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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 10 Meitheamh 2015

Wednesday, 10 June 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

important, if not more important, and I think that would be something to watch carefully for the future.

Chairman: Okay. Thank you very much, Ms O’Dea. With that said I’m going to bring matters to a ... a conclusion with your own engagement this morning, and thank you for your participation and for your engagement with the inquiry. And now to excuse you, and propose that the meeting be suspended until 11.50 a.m., that’s ten minutes time, when we will hear from Mr. Cyril Roux, deputy governor of the Central Bank of Ireland. Okay, well I ... what’s happening ... I’m going to private session there. I’m saying ten minutes and people are coming back in 15. If I say 15 they’ll be back in 20. Okay? So if I say ten for 15 minutes, we’ll be back in 15. Okay? Thank you.

Sitting suspended at 11.42 a.m. and resumed at 12.04 p.m.

Central Bank-Financial Regulator - Mr. Cyril Roux

Chairman: With members’ permission, I now call the committee back into public session. Is that agreed? Agreed. And the Committee of Inquiry into the Banking Crisis now resuming in public session, I can remind members and those in the public Gallery to ensure that their mobile devices are switched off. Today we are now continuing our hearings with senior officials in the Central Bank of Ireland and Financial Regulator and, our next session, we will now hear from Mr. Cyril Roux, deputy governor of the financial regulation, Central Bank.

Mr. Cyril Roux was appointed to the position of deputy governor of the Central Bank on 1 October 2013 with responsibility for financial regulation. Prior to taking up the role, he served as first deputy secretary general at the French insurance supervisory authority. He also served as a board member of the ANC, the French accounting standard-setting authority. Mr. Roux, you’re very welcome to the committee today.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2) (l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chair to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You’re directed that only evidence connected with the subject matter of these proceedings is to be given and I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings.

In addition, there are particular obligations of professional secrecy on officers of the Central Bank in respect of confidential information that they have come across in the course of their duties. This stems from European and Irish law, including section 33AK of the Central Bank Act 1942. The banking inquiry also has obligations of professional secrecy in terms of some of the information which has been provided to it by the Central Bank. These obligations have been taken into account by the committee and will affect the questions asked and the answers which can be lawfully given in today’s proceedings. In addition, it will mean that some information can be dealt with on a summary or aggregate basis only, such that individual institutions will not be identifiable.

Members of the public are reminded that photography is prohibited in the committee room.

To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed. The witness has been directed to attend this meeting of the joint inquiry into the banking crisis and you have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So, with that said, if I can now ask the clerk to administer the affirmation to you.

The following witness was affirmed by the Clerk to the Committee:

Mr. Cyril Roux, Deputy Governor (Financial Regulation), Central Bank.

Chairman: Thank you very much, Mr. Roux. So, if I can get proceedings under way and ask Mr. Roux to make his opening remarks to the committee, please.

Mr. Cyril Roux: Thank you. Mr. Chair, members of the joint committee, thank you for the opportunity to share with you my experience as deputy governor for financial regulation since I joined the Central Bank in October 2013. I hope you will bear with my French accent; if not, pardon my French.

Chairman: If you bear with my Cork accent, we'll have a deal, Mr. Roux.

Mr. Cyril Roux: This committee has been established first to address the reasons Ireland has experienced a systemic banking crisis and, second, to review the preventative reforms implemented in the wake of the crisis. As regards the first theme of inquiry, I'm not close enough to the Irish experience of the previous decade to provide this knowledgeable committee with special insight. That said, I'm well aware of the severe economic hardship brought about by the crisis. Many Irish households and Irish firms still suffer from it today. Hence all parties, including the Central Bank, must continue to do their utmost to prevent a replay of the banking crisis and to protect the financial stability of the country. I'll share with you what I know of the reforms put in place here after the crisis and before I joined and I'll present the further European reforms that I have replaced them with in the past year and a half.

In October 2013, as I came into office, two independent, large-scale exercises were in train to assess the effectiveness of the domestic framework that had been designed and put in place by my predecessor, Mr. Matthew Elderfield, between 2010 and 2013. The first exercise was a balance sheet assessment of the three remaining covered banks, conducted as part of the 2013 financial measures programme. It concluded with a view that the covered banks were mostly in financial working order and required only moderate strengthening of their provisions, which they did bring into their year-end accounts, in the main.

The second large-scale exercise was the IMF review of Ireland's observance of the Basel core principles for effective banking supervision. The IMF found that since the crisis has begun the Central Bank had taken substantive steps to rebuild its functions in financial regulation and supervision, including changes in the institutional setting, changes of senior staff, and increases in the quantity, albeit from a very low base, and the calibre of supervisory staff. The IMF acknowledged the design and implementation of a proactive and intensive approach to banking supervision, the expansion of prudential requirements and improvement in enforcement powers. Overall, the IMF ascribed to the Central Bank as of 2013 a satisfactory level of compliance with the aforementioned Basel core principles for effective banking supervision.

Taken together, these two reviews gave me sufficient assurance that Irish banks, and Irish banking supervision, albeit not without further progress, had been put on a more solid footing and that I could direct our 2014 efforts to moving towards the entry into force of the Single Supervisory Mechanism. This entailed two major lines of work. The first line of work was internal and organisational - I will describe its outcome later. The second line of work was a comprehensive assessment. Under the leadership of the ECB, we conducted, like all the other national supervisory authorities of the eurozone, an asset quality review and a stress test of the top 120 eurozone banking groups. The results were published in the comprehensive assessment report of the ECB in October 2014. The ECB found that around one out of five eurozone banking groups was in need of recapitalisation. Out of the top four Irish banks, only Permanent TSB was found to need supplementary capital to fully withstand an adverse stress test. PTSB subsequently raised the required capital in May of this year.

Let me now change tack and describe the overhaul of the banking regulatory framework. Domestically, between 2010 and 2013, the Oireachtas and the Central Bank introduced several pieces of legislation, codes and regulations which much strengthened the requirements weighing on commercial banks and the hand of the Central Bank in supervising them and enforcing against their breaches. These new requirements were additional to the prevailing European capital requirement directive. Internationally, between 2010 and 2013, three large initiatives unfolded that are directly relevant to matters of the inquiry.

First, in 2010, the EU adopted the European system of financial supervision, comprising the European Systemic Risk Board and the three European supervisory authorities, including the European Banking Authority. The ESRB is tasked with micro-prudential oversight in Europe, while the European Banking Authority is in charge of banking supervisory convergence and drafting secondary legislation. Also in 2010, the Basel Committee on Banking Supervision addressed the inadequacies of its second agreement and replaced it by the third agreement of Basel III. The third agreement formed a basis of the new prudential banking regulatory framework in Europe, adapted under the Irish Presidency of the EU and enshrined in the fourth capital requirement directive, CRD IV, and the capital requirement regulation, CRR. They have been in force from 1 January 2014.

Finally in 2012, the EU Heads of State and Government decided on the banking union, which also started to come into force in 2014 as far as the Single Supervisory Mechanism is concerned. The changes have been profound. I will try to give you a flavour of the depth and breadth of this new, multifaceted regime starting with CRD IV and CRR. Both the quantity and quality of capital that banks are required to hold are now much increased, whereas up to the end of 2013 banks could operate with as little as 2% of capital. They need now at least 4.5% of a more tightly defined equity. Furthermore, the new regulatory framework introduces the possibility for macro-prudential authorities to impose several additional capital requirements, known as buffers, to all banks in their jurisdiction. The Central Bank has been designated as the macro-prudential authority for this purpose in March 2014.

From 1 January 2016, as agreed throughout Europe, all banks will also have to begin building one of these buffers, the capital conservation buffer, for an additional 2.5% of risk-weighted assets. Liquidity requirements were domestic until then. They are now harmonised at a much tighter level under the liquidity coverage ratio of the CRR. The existing Central Bank liquidity requirements, which were introduced in January 2007, are being replaced by this LCR, which will be fully binding in 2018. The CRR also introduced a net stable funding obligation, and a leverage ratio requirement which caps banks assets to no more than 33 times Tier 1 capital.

Finally, the quality and granularity of banks' regulatory reporting have also been significantly enhanced from January 2014 by the CRR, and subsequent guidelines and standards of the European Banking Authority covering financial reporting, credit risk, operational risk, own funds and capital adequacy ratios. The transformation of the regulatory framework for banks, from what it was up to the end of 2013 to what it is becoming, does not stop at prudential supervisory requirements. Lessons were also learned about the way to resolve the difficulties of banks that are failing or likely to fail. This has entailed another change in regulatory framework through the adaption of the bank recovery and resolution directive, BRRD, and enactment of the Single Resolution Mechanism. The BRRD and the Single Resolution Mechanism aim to create a predictable framework for resolving banks that fail in the future. BRRD provides a toolkit for resolving banks, such as a bailing-in of unsecured liabilities in lieu of the bailing out of the banks by taxpayers. The Central Bank has been designated as a national resolution authority, and is already working with the banks to double up resolution plans in line with BRRD requirements. For larger eurozone banks, including our own, resolution decisions will be made from January of next year, by the single resolution board in Brussels. It will avail of the new propounded resolution funds in the eurozone, which are to be gradually mutualised.

Let me now turn to the transformation of the supervision of eurozone banks from 2014. As I mentioned earlier, in 2012, EU Heads of State and Government agreed to transfer the responsibility for supervising banks to the European level, with the establishment of the SSM. Eurozone banks have come under the supervision of the ECB since 4 November 2014. The ECB directly supervises the largest European banks, including Bank of Ireland, AIB, Permanent TSB, and Ulster Bank, with our assistance and that of other national supervisors. We supervise the smaller banks, under the oversight of the ECB.

The revamped banking supervisory framework that was put in place at the Central Bank by Matthew Elderfield has mostly been superseded by the SSM. Our domestic supervisory engagement cycle, our approval procedures, our internal supervisory guidance, enshrined in PRISM, were effective from 2011 to October 2014. They have now been replaced by the prescriptions of the SSM supervisory manual, which are guided by a similar, if not more tough, intrusive and sceptical ethos.

Daily supervision of the larger banks is conducted by joint supervisory teams, mostly made of central bank staff, but always headed by an ECB co-ordinator based in Frankfurt. These co-ordinators propose draft decisions, during consultation with us, to the supervisory board of the ECB where I sit. When approved, these draft decisions are submitted to the governing council and finally signed by the President of the ECB.

In the Central Bank, banking supervision was re-organised and further strengthened in the course of 2014. Approved headcount in banking supervision was brought up to 140, and the actual headcount has increased to 124. We have thus reduced, albeit partially, the numerical gap with eurozone standards. Instead of two generalist divisions, we now have three: one is dedicated to ongoing supervision; one to specialist expertise; and a wholly new third division carries out on-site inspections year-round. This structure aligns the Central Bank with the organisational requirements of the SSM and further enhances our supervision.

Let me conclude by restating a few key messages. In our country, the institutional arrangement of financial regulation, the engagement framework and practice of prudential banking supervision were overhauled during the tenure of Matthew Elderfield in the wake of our domestic banking crisis. As of 2013, much repair had been achieved. On the European stage, the lessons of the global banking crisis resulted in an overhaul of regulation, supervision and resolution that

has started unfolding at the end of 2013. While the EFSF was put in place in 2011, CRD IV, CRR and BRRD come gradually into force from 2014 up to the end of the decade. The SSM is operational since November 2014 and the SRB will assume its functions in January 2016. These new European regulations and institutional arrangements have, in the main, superseded the domestic response of 2010-2013 to our national banking crisis and they are designed to address the challenges of public banking oversight and resolution at a European level, in the area of national decision making that prevailed until 2013. Thank you.

