transactions that are material and which have not been conducted under normal market conditions by Directive 2006/46/EC. This was implemented in Ireland by Statutory Instrument (S.I.) 450 of 2009 for Irish incorporated companies and by amendments to S.I. 294 of 1992 for credit institutions. Accounting standards (International Accounting Standard (IAS) 24/ Financial Reporting Standard (FRS) 8) also contain disclosure requirements on Related Party Disclosures.</p> <p>Regulation 7 of S.I. 294 of 1992/European Communities (Credit Institutions: Accounts) Regulations 1992 requires credit institutions to disclose information on related parties, remuneration and details of group undertakings.</p> <p>Disclosures by the covered banks had significant disclosure of material in relation to impairment and provisions broken down into considerable detail.</p>
<b>EC3</b>	Laws, regulations or the supervisor require banks to disclose all material entities in the group structure.
Description and findings re EC3	<p>IAS 27 (Consolidated and Separate Financial Statements), IAS 28 (Investment in Associates) and IAS 31 (Interests in Joint Ventures) for credit institutions who produce their financial statements under IFRS and FRS 2 (Accounting for Subsidiary Undertakings) and FRS 9 (Associates and Joint Ventures) for credit institutions who produce their financial statements under Local GAAP provide relevant accounting standard requirements for credit institutions to disclose material entities in the group structure in their financial statements.</p> <p>Regulation 7 of S.I. 294 of 1992/European Communities (Credit Institutions: Accounts) Regulations 1992 requires credit institutions to disclose information of group undertakings.</p> <p>It should be noted that for supervisory purposes, the scope of consolidation is the CRD rather than IAS/IFRS consolidation. Accordingly, the group structure relates to the scope under CRD consolidation. Nevertheless, examination teams are cognisant of the IAS/IFRS group financial statements, where applicable.</p> <p>Credit institutions submit high-level information on subsidiaries under the CRD scope of consolidation as part of regular supervisory returns. These can be crosschecked against organisation charts on record.</p> <p>Similarly, the CBI can crosscheck the list of subsidiaries in Pillar 3 disclosures against the high-level information on subsidiaries under the CRD scope of consolidation as part of regular supervisory returns.</p>
<b>EC4</b>	The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards.

Description and findings re EC4	<p>IAASA is the independent competent authority in Ireland with statutory responsibility for examining whether the annual and half-yearly financial reports of Issuers coming within the remit of the Transparency Directive are drawn up in accordance with the relevant reporting framework. Issuers that come within the Transparency Directive Regulations (S.I. No. 277 of 2007) are entities whose securities have been admitted to trading on a regulated market situated, or operating, within the EEA. IAASA does not undertake this role for any other set of financial statements. The Central Bank has no role in this area.</p> <p>All financial statements of credit institutions licensed by Central Bank are audited by “Big 4” audit firms and they are required to provide an opinion as to whether the financial statements give a true and fair view.</p> <p>In terms of checking for credit institutions’ actual Pillar III disclosures, the Central Bank has a procedure in place with an operational checklist to assess compliance. However, this checklist relates to quantitative information only available to the Central Bank from other sources e.g. supervisory returns and does not include qualitative information. If Credit institutions fail to provide adequate Pillar III disclosures, similar to other non-compliance issues, the Central Bank may take enforcement procedures based on non-compliance with CRD requirements. To date, there has been no requirement to undertake enforcement procedures.</p>
<b>EC5</b>	<p>The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks’ operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles).</p>
Description and findings re EC5	<p>The Central Bank regularly publishes information on the banking system via its own publications and providing data to be included in third party publications.</p> <p>The Central Bank publishes and provides commentary on a broad range of financial developments in Ireland. Publications include the Monthly Statistics, a quarterly report on sectoral developments in private sector credit, investment funds, securities issues and quarterly financial accounts. The Central Bank also publishes an aggregated balance sheet of the covered banks providing details of liabilities covered by the government guarantee. The Central Bank has also published mortgage arrears data recently. Examples of other recent publications are:</p> <ul style="list-style-type: none"> <li>• Macro Financial Review</li> <li>• Money and Banking Statistics</li> <li>• Securities Issues of Irish Resident Entities</li> <li>• Quarterly Financial Accounts for Ireland</li> <li>• Irish Locational Banking Statistics</li> <li>• Trends in Business Credit and Deposits Q4 2012</li> </ul> <p>The Central Bank contributes to IMF publications on financial soundness indicators for deposit takers. The Financial Soundness Indicators were developed by the IMF, together with the international community, with the aim of supporting macro prudential analysis and assessing strengths and vulnerabilities of financial systems.</p> <p>In addition, the Central Bank contributes to an ECB publication of indicators of financial and solvency/risk parameters as part of its annual assessment of financial stability within the EU. This data contains information on the aggregate consolidated profitability, balance sheets</p>

