TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

Volume 1: Report
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Central Bank
CB: Core Book 9

January 2016

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THEME: R1

Effectiveness of the regulatory, supervisory and governmental regime structure

LINE OF INQUIRY: R1d

Composition, skills, experience and number of resources at the Central Bank, Regulator and Department of Finance

Category 1: A document detailing the composition of the Boards for the period 1999 to 2013

Year	Membership of the Board[1]	Membership of Board Sub-Committees[2]	Membership of Management Board[3]
1999	Maurice O'Connell (Governor)	*Audit Committee*	Padraig Mc Gowan (Director General)
	David Begg	David Begg (Chair), Roy Donovan, Martin O'Donoghue	Liam Barron
	Donal Byrne	*Remuneration and Budget Committee*	George Reynolds
	Gerard Danaher	Roy Donovan (Chair), Donal Byrne and Friedhelm Danz	Brian Halpin
	Friedhelm Danz	*Investment Committee*	Louis O'Byrne
	Roy Donovan	Eoin Ryan (Chair), Gerard Danagher and Jim Nugent	Michael Casey
	John Hurley		Liam O'Reilly
	Jim Nugent		
	Martin O'Donoghue		
	Eoin Ryan		
2000	Maurice O'Connell (Governor)	*Audit Committee*	Liam Barron (Director General)
	David Begg	David Begg (Chair), Roy Donovan, Martin O'Donoghue	George Reynolds
	Donal Byrne	*Remuneration and Budget Committee*	Brian Halpin
	Gerard Danaher	Roy Donovan (Chair), Donal Byrne and Friedhelm Danz	Louis O'Byrne
	Friedhelm Danz	*Investment Committee*	Michael Casey
	Roy Donovan	Eoin Ryan (Chair), Gerard Danagher and Jim Nugent	Liam O'Reilly
	John Hurley		Gerry McGrath
	Jim Nugent		
	Martin O'Donoghue		

1 The term Board includes the Authority (IFSRA) and the Central Bank Commission where appropriate.

2 The term Board includes the Authority (IFSRA) and the Central Bank Commission where appropriate.

3 The term Management Board refers to the Management Board (in the period from 1999 to 2002), to the Joint Management Board, the Management Board of the CBFSAI and the Executive Board of the Regulatory Authority (in the period from 2003 to 2009), to the Senior Management Committee (from 2010 to late 2012) and the Senior Leadership Committee (from early 2013 onwards).

<table>
<tr><th>Year</th><th colspan="2">Membership of the Board[1]</th><th>Membership of Board Sub-Committees[2]</th><th>Membership of Management Board[3]</th></tr>
<tr><td></td><td colspan="2">Eoin Ryan</td><td></td><td></td></tr>
<tr><td>2001</td><td colspan="2">John Hurley (Governor)
David Begg
Donal Byrne
Gerard Danaher
Friedhelm Danz
Roy Donovan
John Hurley
Jim Nugent
Martin O'Donoghue
Michael McBennett</td><td>Audit Committee
David Begg (Chair), Roy Donovan, Martin O'Donoghue
Remuneration and Budget Committee
Roy Donovan (Chair), Donal Byrne and Friedhelm Danz
Investment Committee
Vacant (Chair), Gerard Danagher and Jim Nugent</td><td>Liam Barron (Director General)
Brian Halpin
Louis O'Byrne
Michael Casey
Liam O'Reilly
Gerry McGrath</td></tr>
<tr><td>2002</td><td><u>CBFSAI Board</u>
John Hurley (Governor)
David Begg
Donal Byrne
Gerard Danaher
Friedhelm Danz
Roy Donovan
John Hurley
Jim Nugent
Martin</td><td><u>Members of Interim IFSRA Board</u>
Brian Patterson (Chairman)
Liam O'Reilly
Mary O'Dea
Alan Ashe
Friedhelm Danz
Gerard Danaher
John Dunne
Jim Farrell
Deirdre Purcell</td><td>Audit Committee
David Begg (Chair), Roy Donovan, Martin O'Donoghue
Remuneration and Budget Committee
Roy Donovan (Chair), Donal Byrne and Michael McBennett
Investment Committee
Friedhelm Danz (Chair), Gerard Danagher and Jim Nugent</td><td>Liam Barron (Director General)
Brian Halpin
Louis O'Byrne
Michael Casey
Liam O'Reilly
Gerry McGrath</td></tr>
</table>

Year	Membership of the Board[1]		Membership of Board Sub-Committees[2]		Membership of Management Board[3]
	O'Donoghue Michael McBennett	Dermot Quigley			
2003	<u>CBFSAI Board</u> John Hurley (Governor) Liam Barron David Begg Tom Considine Gerard Danaher Friedhelm Danz Roy Donovan John Dunne Martin O'Donoghue Liam O'Reilly Brian Patterson Deirdre Purcell	<u>Members of Authority</u> Brian Patterson (Chairman) Alan Ashe Gerard Danaher Friedhelm Danz John Dunne Jim Farrell Mary O'Dea Liam O'Reilly Deirdre Purcell Dermot Quigley	<u>CBFSAI Board Sub-Committees</u> *Audit Committee* David Begg (Chair), Martin O'Donoghue, Deirdre Purcell, Alan Ashe *Remuneration and Budget Committee* Roy Donovan (Chair), John Dunne, Martin O'Donoghue, Dermot Quigley, Liam Barron, Liam O'Reilly[4] *Investment Committee* Friedhelm Danz (Chair), Liam Barron, Gerard Danagher and Jim Farrell[5]	<u>Authority Sub-Committees</u> *Audit and Risk Management Committee* Alan Ashe (Chair), Deirdre Purcell and Jim Farrell *Budget and Remuneration Committee* Dermot Quigley (Chair), Alan Ashe and John Dunne	<u>Joint Management Board</u> Liam Barron (Director General) Brian Halpin Louis O'Byrne Michael Casey Gerry McGrath Liam O'Reilly (Chief Executive) Patrick Neary Mary O'Dea <u>Management Board of the CBFSAI</u> Liam Barron (Director General) Brian Halpin Louis O'Byrne Michael Casey Gerry McGrath <u>Executive Board of the Regulatory Authority</u> Liam O'Reilly (Chief Executive) Patrick Neary (Prudential Director)

[4] Mr Barron and Dr O'Reilly attended as members when the Committee was considering budgetary issues.

[5] Mr Ashe, Mr Quigley and Mr Farrell were members of the Authority and attended the meetings of CBFSAI Board Sub-Committees with observer status.

Year	Membership of the Board[1]		Membership of Board Sub-Committees[2]		Membership of Management Board[3]
					Mary O'Dea (Consumer Director) Brendan Logue (Registrar of Credit Unions)
2004	CBFSAI Board John Hurley (Governor) Liam Barron David Begg Tom Considine Gerard Danaher Friedhelm Danz Roy Donovan John Dunne Martin O'Donoghue Liam O'Reilly Brian Patterson Deirdre Purcell	Members of Authority Brian Patterson (Chairman) Alan Ashe Gerard Danaher Friedhelm Danz John Dunne Jim Farrell Mary O'Dea Liam O'Reilly Deirdre Purcell Dermot Quigley	CBFSAI Board Sub-Committees *Audit Committee* David Begg (Chair), Martin O'Donoghue, Deirdre Purcell, Alan Ashe *Remuneration and Budget Committee* Roy Donovan (Chair), John Dunne, Martin O'Donoghue, Dermot Quigley, Liam Barron, Liam O'Reilly[6] *Investment Committee* Friedhelm Danz (Chair), Liam Barron, Gerard Danagher and Jim Farrell[7]	Authority Sub-Committees *Audit and Risk Management Committee* Alan Ashe (Chair), Deirdre Purcell and Jim Farrell *Budget and Remuneration Committee* Dermot Quigley (Chair), Alan Ashe and John Dunne	Joint Management Board Liam Barron (Director General) Brian Halpin Louis O'Byrne Tony Grimes Tom O'Connell Liam O'Reilly (Chief Executive) Patrick Neary Mary O'Dea Management Board of the CBFSAI Liam Barron (Director General) Brian Halpin Louis O'Byrne Tony Grimes Tom O'Connell Executive Board of the Regulatory Authority Liam O'Reilly (Chief Executive) Patrick Neary (Prudential Director)

[6] Mr Barron and Dr O'Reilly attended as members when the Committee was considering budgetary issues.

[7] Mr Ashe, Mr Quigley and Mr Farrell were members of the Authority and attended the meetings of CBFSAI Board Sub-Committees with observer status.

Year	Membership of the Board[1]		Membership of Board Sub-Committees[2]		Membership of Management Board[3]
					Mary O'Dea (Consumer Director) Brendan Logue (Registrar of Credit Unions)
2005	<u>CBFSAI Board</u> John Hurley (Governor) Liam Barron David Begg Tom Considine Gerard Danaher Friedhelm Danz Roy Donovan John Dunne Patrick Neary Martin O'Donoghue Brian Patterson Deirdre Purcell	<u>Members of Authority</u> Brian Patterson (Chairman) Alan Ashe Gerard Danaher Friedhelm Danz John Dunne Patrick Neary Jim Farrell Mary O'Dea Deirdre Purcell Dermot Quigley	<u>CBFSAI Board Sub-Committees</u> *Audit Committee* David Begg (Chair), Martin O'Donoghue, Deirdre Purcell, Alan Ashe *Remuneration and Budget Committee* Roy Donovan (Chair), John Dunne, Martin O'Donoghue, Dermot Quigley, Liam Barron, Patrick Neary *Investment Committee* Friedhelm Danz (Chair), Liam Barron, Gerard Danagher and Jim Farrell[8]	<u>Authority Sub-Committees</u> *Audit and Risk Management Committee (of the Regulatory Authority)* Alan Ashe (Chair), Deirdre Purcell and Jim Farrell *Budget and Remuneration Committee (of the Regulatory Authority)* Dermot Quigley (Chair), Alan Ashe and John Dunne	<u>Joint Management Board</u> Liam Barron (Director General) Brian Halpin Louis O'Byrne Tony Grimes Tom O'Connell Patrick Neary (Chief Executive) Con Horan Mary O'Dea <u>Management Board of the CBFSAI</u> Liam Barron (Director General) Brian Halpin Louis O'Byrne Tony Grimes Tom O'Connell <u>Executive Board of the Regulatory Authority</u> Patrick Neary (Chief Executive) Con Horan (Prudential Director) Mary O'Dea (Consumer Director) Brendan Logue (Registrar of Credit Unions)

[8] Mr Ashe, Mr Quigley and Mr Farrell were members of the Authority and attended the meetings of CBFSAI Board Sub-Committees with observer status.

Year	Membership of the Board[1]		Membership of Board Sub-Committees[2]		Membership of Management Board[3]
2006	CBFSAI Board John Hurley (Governor) Liam Barron David Begg David Doyle Gerard Danaher Alan Gray Roy Donovan John Dunne Patrick Neary Martin O'Donoghue Brian Patterson Deirdre Purcell	Members of Authority Brian Patterson (Chairman) Alan Ashe Gerard Danaher John Dunne Jim Farrell Alan Gray Patrick Neary Mary O'Dea Deirdre Purcell Dermot Quigley	CBFSAI Board Committees *Audit Committee* David Begg (Chair), Martin O'Donoghue, Deirdre Purcell, Alan Ashe *Remuneration and Budget Committee* Roy Donovan (Chair), John Dunne, Martin O'Donoghue, Dermot Quigley, Liam Barron, Patrick Neary[9] *Investment Committee* Gerard Danagher (Chair), Liam Barron, and Jim Farrell[10]	Authority Sub-Committees *Audit and Risk Management Committee (of the Regulatory Authority)* Alan Ashe (Chair), Deirdre Purcell and Jim Farrell *Budget and Remuneration Committee (of the Regulatory Authority)* Dermot Quigley (Chair), Alan Ashe and John Dunne	Joint Management Board Liam Barron (Director General) Brian Halpin Louis O'Byrne Tony Grimes Tom O'Connell Patrick Neary (Chief Executive) Con Horan Mary O'Dea Management Board of the CBFSAI Liam Barron (Director General) Brian Halpin Louis O'Byrne Tony Grimes Tom O'Connell Executive Board of the Regulatory Authority Patrick Neary (Chief Executive) Con Horan (Prudential Director) Mary O'Dea (Consumer Director) Brendan Logue (Registrar of Credit Unions)

[9] Mr Barron and Mr Neary attended as members when the Committee was considering budgetary issues.

[10] Mr Ashe, Mr Quigley and Mr Farrell were members of the Authority and attended the meetings of CBFSAI Board Sub-Committees with observer status.

Year	Membership of the Board[1]		Membership of Board Sub-Committees[2]		Membership of Management Board[3]
2007	CBFSAI Board John Hurley (Governor) Tony Grimes David Begg David Doyle Gerard Danaher Alan Gray Jim Farrell John Dunne Patrick Neary Dr Brian Hillery Dermot O'Brien Deirdre Purcell	Members of Authority Brian Patterson (Chairman) Alan Ashe Gerard Danaher John Dunne Jim Farrell Alan Gray Patrick Neary Mary O'Dea Deirdre Purcell Dermot Quigley	CBFSAI Board Sub-Committees *Audit Committee* David Begg (Chair), Martin O'Donoghue, Deirdre Purcell, Alan Ashe *Remuneration and Budget Committee* Roy Donovan (Chair), John Dunne, Martin O'Donoghue, Dermot Quigley, Tony Grimes, Patrick Neary[11] *Investment Committee* Gerard Danagher (Chair), Tony Grimes, and Jim Farrell[12]	Authority Sub-Committees *Audit and Risk Management Committee* Alan Ashe (Chair), Deirdre Purcell and Jim Farrell *Budget and Remuneration Committee* Dermot Quigley (Chair), Alan Ashe and John Dunne	Joint Management Board Tony Grimes (Director General) Brian Halpin Jim Cummins Mary Sheehy Tom O'Connell Patrick Neary (Chief Executive) Con Horan Mary O'Dea Management Board of the CBFSAI Tony Grimes (Director General) Brian Halpin Jim Cummins Mary Sheehy Tom O'Connell Executive Board of the Regulatory Authority Patrick Neary (Chief Executive) Con Horan (Prudential Director) Mary O'Dea (Consumer Director) Brendan Logue (Registrar of Credit Unions)

[11] Mr Grimes and Mr Neary attended as members when the Committee was considering budgetary issues.

[12] Mr Ashe, Mr Quigley and Mr Farrell were members of the Authority and attended the meetings of CBFSAI Board Sub-Committees with observer status.

Year	Membership of the Board[1]		Membership of Board Sub-Committees[2]		Membership of Management Board[3]
2008	CBFSAI Board John Hurley (Governor) Tony Grimes David Begg David Doyle Gerard Danaher Alan Gray Jim Farrell John Dunne Mary O'Dea Dr Brian Hillery Dermot O'Brien Deirdre Purcell	Members of Authority Jim Farrell (Chairman) Alan Ashe Gerard Danaher John Dunne Alan Gray Tony Grimes Patrick Neary Mary O'Dea Deirdre Purcell Dermot Quigley	CBFSAI Board Sub-Committees *Audit Committee* David Begg (Chair), Martin O'Donoghue, Deirdre Purcell, Alan Ashe *Remuneration and Budget Committee* John Dunne (Chair), Brian Hillery, Dermot O'Brien, Dermot Quigley, Tony Grimes, Mary O'Dea[13] *Investment Committee* Gerard Danagher (Chair), Tony Grimes, and Jim Farrell	Authority Sub-Committees *Audit and Risk Management Committee* Alan Ashe (Chair), Deirdre Purcell and Jim Farrell *Budget and Remuneration Committee* Dermot Quigley (Chair), Alan Ashe and Deirdre Purcell	Joint Management Board Tony Grimes (Director General) Brian Halpin Jim Cummins Mary Sheehy Tom O'Connell Patrick Neary (Chief Executive) Con Horan Mary O'Dea Management Board of the CBFSAI Tony Grimes (Director General) Brian Halpin Jim Cummins Mary Sheehy Tom O'Connell Executive Board of the Regulatory Authority Patrick Neary (Chief Executive) Con Horan (Prudential Director) Mary O'Dea (Consumer Director) Brendan Logue (Registrar of Credit Unions)

[13] Mr Grimes and Ms O'Dea attended as members when the Committee was considering budgetary issues.

Year	Membership of the Board[1]	Membership of Board Sub-Committees[2]	Membership of Management Board[3]
2009	<u>Combined CBFSAI Board and Authority</u>[14] Patrick Honohan (Governor) Tony Grimes David Begg Kevin Cardiff Gerard Danaher Alan Gray Jim Farrell John Dunne Matthew Elderfield Dr Brian Hillery Dermot O'Brien Deirdre Purcell Alan Ashe Dermot Quigley	*Audit Committee/Audit and Risk Management Committee* David Begg (Chair), Alan Gray, Deirdre Purcell, Gerard Danaher, Alan Ashe *Remuneration and Budget Committee* John Dunne (Chair), Brian Hillery, Dermot O'Brien, Dermot Quigley, Alan Ashe, Deirdre Purcell, Tony Grimes, Matthew Elderfield[15] *Investments Committee* Gerard Danagher (Chair), Tony Grimes, and Jim Farrell	Tony Grimes (Director General) Matthew Elderfield Jim Cummins Mary Sheehy Maurice McGuire Mary O'Dea (Acting Chief Executive) Con Horan Gerry Quinn Jonathan McMahon Patrick Brady Bernard Sheridan
2010	Patrick Honohan (Governor) Tony Grimes Kevin Cardiff John Fitzgerald Blanaid Clarke	*Audit Committee* Blanaid Clarke (Chair), John FitzGerald and Alan Ahearne *Budget and Remuneration Committee* Michael Soden (Chair), Blanaid Clarke, Matthew Elderfield and Tony Grimes	Tony Grimes (Deputy Governor) Matthew Elderfield (Deputy Governor) Maurice McGuire Mary O'Dea Gerry Quinn

[14] In 2009, the CBFSAI Board and the Authority merged in anticipation of the introduction of the Central Bank Reform Act 2010.

[15] Mr Grimes and Mr Elderfield attended as members when the Committee was considering budgetary issues.

Year	Membership of the Board[1]	Membership of Board Sub-Committees[2]	Membership of Management Board[3]
	Max Watson Des Geraghty Matthew Elderfield Michael Soden Alan Ahearne Neil Whoriskey (Secretary)	*Risk Committee* Des Geraghty (Chair), Michael Soden, Max Watson, Tony Grimes and Matthew Elderfield	Jonathan McMahon Patrick Brady Bernard Sheridan Gareth Murphy Peter Oakes Liz Joyce
2011	Patrick Honohan (Governor) Stefan Gerlach John Moran John Fitzgerald Blanaid Clarke Des Geraghty Matthew Elderfield Michael Soden Alan Ahearne Neil Whoriskey (Secretary)	*Audit Committee* Blanaid Clarke (Chair), John FitzGerald and Alan Ahearne *Budget and Remuneration Committee* Michael Soden (Chair), Blanaid Clarke, Matthew Elderfield and Stefan Gerlach *Risk Committee* Des Geraghty (Chair), Michael Soden, Stefan Gerlach and Matthew Elderfield	Stefan Gerlach (Deputy Governor) Matthew Elderfield (Deputy Governor) Maurice McGuire Lars Frisell Gerry Quinn Fiona Muldoon Patrick Brady Bernard Sheridan Gareth Murphy Peter Oakes Liz Joyce
2012	Patrick Honohan (Governor) Alan Ahearne Blanaid Clarke Matthew Elderfield John FitzGerald Des Geraghty	Audit Committee Blanaid Clarke (Chair), John FitzGerald and Alan Ahearne Budget and Remuneration Committee Michael Soden (Chair), Blanaid Clarke, Matthew Elderfield and Stefan Gerlach Risk Committee	Stefan Gerlach (Deputy Governor) Matthew Elderfield (Deputy Governor) Maurice McGuire Lars Frisell Gerry Quinn Fiona Muldoon

Year	Membership of the Board[1]	Membership of Board Sub-Committees[2]	Membership of Management Board[3]
	Stefan Gerlach John Moran Michael Soden Neil Whoriskey (Secretary)	Des Geraghty (Chair), Michael Soden, Stefan Gerlach and Matthew Elderfield	Patrick Brady Bernard Sheridan Gareth Murphy Peter Oakes Liz Joyce Paul Molumby
2013	Patrick Honohan (Governor) Stefan Gerlach John Moran John Fitzgerald Blanaid Clarke Des Geraghty Cyril Roux Michael Soden Alan Ahearne Patricia Byron Neil Whoriskey (Secretary)	*Audit Committee* Blanaid Clarke (Chair), John FitzGerald and Alan Ahearne *Budget and Remuneration Committee* Michael Soden (Chair), Blanaid Clarke, Stefan Gerlach and Cyril Roux *Risk Committee* Des Geraghty (Chair), Alan Ahearne, Michael Soden, Stefan Gerlach and Cyril Roux	Stefan Gerlach (Deputy Governor) Cyril Roux (Deputy Governor) Maurice McGuire Fiona Muldoon Gerry Quinn Patrick Brady Bernard Sheridan Gareth Murphy Derville Rowland Liz Joyce Paul Molumby

Category 2. A document detailing the biographies of the members of the Board for the period 1999 to 2013

Note: Biographies are provided from Central Bank records relating to the time of the appointment of the relevant individual to the Board and have not been updated to reflect additional new biographical information in respect of an individual arising after appointment or roles or qualifications received by an individual subsequent to that date.

Biographies of members of the Authority are provided in a separate table in Part B of this document and biographies of members of the Management Board[1] are provided in a separate table in Part C of this document. Please refer to the table at Category 1 for the names of Board/Authority/Management Board members as required.

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
1999	*Maurice O'Connell (Governor)* Mr O'Connell was educated at St Michael's College Listowel and St Brendan's College Killarney and subsequently at St Patrick's College, Maynooth and UCD. He has a post-graduate degree in Ancient Classics. He joined the Department of Finance in 1962 and has worked in all areas of the Department as well as in the Department of the Public Service and the Department of Economic, Planning and Development. He is a member of the EC Monetary Committee, a Director of the European Investment Bank and a Director of Irish Telecommunications Investments. *David Begg* Mr Begg is General Secretary of the Irish Congress of Trade Unions since 3 September 2001. Until 31 August 2011, he was Chief Executive of Concern Worldwide. Prior to joining Concern he served for ten years as a Trustee of Trocaire. Before joining Concern, he was General Secretary of the Communication Workers' Union. He was a member of the Executive Council of the Irish Congress of Trade Unions from 1986 to 1997. He also served for two terms as Vice President of the European Committee of the Postal, Telephone and Telegraph International (PTTI). He was a board member of the European Trade Union Institute (ETUI) from 1995 to 1997. He is a Trustee of the Irish Times Trust, member of the Advisory Board on Ireland Aid, Chairperson of the Advisory Group to the Select Committee on European Affairs, member of the Heart Health Task Force and a member of the Office for Health Management Expert Advisory Group. He is also chairperson of the Democracy Commission. *Donal Byrne*

[1] The term Management Board refers to the Management Board (from 1999 to 2002), the Joint Management Board, the Central Bank Management Board and the Executive Board of the Regulatory Authority (in the period from 2003 to 2009), the Senior Management Committee (from 2010 to late 2012) and the Senior Leadership Committee (from early 2013 onwards).

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	No relevant records found. *Gerard Danaher* Mr Danaher is a Senior Counsel. He is a former member of the Independent Radio & Television Commission. He is the Honorary Consul for Croatia. *Friedhelm Danz* Mr Danz is a German-born businessman and is a former Chairman and Chief Executive of the meat company, Agra Trading. *Roy Donovan* Mr Donovan is a former Chairman of Lisney & Co., Estate Agents. He is a former Member of the Economic & Social Committee of the EU. *John Hurley* Mr Hurley is Secretary General of the Department of Finance.[2] Prior to that he was Secretary General, Public Service Management and Development, in the Department of Finance, and Secretary General, Department of Health. Mr Hurley is a member of the Advisory Committee of the National Treasury Management Agency and the Council and Executive Committee of the Economic and Social Research Institute. He is a member of the Implementation Group of Secretaries General established by the Government to oversee the Strategic Management Initiative. He has also been Chairman of the Top Level Appointments Committee which make recommendations to the Government and to Ministers on appointments to Secretary General and Assistant Secretary level posts in Government Departments, and a Board member of the European Institute of Public Administration, Maastricht, the Louvain Institute for Ireland in Europe and the National Centre for Partnership. In addition, he was also a member of the Executive Board of the World Health Organisation, Geneva. He has also chaired the Consultative Committee on the new Financial Management System for the Civil Service and the Human Resources Subgroup established under the Strategic Management Initiative. *Jim Nugent*

[2] Mr Hurley was appointed as Secretary General in early 2000. However, the 1999 Annual Report (published in May 2000) refers to him as occupying that role.

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	No relevant records found. *Martin O'Donoghue* Mr O'Donoghue is a Professor of Economics in Trinity College Dublin. *Eoin Ryan* Mr Ryan is a Senior Counsel.
2000	Biographies as per relevant entries above.
2001	Biographies as per entries above save for appointment of John Hurley as Governor and appointment of Michael McBennett. *Michael McBennett* Michael McBennett is currently President of the Irish Bioenergy Association (IrBEA) and Director of FBD Trust Ltd.
2002	Biographies as per relevant entries above.
2003	Biographies as per entries above save for appointment of Liam Barron, Tom Considine, John Dunne, Liam O'Reilly, Brian Patterson and Deirdre Purcell and replacement of Donal Byrne, Jim Nugent and Michael McBennett. *Liam Barron* Mr Barron has been the Deputy Director General of the Bank and Secretary to the Board since 1995. During his career in the Bank, he has held a wide variety of management positions. Most recently, he has been responsible for financial markets, payment and settlement systems and financial operations. He was formerly responsible for information technology and banking supervision. He is currently serving as the founding Chairperson of the European System of Central Banks' Budget Committee, which reports directly to the Governing Council of the European Central Bank. He has also represented the Central Bank of Ireland on other ESCB committees and on committees of the EU Commission and the Bank for International Settlements.

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	Mr Barron is a graduate of UCD and holds a first class honours Masters Degree in Business Studies, specialising in Finance. *Tom Considine* Mr Considine is Secretary General of the Department of Finance since March 2000. He is also Chairman of the Top Level Appointments Committee. From March 1998 to March 2000 he was assistant Secretary in the Department of Finance. He was Principal Officer in the Department of Finance from October 1986 to March 1993. He joined the Department of Finance in 1976 as an Administrative Officer and prior to this he worked in the departments of Education and Post and Telegraphs. He is a qualified Chartered Certified Accountant. *John Dunne* Mr Dunne is chairman of IDA Ireland. He was formerly Director General of the Irish Business and Employers Confederation. He is a Fulbright Scholar and was awarded an honorary Degree of Doctor of Laws by the National University of Ireland. *Liam O'Reilly* Mr O'Reilly has been Assistant Director General of the Central Bank of Ireland since 1998, with responsibility for all of the Central Bank's financial supervision functions. In that period he has overseen significant changes in the supervision regime. These have included a major increase in the number and type of financial services firms supervised and a considerably increased emphasis on consumer protection. Outside of this supervisory role, he has previously held the positions of Manager of the Central Bank's Financial Control & Settlements Department, Markets Department and International Relations Department. He is a member of the ECB Banking Supervision Committee, the EU Banking Advisory Committee, the Committee of European Securities Regulators and the International Organisation for Securities Commissioners. He was a member of the Review Group on Auditing, set up by the Tánaiste in 2000 and which subsequently led to the establishment of the Interim Board of the Irish Accountancy and Auditing Supervisory Authority, the regulatory board for auditors, of which he is a member. He holds an M.Sc. in Economics and Statistics and a Ph.D. in Econometrics from Trinity College Dublin. *Brian Patterson* Mr Patterson is Chairman of the newly formed IFRSA and Chairman of the Irish Times. He is a Director of Waterford Wedgwood

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	plc and has a portfolio of business, consulting and teaching interests. He also mentors a number of CEOs with the Change Partnership Ireland and is a member of many boards, including the National College of Ireland and Northern Ireland's Centre for Trauma and Transformation. Until recently he was Chairman of the National Competitiveness Council. Brian spent 19 years with Guinness before becoming Director General of the Irish Management Institute in 1982. He joined Waterford Wedgwood plc in 1987 as Chief Operating Officer of Waterford Crystal where he played a pivotal role in the company's turnaround. He was appointed Chief Executive of Wedgwood Group in 1995 and moved to the UK. During this period he was featured on the BBC2 programme "Back to the Floor". He left Wedgwood in 2001 to return to Ireland. Mr Patterson holds a BA from the National University of Ireland, is a Companion of the Institute of Personnel and Development and a fellow of the Irish Management Institute. In 1983 he was selected for the Philadelphia based Eisenhower Exchange Fellowship in the United States. *Deirdre Purcell* Ms Purcell is a member of the Council of Credit Institutions' Ombudsman and a former Newscaster with RTE. She is a novelist and journalist.
2004	Biographies as per relevant entries above.
2005	Biographies as per entries above save for appointment of Patrick Neary and replacement of Liam O'Reilly. *Patrick Neary* Mr Neary was appointed to the position of Prudential Director of the Financial Regulator in 2003. His responsibilities included the protection of consumers' deposits, funds and policies. He was previously Head of Securities and Exchanges Supervision and Deputy Head of Banking Supervision in the Central Bank, where he began his career in 1971. He is a fellow of the Chartered Association of Certified Accountants (FCCA).
2006	Biographies as per entries above save for the appointment of David Doyle and Alan Gray and the replacement of Tom Considine and Friedhelm Danz. *David Doyle*

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	Mr Doyle was appointed Secretary General of the Department of Finance in July 2006. Mr Doyle is a graduate of UCD where he studied Economics, History and Education. In 2001, Mr Doyle was appointed Second Secretary General, Public Expenditure Division, Department of Finance, where he was responsible for overall coordination and monitoring of the spending dimension of the annual Budget, sectoral economic and social development, commercial State enterprises and public private partnerships. Prior to that he served at Assistant Secretary level in Banking, Finance and International Division and Public Expenditure Division. *Alan Gray* Mr Gray is Managing Partner of the Indecon International Economic Consulting Group which is a leading European consulting practice. He is also Managing Partner of Indecon Ireland. He is Chairman of the Board of Directors of London Economics and has previously served on the Board of a number of commercial companies including the Irish and European Boards of Canada Life. Mr Gray holds primary and post graduate degrees in economics and has published extensively on economic policy and financial issues.
2007	Biographies as per entries above save for the appointment of Tony Grimes, Jim Farrell, Dr Brian Hillery, Dermot O'Brien and the replacement of Liam Barron, Roy Donovan, Martin O'Donoghue and Brian Patterson *Tony Grimes* Mr Grimes is Director General of the Central Bank and Financial Services Authority having spent most of his career with the Bank. Prior to that he worked in the ESRI and Davy Stockbrokers. *Jim Farrell* Mr Farrell has extensive experience of international banking. He has held senior positions with the National Treasury Management Agency. Mr Farrell helped to establish the National Development Finance Agency and was its first chief executive. *Dr Brian Hillery* Dr Hillery is currently Chairman of both Independent News and Media plc and Providence Resources plc and, until this appointment, was Chairman of UniCredit Bank (Ireland) plc. Dr Hillery was formerly an Executive Director of the European Bank for Reconstruction and Development, London. He is Professor Emeritus of the Graduate School of Business, UCD.

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	Dermot O'Brien Mr O'Brien is the Chief Economist with NCB Stockbrokers, having worked with them from 1987 to 2007. Prior to that he was an Economist with the Central Bank.
2008	Biographies as per entries above save for the appointment of Mary O'Dea and the replacement of Patrick Neary *Mary O'Dea* Ms O'Dea has most recently been head of the Regulatory Enforcement and Development Department of the Central Bank where she was responsible for the coordination of policy across all of the Bank's supervision departments. This included the introduction of codes of conduct for banks and investment firms focussing on their dealings with their customers. Prior to this she held a number of positions in financial regulation areas including those as deputy head of the Banking Supervision Department and deputy head of the Securities and Exchanges Supervision Department. She started her career in the Central Bank as an Economist. Prior to joining the Bank in 1987 she worked in the Department of Political Economy, UCD and in Bord Fáilte. Mary holds an MA in Economics and an MSc in Investment and Treasury Management.
2009	Biographies as per entries above save for the appointment of Patrick Honohan, Kevin Cardiff, Matthew Elderfield, Alan Ashe and Dermot Quigley and the replacement of Mary O'Dea *Patrick Honohan (Governor)* Dr Honohan was Professor of International Financial Economics and Development at Trinity College Dublin. He took up this position in April 2007, after spending almost a decade at the World Bank where he was Senior Advisor on financial sector policy. Previously he was Research Professor with the Economic and Social Research Institute, Dublin (1990-98), Economic Advisor to Taoiseach Garret FitzGerald (1981-82 and 1984-86) and he also spent several years as an economist at the Central Bank of Ireland (1976-81 and 82-4), and at the International Monetary Fund (1971-73). His position in the World Bank entailed the provision of policy advice to numerous central banks and governments around the world. He was influential in the design and implementation of the IMF-World Bank Financial Sector Assessment Program as applied to developing countries from its initiation in 1999. In his earlier career in the Irish Public Service and at the ESRI he contributed policy advice directly or indirectly to successive

Year	Part A: Biographies of Members of the CBI Board of Directors (1999 to 2002), the CBFSAI Board of Directors (2003 to 2009) and the Central Bank Commission (2010 to 2013)
	governments. A graduate of University College Dublin, he received his Ph.D. in Economics from the London School of Economics in 1978. He has taught Economics at the LSE and at the University of California–San Diego, the Australian National University and University College Dublin, as well as at Trinity College Dublin. In recent years, Dr Honohan's research has mainly focused on monetary and financial sector policy. His specialist work on financial crises includes an evaluation of how different policy approaches have affected the overall cost of these crises in both developing countries and advanced economies. He has also studied exchange rate regime choice. More recently, he has been working on access of low income households to financial services. His books (jointly authored) include Systemic Financial Crises, Finance for Growth, Financial Liberalization: How Far, How Fast? and Finance for All? His academic work on the Irish economy includes analysis of the fiscal crisis of the 1980s, the performance of Ireland in the euro zone and before that in the European Monetary System, the role of multinational corporation profits and the interaction of unemployment and migration. He is a member of the Royal Irish Academy and past President of the Irish Economic Association. *Kevin Cardiff* Mr Cardiff joined the Department of the Public Service (DPS) in 1984. He joined the Department of Finance in 1987. He has had a wide range of roles in the Department of Public Service and the Department of Finance, including in the human resources and industrial relations areas. Following a short stint on the Government bond dealing desk before the establishment of the National Treasury Management Agency, Mr Cardiff worked on monetary and exchange rate policy in the 1990s. Subsequently he worked on pensions policy and organisational issues, such as Freedom of Information and Standards in Public Office. Most recently he has been the Head of Taxation and Financial Services Division within the Department. As the financial crisis developed over the past 18 months, Mr Cardiff was asked to concentrate solely on financial services matters. In this role, he has worked closely with the Minister in formulating the Government's response to the crisis. He is a graduate of the University of Washington and University College Dublin.

Year	Part B: Biographies of members of the Authority 2002-2008[3]
2002 Interim Board of the Irish Financial Services Regulatory Authority	*Brian Patterson* Mr Patterson is Chairman of the newly formed IFRSA and Chairman of the Irish Times. He is a Director of Waterford Wedgwood plc and has a portfolio of business, consulting and teaching interests. He also mentors a number of CEOs with the Change Partnership Ireland and is a member of many boards, including the National College of Ireland and Northern Ireland's Centre for Trauma and Transformation. Until recently he was Chairman of the National Competitiveness Council. Brian spent 19 years with Guinness before becoming Director General of the Irish Management Institute in 1982. He joined Waterford Wedgwood plc in 1987 as Chief Operating Officer of Waterford Crystal where he played a pivotal role in the company's turnaround. He was appointed Chief Executive of Wedgwood Group in 1995 and moved to the UK. During this period he was featured on the BBC2 programme "Back to the Floor". He left Wedgwood in 2001 to return to Ireland. Mr Patterson holds a BA from the National University of Ireland, is a Companion of the Institute of Personnel and Development and a fellow of the Irish Management Institute. In 1983 he was selected for the Philadelphia based Eisenhower Exchange Fellowship in the United States. *Alan Ashe* No relevant records found. *Gerard Danaher* Mr Danaher is a Senior Counsel. He is a former member of the Independent Radio & Television Commission. He is the Honorary Consul for Croatia. *Friedhelm Danz* Mr Danz is a German-born businessman and is a former Chairman and Chief Executive of the meat company, Agra Trading. *John Dunne*

[3] During 2009, the CBFSAI Board and the Authority merged in anticipation of the introduction of the Central Bank Reform Act 2010.