Chairman: Thank you very much, Mr. Roux, and just for ... to kind of maintain the fullest record, there's maybe a slight variation on the formal statement that you put in, so maybe if you could provide the committee with the address that you gave us today as well at your own convenience. So, with that said, to get matters under way, if I can invite Deputy McGrath to lead off the questions. Deputy, you have 15 minutes.

Deputy Michael McGrath: Thank you very much, Chair. Mr. Roux, you're very welcome. And can I start by asking you do you believe that you now have sufficient powers to take direct action against banks, if that were necessary, to avoid another financial stability crisis?

Mr. Cyril Roux: I think we do have sufficient powers but I would rephrase your question. It's not that I have sufficient powers - I am part of a system which decides. So I do believe that the ECB has sufficient powers, but they are the decision-maker now.

Deputy Michael McGrath: So the ECB ... as the new single supervisory authority, as such. And you might just explain how the regulation is working in practice now, the division of responsibilities between the Central Bank in Ireland and the ECB. You have gone into it in an element of detail in your testimony which you provided but can you just advise the committee how that works in practice?

Mr. Cyril Roux: Yes. It's fairly ... it's fairly long but anything that is prudential supervision, prudential powers, that are listed in CRD IV, CRR, there's a single decision-maker and that's the governing council of the ECB, for the largest banks - so, in our country, for the four that I've listed plus the subsidiaries of eurozone group. For instance, KBC is ... is also ... decisions on KBC are taken by the ECB because KBC is one of a top 120 groups. I've only listed the four Irish ... either Irish headed or when the head is outside of the eurozone, but ... so for these ... for these banks, the decision ... the decisions on prudential matters are for the ECB to take. The decisions for the smaller banks are for us to take, but under the oversight and the rule book of the ECB. So we have to replace our procedures by the ECB-mandated procedures. So that's for prudential supervision. But we do more than prudential supervision, of course. We do also the supervision of ... conduct supervision - that's outside of the ECB - and we do anti-money laundering - that's outside of the ECB as well. So we remain fully responsible for these parts.

Deputy Michael McGrath: So, going back to my first question, you state that the authorities, principally the ECB, now have adequate powers but can I ask you if the Central Bank has adequate resources and expertise available to it now to regulate the banks or to perform its regulatory functions in terms of the banks? And I do so in the context of *The Irish Times* article this morning detailing some correspondence you had with the Department of Finance, albeit in relation to the insurance sector, but you raised some important issues in your letter to the Secretary General of the Department of Finance where you refer to a staff vacancy rate in the enforcement division was close to 40% due to Government pay restrictions. Would you like to comment on that?

Mr. Cyril Roux: Certainly. So I think the staff working on banking ... well, you have the staff in banking supervision that I alluded to in my opening remarks, so with the three divisions that we have there ... so I think we've calculated the number of people we need. There's a benchmarking exercise done at the ECB. So we are towards the lower end in terms of number of people but ... so that will be revisited by the ECB benchmarking all national supervisory authorities. Then you have the staff in enforcement and the staff in policy - banking policy - and developing the regulations. So ... the issues are not exactly the same for the three blocks. So I would say for prudential supervision, we have some vacancies. We have 124 people when we have our approved complement ... or we have estimated we need 140. But I think, here, where we are an outlier is mostly in terms of supervisory experience. There's a lot of people coming and going and this is very different, for instance, from what I've experienced in France where you have on-site inspectors that stay for 15, 20, 25 years. So when you compare the lengths of experience of our staff ... although they're remarkable staff, but they're gaining experience ... they just have fewer years of experience than their counterparts.

Deputy Michael McGrath: Does that mean we can't keep them?

Mr. Cyril Roux: We ... well-----

Deputy Michael McGrath: We can't keep them.

Mr. Cyril Roux: -----as you know ... well, yes, we can't keep them because, as you know, as long as you're doing the same job, under FEMPI you are paid the same amount, whereas ... you gain experience, so instead of being ... you know, joining and being ... you know, have no work experience, after five years you're still ... if you do the same job, then you can't be paid more. So the only possibility for staff to be paid more is to change jobs and they change jobs, so we have a lot of churn. Because there are vacancies and there's a lot of opportunities within the Central Bank to apply to new jobs, so you see people changing jobs to get paid more, which is, of course, the ... the thing ... the thing-----

Deputy Michael McGrath: So in the area that you have responsibility for as deputy governor and, essentially, head of financial regulation, what would be the vacancy rate currently?

Mr. Cyril Roux: Well, it depends. I have 15 divisions.

Deputy Michael McGrath: Yes.

Mr. Cyril Roux: So it's very different from division to division.

Deputy Michael McGrath: In the banking area.

Mr. Cyril Roux: Well, banking ... in supervision, it's simple. You know, it's 140 and we are 124. So it's a 10% vacancy rate.

Deputy Michael McGrath: So you have 124 positions filled-----

Mr. Cyril Roux: Yes.

Deputy Michael McGrath: -----and you have 140 approved.

Mr. Cyril Roux: Yes.

Deputy Michael McGrath: Okay. And the 16 vacant positions, are efforts being made to fill those positions, but they've been unsuccessful, or why ... why is there a vacancy of 16

positions?

Mr. Cyril Roux: Well, it's ... of course, we ... we advertise for these positions. There are open competitions to fill these positions, as any other position in the Central Bank, but, you know, it's ... there are people coming in and people leaving - people leaving because they have better opportunities within the Central Bank. You know, they're promoted within the Central Bank, outside of banking supervision, or they're promoted or they go elsewhere, they resign. So it's ... it's not as if, you know, there's only an inflow - there's inflow and outflow. So I think it's a continuous challenge to staff adequately ... not even to lose people, just to replace people who are leaving is the challenge, you know.

Deputy Michael McGrath: And-----

Mr. Cyril Roux: But I would flag though that we have increased significantly, right? We were two divisions, now we are three; so we have increased the number of people working in banking supervision a lot since, you know, the time of the banking crisis and even this past year.

Deputy Michael McGrath: Sure. Just to put it in context, can you give us a direct comparison, because we had evidence from Mary Burke who was the head of banking supervision, that back in 2006, for example, there was a three-person team responsible for Bank of Ireland and Anglo Irish Bank-----

Mr. Cyril Roux: Yes.

Deputy Michael McGrath: -----and there was a three-person team responsible for AIB and Irish Life & Permanent. So give us a comparison. Where are we at today, in terms of staff resources for ... responsible for a certain number of banks?

Mr. Cyril Roux: For the significant institutions so, so that's Bank of Ireland, AIB, Permanent TSB, Ulster Bank, the team ... there's a team of four to six people for each of these four banks.

Deputy Michael McGrath: Okay, four to six people. And they are dedicated solely to work on issues relating to that bank?

Mr. Cyril Roux: Yes. Yes, but now ... what didn't exist at the time and exists now is that we have also an on-site division of 40 people and these ... sorry, and these 40 people will go on site in these banks and other banks, so, the on-site work is now, has to be added to these teams. And then we have a third division, the analytics divisions where we have specialist expertise. So if you want a special focus on, say, commercial real estate risk, credit risk in commercial real estate in this bank or that bank, you go to that third division. So, in fact, you know you have to add up these teams, of four to six people, plus a co-ordinator in Frankfurt, because they have a line through Frankfurt. Then you have the on-site inspectors, and then you have the specialist expertise on credit, risk liquidity risk, operational risk, etc.

Deputy Michael McGrath: Can I ask Mr. Roux, do you believe that the authorities, the national supervisory authority and the ECB, now have effective instruments available to deal with future excessive credit growth or sectoral concentration in terms of lending by the banks?

Mr. Cyril Roux: We have a lot more reporting. I mentioned that in my statement. But maybe to give more flavour, for instance, the FINREP reporting. We moved from eight templates to 46 templates, so that's CRR and the allotment of CRR, so the amount of reporting is,

is much increased. So we have a lot more granular data and we are ... the supervision done now through the SSM is heavy on data and reporting and, and quantitatively-based, so we have a lot of information on ... on what is building up in, in the banks ... so, yes.

Deputy Michael McGrath: Okay. Can I ask you Mr. Roux to clear up one thing ... this issue of principles-led regulation, which was used in Ireland and is being cited as the method of regulation in the developed world. Where did it come from? What's the provenance?

Mr. Cyril Roux: I listened to a few of the ... the other witnesses, and I'm struck by the fact that on ... there is this wording: "principles-based" versus "rules-based". And when people describe it, they don't describe principle-based versus rule-based, what they describe is putting the onus on the banks themselves to solve their problems, or not taking ... being sceptical and challenging the banks. And, to me, this is nothing to do with being rule-based or principle-based; it's, it's an ethos.

So, I think you can build a very challenging principle-based supervision, if you are, you know ... or you can be a book checking rule-based supervisor. The question is whether you have the skills to challenge. You, you go into ... into the meat, into the substance, so you go into the collateral evaluations and you go into the impairments and you go into the accounts and you're challenging. It's not really ... I think the moniker of principle-based or rule-based do not really describe the change in regime. And the other reason why I think it doesn't really describe this is, okay, we have CRD IV now ... and it's more detailed, but we had CRD III and CRD II before and they were quite detailed. So there are rules; there were rules as well before.

Deputy Michael McGrath: So, in the Irish case, are you saying that it wouldn't be fair to blame the system of principles-based regulation, was it more the application of that regulation, the way in which it was executed? Is that what you're saying? You can put it in your own words, but-----

Mr. Cyril Roux: It's really difficult for me to comment on, you know, what was done and not done well before I arrived. What I would say that, Europe has chosen a very detailed rule book approach. So if you compare the Basel III accord and the CRD IV, CRD IV is supposed to be the transcription of the Basel III accord, but it's way bigger, way more detailed. So that's the European approach, we want tonnes of rules. Now, you know, the more you write rules, the more you write loopholes into rules, so, you know you could very well ... you can very well have thousands of pages of rules, which we have, and still miss ... you know, miss the ... miss the trick. So what you need is the mindset not to check the boxes but to challenge, to be sufficiently skilled to have the right, the right people. And these right people they have to be, you know, accountants, and experienced supervisors and, and lawyers and ... quants and credit risk analysts, etc, people that know their stuff, and be able to challenge the banks.

Deputy Michael McGrath: Your opening statement goes into some detail about the changes at, at European level and you describe the changes as being profound - the additional capital requirements, for example, since the crisis. But can I ask you, Mr. Roux, to give us your view on the responsibility for the regulation of the banks in Ireland in the years leading up to the crisis? To what extent can it be attributed to weak rules at a European level, or to what extent do you believe it is related to the system of regulation in Ireland and the manner in which that regulation was actually carried out? Where do you apportion a weighting on both of those?