	and solvency of EU banks, and refer to all EU Member States. The banks are divided into three size groups: small, medium-sized and large. In addition, the data provides information on foreign-controlled institutions active in EU countries.
<b>Additional criteria</b>	
<b>AC1</b>	The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period.
Description and findings re AC1	<p>In order to produce financial standards that give a true and fair view, a credit institution would need to provide an income statement and statement of financial position under IAS 1 (Presentation of Financial Statements) for credit institutions applying IFRS and a profit and loss account under FRS 3 (Reporting Financial Performance) and balance sheet under various FRSs for credit institutions applying Local GAAP that would provide this detail.</p> <p>In order for a credit institution to issue a set of financial statements that provide a true and fair view, it would need to comply with inter alia: (i) IFRS 7 (which is the same as FRS 29 (Local GAAP)) – Financial Instruments: Disclosure. The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:</p> <ol style="list-style-type: none"> <li>the significance of financial instruments for the entity's financial position and performance; and</li> <li>the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.</li> </ol>
<b>Assessment of Principle 28</b>	Compliant
<b>Comments</b>	<p>Credit Institutions licensed by the Central Bank of Ireland produce their financial statements in accordance with either IFRS or Local GAAP. IAASA is the independent competent authority in Ireland with statutory responsibility for examining whether the annual and half-yearly financial reports of Issuers coming within the remit of the Transparency Directive are drawn up in accordance with the relevant reporting framework. Issuers that come within the Transparency Directive Regulations (S.I. No. 277 of 2007) are entities whose securities have been admitted to trading on a regulated market situated, or operating, within the EEA.</p> <p>Pillar 3 disclosures are typically included in banks' annual reports and include both qualitative and quantitative disclosures including approaches to risk management and portfolio composition.</p> <p>Part of the routine activities within the supervision framework is for supervisors to assess annual financial disclosures. This is typically a desk-top review to evaluate transparency, accuracy and consistency with regulatory returns. The Central Bank will ensure that the financial statements have an auditor's opinion expressing the opinion as to whether they give a true and fair view.</p> <p>The Central Bank regularly publishes information on the banking system via its own publications and providing data to be included in third party publications.</p>
<b>Principle 29</b>	<b>Abuse of financial services.</b> The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical

	and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. <sup>68</sup>
<b>Essential criteria</b>	
<b>EC1</b>	Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.
Description and findings re EC1	<p><u>AML/CFT</u></p> <p>The CBI was appointed competent authority under the CJA2010 for supervision and enforcement of compliance by credit and financial institutions with obligations imposed by the CJA2010. The CBI is therefore responsible for securing compliance by c.10, 000 regulated financial services firms with AML/CFT obligations.</p> <p>CBI has powers (See EC8) to enforce compliance by designated persons which it supervises with the requirements of the CJA2010, including</p> <ol style="list-style-type: none"> <li>a. pursue administrative sanction or criminal action in respect of: <ol style="list-style-type: none"> <li>i. A breach of CJA2010 or</li> <li>ii. A failure to execute a direction</li> </ol> </li> <li>b. give directions under S. 71 of the CJA2010 to discontinue or take certain actions</li> </ol> <p><u>Financial Sanctions</u></p> <p>The CBI is the competent authority for the purposes of EU Financial Sanctions in Ireland. Ireland designates the CBI as competent authority by identifying it as such in the relevant annex to each EU Financial Sanctions Regulation. EU Financial Sanctions refer to economic and financial restrictive measures, including targeted financial sanctions, which are imposed by EU Council Regulations and which are required to be applied by all persons and entities doing business in the EU, including nationals of non-EU countries, and also by EU nationals and entities incorporated or constituted under the law of an EU Member States when doing business outside the EU. The terms EU Financial Sanctions Regulations and EU Financial Sanctions Statutory Instruments are to be construed accordingly.</p> <p>The legislation governing the operation of financial sanctions within the State consists of a series of statutory instruments and directly effective EU Regulations, which impose obligations to apply freezing, prohibitive and reporting measures. However, the manner in which the obligations under the EU Regulations have been given effect within the State does not:</p> <ol style="list-style-type: none"> <li>(a) provide an appropriate sanctions regime for non-compliance with obligations imposed by the EU Regulations and the domestic statutory instruments; or</li> <li>(b) impose obligations to put in place the infrastructure (i.e. policies, processes, systems, records etc.) necessary to identify, prevent and detect financial assets owned by, or financial transactions involving, sanctioned parties.</li> </ol>

<sup>68</sup> The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit (FIU), rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8 and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.