Year	Part B: Biographies of members of the Authority 2002-2008[1]
	Mr Dunne is chairman of IDA Ireland. He was formerly Director General of the Irish Business and Employers Confederation. He is a Fulbright Scholar and was awarded an honorary Degree of Doctor of Laws by the National University of Ireland *Jim Farrell* Mr Farrell has extensive experience of international banking, having worked with Citibank for over 30 years and has held senior positions with the National Treasury Management Agency and is the former Chief Executive of the National Development Finance Agency. *Deirdre Purcell* Ms Purcell is a member of the Council of Credit Institutions' Ombudsman and a former Newscaster with RTE. She is a novelist and journalist. *Dermot Quigley* Mr Quigley was educated in CBS Westland Row. He holds a BA and Diploma in Public Administration from UCD and a Diploma in Financial Analysis and Policy from IMF, Washington DC. He was appointed as an Executive Officer in Department of Health in 1960 and served as Assistant Principal and Principal in various Sections dealing with domestic banking, decimalisation, EC and international finance matters. He worked on Ireland's entry into the European Monetary System in 1979. He was appointed Assistant Secretary for Borrowing and Debt Management in 1985 and served as Assistant Secretary in charge of Budgetary and Taxation Matters in Department of Finance from 1988 to 1990. He was promoted to Revenue Commissioner in October 1990 and as Chairman of the Revenue Commissioners from 3 July 1998. He retired on 6 March 2002 at the age of 60 and after serving some 42 years in public service. He is currently a member of the Interim Board of the IFSRA and Chairman of the Management Board of REACH (Public Services Broker. He served as a member of the Independent Estimates Review Committee for the 2003 Estimates for Public Services.
2003	Biographies as per entries above save for the appointment of Mary O'Dea and Liam O'Reilly *Liam O'Reilly* Mr O'Reilly has been Assistant Director General of the Central Bank of Ireland since 1998, with responsibility for all of the Central Bank's financial supervision functions. In that period he has overseen significant changes in the supervision regime. These have included a major increase in the number and type of financial services firms supervised and a considerably increased emphasis on

Year	Part B: Biographies of members of the Authority 2002-2008[3]
	consumer protection. Outside of this supervisory role, he has previously held the positions of Manager of the Central Bank's Financial Control & Settlements Department, Markets Department and International Relations Department. He is a member of the ECB Banking Supervision Committee, the EU Banking Advisory Committee, the Committee of European Securities Regulators and the International Organisation for Securities Commissioners. He was a member of the Review Group on Auditing, set up by the Tánaiste in 2000 and which subsequently led to the establishment of the Interim Board of the Irish Accountancy and Auditing Supervisory Authority, the regulatory board for auditors, of which he is a member. He holds an M.Sc. in Economics and Statistics and a Ph.D. in Econometrics from Trinity College Dublin. *Mary O'Dea* Ms O'Dea has most recently been head of the Regulatory Enforcement and Development Department of the Central Bank where she was responsible for the coordination of policy across all of the Bank's supervision departments. This included the introduction of codes of conduct for banks and investment firms focussing on their dealings with their customers. Prior to this she held a number of positions in financial regulation areas including those as deputy head of the Banking Supervision Department and deputy head of the Securities and Exchanges Supervision Department. She started her career in the Central Bank as an Economist. Prior to joining the Bank in 1987 she worked in the Department of Political Economy, UCD and in Bord Fáilte. Mary holds an MA in Economics and an MSc in Investment and Treasury Management. *Brendan Logue* Mr Logue was appointed Registrar of Credit Unions in September 2003. Prior to his appointment, Mr Logue headed the Financial Services Division of IDA Ireland since 1990 and has played a key part in its development over the past 13 years. He served as the IDA representative on the Certification Advisory Committee of the Department of Finance, which oversaw the legislative framework for the IFSC. He has been a long-serving member of the Clearing House Group at the Department of the Taoiseach, which is responsible for guiding all policy and developmental aspects of the Irish international financial sector. Previous to his work in the IDA Mr Logue worked with Foir Teo., the former state rescue bank, and held senior financial positions in The Smith Group and Wavin Ireland. He is a member of the advisory board of the Irish Financial Services Institute at the National College of Ireland and is an Associate member of the Charted Institute of Management Accountants.
2004	Biographies as per relevant entries above

Year	Part B: Biographies of members of the Authority 2002-2008[3]
2005	Biographies as per entries above save for the appointment of Patrick Neary and the replacement of Liam O'Reilly. *Patrick Neary* Mr Neary was appointed to the position of Prudential Director of the Financial Regulator in 2003. His responsibilities included the protection of consumers' deposits, funds and policies. He was previously Head of Securities and Exchanges Supervision and Deputy Head of Banking Supervision in the Central Bank, where he began his career in 1971. He is a fellow of the Chartered Association of Certified Accountants (FCCA).
2006	Biographies as per entries above save for the appointment of Alan Gray and the replacement of Friedhelm Danz *Alan Gray* Mr Gray is Managing Partner of the Indecon International Economic Consulting Group which is a leading European consulting practice. He is also Managing Partner of Indecon Ireland. He is Chairman of the Board of Directors of London Economics and has previously served on the Board of a number of commercial companies including the Irish and European Boards of Canada Life. Alan holds primary and post graduate degrees in economics and has published extensively on economic policy and financial issues.
2007	Biographies as per relevant entries above
2008	Biographies as per entries above save for the appointment of Tony Grimes and the replacement of John Dunne. *Tony Grimes* Mr Grimes is Assistant Director General of the Central Bank with responsibility for Market Operations. He has previously held a number of senior management positions in the Central Bank in the economics, international relations, markets and payments areas. He is a member of the Payments and Securities Settlements Committee of the European Central Bank. He worked with the ESRI prior to joining the Central Bank. He holds a first class honours degree in Commerce from UCD and masters degrees in Economics from both UCD and the London School of Economics.

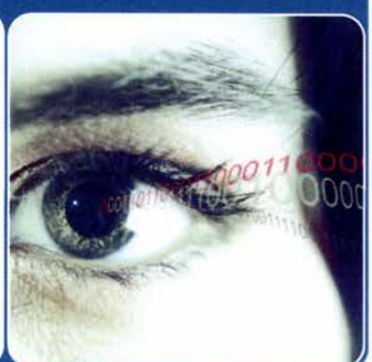
MAZARS

Towards a 'Best Practice Organisation'

Final Report - For Presentation To The Authority

February 2009

FINANCIAL REGULATOR
Rialtóir Airgeadais



MAZARS

In March 2008 the Financial Regulator commissioned Mazars, to produce a set of workable recommendations and proposals that would deliver improvements in effectiveness, value for money and support the achievement of the Financial Regulator's Strategic Goals. The full Terms of Reference associated with this Review are set out in Appendix II to this report.

This Review was commissioned by the Authority of the Financial Regulator as a proactive initiative to fundamentally review the processes, resources and management structures in place within the Organisation and to develop a set of workable recommendations for change. This Report is the output arising from that Review.

As part of this review, Mazars were requested to conduct the following:

- A systematic review of business processes operated within the Financial Regulator;
- A benchmarking study of the Financial Regulator against comparator financial regulators and other similar businesses;
- An assessment of areas of work currently undertaken by the Financial Regulator that might be suitable for outsourcing;
- A strategic review of the current activity profile, organisational structure, resource utilisation and risk management models which support the Regulator in the execution of its mandate.

It should be noted that the work on which the observations and conclusions have been made was undertaken in the period March - October 2008 and as such should be considered in that context.

Since the original commissioning of this Report, other issues associated with the Irish Financial Services Industry and the Financial Services Regulatory Authority have entered the public domain. This report does not specifically deal with these issues and was prepared on the basis of the approach to regulation which was in operation at the time of the Review - i.e. a principles based approach to regulation.

Whilst we acknowledge that changes to the current approach and/or mandate of the Financial Regulator may occur, we are none the less confident that the recommendations outlined in this Report, will complement any other changes which may be required.

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1 INTRODUCTION

The Irish Financial Services Regulatory Authority (Financial Regulator) was established on 1 May 2003. The Financial Regulator is responsible for the regulation of all financial services firms in Ireland. It also has an important role in the protection of the consumers of those firms. The Financial Regulator is a distinct component of the Central Bank and Financial Services Authority of Ireland, with clearly defined regulatory responsibilities. The Financial Regulator contributes to the work of the Central Bank in discharging its responsibility in relation to the maintenance of overall financial stability.

The importance of the financial services industry to the Irish economy is very significant and is underpinned by a range of state activities including, attracting financial services companies into the country, ensuring financial stability, providing skilled employees, protecting consumers. The Financial Regulatory Authority plays two primary roles in this context - that of regulating the industry and protecting the consumer.

This report is written for and was commissioned by the Authority of the Financial Regulator in early 2008 as a proactive initiative to fundamentally review the processes and management structures in place within the Organisation and to develop a set of workable recommendations for change in order to assist the Financial Regulator in delivering improvements in effectiveness, efficiency and value for money to the Organisation.

Since the original commissioning of this report, other issues associated with the Financial Services Regulatory Authority have entered the public domain. This report does not specifically deal with these issues. The work on which the observations and recommendation outlined in this report have been made was undertaken in the period March - October 2008 and as such should be considered in that context.

This report is specifically focused on developing a series of recommendations to improve processes within the Organisation and in that regard includes a systematic review of business processes; a benchmarking[1] study of the Financial Regulator against comparator financial regulators; an assessment of areas of work currently undertaken by the Financial Regulator that might be suitable for outsourcing and a strategic review of the current activity profile, organisational structure, resource utilisation and risk management models which support the Financial Regulator in the execution of its mandate[2].

The key recommendations made in this report cluster around the following main themes:

[1] This benchmarking study invited financial regulators operating internationally to participate in a comprehensive benchmarking exercise. 13 financial regulators participated and information for a further 3 was sourced through publicly available sources. In order to ensure the confidentially of information obtained from participating financial regulators, all references to individual financial regulators have been removed from this document.

[2] The mandate of the Financial Regulator may be considered as:

- The primary and secondary legislation which form the basis of Financial Regulation in Ireland
- The interpretation of this legislation through policy decisions made by the Organisation
- The Organisational strategy and activities put in place to give life to this interpretation.

- Significant change to the existing structure of the Organisation
- Design and implementation of a more coherent management framework to more clearly oversee and report on operational activities
- Development of a more formal and comprehensive mechanism to facilitate the provision of assurance to the Authority and Senior Management Team that the activities associated with mandate delivery are being prioritised, planned and executed to an appropriate standard in as efficient a manner as possible
- Reallocation of resources with a specific focus on reducing the level of support activities undertaken by staff and redirection of resources to prudential and consumer frontline activities
- Enhancement of the systems of allocation of resources between and within the various divisions and departments within the Organisation to ensure that the organization is responsive to the changing needs and priorities of its mandate
- Further development and extension of the current risk model
- Significant investment in technology, automation and technology based tools to more efficiently and effectively manage and support operations
- Implementation of an effective information processing and management framework to more effectively support the management and production of information
- Standardisation, streamlining and improvement of current processes to facilitate consistency, efficiency and higher levels of activity and output
- An increased in focus on specialisation to ensure that limited specialised resources of the Financial Regulator are more closely aligned to the delivery of its mandate
- Renegotiation of the current shared services agreement in operation with the Central Bank for the provision of support services to ensure that the needs of the Financial Regulator are met, and that value for money is ensured

The recommendations made in this report are based on the following assumptions:

- The current principles based approach to regulation adopted in Ireland will continue
- The mandate of the Financial Regulator will remain materially unchanged
- The shared services unit, within the Central Bank will be in a position to fully support the Financial Regulator in the implementation of the recommendations outlined in this report in so far as such support is required
- Resources can be increased in the short term to support the implementation of the recommendations outlined in this report. This includes the engagement of specialist skills in key areas, the retraining and redeployment of staff, all of which will take time. In addition, it will take time to realise the benefits associated with the efficiency gains which will arise from the standardisation of processes and the investment in technology recommended in this Report.

Whilst we acknowledge that changes to the current approach and/or mandate of the Financial Regulator may occur, we are none the less confident that the recommendations outlined in this report, will complement any other changes which may be required.

In addition, to the observations made in this report, it is important to note that a series of strong processes, examples of best practice and effective systems were apparent in the course of our review.

Mazars assumes no responsibility in respect of or arising out of or in connection with this report to parties other than to the Financial Regulator.

We would like to thank the staff of the Financial Regulator for the time they committed to this project, their valuable cooperation and willingness to proactively engage in this process at every stage since its inception.

Mazars **February 2009**

2 EXECUTIVE SUMMARY

The Executive Summary includes all of key observations and recommendations contained in the main body of this report.

2.1 Overview

This report is structured around the following chapters:

- Organisation structure and management framework - Chapter 3
- Resource analysis and utilisation management - Chapter 4
- Current activities and mandate - Chapter 5
- Prudential operational processes - Chapter 6
- Consumer operational processes - Chapter 7
- Administrative support processes - Chapter 8
- Opportunities for outsourcing - Chapter 9
- High level implementation plan - Chapter 10

Whilst the work undertaken as the basis for this report treated each of the above chapters as individual and separate issues, it is evident, that to form an overall view of the operation and activities of the Organisation and make relevant recommendations for change, each of these must be considered as interdependent.

2.2 Strong Processes, Systems and Examples of Best Practice Noted

In order to provide balance to the reader of this report, in addition, to the observations made, it is important to note that a substantial number of strong processes, examples of best practice and effective systems were apparent in the course of our review. Examples of these include the following:

- A number of examples of strong procedural guidelines and policies are apparent across the prudential directorate including the Prudential Inspections Guidance (PIG), and the Administrative Sanctions Procedure (ASP) to name a few. Both of these have in turn been applied across individual departments

- The current electronic reporting project, while not yet fully complete, and which allows prudential returns to be submitted electronically to the Organisation, has resulted in significant efficiencies in the areas where it has been introduced. The move to online reporting is in line with best practice in prudential supervision internationally

- The current authorisation processes have been substantially reviewed and streamlined in the last two years and in the context of the significant volumes of applications which are processed represent strong, although not adequately automated processes

- The recent move to organise a number of prudential departments around "financial analysis units" which allow specialist teams of supervisory analysts to interrogate prudential returns has, and when fully established, will continue to yield greater processing efficiency

- The recent investment in standardising and streamlining Fitness and Probity processes has been successful and has delivered benefits in terms of efficiency and effectiveness

- Within the Consumer Directorate, the recent implementation of a specialist and dedicated enforcement unit reflects best practice across international financial regulators and has facilitated a strong focus in that area

- The current proactive rather than reactive supervision and inspection model which has been implemented across the Consumer Protection Code Department is considered by international financial regulators to be a leading model on which a number are basing their own approaches

- The level of demand for information in hard copy and electronic format through the itsyourmoney.ie website, the consumer helpline and in publication format can be considered as an indication of the success of the Financial Regulator in delivering on its consumer information mandate.

2.3 Key Observations and Recommendations

The following are the key observations and recommendations set out in the main body of this report:

Organisation Structure and Management Framework – Chapter 3

Key Observations

- In terms of organisational structure, no single 'best practice model' has emerged from our review of international regulators [3]

- The current prudential directorate has a very wide range of responsibilities in comparison to other international regulators

- The current consumer directorate has responsibility for both a range of administrative support functions and front line consumer services

- The role and duties of the Senior Management Team and the manner in which they relate to the Authority and the wider management group, in the oversight and management of the entire Organisation is unclear

- In essence, the Authority fulfils both a governance and high level executive management role within the Organisation

[3] A comprehensive benchmarking exercise was undertaken as part of this Review, where 13 international financial regulators provided benchmarking information to the Irish Financial Regulator. Information for a further 3 financial regulators was included in the benchmarking exercise through the use of publicly available information.

Key Recommendations

- The Authority should seek to implement a revised organisational structure to include:
  - A new prudential directorate in the area of markets and securities
  - A new regulatory support directorate to manage all regulatory and administrative support services
  - An Office of the CEO to specifically manage EU/international policy, quality assurance, communication, performance management and strategic planning
  - New reporting lines for certain activities
  - The provision of more specialist support services particularly in the areas of regulatory development, enforcement, risk management and information systems
  - The reallocation of certain administrative support activities to the Shared Services team within the Central Bank

- A more comprehensive management framework should be implemented to support the revised organisational structure including the following elements:
  - The current Executive Board, has no executive function should be discontinued and replaced with a Central Management Group.
  - This Central Management Group should include each director and the CEO, with executive responsibility to manage operational activities, risk, reporting across all prudential, consumer and support activities on a 'whole of organisation' basis.

Resource Analysis and Utilisation Model - Chapter 4

Key Observations

- The main indicators of efficiency in the use of overall resources allocated to the Financial Regulator are represented by:
  - **Cost per financial regulator employee** - the Irish Financial Regulator demonstrates a higher than average cost per employee than those benchmarked at €144,000 (note this is not pay costs alone, but the ratio of all costs to Financial Regulator employee)
  - **Cost of financial regulation per regulated entity** - the Irish Financial Regulator demonstrates a higher than average cost per regulated entity than those benchmarked at €43,000
  - **Ratio of Financial Regulator employees to financial services industry employees** - the Irish Financial Regulator demonstrates a lower than average ratio at 12,700 financial services industry employees to each Financial Regulator staff member than the average of those benchmarked
  - **Cost per thousand of assets regulated** - the Financial Regulator scores favourably as compared to other international regulators considered in the area of cost per thousand of assets regulated at a cost of €0.04 cents compared to an average of €0.07 cents

- The contribution of the financial services sector to the total value added within the whole business economy of Ireland at 12.8% is higher than all but one other European Country

- The total cost of regulation per entity regulated in Ireland is marginally higher than the average across those surveyed

- However the total cost of regulation borne by the financial services industry in Ireland is lower than in the majority of other countries surveyed because the Financial Regulator receives a substantial proportion of its funding from Government (50%). Of those financial regulators surveyed, only one receives a greater proportion in government funding (83%)

- The level of resources applied to directly mandated[4] activities by the Prudential Directorate, in general, but specifically in the areas of banking and insurance supervision is lower than that of other international financial regulators reviewed

- A Shared Services Agreement is in place with the Central Bank for the provision of key support services including, for example, information technology, human resources, premises and financial administration. The services provided under this Agreement represent 32% of the overall budget of the Financial Regulator

- The level of resources allocated to non directly mandated activities[5] (indirect activities) is high, particularly given the existence of a Shared Services arrangement with the Central Bank which covers some of these services

- The level of resources consumed by prudential and consumer departments in the execution of non directly mandated activities is also comparatively high as compared to international benchmarks

- It is apparent, on the basis of the benchmarking exercise conducted, that the Irish Financial Regulator's Consumer activities are considered to represent best practice and are somewhat unique. It can none the less be concluded that the level of consumer activity and output from the Financial Regulator is equivalent to or higher than its international peers which is consistent with the fact that more resources are allocated per Irish consumer than in other countries included in the study.

Key Recommendations

- On the basis of the current regulatory model (i.e. principles based regulation), the breadth of the mandate, the importance of the sector to the economy, international benchmarking and

[4] Directly mandated activities - activities directly specified under the mandate of the Financial Regulator or which directly support the mandate e.g. entity supervision, inspection, authorisation, market monitoring etc
[5] Indirect activities - activities which support the Organisation in the discharge of the mandate but do not form part of that mandate i.e. internal and external stakeholder support processes, administrative support, project work etc

the risks associated with any sudden change in resource levels at this point in time, the total staff complement of the Organisation should remain the same in the mid term (3 - 5 years) however deployment patterns and skills of staff employed will need to change. This recommendation does not consider the impact of the recently introduced Government Guarantee Scheme

- The level of resources currently committed to indirect activities is comparatively high as compared to international benchmarks and should be re-examined. On this basis, resources allocated to these activities, but particularly to administrative support activities should be targeted for reduction by approximately 30-35% over a 3 year period (i.e. by 30 - 40 FTE's)

- A number of support and administrative activities, which are conducted by a range of departments (specifically PFD and CONI), should be transferred to the Shared Services Function of the Central Bank

- On the assumption that resources are limited, the weighting of resources allocated between consumer and prudential activities should be reviewed. However it is important to recognise that the current leading or "best practice" position of the Financial Regulator in relation to the consumer mandate could be jeopardised if any significant resource rebalancing were to occur

- Resources should be allocated across divisions on the basis of a formal "whole of Organisation" resource allocation model as a further development to the current manpower planning exercise already in operation

- In the short term and in order to implement the recommendations set out in this Report, resource levels will need to increase for a limited period for the following reasons:
    - It will take time to re-deploy/ re-train staff within the Organisation, but some specialist posts will need to be filled in the short term
    - The ongoing financial crisis will require more intensive supervision of entities and markets than heretofore - however this has not been considered in detail as part of the analysis of resources in the course of this project
    - The upgrade of IT systems and processes and the definition and implementation of an effective information management framework will require a significant upfront investment in resources before efficiency gains can be realised
    - It will take time to transfer certain activities to the Shared Services team.

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Current Activities and Mandate - Chapter 5

Key Observations

- The mandate as outlined in legislation, interpreted by the Organisation and represented in its strategy is broad and many faceted
- The Financial Regulator is applying its resources to deliver on its mandate, with the exception of a number of instances which are outlined in Chapter 5
- No significant gaps in the coverage of the mandate have been identified in the course of the review. However the current management systems in place do not adequately assist in establishing whether the work plans and activities implemented to deliver the mandate are either appropriately prioritised or effectively undertaken
- The Financial Regulator's interpretation of the legislation may need some review in light of current financial market circumstances and may result in a change of focus and a reprioritisation of activities to deal with the new challenges
- The current mechanism in place within the Organisation to assure the Authority that the mandate is being delivered and delivered effectively is not fully comprehensive or appropriately formal in nature.

Key Recommendations

- The Financial Regulator needs to reassess the manner in which resources are allocated to support the delivery of its mandate in order to ensure that the level of emphasis is commensurate with the risk associated with the activity and sectors in question
- The systems used to provide assurance to the Senior Management Team and the Authority that all the significant day to day activities associated with the mandate are carried out to appropriate standards on a consistent basis across the entire organization need to be significantly enhanced. Elements of this are currently in place
- The management systems used to set and resource the key priority actions and activities for any given period need to be more coherently integrated with the overall strategic plan, the budgeting process and the risk assessment model of the Financial Regulator
- The Financial Regulator should both articulate and communicate more clearly where interpretations of mandate have had to be made and have significant implications on either resources deployed or stakeholders
- The Organisation's position, enforcement appetite and internal policy in relation to

enforcement should be clarified, communicated and applied consistently across the entire Organisation.

Management of Core Prudential Operational Processes – Chapter 6

Prudential processes are primarily conducted within the Prudential Directorate but also in the case of themed inspections and enforcement by the Consumer Protection Code Department (CPC) within the Consumer Directorate.

Key Observations

- In the case of almost every regulator who participated in the study, standard prudential returns regardless of their frequency of receipt are either received fully electronically or the regulator is moving towards that model. A similar project has been ongoing within the Financial Regulator for over 3 years has not been fully implemented at the date of writing

- On the basis of the current regulatory model, mandate and approach to regulation, there is room for improvement, to varying degrees, in the majority of core prudential processes examined in the course of the project in terms of consistency, uniformity, quality and efficiency across most of the main areas of prudential activities.

Key Recommendations

- A comprehensive information management framework supporting monitoring and reporting should be implemented across the Prudential Directorate. This may require additional reporting in addition to the EU FINREP/COREP requirements

- Core prudential processes should be standardised where similar processes are conducted across individual departments and sectors and subsequently automated and supported by appropriate ICT systems, practices and information in a manner consistent with the needs of a modern regulator

- The current electronic reporting project which has been ongoing for 3 years in the Financial Regulator should be accelerated, further developed and rolled out consistently and to the same level of specification to all prudential departments

- The allocated resources applied to indirect activities and processes in the Prudential directorate should be significantly reduced over time.

Management of Core Consumer Operational Processes - Chapter 7

Consumer processes are conducted within the Consumer Directorate only.

Key Observations

- Some current consumer activities and processes undertaken by the Financial Regulator are considered by other financial regulators, with a consumer mandate, to reflect best practice with a high level of activity and output
- The tools to support a number of specific consumer information processes are currently inadequate
- There is room for improvement in the management of some core consumer processes in terms of consistency, uniformity, quality and efficiency across a number of the main areas of consumer protection and information.

Key Recommendations

- All consumer processes should be standardised, automated and supported by appropriate ICT systems, practices and information in a manner consistent with the needs of a modern regulator
- A number of processes of a support nature which are currently conducted within the CONI department should be transferred to the Shared Services Unit of the Central Bank. These include:
    - Procurement
    - Press/ media activity
    - Invoicing and payment collection

  We estimate that this activity involves in the region of 4 Full Time Equivalents (FTE's)
- There is a requirement for investment in an appropriate IT system to support the specific needs of the consumer contact team. Additionally the management of information relating to consumer activities/ information and reports should be automated. It is unlikely that current systems can be adapted to fulfil this requirement
- Certain activities currently undertaken by the Consumer Directorate that do not directly relate to its mandate should be reviewed, reconsidered and where appropriate reallocated to other departments in the CBFSAI and/or other agencies (e.g. preparation of the Private Motor Insurance Statistics report)
- A comprehensive information management framework supporting monitoring and reporting should be implemented across the Consumer Directorate.

Management of Administrative Support Processes – Chapter 8

Administrative support processes are managed primarily through the Planning and Finance Department but are in effect carried out across all departments and directorates.

Key Observations

- Core administrative support processes and specifically planning and reporting activities currently in operation across the Organisation are cumbersome and disjointed
- There is some evidence of duplication and in some cases triplication of activity across administrative support processes throughout the Organization and between the Organization and the Shared Services Unit of the Central Bank
- The Memoranda of Understanding in place between the Financial Regulator and the Central Bank do not adequately describe the precise nature of the services to be provided or the basis for their provision.

Key Recommendations

- A number of support processes which are carried out by both the Financial Regulator and the Shared Services Unit of the Central Bank should be operated in full by the Shared Services Unit
- The various aspects of the core planning and reporting activities currently in operation need to be consolidated, aligned, automated, and managed in a more efficient and cohesive manner
- Administrative systems and processes should be re-designed and re-aligned to make them more effective, cohesive and efficient
- A number of administrative support processes which have been identified in the report, should be reviewed and discontinued unless there is a strong and demonstrable business benefit for their continuance.

Opportunities For Outsourcing – Chapter 9

Key Observations

- The Financial Regulator has entered into a number of outsourcing arrangements to support the delivery of the following services:
  - Corporate engineering, financial control, HR, IT, internal audit and statistical services under a Shared Services Agreement with the Central Bank. The total cost of these shared services to the Financial Regulator is €16.7million or 32% of the overall budget

of the Organisation
  - Consumer helpline services
  - Consumer publication distribution services

- On the basis of the benchmarking exercise conducted as part of this review, it would appear that financial regulators primarily outsource financial operations, IT development/support, HR and call centre activities for reasons of efficiency and value for money. No real examples of the outsourcing of core mandated prudential or consumer activities were apparent in the 13 Regulators included in the study.

Key Recommendations

- The Financial Regulator should review the existing shared services agreement with the Central Bank and where appropriate re-negotiate the extent, service levels, cost and operational model for the services provided

- The current outsourcing contract in place with the Consumer helpline service supplier should be renegotiated to ensure that the contractual risk is more appropriately distributed between the supplier and the Financial Regulator

- Until such time as the recommendations outlined in this report, in so far as they relate to process and technology improvement have been implemented, no further opportunities for significant outsourcing should be pursued

- In the short term and as part of the requirement to introduce increased levels of specialist resources, certain outsourcing arrangements, may by necessity be required.

Implementation Plan - Chapter 10

The challenge of implementing the recommendations in this report is very considerable and needs to be properly planned, resourced and conducted with the support of the Authority, the commitment of the entire management team and staff and the cooperation of the Shared Services Unit of the Central Bank. The resulting change process needs to be carefully overseen and managed through all stages of its execution.

The implementation plan should be put into operation over the next twenty four months and should be structured in a manner so as to allow both the Authority and Central Management Group to monitor progress on implementing the key recommendations of this Report in a transparent fashion. In particular, and as a first step, the Authority should implement all the changes associated with creating the new Central Management Group and organisation structure as a matter of priority.

3 ORGANISATIONAL STRUCTURE AND MANAGEMENT FRAMEWORK

3.1 Introduction

As part of this project, a high level assessment of the structure and management framework in place within the Financial Regulator was undertaken. This incorporated an analysis of the current structure, at departmental and whole of Organisation level and an analysis of the management framework within which the Organisation operates. It also included the analysis of comparable structures and frameworks within 13 international financial regulators across 10 countries, who participated in a benchmarking exercise conducted in the course of the Review, to which they submitted information. Information relating to a further 3 financial regulators was secured from publicly available sources.

Our assessment considered the following:

- The extent to which current organisational structures and reporting arrangements effectively support the delivery of the mandate of the Organisation, its management and operations

- The method of allocating responsibility for and ownership of key activities and core processes

- The organisational and reporting structure within the Organisation

- The management structures in place at present and the extent to which they effectively support the organisation

- The adequacy of operational and strategic management structures

- The structures in place to support the relationships the Financial Regulator maintains with external organisations and bodies (at national and international level)

- Comparisons with best practice and the results of an international benchmarking exercise

In considering these issues, it is important to note the following contextual factors all of which have relevance to the activities, operation and structure of the Financial Regulator:

- The Financial Regulator is a relatively young organisation and it is appropriate after the first five years of its existence, to review and make some changes to its structure and management framework

- The current external environment and heightened levels of public expectation of the Financial Regulator have placed a level of strain on current resources, skill sets and structures but in turn create an opportunity to review where effective changes can be made

- The recent turmoil in the financial systems of the world will undoubtedly result in some changes to the regulatory framework at Global, European and National levels. It is not yet possible to fully determine the specific implication of these changes. However we do not believe that these changes will invalidate the broad thrust of the conclusions and recommendations contained in this section of the report

3.2 Overview of Current Organisational Structure and Management Framework

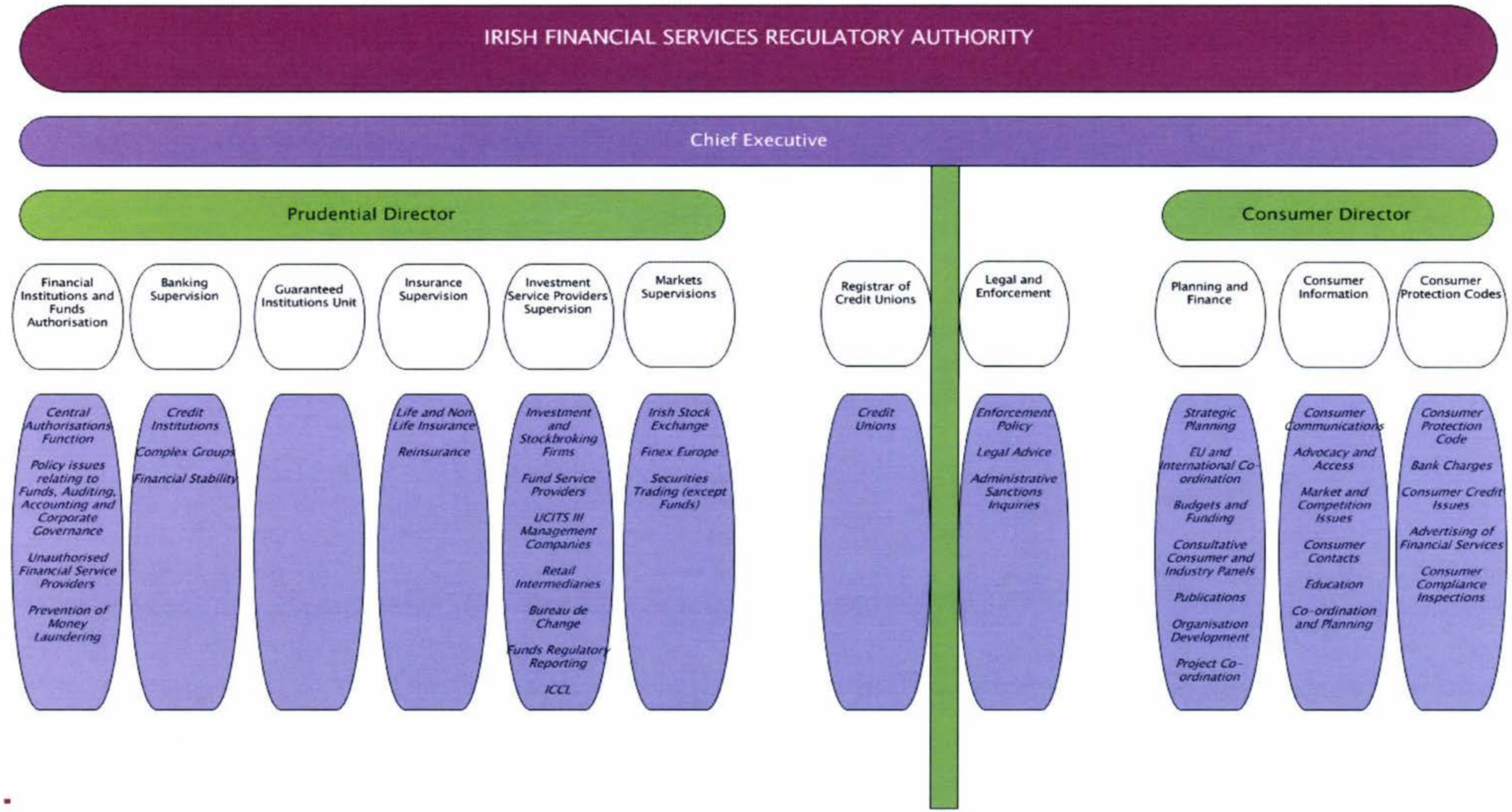
3.2.1 Organisation Structure

Since its inception in 2003, the structures in place within the Organisation have evolved through approximately three phases of change.

Whilst some level of standardisation has been implemented in recent years, individual prudential and consumer departments have largely developed their own departmental structures which have been designed by department heads in conjunction with their head of directorate. Departmental structures are not fully aligned at the date of writing but are moving more towards similar models.

The official organisational structure in place within the Financial Regulator at the date of writing may be represented by the first chart below. A temporary organisational structure which was introduced in January 2009 is set out in the second chart:

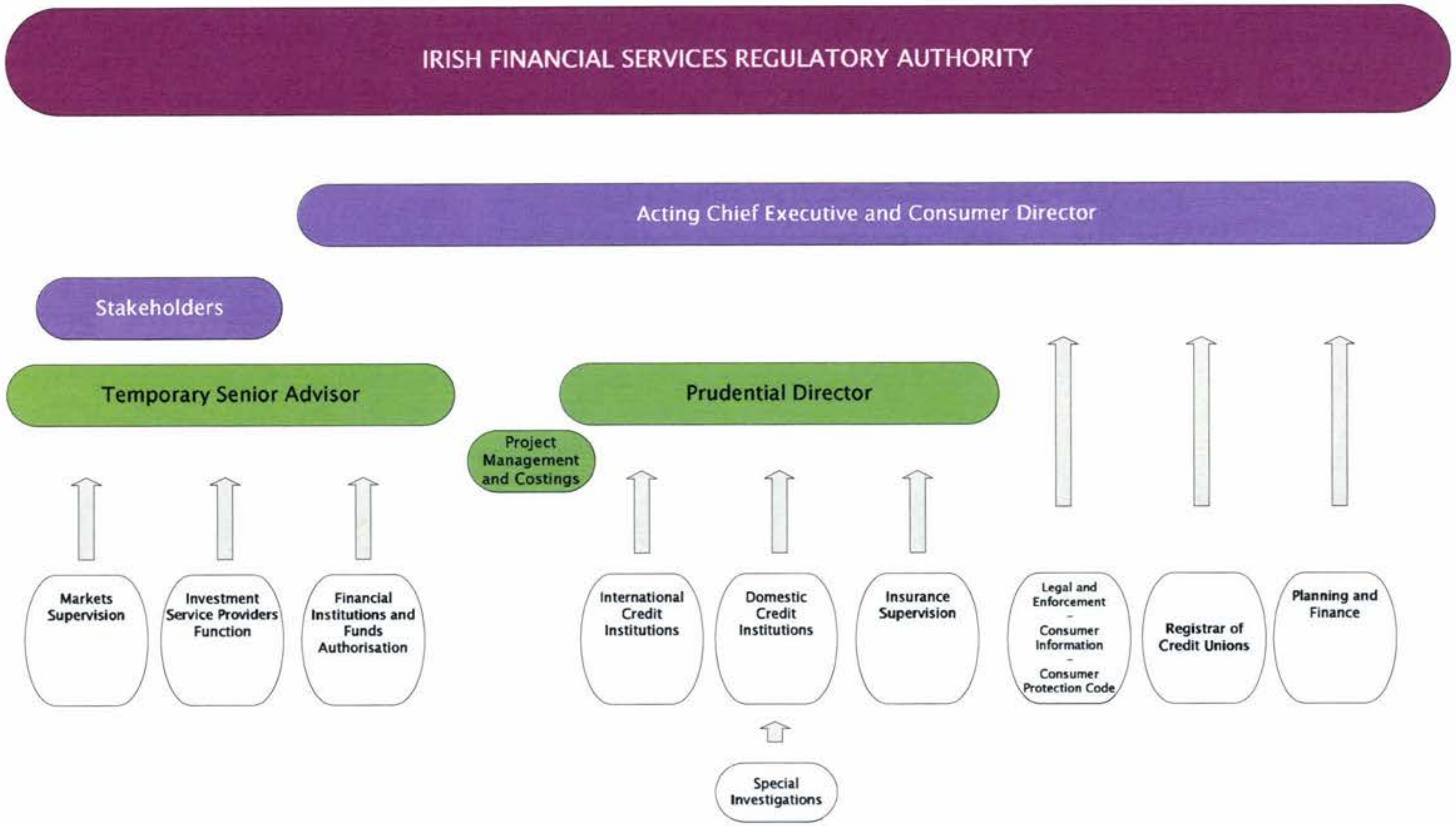
Financial Regulator Organisation Chart



3.2.2 Current Management Framework

In order to assess and make recommendations on changes to the organisation and management structure within the Financial Regulator we have outlined below, for the purpose of clarity, the temporary organisational structure which was implemented in January 2009.

Financial Regulator Temporary Organisation Chart



Management within the Financial Regulator is executed through the following main groups:

3.2.3 Authority

The primary governance and management group for the Financial Regulator is the Authority. The Authority has delegated certain responsibilities to two committees, namely:

- Budget and Remuneration Committee - subgroup of the Authority
- Audit and Risk Management Committee - subgroup of the Authority

The role of the Budget and Remuneration Committee is to

- Examine and make recommendations to the Authority on the annual manpower and budgetary requirements of the Authority including levies on industry;
- Monitor significant changes in expenditure in the course of the year and to examine and
- Advise the Authority on the remuneration of Officers of the Authority.

The role of the Audit and Risk Management Committee is to

- Review and advise the Authority on internal audit and efficiency matters, risk management policies and the Annual Statement of Income and Expenditure.