Mr. Cyril Roux: So, that's in the years leading to the crisis-----

Deputy Michael McGrath: Yes, up to 2008. It's only ... I'm asking your view. I know you weren't here, etc., but you have an informed view-----

Mr. Cyril Roux: Well, yes and I'm really not ... I'm ... I don't know is the answer really. I have been able to form some kind of view of what was in place when I arrived; that was in 2013. But what was in place, you know, before Governor Honohan and Matthew Elderfield, for me is really-----

Deputy Michael McGrath: Have you read the reports; the Honohan report, Regling and Watson, Nyberg, have you read those reports?

Mr. Cyril Roux: Yes, but, you know, you can so ... I can tell you what I make of these reports but I don't know what was ... why it was. You know, I haven't seen the, the, the evidence on which they built their reports, so it's very at a far remove that ... that-----

Deputy Michael McGrath: What was your impression?

Chairman: Final question and I will bring you back in again then, Deputy.

Mr. Cyril Roux: Well, I ... I do think these reports give a good picture of what happened. They added a ring of truth. So, although ... you know, I cannot compare to my own experience of the same facts, but these reports have the ring of truth, I think, and so the elements and conclusions, the things like that being drawn by Governor Honohan and ... you know, Regling and Watson, and, and Nyberg, seem, seem true.

Chairman: Thank you. Senator O'Keeffe.

Senator Susan O'Keeffe: Thanks Chair. Mr. Roux, in terms of the assessment and communication of solvency and liquidity risks in the banking institutions, has that changed the assessment of, of those risks since you became deputy governor?

Mr. Cyril Roux: You mean, from when I arrived to today, our assessment of solvency and liquidity risks in these banks?

Senator Susan O'Keeffe: Yes.

Mr. Cyril Roux: Oh, yes, I think in ... the fortunes of the Irish banking system and Irish banks have improved since I arrived and I take no credit for it; it's just a general economic environment. And the, you know, the effort of the Irish people and, you know, the husbandry of the economy and the return to growth and to, you know, more, more jobs. The increase in the valuation in real estate, the management of the arrears, all of that has gone in the right direction. So-----

Senator Susan O'Keeffe: The assessment risk, and the capacity of your office to assess risk, how has that changed do you think in relation to solvency and liquidity risks in particular?

Mr. Cyril Roux: Well, I think we, you know ... you know, from 2010-11 there have been so many exercises ... on Irish banks. You know, the work done with the assistance of BlackRock and then the PCAR and PLAR and then the balance sheet assessment meant that, when I arrived, we knew the banks very well. And a recognition of that is that when, in 2014, through the comprehensive assessment that I referred to in my speech ... there was the asset quality review of the comprehensive assessment and we were able to convince the ECB that we could reuse the balance sheet assessment of 2013 because it was so comprehensive, it was so chal-

lenging and there was a lot of quality assurance built in ... we have a very detailed work, that we convinced them that we could reuse this. So I think, when I arrived, we knew very well the Irish banks. And I think, it's a credit to the team, it's a credit to financial regulation but also to Governor Honohan and the rest of the bank, because the quality assurance was given on this by the financial stability division in the central banking part of the bank. You know, loan loss forecast ... I think there was a lot of work done on the banks since the beginning of the decade and our knowledge of the banks are ... is really very good.

Senator Susan O'Keeffe: How would you then describe the relationship between your office - between the Central Bank, the regulator - and the banking institutions at this point? What words would you use to describe-----

Mr. Cyril Roux: With the banks themselves?

Senator Susan O'Keeffe: Yes.

Mr. Cyril Roux: Yes. Well, you know, it's a it's tough, it's intrusive, it is ... it's very time consuming and very resource intensive for us but also for the banks and that's how it should be. So I think, you know, it's very clear where we stand, you know, we have a professional relationship and we won't agree on everything but at the end we decide on matters that are relevant for the regulator.

Senator Susan O'Keeffe: Does that professional relationship that you describe ... does it allow for a distance between the institutions and the office of the bank and the regulator, you know-----

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: -----rather than a closeness? Is there a ... because we have heard evidence-----

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: -----of closeness in the previous time.

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: I'm trying to find out whether the closeness still exists or whether you would describe ... is the word distant and appropriate more distant ... more distance-----

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: -----between you?

Mr. Cyril Roux: Well, I think we're quite, you know ... it's ... I don't see any closeness, you know, we are not buddies, right. So, they have a role to play. They have to ... a role in the economy and we enforce our regulations and requirements and so they come to us asking for, you know, approvals, approvals for board members, approval for using internal models, approval for issuing securities, approval for capital plans and, you know, we play it by the book, you know.

Senator Susan O'Keeffe: When Mary Burke gave evidence before us, she described the regular contact with senior executives in the Financial Regulator's ... and the banking executives, she said it often occurred without the knowledge of ... or the engagement of the supervi-

sory staff. And we became quite familiar with the notion of the seventh floor and the meetings that took place there ... informal meetings which were not brought to the attention of banking supervision and at which no minutes were taken. How has that situation changed?

Mr. Cyril Roux: Okay, so I sit on the seventh floor, you know.

Senator Susan O’Keeffe: Okay.

Mr. Cyril Roux: And so does a director for credit supervision, Sharon Donnery, right. But, we would never see a bank without a team member present. Never. So that’s ... because it’s part of, you know ... there’s an ongoing dialogue. So, you know, if there’s request a bank to see me, I will, you know ... I will see them, but always with a briefing from the team and someone from the team and they take minutes. So, you know, that’s-----

Senator Susan O’Keeffe: And those minutes would then be circulated if it’s appropriate?

Mr. Cyril Roux: Well, it is appropriate so they are circulated-----

Senator Susan O’Keeffe: And they are circulated-----

Mr. Cyril Roux: -----yes. Now the issue now is more that it’s ... that we’re always in the loop for decisions taken in Frankfurt. That’s our, you know ... we keep close tabs on that. But, I think, we could ... for the time being, it’s fine. So we don’t want the banks to go to Frankfurt without us present, right. Because our decision maker is in Frankfurt. Although I am part of the decision maker ... I have one vote out of 25. But, you know, that’s the issue there.

Senator Susan O’Keeffe: Officials, during the time of the crisis, would regularly have told each other and told officials in the Department of Finance, that things were good, that banks were sound and so on. And that they were doing the job that they were paid to do: they were regulating the banks, they were looking after the banks. So, a certain number of people, I think, might be sceptical now that when we hear people say “Now things are okay, we’re doing a really good job”-----

Mr. Cyril Roux: Yes.

Senator Susan O’Keeffe: How can we know now? What is the thing that you would point to that says, yes, when we say that now, we really do mean it now ... it has moved on, it has changed ... it’s the public reassurance here?

Mr. Cyril Roux: Yes. Well, I think the people best placed to judge are people that are professional supervisors and know what good supervision look like and bad supervision look like. And who are they? Peers? So ... or the IMF? And we go through constant IMF and peer reviews. So, for instance, fitness and probity standards, okay, this is less harmonised than capital requirements. So we have guidelines and ... from the EBA. The EBA conducted a review of our fitness and probity performance in 2014 and out of all the countries in the EU, only eight were fully compliant and were at the highest standard of fitness and probity surveillance, and Ireland was part of that. Now, I think we can get some comfort on this bit. And then you have how we monitor large exposures. There’s another review there by the EBA. Then you have the IMF reviews. The IMF teams ... they go throughout the world looking at the way, you know, national supervisory authorities operate. So I think we can take their reviews, you know, seriously. So we had the 2013 review, which was published in spring of 2014 ... they’re coming back, and in the spring of 2016, they will be back here and they will do a financial service pro-

gramme review, an FSAP review. And so we'll be doing another round of, you know, assessment of our effectiveness.

Senator Susan O'Keeffe: In her evidence, Mary O'Dea said that in 2009, and I appreciate that's before you were here, ten administrative sanction enforcement actions were concluded that resulted in fines ranging from €7,500 to €2.7 million and one disqualification direction. I'm wondering, in your time ... in your tenure, have there been any administrative sanction enforcement actions? Have any fines been levied on institutions and, if so, have they been paid?

Mr. Cyril Roux: Right. Okay, so I will answer, you know, exactly, on enforcement ... on credit institutions ... so, since I arrived ... okay, I'll look at 2013 and 2014 ... 2013, Allied Irish Banks entered into a settlement with us for failing to ensure the accuracy of its liquidity reporting and to have internal controls in place and there are ... Allied Irish Banks admitted to the contraventions, they accepted a reprimand and penalty of €490,000. Citibank Europe entered into a settlement with us on contraventions of liquidity requirements and also paid a monetary penalty of half a million. In 2014, Ulster Bank had, as we know, IT governance failures as, you know, 600,000 customers were affected ... deprived of banking for close to a month and they accepted a reprimand and they got a maximum penalty we could inflict on them, which was €3.5 million. The maximum ... maximum is €5 million but when you come forward and you accept to enter into a settlement, you have a 30% discount, so €3.5 million was the maximum amount that we could settle with. In 2014 we entered into two other settlements, UniCredit Bank for €300,000, and Bank of Montreal for €650,000. Now, there are other cases that are ongoing, and these are settlements, but there are other cases that are ongoing, and they ... the bigger the case, the longer it takes. And we have also cases where the party is not willing to settle, and so that has to be referred to inquiry. So it goes to the legal department and then it goes to inquiry and it's a very lengthy process of, you know, of enforcing penalties on these banks.

Senator Susan O'Keeffe: And was that enforcement of penalty, that environment-----

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: -----of enforcing penalty and being seen to challenge banks and to pursue them, does ... is that a ... do you feel that's a good addition to the way in which the regulator can operate in the financial system in Ireland? Because what we don't ... what we're really not sure of is exactly how many organisations, if you like, that you're actually responsible for?

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: I mean, we talk always about the main banks.

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: And I appreciate that's what's the cause here ... the most concern here in this room, but you do have other organisations and you do have other things to be responsible for?

Mr. Cyril Roux: Well, thank you for mentioning them. We supervise 10,000 financial service providers, 10,000, and out of which we have 200 banks. So there's not only the, you know, the four banks that we talk about all the time but we have a number of wholesale banks, and branches and subsidiaries of wholesale banks. As you know, we supervise the credit institution ... the credit union sector. We have a number of ... hundreds of insurance companies and

re-insurance companies. We have thousands of retail intermediaries and ... all told, so that's 10,000 people ... 10,000, sorry, 10,000 firms that we supervise. So that's why, although we are very concerned about the four main banks or the banking ... there's four ... the four retail banks, I have 15 divisions doing financial regulation, not three.

Senator Susan O'Keeffe: Has your office, in your time, have you met with the Construction Industry Federation ever at a meeting? Can you recall?

Mr. Cyril Roux: No, I think at one point the commission, the Central Bank Commission, had a seminar on the real estate sector and in that seminar there was one presentation that touched upon the construction industry. Was the person who spoke at that time a representative of the construction industry? I can't tell you.

Senator Susan O'Keeffe: But not a one-to-one, face to face?

Mr. Cyril Roux: Not that I remember.

Chairman: Final question.

Senator Susan O'Keeffe: Okay. And finally then-----

Mr. Cyril Roux: Maybe, you know, but I don't remember.

Senator Susan O'Keeffe: Okay. Finally, would you have had or hosted any meetings with developers, you know, people who are property developers, Irish property developers? Would you have had any meetings or any reason to meet with them in your time?