	<p>These deficiencies have been raised at the appropriate levels within the Department of Finance, up to and including the Minister for Finance. Work is ongoing between the CBI and the Department of Finance to identify a statutory and regulatory resolution to these deficiencies in the near term.</p> <p>It is of note that all EU persons and entities are obliged to inform the competent authorities of any information at their disposal which would facilitate the application of freezing requirements in accordance with EU Financial Sanctions Regulations. This includes details of any accounts frozen (account holder, number, value of funds frozen), and other details which may be useful e.g. data on the identity of designated persons or entities and, where appropriate, details of incoming transfers resulting in the crediting of a frozen account in accordance with the specific arrangements for financial and credit institutions, attempts by customers or other persons to make funds or economic resources available to a designated person or entity without authorization, and information that suggests the freezing measures are being circumvented. They are also obliged to co-operate with competent authorities in verification of information. Where appropriate, they could also provide details concerning persons and entities having names that are very similar or identical to designated parties. EU Financial Sanctions Regulations provide that where freezing action is undertaken or where information is provided to the Competent Authority pursuant to their obligations under EU Financial Sanctions obligations in good faith and without negligence, such actions will not give rise to liability of any kind on the part of the natural or legal person or entity or body implementing it, or its directors or employees. Failure to comply with EU Financial Sanctions regulations is a criminal offence, which is enforced by An Garda Síochána in collaboration with the Director of Public Prosecutions.</p> <p><i>Other criminal activities</i></p> <p>Criminal activities are considered to be primarily matters for An Garda Síochána who have the legal powers to deal with such activities and to whom the CBI has the power to refer such matters. As a result, the focus of banking supervisors on such activities as part of their ongoing supervisory engagement with credit institutions is very limited. Such engagement that does take place tends to be high level and largely reactive (i.e. post occurrence of an event) rather than being a proactive approach. To the extent that criminal activities, such as fraud, take place in credit institutions, banking supervisors would be made aware either directly by the credit institution or through liaison with internal audit or the provision of internal audit reports (this excludes Medium Low Impact institutions where the engagement model does not require meetings to be held with internal audit).</p> <p>The CBI also has summary prosecution powers under certain legislation where it is the competent authority. Further, under section 33AK of the Central Bank Act 1942 (as amended) the CBI is obliged to make a report to An Garda Síochána (and other law enforcement agencies where appropriate) where it suspects that a criminal offence may have been committed by a supervised entity. The CBI would coordinate with law enforcement if they are pursuing criminal action.</p>
<b>EC2</b>	<p>The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.</p>
Description and	<p>As part of their AML/CFT Risk Assessment, Prudential Supervisors request confirmation from firms that policies and procedures have been put in place to achieve compliance with</p>

findings re EC2	<p>their obligations under the CJA2010, evidencing same through confirmation of the name of official/committee approving and date approved. An overview of supervisory activity is provided at EC5.</p> <p>As part of its in-depth inspection work program the AML/CFT team reviews the appropriateness and adequacy of policies and procedures in relation to AML/CFT risk.</p> <p>Chapter 6, Part 4 of CJA2010 imposes obligations on designated persons (definition of which includes credit and financial institutions) to have policies and procedures in place for the detection and prevention of ML/TF.</p>
<b>EC3</b>	In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness or reputation of the bank. <sup>69</sup>
Description and findings re EC3	Section 38 of the Supervision and Enforcement Act of 2013 states that a person appointed to perform a pre-approval controlled function, shall, as soon as it is practicable to do so, disclose to the CBI information relating to an offense under any provision of financial services legislation which he or she believes will be of material assistance to the CBI.
<b>EC4</b>	If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities.
Description and findings re EC4	<p><u>AML/CFT:</u></p> <p>S63 (2) &amp; (4) of the CJA2010 imposes an obligation on competent authorities (including the CBI) to report to An Garda Síochána or the Revenue Commissioners knowledge or suspicion of a designated persons or other persons involvement in money laundering or terrorist financing.</p> <p><u>Other:</u></p> <p>Section 33AK(3) of the Central Bank Act 1942 (as inserted by Section 26 of Central Bank and Financial Services Authority Act 2003) imposes an obligation on the supervisor to report to the relevant authority (including An Garda Síochána and the Revenue Commissioners) any information relevant to that body that leads the Central Bank to suspect that:</p> <p>(A) a criminal offence may have been committed by a supervised entity, or</p> <p>(B) a supervised entity may have contravened a provision of company law or competition law.</p> <p>A report is not required where the supervised entity has already made the necessary disclosures.</p>
<b>EC5</b>	The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and

<sup>69</sup> Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national centre, established either as an independent governmental authority or within an existing authority or authorities that serves as an FIU.

	<p>there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management programme, on a group-wide basis, has as its essential elements:</p> <ul style="list-style-type: none"> <li>(a) a customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks;</li> <li>(b) a customer identification, verification and due diligence programme on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant;</li> <li>(c) policies and processes to monitor and recognize unusual or potentially suspicious transactions;</li> <li>(d) enhanced due diligence on high-risk accounts (e.g. escalation to the bank's senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk);</li> <li>(e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank's senior management level of decisions on entering into business relationships with these persons); and</li> <li>(f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period.</li> </ul>
Description and findings re EC5	<p>Overview ECs5-7</p> <p>The CJA2010 which came into force on 15 July 2010, was enacted to transpose the EU's Third Money Laundering Directive and its implementing directive into Irish Law. The CJA2010 addressed deficiencies in Ireland's AML/CFT regime identified in the 2006 FATF Mutual Evaluation Report, and consolidated existing legislation in this area. With the enactment of the Criminal Justice Act 2013 in June 2013, which further strengthened legislation in a small number of areas, Ireland successfully exited the FATF third round Mutual Evaluation Report process.</p> <p>The key obligations of the CJA2010 with which designated persons (of which credit institutions are one category) are required to comply are set out in Part 4 of the CJA2010 and are summarized as follows:</p> <ul style="list-style-type: none"> <li>• Chapter 3 Customer Due Diligence imposes obligations on designated persons to identify and verify customers, identify beneficial ownership, and apply enhanced due diligence requirements to higher risk relationships.</li> <li>• Chapter 4 Reporting of suspicious transactions imposes obligations on designated persons to identify and report suspicious transactions.</li> <li>• Chapter 6 Policies and Procedures imposes obligations on designated persons to have policies and procedures in place for the prevention and detection of money laundering/terrorist financing (ML/TF) activities. This includes but is not limited to having in place policies and procedures for: <ul style="list-style-type: none"> <li>○ the assessment of ML/TF risk</li> </ul> </li> </ul>