The Authority is the primary group responsible for major strategic or policy based organisational and resource decisions. In essence the Authority fulfils both the governance and high level executive management role within the Organisation.

The Authority meets on a monthly basis for 11 months of the year and as required on an ad hoc basis throughout the year.

The Authority is comprised of a Chairman, Chief Executive, Consumer Director and seven non-executive members appointed by the Minister of Finance.

3.2.4 Joint Management Board (JMB)

The JMB is the senior advisory forum for coordinating the development and implementation of management policies and decisions of general application in the CBFSAI.

In particular, the JMB's role is to:

- Co-ordinate the planning, budgeting, resource allocation and management review processes
- Develop policies and procedures to enable the strategic goals of the organisation to be achieved and monitor their implementation
- Ensure that the organisation operates in an efficient and effective manner;
- Ensure the policies and practices of the organisation are in keeping with stated values
- With the prior agreement of the Chairman, any other member of the JMB may raise for consultation or discussion any matter that they consider appropriate

The JMB normally meets on a monthly basis.

The membership of the JMB includes; the Director General of the Central Bank - Chair of the JMB; CEO of the Financial Regulator; Deputy Director General; Central Bank; Assistant Director General - currency operations; Assistant Director General - economic policy; Assistant Director General - shared services; Financial Regulator's Consumer director; Financial Regulator's Prudential director.

3.2.5 The Executive Board

The Board's formal role is to advise the Chief Executive on major policy issues. This Board does not in practice have any executive role within the Organisation, and is advisory in nature only.

The formal objectives of the Executive Board include the following:

- To advise on the formulation of policy proposals and strategic direction for consideration by the Authority
- Monitor and review the work of the Financial Regulator in contributing to the achievement of the Authority's strategic goals
- Consider interdependencies relating to the work of the Prudential and Consumer Directorates and the Chief Executive's office

The Board meets on a fortnightly basis

Board membership consists of the Chief Executive, the Consumer Director, the Prudential Director and all Heads of the 11 Departments within the Organisation.

3.2.6 Consumer Committee

The role of the Committee is to review the strategic objectives, consumer project plan, current projects and wider organisational issues relating to the Consumer Directorate. It is also responsible for the development and co-ordination of policies in relation to consumer matters, future strategic objectives and personnel development and training. In addition, this group monitors all major consumer and PFD projects in operation within the Organisation and acts as the oversight group for these projects.

3.2.7 Prudential Supervision Committee (PSG)

The role of the Committee is to act as a forum for the consideration of prudential regulatory issues (domestic and international), matters of common interest arising from the delivery of departmental work plans and interdependencies with other departments within the Financial Regulator and the Central Bank. It is involved in the development and co-ordination of policies in relation to areas of prudential interest including the risk rating of institutions, consultation papers and common standards, training, and methods of supervision. The Committee is also involved in the oversight of all prudential projects.

3.2.8 Information Systems Steering Group (ISSG)

The Information Systems Steering Group (ISSG) is the main oversight group for technology strategy development and implementation within the Central Bank Financial Services Authority Ireland (CBFSAI). The ISSG is chaired by the Central Bank's Director General and it includes the CEO, Prudential and Consumer Directors from the Financial Regulator.

The ISSG meets on a quarterly basis.

3.2.9 External Communication Committee (ECC)

This Committee was established by the Executive Board and reports to that Group. Recognising that individual departments have primary responsibility for implementing the Financial Regulators strategic plan, the role of the ECC is to coordinate on an organisation wide basis relationships with external stakeholders, all external communications, including the website and publications.

3.2.10 Financial Stability Co-Ordination Committee

The Central Bank has overall responsibility for financial stability and the Financial Regulator has a mandate to promote a sound financial system and to protect consumers. Consequently, both the Bank and the Financial Regulator work in close co-operation to ensure that financial stability is maintained in Ireland.

The objectives of the Committee are to:

- "Monitor, coordinate and review the work of the Bank in contributing to the stability and strength of the financial system";
- "Promote the development of policies in the bank for; the efficient and effective operation of payment and settlement systems; and minimisation of the risk of financial stability problems"

This is partly achieved through ongoing dialogue and partly through the Financial Stability Committee, the membership of which comprises - Director General of the CBFSAI, Deputy Director General of the CBFSAI, Assistant Director General with responsibility for economic analysis, research, monetary policy and statistics, CEO of the Financial Regulator, Financial Regulator Prudential Director and the Head of Banking Supervision Department (BSD).

3.2.11 Consultative Panels

While not part of the governance or management framework of the Organisation, two consultative panels provide input and suggestions to the Financial Regulator and the development of its Strategic Plan:

- Industry Panel
- Consumer Panel

These panels are purely advisory in nature, and whilst their views are considered in the formulation of regulatory policy, they do not occupy any executive or non executive role.

The role of the Consumer Panel is to monitor performance, to provide comments on the performance of the financial services industry and to provide suggestions for new initiatives which should be taken. It is also charged with the responsibility of commenting on the draft budget of the Organisation. In addition, the Panel comments on policy or regulatory documents issued by the Financial Regulator.

The role of the Industry Panel is to comment on proposed industry levies and fees, the impact on competitiveness of our regulatory requirements and the impact of changing trends on Financial

Regulator functions and responsibilities. In common with the Consumer Panel, it is also charged with the responsibility of commenting on the Organisation's draft budget and policy or regulatory documents issued.

3.3 Key Observations and Conclusions

On the basis of the analysis which we have conducted in the area of organisational structure and management framework and in the context of the international benchmarking exercise carried out the following observations may be made:

3.3.1 Recent Events and Changes to Organisational Structure

It is important to note that the international benchmarking exercise was carried out, when financial markets were and continue to be in a period of flux.

In light of this, it is important to consider what changes, if any, are being made to organisational structures internationally to assist in responding to these events. It is apparent from our benchmarking exercise that, at the date of writing, it is too early to make a comprehensive assessment. However on the basis of the responses received from international financial regulators, the following international patterns can be drawn:

- 80% of respondents indicated a change in structure to support increased focus on formal and structured market intelligence gathering

- A number of financial regulators have established specialist supervisory steering groups which meet on a weekly or fortnightly basis to formally review and consider the implications of market events for their regulated firms and the most appropriate supervisory response

Conclusion

It is too early to finally conclude on the level of change which will be required to be made to organisational structures from recent events.

The principal changes mentioned by the majority of regulators, who are proposing to make any change, involve the establishment of an outward looking market intelligence function with more formal and structured market intelligence gathering systems.

In the case of Ireland, this function is carried out in conjunction with the CBFSAI, through its mandate for financial stability, under which "The Bank has overall responsibility for financial stability and the Financial Regulator has a mandate to promote a sound financial system and to protect consumers" This objective is partly achieved at present, through the economic function within the Central Bank and through the publication of the annual Financial Stability report.

Any changes to the regulatory framework or the mandate arising from the recent financial turmoil will

need to be considered in terms of both the activities of the Financial Regulator and in terms of the relationship between the Financial Regulator and Central Bank and should involve clear demarcation and descriptions around where responsibility lies and how the organisations should work best together to ensure effectiveness.

3.3.2 Management Framework

The following observations may be made in relation to the current management framework:

- The main management and decision making body within the Organisation is the Authority, the majority of the members of which, operate in a non Executive capacity. The Authority also acts as the main governance body of the Financial Regulator

- Whilst both a Prudential Committee and a Consumer Committee are in operation and are the main vehicles for decision making under the consumer and prudential mandates, it is unclear, outside of the Authority forum, as to where whole of organisation or strategic management takes place or how issues/ developments/ decisions are communicated between the consumer and prudential divisions

- The Executive Board, which has no executive function, is the main management group which sits on a "whole of organisation" basis, and yet the agenda of that group focuses primarily on monthly budgets and outturn figures, rather than strategic or regulatory issues. In addition, Board management reporting is largely reactive, administrative or financially based and focuses more on issues as they arise or are presented, as distinct from a standing agenda which reviews specific sectors, activities, processes and cycles

- A clear management and oversight framework with associated controls, which ensures that issues are escalated from the lowest to the highest level in the Organisation where necessary is not in place

- Whilst structures and a certain level of bottom up reporting is in operation across parts of the Organisation, a formal or adequately comprehensive assurance model for enterprise management is not in place. Such a model would provide assurance to the Directors and the Authority as to the conduct of activities and the profile of risk within certain sectors on a recurring or scheduled basis. Current reporting is predominantly on an "issues" or "activities" rather than a whole of mandate basis

- Whilst manpower planning and resource budgeting does take place on an annual basis, and is monitored at Executive Board and Authority level, a fully integrated strategic resource allocation model is not in place for the whole of the Organisation which would allow the Financial Regulator to:
    - Assist in the transparent and formal allocation of resources on an ongoing basis between departments
    - Prepare more accurate and fully costed business cases for new processes (e.g. Stakeholder Protocol)
    - Determine the allocation of resources within departments and the basis for that allocation
    - Provide assurance or otherwise as to the adequacy, both in scale and type, of resources in achieving the objectives of the Financial Regulator in an efficient manner
    - Assign resources to individual departments in a flexible manner

- Management are not provided with sufficient information to support decision making

- Whilst a significant level of management reporting takes place and over half of this reporting is recurrent in nature, all reports are prepared from source Excel or Word documents. A significant level of relatively senior management time is spent on
    - Sourcing information
    - Checking and validating information
    - Drafting reports
    - Redrafting reports following director review
    - Circulating reports for comment/review

- With a number of limited exceptions, standard management information and reporting packs are not in operation, other than for financial information

- Queries or scenario based analysis of market, consumer or regulated entity based information is difficult or impossible to secure, thereby reducing the extent to which such analysis take place

- The absence of consolidated and more Organisation wide information results in a focus on operational rather than strategic issues

Conclusion

The role and duties of the Senior Management Team and the manner in which it relates to the Authority and the wider management group, in the oversight and management of the entire Organisation is unclear.

Whilst a formal management framework is in operation within the Financial Regulator, this is largely vested in the Authority, the majority of the members of which do not have an Executive function and also operate under a governance remit

There is an over emphasis on the internal management of the Organisation (e.g. budgets, internal policies, project reports etc) and not enough emphasis on the reporting of core prudential, policy, market or outward facing activities.

While some elements of an assurance model do currently exist and are presented to the Authority for certain activities, a formal or adequately comprehensive assurance model for enterprise management is not in place to provide adequate assurance to the Directors and the Authority as to the conduct of activities and the profile of risk within certain sectors on a recurring or scheduled basis.

There is no clearly defined reporting structure around the communication and escalation of issues.

There are a number of gaps in the level and type of management information provided to the management groups. The production of management information is overly onerous, slow and not an effective use of management resources.

3.3.3 Specialist Resources

On analysing other Financial Regulators, it is apparent that regardless of the size of the Organisation, the range of specialist resources employed internationally is generally greater than that employed by the Financial Regulator.

These specialist resources used by other international financial regulators include, but are not limited to the following:

- Specialist enforcement teams - which often report to the CEO or the Senior Management Team directly
- Specialist market intelligence resources
- Specialist credit risk and other prudential support specialists
- Specialist actuarial support
- Formal organisational economic intelligence or policy support
- Specialist EU/international teams
- Specialist communication resources
- Specialist data processing and financial analysis resources
- Specialist communication/ stakeholder support resources outside of the normal consumer or prudential resources
- Specialist regulatory risk model resources
- Specialist IT supervision support teams who support the onsite inspections and investigations teams and in some instances support forensic units in their data analysis and interrogation work.
- Specialist quality assurance functions, where a specialist team reporting to the CEO, is established, outside of internal audit, to review and quality assure the supervision and core prudential processes on an ongoing basis.

Conclusion

International benchmarking would suggest that the Financial Regulator employs significantly lower levels of specialist regulatory support skills than its leading international peers.

3.3.4 Dedicated Supervision Teams

A number of financial regulators have recently sought to ring fence or nominate specialist or dedicated teams who are in place only to support "proactive"[6] supervision and who are separate to those dealing with unplanned or "reactive"[7] supervision.

[6] Proactive supervision refers to planned or scheduled supervisory activities such as the receipt and analysis of prudential data, the conduct of inspections and investigations

[7] Reactive supervision refers to activities which take place outside of the normal proactive supervision cycles and that cannot be planned or schedule – i.e. where supervision reacts to an external demand/ request from a regulated entity

Whilst we acknowledge that the Banking Supervision Department (BSD), Insurance Supervision Department (INS) and Investment Service Providers Supervision (ISPS) departments have or are moving towards the structuring of onsite inspections and financial analysis unit teams to focus on specific prudential activities, the resource analysis exercise conducted as part of this review, would suggest that resources can be diverted from such activities to support both other supervision activities, which cannot be planned and as such can be considered as "reactive" supervision and also administrative support activities in some cases.

Conclusion

A pattern is apparent across international financial regulators in the ring fencing of planned supervision teams focused on proactive supervision only, as distinct from unplanned or reactive type supervision.

In the case of Ireland, the absence of ring fencing currently impacts on the Organisation's ability to complete its planned prudential supervision programme each year.

3.3.5 Overall Organisational Structure – Best Practice Benchmarks and Current Gaps

The current structure of the Financial Regulator is based on the organisation of activities and teams predominantly by sector i.e. banking, insurance, credit unions, etc, with the exception of the Consumer Directorate, which is organised by the two pillars of the consumer mandate – the provision of information and compliance with the Consumer Protection Code, and FIFA which is organised by a combination of sector (funds) and process (authorisation). The support functions of Legal and Enforcement (LED) and Planning and Finance (PFD), are organised by type of service provided.

Although no single model emerged from the international benchmarking exercise, the majority of regulators are structured on the basis of a combination of activity, sector and/or risk. In some cases, a hybrid (i.e. combination of market, sector, process, activity) structure is adopted, whereas in others a strongly sectoral or risk based approach has been implemented:

The comparison of the current organisational structure of the Financial Regulator with that of other international financial regulators, presents the following differences:

- Strategy, planning and finance functions are typically managed under a directorate that is separate from core supervisory or consumer functions, this is currently not the case in Ireland
- Reporting lines to the highest level of executive management are typically grouped by sector or function. It is highly unusual to have a direct reporting line from a specific sectoral group or activity type (e.g. Credit Unions) to the CEO
- Many regulators have a dedicated International Coordination or EU Group, and it is unusual to see the EU/International unit, deeply embedded within a support function, as is the case in the Financial Regulator
- The design and/or operation of risk models is often managed within a dedicated division or unit with specialist skills, and the results of that model provided to sectoral teams

- Policy development and co-ordination is often managed at an overall organisational rather than divisional basis
- A number of centralised models of supervision data collection and initial analysis are apparent in leading regulators
- Enforcement within the Financial Regulator is carried out on a departmental basis. This is at variance with the approach of many international financial regulators, the majority of whom have, or are in the process of implementing a centralised enforcement team staffed by specialist enforcement staff
- In a number of international regulators included in the study, specialist resources have been allocated to market monitoring. In Ireland, some market competition monitoring activities are currently carried out within the CONI department and are specific to the support of the consumer mandate. Market monitoring activities and macroeconomic analysis are also conducted by the Central Bank under the Financial Stability Committee
- At present the supervision of moneylenders takes place in CPC – this is inconsistent with the activity profile and purpose of that department and might be better served by being located elsewhere
- The current prudential directorate has a very wide range of responsibilities in comparison to other international regulators.

Conclusion

With the exception of some movement towards the organisation of the prudential function by level of risk of regulated entity, no single 'best practice model' has emerged from our analysis of the organisational structures of other financial regulators.

At present, under the Irish model, whilst some level of standardization has been introduced in certain prudential departments, each department is largely responsible for its own internal structure, the design of its own teams, processes, procedures and in some cases systems. This lack of standardisation means that department heads are required not only to be technical regulatory experts, but also process and system experts, staff managers, planners, professional communicators, organisational design and management experts. This is an unrealistic expectation.

There is some evidence of duplication of activity and of similar processes being conducted in non standard ways in different departments. This may impact negatively on efficiency of effort and internal transparency.

3.4 Recommendations

For regulators to remain relevant and effective it is increasingly critical that regulatory structures and practices are properly aligned with the rationale for regulating. In this context and having reviewed the processes, activities, mandate and structure of the Financial Regulator, our recommendations suggest a number of changes to the current organisational structure and management framework.

In designing an amended organisation and management structure, the following objectives have been considered:

- Ensuring that the mandate of the Financial Regulator is adequately covered through the division of activities across the Organisation
- Ensuring that responsibilities are clearly allocated and attached to specific roles and groups within the organisation
- Improving efficiency and effectiveness
- Introducing, as required, specialist resources or structures to ensure that complex areas are properly resourced and addressed within the organisation
- Creating a stronger central management function who have clear responsibility for the operation of the organisation
- Clarifying governance and oversight structures within the Organisation and ensuring that assurance and transparency are built within the structure
- Comparison with international benchmarks and best practice

Whilst there is never a "perfect" organisational structure or management framework, the recommendations below aim to meet the overall objectives outlined in the introduction to this chapter and to address the key issues outlined above.

(Detailed job descriptions for new positions are outlined in Appendix IV to this document)

Recommendation 1 – New Directorate – Prudential Director of Markets and Securities

We propose the creation of a new directorate – "Prudential Director of Markets and Securities". This directorate would have overall responsibility for:

- Markets Supervision – current MSD department
- Current Investment Service Providers (ISPS) department
- The Funds teams from the current FIFA department
- A new team, to be developed from the current FIFA department to focus, by means of a standard organisation wide process, on the authorisation of entities regulated in that directorate

The key driver for this recommendation is ensuring the correct degree of specialisation and specialist management focus is available within the structure of the Organisation. The current remit of the Prudential Director is too wide and covers markets, securities, banks, investment firms, funds, insurance, reinsurance companies. Having reviewed international benchmarks and best practice and considering the changing regulatory environment and changing emphasis around market supervision, we believe that it is important to have a dedicated resource at a senior level focused exclusively on this area.

Recommendation 2 – New Directorate – Director of Regulatory Support Services

We propose the creation of a new directorate – "Director of Regulatory Support Services". We propose that this Director would have overall responsibility for the following five areas:

Team 1 – Regulatory Approach and Risk Model

- Regulatory impact assessment
- Regulatory policy assessment

- Regulatory approach development
- Risk model management and operation
- Financial and consumer market monitoring
- Macro economic assessment

Team 2 – Information and Process Management

- Specification of business requirements for IT systems on behalf of the Financial Regulator as a whole
- Information specification, reporting and management
- Specification, design and management of organisational processes
- Monitoring of organisational processes
- Management of a data warehouse and central processing unit for initial checking and analysis of prudential data from a completeness and accuracy perspective prior to being sent to individual sectoral departments for supervisory review

Teams 3 – Operational Management

- Specification of the shared services requirements of the Financial Regulator
- Development and monitoring of service level agreements (SLA's) for each service provided by shared services and other third party service providers
- Liaison with Shared Services on behalf of the Financial Regulator as a whole
- Management and co-ordination of the Organisational performance management system
- Budgets and funding
- Specification of annual budgets
- Review of budgetary updates produced by Shared Services within the Central Bank on behalf of the Financial Regulator
- Definition and management of the overall funding model, and review of the funding/levy process inputs and outputs produced by Shared Services within the Central Bank on behalf of the Financial Regulator

Team 4 – Legal Department

- Current LED department (excluding its enforcement resources)

Team 5 – Enforcement

- Dedicated enforcement team

The rationale for this recommendation is to create a degree of specialisation and accountability in both operational activities and in the areas of regulatory approach and risk model. Additionally, the need for the development of standardised processes across the Organisation, both for efficiency and assurance purposes must be undertaken in the immediate future and is therefore allocated to this new post.

Current regulatory support[8] processes undertaken by prudential and consumer departments utilise a significant level of resources and would be better and more efficiently managed through a central support structure such as that proposed in the Directorate of Regulatory Support Services.

[8] Regulatory support processes refer to administrative processes which do not fall within the direct mandate of the Organisation

Recommendation 3 – Office of the CEO

The role of the Chief Executive is not adequately or appropriately structured or resourced at present. .

We propose the creation of the Office of the Chief Executive with responsibility for

- Internal and external communications,
- Performance management for the executive team,
- Development of strategy and policy,
- Strategic resource allocation and the oversight of effective risk management and controls systems within the Organisation.
- Quality assurance

In addition, we propose that the EU/International Co-ordination function would be transferred to the office and strengthened in resource terms, in order that oversight and direction can be given by the Office of the CEO on EU/international organisational policy and levels of engagement.

We propose that a dedicated Financial Regulator press function be established within the office. This could be staffed by those members of the CONI team currently involved in this activity and by those members of the Central Bank press office who currently work solely for the Financial Regulator.

This recommendation is based both on best practice and on enhancing the management structure within the Organisation, ensuring that management activities are grouped effectively and better reflect best practice in other Financial Regulators.

Recommendation 4 – Implementation of a Formal Integrated Enterprise Management Framework

In response to observations on the current management framework and in the context of best practice in governance and management in the Irish public sector and internationally amongst other financial regulators, we propose the following:

Central Management Group

- The Executive Board should be discontinued and replaced with a formal Central Management Group consisting of:
    - The CEO
    - The Prudential Director -Banking, Insurance and Credit Unions
    - The Consumer Director
    - The Prudential Director – Markets and Securities
    - The Regulatory Support Services Director
    - The Head of the Office of the CEO

- This group should focus on the following agenda:
    - Strategic management
    - Operational management
    - Resource allocation and budget oversight

- Review of outputs from the Consumer Committee
- Review of outputs from the Prudential Committee
- Review of outputs from the Markets and Securities Committee
- Review of outputs from the Operations and Internal Risk Management Committee
- Review of matters arising from the office of the CEO

These management group structures should cascade through the Organisation and the effective implementation of these management streams requires the operation of the following groups, some of which are in place at present. These groups include:

The Consumer Committee

We propose that this group would continue in its current capacity but extend its remit to include all of the following activities, some of which it already conducts:

- Define and monitor the implementation of Organisational consumer policy and ensure its implementation throughout the Consumer Departments
- Have oversight of the day to day operation of the two consumer departments
- Track and monitor in a formal sense the conduct of consumer based work programmes
- Act as the main vehicle for the resolution of issues escalated to that group from other parts of the Organisation
- Be responsible for the oversight of the execution of decisions made at that group
- Report on formal basis to the Central Management Group at each meeting on the basis of:
    - Positive assurance - what has been done, what areas are working well etc.
    - Negative assurance - what issues, problems are arising
    - Issue escalation - what issues need to escalated from the Consumer Group to the main Central Management Group for resolution
- Monitor the operation of the risk model

The Prudential Supervision Committee

We propose that this group would continue in its current capacity but extend its remit to include all of the following activities, some of which it already conducts:

- Monitor the implementation of Organisational policy as formulated at the policy oversight group and ensure its implementation throughout the Prudential Departments
- Have oversight of the day to day operation of the prudential departments
- Track and monitor in a formal sense the conduct of prudential based work programmes
- Act as the main vehicle for the resolution of issues escalated to that group from other parts of the Organisation
- Be responsible for the oversight of the execution of decisions made at that group
- Report on formal basis to the Central Management Group at each meeting on the basis of:
    - Positive assurance - what has been done, what areas are working well etc.
    - Negative assurance - what issues, problems are arising
    - Issue escalation - what issues need to escalated from the Prudential Supervision Group to the main Central Management Group for resolution
- Monitor the operation of the risk model

Central Management Sub Groups

In addition to the above governance and management groups, we propose that as necessary the Central Management Group should appoint a limited number of sub groups, reporting to it, which would focus on the examination of key issues on behalf of that Group.

An example includes the creation of a Regulatory Policy Group which might include at least two directors and a number of senior representatives from departments or department heads and would focus on:

- Outlining the interpretation of the mandate of the Financial Regulator and its translation into policy
- The formulation of Organisational policy in the area of prudential supervision
- The implementation of Organisational policy in the area of Consumer Protection Code regulation and Consumer Information (formulation of policy under these areas falls under the specific role of the Consumer Director)
- The formulation of Organisational policy in the area of EU/International participation
- Ensuring a cohesive and consistent policy framework, which is internally consistent and complete is developed, maintained and implemented on an ongoing basis
- The formulation of policy documents and papers for review by the Central Management Group prior to communication and distribution within the Organisation

Such a structure would ensure the differentiation between approval / authorisation, policy development and oversight and operational review, something which has not been as transparent as it might be within the current management framework. The restructuring and design of standard reporting mechanisms and policy should allow the Authority to have oversight of policies, operations and activities in a timely and structured way.

Recommendation 5 – Standardised Processes and Process Owners

While the issue of consumer[9], prudential[10] and support[11] processes are addressed elsewhere within this report, it is important to note in this chapter that the proposed new structure, is partly based on the implementation of standard processes. These standard processes should be used across certain structured and repeatable activities that are carried out on an ongoing basis across the Organisation e.g. analysis of prudential returns.

This is an approach that has already been adopted, and worked well in the Financial Regulator the area of authorisations (FIFA).

Standard processes should be defined, to be used on a whole of Organisation basis for the following activities:

- Analysis of prudential returns/other financial information
- On site inspections
- Off site prudential analysis
- Investigations/enforcement
- Themed inspections

[9] Consumer processes are those conducted within the Consumer Directorate directly mandated & indirect activities)

[10] Prudential processes are those conducted within the Prudential Directorate (directly mandated & indirect activities)

[11] Support processes are those conducted in both the Prudential and Consumer Directorates and by the PFD department but which do not fall within the direct mandate of the Organisation but which support the executive of its mandate and are generally more administrative and support in nature

- Authorisation

The creation of "process owners" across the organisation will enhance levels of efficiency and effectiveness and create greater levels of assurance.

Recommendation 6 - Resource Allocation Model

The Financial Regulator should allocate resources between and within departments on the basis of a formal resource allocation model. This model should seek to capture the prioritised and risk based goals and objectives and reconcile them with a schedule of costed activities necessary to achieve those objectives in order to more rationally determine the appropriate and transparent budget for each department. This system should be phased in over a 3 year period. This function should be assigned to the newly created Office of the CEO.

Recommendation 7 - Registrar of Credit Unions to Report to Prudential Director

Under the current structure, the Registrar of Credit Unions (RCU) department is outside the Prudential Directorate and reports directly to the CEO.

However, on the basis that the broad nature of the prudential activities conducted by the RCU department are similar to those of other prudential departments, we propose that RCU should be transferred to within the responsibility of the Prudential Director. This will ensure that standard prudential processes, systems, policies and procedures and a common oversight and management approach, as appropriate, are adopted for all sectors regulated by the Financial Regulator.

It should be recognised that the Registrar of Credit Unions is a statutory function and the credit union sector has traditionally been granted a special status, mainly due to the voluntary ethos of credit unions and the specific provisions under section 6(2)(a)-(g) of the Credit Union Act 1997, outlining the nature of credit unions' business operations:

- The promotion of thrift among its members by the accumulation of their savings
- The creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest
- The use and control of members' savings for their mutual benefit
- The training and education of its members in the wise use of money
- The education of its members in their economic, social and cultural well-being as members of the community
- The improvement of the well-being and spirit of the members' community, and
- Subject to section 48, the provision to its members of such additional services as are for their mutual benefit.

As such, the legal and political implications of this transfer should be fully explored prior to a decision and its implementation.

Recommendation 8 – Transfer of Planning and Finance Department (PFD)

We propose that the PFD department in its current form should be disbanded. This is based on the fact that a Shared Services Agreement is in place with the Central Bank for the provision of key support services, that the PFD department was initially established on a temporary basis. The current activities of PFD have been allocated within the newly recommended structure as follows:

Strategic Planning to:	Office of the Chief Executive
EU and International Coordination to:	Office of the Chief Executive
Budgets and Funding to:	Director of Regulatory Support Services in an oversight capacity – but operationally to Shared Services
Consultative Consumer and Industry Panels support to:	Director of Regulatory Support Services
Publication of Annual Report to:	Office of the Chief Executive
Central Services to:	Director of Regulatory Support Services – but some to Shared Services
Performance Management to:	Director of Regulatory Support Services

This recommendation is in line with best practice and will ensure that these operations are the responsibility of those best placed to manage them.

Recommendation 9 – Transfer of Legal Enforcement Department (LED)

We propose, that as a service critical to the operation of the Organisation, the current LED department should be transferred to the Directorate of Regulatory Support Services and specific Service Level Agreements (SLA's) entered into between that department and the customers it serves in the other directorates.

In addition, we propose that that current enforcement team, in operation within CPC should be transferred to a newly created dedicated enforcement team (recommendation 10 below) which will report, separately to the Director of Regulatory Support Services. This legal enforcement team would also receive technical oversight and input from the Head of LED.

Recommendation 10 – Specialist Enforcement Unit

In accordance with trends across a number of international financial regulators and as a means of ensuring that the issue of enforcement remains a high priority for the Financial Regulator, we propose that a separate small team of specialist enforcement staff be put together from existing prudential departments and that this team report to the Regulatory Support Services Director. This structure will ensure that the pursuit of enforcement issues/ cases takes place concurrently with other prudential activities on a consistent basis across the Organisation.

We propose that inspection processes in place within individual departments should continue as is currently the case and in the event that a possible issue is noted in the course of an inspection or the analysis of other prudential information, this issue should be transferred to the specialist enforcement team for subsequent investigation and where appropriate to pursue the administrative sanction procedure. The originating department would remain involved and briefed on the process but would not following the point of transfer have primary responsibility for pursuing the issue.

Recommendation 11 – Other Transfer of Activities

We propose that under the revised Organisational structure, the supervision of moneylenders which takes place in CPC would be transferred to ISPS. This would also include the transfer of the current annual renewal process for moneylenders to Authorisations within the Directorate of Markets and Securities. As such while the CPC team would continue to conduct consumer protection code and other themed inspections, the primary relationship would be held by ISPS in order to facilitate a level of non consumer focused supervision within that Department.

In addition, we propose that the central design and operation of the Organisations risk model be transferred to the Director of Regulatory Support Services. All the prudential and consumer departments should then use the centrally coordinated model and should enter data and use its outputs. This approach will ensure that a standard and consistent model and process are implemented throughout the Organisation.

In addition, we propose that the current Money Laundering functions currently within FIFA be transferred to the Director of Regulatory Support Services.

Recommendation 12 - Implementation of Formal Process Owners for Key Processes

On the basis of the recommended structure, we propose that for a period of two years, the Director of Regulatory Support Services would work with the individual departments across all directorates with a view to designing a standard Organisation process for each of the following;

- Analysis of prudential returns/other financial information
- On site inspections
- Off site prudential analysis
- Investigations/enforcement
- Themed inspections
- Authorisation – largely in place at present

Once each standard process has been designed, signed up to by individual departments and implemented, a process owner from one of the three other directorates should be nominated for the ongoing review and oversight of the process. For this oversight and review, the nominated individual should report to the Director of Regulatory Support Services. The introduction of formal process owners is recommended to ensure accountability and responsibility is clearly assigned and greater efficiency can be achieved.

The definition of a standard process involves the following:

- Definition of process steps
- Definition of process owners
- Definition of process inputs
- Definition of process outputs
- Definition of process metrics
- Definition of process support systems and tools
- Definition and/or redesign where necessary of process forms, checklists, returns
- Definition of process rules, exceptions and parameters
- Preparation of a process manual to support its operation

Some elements of the above are currently in place in a number of the prudential and consumer departments.

Recommendation 13 - Definition and Implementation of an Information Reporting Suite

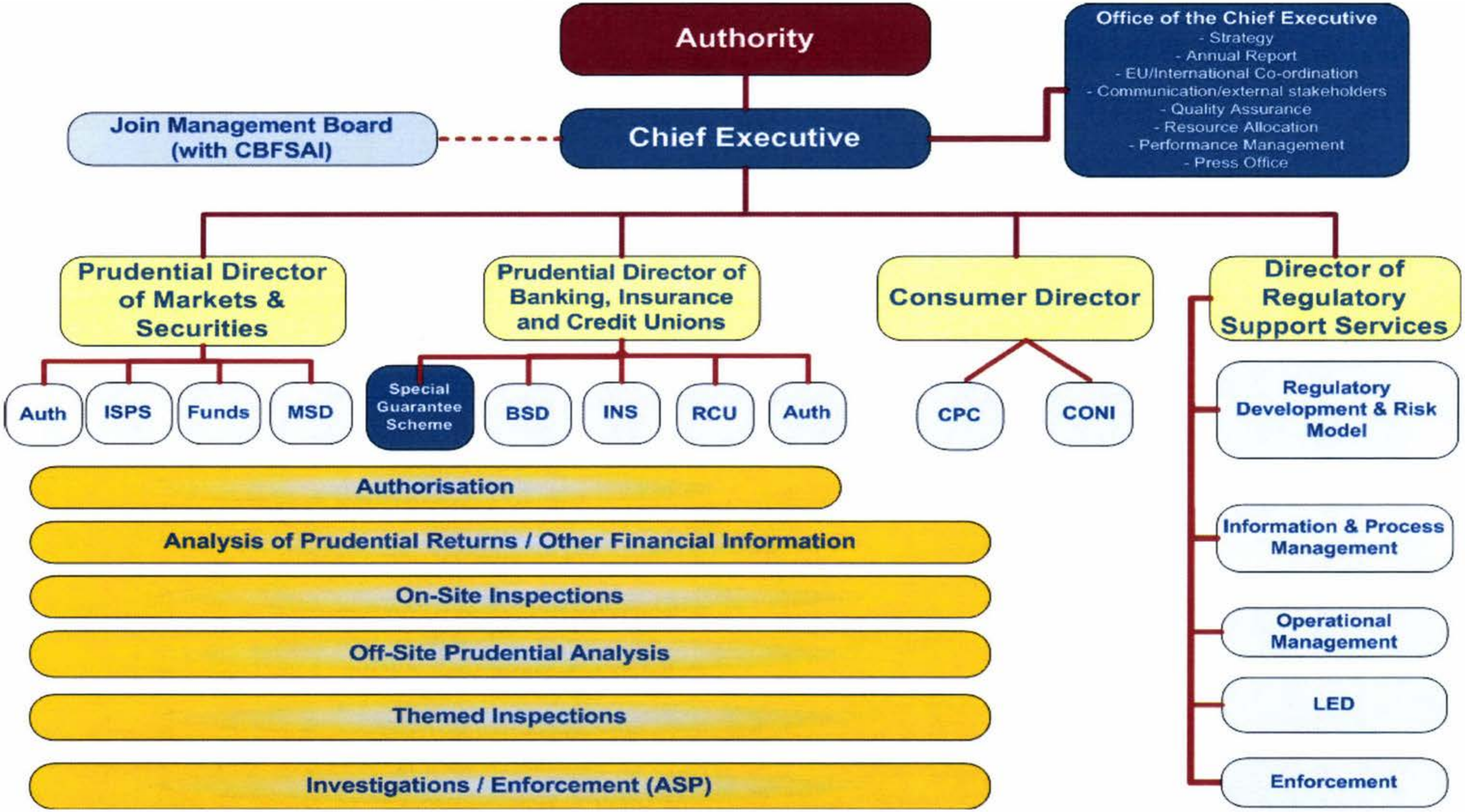
The manner in which information is captured, collected, stored and produced for both internal and external purposes is currently ineffective and very resource intensive. In addition, the absence of a standard suite of management information (outside of financial information) available to departmental management and the Executive Board does not reflect best practice or support effective organisational management and decision making.

We propose that a comprehensive, coherent information architecture/structure be defined by the Director of Regulatory Support Services and that in turn this should drive the efficient capturing of information, its collation and analysis, and the manner in which it is stored centrally for more efficient ease of access and reporting. This architecture should in turn be delivered largely by IT systems provided through the Shared Services unit.

The Director of Regulatory Support Services should work with each of the main management groups to define the information required in order to support the execution of key activities and processes.

In addition, a standard and synchronised calendar of planning, reporting and other administrative processes (such as budgeting and annual reporting) should be defined and clearly communicated to the Organisation. This will facilitate the effective planning of support resources and the reduction in the level of adhoc requests for information.

A recommended new organisational structure for the Financial Regulator as described above is graphically presented below:


Authority
Office of the Chief Executive
- Strategy
- Annual Report
- EU/International Co-ordination
- Communication/external stakeholders
- Quality Assurance
- Resource Allocation
- Performance Management
- Press Office
Join Management Board (with CBFSAI)
Chief Executive
Prudential Director of Markets & Securities
Prudential Director of Banking, Insurance and Credit Unions
Consumer Director
Director of Regulatory Support Services
Auth
ISPS
Funds
MSD
Special Guarantee Scheme
BSD
INS
RCU
Auth
CPC
CONI
Regulatory Development & Risk Model
Information & Process Management
Operational Management
LED
Enforcement
Authorisation
Analysis of Prudential Returns / Other Financial Information
On-Site Inspections
Off-Site Prudential Analysis
Themed Inspections
Investigations / Enforcement (ASP)

4 RESOURCE ANALYSIS AND UTILISATION MANAGEMENT

4.1 Introduction

This chapter presents an analysis of current and historical resources available to and deployed by the Financial Regulator during the timeframe 2006 – 2008 and addresses the following questions:

- What are the current staff resource utilisation and staff deployment patterns within the Organisation?
- What is the current allocation of financial resources between directly mandated activities and other support activities?
- How does this pattern compare to other international financial regulators?
- What are the key drivers of resource consumption?
- What is the impact of "events" or unplanned for activities on the workload of the Organisation and what are the resource implications of such activities?
- What is the impact of support activities on resources assigned to directly deliver on the mandate?

All of the analysis outlined in this chapter refers to the cost of the operation of the Financial Regulator as distinct from costs of compliance with regulation by regulated entities. These costs are sometimes also considered as forming part of the true cost of financial regulation in a country. These costs were outside the scope of the Review.

Resources in this chapter may be defined as the pay, non pay and other costs of the operation of the Financial Regulator.