Mr. Cyril Roux: No. I do remember at the beginning of my tenure that I had a meeting with ... with a big ... how say ... real estate agency so that they could share with me their views of, of the sector, of the property sector. But that was, I think, that was just once. It must have been early ... before Christmas 2013 and, you know, I met with their economists. So their economists gave us their sense of the property sector.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you very much. If I could maybe just draw upon one issue that Ms O'Keeffe or Senator O'Keeffe was dealing with you, Mr. Roux, and that's the issue of fines. *MarketWatch*, which is a new subsidiary of *The Wall Street Journal*, reported at the end of year 2014 that there was \$180 billion US dollars in fines since the financial crisis. Are you aware of that sum?

Mr. Cyril Roux: Yes, yes, I read the same article. I actually saw another one which said close to \$300 billion.

Chairman: Okay. So if ... that's quite a significant sum of money?

Mr. Cyril Roux: It is.

Chairman: Measured against the Irish bailout, which was-----

Mr. Cyril Roux: Yes, yes.

Chairman: -----gross maybe €64 billion, net €34 billion, that \$180 billion US dollars has been paid out in ... as a result of banking behaviour or penalties ... on the back of behaviour.

Do penalties ultimately work, such as fines, or do we need tougher sanctions that may be more criminally related and ones that would actually have jail sentences?

Mr. Cyril Roux: Okay. Well, up until the Central Bank supervisory and enforcement Act of August 2013, as I said, the maximum fine was €5 million. Only breaches that have happened since August 2013 can be punished by a bigger penalty, which goes up to 10% of turnover. But, as you mentioned, elsewhere there are much, much bigger penalties and it is baffling to me, although you could extract billions, tens of billions, hundreds of billions, you know, there is still wrongdoing committed. So that's really incredible that you have ... take the biggest French bank being fined or entering its settlement with the US authorities for I think something like \$9 billion and then saying subsequently that it won't affect their dividend. So how much money do you need to extract? It's just ... it seems ... it seems almost ... it's never enough to deter, it seems. It's just amazing. So I think your question is well posed in saying, well, then you have to go into individual responsibility and white-collar crime. But the white-collar crime, I think that's an issue that, you know, I would ... certainly the Governor spoke about that not long ago. But it's something that is, you know, partially beyond me. It's how in Ireland white-collar crime is being punished. It's a good question for the law, the courts, the guards, the DPP, the ODCE. It's-----

Chairman: And if I could pose a question, and it goes back to earlier testimony that we had from Professor William Black, who spoke about the difference between banks and bankers, in that it's bankers ultimately make decisions, not banks, as in bricks and mortar. And Professor Lane's testimony as well where he raised this sum initially. And the proposition, I think, that was put forward by Professor Lane at that time is, we need to consider to move the fines onto the bankers and away from the banks. As long as the bank is actually absorbing the fine it's just put in as part of the profit and loss margin, but the actual ... the people who are making the decisions are not affected by it. Would you have any consideration with regard to that proposition?

Mr. Cyril Roux: Well, I would say that the Oireachtas has moved in that direction in the 2013 Act, but the cap is €1 million, so we can ... we at the Central Bank, we can impose a penalty of up to €1 million to any individual, or we can go beyond that. But I think maybe, you know, it's what deters is criminal proceedings and jail terms. Now, the level of evidence to put people in jail is very high. It's, you know, the kind of requirements that we're looking at are requirements on firms, you know, they have to have sufficient liquidity and solvency and reporting rules. But to attach a failure to any single individual is a very high bar in this jurisdiction, so, you know, it's something that's to be considered in the round.

Chairman: Okay, thank you. Deputy Eoghan Murphy. Deputy?

Deputy Eoghan Murphy: Thank you, Chair. Mr. Roux, you're very welcome. When you came in as and took over the role of deputy governor, did you make any changes or did you continue the work of your predecessor?

Mr. Cyril Roux: Well, I think I have, you know, described that, you know, in a sense, in banking supervision my work was to replace what he had put in place by the SSM. So it's not that it was not a good domestic framework and a good response. I think it was a, you know, a much-needed response and a much-needed improvement in the specialisation, in the organisation, in, you know, in framing banking supervision. So I think that it's ... it's fair to say that when I arrived, I had a much, much better banking supervision than when he arrived. But then I had to replace that by something else.

Deputy Eoghan Murphy: Sorry. I'll be more clear, sorry.

Mr. Cyril Roux: Yes?

Deputy Eoghan Murphy: Would you describe the changes that you brought in as a break with the past or a continuation? That's what I meant.

Mr. Cyril Roux: I would say it's a ... I would say it's a reinforcement. Take the PRISM system, right, a risk-based system, the ethos behind it, you know, that it's challenging and it's risk-based and there's guidance, and there's an enforcement cycle. All of these principles are good and they've been maintained. But the system, the PRISM system, no longer applies to Irish banks because now it applies through the ECB system, IMAS. Now, where is IMAS coming from? Well the ECB looked at the various systems across the eurozone and ... to decide not to build something from scratch but take one and build from it. Which one did they choose? They chose PRISM. So they took the Irish system and built on it.

Deputy Eoghan Murphy: And ... would you say you encountered any resistance in your work, internally?

Mr. Cyril Roux: Resistance from?

Deputy Eoghan Murphy: From staff, or resistance to ideas, or the types of changes you were trying to make either internally within the organisation or from other authorities in the Irish State?

Mr. Cyril Roux: Well, I think they were delighted. People were delighted that, you know, we could, you know, go ... do an even better job that would create ... I think the biggest change has been the addition of a division of on-site supervision, you know. We used to do some on-site work but shorter and not dedicated. Now this is heavy duty; spending weeks on end, day in, day out, in institutions. I don't think institutions are delighted, but my staff are.

Deputy Eoghan Murphy: Coming to this on-site inspection idea, I mean, Deputy McGrath already raised it with you, and you said, I think, there was 40 people now-----

Mr. Cyril Roux: Yes.

Deputy Eoghan Murphy: -----as part of the on-site teams. I take it as a result they're spending more time than in the banks, because the Comptroller and Auditor General previously had criticised the number of inspections taking place. So can we assume then that there are more inspections taking place in the bank?

Mr. Cyril Roux: They are ... they spend almost all of their time in the banks.

Deputy Eoghan Murphy: And there was also a criticism from the Comptroller and Auditor General about the methodology being used in the course of those inspections. Those criticisms were made in, I think, 1999, 2007 and 2009 about the methodology for calculating risk and how it needed to be improved. So what changes have happened there in terms of the work their teams are doing with this in calculating risk?

Mr. Cyril Roux: Well I ... I don't, you know, I don't know what the Comptroller and Auditor General criticised. All I can tell you is that the methodology for on-site inspections developed in the ECB with the help of those countries which are a tradition of on-site inspection is just entirely different, it's a different world. I couldn't even compare.

Deputy Eoghan Murphy: Just give an example then, just to see how things have changed.

Mr. Cyril Roux: Yes, yes.

Deputy Eoghan Murphy: Because in the Honohan report, on page 70, he was talking about the 5 X 5 big developer exposure inspection that took place in December 2007.

Mr. Cyril Roux: Yes.

Deputy Eoghan Murphy: And as part of that inspection they had high priority findings and medium priority findings. One of the medium priority findings noted that one bank had underestimated its exposure to an individual borrower by €1 billion. So my first question would be would that still be a medium priority finding?

Mr. Cyril Roux: Well, this is very, you know ... look, you know, this is going to an amount of detail that I, you know, I just kind of, I don't know exactly how you, you know, you put ... you grade your findings. All I know is that if a mistake is made or more ... or worse, then, you know, we'll be quite active in ... in demanding that it be changed, so-----

Deputy Eoghan Murphy: Even though the rankings has been for high priority, medium priority? When these on-site inspection reports come back to you they will have findings: high priority, medium, low. Are you not familiar with how they-----

Mr. Cyril Roux: Well, I don't ... I don't read the dozens of these reports, and I could not possibly in ... in-----

Deputy Eoghan Murphy: But when Mr. Neary was here he intimated that a high priority finding-----

Mr. Cyril Roux: Right.

Deputy Eoghan Murphy: -----would be highly unusual.

Mr. Cyril Roux: Well, yes or no. I don't know. Yes, you would like.

Deputy Eoghan Murphy: Okay. Well let me ask the question another way, then.

Mr. Cyril Roux: Because there's things that you want to address first, I guess.

Deputy Eoghan Murphy: Well, would ... would a bank underestimating its exposure to an individual borrower by €1 billion-----

Mr. Cyril Roux: Right.

Deputy Eoghan Murphy: -----would that be something you'd want to address first?

Mr. Cyril Roux: Yes.

Deputy Eoghan Murphy: Okay.

Mr. Cyril Roux: Well, first ... compared to the, you know, if there is something else even more important, yes.

Deputy Eoghan Murphy: Okay. Would that still be possible today? Would it still be possible for an inspector-----

Chairman: I need to wrap you up there. Really quickly.

Deputy Eoghan Murphy: -----to go in and to find something like that in a bank in Ireland today, such an underestimation?

Mr. Cyril Roux: I think it's the other way round. Now we have what I don't think we had. I can't speak about the past. Now we have teams going and spending weeks on end, and covering things that there was no possible way of them covering before, which ... it's a different ... it's just a different world. So it's not ... we're not just stumbling upon this instance and that instance, you know. We are opening all the books. This is very intrusive, very time-consuming for us and for the banks. It's something that did not exist here.

Chairman: Deputy Higgins.

Deputy Joe Higgins: Could I refer to Vol. 1, page 21, please, of the evidence?

Mr. Cyril Roux: Do I have that here, or not? No.

Chairman: It's an aggregated bit of information; it's not specific, as far as I know. I'll double check that there now.

Deputy Joe Higgins: Okay. It'll come up on the screen there, Mr. Roux.

Mr. Cyril Roux: That'll be great. Thank you.

Deputy Joe Higgins: And I refer to the last paragraph.

Mr. Cyril Roux: Yes.

Deputy Joe Higgins: It states:

[The International Monetary Fund] Report on the Observance of Standards and Codes Review was discussed [and] It was anticipated that Ireland would be deemed materially non-compliant in four areas i.e. independence, accountability and resourcing; supervisory techniques and tools; transactions with related parties; and abuse of financial services.

That was in 2013, only it was probably less than two years ago, Mr. Roux. Some people might find that astonishing after all we've been through. So could I ask you if the Central Bank anticipated non-compliance, had it been aware of this and, if so, why did it not address these issues in advance, or ... and what has been done since to rectify the situation? Are all those compliance issues now resolved?

Mr. Cyril Roux: Okay. So I'll take them one by one. The first is independence accountability, that's Basel principle 2. So the independence of the Central Bank and the Financial Regulator has been found to be compromised in Ireland by the fact that the Secretary General of the Department of Finance is a member of the CBI commission. And the other independence issue that has been raised by the IMF is the fact that members of the commission, including myself, can be removed without explanations being given. So, I see that, for instance, in other countries, such as France, if the French deputy governor cannot be removed, cannot just ... cannot be removed unless for, you know, just egregious behaviour, but he cannot be removed. I can be removed today, and with no explanation given, and other members of the Central Bank Commission.

Deputy Joe Higgins: You mean removed by the Government is it-----

Mr. Cyril Roux: Yes. I think-----

Deputy Joe Higgins: -----from your position?

Mr. Cyril Roux: Well they ... the appointing authority can decide to revoke the appointment and appoint someone else. So that's the issue of independence and accountability.