- internal controls for management/mitigation of such risks
- monitoring of compliance with policies and procedures
- maintenance of records
- ensuring that all relevant personnel are instructed in the law and can adequately fulfill their duties on behalf of the designated person
- Chapter 7 Special provisions applying to credit and financial institutions imposes a number of miscellaneous obligations e.g. prevention of anonymous accounts.
- Core Guidelines have been published by the Department of Finance to which designated persons may have regard when interpreting and applying the CJA2010.
- Section 60(2) of the CJA2010 appoints the Central Bank as Competent Authority for the supervision of credit and financial institutions regarding compliance with requirements arising under the CJA2010. The Central Bank has confirmed that it will have regard to the Core Guidelines issued by the Department of Finance when assessing compliance with the CJA2010.
- Reporting of suspicious transactions are made by credit and financial institutions directly to the financial intelligence units of the Irish police force (“An Garda Síochána”) and the Revenue commissioners, who have responsibility for the investigation and disposition of those reports.

The Criminal Justice Act 2013 which, was passed into law on 14<sup>th</sup> June 2013 makes amendments to the CJA2010 to align it with FATF recommendations. Specifically, these amendments relate to:

- the application of enhanced CDD measures in higher risk situations;
- the application of a minimum level of due diligence rather than no measures in low risk situations where simplified CDD applies;
- the making of Suspicious Transaction reports on grounds of “reasonable suspicion” rather than “real risk” of money laundering;
- the keeping of CDD records up to date;
- the completion of CDD on existing customers;
- the reduction in the occasional transaction threshold for occasional wire transfers;
- the allocation of responsibility for the registration and monitoring of Trust & Company Service Providers-subsiaries of credit and financial institutions.

Supervisory Activity:

As provided for under the CJA2010, and Financial Action Task Force (FATF) recommendations, the CBI has taken a risk based approach to supervising the regulated population. This approach and the supporting supervisory engagement model were formally approved within the CBI on 4 February 2013, and is integrated into the CBI prudential supervisory engagement model under PRISM. To this end the supervised population has been classified by PRISM impact rating, with appropriate supervisory tools deployed against each classification.

A program to monitor compliance with CJA 2010 has been in place since July 2010. The program was further developed in 2012 to integrate into the CBI prudential supervisory engagement model under PRISM. The current program was formally approved within the CBI on 4<sup>th</sup> February 2013 and implemented immediately.

Overview of activity since September 2010:	
<b>Impact rating</b>	<b>Activity</b>
High impact firms	<ul style="list-style-type: none"> <li>• Full onsite inspection: 2013 – 3 firms</li> <li>• Thematic onsite inspection: 2012 – 1 firm</li> <li>• Desktop inspection – 2011 – 1 firm, 2012 – 1 firm</li> <li>• Offsite review through risk assessment questionnaire: 2013 – 3 firms</li> </ul>
Medium High impact firms	<ul style="list-style-type: none"> <li>• Full onsite inspection: 2010 – 1 firm,</li> <li>• Thematic onsite inspection: 2011 – 1 firm, 2012 – 1 firm</li> <li>• Desktop inspection – 2011 – 1 firm</li> <li>• Offsite review through risk assessment questionnaire: 2013 – 9 firms</li> </ul>
<p>Since September 2010, the CBI has conducted 8 onsite inspections. Of these, in-depth inspections were conducted on 4 banks (combined balance sheet representing c.40% of gross sector assets). Additionally the CBI has conducted offsite reviews through risk assessment questionnaires covering 21 banks, providing high-level intelligence on the status of AML controls for nearly all regulated entities within the sector. The questionnaire facilitates an analysis of AML/CFT risk through an evaluation of (i) the inherent risk posed by the bank's business model, (ii) the firm's AML/CFT control framework and (iii) the track record of the firm in management operational risk. Branches of foreign banks have not been reviewed. The results of the supervisory programme for 2013 are being used by the CBI to develop a baseline on the level of compliance for the sector. Where inspections or assessments have been completed, the CBI has communicated suspected deficiencies to the banks and where gaps have been confirmed remediation plans have been put in place. As yet no enforcement action in terms of ASP or criminal prosecution has been taken against the sector. Total staff dedicated to CJA2010 compliance numbers seven and is supported by other supervisory staff.</p> <p>The CBI has not issued policy guidance to banks on the implementation of CJA2010. The Department of Finance published on its website high level cross-sectoral guidance (the "Core Guidelines"). In the Core Guidelines it makes reference to the fact that the guidance does not constitute secondary legislation and firms must always refer directly to the CJA2010 when ascertaining their statutory obligations. The CBI was centrally involved in the development of the cross-sectoral Core Guidelines. The Core Guidelines are very detailed in nature and reflect CBI views on the interpretation of the CJA2010, hence the statement by the CBI at the time of publication that the CBI "<i>will have regard to these guidelines in assessing compliance by designated persons with the Act.</i>"</p> <p>The CBI intends to issue a communication to the banking sector detailing any recurring themes and/or best practice from recent inspections.</p>	