The resource information in this chapter must be considered in the context of the following limitations:

- None of the international mandates of other regulators and the nature and complexity of the sectors supervised are fully comparable to that in operation in Ireland

- More detailed information on resource utilisation patterns was available for the Financial Regulator than for other financial regulators due to the comprehensive resource analysis conducted as part of this project

- While every effort has been made to normalise the data provided by other financial regulators for comparison with Ireland, it is not always possible to do so to the level of precision necessary for meaningful comparison

- Resource utilisation patterns and costs must be considered in the light of the strategy of each individual regulator. In the case of the Irish Financial Regulator, High Level Goal 4 of the Strategic Plan "Our regulatory approach will facilitate innovation and competitiveness" is of particular relevance; this is not formally declared in any other strategy reviewed and its implementation as currently interpreted has a substantial resource implication

- It is always difficult to meaningfully compare benchmarks across organisations due to the different environments, strategies, structures and processes. However, comparisons can be useful for assessment and review purposes and this benchmarking exercise should be considered in that light.

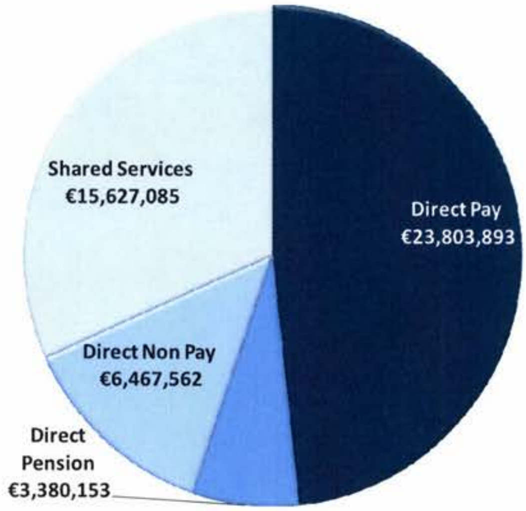
The following work was performed as part of the analysis of resources deployed by the Financial Regulator:

- An analysis of staff and management time spent on activities by each team within the Financial Regulator. This included directors.
- The allocation of budgeted costs for 2008 and actual costs for 2007
- A benchmarking exercise of the resource profile and utilisation models of the Financial Regulator as compared to other international regulators

4.2 Overview of Current Resource Utilisation Profile

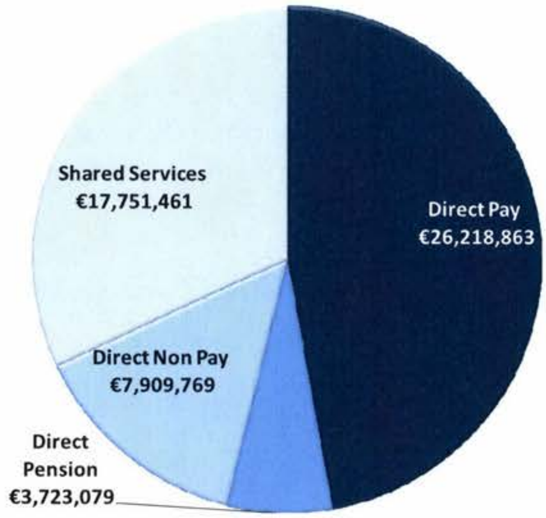
4.2.1 Total Costs

The total costs of the Financial Regulator have been analysed over four distinct categories of expenditure - direct pay, pension, direct non-pay and shared services as follows:



Actual Figures 2007

Budget Figures 2008



These graphs provide an insight into the expenditure profile of the Financial Regulator, which if analysed on an average basis over the years 2007 and 2008 indicate that:

- Approximately 54% of the resources of the Organisation are consumed by direct pay and pension costs
- On average non pay costs (excluding shared services) amounted to 14% of total expenditure
- On average shared services costs, provided for under a Shared Services Agreement with the Central Bank account for approximately €16.7million or 32% of total expenditure.

Shared service costs i.e. HR/IT/finance/library etc. are allocated to the Financial Regulator on the basis of an internal cost allocation model which allocates the total costs of Shared Services to the Financial Regulator rather than charging for services provided to/procured by the Financial Regulator.

The growth in expenditure in the initial period of the establishment of the Organisation (i.e. 2004 - 2006) and in the period 2006 - 2008, is presented as follows:

	Increase in the Period 2004 - 2006		Increase in the Period 2006 - 2008	
	€ Increase	% Increase	€ Increase	% Increase
Pay	9,225,797	56.5%	3,753,528	16.3%
Non Pay	3,871,865	95.9%	1,543,585	24.2%
Pension	1,391,694	62.2%	507,425	16.3%
Shared Services	5,315,496	42.7%	3,545,617	25.0%

It is apparent that whilst pay and non pay increased significantly in the initial years of the Organisation, the level of growth has reduced substantially in recent years. However a similarly proportionate pattern is not apparent in the area of Shared Services costs.

4.2.2 Use of Resources

In order to understand how staff and other resources have been deployed across the Organisation, we have allocated total pay and pension costs to activity categories based on a comprehensive resource analysis exercise conducted in the course of the Review, which asked individual staff members to indicate how they spent their time.

Non pay costs were allocated to individual activity categories based on the nature of the non pay cost in question.

Each activity category represents a different type of activity as follows:

- **Directly mandated activities** - activities which are legislatively mandated or directly support legislatively mandated activities e.g.
    - Core regulatory admin processes
    - Entity supervision - proactive
    - Entity supervision - reactive
    - Market monitoring

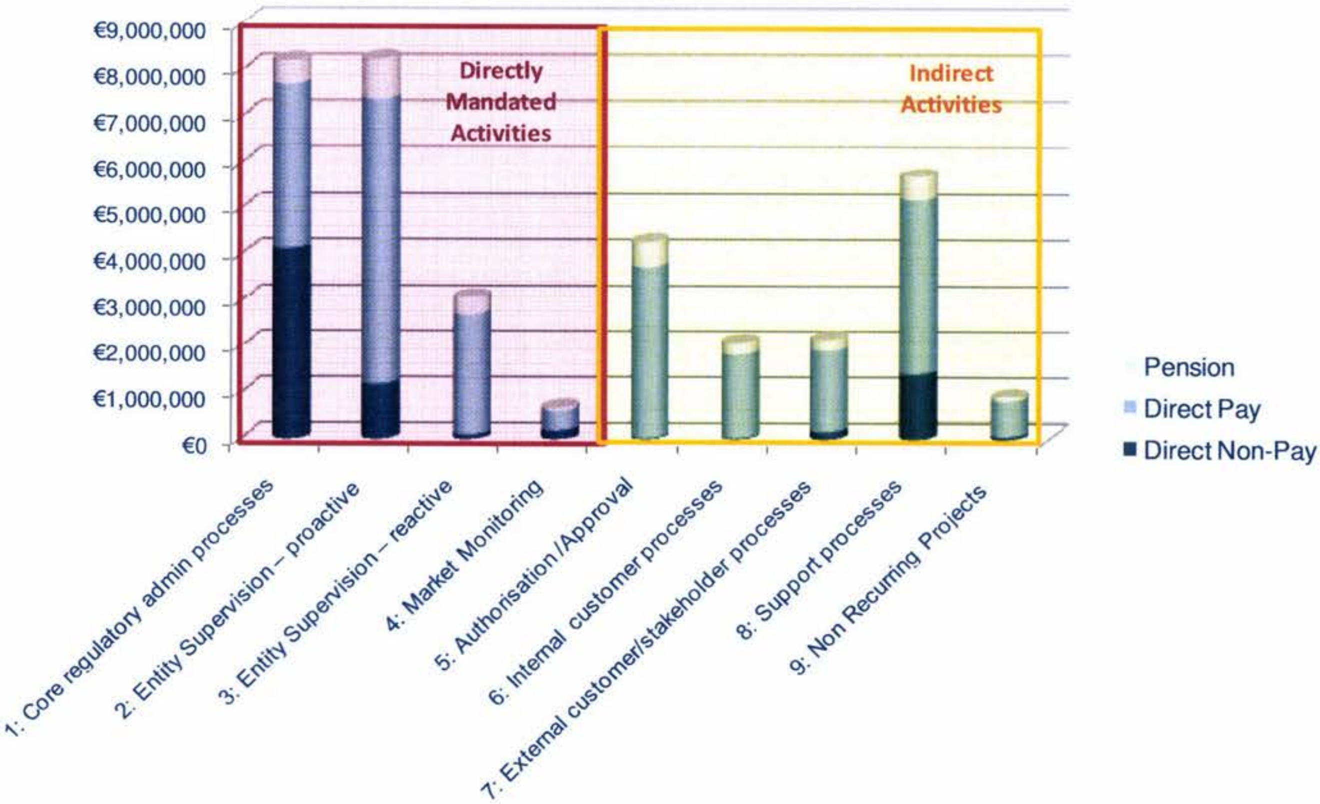
- Authorisation/ approval

- **Indirect activities** - activities which support the organisation in the discharge of its mandate i.e.
    - Internal customer/stakeholder processes
    - External customer/stakeholder processes
    - Support activities
    - Non recurring project work
    - Shared services costs

The split of total expenditure into these activity categories using an average of 2007 and 2008 costs provides us with an insight into the manner in which resources are deployed across the Organisation:

		Average Direct Non-Pay €	Average Direct Pay €	Average Pension €	Average Shared Services €	Average Total €	Average %
Directly Mandated Activities	1: Core regulatory admin processes	4,112,135	3,588,686	509,588	-	8,210,409	16%
	2: Entity Supervision - proactive	1,179,985	6,188,711	878,797	-	8,247,493	16%
	3: Entity Supervision - reactive	79,247	2,632,327	373,790	-	3,085,364	6%
	4: Market Monitoring	170,479	432,095	61,358	-	663,932	1%
	5: Authorisation /Approval	22,500	3,732,382	529,999	-	4,284,881	8%
Indirect Activities	6: Internal customer processes	22,808	1,809,429	256,938	-	2,089,175	4%
	7: External customer/stakeholder processes	152,587	1,756,509	249,425	-	2,158,521	4%
	8: Support processes	1,392,915	3,785,495	537,539	-	5,715,949	11%
	9: Non Recurring Projects	56,010	753,976	107,065	-	917,051	2%
	10: Shared Services	-	-	-	16,689,273	16,689,273	32%
	Total €	7,188,666	24,679,610	3,504,499	16,689,273	52,062,048	100%
	Total %	14%	47%	7%	32%	100%	

The table above is also represented (excluding Shared Services) by the graph below:



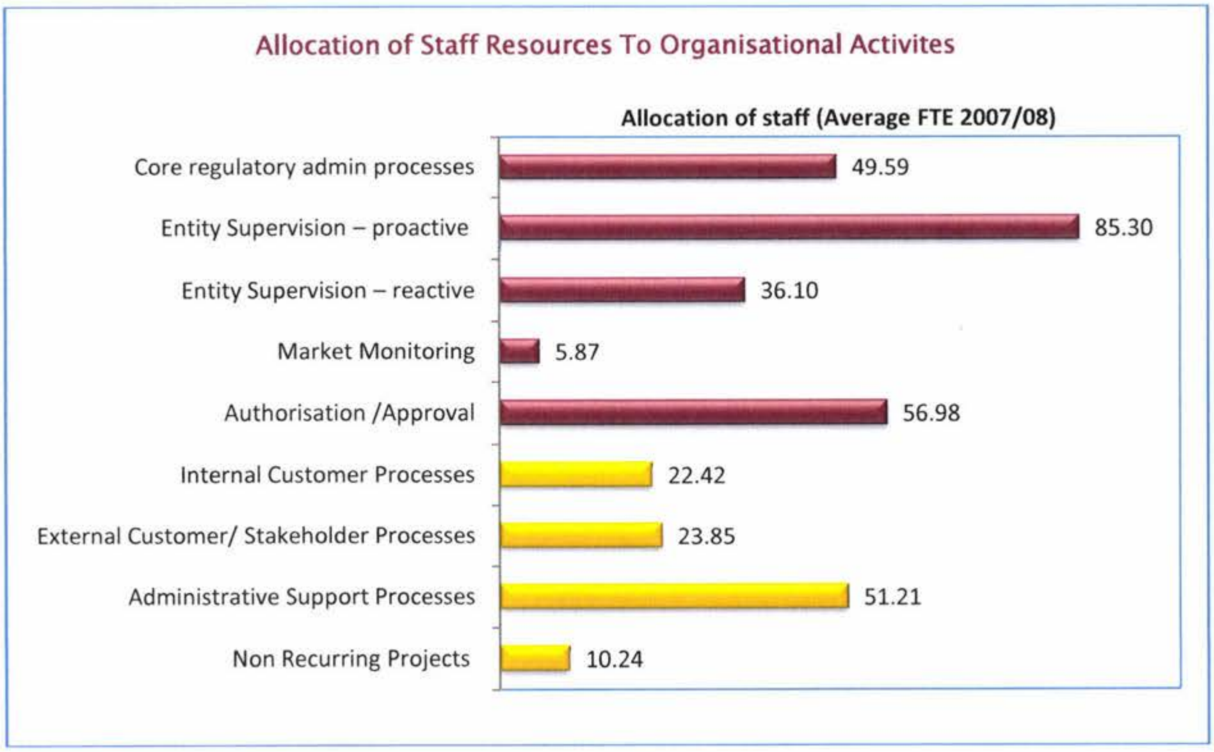
An analysis of the costs allocated to individual activity categories demonstrates the following:

- **Allocation of total costs**: within the Financial Regulator 47% of total resources are allocated to directly mandated activities with the remaining 53% allocated to indirect activities

- **Allocation of pay cost/ resources**: 67% of total pay costs are allocated to directly mandated activities, and the remaining 33% to indirect activities

- **Non pay costs** (excluding shared services) Some 77% of total non pay resources are allocated to directly mandated activities, and the remaining 23% of the total non pay budget is allocated to indirect activities

An additional perspective can be gained when pay costs are translated to full time equivalents (FTE's) staff as presented below, where those activities presented in red represent directly mandated activities and those in yellow indirect activities:



4.3 Key Observations and Conclusions

On the basis of the analysis which we have conducted, the following observations are made:

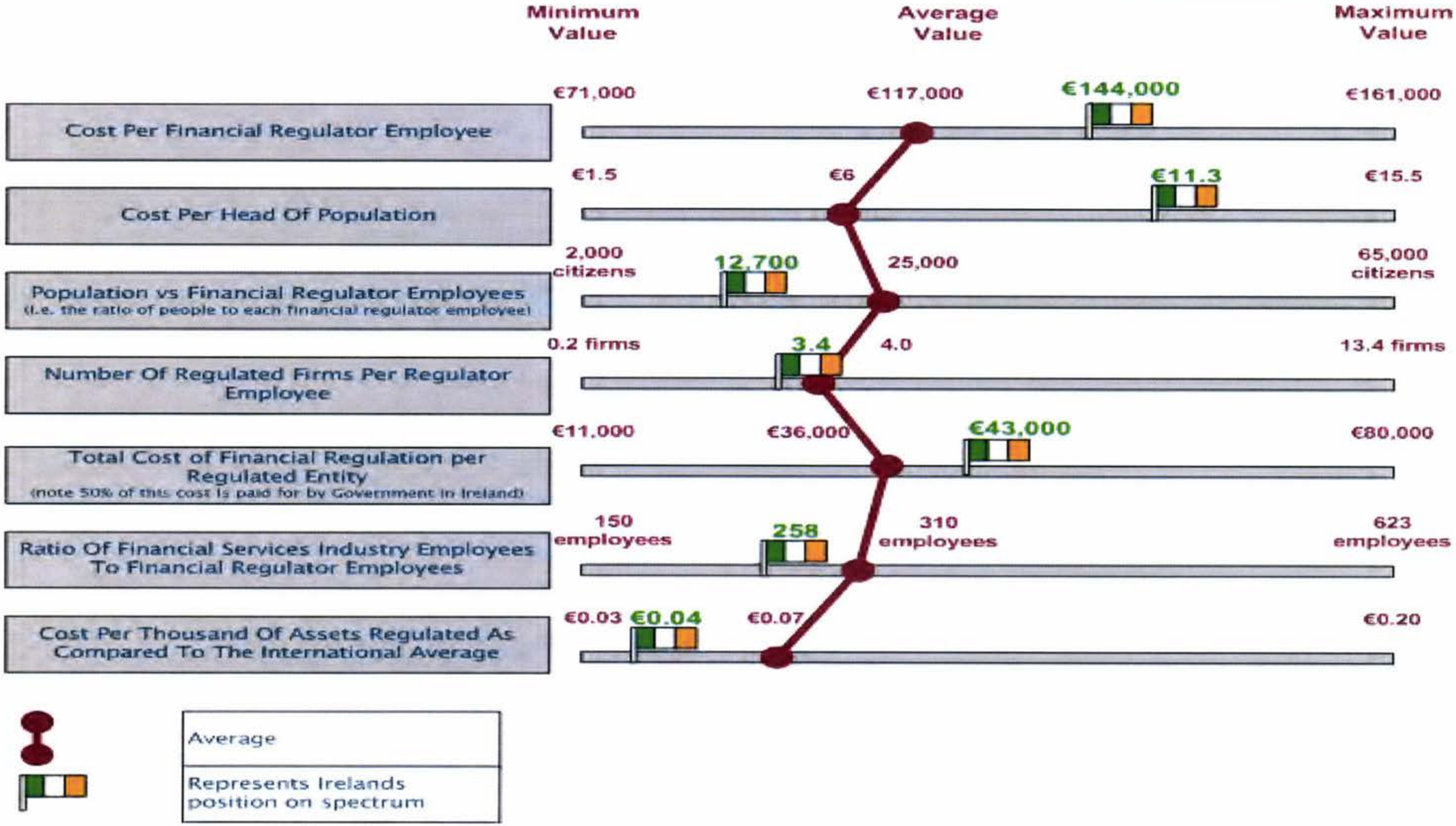
4.3.1 International Benchmarking

A comprehensive benchmarking exercise was undertaken as part of this Review, where following an invitation, 13 international financial regulators, provided benchmarking information to the Irish Financial Regulator across a range of subjects. Information for a further 3 financial regulators was included in the benchmarking exercise through the analysis of publicly available information.

All of the information presented below which includes references to other financial regulators has been prepared so as to protect the confidentiality of each financial regulator who participated in the benchmarking study. As such the numbering of financial regulators as 1,2,3,4 has been conducted on a graph by graph basis i.e. financial regulator 1 in graph 1 is not equivalent to financial regulator 1 in graph 2. The Irish Financial Regulator and its relative position as compared to the international average is however presented in the case of all financial/ resource indicators shown.

Benchmarking At Macro Economic/ Economy Level

The following main indicators, many of which are commonly used in the benchmarking of regulators have been considered in the context of comparing the Irish Financial Regulator against 16 international financial regulators including a number of leading financial regulators:


Minimum Value
Average Value
Maximum Value
Cost Per Financial Regulator Employee
€71,000
€117,000
€144,000
€161,000
Cost Per Head Of Population
€1.5
€6
€11.3
€15.5
Population vs Financial Regulator Employees
(i.e. the ratio of people to each financial regulator employee)
2,000 citizens
12,700
25,000
65,000 citizens
Number Of Regulated Firms Per Regulator Employee
0.2 firms
3.4
4.0
13.4 firms
Total Cost of Financial Regulation per Regulated Entity
(note 50% of this cost is paid for by Government in Ireland)
€11,000
€36,000
€43,000
€80,000
Ratio Of Financial Services Industry Employees To Financial Regulator Employees
150 employees
258
310 employees
623 employees
Cost Per Thousand Of Assets Regulated As Compared To The International Average
€0.03
€0.04
€0.07
€0.20
Average
Represents Irelands position on spectrum

Conclusion

Whilst a number of the indicators presented, do not necessarily represent conclusive measures of the value for money or adequacy of resources levels within the Financial Regulator, they are none the less the primary indicators which are commonly used to evaluate Financial Regulators internationally and should be considered in that context:

1. Cost Per Financial Regulator Employee

Using income as a proxy for cost (i.e. the Organisation's total budget) this indicator suggests that Ireland is a more expensive organisation in terms of the cost of its operation per employee at €144,000 against the average of €117,000.

The Irish Financial Regulator is the third most expensive in terms of cost per employee out of 16 financial regulators benchmarked. It is important to note that a number of smaller European countries have significantly higher costs per employee than Ireland. Costs of €161,000 and €154,000 were apparent in two other cases. However, this indicator does not take into account the cost base in operation in each individual country.

2. Cost Per Head of Population

At a cost of €11.3, the Irish Financial Regulator can be considered to be almost twice the average cost of those surveyed of €6.0.

On the basis of this indicator, Ireland would appear to be one of the more resource intensive regulators in Europe. The level of resources required is obviously not only driven by the volume of regulatory work, but also by the level of automation, process efficiency, technical complexity and diversity of sectors regulated, together with the strategic and policy decisions which have been taken by the Organisation in the context of the interpretation of its mandate.

However it is important also to note that a number of the smaller countries represented in the benchmarking study have higher ratios that their larger counterparts. This would suggest that the burden of cost on a smaller nation is generally higher than that of a larger nation where economies of scale and number of regulated entities are critical factors.

The calculation of this average is based on the exclusion of one Financial Regulator which has a very large financial services industry in comparison to the small size of its population.

3.Population vs Financial Regulator Employee

At a ratio of 12,700 citizens for every 1 employee, the Irish Financial Regulator has a lower ratio than the average of 25,000.

However in examining individual financial regulators, this indicator suggests that smaller countries, have lower ratios than those of their larger peers i.e. the ratio of financial regulator staff to population size is low. One particular financial regulator which is considered to be a leading financial regulator and a strong benchmark for the Irish model (similar population, similar number of regulated entities), presents a ratio of 9,700:1 as compared to Irelands 12,700:1

The size of the Organisation as compared to the size of the country population is also relevant as it puts into perspective the extent to which economies of scale can be achieved or not.

4.Number of Regulated Firms Per Regulator Employee

We can conclude that at 3.4, each individual Irish Financial Regulator staff member supervises a slightly lower number of regulated entities than the average supervised by comparator organisations included in the study of 4.

This indicator divides the total number of employees by total staff numbers. However, all staff across each organisation are not wholly engaged in the supervision of regulated entities.

This indicator has been compiled with the exclusion of one financial regulator which regulates over 28,000 institutions of which over 26,000 can be described as small- i.e. non deposit taking institutions, building societies, insurance companies and pension funds, it cannot be considered as representative.

5. Total Cost of Financial Regulation per Regulated Entity

Ireland at a cost of €43,000 per regulated entity displays a marginally higher cost than the average of €36,000. However on the basis that in Ireland, 50% of the cost of financial regulation is borne by the Irish Government, only €21,500 per regulated entity is actually borne by the Irish Financial Services Industry, which is significantly lower than the average across all those included in the benchmarking exercise.

6. Ratio of Financial Regulator Employees To Financial Services Industry Employees

For every staff member employed by the Irish Financial Regulator, 258 staff are employed within the financial services sector in Ireland. This is lower than the average calculated for those included in the study, but if countries of a more similar size to Ireland are considered, Ireland is about average.

This would suggest that in smaller countries, the same economies of scale in the supervision of regulated entities cannot be achieved. The number of employees differs so widely by type of regulated entity - i.e. credit institution or fund, that meaningful comparison at sector level is not possible.

7. Cost Per Thousand Of Assets Regulated As Compared To The International Average

Ireland (at a cost of €0.04) can be considered to be operating efficiently at the lower end of the cost scale as compared to 9 other international financial regulators included in this analysis.

Ireland's cost of €0.04 per thousand of assets regulated is significantly lower than countries of similar size.

Contribution of the Financial Services Sector

It is important to consider the cost of regulation against the value that the financial services sector contributes to the economy. The Gross Value Added (GVA) of a number of specific sectors across all European countries is measured by Eurostat – the statistical arm of the European Commission on the basis of information provided in national accounts. This indicates the relative importance of the financial services sector to the economy.

The contribution of the financial services sector to the total value added within the whole business economy of Ireland at 12.8% is higher than all but one other European Country.

Benchmarking At Organisational Level

A further comparison can be made, comparing the Irish Financial Regulator against comparator financial regulators who participated in the benchmarking study at:

- A. Directly mandated/indirect activity level
- B. Support activity level
- C. Stakeholder activities

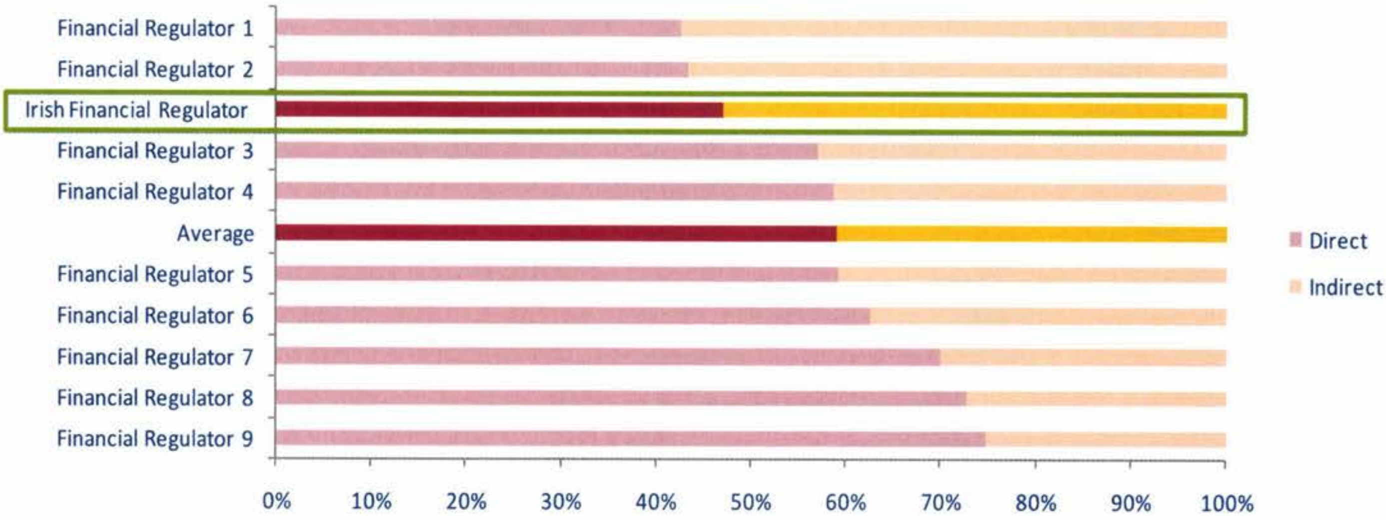
A. Comparison Of Directly Mandated/ Indirect Activities[12][13]

Using the same categories of activity as set out above i.e. directly mandated activities and indirect activities, and on the basis of the information provided in the course of the benchmarking exercise conducted as part of this project, the following comparison of direct and indirect activities may be presented:

[12] Directly mandated activities are activities which are legislatively mandated or directly support legislatively mandated activities

[13] Indirect activities – activities which support the organisation in the discharge of its mandate

Comparison Of Directly Mandated/ Indirect Activities



From our benchmarking analysis, it is apparent that the average direct to indirect activities ratio is 59%:41%. As such, it would appear that with the exception of two other financial regulators, Ireland's ratio of 47%:53% is significantly lower than the average in terms of the level of resource applied to direct activities i.e. more resources are consumed by indirect activities or those not directly mandated.

This may result from a number of different factors:

- The resource overhead associated with current strategic or policy decisions such as High Level Goal 4 of the Strategic Plan "Our regulatory approach will facilitate innovation and competitiveness" can be considered to be significant and is not comparable to other financial regulators
- The resources associated with Shared Services which are allocated on a cost rather than consumption basis to the Financial Regulator
- The nature of internal stakeholder consumption of resources
- The nature of external stakeholder demands
- The extent of manual processes and systems in operation

B. Comparison of Main Support Activities

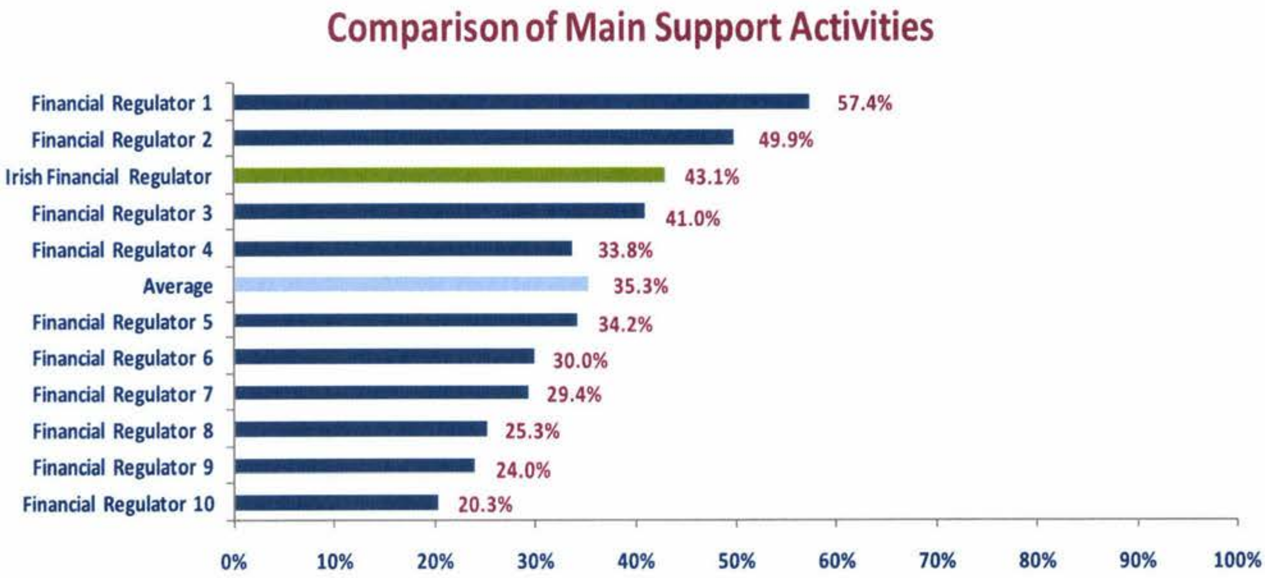
Comparing support activities and in turn costs across international financial regulators, including pay, non pay and shared services costs, the cost of support activities of the Irish Financial Regulator at 43.1% of total budget as compared to other financial regulators with an average of 35.3% is high.

Only 2 out of the 11 financial regulators, who provided information on support activities and costs, indicated a higher level of administrative support costs. If these two countries are removed, the average would be 31%. This suggests the average support cost base is around 31% - 35%.

The higher Irish cost would appear to be principally due to higher costs of HR, facilities and other support costs (i.e. stakeholder protocol) in Ireland.

IT costs in Ireland appear to be lower than the average. Countries who indicate that their IT costs are higher than those of Ireland would appear to be those which employ a highly automated technology environment and a significant difference is apparent in the level and nature of technology employed in these countries.

Support costs as a percentage of total costs may be presented as follows across those financial regulators included in the benchmarking exercise as compared to the Irish Financial Regulator (indicated) and the average:



C. Comparison of Main Stakeholder Activities

The benchmarking study also compared the cost of supporting external and internal stakeholders in the Irish Financial Regulator to the cost in other financial regulators. Not all regulators had adequate internal information to provide such a breakdown.

External stakeholder activities can be considered to include the following:

- Meet and greet meetings (visitors, supervised firms, visiting regulators, VIPs etc.)
- Speaking at conferences
- Responding to PQ's
- Interaction with the Department of Finance
- Press and media activities

Internal stakeholder activities can be considered to include the following:

- Internal Authority and Executive meetings, support and information provision
- Central Bank/ Governor requests
- Speech preparation
- Participation in committees / groups - internal

However based on the information provided, the cost of internal and external stakeholder activities as a percentage of total cost as compared to the average across international regulators is as follows:

	Ireland	Average
External stakeholder activities (including press/media, conferences etc)	5.9%	4.3%
Internal stakeholder activities (including board meetings etc)	4.0%	1.9%

This would suggest that, particularly in the case of internal stakeholder activities, the Irish model consumes more resources than that of other financial regulators. This is represented by a higher allocation of resources in the areas of:

- "Meet and greet" activities i.e. new or prospective regulated entities
- Advice to accountants, legal firms and other professional advisors
- Participation in external committees/ groups
- Responding to requests for information from third parties

Part of this differential can also be explained by the specific mandate of the Financial Regulator under High Level Goal 4 "We will facilitate innovation and competitiveness" which is not apparent in the majority of other mandates of financial regulators who participated in the benchmarking exercise.

Lower levels of resources than the average are allocated by the Financial Regulator to:

- Attending EU/International Groups
- Press/media (particularly in the case of those regulators who have a consumer mandate)

Conclusion

- Ireland's allocation of resources to "directly mandated activities" versus "indirect activities" is at variance to the average apparent across other financial regulators who participated in the benchmarking exercise
- Higher levels of resources are allocated to support or administrative activities than in other financial regulators
- The cost of support activities in Ireland (43.1%) is high compared to other financial regulators
- The Irish model consumes more resources for external stakeholder activities; however this should be considered in the context of High Level Goal 4 of the Strategic Plan " Our regulatory approach will facilitate innovation and competitiveness"

- The Irish model consumes substantially more resources for internal stakeholder activities

- Lower levels of resources than the average would appear to be allocated to attending EU/International Groups and to press/media activities

Some of these resource allocation disparities may be explained as follows:

- There is little commonality across prudential departments as to how resources assigned are allocated; some departments group resources by activity, some by entity, and some by process. This is due to a combination of differences in: organisational structure at department level, process and technology, and the level of contribution to internal support and administrative processes

- The level of resources, allocated to individual prudential and consumer departments which are consumed by administrative and support tasks is high when taken in the context of the level of resources allocated to core supervisory activities

- A significant level of resources is allocated to support High Level Goal 4 (facilitating innovation and competitiveness). This represents a difference in approach to that of other financial regulators. It is important to consider the resource implications separately; they are not insignificant and can be seen in the levels of staff time assigned to activities such as "meet and greet", responding to requests from accountants, legal firms etc.

- Resources allocated to support internal stakeholders and certain projects appear high particularly in the context of the current shared services arrangement. In some cases, the Irish Financial Regulator allocates resources at three levels to support an administrative process: through shared services, through the Financial Regulator Planning and Finance Department (PFD), and through individual departments

- The cost of producing information to support various management and governance groups is high compared to the level of resources allocated to other activities.

4.3.2 Benchmarking Of Consumer Activities

The benchmarking exercise conducted as part of this project, included an analysis of the consumer mandates and associated activities of participating financial regulators. Participants were asked to outline the nature of their legislative consumer mandate. This can be presented across the organisations participating in the study as follows:

	Financial Regulator 1	Financial Regulator 2	Financial Regulator 3	Financial Regulator 4	Financial Regulator 5	Financial Regulator Ireland	Financial Regulator 6	Financial Regulator 7	Financial Regulator 8
Legislative based consumer information mandate		■		■		■	■	■	■
Legislative based consumer protection mandate	■	■		■	■	■	■	■	■
Consumer protection inspections	■	■		■	■	■	■	■	■

It is difficult to benchmark the activities and resources of the Consumer Directorate as very few international regulators have a consumer mandate and of those that do, an even smaller number have a consumer information mandate. It is also apparent on the basis of the benchmarking exercise conducted that the Financial Regulator is considered by the majority of these to represent best practice in the area and as such detailed resource and activity comparisons are difficult. It can none the less be concluded that the level of activity and output from the Financial Regulator is higher than or a higher level as compared to its international peers and that as such more resources are allocated per Irish consumer than in other countries included in the study.

Whilst recognising that consumer mandates of participating financial regulators are not equivalent and that limited information was provided by each, if overall consumer resources are analysed on the basis of consumer staff per thousand of the population, it appears the Financial Regulator has allocated the largest number of staff resources to consumer activities.

	Irish Financial Regulator	Financial Regulator 1	Financial Regulator 2	Financial Regulator 3	Financial Regulator 4
Consumer staff per thousand of population	0.0191	0.0014	0.0055	0.0064	0.0015

This may be further analysed across the dual aspects of the mandate - Consumer Information and Consumer Protection:

Consumer Information

Few international financial regulators have a formal or statutory consumer information mandate; of the 13 participating organisations, 5 indicated they had a statutory mandate. Of these, only 4 are comparable to the Irish consumer information mandate and of those, some are more reactive than proactive in approach.

The primary types of activity associated with the implementation of a consumer information mandate include: the conduct of consumer information campaigns, responding to consumer queries, production of consumer publications, fact sheets, booklets, and conducting information seminars. The level of activity in Ireland is higher than in many countries i.e.:

- Ireland has a ratio of 9.5 consumer queries per thousand consumers, which is one of the highest ratios of any regulator, only exceeded by one regulator.
- Ireland maintains and produces a large number of consumer publications (34) as compared to other regulators, again only exceeded by 1 financial regulator. 34 represents almost twice the average of other financial regulators with a similar mandate
- Ireland produces the highest number of research/ policy consultation papers
- Ireland has the highest demand level for consumer publications at 420,000 requests (2007)

Detailed consumer information resource details were only provided by 3 regulators with a consumer based mandate. While, it is difficult to compare the resource consumption patterns in these individual organisations on the basis that their mandates and the interpretation of those mandates differ quite widely, the following may be noted:

Activity	Conclusion
Consumer publications and production of consumer information	Ireland employs roughly the same number of staff in the production and dissemination of consumer publications as a comparable financial regulator, which produces approximately 41% more publications than that produced by Ireland.

Activity	Conclusion
	However, Ireland employs half the resources used by another comparable financial regulator, which produces almost 50% of the publications that the Irish Financial Regulator produces.
Consumer research advocacy and policy	Ireland employs 6 FTE's to support this activity within the Consumer directorate against 7 in 1 comparable financial regulator and 3 each in the case of two others. However in the case of the Irish Financial Regulator, this also includes the Organisation's statutory competition mandate.
Consumer queries	The Financial Regulator employs a call centre to operate its help line services. This is outsourced to a third party call centre supplier. The operation of a consumer help line is outsourced by all regulators with a consumer information mandate included in the study with the exception of 1 financial regulator which employs approximately 6 FTE's in handling consumer queries

Consumer Protection

From a consumer protection perspective 7 of the 13 financial regulators included in the benchmarking exercise indicated that they had a formal or statutory consumer compliance mandate. Of those, all conducted consumer inspections in some form or other.