Deputy Joe Higgins: Has that been changed?

Mr. Cyril Roux: No.

Deputy Joe Higgins: Okay.

Mr. Cyril Roux: The other part of principle 2 is the resourcing. So I think here we've made some progress as we've increased staffing in banking supervision by moving the approved resources from 110 to 140, and when the Central ... when the IMF came, the number of people in banking supervision was just a little under 100, and now as I said, we're 124. That's a 25% increase. So I think we've, you know, we've closed much of that gap.

The second is supervisory techniques and tools. So here I think the Central ... the IMF, as I mentioned, recognised that we have made a lot of progress. I've mentioned ... I quoted other parts of their internal review that we've made substantive steps, but there were things in that were not ... we're not up to the standards. What are the things that we're not up to the standards? But we're not looking at the returns in the way as thoroughly as the IMF wanted, so we get a lot of returns, but they felt that other supervisors would spend more time in looking at them and challenging them, and I think that's quite different now in the SSM. So I think that's very clear, and we'll see next year it's different. The other thing is they felt is we didn't have enough on-site supervision, so that's closed as well because we ... and third, we didn't spend as much time as we needed on the low impact supervision. Again, I said with 10,000 regulated entities, 9,500 as low impact as PRISM said that we should have only low ... reactive supervision. That's not acceptable for the IMF.

Deputy Joe Higgins: And then abuse of financial services.

Mr. Cyril Roux: It's a very technical issue, so ... sorry, it's really technical here. The IMF felt that section 17 of the Criminal Justice Act of 110 asked for statutory guidelines to be issued and we looked at that and the Department of Justice said "Well, we can't issue these guidelines because that would be inconsistent with the primary legislation". So, in fact, I think here we have the right legislation, it's just that there was a power under the Act that was not being used by Department ... by Minister for Justice. It's really not a question for us to enter technically but I do think that on substance, it's addressed and the reason why I'm saying that I believe that on substance it's addressed, it's because of FATF, the Financial Action Task Force in 2013, concluded that we were technically compliant with its standards, so I think they know better.

Deputy Joe Higgins: Mr. Roux, do the financial ... the financial regulation divisions within the Central Bank currently at the moment, are you confident that there is a good knowledge and understanding of what is currently required for effective and stringent regulation? Have ... has the bank learned considerably from the disaster that happened, the crash, the bubble etc.?

Mr. Cyril Roux: Yes, I would say so. We have more specialist expertise. It's better staffed ... what is lacking is just lengths of experience. So, you know, just the distribution of experience is such that our staff are mostly junior staff and we can't keep them. So, when you compare

our staff to the staff that is available in other, in other supervisory authorities, they are younger, they have less experience. We don't have as many people with five to ten years' experience but to have these people, you need to pay them. You need to be able to have a career progression and a pay progression and at present, we can't do that.

Deputy Joe Higgins: Finally, you said that even huge fines apparently are not a deterrent from major international banks from misbehaving badly. Do you think it is feasible that private institutions should have massive powers over the lives of hundreds of millions of people? Would public ownership and democratic control of these major institutions be a much more viable way for society?

Mr. Cyril Roux: I think we have, you know, we have a mixture of privately-held banks and publicly-held banks and it's a very broad question that you're asking me, you know, whether economies would function better if, you know, banking was always in public hands. That's ... I think that's a question for ... it's beyond my pay grade really.

Chairman: Thank you very much. Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat a Chathaoirligh agus fáilte Mr. Roux chuig an coiste. Can I ask you just at the beginning to give us an outline of your understanding, your opinion of the Central Bank's knowledge of the financial institutions, both when you commenced work at the Central Bank and your opinion of the knowledge that the Central Bank has now?

Mr. Cyril Roux: I think it's a very detailed knowledge. I think the work that had been done in the Central Bank ... since Governor Honohan joined and the amount of effort and time spent to look at these banks ... we see the work done internally and the work commissioned externally, we see again with the PCAR and PLAR exercises and then the balance sheet assessment, the loan loss forecasting exercise, the detailed analysis of credit risk and arrears management, I think there has been a lot of focus has been given on these institutions. I think we know them very well.

Deputy Pearse Doherty: Very well, so we know them very well at this point in this time-----

Mr. Cyril Roux: Yes.

Deputy Pearse Doherty: The question I was asking as well is: what's your opinion of the Central Bank's knowledge at the time when you ... when you took up office? Where do you think ... what type of knowledge do you think that they had gained at that point?

Mr. Cyril Roux: What I said is valid today but was valid, you know, when I arrived. I arrived when the balance sheet assessment was being concluded so I, you know, I got all the papers there. It's very detailed where very good work and all the briefings and all the work coming from banking at the time was of high quality.

Deputy Pearse Doherty: Okay. And what's your opinion regarding the clarity of roles and accountability amongst the regulatory supervisory institutions and the State and the Department of Finance?

Mr. Cyril Roux: I think it's, in the main, it is okay. It is a bit ambiguous because a number of banks are under public ownership. There are special ... there is the emergency liability

scheme covering them. So there's ... the State is also the shareholder of the banks. So, it acts as, you know, in several capacities, so I think it's a bit ambiguous in that but there's no avoiding it. Now, I think the bank ... the Central Bank should be fully independent as, you know, the IMF said and I do think that also to foster that independence, the regulation should be fully paid by the industry and not half paid by the taxpayer.

Deputy Pearse Doherty: Okay. And that's something that Governor Honohan has raised before, before Oireachtas committees here in this House. Mr. Roux, can I refer to the core booklet, Vol. 1, page 26. I'll read out the section and it's very short. It's headed "Examples of Interactive Engagement". It says "Based on a review of [the] sample of board papers during 1992, 1995 and 2000, we have not identified matters escalated to the Board where it was decided that it was necessary to pursue prudential breaches by credit institutions on a more formal basis other than through interactive engagement based on moral suasion." The policy of approach in prudential breaches through interactive engagement based on moral suasion, based on your experience, would this be normal or not approach for a central bank to take?

Mr. Cyril Roux: It depends on ... of the case, really. Some breaches are inadvertent and some breaches are willful. Some breaches are ... come as a result of insufficient or defective processes and procedures, some not. Some firms will self-disclose and they will come to us and say "We have had this breach and we are corrected them". Some will actually try to hide, so you know, suppose you have a firm which has normally good controls and has an inadvertent breach and they come straight to us, it will treat them differently than a bank that is actually, you know, willingly breaching things and not telling us and I think we need to always move on two fronts. So, we have to decide whether we go to ... we refer this to enforcement but that's ... referring to enforcement doesn't solve the issue in itself. So, you have to solve it on a supervisory front as well.

Deputy Pearse Doherty: These papers talk about that there's ... that there was none of them escalated, they were all dealt with "interactive engagement based on moral suasion". How common would that be from your experience in other jurisdictions?

Mr. Cyril Roux: Well, I think I would compare what you described to the situation since the beginning of the decade. I think this committee has been provided with a table of all the referrals to the enforcement division and you will have seen that since the beginning of the decade, there has been more than 50 referrals to the enforcement divisions and they have all been, you know, been pursued, when there was a legal case.

Deputy Pearse Doherty: Okay. Can I ask you just to-----

Chairman: Last question there, Deputy.

Deputy Pearse Doherty: Okay. Can I ask you just to, finally, in terms of light-touch regulation, I'm not sure if you're aware of it. It's an issue I have raised in the House before. One of the companies that you regulate, on their website promoted that they were basing a facility which provided light-touch regulation without the costs of an offshore entity, without the ... or a tax haven without the costs of a tax haven. This was their promotional strap on their website. Can I ask you, how could a company that you regulate promote itself in that way? Or are they allowed to say whatever they want or ... what's the rules in relation to that? Or are they correct that they do ... are regulated in a light-touch way? This is a company in the IFSC.

Chairman: Now the question is made, Mr. Roux.

Mr. Cyril Roux: Well, I don't think, now, there is a light-touch regulation at all. So, if they want to say they benefit from light-touch regulation, they are ... you know ... that would be a misrepresentation. So, that's what I would say and I think, you know, soon after I arrived I ... representations were made to me by the IFSC and members of the IFSC that we couldn't regulate them in the heavy-handed way that we are regulating the ... the ... you know, domestic banks. And you know, I just shrugged my shoulders. It is no two ... it is not a two-track system; it's one-track system.

Deputy John Paul Phelan: Good afternoon, Mr. Roux. Can I ask you firstly how frequently do you meet with officials from the Department of Finance and how would you describe the nature of the relationship with ... that you would have with them?

Mr. Cyril Roux: So this has changed ... I think now we have a regular monthly meeting with the, you know ... with the Governor and ... well, then I see of course the Secretary General from the Department of Finance in the commission meeting every month as he is a member. But otherwise ... but there's a meeting every month with the Department of Finance.

Deputy John Paul Phelan: The nature of the relationship that you have with ... with those officials. How do-----

Mr. Cyril Roux: Yes-----

Deputy John Paul Phelan: -----how do you interact I suppose really? Is it a full and frank relationship or what is it?

Mr. Cyril Roux: Okay, well, it is ... it is mostly about issues affecting banks owned by the State because there is a gateway there for communicating between the supervisor and shareholder and it is mostly around that.

Deputy John Paul Phelan: Can I ask: do you judge the IMF country reports and OECD reports as an important information instrument to aid in bank regulation supervision and financial stability?

Mr. Cyril Roux: I do.

Deputy John Paul Phelan: Okay. Finally, I want to turn to the area of whistleblowers, not just whistleblowers but the broadest possible interpretation of whistleblowers - people who have a contrarian view or even a significant difference of opinion with, maybe, senior staff ... people within the Central Bank. Is there currently in place within the organisation a structure for dealing with people who have a contrarian view?

Mr. Cyril Roux: You mean for dismissing them?

Deputy John Paul Phelan: Well-----

Mr. Cyril Roux: Quite to the contrary, I mean we-----

Chairman: That wasn't lost in translation I can tell you.

Mr. Cyril Roux: We have set up and, you know, I think credit ... credit to Governor Honohan and Matthew Elderfield, we have set up a number of internal arenas where we ... we have the opportunity for people to speak up. It's very important that people speak up and say what they think and have, you know ... have the different opinions. So I think in the present system

we have put in place risk governance panels for institutions are medium, high or both. We have risk governance panels and it's not just the team supervising them that is present and discuss, but you have people coming from other part of the ... of the house ... of the bank and they can read independently and they say, "Well, this is not what I think you know, I have read the evidence, I know the bank less than you do but it seems that you are missing this or that", and so these are a very good place to have frank exchange of views and it's valued to be contrarian. So that's for the banks themselves. And then we have other, you know, we have other committee meetings and we foster this ... this exchange, we do.