	<p><u>EC5</u></p> <p>As part of the 4 in-depth inspections conducted since 2010, CDD was reviewed. The reviews included an assessment of the appropriateness and adequacy of the firm's approach to CDD including risk assessment, governance, risk management and control.</p> <p>As part of their AML/CFT Risk Assessment, Prudential Supervisors request confirmation from firms that they can demonstrate compliance with their obligations under the CJA2010 in relation to CDD including:</p> <ul style="list-style-type: none"> <li>i. Assessment of AML/CFT risk presented by the firm's business model</li> <li>ii. Policies and procedures that reflect risk based approach to CDD</li> <li>iii. Independent testing of application of policies and procedures</li> <li>iv. Provision of MI to senior management on AML/CFT KPIs</li> <li>v. Testing of outsourcing and third party reliance arrangements</li> <li>vi. Ongoing monitoring of accounts, evidencing same through confirmation of the name of official/committee approving and frequency of reporting and latest date approved.</li> </ul> <p>Chapter 3 of Part 4 of the CJA2010 sets out the CDD obligations to be fulfilled by designated persons which addresses each of the essential elements (a) through (f) of EC5 above.</p> <p>Chapter 6 of Part 4 of the CJA2010 imposes obligations upon designated persons in relation to internal policies, procedures, training and record retention. Included in Part 4 is an obligation under Section 54(2) "to assess and manage the risks of money laundering or terrorist financing."</p> <p>Additional guidance in respect of these obligations is set out in the <a href="#">Core Guidelines</a> published on the Department of Finance website. In particular, Section III of the Core Guidelines provides additional guidance in respect of S54(2) on what is expected of designated persons in the assessment and management of the risk to a business of misuse for money laundering or terrorist financing purposes.</p>
<b>EC6</b>	<p>The supervisor determines that banks have in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include:</p> <ul style="list-style-type: none"> <li>(a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and</li> <li>(b) not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.</li> </ul>
Description and findings re EC6	As part of its in-depth inspection work program the AML/CFT team reviewed the appropriateness and adequacy of the firm's approach to correspondent banking including

	<p>risk assessment, governance, risk management and control. This is supported by on-site sample testing of key controls.</p> <p>As part of their AML/CFT Risk Assessment, Prudential Supervisors request confirmation from firms that they can demonstrate compliance with their obligations under the CJA2010 in relation to establishing and maintaining correspondent banking relationships, evidencing same through confirmation of the name of official/committee approving and date approved.</p> <p>Section 38, Chapter 3 of Part 4 of CJA2010 imposes an obligation on designated persons to perform enhanced customer due diligence in respect of correspondent banking relationships. There is no specific obligation within this section to terminate existing relationships however there is an over-riding requirement under Section 54 of CJA2010 for a designated person to adopt policies and procedures to prevent the commission of ML/TF.</p>
<b>EC7</b>	The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering and the financing of terrorism.
Description and findings re EC7	<p>As part of its in-depth inspection work program the AML/CFT team review the appropriateness and adequacy of the firm's approach to identification and reporting of suspicious transactions, the governance, risk management and control of this process. This is supported by on-site sample testing of key controls.</p> <p>As part of their AML/CFT Risk Assessment, Prudential Supervisors request confirmation from firms that they can demonstrate compliance with their obligations under the CJA2010 in relation to identification and reporting of suspicious transactions including:</p> <ul style="list-style-type: none"> <li>i. governance,</li> <li>ii. processes and procedures</li> <li>iii. management information</li> </ul> <p>Firms must provide evidence for same through confirmation of the name of official/committee approving and date approved.</p> <p>Chapter 4 of Part 4 of the CJA2010 places obligations on designated persons to identify and report suspicious transactions.</p> <p>In addition, Section 19 of the Criminal Justice Act 2011 (CJA2011) makes it an offence for a person not to report to An Garda Síochána, information which he knows or believes might be of material assistance in preventing the commission of certain offences or amongst other things secure the conviction of any persons for those relevant offences. These certain offences are contained in the schedule to the CJA2011 and include offences related to banking, theft, fraud and money laundering and terrorist offences.</p>
<b>EC8</b>	The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities.
Description and findings re EC8	<p>Within the CJA2010, for all relevant sections, failure to comply with the obligations imposed under such sections is defined as a criminal offence.</p> <p>CBI has powers to enforce compliance by designated persons which it supervises with the requirements of the CJA2010, including</p>

	<p>a. pursue administrative sanction* or criminal action in respect of:</p> <ol style="list-style-type: none"> <li>i. A breach of CJA2010 or</li> <li>ii. A failure to execute a direction</li> </ol> <p>b. give directions under S. 71 of the CJA2010 to discontinue or take certain actions</p> <p>*Section 33AN of the Central Bank Act, 1942 provides for certain prescribed contraventions to be subject to civil enforcement powers of the CBI (Administrative Sanctions Procedure (ASP)). S114(4) of the CJA 2010 includes an amendment of the Central Bank Act 1942 to include contraventions of Part 4 of the CJA2010 as prescribed contraventions under Section 33AN.</p>
<b>EC9</b>	<p>The supervisor determines that banks have:</p> <ol style="list-style-type: none"> <li>(a) requirements for internal audit and/or external experts<sup>70</sup> to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports;</li> <li>(b) established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported;</li> <li>(c) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship; and</li> <li>(d) ongoing training programmes for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities.</li> </ol>
Description and findings re EC9	<p><u>All areas:</u></p> <p>The CBI does not have a specific requirement to require banks to establish an internal audit function or to appoint a head of internal audit, however, banks are required to put in place adequate internal control mechanisms and robust governance arrangements (see CP26). This requirement emanates from the Corporate Governance Code 2010 which has been imposed as a condition on the license of each of the banks. Furthermore, the CBI could impose an obligation to have such functions in place (if they are not in place or not adequately in place) using regulation 70 of S.I. 661 of 2006. The internal audit function is expected to independently evaluate the relevant risk management policies, processes and controls. However, the extent to which they evaluate the risk management policies, processes and controls in relation to criminal activities is not prescribed.</p> <p>Supervisors have access to internal audit reports.</p> <p>The EBA Guidelines on Internal Governance (GL44) require banks to establish a compliance function. The EBA guidelines are applicable to all Irish licensed banks. The CBI is currently working on codifying GL44 in 2013. The Fit &amp; Proper Standards 2011 and the Central Bank</p>