The primary types of activity associated with the implementation of a consumer protection mandate for comparison purposes include: advertising monitoring, consumer protection code monitoring, inspections, mystery shopping, investigations, and enforcement

Of the financial regulators included in the study, only 3 Financial Regulators provided relevant information and have similar enough consumer protection mandates to be comparable to the Irish Financial Regulator. The following can be drawn from the comparison of Ireland with the 3 countries where information was available:

- Ireland has a high ratio of consumer enforcement staff to enforcement cases concluded in a 12 month period under the Administrative Sanction (ASP) procedure

- Ireland has a lower level of inspections per staff FTE, compared to other regulators with a consumer mandate. However, the nature of inspections conducted is not necessarily comparable across regulators as many of the inspection processes are reactive rather than proactive in nature.

- With the exception of a limited number of cases, other regulators with a consumer protection mandate indicated that they intend to move to a proactive inspection model similar to that employed in Ireland. 3 other international financial regulators indicated that the consumer inspections are largely based on complaints received rather than on risk based thematic or proactive inspections. As such the Irish model can be considered to be more developed

Conclusion

- The consumer mandate in place in Ireland, is really only comparable to the mandates in operation in 4 of the financial regulators included in the benchmarking exercise. Of those 4, the majority, would appear to be more reactive rather than proactive in terms of the implementation of that mandate

- In comparing resources allocated to delivery of these mandates, it is evident that more resources are allocated per Irish consumer than in other countries. However, Ireland is significantly smaller than most of the other countries in question and thus may not be fully comparable

- In the case of the consumer information mandate, Ireland employs fewer resources than that of one specific comparable financial regulator with a higher output in Ireland, and the same as one regulator, with a lower output in Ireland. Given the small sample, diverse nature of results and large non pay budgets involved, it is not possible to definitively benchmark consumer information resources. However it appears staff resources engaged in consumer research advocacy and policy work in the Financial Regulator are high by international standards

- It appears the number of inspections conducted by the Financial Regulator per staff member is lower than in other regulators with a consumer mandate, however in certain cases the type of inspection is also different

4.3.3 Benchmarking Of Prudential Activities

On the basis of the analysis of the information provided as part of the benchmarking study, and recognising the difference in mandates between financial regulators in different jurisdictions, the following analysis of average staff costs allocated to the supervision of individual regulated entities across the banking and insurance sectors is apparent:

Sector	Ireland € per entity	Average € per entity
Banking/Credit Institutions/Branches of Overseas Credit Institutions and non deposit taking lenders	45,068	59,331
Life, non life and reinsurance	7,140	29,306

The significant gap in the level of staff costs allocated to insurance in particular, arises in part from the fact that the reinsurance team is a recent introduction to the Financial Regulator and is not operating to target capacity at the date of writing.

Reliable information could not be fully compiled in the case of investment firms, retail intermediaries, bureaux de change, collective investment schemes, credit unions, fund service providers and UCITS management companies and as such no comparison has been undertaken.

This analysis should be considered in light of the fact that while normalisation has been conducted, the analysis does not fully consider issues of complexity of institution, the extent to which they operate internationally or domestically or issues of volume of regulated entities or scale

While mandates and the number of entities regulated differ across regulators, the analysis presented above, would suggest that in the banking and insurance sectors, the level of resources allocated is less than that of other international financial regulators. This partly results from the fact that the FTE's allocated to core prudential supervision departments are often involved in other external/internal stakeholder or administrative support work.

Conclusion

On the basis of the small number of international financial regulators included in the study and not withstanding the difference in mandates across individual financial regulators, it appears that:

- A significantly lower level of total net resources (i.e. after the removal of administrative, internal and external support resources) is allocated to core prudential activities in the supervision of entities across key sectors in Ireland than is apparent in other financial regulators included in the study
- Whilst, significant differences in resource levels are apparent across regulators, the level of resources allocated to the supervision of credit institutions in Ireland would appear to be low
- The level of resources allocated to the supervision of entities within the insurance sector, particularly life and reinsurance is substantially lower than that of other regulators

4.3.4 Benchmarking Of Funding Models

The resource consumption and deployment patterns in place across financial regulators internationally should be considered in light of the different funding models in opreation, which may be presented as follows:

	Financial Regulator 1	Financial Regulator 2	Financial Regulator 3	Financial Regulator 4	Financial Regulator 5	Financial Regulator 6	Financial Regulator 7	Financial Regulator 8	Financial Regulator 9	Financial Regulator 10	Financial Regulator 11	Financial Regulator 12	Financial Regulator Ireland
Single financial regulator structure	X	X	✓	X	✓	✓	✓	✓	X Twin peaks model	X	X	X	✓
Principles/ rules based (Key 1)	R	P	R-P	P	R	R	R-P	P	Mix	R	R-P	R-P	✓
Funding model (Key 2)	Ind	Ind	Ind	Mix (ind)	Ind	Ind	Mix (public)	Mix (ind)	Pub	CB	Mix	Mix (ind)	Mix
Industry (millions)	€6 m	€17.6 m	€375 m	€84.9 m	€20.9m	€41m	€4 m	€50.4m	€168	–	€50.8m	€4,6m	€24.5m
Government (millions)	–	–		€17.3 m	€1.5m	–	€20 m	€3.4m	–	€164m	€3.9m	€1.4m	€24.5m

KEY 1

R = Rules Based
P = Principles Based
R - P = Rules moving towards principles
Mix = Combination of rules and principles

KEY 2

Ind = industry
Pub = publicly funded
CB = Central Bank
Mix=Even split industry and public funding

Mix (Ind) = Predominantly industry funding
Mix (Pub) = Predominantly public funding

- Ireland is one of a handful of financial regulators which receives a substantial proportion of its funding from Government (50%); only 1 other financial regulator surveyed receives a greater proportion (83%) from the state

- Due to the higher level of public funding, the regulatory cost burden on each Irish regulated entity is significantly lower than in other countries. The cost of funding to each regulated entity is €21,500 in Ireland and ranges from €71,000 to €11,000 with an average of €36,000 per regulated entity internationally. Only 2 of the 16 regulators surveyed demonstrated a lower cost burden per regulated entity than Ireland

Conclusion

Due to the mixed funding model (public and industry) in Ireland, the cost of regulation to individual regulated entities is substantially lower than in most other countries included in the study.

4.4 Recommendations

In the context of the above analysis of internal resources and in light of the benchmarking where possible of those resources against international financial regulators, the following recommendations can be made:

Recommendation 1 - Maintain the Total Complement of Staff

On the basis of our analysis, we recommend that the total complement of staff resources (for the year 2008) should be maintained at current levels in the long run.

However, in the short term and in order to implement the recommendations set out in this report, resource levels will need to increase for a limited period for the following reasons:

- It will take time to re-deploy/ re-train staff within the Organisation, but some specialist posts will need to be filled in the short term
- The ongoing financial crisis will require more intensive supervision of entities and markets than heretofore - however this has not been considered in detail as part of the analysis of resources in the course of this project
- The upgrade of IT systems and processes and the definition and implementation of an effective information management framework will require a significant upfront investment in resources before efficiency gains can be realised and staff efficiencies realised
- It will take time to transfer certain activities to the Shared Services team within the Central Bank

This recommendation does not consider the resource impacts of the Government Guarantee Scheme.

Recommendation 2 - Re-Examine The Level Of Resources Currently Committed To Support Activities, Internal/External Stakeholder Activities and Reduce These Resources by at Least 30% in the Next 3 Years

The level of overall Organisational resources allocated to support activities, internal and external stakeholder and project activities would appear to be higher than the international average at approximately 108 FTE's.

As such we propose that over a 3 year period, and in conjunction with the process and IT recommendations included in this report, the overall level of resources allocated to these activities and projects should be reduced by 30-35% thereby releasing approximately 30/40 FTE's which should be redeployed to the prudential supervision departments - especially banking and insurance.

It should be noted that this recommendation does not involve the redeployment of 30/40 FTE's from support departments to prudential departments, but rather:

- Some redeployment of support department staff (i.e. PFD)
- Some reallocation of activities, included under the Shared Services agreement with the Central Bank to that unit
- The significant reduction in the level of support and internal/external stakeholder activities conducted by frontline consumer and prudential staff.

Recommendation 3 - Review The Level Of Resources Currently Committed To Support The Consumer Mandate

The level of resources currently committed to the consumer mandate in certain areas whilst not necessarily excessive in the context of the mandate of the Consumer Directorate, the level of activity undertaken or the output produced, should none the less be reviewed in the context of

- The changes proposed to the organisational structure set out in this report
- The proposed transfer of certain support activities from consumer departments to the Shared Services unit within the Central Bank or a more appropriate support unit (e.g. procurement)
- The need to maintain the current volume of consumer activities & the level of comparative resource gaps in some prudential areas
- The efficiency gains that should result from the introduction of increased technology and automation to support certain consumer processes

We estimate that 4-5 FTE's could be redeployed in the context of the changes proposed to the organisational structure and the proposed transfer of support activities from consumer departments. These and some additional resources could be re-allocated to the insurance & banking prudential departments. However it is important to recognise that the current leading or "best practice" position of the Financial Regulator as outlined in Chapter 7 below, could be jeopardised if any significant diminution of activity were to occur

Recommendation 4 - Re-Examine the Level of Resources Currently Committed to, and the Model in Place For, Support and Administrative Activities

On the basis of the analysis of activities set out above, it would appear that a number of activities are being conducted at a whole of Organisation level, which consume a significant level of resources and that could be temporarily discontinued until such time as a more appropriate approach is adopted or conducted (e.g. stakeholder protocol which currently consumes approximately 4.6 FTE's).

The model for the conduct of other activities should be re-considered e.g. strategic planning, work planning and further activities which fall under the shared services contract conducted by shared services rather than Financial Regulator resources.

Recommendation 5 - Re-Consider Or Renegotiate the Current Shared Services Arrangement

The model for consumption of resources under the shared services arrangement with the Central Bank is a cost allocation model, rather than a services model. The cost of support activities in certain cases under this model is either complemented by, or replicated by, resources within the Financial Regulator.

The benchmarking study suggests that in a number of key support areas, the total cost of support services provided under the Shared Services model is higher than the international average. A review of the shared services arrangement and how it is implemented should be undertaken to ensure efficiencies and allow the reallocation of resources to more value added areas.

Recommendation 6- Introduce a Time Sheet System to Capture Resources Allocated to Specific Activities and to Support the Implementation of a Whole of Organisation Resource Allocation Model

The resource analysis exercise conducted as part of this Review, provided useful information on resource deployment patterns across the Financial Regulator, but was historical only. To repeat the exercise on an ongoing basis would be prohibitively expensive. However, it is important to ensure that the Organisation's directors are fully aware of how resources are being allocated and consumed and follow risk. In addition resources should be input to a whole of organisation resource allocation model to support forward planning. In order to facilitate the ongoing monitoring of resource utilisation patterns, a timesheet system should be introduced.

This system would allow individual members of staff to record the time spent on individual activities in a cost effective manner and should allow the current work return process, conducted in certain departments to be reduced or discontinued. This will support informed decisions on allocation/reallocation of resources and activity and process comparisons.

Recommendation 7: Investigate the Automation of Key Processes to Improve the Efficiency of Mandated Activities.

This is outlined in further detail in chapters 6, 7 and 8 of this report.

Recommendation 8: Investigate the Standardisation of Key Organisational Processes across Prudential and Consumer Departments

This is outlined in further detail in chapters 6 and 7 of this report.

Recommendation 9: Implement a Series of Changes to the Financial Regulator's Organisational Structure to Ensure That Clear Transparency of the Allocation of Organisational Resources to Activities Not Just to Departments is Maintained

This is outlined in further detail in chapter r of this report.

5 CURRENT ACTIVITIES AND MANDATE

5.1 Introduction

This chapter considers the mandate of the Financial Regulator across a range of areas. It specifically seeks to address the following questions:

- Is the Financial Regulator delivering on its mandate?
- What is the extent to which the mandate of the Financial Regulator is supported by its current activity profile?
- What is the Financial Regulator not doing that it should be doing – if anything?
- What is the Financial Regulator doing that it should not be doing – if anything?

The mandate of the Financial Regulator may be formally considered as represented by the following three constituent elements:

- The primary and secondary legislation which form the basis of Financial Regulation in Ireland
- The interpretation of this legislation through policy decisions made by the Organisation
- The Organisational strategy and activities put in place to implement and discharge it statutory responsibilities

Our analysis of the mandate of the Financial Regulator was undertaken by means of an assessment and consideration of the following documents:

- All Strategic Plans since the inception of the Organisation (3 year and annual)
- Central Bank Acts as amended since 1942
- 'Value For Money' report by the Comptroller and Auditor General (C&AG) of 2007
- Advisory Forum on Financial Legislation (AFFL) progress documentation

In addition, the Mazars team conducted a number of workshops and meetings covering all departments within the Organisation.

Our review of mandate does not seek to be exhaustive or fully comprehensive in nature nor does it seek to provide the Financial Regulator with any assurances as to the extent of either compliance with or implementation of the provisions of all elements of its legislative mandate. Rather, our assessment is based on a high level review of the constituent elements of mandate of the Organisation.

While consideration of the regulatory approach adopted by the Financial Regulator was outside the scope of this assignment, it is an important backdrop to this chapter. In order to discharge its' mandate, the Financial Regulator has, to date, undertaken a principles based approach to regulation.

5.2 Overview of Current Mandate

5.2.1 Primary Legislative Mandate

The Financial Regulator's mandate was initially determined, and continues to be driven, by its primary legislation (Central Bank Acts). The Central Bank and Financial Services Authority Act 2003 (the 2003 Act) provides for the establishment of the Regulatory Authority[14].

This was followed by The Central Bank and Financial Services Authority of Ireland Act in 2004, which acted as an amendment to the 2003 Act and primarily widened the remit of the Organisation in relation to administrative sanctions/enforcement activity. The 2003/2004 Acts represent the most recent changes to the initial Central Bank Act 1942 (other changes to the Act were made in 1971, 1989 and 1997). A full list of the primary and legislative provisions of the mandate of the Financial Regulator is included in Appendix VI to this document.

The main components of the legislation under which the Organisation functions include:

Section 33C of the 2003 Act outlines the functions and powers of the Regulatory Authority. The Regulatory Authority is required to promote the best interests of users of financial services in a way that is consistent with:

(a) the orderly and proper functioning of financial markets; and
(b) the orderly and prudent supervision of providers of those services; and
(c) increase awareness among members of the public of available financial services and the cost to consumers, risks and benefits associated with the provision of those services.

Under section 33C (1)(c), the Financial Regulator must provide the Governor and the Board of the Central Bank with advice, information and assistance with respect to the performance of their respective functions under the Central Bank Acts.

33C (1)(d) provides for any other functions imposed on the Regulatory Authority by [...] any other Act or law. According to 33C (2), Schedule 2 can be extended by the Minister at any time. In effect, this means that the full extent of secondary legislation that determines the supervisory and regulatory mandate of the Financial Regulator can only be assessed on the basis of a complete and up-to-date listing of all pertinent Irish, EU and other pieces of legislation.

Section 33H outlines that the Chief Executive has the power to do whatever is necessary for or in connection with, or reasonably incidental to, carrying out his respective responsibilities and shall, as far as reasonably practicable, ensure that the resources of the Regulatory Authority allocated for carrying out those responsibilities or exercising powers are used effectively, efficiently and economically.

Section 33N outlines that not later than 3 months before the beginning of each financial year, or within such extended period as the Minister may allow, the Regulatory Authority shall:

(a) prepare a statement setting out estimates of its income and expenditure for that year, and

[14] The term Regulatory Authority is used where specific reference is made to legislation such as the Central Bank Act; otherwise the organisation is being referred to as the Financial Regulator throughout this report.

(b) submit the statement to the Minister for approval or so much of the statement as relates to paragraphs (a) and (b) of subsection (2).

The statement must (a) specify the amounts expected to be collected and recovered during the financial year concerned from the imposition of levies under section 33J; and (b) specify any other sources from which funds are expected to be obtained during that year to finance the Regulatory Authority's activities and the amounts expected to be raised from those sources, and (c) specify the activities that the Regulatory Authority proposes to undertake during that year.

Section 33O outlines the requirement of the Regulatory Authority to prepare and provide the Minister with an annual report and, from time to time, other reports relating to the performance of its functions and the exercise of its powers.

Section 33P outlines that the Regulatory Authority shall, at least 3 months before the beginning of each financial year

a) prepare for the year a strategic plan that complies with this section, and
b) submit the plan to the Minister.

Chapters 2 and 3 of the new Part IIIA deal with the statutory positions of the Consumer Director (**sections 33Q to 33V**) and the Registrar of Credit Unions (**sections 33W to 33AF**).

Part IIIC to the Central Bank Act was introduced in 2004 in order to provide the Financial Regulator with the additional functions, and necessary powers, for the 'Enforcement of Designated Enactments and Designated Statutory Instruments'.

The primary legislation outlines, in a relatively broad manner, the activities for which the Organisation is responsible. The prioritisation of these activities and the manner in which they are to be undertaken is primarily left to the Financial Regulator. With this in mind, the Financial Regulator has interpreted its overall mandate at a high level as follows:

- **a prudential mandate** - under which it aims to foster sound, dynamic financial institutions in Ireland;
- **a consumer mandate** - under which it aims to help consumers to make informed financial decisions in a safe and fair market.

It should additionally be noted that the legislative framework continues to evolve, primarily on EU and international levels, and that this must also be considered when reviewing the mandate of the Financial Regulator.

5.2.2 Strategy and Activity Profile

The Organisation's strategy and activity profile gives life to the legislation, and as such is the means through which the Financial Regulator approaches the delivery of its mandate.

Since its inception in 2003, annual strategic plans have been prepared together with multi annual (3 years) plans. The current strategic plan outlines the Purpose and Vision of the Organisation, its values, and 5 High Level Goals, which are set out below:

Purpose:
"Our purpose is to help consumers make informed financial decisions in a safe and fair market and to foster sound dynamic financial institutions in Ireland".

High Level Goals:
1. "We will set and monitor standards for financial service providers in dealing with their customers"
2. "We will set and monitor standards for the running of sound financial service providers and fair markets"
3. "We will provide relevant information to consumers"
4. "Our regulatory approach will facilitate innovation and competitiveness"
5. "We will maximise our operational efficiency and cost effectiveness"

5.3 Key Observations and Conclusions

On the basis of the interpretation of the mandate and the legislation outlined above, and in the context of the analysis which we conducted, the following observations are made:

5.3.1 Coverage of Mandate Delivery

In accordance with the four questions which we sought to answer, the following observations may be drawn:

1. **The following limited areas are those in which a partial gap or potential gap in the delivery of the mandate of the Financial Regulator is apparent:**

- Enforcement - Current enforcement provisions under the administrative sanctions procedure (ASP) are not applied consistently or comprehensively throughout the Organisation and a clear policy is not in place.

- Transaction Reporting and Monitoring - In July 2005 the Financial Regulator became the competent authority under the Market Abuse Regulations 2005. The Financial Regulator entered into a delegation agreement with the Irish Stock Exchange (ISE) to support the operational tasks in relation to the MAD, such as transaction monitoring and initial investigations of suspicious transactions

  In addition, MiFID was transposed into Irish law in 2007, requiring a reporting mechanism to be in place for relevant transactions to the Financial Regulator (as the 'competent authority') and to provide such transaction data to other EU competent authorities. Whilst transaction reporting has technically been implemented since 2007, operational difficulties continue to exist.

  The Financial Regulator is in the process of building its own share trading supervision system to take over from the ISE. It began building this in phases in 2006. That system is currently in the middle of development and is not fully operational. The Markets Supervision Department (MSD) receives real data from market participants, but the systems to analyse that data are only currently being put in place and will not be fully available until the end of 2009, under current I.T. plans. Consequently the system has not to date led to specific transactions being referred to the investigations team, although the team have used the limited analytical capacity that the early phases provide to assist it in investigations

In addition, the transaction monitoring process is impacted upon by the lack of technical reporting facilities for Over-The-Counter (OTC) transaction between the EU competent authorities; whilst Ireland collects such data, the Financial Regulator as is the case with other European financial regulators is not in a position to provide other EU members with that information or receive such data for inclusion in their monitoring procedures. As a result, only limited assurance can be provided by the MSD Investigations team as to the extent of coverage and depth of their investigations into suspicious transactions.

2. **The following areas are those areas in which greater clarity on the Organisation's policy on the depth or level of implementation of its mandate may be required**

- Administration of Minimum Competency Requirements (MCR)
- The depth and coverage of supervision activities
- Depth of review and evaluation of financial institutions under the Capital Requirements Directive (CRD)
- Depth of supervision of reinsurance undertakings under the Reinsurance Directive
- Level of industry monitoring and intervention in certain markets
- Certain consumer information activities (e.g. Financial Capability Study, contribution to the Steering Group on Financial Education etc.)

3. **The following areas have been identified as mandated activities of the Financial Regulator which may be not be perceived to add value or be consistent with the Organisations overall mandate and as such may be considered for review, removal or transfer to a more appropriate agency/body or the Central Bank:**

- Net Asset Valuation (NAV) of funds
- Administrative and support activities in the context of the Shared Services agreement in place with the Central Bank

4. **The following are opportunities for the re-prioritisation and possible cessation of certain activities that are not legislatively mandated and as such may be areas which can be considered as activities which are being conducted by the Financial Regulator that it is not required to conduct:**

- Provision of support and advice to professional advisors of regulated entities
- Provision of introductory meetings to officials / applicant entities etc
- Preparation of Private Motor Insurance Statistics
- Preparation of Insurance Statistical Review
- Preparation of Other studies and published reviews

- Certain administrative and support tasks

The above must be read in the overall context of the review of the Mandate of the Financial Regulator which is considered in terms of legislation, interpretation of legislation and policy decisions made by the Financial Regulator in response.

Conclusion

The mandate as outlined in legislation, interpreted by the Organisation and represented in its strategy is broad and many faceted. In response to the questions which this exercise sought to ask, we can conclude:

Is the Financial Regulator delivering on its mandate?
The Financial Regulator is applying its resources to deliver its' mandate, with the exception of a number of instances which are outlined

No significant gaps in the coverage of the mandate have been identified in the course of the review. However the current management systems in place do not adequately assist in establishing whether the work plans and activities implemented to deliver the mandate are either appropriately prioritised or effectively undertaken.

What is the extent to which the mandate of the Financial Regulator is supported by its current activity profile?
It would appear, on the basis of our high level analysis, that the mandate of the Financial Regulator is supported by its current activity profile. However it is not clear whether appropriate prioritisation and emphasis has been placed on certain activities and sectors or whether the effectiveness of operations around all activities is of an appropriate quality.

What is the Financial Regulator not doing that it should be doing - if anything?
The Financial Regulator is conducting a number of activities which are not directly specified as part of its mandate - these are outlined above.

What is the Financial Regulator doing that it should not be doing - if anything?
We have identified a number of activities where the Financial Regulator has exceeded its mandate as outlined above

In addition, to the issue of the coverage of the mandate, as outlined above, the following additional observations may be made:

5.3.2 Interpretation and Communication of Mandate

The management team of the Financial Regulator recognise that there is a requirement to develop a statement which clearly communicates the mandate of the Financial Regulator and the decisions taken by the Authority against this mandate. Additionally, there is a need to manage the expectations of market participants and to ensure that the mandate is interpreted by the market in a way in which the Financial Regulator can clearly deliver.

Conclusion

Whilst the overarching mandate and specific statutory duties of the Financial Regulator are clearly articulated in its Strategic Plan, a number of implied policy decisions have been made since the inception of the Organisation, which need to be more clearly and formally articulated to facilitate their implementation (e.g. High Level Goal 4)

Whilst, from our assessment, the Financial Regulator has broadly applied its resources to deliver its mandate, there is a clear gap in perception between what has and is being done against what stakeholders expect. This expectation gap should be managed.

The current mechanism in place within the Organisation to assure the Authority that the mandate is being delivered and delivered effectively is not fully comprehensive or appropriately formal in nature

5.3.3 Compliance Tolerance

A comprehensive enforcement procedure, the Administrative Sanctions Procedure (ASP) outlines that each compliance incident needs to be categorised between A (very serious breach) to E (very minor breach) where category E cases lead to no further action.

A definition of, or policy on, the Financial Regulator's tolerance of non-compliance does not currently exist. The Organisation's policy on compliance tolerance and the application of the ASP procedure is currently unclear and this procedure is applied inconsistently throughout the Financial Regulator.

Conclusion

Whilst a comprehensive enforcement procedure - the Administrative Sanctions Procedure (ASP) is in place and considerable resources were devoted to its development and subsequent adoption by the Organisation, the Financial Regulator's position and appetite in relation to enforcement are not clear.

Enforcement is not conducted on a consistent basis throughout the Organisation. This is further compounded by the absence of adequate dedicated resources allocated to this function.

In addition, in the absence of a clear internal policy on compliance and/or non compliance tolerance with legislation, it is difficult to ensure that a consistent approach to enforcement is applied across all departments.

Additionally, it is currently possible, that non compliance issues may not be recognised, reported or acted on appropriately.

5.3.4 Advisory Forum on Financial Legislation

The Advisory Forum on Financial Legislation's (AFFL) principal mandate is to ensure a harmonised and integrated cross-sectoral legislative framework for effective and efficient financial services regulation. The AFFL's work is based around 45 individual Acts, 250 Statutory Instruments with 70 Commencement Orders across several sectors, e.g. banking, insurance and investment services. The expected outputs from the project are a consolidated cross-sectoral Bill and consolidated Secondary legislation.

Conclusion

The anticipated outcomes of the AFFL project are important to bringing further clarity around the mandate of the Financial Regulator. A simplified and streamlined body of financial legislation will clearly facilitate effective compliance monitoring. In addition, a consolidated body of legislation will assist in the categorisation/prioritisation of legislative and regulatory requirements which will then support the Financial Regulator to further refine its risk-based approach to regulation and ongoing supervision.

5.3.5 Legislative Register

The Financial Regulator does not maintain a complete internal register of all legislation which is relevant to its mandate. The primary legislation (Central Bank Acts) refers to the Schedule 2, which contains the relevant enactments (part 1) and statutory instruments (part 2). The amendments of the Central Bank Act since 1942 have led to numerous amendments of Schedule 2. It would appear that the only comprehensive source for a complete listing of Schedule 2 is the external website **www.betterregulation.ie.**

Whilst a pilot project aimed at the compilation of a legislative register was carried out in 2006, involving the Insurance Supervision department (INS) this project was suspended in 2007.

As such, the INS department and also in part the Investment Service Providers Supervision department (ISPS) department, have compiled a listing of what they believe to be the complete body of relevant legislation which relates to their departmental remits. The INS department have also, in the form of their departmental operating manual, mapped the requirements of individual elements of the legislation to activities and documented the basis for their interpretation. A comprehensive internal register, against which activities are mapped is not currently maintained by the Financial Regulator.

Conclusion

Currently, there is no assurance mechanism in place to ensure that the Financial Regulator is cognisant of and capturing all relevant legislation. A comprehensive listing of relevant enactments and statutory instruments by sector (for example banks, insurance, investment service providers) does not exist. As a consequence, validation in terms of completeness and/or gaps is not possible.

5.4 Recommendations

The business process review project was conducted over the period March - October 2008. Recent events in international financial markets and in Ireland have not substantially changed the recommendations below but may place an additional emphasis on the urgency for a review of the regulatory and supervisory approach that the Financial Regulator employs.

Recommendation 1 - Coverage of Mandate

In the future, in order to ensure adequate clarity on the coverage of the mandate, we recommend an extension of the current approach adopted by the Insurance (INS) department - the development by each department of a listing of the relevant legislation which guides their activities and a mapping of activities to the legislation. This would provide assurance to the Authority and Senior Management Team that the full legislative mandate is being covered and effectively implemented on an ongoing basis.

The Financial Regulator should consider the establishment of a single organisational wide legislative register, which would record all of the individual elements of the legislative mandate of the Organisation and in turn would monitor the clear primary responsibilities for the oversight of each piece of legislation.

The systems used to provide assurance to the Senior Management Team and the Authority that all the significant day to day activities associated with the mandate are carried out to appropriate standards on a consistent basis across the entire Organisation need to be significantly enhanced. Elements of this are currently in place.

Recommendation 2 - An Overall Review of Mandate Delivery and Prioritisation

Whilst no significant gaps in the coverage of the mandate have been identified in the course of the review, there is a need to ensure that the interpretation of the legislation is undertaken in such a way as to make certain the overarching purpose of the Organisation is delivered on. The core mandate is to ensure:

(a) the orderly and proper functioning of financial markets; and
(b) the orderly and prudent supervision of providers of those services; and
(c) increase awareness among members of the public of available financial services and the cost to ` consumers, risks and benefits associated with the provision of those services

The Organisation must ensure that this mandate is delivered to all stakeholders in a timely, reliable and effective manner, that these stakeholders have absolute confidence in this delivery and that the roles of oversight of the stability of the overall financial system and day-to-day supervision of individual institutions are managed effectively and in tandem.

The Financial Regulator should both articulate and communicate more clearly where interpretations of mandate have had to be made and have significant implications on either resources deployed or stakeholders

Recommendation 3 - Clarify the Approach to Risk Based Supervision

Applying a principles-based approach to regulation goes hand-in-hand with risk-based supervision.

Risk-based prioritisation of supervision activities should happen both within the prudential and consumer directorates. If high-risk (or high impact) institutions and activities receive more attention it follows that, within the constraints of limited resources, low risk activities will receive very little or no attention. The associated risks of this should be made transparent to senior management and the Authority, on that basis, the risk appetite in qualitative and quantitative/monetary terms, should be clearly defined and agreed.

As such, whilst a risk model is currently in place within the Prudential directorate, it has not been implemented in a standard manner or extended to the Consumer Directorate at the date of the review.

We recommend that this model, in a standardised form, should be implemented across both directorates and all sectors as a mechanism to drive the clear and transparent supervision of regulated entities and markets on the basis of risk profile. In addition, a clearer relationship between resources allocated to sectoral risk profile of firms should be established as an output from the model. The implementation of such a model would not necessarily require the individual assessment of every each regulated entity (e.g. funds, investment companies) but rather the profiling of both individual entities in some cases, and segments of specific sectors in others.

Recommendation 4 - Review Regulatory Approach and Financial Regulator's Positioning In Relation to Demands from Industry and Others in Light Of Its' Mandate and Changing Economic Circumstances

Whilst the Financial Regulator has frequently stated that it continues to be committed to a principles-based approach to regulation and to being an open Organisation that values the relationships with all stakeholders, it may be appropriate to review this policy particularly in light of the changed environment and expectations of stakeholders in recent times. It may be more appropriate, in the immediate term, to ensure effective and assured delivery on the core mandate of the Organisation before focusing on the needs of individual institutions/stakeholders.

Recommendation 5 - Clarify the Organisation's Position on the Enforcement of Administrative Sanctions

The clear and formal articulation of the Organisation's position on enforcement and the adoption or otherwise on a consistent basis of the Administrative Sanctions Procedure (ASP) should be prioritised. In addition, the formalisation of levels of tolerance for non compliance and the adoption of an agreed approach to enforcement, together with the development of appropriate escalation procedures should be prioritised within the Financial Regulator.

The Organisation's position, enforcement appetite and the internal policy in relation to enforcement should be clarified, communicated and applied consistently across the entire Organisation.

Additionally, the current processes to assure the management of breaches should be enhanced to ensure that risks are appropriately identified and to guarantee the effectiveness and cohesiveness of actions around breaches.

The current ASP procedure should be reviewed in this context and in light of the enforcement experience gained since its implementation and other models of sanction procedures explored, where appropriate.

Recommendation 6 – Perform an Analysis of the Capability of the Financial Regulator to Take Over Full Operational Responsibility under the Markets Abuse Directive

The capability of the Financial Regulator to ensure that transaction reporting, monitoring and investigations of suspicious transactions, is likely to be subjected to the full scrutiny of the Irish public (industry and consumers) and other EU competent authorities.

The Financial Regulator has a short 'grace period' under the existing delegation agreement with the Irish Stock Exchange (ISE) but will be charged with the full extent of that mandate in early 2009 and in that context should assess its ability to take over full operational responsibility at that point. If the Organisation is not yet prepared to undertake full responsibility this must be communicated and alternative arrangements should be made.

6 PRUDENTIAL OPERATIONAL PROCESSES

6.1 Introduction

As part of this review, business processes were examined at 3 levels:

- **Management processes**: the processes that govern the operation of the Organisation e.g. mandate / legislation, purpose, vision, high level goals, strategic planning / activity profile
- **Operational processes**: the processes that constitute the core business of the Financial Regulator and create the primary value e.g. inspections, investigations, enforcement etc.
- **Support processes**: the activities that support the day to day operation of the Organisation and the delivery of its mandate.

The operational processes of the Financial Regulator are its most critical as they form the basis for all prudential and consumer activity. As such, a number of the key prudential processes (although not all) in operation in the Financial Regulator were the subject of a detailed review and analysis exercise conducted over the period of July to October 2008. The processes examined included:

#	Prudential Process
1	Prudential Analysis
2	Reactive Supervision
3	On Site Inspections
4	Investigations/ Enforcement (ASP)
5	Market Supervision
6	Authorisation

Our review and analysis focused on identifying opportunities to:

- Improve efficiency
- Improve output
- Improve the use of existing resources
- Automate routine/ operational tasks
- Eliminate/reduce process inefficiencies or unnecessary activities
- Use tools, resources and systems more efficiently
- Reduce duplication

The prudential processes examined in this chapter address some, but not all of the processes managed by the following departments:

- Banking Supervision (BSD)
- Insurance Supervision (INS)
- Investment Service Providers (ISPS)
- Registrar of Credit Unions (RCU)

- Funds and Financial Institutions Authorisation (FIFA)
- Market Supervision Department (MSD)

Whilst a series of prudential type processes are also managed by the Consumer Protection Code (CPC) department, these have been detailed as part of Chapter 7.

The processes within individual departments were selected for review on the basis of discussions held with the Project Steering Committee at the outset of the project.

6.2 Overview of Current Prudential Processes

The following table includes a short description of the prudential processes examined as part of this review; it shows the department(s) which manage and/or participate in the process and below this table, a short description of the process.

	Core Prudential Processes	BSD	INS	ISPS	RCU	FIFA	MSD
1	Prudential Analysis	√	√	√	√		
2	Reactive Supervision	√	√	√	√		
3	On site inspections	√	√	√	√		
4	Investigations/Enforcement	√	√	√	√	√	√
5	Market Supervision						√
6	Authorisation	√ **Partial**	√ **Partial**	√ **Partial**	√	√	

It should be noted that BSD, INS, and ISPS departments also participate, to varying degrees in the authorisation/post authorisation processes and in certain cases significant resources are consumed in the handover of files following authorisation particularly in ISPS and INS.

6.2.1 Prudential Analysis

The prudential analysis activities reviewed as part of this exercise relate to the following departments:

- Banking Supervision (BSD)
- Insurance Supervision (INS)
- Investment Service Provider Supervision (ISPS)
- Registrar of Credit Unions (RCU)

The Registrar of Credit Unions (RCU) Department does not form part of the prudential directorate under the current organisational structure but the approach to prudential analysis adopted by RCU is relatively similar to the processes adopted by departments within the prudential directorate and as such is also dealt with in this subsection.

Prudential analysis processes vary somewhat from department to department but at a generic level the objective of the processes are basically the same. These high level processes vary only in terms of the underlying process drivers (legislation, criteria, data, risk, etc.), and the supporting policies, procedures and systems (including IT systems).

The following is an overview of the offsite or prudential analysis processes by department, including information received:

BSD	RCU
Formerly 1 prudential return, now 7 separate reporting requirements as follows: • COREP – Common reporting (E) * • FINREP – Financial reporting (E) • Impairment provisions for credit exposures (M) • Management of liquidity risk (M) • Large exposures reporting (M) • Deposit return (M) • Sectoral reporting (M)	Information collected includes: • Quarterly Prudential Return (E) • AGM Process (M) • Credit Union Annual Return Process (M) • Statutory Duty Declaration/annual positive statement and management letters (M)
ISPS	**INS**

Information collected includes:
• Weekly returns (stockbrokers)
• Monthly returns (from MiFID firms – temporary)
• Quarterly return (depending on entity type and size)
• 6 month return (depending on entity type and size)
• Audited financial statements – interim and final
• statutory duty confirmation report
• Management accounts
• Monthly Net Asset Value Return (NAV) – collective investment schemes
• Statutory duty confirmation report, auditors management letter, trustees report, auditors report (funds)
• Capital adequacy return
 	
There is currently a mixture of manual and electronic submission and NAV returns are submitted on disk. The following manual/electronic pattern is apparent:
	Information collected includes:
	• Life Returns – (M)
	    • Annual Returns
	    • Quarterly Returns (mainly for non life companies)
	
	• Non-Life Returns – (E)
	    • Annual Returns
	    • Quarterly Returns

• Larger investment firms - electronically • Medium sized investment firms - some are electronic, some are manual • Small investment firms - mostly manual • Other (Funds Service providers (FSPs), Retail intermediaries, Bureau De Change, Money brokers, stockbrokers etc.) - combination of electronic/manual	

* (E) indicates information currently received electronically;
* (M) indicates information received manually.

Insurance Supervision Department (INS)
The structure or teams responsible for the analysis of prudential data varies by department with for example INS employing a Financial Analysis Unit (FAU) responsible for the receipt, entry (where appropriate), validation and basic checking of prudential data. Desk based teams are in turn responsible for the overall co-ordination and oversight of all supervision activities for individual entities.

Reinsurance companies have only been regulated by INS since Nov 2007 and a dedicated unit has been established to supervise these entities.

Non life returns are sent to the Financial Regulator via the In-Reg system and as such are partly automated, but a number of risks remain as to the ability of firms to override the controls in the system and this in turn requires a number of additional checks which are applied by the FAU team.