Deputy John Paul Phelan: And do you feel that that's a difference from how Central Bank used to operate in previous ... has there been a conscious effort, I suppose is the question I am trying to ask, to change the environment within the organisation or-----

Mr. Cyril Roux: Well I ... yes, I think so. I mean reading the Honohan report I can't tell how things were. What I can say ... I will, sorry to ... to take this opportunity, but I must say that since a month ago, the Freedom of Information Act has been ... is now applicable to the Central Bank. So it's very good so, you know, people can look at every single of my credit card receipts and I have no objection to that. But we do have requests to see all the e-mails that are exchanged internally and I find this really problematic. Okay, so there are exemptions in the Act, you know, so we have to go through every single e-mail to see whether that falls under the exemption or whether it's commercially sensitive or, you know, which reveal ... but the fact that any time I write an e-mail or someone writes an e-mail to me they have to think whether it will ... it has the potential of being published. And I'm not talking about e-mails that I wrote long ago; we have requests for e-mails that I wrote last ... you know, yesterday or up to the date of the submission and it's very detrimental to the way we function. So we are writing less and it is very problematic. We are also in meetings all the time. I am away in Frankfurt, in ... in London, the Governor is away. My staff are all over the place and it's problematic now, really.

Deputy John Paul Phelan: Can I also ask you then in terms of the highest level of contrarian view in terms of whistleblowers, is there a formal structure within the organisation for dealing with complaints from people in that capacity as well?

Mr. Cyril Roux: Absolutely. That's part of the 2013 Act. There is a section ... a part of that Act on whistleblower disclosures and protections. We have a whistleblower bureau. So if anyone in the public has, you know, something to say, which is evidenced of course, it's not just, you know ... yes ... it has to be evidenced or you have something to say and you can show that, you know, you have a basis for saying it but then their identity will be protected.

Deputy John Paul Phelan: So there are structures is in operation-----

Mr. Cyril Roux: Yes-----

Deputy John Paul Phelan: ----- is in existence, that's-----

Mr. Cyril Roux: Yes, absolutely, absolutely. The legal power is here since August 2013 and we have the structure internally and we have a whistleblower bureau.

Deputy John Paul Phelan: Okay.

Chairman: Excellent, thank you. Senator Sean Barrett. You have six minutes.

Senator Sean D. Barrett: Thank you, Chairman. Welcome, Mr. Roux. What's your view

of the boards of Irish banks since you took over as the deputy governor in October 2013?

Mr. Cyril Roux: I think the work had been done before I arrived, really. You know, so one of the first things that were done at the beginning of the decade was to impose fitness and probity standards. So there was no fitness and probity standards when Matthew Elderfield arrived and they were imposed at the end of 2011. There was a general review of boards. I think 26 members of boards of the main retail institutions resigned. So there was a lot of scrutiny and challenge and I think the boards now have been very different from what they were a few years ago.

Senator Sean D. Barrett: And the board of the Central Bank in the same context of the same question? Has it changed since you came as the deputy governor?

Mr. Cyril Roux: Are you talking about sorry ... are you talking about the commission of the Central Bank?

Senator Sean D. Barrett: Yes.

Mr. Cyril Roux: Yes. So, what do I think about the commission in which I am in and the members and ... you know, I have no issue. I think that they are all dedicated to the public interest and, you know, it's just the arrangement is a bit unusual. I think the arrangement is a bit unusual because the way the legislation is made is that the ... lot of powers are vested into the commission and not to the Governor or deputy governor. And then they have to delegate most of their powers to the Governor and deputy governor. It's an unusual arrangement. It would be better to ascribe powers directly to the Governor and to the deputy governor and give to the commission the powers that they can actually exercise, you know, meeting every month as an oversight board, really. They can't manage a bank, you know.

Senator Sean D. Barrett: Thank you. The European dimension to this ... the ... page 103 of Vol. 1 has an estimate that the bank crisis cost Ireland 40% of GDP. What would be the equivalent figures, if you can remember, from say, France and Germany for the bank crises there?

Mr. Cyril Roux: Okay. In percentage of GDP, I would not know the answer. In, I think, for ... I think for Dexia, which is a main ... the main problematic bank there was ... it is a bank that is ... strides across three countries - Belgium first, then France and Luxembourg. And for Dexia ... Dexia is being run off with a guarantee of €90 billion shared between the three states.

Senator Sean D. Barrett: Alan Ahearne from ... maybe one of your colleagues, on one of these committees, he wrote in the Brian Lenihan book, "An additional dimension to Ireland's crisis was the country's membership of a poorly constructed, and at times dysfunctional, currency union." Did that apply in the period before the reforms you've described for us?

Mr. Cyril Roux: I cannot comment on monetary matters. There is a strict separation between, you know, monetary matters and supervisory matters so I just cannot comment on that.

Senator Sean D. Barrett: Are the new standards you described rigorous enough? We've had evidence that the capital requirements for banks should be raised two or threefold.

Mr. Cyril Roux: They are raised two or threefold, yes.

Senator Sean D. Barrett: Are banks in Europe up to the standards of Canada, Singapore and Australia?

Mr. Cyril Roux: Well I wouldn't know their banking system, first. I think banking systems are very different from one country to the next. So the banking system in Ireland, say, and the banking system in France or in the UK are vastly different so, you know, we have mostly retail banking, doing mostly mortgages and in some other jurisdiction you have mostly banks that are mostly investment banks or all market making banks, trading banks, and their risks are very different from those of the Irish sector.

Senator Sean D. Barrett: Do Irish banks appreciate the dangers of their property concentration-fixation, historically?

Mr. Cyril Roux: Well I think they do. It's certainly obvious the business model is that way ... it is, you are right, it's a rather undiversified business model.

Senator Sean D. Barrett: And their sources of funding becoming dependent on wholesale rather than deposits, is that issue being addressed by Irish banks?

Chairman: Time now, Senator.

Senator Sean D. Barrett: Thank you, Chairman.

Mr. Cyril Roux: Sorry I didn't get the question.

Senator Sean D. Barrett: Sorry, the problems that arose from wholesale funding rather than the traditional base which was deposits.

Mr. Cyril Roux: Well banks should have a mix of, you know, a mix of funding. If you are all deposit funded, you know, you can have a bank run and you lose your funding very quickly as well. So I think you need to be able to play on a number of dimensions - wholesale funding and deposits and securities and have a good funding mix.

Senator Sean D. Barrett: Thank you very much. Thanks, Chairman.

Chairman: Senator Michael D'Arcy. Senator six minutes.

Senator Michael D'Arcy: Thank you. Mr. Roux, thank you for coming. I'm going to quote from ... I'm going to ask you to look at your documents, discussing the IMF detailed assessment of observance in relation to Basel core principles. Can you give your assessment of the quality and adequacy of the advice given by European banking supervisory bodies to the Central Bank?

Mr. Cyril Roux: I'm waiting for this to show up on the screen, which page was it?

Senator Michael D'Arcy: Pages 95, 96, 97.

Mr. Cyril Roux: I'm just waiting for this to show up on the screen.

Chairman: Do you have a blank screen there, Mr. Roux, or do you have something displaying at present?

Mr. Cyril Roux: What I have is page 3, and we have to move to page 95 I understand.

Chairman: That's grand, okay, very good, I see.

Senator Michael D'Arcy: While you are waiting, Mr. Roux, the 2006 Article IV analysis by the IMF was widely off the mark.

Mr. Cyril Roux: Yes.

Senator Michael D'Arcy: Are you satisfied that the international analysis now is on the mark?

Mr. Cyril Roux: The IMF uses the Basel core principles of the time, so, and they evolved as well. So I think the core principles of today are much tougher than the core principles of yesterday.

Senator Michael D'Arcy: Potentially the difficulty that is coming down the track, at some stage in the future, is a different crisis than what has happened in the past.

Mr. Cyril Roux: I couldn't agree more with you. I think we are all discussing here credit risk linked to mortgages and real estate, but there are lots of other risks that could hit us. The biggest one is interest rate risks. If interest rates go up by 3% or 4%, what is going to happen to households, to mortgage holders, to the firms? This is a very serious issue? It is a very different issue than the one we are talking about. This is maybe the main risk, because experience is that when interest rates rise they rise very quickly and very much. That's one risk. Another risk is cyber risk. We are quite concerned. All banks experience, every day, attacks on their system. One day they will ... they will go through and they are determined attempts to take down the European payment system or settlement system or banking system. So these are very different risks and they're very alive and they're quite different from those of the past and the way to address them are quite different as well.

Senator Michael D'Arcy: The Basel III rules, they are untested, in the same way Basel II was untested prior to the crisis. They were completely inadequate.

Mr. Cyril Roux: Well it's the best ... the best we can do. It's a valiant effort. Basel II was mostly capital requirement, not very much capital. Now we have much higher capital requirements that can be increased, we have liquidity requirements, we have a leverage ratio requirement, we have disclosure requirement, we have requirements on the compensation of risk-takers. So instead of looking on one dimension, which I think was wrong and doomed from the start, we are now asking a number of requirements and a number of dimensions. But you are right, it isn't tested and, you know, there might be some flaw. It is just the best we can do.

Senator Michael D'Arcy: Can I ask your view about the areas that are unregulated that are offering similar banking services, the new platforms that are available today, the private equity firms that effectively act as financial institutions? Are there risks from these sources of financing that, Basel III or that, are unregulated by sectors within finance?

Mr. Cyril Roux: I will take your question in a slightly broader context. The European economy is mostly financed through bank lending, and that's different from, as we know, the US economy which is mostly financed through market funding. So the capital markets union, that is one of the primary objectives of the current EU Commission is to grow market funding and you grow market funding by using non-banks - it is exactly the definition of that, it means through the issuance of securities, including equity. I think it's a good thing that there is more finance through equity finance rather than debt finance. And we have too much debt finance in the economy and that exposes more risk. You can always decide not to pay a dividend, but you have to pay your coupon. If you don't pay it you are defaulting.

Senator Michael D'Arcy: But are these not ... these are effectively unregulated, the equity companies?

Mr. Cyril Roux: Well, the ... I have to impact with these ... we have the fund industry, say money market funds for instance, they are regulated and we are a big place here in Ireland of money markets, and they are really regulated. I strongly object to something you haven't said but I hear sometimes that anything that is not a bank is a shadow bank, so not regulated. This is not true at all. The money market funds are regulated and they are done by ... they are run by fund managers who are regulated as well, so I just-----

Senator Michael D'Arcy: Is the same level of oversight in these money markets occurring as there is in banking institutions currently?

Mr. Cyril Roux: It's a very different kind of supervision. It's-----

Senator Michael D'Arcy: I hope it's not principles-based?

Mr. Cyril Roux: No it's not principles based, but it is ... I am a board member of the European Securities and Markets Authority and I can tell you that we are looking at incredibly detailed rules. That's the European way, it's very, very prescriptive and very detailed and very granular. It's just very different, we don't go through capital requirements, we go through rules about client assets and custodians and settlement systems and it's a different environment. But you're right, I think it's very good that you give me this opportunity to say well finance is not just banking and actually banking relies on this surrounding of markets and funds and other sorts of funding.

Chairman: Thank you very much, Mr. Roux. Senator MacSharry.

Senator Marc MacSharry: Thanks very much and thanks, Mr. Roux, for being here. What influence does the ECB have on Irish banking regulation and supervision today?

Mr. Cyril Roux: The main instrument is the CRR, so it's the CRD IV and CRR. These are ... list the powers of the supervisory authority, and the supervisory authority is the ECB. So, we have lots of instruments, and, if I can just take a minute, it's not as if, you know, you have supervision - and supervision is just about, you know, moral suasion and meetings with people - and then you have enforcement. A very ... the biggest power we ... we have, I think, is that we decide the capital requirement. So, it's not just a calculation. We do calculations but then it's judgment based. And when you decide, as we did here in Ireland, that the banks need 10.5% of ... of core tier 1, you force them ... or you force the State to recapitalise them. When you ask PTSB, through the comprehensive assessment, to reach 5.5% in a stress test and they're below that, you force them to raise hundreds of millions. So, that's not enforcement, that's supervisory powers. You put the bar where you think it should be and then that's, you know, that costs hundreds of millions or billions. It's a very important power.