<sup>70</sup> These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

Reform Act 2010 provide the Central Bank with the power to reject the appointment of the head of compliance as well as the power to remove incumbent compliance heads if deemed necessary. There is no requirement to appoint a relevant dedicated officer to whom potential abuses of the banks' financial services are reported. In the absence of a dedicated officer it would be expected that the compliance officer would fulfill this role.

AML/CFT:

As noted earlier, Chapter 6 of Part 4 of the CJA2010 imposes general obligations upon banks in relation to policies, procedures, etc. The Core Guidelines include specific guidance as to measures that firms should take to demonstrate compliance with the CJA2010 which aligns with the elements described in items (b) through (d) of EC9 above. There is nothing in the CJA2010 or the guidance that specifically requires internal audit or other expert evaluation of a designated persons AML/CFT control framework; however, it is expected that reliance can be placed on the general obligations applicable to credit institutions described above.

*1. General*

All High Impact Irish licensed banks have appointed a local internal audit head and function. Medium High Impact and Medium Low Impact banks are permitted to rely on the internal audit function of their parent.

All banks have either a compliance officer or a compliance function (see CP26).

Material outsourcing relationships are assessed by Banking Supervision in relation to the extent of adherence to the EBA Guidelines. Certain key functions (PCFs) require compliance with fitness and probity requirements of the Central Bank.

*2. AML/CFT*

As part of its in-depth inspection work program the AML/CFT team review the appropriateness and adequacy of the firm's overall framework for management of AML/CFT risk addressing elements (a) through (d) of the essential criteria above. Specifically the program assesses and tests the implementation of an appropriate governance structure for management of AML/CFT risk, including:

- (a) clear definition of the roles and responsibilities of each line of defense
- (b) clear definition of escalation and signoff processes for key risks (e.g. high-risk customers take-on; transaction screening criteria; suspicious transaction reporting)
- (c) implementation of comprehensive training program tailored to the role being fulfilled
- (d) adherence to legislative requirements relating to outsourcing or third party reliance, including ongoing testing of those relationships

As part of their AML/CFT Risk Assessment, Prudential Supervisors request confirmation from firms that they can demonstrate compliance with their obligations under the CJA2010 in relation to the establishment of an effective governance structure for management of AML/CFT risk in relation to the following areas:

- i. Implementation of effective organizational structure
- ii. Implementation of training re CJA2010

	<ul style="list-style-type: none"> <li>iii. Implementation of plan for ongoing training</li> <li>iv. Implementation of program of testing of key controls</li> <li>v. Provision of MI to senior management on AML/CFT KPIs</li> <li>vi. Testing of outsourcing and third party reliance arrangements</li> </ul> <p>Firms must provide evidence of same through confirmation of the name of official/committee approving and frequency of reporting and latest date approved.</p>
<b>EC10</b>	The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines that banks have and utilize adequate management information systems to provide the banks' Boards, management and the dedicated officers with timely and appropriate information on such activities.
Description and findings re EC10	Adequacy of reporting has been reviewed as part of the AML inspections conducted by the CBI in the past three years. Deficiencies noted were communicated to the banks' management. The CBI will adjust its monitoring program based on findings of the current reviews. The revised program/strategy will see an additional in-depth inspection being conducted in 2014 and onsite thematic inspections in 2015. The CBI intends to issue a communication to the banking sector detailing any recurring themes and/or best practice from recent inspections.
<b>EC11</b>	Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.
Description and findings re EC11	<p>The Supervision and Enforcement Act 2013 sets the requirement.</p> <p>Chapter 4 of Part 4 of the CJA2010 sets out the obligations in relation to the reporting of suspicious transactions. S47 of this Chapter 4 provides an exemption from liability to persons making reports in accordance with these obligations.</p> <p>In addition, Section 19 of the CJA2011 makes it an offence for a person not to report to An Garda Síochána, information which he knows or believes might be of material assistance in preventing the commission of certain offences or amongst other things secure the conviction of any persons for those relevant offences. These certain offences are contained in the schedule to the CJA2011 and include offences related to banking, theft, fraud and money laundering and terrorist offences. Employees are protected from penalization for disclosing certain information.</p>
<b>EC12</b>	The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes.
Description and findings re EC12	<p><u>Domestic:</u></p> <p>The CBI is a member of the Money Laundering Steering Committee, a committee chaired by the Department of Finance with responsibility for coordinating and progressing national AML/CFT initiatives.</p> <p><u>International:</u></p> <p>The CBI is a member of the EBA's AML Committee where it contributes to development of EU supervisory policy and intra-agency collaboration.</p> <p>The CBI was significantly involved in the drafting and finalizing of a home-host protocol to be used by colleges of supervisors collaborating on the AML/CFT supervision of cross-</p>