Life returns are submitted manually and thus typed into the Supervision System which in certain instances can result in errors/gaps etc. (data entry/rounding etc) and requires the employment of 2 - 3 temporary staff on an annual basis.

As such, one of the current roles of the FAU is 'clean up' work relating to returns received.

A total of 525 returns were submitted to the INS department in 2007.

Banking Supervision Department (BSD)
In the case of BSD, prudential analysis activities are carried out by a combination of the Financial Reporting Analysis team and a number of examination teams. All returns were submitted in 1 prudential return, now there are essentially 7 separate reporting requirements i.e.

- COREP - Common reporting - electronic
- FINREP - financial reporting - electronic
- Impairment provisions for credit exposures - manual
- Management of liquidity risk - manual
- Large exposures reporting - manual
- Deposit return - manual
- Sectoral reporting - manual

A new electronic reporting framework was introduced under Basel II i.e. COREP & FINREP returns. These replaced the previous prudential return at the start of 2008 and at the date of writing, the Organisation was in the second cycle of the new reporting framework for COREP and FINREP. The old returns were submitted to the Statistics unit for input on the Supervision system and then passed to BSD, these are now processed directly. This electronic system would appear to have made a significant improvement in efficiency terms within BSD. However it is too early in the new process to quantify this fully.

A total of 47 annual, 662 quarterly, 470 monthly and 1,173 weekly returns were submitted to the BSD department in 2007.

Investment Service Providers Supervision Department (ISPS)

In ISPS, prudential analysis primarily focuses on the processing of the following:

- Weekly returns (stockbrokers)
- Monthly returns (from MiFID firms – temporary)
- Quarterly return (depending on entity type and size)
- 6 month return (depending on entity type and size)
- Audited financial statements – interim and final
- Statutory duty confirmation report
- Management accounts
- Monthly Net Asset Value Return (NAV) – collective investment schemes. We understand that since our analysis was completed, the process relating to NAV returns has changed so that they are now received by the Statistics department of the CBFSAI
- Statutory duty confirmation report, auditors management letter, trustees report, auditors report (funds)
- Capital adequacy return

All collective investment schemes are required to submit a monthly Net Asset Value (NAV) Return to the Financial Regulator from the date the fund is authorised to the date it is revoked. This return must be submitted within ten working days of the end month to which it refers.

Interim and Annual Accounts are submitted to the Financial Regulator for all funds

Within ISPS off site inspections/analysis of prudential return work is split by entity type and the following teams have responsibility for each:

- Group I/II – Investment Firms (MiFID firms and non retail IIA firms)
- Group V / VI – Funds Service providers (FSPs) including Non UCITS & UCITS management companies and SMICs funds
- Group VIII – Retail intermediaries, Bureau De Change / Money transmitters
- Group IX – Money brokers, stockbrokers and their subsidiaries

The ISPS teams use a combination of the Supervision System and Excel spreadsheets to support their prudential analysis work and a series of well documented and detailed procedures support the largely manual analysis of the different types of returns and supporting documents submitted by the different types of entities.

In the majority of cases the analysis and running of checks on returns and other information submitted is conducted by following the detailed procedures and checklists. This analysis also includes the running of certain queries in the Supervision System and using Excel. The majority of these checks are numerical or existence based and as such would lend themselves to increased automation and exception based analysis using IT tools.

A total of some 62,147 returns were submitted to the ISPS department in 2007, over 58,000 of which were from funds.

Registrar of Credit Unions (RCU)

In RCU prudential analysis primarily focuses on the processing of the following

- Quarterly Prudential Return
- AGM Process documentation
- Credit Union Annual Return Process
- SDD / annual positive statement and management letters from the auditors

RCU currently adopt a matrix structure in relation to off site prudential analysis activities (including analysis of prudential returns and other information received e.g. Credit Union Annual Return Process).

While Credit Unions are allocated across a number of teams, one owner is allocated responsibility for a process (e.g. Credit Union Annual Return Process) within the department.

- In the case of the Credit Union Annual Return, once the team responsible are satisfied that data is complete and suitable for input, it is input and recorded in the Supervision System. At present, 4 temporary staff members must be hired every year to help with the input of the data into the system
- Data is validated / cross checked by senior staff
    - No automatic tool is used to ensure that data is cross checked effectively
    - A manual validation '4 eyes approach' is adopted
- Once data is input on the system, it is extracted into Excel and recalculated
- The offsite unit undertakes a further analysis using Excel for the purposes of producing a report to management
- Once the process is complete, the offsite unit inform the supervisor and the Supervision System is updated to reflect that the return is processed

A total of 1,483 returns and 425 other pieces of financial information were submitted to the RCU department in 2007.

The prudential analysis processes mainly involve the collection and analysis of prudential and other financial information received from regulated entities and are broadly the same across all departments. Some departments have moved towards almost full electronic reporting and submission; in the case of the others, a project to migrate all returns to a fully electronic process is underway. There is also some difference across the departments as to the level of centralisation of this process but most departments have centralised this function; RCU which have not fully centralised the function, have assigned process ownership of the function to ensure that it is standard across supervision teams.

On the basis of the resource analysis exercise carried out as part of this review, on average (using the period 2007 & 2008) the cost of prudential analysis to the Organisation may be represented as follows:

	2007/08 Average €
Total actual pay & pension costs - core prudential analysis & following up of incorrect data provided in returns	€2,034,345
FTE Equivalent	24.49
Budgeted Non pay costs	-
Total Cost	**2,034,345**

If this is further analysed on a departmental basis, the following pattern emerges:

	BSD Average €	INS Average €	ISPS Average €	RCU Average €	Other Average €
Total actual pay & pension costs - core prudential analysis & following up of incorrect data provided in returns	350,447	210,697	825,541	642,848	4,812
FTE Equivalent	4.22	2.54	9.94	7.74	0.05
Budgeted Non pay costs	-	-	-	-	-
Total Cost	**€350,447**	**€210,697**	**€825,541**	**€642,848**	**€4,812**
Number of prudential returns & other reports (2007)	2,352	525	62,147	1,908	N/A
Average Cost Per Return	€149	€401	€13	€337	N/A

6.2.2 Reactive Supervision

Reactive supervision essentially refers to activities which take place outside of the normal proactive supervision cycles that occur based on the receipt of prudential data or the conduct of inspections and investigations – i.e. where supervision reacts to an external demand/ request from a regulated entity.

Reactive supervision processes focus primarily but not exclusively on activities such as application/authorisation changes which a regulated entity may propose from a commercial perspective. A regulated entity does not need to notify all such changes to the Financial Regulator; changes can broadly be categorised into those requiring

- No notification
- Notification but no approval
- Notification and approval

The business processes within the Financial Regulator can be driven by multiple events including:

- Business development by a regulated entity e.g. M&A, new area of activity
- Procedural e.g. issue capital, raise debt, rule changes
- Occurrence of an incident or event
- General market developments

Some sample activities by department are included in the table below:

BSD	RCU
• Acquisition • Change to a liquidity regime • M & A activity • Change to a business line • Change in governance structure • Issuing a form of capital	• Standard ILCU rule amendment – rule change • Changes to a common bond – rule change • Approvals • Additional services • Longer term lending limits • Guidance note on investments • Changes to the number of principal officers • Transfer of engagements, amalgamations and dissolutions
ISPS	**INS**
Changes in ownership are referred to in ISPS as acquiring transactions / application changes and includes • Acquiring transactions e.g. changing ownership of an entity • Carrying out Fitness and probity process • Changes in authorisation • Other administrative duties	• Freedom of services inwards notifications • Freedom of services outwards notifications • Branch inwards notifications – branch outwards activities are the responsibility of desk officers • Post authorisation procedures – newly authorised companies • Registration of a company name with insurance in its title • Change of company name/ changes of class • Portfolio transfers

The teams across these departments (BSD, ISPS, INS, RCU) only deal with issues following licence approval or authorisation. The approval process is completed by FIFA prior to formal handover to the departments. RCU is unique in this regard; RCU, and not FIFA, deal with the approval process should a new Credit Union require approval. However such an application has not been received in a number of years and is not anticipated in the near future.

Reactive supervision processes vary somewhat from department to department but at a generic level the objective of the processes and the core processes themselves are basically the same. These high level processes vary only in terms of the underlying transactions (legislation, criteria, data, risk, etc.), and the supporting policies, procedures and systems (including IT systems).

There are some important structural differences as to how application changes are managed across the departments with ISPS and RCU being more centralised than BSD and INS. Overviews by department are as follows:

- **ISPS**: A single team (established in 2005/06 with the aim of centralising administrative processes and reducing the burden on supervision teams) within the department is responsible for processing applications for acquiring transactions and fitness and probity applications.

- **BSD**: Although there has been some centralisation of activities (Fitness and Probity, Financial Analysis) the supervision team is generally responsible for managing the workload generated by the entities allocated to it, including activities falling under the category authorisation/application changes

- **RCU**: The application changes process is centralised within RCU to ensure consistency. Other changes such as rule changes are not managed centrally; they are managed by the supervision teams

- **INS**: There is some centralisation within INS with a Financial Analysis unit team and an administration team and the centralisation of fitness and probity, branch inward/outward notifications and freedom of service inward/outwards notification activities. However, the off-site teams are responsible for much of the work which falls under application changes and as such it is not highly centralised

The fitness and probity process was standardised and streamlined across the Organisation a number of years ago and a significant amount of effort was invested in this. It would appear to work efficiently at present.

On the basis of the resource analysis exercise carried out as part of this review, on average (using the period 2007 & 2008) the cost of reactive supervision in the form of application/authorisation changes to the Organisation may be represented as follows:

	2007/08 Average €
Total actual pay & pension costs: • Responding to requests for approval of changes (products, activities etc.) • Responding to Fitness and Probity applications • Administration related to entity reactive supervision • Other entity reactive supervision	1,809,484
FTE Equivalent	22.73
Budgeted Non pay costs	-
Total Cost	**1,809,484**

If this is further analysed on a department by department basis, the following pattern emerges:

	BSD Average €	INS Average €	ISPS Average €	RCU Average €	FIFA Average €	Other Average €
Total actual pay & pension costs	575,822	240,551	634,225	25,240	123,622	210,024
FTE Equivalent	7.23	3.02	7.97	0.32	1.86	2.64
Budgeted Non pay costs	-	-	-	-	-	
Total Cost	**€575,822**	**€240,551**	**€634,225**	**€25,240**	**€123,622**	**€210,024**

6.2.3 On Site Inspections

The Prudential Inspection Guidance (PIG) forms the basis for the inspections process in the main prudential departments. Differences between the departments exist in the detail of the process, depending on:

- The type of regulated entity;
- Their size, business model and associated risks;
- The maturity of the sector for those entities; and
- The number and seniority of the inspectors in each department or team

In the current organisational structure, the Registrar of Credit Unions (RCU) department does not form part of the prudential directorate. Many provisions of the Central Bank Act, 1942 (as amended), do not apply to the credit union sector which is instead regulated under the Credit Union Act (1995). The approach to on-site inspections adopted by RCU, as such, aims to reflect this status and voluntary ethos of the sector.

The Consumer Directorate has not formally adopted the PIG due to the fact that the risk-based planning process, information gathering and focus areas during an inspection are different from prudential inspections in regulated entities. The consumer related inspections process is contained in Chapter 7 of this report.

The current inspections process is broken down in five main stages:

1. Initiation and planning
2. Preparation and review of documentation
3. On-site fieldwork
4. Inspection completion and reporting
5. Post Inspection letter and follow Up

The high level processes outlined above have been presented on a department by department basis below:

Banking Supervision Department (BSD)

At the date of completion of the review, within BSD, two dedicated inspection teams existed. One team typically conducts general (full-scope) inspections, whereas the second team focuses on credit and operational risk related inspections that are determined by the requirements of Basel II. The second team is also involved in some ongoing Basel II related work (i.e. outside of the inspection remit).

The PIG process as outlined above is broadly being followed by BSD staff and the teams have actively contributed to the development of this guidance document.

The PIG outlines, at a relatively high level, the process phases/steps that need to be followed as part of an inspection. On a more detailed level, the PIG is complemented by detailed individual work programmes for each of the approximately 20 areas that would typically be covered during an inspection. The guidance document leaves some room for discretion for the lead inspector in that inspectors use their knowledge, experience and judgement.

The outputs from the operation of the risk model and the associated assessment of those outputs form the basis for the inspections process. The risk based planning process is based around a ranking of credit institutions on the basis of overall risk.

Approximately 82 credit institutions (including branches of overseas credit institutions) are regulated by the Financial Regulator. The annual inspections target as per Strategic Plan (2008-2010) is approximately 20 inspections and 37 review meetings. Inspection teams are comprised typically of three inspectors. Each team manages approximately 10-11 inspections per year. In 2007, 15 on site inspections and 86 review meetings were held with authorised credit institutions.

From an inspection perspective the 3-4 largest credit institutions are visited annually; some smaller institutions or those with a low risk ranking may not be visited for a number of years, or may receive an off-site review. The middle tier: (in the region of 25-30 institutions) is the subject of inspections based on risk and the level of resources available within a given year.

Some larger organisations might be subject to two or more inspections per year, depending on the risk profile and the specific scope of the inspections. For example, the team with a focus on credit and operational risk might carry out a discrete piece of work in an entity that has also been visited by the other team. Both teams attempt to coordinate their inspection plan and align it with the Consumer Directorate.

The following steps are followed in a standard inspection:

- A scope document is prepared, discussed and signed off at the planning stage of the inspection. This outlines the scope of the review, the extent of testing and any areas that are not the subject of the inspection

- Fieldwork involves review of documentation, testing, and documentation of test results. Inspectors document actual performance of each step of the work programme and cross-reference their findings. Fieldwork is primarily conducted manually on site by inspectors. A limited number of laptops are available for use by inspectors from ISD, but these laptops do not contain any specific entity related data, supervision system data or any specific inspection related tools and as such are not used very regularly. No data analysis or IT tools are currently employed

- Working papers are prepared manually whilst inspection teams are onsite within an institution, filed and subsequently typed when the inspectors return to the office. Full physical files are prepared after completion of fieldwork

- Whilst general auditing standards in terms of preparation by one person and full review of each working paper by another person might not necessarily be followed, the lead inspector, through the hands-on approach, would typically be aware of the actual performance of each part of the work programme and would therefore review and initial the main working papers or findings only. Findings are written in a standard format which facilitates the review of the file by the lead inspector.

- Reporting uses MS Word templates and follows a standard format. The draft report is submitted to the supervisory team for review and comment. Whilst report completion is consensus-based, the lead inspector has primary responsibility for the preparation of the final report. The report is held on the internal network and a printed copy held on the inspection file. The associated report is not recorded on the Supervision System. In the preparation of the final report, when material differences of opinion occur, these are escalated to the CEO for review and consideration

- A Post-Inspection Letter to the credit institutions which has been the subject of the inspection is prepared by the supervisory team responsible for the supervision of the institution. In practice, findings and recommendations are copied directly from the report into the Post-Inspection Letter. A copy of the Post Inspection letter is held on the inspection file. The letter is not recorded on the Supervision system

The Supervision System is updated with key findings following report writing. Inspection teams themselves do not use the Supervision System extensively.

Insurance Supervision Department (INS)

The on-site inspections team was established in early 2007. The PIG is used as the main approach to on-site inspection but the actual process has been tailored to accommodate the specific needs of INS and the entities it regulates.

The outputs from the operation of the risk model and the associated assessment of those outputs form the basis for the inspections process. The risk based planning process is based around a ranking of entities on the basis of overall risk and it provided an initial risk based profile, which in turn following discussion and assessment within INS, forms the basis of a 4 month rolling inspection plan.

Whilst the risk rating exercise provides the framework for the selection of entities, the desk officers have discretion and full responsibility for choosing the entities for inspection.

Approximately 304 entities are regulated by the INS department (2007 figures), on the basis of the following split:

- Life 54
- Non life 134
- Reinsurance 116

11 full inspections were completed in 2007 and a further 138 review meetings. A target of 30 inspections and 155 review meetings is set as targets in the Strategic Plan (2008-2010).

From an inspection perspective the larger institutions are visited annually; some smaller institutions or those with a low risk ranking may not be visited for a number of years, or may receive an off-site review. The remaining entities are the subject of inspection or review meeting based on risk and the level of resources available within a given year.

The following steps are followed in a standard inspection:

- The initial scope of the inspection is agreed with the desk officer in charge. A review of information and documentation obtained from the regulated entity is carried out prior to fieldwork. All team members familiarise themselves with the full extent of information received and material from Financial Regulator sources/systems, including compliance records, previous inspection reports. The final scope is signed-off by the desk officer in charge

- Depending on the scope and areas of focus, the resource needs are established and specialist skills required identified and sourced. Specialist skills are, for example, obtained from the Actuarial team

- Where the nature of the inspection or the regulated entity warrants the notification of a third-country financial regulator this will be undertaken by the desk officer in charge. A list of all other key stakeholders is also prepared at that stage

- Approval is obtained from INS management, signed by the CEO. As a policy, INS inspectors obtain new authorisation letters for each and every inspection

- On-site fieldwork is carried out usually within a one week timeframe. Working papers are prepared manually whilst inspection teams are onsite within an institution, and filed and subsequently typed up when the inspectors return to the office. Full physical files are prepared after completion of fieldwork. A limited number of laptops are available for use by inspectors from ISD, but these laptops do not contain any specific entity related data, supervision system data or any specific inspection related tools and as such are not used very regularly. No data analysis or IT based tools are currently employed. The process is supported by a number of individual Excel spreadsheets containing information / intelligence from the inspection planning stage

- Close out meetings can be held up to two days after the inspection takes place. This gives the team an opportunity to discuss findings in the office before giving the entity any indication of the findings and/or ratings. Usually INS would communicate the top 10 findings at the initial close out meeting and revert back within 1-2 days with preliminary ratings of findings.

- Further fieldwork can take place following a close out meeting if appropriate. The close out meeting is not necessarily the end of the fieldwork stage as follow up work can take a significant amount of time and this can result in longer processes and completion times

- At the reporting stage, an internal inspection report and an external Post Inspection Letter are prepared in MS Word, filed electronically on the internal network and filed in the physcial inspection file

- The Post Inspection Letter comprises more high level information and a summary of the key findings; the appendix to the Letter includes findings and recommendations as per the internal report. A distinction is made between medium and low level findings which are recommended to be addressed and high level findings which are required to be addressed

- Inspections teams and the desk officers in INS have formal debrief and lessons learned sessions after each inspection. In addition, a knowledge database is being maintained within INS. The Supervision system is not extensively used throughout the inspection process, or to record post inspection details, findings or the final inspection report

- The follow-up process on recommendations and required actions is carried out by desk officers.

Investment Service Providers Supervision Department (ISPS)

A general distinction must be made between BSD / INS and ISPS in that the relevant legislation and complementary rules and regulations for ISPS regulated entities are very prescriptive and as such inspections are mainly compliance-focused.

ISPS is in the process of adopting the themed inspections model which is, however, not applicable to all regulated entities within the ISPS portfolio. The PIG is the accepted guidance document allowing a degree of flexibility to accommodate the large variety of regulated entities.

A total of approximately 12,000 entities are regulated within the ISPS department ranging from retail intermediaries to moneybrokers and stockbrokers.

In 2007, 33 inspections were completed and 164 review meetings. The Strategic Plan (2008-2010) provides for a target of some 50 on-site inspections per year and 110 review meetings.

Two dedicated inspections teams (groups III and IV) undertake on-site inspections, with a focus on themed inspections, for the following prudential supervision teams:

- Groups I and II - Investment firms
- Groups V and VI - Fund Services Providers excl. UCITS & UCITS management companies

To date, the remainder of the prudential teams within ISPS carry out their own inspections:

- Group VIII - Retail intermediaries and bureaux de change / money transmitters
- Group IX - Moneybrokers, stockbrokers and their subsidiaries

Retail intermediaries, bureaux de changes and money transmitter have typically a very limited range of services and very small operations. The inspections, where they do occur, would therefore focus on compliance with relevant rules and regulations. Routine Anti-Money Laundering (AML) inspections would also be carried out by the group. On occasion, group VIII has participated in inspections with the dedicated ISPS inspections teams and also assisted CPC during their themed inspections in such regulated entities.

Moneybrokers, stockbrokers and their subsidiaries are subjected mainly to themed inspections. From a risk and reputation perspective, client money handling would be a typical theme for those regulated entities.

Group IX carries out approximately 4/5 themed inspections per year. General inspections have not been carried out as yet.

UCITS & UCITS management companies are relatively small, but often highly specialised regulated entities. Inspections of these entities take the form of "review meetings" with a limited amount of fieldwork and/or substantive testing.

The following steps are included in a standard inspection:

- The planning process follows the PIG guidance. The prudential supervision teams inform the respective units about the envisaged scope and timeline

- The authorisations required by the inspections teams have to be issued for each and every inspection (not evergreen) and are signed by the Chief Executive

- On-site fieldwork in small entities often takes only one or two days and in larger institutions up to two weeks. UCITS firm review meetings may only take half a day. Findings and observations are discussed at the close out meeting but no grading is assigned

- A limited number of laptops are available for use by inspectors from ISD, but these laptops do not contain any specific entity related data, supervision system data or any specific inspection related tools and as such are not used by ISPS. No data analysis or IT based tools are currently employed. The process is supported by a number of individual Excel spreadsheets containing information / intelligence from the inspection planning stage

- Report writing and internal discussion of findings and grading is a joint effort by inspections team and supervision team. All reports are prepared in MS Word and stored together with working papers on a physical file and also on the Organisation's network. No details are updated on the Supervision System

- Follow up and any communication with the regulated entities is managed by the supervision team.

Registrar of Credit Unions Department (RCU)

There is no dedicated inspection team in place within the RCU department.

All 20 staff in each of the four teams participates in on site inspections. Staff members receive internal training to prepare for themed inspections to clarify the objectives, the exact procedures for the fieldwork stage, and the envisaged structure of the final report.

The RCU department supervises 422 credit unions. 52 inspections and a further 52 review meetings and were carried out in 2007. These inspections can be categorised by theme as follows:

- Arrears and provisioning inspections 30
- General 9
- Special /unscheduled 13

On the basis of the Strategic Plan (2008-2010), a target of 40 on-site inspections and 20 review meetings has been set for the RCU department.

RCU teams carry out General (full-scope), Themed and Ad hoc (or Special) on-site inspections. RCU is increasingly focusing on Themed inspections.

Work is classified as an inspection when an inspection notification letter has been issued to a credit union, the exception being an unannounced inspection. All inspections are recorded by individual inspection teams on the centralised spreadsheet in order to monitor actual performance against Stakeholder Protocol targets. The following is an overview of the different types of inspections conduced:

Inspections	Description	Examples
Themed	A series of organised inspections with primary focus on a core operation of the credit union.	Investments, Arrears & Provisioning, IT, Corporate Governance, Credit (credit control), Money Laundering, etc.
General	Inspection that reviews the main operations of a credit union.	Mixture - similar to themed
Special (Ad hoc)	Inspection that focuses on a specific issue(s) identified internally or externally.	Serious prudential return or management letter issues, complaints, media issue etc

The RCU department maintains detailed procedural notes for various core processes which it manages including inspections. In addition the department uses the following tools to support is inspection processes:

- Inspections records spreadsheet
- Standard inspection notification and close off letter
- Monthly Stakeholder Protocol Inspection spreadsheets
- RCU's Records Management for Hardcopy Files

The following steps are followed in a standard inspection:

- The inspection work programme set out for the year contains a specified target number of inspections. Due to changing priorities, this changes as the year progresses. A minimum notice period of ten days, as agreed under the Stakeholder Protocol, is provided in advance of the inspection

- As part of the planning stage, RCU develops an MS Excel spreadsheet setting out all details that are to be tested in the course of the inspection. The selected credit union(s) are required to complete this worksheet before the commencement of the on-site fieldwork. Credit unions are requested to have any back up documentation ready for the inspectors to review when the on-site review begins

- Under Section 90 of the Credit Union Act, personalised and entity-specific authorisations are required for each inspection. The department head (who holds the statutory role of Registrar of Credit Unions) has the power to sign the authorisation letters

- The on-site work carried out includes meetings with management and staff of the credit union, review of files, and substantive testing of transactions. While a limited number of laptops is available for use by inspectors from ISD, these are not really used by RCU and they contain no specific credit union data, supervision system data. No data analysis or IT based tools are currently employed by RCU

- The close out meeting with the board of directors of the credit union is normally held on the last day of fieldwork but can sometimes take place 2/3 weeks later

- At the reporting stage, the inspectors prepare a letter highlighting all issues identified. Individual letters are issued to all credit unions that were subject to the inspection. RCU decides on a case-by-case basis whether an overall 'Industry Letter' is warranted. Major findings might be incorporated in guidance notes and issued to the credit union sector subsequent to the completion of the inspection process

- RCU carries out a follow up on findings. Responses are expected within a 3 week period after the date of report issuance. RCU monitor responses from credit unions and progress on a spreadsheet. The qualitative assessment of the responses focuses on the commitment by the board to address the recommendations and the agreed action plan

On the basis of the resource analysis exercise carried out as part of this review, it would appear that on average (using the period 2007 & 2008) the cost of on site inspections in the main prudential departments to the Organisation (i.e. Prudential Directorate and the Consumer Protection Code (CPC) department) may be represented as follows:

	2007/08 Average €
Total actual pay & pension costs • Inspections (including mystery shopping & themed inspections) • Review meetings • Inspection follow up	2,696,367
FTE Equivalent	33.6
Budgeted Non pay costs	537,927
Total Cost	**3,234,294**

If this is further analysed on a department by department basis, the following pattern emerges:

	BSD Average €	INS Average €	ISPS Average €	RCU Average €	CPC Average €	Other Average €
Total actual pay & pension costs	475,548	495,505	435,925	359,578	919,100	10,711
FTE Equivalent	5.9	6.2	5.4	4.5	11.5	0.1
Budgeted Non pay costs	31,877	44,307	81,962	195,807	136,570	47,404
Total Cost	**€507,425**	**€539,812**	**€517,887**	**€555,385**	**€1,055,670**	**€58,115**

6.2.4 Investigations and Enforcement

Enforcement refers to any actions arising from the Administrative Sanctions Process (ASP), which primarily applies to investigations into prescribed contraventions by a regulated financial institution.

RCU has very restricted rights to sanction breaches of regulations of conditions imposed on credit unions and the ASP process does not apply to the credit union sector.

As such this section has been written from the perspective of the following departments:

- Banking Supervision (BSD)
- Insurance Supervision (INS)
- Investment Service Providers (ISPS)
- Market Supervision (MSD)
- Financial Institution and Funds Authorisation (FIFA)
- Consumer Protection Code (CPC) – this has been addressed as part of Chapter 7 below

There are in essence four different strands of enforcement in operation:

- General Administrative Sanction procedure (ASP)
- Cases resulting from the investigation of suspicious transactions e.g. suspected insider dealing or market abuse (MSD)
- Cases surrounding unauthorised entities offering regulated financial services/products (FIFA)
- Cases under the Fitness and Probity regime that require some form of direction to individual persons and their suitability to fulfil certain roles in regulated financial institutions or in general business contexts

While MSD and CPC have developed dedicated investigations units (albeit not yet fully staffed) other departments have not.

The legislative provisions relevant to enforcement are contained in Part IIIC of the Central Bank Act, 1942 as amended. The Central Bank and Financial Services Authority of Ireland Act, 2004 amended the Central Bank Act, 1942.

Under the ASP, and depending on the seriousness of the prescribed contravention, the Financial Regulator can decide to

- Take no further action
- Resolve the matter by taking supervisory action
- Agree a settlement
- Refer the case to inquiry for determination and sanction
- Initiate a summary criminal prosecution and/or refer the case to another authority or enforcement body

The decision to take enforcement action is determined on a case by case basis depending on the circumstances of the case.

The ASP provides for 5 categories of breach (A - E), indicating the level of seriousness. A - D cases would normally lead to some degree of investigation, whereas E-cases (very minor breaches) would be dismissed.

Since the introduction of the ASP in 2004, a very small number of investigations and/or associated sanctions had been conducted. In the case of some departments no formal monitoring of breaches in accordance with categories A - E of the ASP is conducted and whilst most departments at the date of writing have pursued at least one investigation case, it is unclear as to what Organisational policy on the subject is.

A standard process for the conduct of specific investigations does not exist. An examination under the Administrative Sanctions Procedure (ASP) may be initiated where the Financial Regulator has a concern that a prescribed contravention has occurred. The purpose of the examination is to gather sufficient information about the suspected contravention so that a decision may be taken as to whether or not an inquiry should be held

On the basis of the resource analysis exercise carried out as part of this review, it would appear that on average (using the period 2007 & 2008) the cost of investigations/enforcement activity in the main prudential departments to the Organisation may be represented as follows:

	2007/08 Average €
Total actual pay & pension costs	766,153
FTE Equivalent	9.10
Budgeted Non pay costs	597,722
Total Cost	**1,363,875**

This predominantly comprises CPC and LED resources.

6.2.5 Market Supervision

Market Supervision in its current form is a new function of the Financial Regulator, which has arisen following the implementation of a number of new EU directives that made the Financial Regulator the competent authority for the supervision of the securities markets.

This role entails the operational responsibility for prospectus approvals, transaction reporting and the monitoring and investigation of suspected market abuse. The key processes carried out are as follows:

- Prospectus approvals
- Transaction reporting and monitoring
- Market abuse investigations

In 2005, the Financial Regulator entered into a number of delegation agreements with the Irish Stock Exchange (ISE), under which the ISE carries out many day-to-day tasks arising from the EU Market Abuse, Transparency and Prospectus Directives.

The delegation agreements for the Prospectus Directive and the Transparency Directive are due to expire in 2011 and 2012, respectively and the Financial Regulator is hoping to have sufficient systems in place to end the Market Abuse Directive delegation by the end of 2009 or 2010. However, there is no statutory deadline for the Market Abuse Directive delegation, unlike the delegations under the Prospectus and Transparency Directives.

Building the processes, competencies and capabilities in order to fully deliver on this legislative mandate continues to be a work in progress within MSD and at the date of completion of the project, the key processes carried out within MSD are as follows:

1. Prospectus Approvals
2. Transaction Reporting
3. Market Abuse Investigations

Prospectus Approvals

Under the EU Prospectus Directive, the Financial Regulator as the competent authority approves and publishes prospectuses for a broad range of equity and debt instruments, as well as funds. In 2005, the Financial Regulator delegated certain tasks in relation to the scrutiny of prospectuses to the Irish Stock Exchange (ISE). The ISE carries out the bulk of the work, but follows direction from MSD on policy issues. The ultimate approval of a prospectus and its publication rests with the Financial Regulator.

The team within MSD hold regular meetings to manage the relationship with the ISE, to resolve issues arising from the interpretation of the regulatory requirements and to ensure timely and orderly publication of prospectuses. The prospectus section of the Financial Regulator's website is seen as a key resource for investors seeking authoritative information on the terms and conditions on which securities are offered for sale in Ireland

The following table represents the activities of MSD under the EU Prospectus Regulations:

Activity	2006	2007	09/2008
Number of documents incl. prospectuses approved	2,689	3,116	1,359
Number of prospectuses approved	2,463	2,797	977
Number of documents/notifications published	3,940	5,417	2,940
Passporting certificates prepared	189	405	239
Inward passporting notifications processed	340	431	382
Number of applications being scrutinised as at period end	585	799	765

The standard process comprises the following steps:

- A draft of the prospectus is submitted to the ISE by the issuer, offeror or person seeking admission to trading on a regulated market, or its agent (the relevant person). The ISE scrutinizes the first draft of the prospectus in its entirety and reverts to the relevant person with comments. The scrutiny process is undertaken to determine whether the prospectus complies with the pertinent regulation and assesses applications for omission of information from a prospectus. Any significant issues arising as part of the scrutiny process are brought to the attention of the Financial Regulator. MSD adjudicates on the issues, having made any necessary enquiries, and notifies the ISE of its decision.

- On completion of the scrutiny process, the ISE provides the Financial Regulator with the final prospectus. MSD considers the request for approval and communicates its decision to the ISE and to the registered office of the relevant person.

- Following approval, MSD publishes an electronic copy of the prospectus on the website. A relevant person who does not wish to have the prospectus published on the website must formally request non-publication in compliance with the Prospectus Rules. Under the Stakeholder Protocol, prospectuses are to be published by Close of Business of the next working day after approval. With the current systems constraints that continues to be a challenge and in some cases those deadlines have been missed.

It is noteworthy that MSD would typically have about five to ten minutes per prospectus for processing on the final day of approval; that assumes full reliance on earlier communications with the ISE, with no additional review carried out at that time.

Transaction Reporting and Monitoring

As required under the Markets in Financial Instruments Directive (MiFID), Ireland had to ensure that a transaction reporting system was put in place and operate effectively by November 2007. An additional requirement has been the provision of relevant transaction information to other competent authorities. During the course of 2007, a basic Transaction Reporting and Market Monitoring System (TRMMS) was developed in-house by the Organisation. MSD also designed and implemented the respective reporting process.

MSD is currently working with the ISD unit on the next phase of the system development to rectify a number of issues associated with the initial phase and to implement additional monitoring functionality. At the date of writing patterns, trends and exceptions such as unusual trading activity or behaviour could not yet be detected.

MiFID requires the Financial Regulator as the competent authority to prepare annual calculations for all shares for which the competent authority is deemed responsible. At present, these calculations are prepared by the ISE as they have all the relevant information. The Financial Regulator will be charged with the full operational responsibility upon expiry of the delegation agreement.

MSD receive the data relating to approximately 60,000 transactions on a daily basis. In order to analyse the information, the data has to be exported into MS Excel. Given the high data volume, mainly statistical analyses of the total population of data are carried out. A fully comprehensive and more detailed analysis of the data is not feasible and therefore actual market monitoring is not yet functional.

Theoretically, if suspicious transactions are identified, an initial investigation and a report of the results would be prepared, submitted to departmental management for review and then passed on to the Market Abuse Investigations team for further action. However, we understand that the current procedure is not yet sufficiently developed to facilitate the kind of monitoring work which would allow relevant instances to be identified and has not indentified any such relevant instances.

MSD is obliged to notify other competent authorities if there has been a suspension of trading on the Irish market. If a competent authority directs the suspension, other competent authorities are obliged to suspend the trades on their stock exchange.

Market Abuse Investigations

The investigations team was established to carry out in-depth investigations into suspected market abuse, for example insider dealing. The standard process would rely on reports from a monitoring system, from market participants or the Irish Stock Exchange.

Thus the intention is that the TRMMS system would be sufficiently developed so as to filter the large volume of daily transaction data and provide the investigations team with a manageable number of cases that should be investigated further. At the date of writing, TRMMS cannot yet provide such information.

The Financial Regulator has delegated the following operational responsibilities under the Market Abuse Directive to the Irish Stock Exchange:

- Market Surveillance
- Preliminary Inquiries
- Creation and Maintenance of a Preliminary Inquiry Log
- Notification of Referral
- Appointment of Authorised Officers & Conduct of Investigations

- Managers Transaction Reports
- Disclosure of Inside Information by Issuers

We understand that this delegation agreement will end in 2009 if the TRMMS has been sufficiently developed to justify that. The challenge for MSD is to ensure that the competencies and capabilities (resources) are put n place in order to take over the full operational responsibility from the ISE.

While the TRMMS system is being developed, a formal investigation process is also being developed to support future investigation processes. To do this the investigations team currently rely on reports from the market and other sources

The team has also dealt with a number of referred transactions from other EU Competent Authorities and rendered assistance to other EU Competent Authorities in cases that they investigated.

The Irish Financial Regulator is primarily concerned with transaction in Irish Shares and transactions involving Irish citizens worldwide.

At the date of writing, the MSD team was hampered in its day to day work by the lack of real time market information and associated sources. No third party market sources such as Bloomberg or Reuters systems are available to the team.

6.2.6 Authorisation

Authorisation processes refer to the application by a financial institution to the Financial Regulator for initial authorisation/renewal as a regulated entity. The FIFA department was created to bring together expertise around authorisations and thus enhance the efficiency around the authorisation process. It is the only prudential department that focuses primarily on a process, rather than on a sector. The team structures within FIFA (six focused teams) allow a degree of specialisation that facilitates the processing of standard applications.

In its current structure, FIFA is responsible for the authorisation of all types of financial institutions, (other than moneylenders and credit unions), and selected post authorisation tasks. Responsibilities are spread over the following six teams:

1. Collective Investment Schemes (Authorisation and Post Authorisation)
2. Promoters, Investment Managers and Agency Managers
3. Service Providers and Management Companies
4. Insurance Intermediaries and Mortgage Intermediaries (Retail; IIA/IMD)
5. Insurance Companies and Credit Institutions (Retail)
6. Credit Institutions (Wholesale), Investment Intermediaries, E Money, Bureaux de Change and Money Transmitters

New responsibilities introduced in 2008 include the authorisation of non-deposit taking lenders, including sub-prime lenders and home reversion firms. In addition, the provisions of the new EU Anti Money Laundering guidance notes are being incorporated into activities.

Type	2006	2007
Total number of authorisations granted	**2,943**	**4,216**
Thereof: Mortgage Intermediaries authorisations granted/renewed	1,633	1,173
Collective Investment Schemes (including sub funds)	738	1,082
Other Retail Intermediaries	419	1,858
Credit institutions	2	5
Life insurance companies	3	1
Non life insurance companies	5	5
Reinsurance companies	5	3
Investment business firms	7	15
Fund service providers	74	18
Credit unions	0	0
Money transmitters & Bureaux de Change	9	4
Moneylenders	48	51
Stock exchange/market operators	0	1
Moneybrokers	0	0
Warning Notices issued regarding unauthorised activity	4	1
Authorisations/Licence/Registration refused	1	1

At a generic level, the authorisation process can be broken down into the following main phases:

1. Preliminary meeting
2. Receipt of application
3. Application processing
4. Post authorisation

FIFA has informed the financial services industry that the authorisation process involves an assessment of applications across a range of criteria including the risks and proposed controls to be put in place, the acceptability and transparency of the ownership structure and the competence and experience of all proposed directors and senior management.