Senator Marc MacSharry: So, in answer, the ECB have a lot to do with it then.

Mr. Cyril Roux: Yes.

Senator Marc MacSharry: Okay. How has this changed since you have arrived?

Mr. Cyril Roux: Well it ... I arrived on October 2013 and we handed the powers ... the supervisory powers to the ECB on 4 November 2014, so a year later.

Senator Marc MacSharry: So, a year later, okay. And how does it manifest itself in terms of the operations, from your perspective?

Mr. Cyril Roux: Well it's-----

Senator Marc MacSharry: The interaction with the ECB particularly.

Mr. Cyril Roux: Well, it's very simple. Up to 4 November 2014, you know, the ECB and us were working on the comprehensive assessment but decisions were made by ... by me, you know, in a sense. So, for instance, when Bank of Ireland issued equity at the end of 2013, you know, they wanted to make a number of ... of operations on the capital structure and that needed a supervisory approval. So, you know, I decided, you know, what I would agree on and what I would not agree on with the bank. And now that would go through the governing council of the ECB.

Senator Marc MacSharry: So, you feel then, or do you, that you have independence within a broad set of parameters?

Mr. Cyril Roux: Again, it's rule based. You cannot be capricious. You know, I can't just say "I don't like this so you're not going to ... you're not going to get it". You know, there, so ... these are commercial firms, they have rights, so any decision that we take has to withstand scrutiny and withstand appeal. So, you know, we ... we have to have a good case. You have to decide according to the ... to the rules and to the law.

Senator Marc MacSharry: So, there is the rules of the law, but within the rules of the law you can do what you want in terms of their implementation here, is that correct?

Mr. Cyril Roux: Well, you ... yes ... on some things it's very detailed in the regulation, very, very detailed, so, you know ... and in some you have room for judgment, but that's, you know ... but judgment based doesn't mean that there is ... that you can do what you want. You ... you do what is commensurate, what is in keeping with your previous decisions, what you can defend in court in an appeal and the banks have ... they can have recourse to the administrative board of review in the ECB and then they kind of ... they can also appeal directly to the courts.

Senator Marc MacSharry: In terms of the prudential and consumer side, is it equal in terms of the proportion of input that comes from the ECB now or is it specifically on the macro-prudential side or-----

Mr. Cyril Roux: The ECB has no role in consumer protection. It's outside of their remit-----

Senator Marc MacSharry: It's outside of their remit, so they've no role there.

Mr. Cyril Roux: -----entirely.

Senator Marc MacSharry: Can I ask, if it's in order, and the Chairman can tell me if it's not, the ... in your previous ... in your previous role with the French authority, can you just tell us briefly what you did with ... with that authority? What ... was your role the same, or was it-----

Mr. Cyril Roux: No, it ... it wasn't the same. I was in charge of the supervision of insurers and of the foreign banks and the specialised credit. I was also in charge of policy and international affairs.

Senator Marc MacSharry: Okay, and in the use of the ... did ... did that authority also have the principles-based approach?

Mr. Cyril Roux: No, I wouldn't describe it that way. The way was ... I think the ethos of

challenging and pushing and ... and covering was - that we are now building here - was present in ... in ACPR. For instance, we had-----

Senator Marc MacSharry: Would you define it as rules based or ... or principles based?

Mr. Cyril Roux: I ... I don't think that these monikers are valid. What I would say is that we apply the regulation of the time and that the regulation of the time was very detailed, very prescriptive.

Senator Marc MacSharry: Yes. No, it's just, where I'm coming from with this is you pointed out to ... to Deputy McGrath earlier on that you feel ... when it's talked about the rules based and it's talked about the principles based, it's possible, you said, to have a principles based which is sufficiently intrusive with enforcement, and you could equally have a rules one that isn't so good.

Mr. Cyril Roux: Yes ... yes.

Senator Marc MacSharry: So, I want to know, what way was it done there, would it have been described as principle based with a little bit more hands-on enforcement or would it have been rules based ... where would it have been? I'm interested in the change because of what we're trying to do, looking back over a period-----

Chairman: Allow him time to respond and I'll allow you back in-----

Senator Marc MacSharry: Okay. To take the opportunity to hear what went on in other countries.

Mr. Cyril Roux: Okay. So I'll just say two things. First, France is one of several countries in Europe where on-site supervision is very ... very developed. Right, there are 200 people there doing only on-site supervision and they've done on-site supervision for ... for decades. So we have very experienced on-site supervisors and they ... they're quite robust, quite sceptical. So, that's a signal strength of French supervision in banking and that has been brought to ... to the SSM and brought to Ireland. The other thing is that it's very ... you know this principle based, I don't understand it, you know, you had the CRD and that was detailed enough, and then you had a further detail in secondary legislation in France, so the code that you had to apply is, you know, hundreds of pages long. So, people would ... would apply the *code monétaire et financier*, and that's a very detailed code. So, that's the way, you know, that's the way we worked, you know, we'd say "Well this ... this prescription here or that prescription there is infringed" and ... and you ... you ... but-----

Chairman: Just make a supplementary now, Senator.

Senator Marc MacSharry: And was there enforcement then? I mean, when you saw that, what kind of enforcement measures did you put in to make sure a bank came up to that bar - when you raised it - in a French context-----?

Chairman: Okay, question made.

Mr. Cyril Roux: Yes, all right. So, enforcement ... and while saying it takes years, you know, and it ... it doesn't solve anything. You just say "Well we've noticed that in the past or recently you didn't do this", so you take years to develop, and you do the enforcement case, but you need to do the supervisory power. So, we ... you instruct or direct this to be solved by such and such a date. So, we say we'll give you three months to solve this, you know? For instance,

you have a large exposure. You have too ... too much exposure to one counter-party, okay, so you've reached that. Okay, you do the enforcement case, that will take you several years. But you want this to be solved and ... and, so you ... you have to get into a robust conversation ... how long will it take the bank to reduce that exposure? And you can't ... sometimes if it's not just a securities that you're holding but a property or something, you know, to unwind you have to discuss it with the bank how much time you give them to unwind it. So, that's a ... that's a supervisory dialogue.

Chairman: Thank you. Senator, or, sorry, Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Welcome, Mr. Roux. In comparison to the level of financial reports you've seen in your regulatory career previously, which I ... I think, probably in France, how well do you ... do you ... did the reporting to the Central Bank and, obviously, the Financial Regulator, by the Irish ... by the Irish banks compare?

Mr. Cyril Roux: Well, I think that ... actually, the same. You know, mostly because they have now been integrated with what we call COREP and FINREP, so constantly they did reporting and financial reporting. So, these are standards that are actually developed at the European Banking Authority and they are used throughout. The ... there were some elements that were----

Deputy Kieran O'Donnell: We'll say, I'm talking up to when these changes were made. How would the financial reporting by the Irish banks to the ... of the Central Bank or the Irish Financial Regulator have compared with what you would have seen in France?

Mr. Cyril Roux: Well, when I arrived, we were already with COREP and FINREP, it's just been increased by CRD IV, but we were already there. There are some parts that were not under COREP and FINREP, that's the liquidity reporting, because liquidity rules were domestic ... so, were national. So the liquidity ratio ... the French liquidity ratio is different from the Irish liquidity ratio when the reporting is ... is, you know, is ... according to domestic legislation. So, that would be quite ... that would be different. But, for-----

Deputy Kieran O'Donnell: How was it different? How was the liquidity reporting and obviously the solvency reporting, how was it in France when you were there in comparison to what it was in Ireland when you came here?

Mr. Cyril Roux: Solvency reporting, that is in COREP and FINREP. So the own funds, the description of the own funds, the breakdown, the calculation of the requirement, all of that is in COREP and FINREP. For liquidity, it is not the same requirement so it is difficult to say. Everything that appears in the requirement is then detailed in the template, it is quite different. Anyway, now that is of the past really. Now we're working on a harmonised template. We are developing the liquidity templates.

Deputy Kieran O'Donnell: I suppose Mr. Roux, you brought, you bring an independent voice in this area. Do you believe that the ... looking at it in hindsight, that the level of liquidity reporting in an Irish context from the Irish banks to the Financial Regulator and the Central Bank was of the same standard as the reporting from the French banks to the French regulator?

Mr. Cyril Roux: I really don't have sufficient detailed knowledge on the past liquidity reporting to comment, you know, to give you a full answer to that, unfortunately.

Deputy Kieran O'Donnell: Do you believe that the current liquidity reporting by Irish

banks is sufficient?

Mr. Cyril Roux: Yes, I do.

Deputy Kieran O'Donnell: Okay. Can you ... just in a ... obviously a lot of the areas have been covered but I just want, in the French context, because you bring that flair in terms of France, why did France not have the same type of banking crash that Ireland had?

Mr. Cyril Roux: Because it had its banking crash earlier. In the 1990s, it had a real estate banking crisis in the 1990s and it learned its lesson then.

Deputy Kieran O'Donnell: How did that manifest itself? What was, what was that crisis born out of? Was it property-related?

Mr. Cyril Roux: Yes.

Deputy Kieran O'Donnell: What lessons were learned in France?

Mr. Cyril Roux: I think the same lessons that were learned here, you know, just concentration risks and tougher supervision.

Deputy Kieran O'Donnell: What measures did ye bring in at that time that prevented France being, we'll say, open to the financial crash as Ireland was in 2008 and prior?

Mr. Cyril Roux: Well first you have to remember that I came into banking supervision in 2010, okay? And then I would say it is not all about the supervisor. It is also about the business model of banks. So the French banks in the main are universal banks, so they do not do only property-related lending; they do a lot of customer finance. We don't have ... there is no credit unions so the small loans are also part of the business model of the banks. Then, I guess, the structure of the economy is such that there is more industry to finance, so there is more industry financing. Aircraft leasing, aircraft financing and shipping is also done within the banks and not outside of the banks. It is different as well in the way that mortgages are protected through mortgage insurance and they are re-financed through securitisation and covered instruments are quite different from covered banks and the covered instruments, they are very different animals. Also they are a lot more internationally diversified than----

Deputy Kieran O'Donnell: From what, from what your experience in France, are there elements that you would like to see incorporated into the regulation of Irish banks that would provide, I suppose, a further layer of protection from a further banking crisis coming down the road in Ireland?

Mr. Cyril Roux: I think what I can do, I think I have done that. So, bringing on-site supervision in, I think that's, that was very important. It's actually the first thing I said to the Governor when I arrived, even before I arrived in September 2013, I said, "well it's great, you know, all the work that you have done but there is one big supervisory element missing and that's on-site supervision". So I have brought that to banking and I hope to bring that to insurance and other parts of financial regulation.

Deputy Kieran O'Donnell: Are you satisfied that the level of on-site supervision in banking is now sufficient?

Chairman: Thank you for taking my question there. Can I just move it into that to wrap up?

Deputy Kieran O'Donnell: Sorry. It was a logical question.