	border payment institutions. It is currently working with a number of EU regulators (Nordic Regulators, Germany, and UK) on developing an implementation framework for this protocol.
<b>EC13</b>	Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks.
Description and findings re EC13	This role does not currently fall within the responsibilities of the Central Bank.
<b>Assessment of Principle 29</b>	Materially Noncompliant
Comments	<p>Anti-Money Laundering legislation was strengthened in 2010 through the CJA 2010 which was further amended in 2013. The scope of the legislation is comprehensive.</p> <p>The CBI has conducted 8 onsite inspections which includes 4 in-depth onsite inspections. In addition, offsite reviews have been conducted on 21 banks through the use of a risk assessment questionnaire. The questionnaire facilitates an analysis of AML/CFT risk through an evaluation of (i) the inherent risk posed by the bank's business model, (ii) the firm's AML/CFT control framework and (iii) the track record of the firm in management operational risk.</p> <p>Work remains for the CBI in monitoring compliance:</p> <ol style="list-style-type: none"> <li>a) The current legislative framework, the CJA 2010, is comprehensive and provides the CBI with significant powers to enable it to assert its supervisory authority. However, the framework (Section 107 of the CJA 2010) also envisages the approval of guidelines for the purposes of guiding designated persons (banks) on the application of Part 4 of the CJA 2010 Such guidelines which would provide valuable assistance in fleshing out the expectations in relation to compliance with the legislation; the CBI should work with Justice to provide guidance to banks. . Such guidelines would also provide greater clarity to designated persons as to the standards expected in relation to interpreting "reasonable measures" and "due diligence." In addition, the CBI should issue communications following its inspections setting out principal findings and its expectations as to how compliance with the CJA 2010 can be demonstrated.</li> <li>b) Branches of foreign banks have not been inspected or reviewed for compliance with the CJA 2010.</li> <li>c) Reviewing whether the balance, to date, of onsite and offsite is adequate to determine verify compliance.</li> </ol>

## Recommended Actions

### A. Recommended Actions to Improve Compliance with the Basel Core Principles

Reference Principle	Recommended Action
Principle (2)	<ul style="list-style-type: none"> <li>- Amend existing legislation to detail the framework for Central Bank independence. Also address reasons for removal of Commission members to be similar to Governor.</li> <li>- Take steps to fill vacancies in BSD.</li> </ul>
Principle (5)	<ul style="list-style-type: none"> <li>- Consider options for improving the CBI's ability to conduct fit and proper reviews during licensing of banks owned by unregulated parents.</li> <li>- Study enforceability of special conditions to the license that must be accepted by parent company at time of approval to enhance CBI enforcement authority.</li> </ul>
Principle (9)	<ul style="list-style-type: none"> <li>- Consider the distribution of resources and supervisory tasks across Medium Low and Low Impact ratings</li> <li>- Consider expanding KRIs in PRISM to include a broader suite of risk metrics i.e. operational risk and IRRBB</li> </ul>
Principle (15)	<ul style="list-style-type: none"> <li>- For banks accredited to use internal models, annual assessment that banks comply with supervisory standards (e.g. validation)</li> <li>- Implementation of framework to assess IT across regulated banks</li> </ul>
Principle (17)	<ul style="list-style-type: none"> <li>- Increase frequency and loan sample size for Medium Low banks</li> </ul>
Principle (18)	<ul style="list-style-type: none"> <li>- Greater frequency and depth of onsite reviews of loan loss provisioning practices (e.g. testing of assumptions against experience, recognition of default, prudent valuations)</li> </ul>
Principle (20)	<ul style="list-style-type: none"> <li>- Amend the RPL code to include asset sales, deposits and other areas addressed in CP. Also expand information in RPL regulatory reports so that a more complete offsite compliance assessment may be made.</li> </ul>
Principle (27)	<ul style="list-style-type: none"> <li>- Enact legislation giving the Central Bank the power to reject or rescind external auditors.</li> </ul>
Principle (29)	<ul style="list-style-type: none"> <li>- Expand supervisory scope to include branches of foreign banks,</li> <li>- Statutory guidelines, approved as envisaged by Section 107 of the CJA 2010, should be issued. Review the current balance between onsite and offsite reviews. Currently emphasis is heavily weighted on offsite.</li> </ul>

# Authorities' Response to the Assessment

## 1. Recognition of Financial Sector Reform and Strengthening of Supervision of Credit Institutions

The Irish authorities wish to express their appreciation to the IMF and its Mission team for their detailed assessment of Ireland's compliance with the Basel Core Principles for Effective Banking Supervision.

We welcome the IMF's acknowledgement of the continued strengthening of the supervisory process through substantial changes to both regulation and legislation, achieved in collaboration with our external partners under Ireland's financial support programme, in a challenging environment, which included the restructuring and stabilisation of the Irish banking sector.