Over the course of this project, a number of business process review workshops were conducted FIFA teams and it is clear that the current processes work well and with the exception of a number of gaps in support systems are applied in an effective manner to the majority of financial institutions.

Differences do exist in the detail of the process, depending on the size and complexity of the new institution, mostly arising from its proposed business model and internal governance structures. For example, preliminary meetings are not held for all types of financial institutions. Large institutions are scrutinised in significantly more detail then small institutions. For certain types of institutions, FIFA applies a structured compliance test under the Fitness and Probity regime. In order to accelerate the approval process, FIFA has introduced simplified (Fast Track) procedures for certain funds.

The team structure within FIFA allows a degree of specialisation that facilitates the more timely processing of standard applications. FIFA uses checklists to check compliance with a large number of legislative provisions (specific for each type of entity). FIFA may request clarification and/or additional supporting documentation from the applicant and any stage of the process. External references, such as Garda criminal records checks or written references from previous employers are routinely sought as part of the background checks of the proposed directors of the financial institution

The Financial Regulator has in its Strategic Plan set out its intention to support innovation and competitiveness within the Irish Financial Services industry. One part of the implementation of this commitment, is represented by the 26 individual service targets which are built into FIFA processes, representing approximately half of the total number of service targets under the Stakeholder protocol. The management of this part of the process involves a significant level of duplication of recording of information between the Supervision System, Excel models and the Funds Stat reports.

6.3 Key Observations and Conclusions

The following table presents our findings across the processes described above. It indicates the processes where the observations was an issue (√), not an issue (X) or not applicable (N/A).

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
Process Standardisation Where similar processes are in place across departments there is a lack of standardisation/commonality in terms of the process						

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
steps, procedures, systems and structures supporting the processes e.g. • BSD, INS and ISPS are largely working in accordance with the PIG standard process, notwithstanding some differences in the detail, e.g. in terms of notice given to institutions, timeframes for fieldwork, use of technology during the inspections process, interaction between teams, report writing, sign-off, follow up on issues (RCU are currently not applying the PIG standard process • Different models are employed for the receipt of prudential returns - through electronic, partially electronic or other systems • Different models are employed for the analysis of prudential returns once they are received • Different models are employed for the identification of breaches in the ASP • Differences in inspection models exist in the areas of transparent scoping and/or selection of entities, use of standardised inspection templates and models for post inspection letters/ reports and timing of communication with regulated entities, briefing of management on findings etc.	N/A	N/A	√	√	√	√
Centralisation and Resourcing of Processes Certain processes which require specific expertise or specialisation are not centralised to support efficient management (albeit this has taken place in some areas e.g. centralisation of inspection in teams in BSD as compared to a distributed model in RCU) Other processes which are standard administrative tasks have also not been centralised, remaining within the core supervision teams, and as such may not be as	N/A	N/A	√	√	√	√

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
efficiently managed as they could be.						
Central and Comprehensive Profiles of Regulated Entities Multiple systems are used within and across processes and also departments to support supervision. There is no central profile of an entity to support supervision within the Organisation. The onsite inspection teams in the prudential directorate do currently not use the supervision system very extensively. An update of the supervision system upon completion of the inspection takes place, however not consistently. Over time, the inspection teams have built up secondary data sources (excel-based and paper files) that are being used in the planning and preparation phases of the PIG, prior to new inspections and in certain cases to support the inspection process. As such there are multiple separate records held, each of which duplicates part of another record. Ideally, the teams should be able to retrieve all relevant information about the institution(s), i.e. a central and comprehensive profile, which were selected for an inspection, from one data source.	N/A	N/A	√	√	√	√
IT Systems To Support Core Processes The IT systems currently in place do not sufficiently support the core process in terms of: • accuracy and completeness of information • automation of routine tasks						

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
• enhancing the control environment through checks, validations and audit trails • capturing information • supporting the investigations/enforcement process especially in the area of case management • documenting and recording correspondence and correspondence tracking (currently carried out using Excel) • supporting on site inspections/investigations on the premises of regulated entities • providing reliable, relevant and timely management information (MIS). • facilitating the analysis of large and complex transactions in the case of MSD and the identification of patters, trends and exceptions • analysing third party market information required to support certain market abuse and other activities • supporting the upload and download facilities for prospectuses to/from the website The systems in place are also not sufficiently flexible to accommodate changes to processes.	√	√	√	√	√	√
Information Capture While the Financial Regulator has increasingly introduced the electronic submission of information and some level of front end data validation, no sector has fully defined its overall sectoral information needs on the basis both of what information is required for supervision and for reporting purposes. In addition, no sector is currently working in a fully on-line capacity or has a fully efficient model for information capture, validation, storage and	√	√	√	√	N/A	√

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
subsequent effective retrieval For example in ISPS manual entry and manual validation and cross checking processes are in operation for some prudential returns, in BSD a greater amount of front end validation is in place. RCU was at the time of our review commencing a project which was aimed at enhancing the level of front end validation for receipt and analysis of prudential returns.						
Poor Information Management Information is stored in multiple databases, as well as in paper format and no document or information management system exists. All information relating to a regulated entity, regardless of sector is not stored centrally on the Supervision or any other system. Data is located in various files including: • Manual inspection file • Manual return files • Supervision system • Various excel spreadsheets • Stakeholder protocol spreadsheets In the majority of inspections - at least three separate files are maintained; • A hard copy physical inspection file • A network copy of the inspection letter/report/findings • Some level of replication of findings on the Supervision System No file is either complete or fully comprehensive nor	√	√	√	√	√	√

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
does it provide a complete picture of the inspection conducted. This increases the risk of loss of information, complicates access to information, and reduces the ability of the Financial Regulator to generate reliable and relevant information in a timely manner. For example in BSD – data is also stored in: • Viewpoint – updated supervision system; • Hardcopy files; • Correspondence file – electronic; • Specific institution file for all IQ information In addition, in the area of authorisations for example multiple Excel spreadsheets, are used to track the key steps of the process together with performance criteria and the information contained in these spreadsheets is again replicated in Stakeholder Protocol spreadsheets.						
Manual Processes A significant proportion of the prudential processes, particularly those outside of the electronic submission of returns are still largely manual in nature and as such do not support strong controls, efficiency of resource utilisation or output. Examples include: • In the cases of ISPS (specifically Team X which deal with acquiring transactions / application changes) cannot rely on the information held in the Supervision System and must, in conjunction with FIFA consult physical hard copy files and perform manual checks of information held • The CUAR process in RCU is a very manual process	√	**Part**	√	√	√	√

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
which includes both manual re-entry to the Supervision System and the extraction of data for validation purposes to Excel • The receipt of prudential returns in ISPS is largely a manual process and data is entered to the Supervision System manually, checked, and printed out again in paper format for additional cross checking						
Identifying Basis Of Submission and Assessment of Completeness of Submission The Financial Regulator is sometimes used as a quasi legal function or as a consultation service by Institutions and/or their representatives. It is not always clear from the submissions to make changes to application as to what is being sought and a significant level of documentation is received in draft or incomplete format which consume a lot of time. Senior staff can often be involved in non value adding activities due to the administrative nature of much of the work and the fact that the supporting systems are not adequate	N/A	√	N/A	N/A	N/A	N/A
Error Checking In most departments, a significant level of time is spent in the validation and cross checking of figures once they have been input to the Supervision System. This is a highly manual process. There is only limited internal functionality within the system to validate and cross check and once data is input on the system, in certain cases, it must be	√	N/A	√	N/A	N/A	N/A

Description Of Process Observation	Market Supervision Activities	Authorisation	Prudential Analysis	Reactive Supervision	On Site Inspections	Investigations and Enforcement
exported into Excel and calculated to ensure that figures reconcile. This is not an efficient use of scarce supervision resources.						

6.3.1 Benchmarking of Prudential Analysis Processes

While the international benchmarking exercise did not provide sufficient detail to compare the exact number and volume of prudential returns received and processed in Ireland as compared to other financial regulators, it is none the less possible to identify certain trends/patterns in models adopted for the analysis of prudential information internationally:

Online/Electronic Receipt of Information

In the case of almost every regulator who participated in the study, standard prudential returns regardless of their frequency of receipt are either received in full electronically or the financial regulator in question is moving towards that model. Out of the 8 responses received in this area, 6 employed electronic or online prudential reporting.

If the Financial Regulator's total prudential resources allocated to proactive entity supervision (i.e. analysis of prudential returns, inspections, investigations etc.) are compared to two financial regulators, whose banking and insurance sectors are similar in size to Ireland, the analysis of staff FTE's dedicated to those activities may be presented as follows:

	Financial Regulator 1	Financial Regulator 2	Irish Financial Regulator
Credit Institutions: • Credit unions • Other credit institutions/banks	61FTE's	42FTE's	32FTE'S
Insurance • Life • Non life • Reinsurance	36FTE's	20FTE's	10FTE's

Note (1) Credit institutions includes credit unions as classified by Financial Regulator 2

Note (2) A similar analysis cannot be conducted for other sectors outside of banking and insurance due to the level of information provided by other financial regulators

Note (3) Irish Financial Regulator FTE's are based on the resource analysis exercise conducted as part of this exercise and represents staff time, rather than staff headcount allocated to proactive prudential resources.

Complete data was not provided for other sectors and as such comparisons cannot be made.

Conclusions

- There is room for improvement across most departments (excluding FIFA where processes are already centralised and standard) in terms of:
  - Standardisation, ownership and control of core processes
  - Structuring of teams to manage and support core prudential processes, including the potential to centralise certain processes to improve efficiency and/or support specialisation

- Information capture, processing and management is currently poor across all processes and departments, in particular:
  - Submission of prudential information from entities, to support prudential analysis, is currently a combination of manual and electronic processes
  - Processes are not fully automated and the processing of information on systems is not fully supported by checks and validations
  - Information, in relation to any one entity, is not currently captured in a single database or repository. Multiple databases, primarily MS Excel, as well as manual files, are used to support processes across departments. There is a risk that information may be lost and not readily accessible
  - The lack of a document management system means that information is not as accessible as necessary and also increases the risk that information may be lost or misplaced

- Core processes are not adequately supported by the current IT systems in place and as such are not as effective and efficient as possible. As such staff/teams are not always involved in the more value added work and resources are often consumed by administrative and time consuming tasks. Issues include:
  - Lack of automation of routine tasks e.g. checks and validations are in many cases performed by staff as opposed to the system
  - Duplication of data input. As a variety of systems are used, there is duplication and sometimes triplication of data input within teams, departments and across the Organisation
  - The lack of one central and comprehensive profile of a regulated entity means that many tasks are more manual and time consuming than they should be as a lot of communication and manual intervention is required to obtain and understand entity and process related information

- The generation of MIS reports is complicated due to the lack of a central and comprehensive profile of an organisation and the significant amount of manual intervention required

6.4 Recommendations

On the basis of the analysis set out above, the following recommendations should be considered in the context of the prudential processes currently in operation

Recommendation 1: Core Processes Should Be Standardised Across The Organisation Where Possible

- Core prudential processes should be standardised to a greater extent where similar processes are conducted across multiple departments and sectors. These core processes should be automated where possible and supported by appropriate ICT systems, practices and information in a manner consistent with the needs of a modern financial regulator
- Each process should have a designated owner who is in charge of ensuring that processes remain consistent, are continuously reviewed to support enhancement and are adequately supported by systems, tools and procedures.

This recommendation should be implemented in conjunction with the recommendations outlined in this report in the area of organisational structure and management framework - Chapter 3.

Recommendation 2: Core Processes Should Be Reviewed

Core processes should be reviewed to ensure that their structure and resourcing takes into account the following:

- The level of entity specific knowledge required to support the process e.g. should the process remain within the core supervision teams?
- The level of process specific expertise required to support the process e.g. is certain specialist expertise required to support the process which may not necessarily be available in all teams across the Organisation?
- Is the process a standard administrative task or support tasks which should be isolated for efficiency reasons from core supervision tasks and processes?

Recommendation 3: Systems And Tools To Support Core Supervision Need To Be Enhanced.

Such enhancements should include the following:

- Full electronic submission of information, including front end validation of data should be implemented as standard across the Organisation
- The current electronic reporting project which has been ongoing for 3 years in the Financial Regulator should be prioritised, further develop, enhanced and rolled out consistently and to the same level of specification to all prudential departments as a matter of priority
- Central capture of core supervision information including entity, market and process related information in one database or repository should be prioritised. Multiple systems/databases currently in use should be migrated to this single database

- Automation of routine tasks where possible by systems
- A document management system should be introduced and integrated into core processes. This should ensure not only capture but also retention of structured data (e.g. prudential information) but also unstructured data such as documents received from entities
- The enhancement of the TRMMS system should be prioritised in order to enable more effective and efficient data manipulation, statistical analysis, reporting and extracting of potentially suspicious market transactions
- The existing Content Management System (CMS) should be enhanced in order to increase the efficiency in the prospectus approvals and publication process
- The current partial electronic application process should be reviewed with the objective of moving towards a more fully online system

Core systems should be flexible enough to support changes in process, templates and requirements.

Recommendation 4: Develop a Comprehensive Information Management Framework

A comprehensive information management framework supporting monitoring and reporting should be implemented across the Prudential Directorate. This may require additional reporting in addition to the EU FINREP/COREP requirements.

Recommendation 5: As IT Systems are Introduced to Support the Organisation, Reduce the Duplication of Records

Duplicate and triplicate query, inspection, investigation and enforcement files/records should be reduced and where possible over time eliminated to facilitate effective record and information management.

This will require significant investment in document, record management and case management technology at a whole of Financial Regulator level so that a single repository of information relating to a regulated entity or a consumer exists and information can be accessed efficiently. This should not be undertaken in isolation from core processes.

This reduction in duplication should also be examined in the area of FIFA - where triplication of data managed should be reduced and the need for reconciliation of data between the Supervision System, the 'Fund_Stat' report and Stakeholder Protocol spreadsheets eliminated.

Recommendation 6: Invest in an Appropriate Infrastructure to Support Inspections and Investigations on Site and Within the Financial Regulator

Investment should be made in the development of a more appropriate IT infrastructure to support the inspection and investigation processes and the current inspection processes followed by different teams should be standardised (tools, infrastructure, hardware)

Recommendation 7: Clarify the Organisation's Policy in Relation to Enforcement and Review and Streamline the Current ASP Process

The Organisation's policy in relation to enforcement should be clarified and implemented on a consistent basis across departments. The ASP process which supports this process should be reviewed and revised and where appropriate other models of enforcement considered.

Recommendation 8: Reduce The Support and Administrative Demands on Prudential and Consumer Departments Over Time

The impact of support processes on the Prudential and Consumer departments should be significantly reduced over time.

Recommendation 9: Increase Resources in Core Prudential Processes

As outlined in Chapter 4, both specialist prudential and other core supervision resources should be increased.

Recommendation 10: Review the Level of Prudential Resources Committed to Internal and External Stakeholder Activities

As outlined in Chapter 4, the level of resources committed to internal and external stakeholder activities under HLG 4 should be reviewed. In the case of prudential departments, this involves for example the provision of advisory services to third parties such as professional advisors - which is largely conducted within FIFA. Alternatively, a fee per charging model could be considered.

7 CONSUMER OPERATIONAL PROCESSES

7.1 Introduction

As part of this review, business processes were examined at 3 levels:

1. **Management processes**: the processes that govern the operation of the Organisation e.g. mandate / legislation, purpose, vision, high level goals, strategic planning / activity profile.

2. **Operational processes**: the processes that constitute the core business of the Financial Regulator and create the primary value e.g. inspections, investigations, enforcement etc

3. **Support processes**: the activities that support the day to day operation of the Organisation and the delivery of its mandate.

The operational process layer of the Financial Regulator is its most critical as it forms the basis for all prudential and consumer activity. As such, a number of the key consumer processes (although not all) in operation in the Financial Regulator were subject to a detailed review over the period of July to October 2008. The processes examined included:

#	Consumer Process	
1	Awareness Campaigns And Market Research Studies	CONI
2	Market and Competition Issues	CONI
3	Consumer Queries	CONI
4	Publications, Information Provision And Surveys	CONI
5	CONI Procurement	CONI
6	Consumer Reporting	
7	Themed Inspections	CPC
8	Section 149 – Notification Of Bank Charges	CPC
9	Authorisation of moneylenders	CPC
10	Investigations	

The purpose of the review of business processes was to consider the current consumer processes in place within the Organisation and determine where opportunities for improvement, efficiency or improved outputs were apparent. In addition and on the basis of an international benchmarking study conducted, the exercise sought to assess current processes against best practices in process terms and against practices in place within other international financial regulators.

Mazars conducted 11 consumer specific workshops with staff from across the Consumer directorate and 4 cross-organisational workshops (e.g. EU/international, enforcement, reporting, funding and finance etc.).

This section summarises the main observations and recommendations arising from this work.

In addition, processes were not examined from the perspective of legislative compliance, technical completeness, accuracy or regulatory approach rather from the perspective of:

- Opportunities for greater efficiency
- Opportunities for improvement of output
- Better use of existing resources
- Automation of routine/ operational tasks or opportunities for the greater use of technology
- Elimination/ reduction of process inefficiencies or unnecessary activities
- More efficient use of tools, resources, systems
- Reduction of duplication
- Etc.

The consumer processes examined in this chapter address some, but not all of the processes managed by the following departments:

- Consumer Information (CONI)
- Consumer Protection Code (CPC)

Which when combined with the Planning and Finance Department (PFD) form the Consumer Directorate.

7.2 Overview of Current Consumer Processes

The Consumer Director is responsible for delivering on the statutory consumer related mandate that arises from primary legislation (Central Bank Acts, 1942 - as amended) and secondary legislation such as other Irish and EU laws and Directives.

Consumer Information (CONI)

The Consumer Information Department (CONI) forms part of the Consumer Directorate and reports directly to the Consumer Director.

Its primary role, and associated work profile set out in the current departmental work plan for 2008, is to raise awareness of costs, risks and benefits of financial products and to report on the extent to which competition exists between regulated entities.

The Department seeks to ensure that all consumers have access to sound, independent information through their dedicated consumer helpline, information centre, publications, campaigns, information seminars and attendance at exhibitions.

In addition, the department is responsible for producing the content of the newly, redeveloped personal finance website - www.itsyourmoney.ie. The website offers free financial information in plain English to the consumer.

The department is comprised of a number of teams which are collectively responsible for the activities and processes carried out. The teams are as follows:

Consumer Protection Code (CPC)

The Consumer Protection Code Department (CPC) forms part of the Consumer Directorate and reports directly to the Consumer Director.

The legislation which underpin the department's activities is set out in Appendix VI to this document

The activities of the Consumer Protection Code Department (CPC) predominantly though not entirely centre around the following:

- The Consumer Protection Code (2006)
- Minimum Competency Requirements (2007)

The Code contains provisions that cover all aspects of a regulated entity's relationship with a consumer, from advertising and marketing, to knowing the consumer and offering suitable products, to ensuring that consumers are treated fairly. The Code's principal aims are to:

- Ensure a consumer-focussed standard of protection for buyers of financial products and services
- Ensure that there is the same level of protection for consumers regardless of the type of regulated entity they choose to deal with
- Facilitate competition by contributing to a level playing field

In terms of the Minimum Competency Requirements (MCR), this came into force in January 2007 and introduced a competency framework designed to establish minimum standards for regulated entities. Firms are required to ensure that individuals who provide advice on or sell retail financial products or who undertake certain specified activities on their behalf acquire the competencies set out in the MCR. In addition, individuals are required to undertake a programme of Continuing Professional Development on an ongoing basis.

The department is comprised of a number of teams which are collectively responsible for the activities and processes carried out. The teams are as follows:

7.3 Key Observations and Conclusions

7.3.1 Benchmarking of Consumer Processes and Activity

In examining the current processes in operation within the Consumer Directorate against other international regulators, it is important to note that very few international financial regulators have a formal or statutory consumer mandate and of those that do:

- From a consumer protection perspective 7 of the 13 financial regulators included in the benchmarking exercise indicated that they had a formal or statutory consumer compliance mandate. Of those, all conducted consumer inspections in some form or other.
- Very few international financial regulators have a formal or statutory consumer information mandate. Out of a total of 13 organisations participating in the benchmarking study, 5 organisations indicated that they had a statutory consumer information mandate

Of those who indicated that they have a consumer mandate, only 4 are comparable to the Irish consumer information mandate and of those, the majority, would appear to be more reactive rather than proactive in terms of the implementation of that mandate.

In addition, it would appear that the volume and breadth of consumer activities conducted in Ireland is higher than in many other countries with a consumer mandate. This may be demonstrated as follows:

- Ireland has one of the highest ratios of consumer queries per thousand consumers of any regulator with a consumer mandate with an average of 9.5 consumer queries per thousand consumers
- Ireland maintains and produces one of the largest number of consumer publications as compared to other Regulators.
- Ireland produces the highest number of research/ policy consultation papers of any international Financial Regulator
- Ireland has the highest level of demand for consumer publications of any Regulator included in the study at 420,000 publication requests in 2007. It should be noted that since the re-launch of the itsyourmoney.ie website, the level of consumer demand for printed publications fell in the latter half of 2007 and in 2008 and there was a corresponding and significant increase in the number of visits and downloads from the website. As such the level of demand can be considered to be higher than that represented by publication volumes alone.

7.3.2 Awareness Campaigns Market Research, Advocacy and Access

Whilst much of the work of the teams involved in the areas of awareness campaigns, market research, advocacy and access is not highly process driven in nature, some standard approaches and methodologies have none the less been developed and as such a number of process related conclusions may be drawn:

Conclusion

- At present, a large proportion of the consumer communication team's time is spent in responding to the requests and demands for information and statistics coming from various stakeholders. The cost and resource implication of responding to stakeholder requests would not appear to be fully considered at the point of request. This is especially relevant in light of the complexity of information production and collation within the Organisation at present

- It would appear that the consumer communications team acts almost as a separate consumer Press Office for the Organisation and specifically the Consumer Directorate. Whilst it is apparent that a considerable level of time and as such resources is being consumed in press/media related activities across the Organisation, in addition to that provided under the Shared Services agreement in place with the Central Bank, a higher level of staff input would appear to take place within CONI than in other departments. As a result a certain capability has been developed within CONI for press releases / media briefing activities but this activity consumes a relatively high level of resources which as a result are diverted from other consumer information activities

- The current level of procurement activity undertaken by individual teams within CONI diverts in the region of 1.5 FTE's per annum. Procurement services may be more appropriately provided through a central or shared services support model

7.3.3 Market and Competition Issues

Whilst much of the work of the team involved in the areas of market and competition issues is not highly process driven in nature, the following observations may be made:

Conclusion

- The formal output from the market and competition team is unclear and at present, there is no real mechanism for communicating and informing other areas in the Organisation of the market and competition issues identified by the unit e.g. no standing item on the Executive Management agenda to inform of competition issues

- An overlap may currently exist between certain responsibilities of the unit and the EU and International Coordination unit in PFD.

- It is unclear as to why this unit is currently producing the Private Motor Insurance Statistics report as it would appear that this does not directly relate to the consumer mandate of the Organisation and might be more appropriately conducted by another agency/body

7.3.4 Consumer Queries

The Financial Regulator has developed a series of formal processes for addressing consumer queries, which are received by the Organisation in letter, fax, e-mail and phone form. A third party supplier is currently responsible for the management of the outsourced consumer helpline. Queries may be referred by the agency to CONI and calls may be redirected from other parts of the Organisation.

The following is a summary of query levels for 2007 (full 12 months) and for the 9 months from January to September 2008:

	2007 12 Months	2008 9 Months
Query helpline - third party service supplier	29,279	19,724
Telephone queries - direct to CONI	1,753	2,986
Letters/fax queries	542	397
E-mail queries	3,211	958

The following observations may be made in relation to the management of current query processes:

Conclusion

- It would appear that the Supervision System, which has been partially adapted to meet some of the requirements of the contacts team, is not a suitable tool in its current form to support this function of the Financial Regulator

- The current increasing volume of consumer calls and their complexity has a number of implications for the CONI consumer contracts team and the level of resources - staff resources and IT resources allocated to that team. This is based on the fact that:
  - The number of calls to the CONI query line which are primarily referred from the third party service supplier would appear to be increasing
  - The length of time which it takes to process the calls (on average 30 minutes, including follow up and logging as estimated by the consumer contacts team) would appear to be increasing
  - As consumers become more informed, the queries which they raise become more complex and in turn the level of referrals from the third party service supplier increase

- The total number of queries included in current statistical reports would appear to be lower than those actually addressed on the basis that e-mails, regardless of the number of interactions between a consumer and a contacts staff member are only counted once and the contacts team has not automatic logging tool, which means that not all calls are logged on the Supervision System

- It would appear that on the basis of the current contract in place with the third party service supplier (which will expire shortly and is being renegotiated at the date of writing), a significant proportion of the risk is transferred to the Financial Regulator rather than to the contractor Additionally, there is no financial or other implication included in the contract for:
  - Meeting or not meeting service targets
  - Call volume based thresholds and discounts
  - The level of query transfers to the CONI team

- Levels of agent staff turnover
- The nature and/or level of escalations to the CONI contacts team
- The results of the quality checks conducted by the Financial Regulator
- Contingency provisions for increases in trained agent staff within the third party service supplier required to respond to significantly higher levels of calls than normal

- At present the CONI telephone query process is very manual in nature, and is largely unsupported with the appropriate technology. Staff are documenting queries on paper and in turn duplicating those details on the Supervision System at a later stage. Whilst the level of telephone calls addressed by the contacts team is roughly one tenth of that addressed by the third party service supplier, it is none the less substantial and requires some form of low level contact/call centre technology

- Written and e-mail queries are recorded in triplicate on the various systems within the Organisation. This does not represent an efficient process, consumes greater resources than required and additionally makes it very difficult to find information relating to a query or a specific consumer and to prevent "query shopping" as physical files, the network and also the Supervision System must each be interrogated

- The details relating to a letter are not recorded on the system upon receipt by the Organisation, but rather are transferred up to 4 times from individual to individual within the Financial Regulator. This can often result in a piece of correspondence spending up to two days travelling through the Organisation before it reaches its final destination for resolution While this is not only a CONI specific issue, as it is the approach adopted by the Organisation for all correspondence, its effect is greater within the Consumer Directorate which is often the destination of much of the correspondence/ queries received

- At present up to 4 different sign offs are required prior to an e-mail response being sent to a consumer. This contributes to the high level of resources consumed in addressing e-mail queries and would appear to be unnecessary

Benchmarking of Consumer Query Processes and Activity

- It would appear that the volume and complexity of consumer queries in the Irish market is higher than in many other countries against which Ireland can be benchmarked

- It would appear that in the case of most other financial regulators with a consumer mandate a number of tools are available to support the consumer query process – these include:
  - Workflow management systems
  - Structured electronic capture, storage and classification of information – enterprise content management systems (ECM system)
  - A contact management system to record communication
  - Document management system to support the monitoring and tracking of correspondence

- None of the financial regulators included in the study have any plans to in-source their consumer helplines as each indicated that the staff and technology costs associated with such a move would be prohibitive

7.3.5 Publications, Information Provision and Surveys

Some although not all aspects of the activity carried out under publications, information provision and surveys is highly process driven in nature. The following observations may be made in relation to this activity:

Conclusion

- It would appear that the current processes in place in relation to the preparation and dissemination of publications and the production of cost surveys are relatively efficient but could benefit from some further development, additional tools and technology support.

- These processes are in essence driven by the number of publications and/or surveys produced which are higher than most other financial regulators with a consumer information mandate, however the demand for such publications in Ireland, inspite of the size of the population is the largest of any of the 6 regulators included in the study and may reflect the level of awareness amongst consumers.

- With the appropriate tools, some savings could be made in relation to third party suppliers in this area of activity.

- Procurement is not carried out centrally and as such each team is responsible for managing its own purchasing process. This is not an effective use of CONI resources.

- The current process associated with the preparation of publication drafts and their subsequent development by designers, whereby the CONI team is not in a position to make changes represents an inefficient use of non staff resources. The cost of the tool required to support the production team is significantly lower than the cost of changes charged by third party suppliers.

- At present, CONI manage the invoicing and cheque lodging process for industry orders for publications. It is unclear as to why this financial process is not managed by the central finance team covered under the shared services agreement. In addition, these invoices are prepared in MS Word and do not benefit from finance controls

- In order for a consumer to order from the itsyourmoney.ie website, they must fill in a form, the form is e-mailed by the developers to the third party service supplier who in turn enter it into the third party service supplier online ordering system and then the normal publication distribution process can commence. This does not represent an efficient process and includes a level of duplication of entry and the consumption of time by two third party providers each of which charges for the work required.

- At present a large proportion of the information held in relation to consumers is held on third party systems, which are not under the management or ownership of the Financial Regulator. This may have data protection implications and in addition, it provides a barrier to changing contractor.

7.3.6 Procurement

At present procurement consumes in the region of 1.5 FTE's from the CONI department annually although this is not a core consumer information function. The following observations may be made in that regard;

Conclusion

- The current procurement process in operation in CONI, while resource intensive would appear to follow public sector procurement guidelines. Procurement is however generally considered to be a support function and as such does not fit within the mandate of the Consumer Directorate and CONI specifically and currently consumes an inappropriate level of resource in this regard.
- It would appear that a large number of disparate groups of people are currently involved in the procurement processes and too many people and teams. Ultimate responsibility / ownership of the process in the absence of a central procurement facility may not be clear and the process may not be conducted in the most efficient manner.
- There would appear to be limited input from the LED department in relation to the formulation of the final contracts with third party suppliers, protecting the Financial Regulator and ensuring that specific contract provisions are included in all contracts (e.g. data protection, intellectual property, contract review etc.)
- Contract management, subsequent to contract award is not conducted on a proactive, structured and consistent basis
- As no single Organisational register of tenders awarded and companies used is maintained, it is possible that similar services at different rates may be procured from different suppliers by individual departments

7.3.7 Consumer Reporting

The following observations may be made in relation to reporting within the Consumer Directorate:

Conclusion

- It would appear that the Organisation is very responsive to requests from internal and external stakeholders and panels for information and that the full cost of the production in resource terms of these requests is not fully considered when they are greed to.
- Current reporting models do not represent the most effective means for the production of standard reports but in the absence of centralised systems which hold the requisite information required to populate these reports, only limited gains in efficiency can be achieved.
- CONI teams track the annual workplan on a monthly basis, and individual teams also complete weekly work returns in MS Word. Whilst these two documents do not fully correspond they are largely based on the same set of activities and as such some duplication of activity is apparent. On average each work return takes in the region of 30 minutes for each staff member to prepare. As such this activity consumes in the region of approximately 3 FTE's annually

7.3.8 Themed Inspections

Whilst the themed inspections process is a relatively new one, and specific inspection procedures and tools have been developed to support this process, the following observations may be made in relation to its operation:

Conclusion

- Inspections and mystery shopping exercises (preparation, onsite and follow up) currently consume in the region of 11.46 FTE's and approximately €1,055,670 of cost (pay and non pay). This is roughly equivalent to the combined level of resources which take part in inspections within the Banking and Insurance supervision departments.
- Some inconsistency of process is apparent across different inspections teams.
- It would appear that the current IT infrastructure and associated tools do not adequately support the themed inspections process so as to ensure efficiency of process i.e.
    - Need for receipt of electronic data such as encrypted / zipped files
    - Use and overreliance on MS Excel
    - Absence of laptops to support on site themed inspections, which results in the duplication (manually and electronically) of working papers
    - Structured network storage
    - Central repository of inspections information (post inspection letters, inspection checklists,

post inspection letters etc.)

- At present, various permutations of the same information must be prepared following a themed inspection including internal reports for management, themed inspection report, industry letter etc - however each document must be prepared from source rather than through the use of templates all populated from a single source of information. This does not represent an efficient process.

- At present inspection information is recorded in multiple locations within the Organisation - electronically and in manual file format. This results from the absence of an effective system to support the process, high levels of duplication and represents an inefficient use of resources

- A formal risk model for the identification and prioritisation of inspections is currently not in place. It is however, acknowledged that a management process is in place to discuss a range of themes and agree on priorities. In addition the resource allocation (engagement) model in CPC with regard to themed inspections is not demonstrably linked with the risk-based planning process

7.3.9 Section 149 - Notification Of Bank Charges

Following the introduction of the Consumer Credit Act in 1995, the specific provision in relation to notification and approval of credit and foreign exchange related bank charges (commonly referred to as 'Section 149 charges') came into force in 1996. Prior to the establishment of the Financial Regulator in 2003, the Office of the Director of Consumer Affairs (ODCA) was the responsible authority for processing such notifications and applications.

As part of the recent review of legislation, The Department of Finance (DOF) has requested that the Financial Regulator review Section 149 with a view to considering the appropriateness of the management of the associated activity by the Consumer Directorate. The Financial Regulator has since the completion of the project formally responded to the Department of Finance in this regard.

The role of the Financial Regulator in processing these notifications and applications is not a role that would appear to exist in other financial regulators with a consumer mandate.

The current process which supports the notification of bank charges is largely driven by the requirements of legislation and as such only limited observations can be made in this regard:

Conclusion

- This process consumes in the region of 3FTE's within the CPC department and approximately €250,000 of resources

- The assessment of whether charges and/or entities are subject to S149 takes place by CPC in conjunction with the Financial Regulator's Legal and Enforcement Department (LED). Each case has to be assessed on its own merits and, in practice, is consuming a significant amount of time and resources, irrespective of the outcome of that assessment. The assessment has become even more complex in light of the jurisdiction in which the regulated entity operates and the charge is intended to be applied

- At present and in the absence of a more appropriate tool, all the data relating to the Section 149 process is processed and stored using MS Excel which does facilitate effective or secure data management or reporting

7.3.10 Authorisation of Moneylenders

Moneylenders are regulated under the Consumer Credit Act 1995 (sections 92-114). Approximately 50 licensed moneylenders are in operation at present. Money lenders are the only financial institutions that are licensed annually by the Financial Regulator. 80% of the licenses expire at the same date every year (June/July), leading to significant workload for the team in charge of processing those applications.

A proposal has been submitted to the Department of Finance for consideration of the extension of the licensing cycle from one year to two - five years.

The following observations may be made in relation to the current processes:

Conclusion

- A clear business or legislative reason does not appear to currently exist that requires the CPC department rather than the FIFA department to process these applications

- The current application form process is very manual in nature and due to the large number of applications received at the same time each year, the process is very suitable to an electronic application process, which would include completeness and integrity checks and other basic checks (e.g. checking of APR's) etc. thereby reducing the manual nature of the current process and improving efficiency

7.3.11 Investigations

Investigations/ enforcement activity refers to actions arising from the Administrative Sanctions Process (ASP), which primarily applies to investigations into prescribed contraventions by a regulated financial institution. The ASP process applies to the CPC department in the same manner as it applies to all departments within the prudential directorate.

From a structural perspective, CPC has established a specialist investigations team which currently includes 5 staff members some of whom have specialist investigator experience.

The following observations may be made in relation to the current processes:

Conclusion

- Since the introduction of the ASP in 2004, a very small number of investigations and/or associated sanctions had been conducted by the Organisation as a whole, the majority of those cases have arisen from the CPC department and at present the level of activity in the area of investigations within CPC is over twice that of all other departments combined. Formal monitoring of breaches in accordance with categories A - E of the ASP is conducted within CPC

- The current ASP which was introduced in 2005 consists of 13 individual steps with detailed documentation requirements specified at each stage. It was developed to formalise and standardise the enforcement/administrative sanction process. This process has been adapted to fit with the requirements of the consumer protection code within CPC.

- At present inadequate IT tools are in place to support the investigation/ enforcement process within CPC:
    - No tools are in place to support the case building process and multiple hard copy files are maintained - by the department who identified the possible breach and/or is conducting the investigation and by LED.
    - Document management or similar tools
    - Electronic filing
    - IT forensic or similar skills or tools are not available to teams responsible for enforcement activity within the Organisation. These type of skills are becoming increasing prevalent in other enforcement environments - e.g. Gardai/ Revenue Commissioners
    - the existence of an investigation is not logged centrally so that other departments are aware of the investigation

- Formal structured tools to support the investigation process e.g. IT tools structured checklists, procedures, support for case management etc. are only in place to a very limited extent

- At present the format in which investigation type information is presented in the Annual Report changes each year which means it is difficult to collect the information on an ongoing basis throughout the year and instead it needs to be prepared from source at Annual Report time

- The level of investigation/ enforcement activity in the area of consumer protection as compared to other countries included in the benchmarking study would appear to be at the higher end but by no means the highest.

7.4 Recommendations

The following recommendations should be considered in light of the observations made in Section 7.3 above:

Recommendation 1: Discontinue The Support Processes Currently Conducted Within Consumer Directorate

A number of processes of a support nature which are currently conducted within the Consumer Directorate – primarily within the CONI department should be discontinued and conducted more appropriately by the Shared Services or a similar support function. These include:

- Procurement
- Press/ media activity (refer to recommendations in relation to Organisational Structure as outlined in Chapter 3 of this report)
- Invoicing and payment collection

We estimate that this activity involves in the region of 4 FTE's

Recommendation 2: Evaluate The Resource Requirements of Requests For Information From Internal and External Stakeholders

The resource requirements and associated costs of requests for information and reports from internal and external stakeholders should be considered as a standard part of the decision relating to whether each request should be satisfied. Existing reports and information should be used as much as is possible rather than redevelopment of reports from source on each occasion. These reports should be stored in an accessible commonly available forum such as an intranet or similar tool.

Recommendation 3: Discontinue The Current Practice of Completing Weekly Work Returns in Light of the Proposal To Introduce a Time Sheet System

The current process of completing weekly work returns, in their current format should be reconsidered in light of the overall resources this process consumes across the Consumer Directorate and in light of recommendations included in other parts of this report relating to time recording systems. We estimate that the reduction of this process could save a minimum of 1.5FTE's

Recommendation 4: Review the Role and Formal Output of the Market and Competition Team

The role of the market and competition team, the formal output and mechanism for the communication of this output should be reviewed and clarified.