Chairman: Yes, I know and it like tees it up for me to wrap it up actually Deputy O'Donnell, before I bring in Deputy McGrath and Senator O'Keefe. So-----

Deputy Kieran O'Donnell: Are you satisfied that there is sufficient-----

Mr. Cyril Roux: On-site supervision? Well we're starting. It is the first year but I think we have a good plan, it is very well run. The staff are really good. So it is just inexperience, they have not done it for years, you know, so-----

Deputy Kieran O'Donnell: How do you overcome that?

Chairman: Sorry Deputy, you are out of time. So on the same vein Mr. Roux, in your opinion is the current supervisory regime robust enough to prevent another crisis?

Mr. Cyril Roux: I think it is well designed to monitor and react accordingly to the same crisis. Whether we are well equipped against cyber risk or, you know, a very different crisis, I cannot give you full assurance. I do not know, we do our best. We challenge ourselves, we try and recruit IT specialists and to take that one example, so we are very alive to the fact that there are a number of risks weighing on the banking system and the financial system, not just credit risk.

Chairman: That brings me into my second question to you. In an earlier exchange with Mrs. O'Dea this morning on the genesis of crises and how they arise, one of the things that came under discussion was the belief system that because the previous crisis has now seen measures implemented that it is different now to what it was in the past, which is a belief system saying that it most likely won't happen again. So in that regard, could I ask you what changes and recommendations, if any, are still outstanding from the previous reports and are there plans to introduce these changes into the future?

Mr. Cyril Roux: If you ask me what remains to be done, I think on supervision and regulation we have a lot unfolding. For instance the CRD IV and the BRRD and the single resolution mechanism, all of that will take the better part of a decade to unfold. We are not finished. There are wider risks in the financial system and they are being addressed through a great many regulations, such as securities financing, CSDR, SFDR and all of these regulations that will unfold. There is something quite important I think that is outside of my remit but it is very important, is the accounting part. We are still working with accounts that are based on incurred losses, not expected losses. For an insurance supervisor this is astonishing and they will have to wait until the end of the decade to move to expected losses in the accounts of banks. This is really bad. Another thing which I think is really problematic is the tax advantage which is given to debt financing, so we are just encouraging a debt finance economy instead of an equity finance economy. It is not good. So there are things that are very important.

Chairman: Can you just cite an example of that, how the debt financing is actually working and what the problem actually is with it? Can you put that into layperson's terms because people watching in on this may-----

Mr. Cyril Roux: Well, it's just, when your interest are tax-deductible, it is better to finance yourself through debt than through equity.

Chairman: Is there anything else you would like to add to that?

Mr. Cyril Roux: No, thank you.

Chairman: Okay. So, wrap up. Deputy McGrath and then Senator O'Keeffe. Deputy.

Deputy Michael McGrath: Thank you very much Chair. Mr. Roux, I would like to ask, you mentioned that the decision to take actions against large Irish banks rests with the ECB. Can I ask who recommends that action? Is it the supervisory teams of the Central Bank of Ireland or the supervisory teams from the ECB?

Mr. Cyril Roux: Well there is one team and it is called the JST, the joint supervisory team. The joint supervisory team is made of people in Frankfurt and people here for banks which are smaller than or which are, you know, not the very biggest bank in Europe. There is one person in Frankfurt for our banks, for each of our banks, so that person is called a JST co-ordinator and it is that person who decides with, you know, working through their hierarchy what to do. But they are working daily. They are exchanging throughout the day, every day of the year on these banks.

Deputy Michael McGrath: Okay. So there is no risk of an information gap between people who are working on the ECB side and people working on the national supervisory authority side in respect of individual banks?

Mr. Cyril Roux: Well, you know, you have people working here and people working in Frankfurt, but they are working full-time on the same bank. They are part of the same team. It is a joint supervisory team, it is just they are located in two countries.

Deputy Michael McGrath: Okay, and information is flowing freely between people based here and people based in Frankfurt.

Mr. Cyril Roux: Yes.

Deputy Michael McGrath: They are the one team.

Mr. Cyril Roux: Yes.

Deputy Michael McGrath: Can I ask, Mr. Roux, do you support the position of Governor Patrick Honohan that the Department of Finance should seek to block payments of up to €270 million to the remaining junior bondholders in IBRC?

Mr. Cyril Roux: I really don't know the specifics of the case. The Governor told me a little bit about it. It's-----

Deputy Michael McGrath: It was on the *Irish Independent* yesterday.

Mr. Cyril Roux: -----a lot more complicated ... it's a lot more complicated than meets the eye, so-----

Chairman: ... 18 months for the terms of reference as well there-----

Deputy Michael McGrath: Well, I would dispute that, Chair,-----

Chairman: Yes, I know.

Deputy Michael McGrath: -----because the BRRD deals with resolution and bondholders and junior bondholders not being paid. This is the work-out of that in an Irish context, so I

would argue it's directly relevant.

Chairman: It's a good try. We'll discuss it over lunch. Next question, Deputy.

Deputy Michael McGrath: Well, I would like a more detailed answer to the one I asked. Do you agree with the Governor's position?

Mr. Cyril Roux: Okay, if I understand well ... if I understand well, there were provisions made in the bond contract that ... under which payment would not be made but these were annulled by an English court and it's on the foot of the decision of a UK court that now payment must be made. So, I think the ... look, this is what the Governor told me, I haven't looked in the case. I understand that a case can, you know, that the basis of his exchange with the Department of Finance, that a case can still be made based on the published intention of the Government at the time the contract was written. So, this is contract law, this is exactly, I think, I would say, this is exactly the kind of discussions we no longer want to have under BRRD and that's why we're working on resolution plans and we are working so that the securities issued, the bonds that are issued by banks or by their parent, by their holding companies, are very clearly "bail-inable" and we don't have this-----

Deputy Michael McGrath: Yes.

Mr. Cyril Roux: You know, we know that kind of securities is ... will always be subject to court proceedings and to discussions and we don't want that anymore and that's why the BRRD is there.

Deputy Michael McGrath: Finally, can I ask, Mr. Roux, you spoke a while ago about the new risks that are emerging? Can I ask if risks which you identified yourself, such as interest rate risks, the risks of IT systems in banks, for example, are they now greater risks for the banking system than concentration risks, such as lending too much to any one sector of the economy and, if so, what is the Central Bank doing to reduce those risks?

Mr. Cyril Roux: Well, we've put these risks in the priorities, the SSM priorities, okay? So this is ... so when we do our planning at the ECB - on "What are we going to spend time on? Where are we going to do our on-site supervision? Where do we concentrate our work?" - we have decided in 2015, and it will probably, you know, continue next year, that we spend more time ... we devote more time on this. So, it's just allocation of resources and expertise. Now, on the regulation front, there's more as well. The Basel committee, for instance, has published a consultation the day before yesterday on management and monitoring of interest rate risks.

Chairman: Thank you. Senator O'Keeffe?

Senator Susan O'Keeffe: Thank you. We have been told by other people that part of the Financial Regulator's job in the past was to support the growth of the financial industry in Ireland.

Chairman: There's interference there now, Senator, coming from somewhere.

Senator Susan O'Keeffe: Support of the financial industry in Ireland-----

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: -----particularly the IFSC.

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: Is that still part of your remit?

Mr. Cyril Roux: No, it has been explicitly removed from the Central Bank remit with the Central Bank Reform Act 2010.

Senator Susan O'Keeffe: Just go back to fines for me for a moment.

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: We talked about fines.

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: Is there a timeframe laid down for a company that might be fined? Does it get a month, or six months, or a year to pay the fine and, if so, are companies paying their fines?

Mr. Cyril Roux: The answer to your first question I don't have but I have been ... I have not been told there has been any problem in recouping the fines from banks. I think banks pay the fines, you know.

Senator Susan O'Keeffe: And where does that money go?

Mr. Cyril Roux: I think it goes to the Exchequer.

Senator Susan O'Keeffe: Okay. How would you describe the political influence, if any, on the Central Bank Financial Regulator's office now?

Mr. Cyril Roux: I've had no interference at all from the Government.

Senator Susan O'Keeffe: Have you ever had cause to meet the Minister for Finance or officials from the Department of Finance, or either, or both?

Mr. Cyril Roux: I've not met the Minister for Finance but I've met him in the plane, we were in the same plane to go to Riga, but Department of Finance, we meet every month and, as you've said, we exchange letters and we speak on the phone and I think we'll be speaking more on the phone and writing less in the future.

Senator Susan O'Keeffe: Okay. And finally, if you were to use ... sorry. If you were to look at banks now, today, in your capacity, in your office, can you see clearly whether a bank, any bank, has very high exposure, a very high concentration to any ... you know, concentration, say, to-----

Mr. Cyril Roux: Yes.

Senator Susan O'Keeffe: You can see that?

Mr. Cyril Roux: Yes, we can.

Senator Susan O'Keeffe: And is there any way of a bank hiding that?

Mr. Cyril Roux: You can always ... yes, there are ways of regulated firms to hide things. They can make accounts that are not trustworthy and they can ... that's very difficult for super-

visors, when the returns have been doctored. It is more difficult because we work on the basis that they are not and we've ... we rely on audits, external auditors, to ensure that they are not and it's ... it takes a very experienced supervisor to detect that there has been ... you know, that the accounts and the returns have been doctored.

Senator Susan O'Keeffe: And finally what words would you describe ... use to describe the banking system today? Would you say it was robust, or frail, or in a flux, or what words would you use?

Mr. Cyril Roux: Our banking system today?

Senator Susan O'Keeffe: Yes.

Mr. Cyril Roux: It's quite frail. All the banks, or most of the banks, are under restructuring plans. They have very large non-performing exposures. They have weak profitability and I have to say, as you were talking about political influence, that political pressure is, you know, built on them to reduce yet further their profitability and that's something that has ... worries the ECB because, if they're not profitable, then they will veer away from their restructuring plans and that will spell a lot of trouble for these banks.

Senator Susan O'Keeffe: How does the ECB show its worry?

Mr. Cyril Roux: Well, we monitor very closely and, at some point, will say, "Well, you're off and you need more capital." So, you know ... or, you're ... you know, at some point we can say, "You're not viable", you know. "You're not returning to profitability, you're not viable. You said you would get this net interest margin of this and that and you are not there, and you are far from it. You're not returning to profitability." And then, you know, at some point you make the decision, "Are you likely to fail, because you haven't proven that you have the path to return to profitability?" So, you have to be very careful of what you wish for.

Senator Susan O'Keeffe: Thank you.

Chairman: So, with that said, I'd like to bring matters to a conclusion now with you, Mr. Roux, and to thank you for your participation today with the inquiry and for your engagement with the inquiry and to formally excuse you, as I propose that we suspend the meeting until 2.20 p.m. No.

Senator Susan O'Keeffe: He is now joking.

Chairman: Until 2.55 p.m., and we'll return at that time.

Senator Susan O'Keeffe: I promise to be back in time.

Chairman: Great stuff, is that agreed?

Sitting suspended at 2.08 p.m. and resumed at 3.10 p.m.

Central Bank-Financial Regulator - Mr. Tom O'Connell

Chairman: Okay, so, with that said, I now propose that we move back in to public session, is that agreed? And we deal with session 3 this evening ... or this afternoon's public hearing is with Mr. Tom O'Connell, former assistant director general and chief economist, Central Bank.