A risk based supervisory approach to banking supervision was implemented by the Central Bank in 2011 by means of a new risk assessment framework. This framework was accompanied by a substantial increase in resources and encompasses a much more intrusive approach than existed previously. Our supervisory regime is determined further by our assessment of the impact risk of each credit institution and our resources are allocated to conduct supervisory engagement further to that assessment. In addition, significant changes to the legal framework have been achieved, which have resulted in enhanced powers for the Central Bank.

## 2. Specific Comments on IMF Findings and Ratings

While the Irish Authorities are generally in agreement with the report, the Irish Authorities would make the following comments in relation to those Core Principles which have been rated by the IMF as Materially Non-Compliant:

### CP 2 Independence

The Irish authorities are pleased to note that there was no observed political interference with the Central Bank of Ireland. While we are disappointed with the IMF finding regarding CP2, we note that this relates to hypothetical concerns regarding a small number of legislative provisions from within the corpus of Irish financial services law, rather than any manifest experience of the Central Bank's statutory or regulatory independence being compromised.

The independence of the Irish Central Bank is a core pillar of the Irish financial system and is essential for both the system's effectiveness and its international credibility. For this reason, when introducing reforming legislation to restructure the Central Bank following the financial crisis, the Government took great care to reaffirm the Central Bank's independence. To underline this point, the Government has further introduced a range of measures to strengthen the powers of the Central Bank and to extend its remit into new areas of responsibility such as bank resolution.

While the Irish authorities do not fully agree with the IMF view under this category, we will consider the recommendation for a more detailed framework for Central Bank independence in the context of any future review of the statutory basis of the Central Bank.

### **CP 9 Supervisory Techniques and Tools**

Ireland's approach to supervision is risk based and starts with the premise that all firms are not equally crucial in the banking system and the wider economy. Supervisory efforts and resources are focused on those firms whose failure would have a significant impact upon the banking system, the economy, the taxpayer and the consumer. This approach to supervision is in keeping with the IMF's and the Basel Committee's principle of proportionality.

The IMF has rated Core Principle 9 as being Materially Non-Compliant. However, the specific issues raised by the IMF mainly relate to potential calibration issues with the supervisory engagement model for the least risky and non-systemically important cohort of Irish licensed banks i.e. medium low impact banks. This cohort of 10 non-retail institutions comprises 3% of total Irish banking system assets, does not take retail deposits, comprises 2% of all Irish corporate deposits, is not involved in retail lending, and transacts with counterparties who are predominantly business to business and intra-group. Moreover, although the IMF views the Medium Low Impact engagement model as heavily reactive with light data validation/verification, this description is only accurate for low impact credit institutions, i.e. branches of EU Banks operating in Ireland, which are primarily under foreign prudential supervision. No Irish licensed bank has been categorised as low impact.

The Central Bank will follow the two recommendations made by the IMF relating to CP 9. We will review the distribution of resources and supervisory tasks across medium low and low impact credit institutions as the Single Supervisory Mechanism ("SSM") enters into force. As part of our implementation of the SSM requirements we will adhere to the requirements of the SSM Supervisory Manual which sets out the processes, procedures and methodology for the supervision of both Significant and Less Significant institutions, including supervisory tasks and KRIs.

### **CP 20 Related Party Transactions**

Related party transactions in the Irish banking system are predominantly in respect of lending rather than service contracts or deposits, and accordingly the Central Bank has tailored its supervisory regime to capture higher risk transactions in this area. The supervisory approach includes a Code of Practice ("the Code") to which all licensed credit institutions must adhere and a detailed reporting framework is in place to ensure that the requirements set out in the Code are being met on an on-going basis. The framework also includes on-site testing, lending limits and the requirement for the prior approval of the Central Bank for transactions over €1m.

While the Irish Authorities therefore do not entirely agree with the IMF's rating of Materially Non-Compliant in relation to related party transactions, the Central Bank will undertake an evaluation of related party transactions and will evidence any potential risks outside the scope of the current Code. The Code will be amended accordingly.

### **CP 29 Abuse of Financial Services**

The Irish Authorities will follow the IMF recommendations in relation to CP 29. In relation to Guidelines envisaged by Section 107 of the Criminal Justice Act 2010, the Central Bank will request that the appropriate authority, the Minister for Justice, issues such guidelines. Furthermore, the Central Bank will communicate its principal findings to the banking sector following the Anti-Money Laundering reviews undertaken in 2013. The Irish Authorities also note the comments regarding the balance between onsite and offsite reviews and will undertake a review to ensure the appropriate balance exists.

The Irish Authorities acknowledge that branches of foreign banks have not been inspected, and while this is considered to be consistent with our risk focused approach to AML supervision, branch inspections will be performed.

### **3. Concluding Authorities' Comments on IMF Findings and Ratings**

The Irish Authorities acknowledge the importance of continually monitoring and seeking to improve the regulatory framework and supervisory practices and remain strongly committed to so doing.

To that end, the Irish Authorities will evaluate and consider the IMF's recommendations, in the context of the IMF's endorsement of Ireland's supervisory approach, as reflected in the compliant rating for CP 8. We are currently preparing to implement the SSM requirements from 4 November 2014. The Single Supervisory Mechanism will fundamentally alter the manner in which credit institutions are supervised within the euro area and will consequently change the way in which the Central Bank supervises credit institutions in Ireland.