Recommendation 5: Review and Renegotiate The Current Third Party Outsourced Call Centre Contract

The current third party call centre service contract should be renegotiated in order to ensure that a greater proportion of the risk is transferred to the contractor and that the level of input of CONI resources (overall resources)

Recommendation 6: Invest In A Specific, Appropriate IT Application To Support The Consumer Contact Team

Investment in a specific application to support the specific needs of the consumer contact team and also the management of information relating to consumer activities/ information and reports should be considered. It is unlikely that the Supervision System in its current form can fulfil this requirement.

Recommendation 7: As IT Systems Are Introduced To Support The Organisation, Reduce The Duplication of Records

Duplicate and triplicate query, inspection, investigation and enforcement files should be reduced and where possible over time eliminated to facilitate effective record and information management. This will require significant investment in document and record management and case management technology at a whole of Financial Regulator level so that a single repository of information relating to a regulated entity or a consumer exists and information can be accessed efficiently.

Recommendation 8: Invest In a Specific IT Application to Support the Publications Team

A limited and specific investment should be made in appropriate tools to support the needs of the publications team. This will in turn reduce the reliance on third party suppliers and also the associated cost.

Recommendation 9: Review The Level of Resources Committed To The Consumer Directorate

The level of resources currently committed to the consumer mandate in certain areas should be reviewed in the context of the need to maintain the current volume of consumer activities and the level of comparative resource gaps in other areas. These and some additional resources should be re-allocated to the insurance and banking prudential departments if a decision to reduce the volume of activity or output was taken. However it is important to recognise that the current leading or "best practice" position of the Financial Regulator as outlined in this Chapter, could be jepordised if any significant diminution of activity were to occur.

Recommendation 10: Review All Significant Contracts With Third Party Service Suppliers

All contracts with third parties suppliers whereby consumer information is held on third party systems not owned or managed by the Financial Regulator should be reviewed to ensure that adequate data protection and information ownership provisions are in place

Recommendation 11: Review The Current Conduct Of Certain Activities Not Required Under Mandate

The preparation of certain surveys, reports other studies not required under the mandate of the Financial Regulator but which are currently conducted by the Consumer Directorate should be reconsidered in light of the Organisation's mandate and the role of other departments in the CBFSAI and/or other agencies. These include the Private Motor Insurance Statistics report, Interest Rate Study, Credit Card study etc.

Recommendation 12: Invest In a Specific Whole of Organisation Application To Support all Inspection and Investigations Processes

Investment should be made in the development of a more appropriate IT infrastructure to support the CPC inspection and investigation processes and the current inspection processes followed by different teams should be standardised.

Recommendation 13: Adapt and Roll Out The Current Risk Model to the CPC Department

A formal risk model for the identification and prioritisation of inspections and the assignment of inspection resources should be implemented

Recommendation 14: Investigate The Automation of The Current Section 149 Process

The section 149 process that is in operation at present, has been reviewed and enhanced relatively recently, however in the event that the requirement to continue to conduct Section 149 activities remains with the Financial Regulator then this process could, with the support of a more appropriate tool than Excel be automated to a greater extent to achieve greater efficiencies.

Recommendation 15: Transfer The Authorisation of Moneylenders

The authorisation of money lenders should be moved to an electronic application form model and relocated within the FIFA department.

Recommendation 16: Define a Standard Suite of Information to Support the Production of Consumer Information

A standard suite of reports should be defined to support standard consumer management reporting and information production. The system(s) should be flexible enough to support the in-house development/generation of new ad hoc reports.

8 ADMINISTRATIVE SUPPORT PROCESSES

8.1 Introduction

As part of this review, business processes were examined at 3 levels:

- **Management processes**: the processes that govern the operation of the Organisation e.g. mandate / legislation, purpose, vision, high level goals, strategic planning / activity profile

- **Operational processes**: the processes that constitute the core business of the Financial Regulator and create the primary value e.g. inspections, investigations, enforcement etc.

- **Support processes**: the activities that support the day to day operation of the Organisation and the delivery of its mandate.

11 recurring administrative support processes were selected for detailed review, primarily by means of workshops with staff from across the consumer and prudential directorates, including RCU. General benchmarking information was received from 13 international Financial Regulators, 9 of which provided useful process information. The support processes carried out by the Shared Service function of the CBFSAI were not included, with the exception of a limited review of the applications supplied by the Information Systems Department (ISD) in so far as these applications support operational processes.

The processes included in this review are as following:

#	Support Process
1	Strategic Planning
2	Annual Reporting
3	Work Planning
4	Manpower Planning
5	Budget Setting And Reporting
6	Calculation And Collection Of The Funding Levy
7	EU and International Coordination
8	Reporting To The Consumer Panel
9	Stakeholder Protocol
10	IT planning
11	Central Services

The department is comprised of a number of teams which are collectively responsible for the activities and processes carried out. The teams are as follows:

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8.2 Overview of Current Processes

The Planning and Finance Department (PFD) within the Consumer Directorate manage the majority of administrative support processes. However individual departments are heavily involved in the execution of the majority of these processes. Outlined below are the cost and human resources (FTE) consumed by the respective processes, based on averages for the years 2007 and 2008:

#	Administrative Support Process	Cost in €000s[15]	Staff FTE
1	Strategic Planning	368.8	3.4
2	Annual Reporting	311.5	3.2
3	Work Planning	200.7	2.4
4	Manpower Planning	70.1	0.8
5	Budget Setting And Reporting	307.4	3.6
6	Calculation And Collection Of The Funding Levy	464.2	4.0
7	Stakeholder Protocol	398.6	4.6
8	IT planning	254.9	2.5
9	Central Services	115.7	1.4
	Total Costs of Support Process covered in this Chapter *	**2,491.9**	**25.9**
	Training and Development	1,257.9	7.4
	Staff and Department Management	823.7	9.5
	Monthly/Quarterly Management Reporting	335.3	4.1
	Policy process and procedures development	146.3	0.6
	Other Support Processes	661.1	3.7
	Other Administrative Support Processes across the organisation, including training	**3,224.3**	**25.3**
	Total Costs	**5,716.2**	**51.2**

The cost of EU/International Coordination and support of the Consumer and Industry Panels are largely core regulatory administrative processes and as such can not really be considered as administrative support processes, but on the basis of the fact that their management has been allocated to the PFD department, they have been included in this chapter and the level of resources assigned to them may be analysed as follows:

[15] Shared Services costs are excluded

#	Support Process	Cost in €000s	FTE
10	EU and International Coordination	1,000.2	8.9
11	Support of The Consumer and Industry Panels	289.2	3.1

8.2.1 Strategic Planning

The Financial Regulator is required by legislation to prepare an annual Strategic Plan. From an organisational development perspective, the Authority has decided to prepare three-year rolling strategic plans. This process included annual updates on progress and where necessary, adjustments to the actions required to deliver on High Level Goals, which are communicated to the wider public. The Financial Regulator has published three-year Strategic Plans for the periods 2004 - 2006 and 2007 - 2009; the latter included a review of the regulatory approach and philosophy.

8.2.2 Annual Reporting

The Financial Regulator publishes an annual report in the second quarter of each year. The process is very collaborative in nature and all departments are invited, and expected, to make contributions. Legislation does not require the Financial Regulator to publish accounts as part of its annual report.

8.2.3 Work Planning

Work planning is the process whereby individual departments outline the proposed activities which they intend to undertake in a specific year, with the aim of mapping the High Level Goals as per the Strategic Plan to a set of actionable tasks. It is also intended to be used as a tool to manage and monitor progress against plan during the year. PFD are responsible for coordinating the process, including the progress reporting to the Authority.

Work planning is conducted subsequent to annual strategic planning.

8.2.4 Manpower Planning

The primary function of the manpower planning process is to analyse actual headcount and plan future headcount requirements. All departments are involved in this bottom-up exercise, with PFD being in a coordinating role.

Manpower planning is not conducted at the same time as budgeting, which means that the cost of staff resources is not fully considered at budgeting stage.

8.2.5 Budget Setting and Reporting

The purpose of the annual budgeting process is to prepare the pay and non pay budgets for the following year. However, the Financial Regulator's budgeting process focuses specifically on the non pay budget as the HR function within Shared Services is responsible for completing the pay budget process for the CBFSAI. Like the manpower planning process, the budget process is a bottom-up exercise, involving all departments and coordinated by PFD. The budget has to be submitted to the Department of Finance before the end of October each year for approval.

The monitoring process during the year takes place on department level, with frequent reporting to PFD and the CBFSAI's Financial Control Department (FCD).

Budget setting does not take place at the same time as manpower planning or strategic planning and as such means that the cost of implementing the strategic plan is not fully considered prior to its publication.

8.2.6 Funding and Levy Calculation

Under the relevant legislation, the Financial Regulator may raise 50% of its annual budget directly from the regulated financial institutions, with the remainder funded by Government. The Financial Regulator keeps the financial institutions informed about the funding regulations, and any significant changes.

The funding levy is calculated within PFD using a structured calculation model which incorporates the number and type of entity regulated.

The results from the structured calculations process are presented to the Executive Board and the Authority for sign-off, prior to submission to the Department of Finance for approval. The actual levy process, i.e. collection of individual amounts from the respective financial institutions is centrally managed by PFD with some limited input from the Financial Control (FCD) department within the Central Bank under the Shared Services Agreement.

8.2.7 Stakeholder Protocol

The Stakeholder Protocol (rolled out in 2007) is a statement describing a large number (55 at the time of writing) of specific service targets the Financial Regulator aims to meet. Typical service targets include response times for written information queries, approvals of persons and prospectuses, notice periods and turnaround times for inspections, and areas where the Financial Regulator commits to consultations with the industry.

In order to track progress against targets, data must be recorded on an ongoing basis. The process of data collection, submission, compilation and analysis is not fully harmonised across all departments and uses multiple Excel spreadsheets and paper records.

8.2.8 IT Planning

The IT planning process is an annual exercise undertaken by the Central Bank's Information Systems Department (ISD). ISD provides IT services to the Financial Regulator as part of the wider Shared Services arrangements. The Financial Regulator is represented on the Information Systems Steering Group (ISSG) which oversees IT activities on behalf of both arms of the CBFSAI through attendance by members of PFD, the Directors and the CEO. In addition, the Head of PFD also attends this group.

IT activities are split into small IT projects (i.e. operational support) and large IT projects (e.g. system development) and are delivered by the ISD department within the Central Bank. Within PFD, the Central

Services Team are responsible for co-ordinating and monitoring the small and large projects required by the Financial Regulator.

8.2.9 Central Services

In addition to the coordination of IT activities/ISD services, PFD monitors the provision of other shared services, such as Human Resources and general administration. High level memoranda of understanding (MOU) were agreed upon establishment of the Financial Regulator in 2003. PFD coordinates the preparation of a suite of monthly reports, for the Executive Board, including monthly financial and manpower reports and updates on cross organisational projects. In addition, this team prepares the update and progress reports for the Consumer Committee.

8.2.10 EU and International Co-ordination

In late 2006, the EU and International Coordination Unit was established within the Financial Regulator. To date, the activities of the unit have included the following:

- Engaging stakeholders and supporting management and staff
- Conducting ongoing research and maintaining an overview of EU/International developments institutions etc.
- Participating in other EU and International fora
- Preparing briefs for 3L3 groups (CEBS, CEIOPS, CESR)

The activity of this department is conducted in participation with and as a support to the main prudential departments.

8.2.11 Reporting to the Consumer Panel

The Financial Regulator reports quarterly to the external stakeholder group, outlining the main activities of the consumer departments and associated information and statistics. On that basis, the consultative Consumer panel comments on and assesses the Financial Regulator's performance in the area of its consumer activity. In addition to the quarterly summary report PFD also co-ordinates a monthly statistical report for the Panel.

8.3 Key Observations and Conclusions

On the basis of our analysis of administrative support processes currently in operation within the Financial Regulator the following observations and conclusions can be drawn:

8.3.1 Administrative Support Resources

As set out in Chapter 4 above, the level of administrative support resources currently consumed across the Organisation is high as compared to other financial regulators. This analysis is based on the consideration of the level of administrative support resources within PFD, the prudential and consumer departments and provided by the Central Bank under a Shared Services Agreement which represents 32% of the total budget of the Financial Regulator.

A total of some 51.2 FTE's are consumed across the Organisation in the conduct of administrative support processes, excluding Shared Services.

8.3.2 Administrative Support Systems

International benchmarks show a more extensive use of administrative support systems than is currently the case in Ireland. Out of a total of 13 international financial regulators who participated in this study:

- 12 employed a formal budgeting system
- 6 employed formal planning tools; a number of regulators employed dedicated editing and publishing tools, or complete planning/editing packages, to support reporting and planning processes
- 8 employed formal reporting tools
- 10 employed some form of electronic document management system

Conclusion

- Multiple separate and related planning cycles are in operation within the Organisation. None of these are fully aligned in terms of either inputs or outputs and each cycle produces a series of templates, required to be completed by individual departments and returned to PFD. This multi pronged approach to planning consumes more resources than a single consolidated process would do or a smaller number of integrated processes

- At present the budgeting and strategic planning cycles for both the annual and three year plans are not aligned or fully reconciled. This results in overlapping exercises being undertaken and an amount of duplication of time and effort

- Before taking on new administrative tasks or processes, consideration should be given to their impact on PFD resources but also the resource impact on individual prudential and consumer departments

- There is a requirement for the development of systems to assist in supporting administrative processes

8.3.3 Strategic Planning

The following conclusions can be drawn in relation to the current strategic planning processes:

Conclusion

- Ireland is amongst a very small number of Financial Regulators to publish a strategic plan and make it available outside of the Organisation

- Ireland would appear to consume a marginally higher level of resources than its international counterparts for its planning activities

- On the basis of the current Strategic Planning annual and three year cycles, the Organisation is constantly in a cycle of strategic planning. The additional benefit to the Organisation or to stakeholders of both planning cycles is not apparent

- The adequacy of resources required to implement the strategy is not considered as part of the strategic planning process, as budgeting is carried out separately and at a different time of the year

- The process is resource intensive at present, involving many iterations, and may not be the most effective mechanism for the development of a whole of Organisation strategic plan

- A risk exists that departments manage to targets published in the strategic plans rather than actual priorities as they arise

- The current excel based tools used to support the strategic planning processes are inadequate

8.3.4 Annual Reporting

The following conclusions can be drawn in relation to the current strategic annual reporting processes:

Conclusion

- Information within the Financial Regulator is largely captured on a department by department basis, not held in any standard format and is not readily accessible for subsequent use. As such the compilation of information is a cumbersome and time consuming exercise

- There is a requirement for the development and implementation of a structured process around the preparation of the Annual Report thus making the activity more effective.

- The drafting and redrafting of text by various management levels within the Organisation is overly time consuming

- Whilst this is a document requiring senior management input and approval, the earlier drafts of the Annual Report do not require the level of extensive Director input currently allocated

8.3.5 Work Planning

The following conclusions can be drawn in relation to the current work planning processes:

Conclusion

- The objective of the work planning process is unclear and would appear to consume a disproportionate level of resources to the value it delivers
- The work plans are not fully co-ordinated with the Strategic Planning process and results in some duplication of effort
- The co-ordination role of PFD and overall ownership of and responsibility for the work planning process is unclear, and a definitive and complete sign-off of departmental plans does not take place
- A number of gaps exist in the current suite of tools used to support the work planning process

8.3.6 Manpower Planning

The following conclusions can be drawn in relation to the current manpower planning processes:

Conclusion

- The lack of synchronisation of the manpower planning, budgeting and strategic planning processes represents a departure from best practice. The timeframes imposed by legislation in relation to the budgeting and strategic plan submission timeframes impose certain constraints in this regard
- A number of gaps exist in the current suite of tools used to support the Manpower Planning process

8.3.7 Budget Setting and Reporting

The following conclusions can be drawn in relation to the current budget setting and reporting processes:

Conclusion

- On the basis that a Shared Services agreement is in place with the CBSFAI covering budgeting and reporting against budget, it is unclear as to why the activity remains partly within the Financial Regulator
- The maintenance of two systems - the MAS/SAP system and separate spreadsheets within each department to support budget monitoring is an unnecessary duplication of effort
- At present current SAP procurement limits do not correspond to staff grades and this results in duplication of activities and budgeting systems in a number of departments

- The limitations of the current budgeting and reporting systems increase the need to maintain duplicate systems thereby duplicating resource effort

8.3.8 Funding and Levy Calculation

The following conclusions can be drawn in relation to the current funding and levy calculation processes:

Conclusion

- Whilst it is obviously important to ensure that calculations are fair and accurate and reflect the appropriate tariff parameters, the value associated with micro allocations is not always apparent and in this case a materiality approach or threshold should be adopted

- The manual update of the Supervision System is an inefficient use of scarce supervisory resources

8.3.9 Stakeholder Protocol

The following conclusions can be drawn in relation to the current stakeholder protocol processes:

Conclusion

- The implementation of a Stakeholder Protocol process, in the absence of a system to automatically track transactions was always going to represent a significant overhead. The current level of Consumer and Prudential directorate resources required to support the process would appear to be disproportionate to the value it delivers

- The use of Excel (no matter how well designed) to capture the large volumes of information across 10 disparate departments, 55 targets and over long periods of time, is inappropriate and inefficient.

- Overall, the degree of resources used in Stakeholder Protocol activities (4.6FTE's) is not appropriate for an Organisation of the size of the Financial Regulator

8.3.10 IT Planning

The following conclusions can be drawn in relation to the current IT Planning processes:

Conclusion

- Whilst we acknowledge that a process was implemented in 2007 with a view to allowing PFD to monitor the specification and implementation of large and small IT projects and the co-ordination of the IT needs of the Organisation, this does not appear to have operated as intended for a number of reasons. At present some departments within the Financial Regulator liaise directly with ISD rather than with PFD and as such carrying levels of Financial Regulator oversight and monitoring take places

- Specialist business analyst skills should work with the technical experts in individual departments to specify the IT requirements of the Financial Regulator as a whole, in order that these may be fully reconciled and presented in a co-ordinated and coherent manner to ISD through the ISSG

- The absence of a business analysis/IT skill set within the Organisation charged with the development of a coherent and credible set of IT requirements to support the needs of the Financial Regulator, impacts on the quality of the IT service provided and the ability of the Organisation to effectively interact with ISD

- In many cases, ISD staff are not fully or adequately aware of the requirements of specific departments/ activities or of issues faced

- The PFD team is not in a position to effectively track the many small projects ongoing

8.3.11 Central Services

The following conclusions can be drawn in relation to the current central services processes:

Conclusion

While the consideration of Shared Services is specifically outside the scope of this review, the following high level observations may be made:

- There is a lack of written procedures in place between the individual departments covered under the Shared Services Agreement and the Financial Regulator. This can often lead to differences in the perception of individual roles and responsibilities

- The monitoring of HR / CSD services is falling between stools within the teams in PFD. The Central Services PFD team are not fully monitoring the activities nor are the Funding and Finance team

- At present no formal performance reporting on shared services takes place - to the Executive Board or to the Authority. A formal report by the Head of the Shared Services unit to the Authority has recently been introduced, but as this is not based on specific performance criteria and is produced by the provider of the service, it cannot be considered as an independent assessment by the Financial Regulator as to the quality of the service provided

- The current MOUs in place between the Financial Regulator and Shared Services within the Central Bank does not contain the level of detail required to adequately specify the nature of the services required and the basis for their provision

- The Financial Regulator undertakes a large amount of work itself, which it is already paying for as part of the Shared Services Agreement and this is an ineffective use of resources (e.g. Press Office)

8.3.12 EU and International Co-ordination

The following conclusions can be drawn in relation to the current EU/International processes:

Conclusion

- Whilst it appears that the level of resources allocated to EU/international activities is low as compared to those international financial regulators who participated in the study, it is not possible to categorically state this until a clear EU/International strategy is in place and an assessment of the resources required to support this strategy is made at departmental and EU co-ordination unit level

- At present the lack of a clear EU/international strategy and associated policy impacts on the ability of individual departments and the unit itself to engage with each other as effectively as they might.

- At present a number of operational issues exist as to the manner in which the EU/international unit produces information, interacts with department staff (and vice versa) and makes information available. These issues while not very significant none the less impact upon the efficacy of the operation of the unit in supporting the prudential and consumer staff who rely on its support

8.3.13 Reporting to the Consumer Panel

The following conclusions can be drawn in relation to the current Consumer Panel processes:

Conclusion

- The manner in which the information for the Consumer Panel reports are sourced is not an effective use of the resources of the core prudential and consumer departments

- The role of PFD, in the preparation of Consumer Panel reports might add more value if it include the initial development of a draft of the reports in addition to the co-ordination of these reports

8.4 Recommendations

The following recommendations should be considered in light of the analysis of administrative support processes set out above:

Recommendation 1: Implement a Formal Administrative and Planning Calendar

In order to assist individual departments in planning the allocation of resources, a formal and structured planning cycle should be designed and communicated to all heads of department and staff within departments who conduct administrative support activities. This calendar should set out:

- The dates on which departments will receive requests for information
- An estimate of the level of resources required to compile this information
- Assumptions and rules which should be used in the compilation of information
- Source information and support available
- Deadline for submission of information

Recommendation 2: Consider the Resource Impact of New Administrative Tasks

The absence of the consideration of the resource impact of new administrative tasks or processes in an environment which has a low level of administrative support systems is a key gap. New administrative tasks or processes should be considered from the perspective of their resource impact on PFD but also the resource impact on individual prudential and consumer departments.

Recommendation 3: Redesign the Current Planning and Reporting Processes

The current suite of organisational planning and reporting processes should be redesigned ensuring:

- Alignment of timing of the planning elements; consider changes in relevant legislation in order to allow/facilitate necessary adjustments
- Consideration of enhanced top-down rather than bottom up planning processes
- Improvement of information management
- Enhancement of use of effective tools
- Ensure that all information used in administrative support processes is stored centrally and is re-used and available centrally on an intranet or similar communication tool
- Reconsideration of the appropriateness of the degree of collaboration and consultation required in the preparation of plans
- Ensure that the strategic planning process drives the budgeting process and that the manpower planning process is either more closely aligned to the budgeting process or fully subsumed in that process.
- Reconsider the requirement for the work planning process and if a clear business need exists for the continuance of that process, reconsider the requirement for its central co-ordination

Recommendation 4 - EU/International Co-ordination

Clarify the organisation's policy on EU/International coordination and the level of resources required to support this activity.

Recommendation 5 - Temporarily Discontinue the Stakeholder Protocol Process

Temporarily discontinue the current Stakeholder Protocol process and the current model for monitoring of the achievement of 55 service targets under the Stakeholder protocol in the absence of a more appropriate tool to support the process and the value for money associated with this process.

Recommendation 6 - Renegotiate the Current Shared Services Agreement

The Memorandum of Understanding in place between the Financial Regulator and the Central Bank does not adequately describe the nature of the services provided or the basis for their provision.

The Regulator should review the existing agreement with the Central Bank and where appropriate re-negotiate the model for the provision of services in order to better support the Organisation, secure value for money for the services provided and reduce the level of duplication and triplication, in some instances of support activities.

Recommendation 7 - Transfer a Number of Support Processes To Shared Services Team

A number of support processes which are carried out by the Financial Regulator and also in part by Shared Services should be transferred in full, over time to Shared Services. These include:

- Procurement
- Budgeting
- All financial processes with the exception of the main funding levy processes
- All HR support processes
- Financial and budget reporting
- IT planning

The achievement of the specific outputs from and targets associated with these processes agreed under a revised Shared Services agreement should in turn be monitored by the proposed new Director of Regulatory Support Services through the provision by Shared Services of comprehensive and timely performance reports.

Recommendation 8 - Reduce the Current Level of Duplication/Shadowing of Shared Services Processes

As processes are transferred to the Shared Services unit - the current level of duplication/shadowing (e.g. budget tracking) of processes should be discontinued over time

9 OPPORTUNITIES FOR OUTSOURCING

9.1 Introduction

The business process review considered the opportunities which exist for the outsourcing of the activities of the Financial Regulator within the constraints of the confidential nature of its mandate.

Possible opportunities for outsourcing were considered in the context of

- The mandate of the Organisation,
- Those activities currently outsourced by the Financial Regulator
- Activities commonly outsourced by other financial regulators and
- Any opportunities for the achievement of greater efficiency of resource utilisation through the outsourcing of certain cycles or activities.

9.2 Key Observations and Conclusions

At the date of completion of the work on which this report was based the following activities were outsourced by the Financial Regulator:

Shared Services

A number of support and administrative activities have been outsourced to the Central Bank under a shared services agreement in place since the inception of the Organisation. These services are specified in a series of Memoranda of Understanding in place with the Central Bank and include the following:

Area	Services Provided
Corporate services	• Premises and accommodation • Telephones/switchboard • Reception • Procurement of goods and services including travel • Press and public relations • Legal services • Security, porterage, catering and other support services
Engineering services	• Maintenance, repairs and renewals to premises and plant • Advice and assistance in engineering services • Support to the security function • Compliance with health and safety legislation
Financial control services	• Development and maintenance of systems for management information and financial reporting, including cost accounts system • Maintenance of financial records • Compliance and risk monitoring of the investment portfolio for the Central Bank • Preparation of annual non-pay budget • Supporting framework for assessment and management of operational risk • Settling of all financial obligations and liabilities • Internal cash services for official purposes

Area	Services Provided
Human resources and planning	• Systems for manpower planning • Recruitment and placement • Establishment and management of terms and conditions of employment • Management of personnel records • Conduct of industrial relations • Training and development • Staff welfare service • Systems for performance management and appraisal • Grievance and disciplinary procedures • Systems for annual and strategic planning • Payroll and pension administration • Employee benefits
Internal audit	• Internal audit services
Information systems	• Providing input to business plans and strategies • Advising and assisting in the best use of ICTs to improve business processes • Developing effective policies, standards and processes • Installing and maintaining an up-to-date ICT infrastructure • Delivering business solutions through the development of bespoke systems and by acquiring and implementing software packages • Operating, administering and managing the infrastructure and systems • Acquiring hardware, software and services • Researching, assessing and evaluating ICT systems and services • Implementing a Help Desk
Statistics	• Assisting departments to identify and refine their statistical needs • Providing ongoing technical advice on statistical issues • Collecting, compiling, and disseminating data

The total cost of these services to the Financial Regulator is €16,689,273 or 32% of the overall budget of the Organisation (based on an average of 2007 costs and 2008 budget figures)

Third Party Call Centre

In order to support the Consumer Directorate in the provision of a consumer call centre service, the Financial Regulator has outsourced the operation of its helpline to a third party supplier, whose staff are trained to deal with Financial Regulator specific consumer queries.

This contract provides for all direct consumer calls to be routed, using call centre technology to the third party supplier. As necessary, the call centre staff can route calls to a dedicated contacts team within the CONI department.

This contract has been in operation for a number of years and is currently being renegotiated.

Third Party Publication Distribution Supplier
The Financial Regulator has engaged a third party distribution company to hold and distribute publication stock on its behalf.

Whilst the Consumer Information Centre holds publication stock and consumers can drop into the centre to pick up a publication, requests may also be made through the consumer helpline and the consumer website and those requests are managed and fulfilled by the third party supplier. All publications must be distributed within 1 week of request.

In addition, the call centre supplier IT system and the third party publication distribution supplier's system are linked to support efficiency of distribution.

Conclusion

On the basis of the benchmarking exercise conducted as part of this review, it would appear that Financial Regulators primarily outsource financial operations, IT development/support, HR and call centre activities for reasons of efficiency and value for money. No real examples of the outsourcing of core mandated prudential or consumer activities were apparent in the 13 Regulators included in the study.

9.2 Recommendations

The following recommendations should be considered in light of the analysis of current outsourcing arrangements and associated processes as set out above:

- The Financial Regulator should review the existing shared services agreement with the Central Bank and where appropriate re-negotiate the extent, service levels, cost and operational model for the services provided.

- The current outsourcing contract in place with the Consumer helpline service supplier should be renegotiated to ensure that the risk is more appropriately distributed between the supplier and the Financial Regulator (as outlined in Chapter 7 above)

- Until such time as the recommendations outlined in this report have been implemented, in so far as they relate to process and technology improvement, no further opportunities for significant outsourcing should be pursued.

- In the short term and as part of the requirement to introduce increased levels of specialist resources, certain outsourcing arrangements, may by necessity be required.

10 HIGH LEVEL IMPLEMENTATION PLAN

The challenges of implementing the recommendations of this report are very significant from an organisational, management, staff and regulated entity perspective. Should the Authority decide to proceed in this direction, we recommend that in broad terms the following steps should be followed;

1. The Authority should formally consider this report and adopt all the recommendations it considers appropriate, in the form of an approved 'organisation change strategy'

2. The plan once adopted should be communicated in clear and unambiguous terms to all relevant internal and external stakeholders

3. The CEO should be charged with the task of developing an overall implementation plan with all the milestones and timelines necessary to effect the requisite change at the required speed.

4. The Authority should approve all the desired changes to the organisational structure and the senior members of the revised management team should be allocated responsibilities for all the major elements of the implementation plan

5. The plan should be properly resourced and specific targets should be agreed on a quarterly basis for each of the major elements over the next two years

6. The CEO should be requested to implement the necessary procedures and systems to enable both the Central Management Group and the Authority to oversee and monitor actual progress against the implementation plan on a quarterly basis over the next two years

7. In our opinion the implementation plan should be structured in a manner that allows progress on the following key themes to be transparently monitored over time:
   a. Change to organisation structure and management framework including a new divisional structure
   b. Appointment of the two new Directorate positions recommended in this report
   c. Establishment of an Office of the CEO
   d. Transfer of activities in accordance with the revised organisational structure
   e. Appointment of key regulatory support specialists and the definition of the relationship between specialists, support staff and front line departments
   f. Clarification and implementation of the Organisation's policy on enforcement and associated escalation policy
   g. Changes to activities in support of the mandate including re-deployment of resources where appropriate to areas of higher priority
   h. Progress on implementation of a single organisational wide risk model
   i. Progress on the implementation of a whole of Organisation resource allocation system

j. Implementation of a new reporting and information mechanism on all the key operational affairs of the Financial Regulator for both the Central Management Group and the Authority
k. Communication and discussions on the impact of changes on internal and external parties
l. Specification of the requirements for the upgrade and implementation of new uniform processes and systems across the entire Organisation
m. Upgrade of existing IT systems and support processes together with a review of the relationship and the existing agreement with the shared services unit of the Central Bank.

8. In the short term and in order to implement the recommendations set out in this report, resource levels will need to increase for a limited period in the short to near term for the following reasons:
    - It will take time to re-deploy/ re-train staff within the Organisation, but some specialist posts will need to be filled in the short term
    - The ongoing crisis may require more intensive supervision of institutions and markets than heretofore - however this has not been considered in detail in the course of the analysis of resources in the course of this project
    - The upgrade of IT systems, processes and implementation of an effective information management framework will require significant upfront investment of resources before the efficiency gains can be realised
    - It will take time to transfer certain activities to the Shared Services team

APPENDIX I – LIMITATION OF SCOPE

LIMITATION OF SCOPE

In March 2008 the Financial Regulator commissioned Mazars, to produce a set of workable recommendations and proposals (informed by relevant and appropriate benchmarks against best practice in other regulatory authorities) that would deliver improvements in effectiveness, value for money and support the achievement of the Financial Regulator's Strategic Goals.

The consultants were required to undertake the following tasks:

(i) A systematic review of business processes operated within the Financial Regulator;

(ii) A benchmarking study of the Financial Regulator against comparator financial regulators and other similar businesses;

(iii) An assessment of areas of work currently undertaken by the Financial Regulator that might be suitable for outsourcing;

(iv) A strategic review of the current activity profile, organisational structure, resource utilisation and risk management models which support the Regulator in the execution of its mandate.

Work Performed

This project was undertaken through:

- Extensive workshops and structured meetings with staff, at all levels, of the Financial Regulator.
- Detailed analysis and review of the core business processes of the Financial Regulator
- An international benchmarking exercise and comparison of the resources and operations of the Financial Regulator to best practice.
- A review of the opportunities for outsourcing of activities

The work on which the observations and conclusions have been made was undertaken in the period March - October 2008 and as such should be considered in that context.

All processes within the Financial Regulator were not examined in the course of this review. The processes reviewed were selected in advance by a Steering Group established for the purpose of ensuring project direction and oversight. The work conducted focused on those areas of activity which were well established at the time of the review, and which lend themselves to the use of structured processes. As such limited analysis of the activities of the Legal Enforcement Department (LED) took place. The activities of this department were analysed in detail in the course of the review of the mandate of the Organisation and the resource analysis exercises conducted. A full list of the processes examined as part of this project are set out in Appendix V below.

It is important for the reader to note that this report contains observations and recommendations on areas where the Financial Regulator can make improvements or changes. This report does not seek to identify or present our observations on the strong features of processes or areas of best practice that were observed during the course of the work conducted. As such the overall tone of the report could be considered to be negative as it focused exclusively on areas where opportunities for efficiency or improvement are apparent.

Limitation Of Scope

The following items were specifically outside the scope of this review:

- This assignment does not seek to provide assurance to the Regulator as to the effectiveness or completeness of the Organisation in discharging its regulatory mandate
- The scope of this review is not intended to provide assurance over the adequacy of the current activities or processes of the Financial Regulator, or the risks inherent in those processes
- The project did not examine any processes which are currently outsourced
- The work conducted did not include a review of the operations of the Shared Services unit within the Central Bank or any of the activities of the Central Bank or its relationship with the Financial Regulator
- Any analysis of service objectives/ targets by business process was not conducted
- A technical review of IT systems or infrastructure was not conducted
- A review of the appropriateness or otherwise of the results arising from the application of the current risk model(s) did not form part of this review
- The assignment did not consider the capability or skill levels of internal teams
- The performance or response of the Financial Regulator in the current financial crisis has not been considered

In particular we must emphasise that the exercise conducted was not an audit and hence does not provide the same level of assurance as an audit. Our review was limited in nature and may not necessarily disclose all significant matters relating to the areas of the activities and processes of the Financial Regulator reviewed.

Our work, unless otherwise indicated, consisted principally of the review and analysis of information, provided to us, discussions and workshops with staff within the Financial Regulator and other key third party organisations and a comprehensive benchmarking exercise conducted across 13 international financial regulators. We have relied on explanations given to us without having sought to validate these with independent sources. We have however satisfied ourselves that explanations received are consistent with other information furnished to us.

The work conducted by Mazars was limited in scope and nature and was based solely on the activities set out above.

Mazars assumes no responsibility in respect of or arising out of or in connection with the contents of this report to parties other than to the Financial Regulator. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

APPENDIX II – PROJECT TERMS OF REFERENCE

PROJECT TERMS OF REFERENCE

In March 2008 the Financial Regulator commissioned Mazars, to produce a set of workable recommendations and proposals (informed by relevant and appropriate benchmarks against best practice in other regulatory authorities) that would deliver improvements in effectiveness, value for money and support the achievement of the Financial Regulator's Strategic Goals.

Mazars were required to undertake the following tasks:

- A systematic review of business processes operated within the Financial Regulator;
- A benchmarking study of the Financial Regulator against comparator financial regulators and other similar businesses;
- An assessment of areas of work currently undertaken by the Financial Regulator that might be suitable for outsourcing;
- A strategic review of the current activity profile, organisational structure, resource utilisation and risk management models which support the Regulator in the execution of its mandate.

This project was undertaken through:

- Extensive workshops and structured meetings with staff, at all levels, of the Financial Regulator.
- Detailed analysis and review of the core business processes of the Financial Regulator
- An international benchmarking exercise and comparison of the resources and operations of the Financial Regulator to best practice.
- A review of the opportunities for outsourcing of activities

The work on which the observations and conclusions have been made was undertaken in the period March - October 2008 and as such should be considered in that context.

APPENDIX III – GLOSSARY OF TERMS USED IN THE REPORT

GLOSSARY OF TERMS USED IN THE REPORT

Name	Definition
CBFSAI	Central Bank and Financial Services Authority of Ireland – represents the Central Bank and Financial Regulator
The Financial Regulator	The Financial Services Authority of Ireland
The Central Bank	The Irish Central Bank Organisation
BSD	Banking Supervision Department
ISPS	Investment Service Providers Function
INS	Insurance Supervision Department
MSD	Markets Supervision Department
FIFA	Financial Institutions and Funds Authorisations Department
RCU	Registrar of Credit Unions Department
CONI	Consumer Information Department
CPC	Consumer Protection Code Department
LED	Legal and Enforcement Department
PFD	Planning and Finance Department
Shared Services	Support services provided by the Central Bank to the Financial Regulator and including activities of the following departments: ISD, CSD, GSD, HR, Engineering services, internal audit, FCD and statistics
ISD	Information Systems Department
CSD	Central Services Department
GSD	General Secretariat Department
FCD	Financial Control Department
HR	Human Resources Department
ISSG	Information Systems Steering Group
AFFL	Advisory Forum on Financial Legislation
ASP	Administrative Sanctions Procedure
GVA	Gross value add
FTE	Full Time Equivalent
ICT	Information and Communication Technology
EU FINREP/COREP	Financial Reporting / Common Reporting System
C&AG	Comptroller and Auditor General
HLG	High Level Goal

Name	Definition
MAD	Markets Abuse Directive
ISE	Irish Stock Exchange
MCR	Minimum Competency Requirements
CRD	Capital Requirements Directive
NAV	Net Asset Valuation
JMB	Joint Management Board
PSG	Prudential Supervision Committee
ECC	External Communication Committee
SLA	Service Level Agreement
MOU	Memorandum of Understanding
GVA	Gross Value Added
UCIT II	Undertakings for Collective Investment in Transferable Securities - Fund
FAU	Financial Analysis Unit
FSP	Funds Service Providers
SMIC	Self Managed Investment Companies
PIG	Prudential Inspection Guidance
MiFID	Markets in Financial Instruments Directive
TRMMS	Transaction Reporting and Market Monitoring System
MIS	Management Information System
CMS	Content Management System / Case Management System
ODCA	Office of the Director of Consumer Affairs
DOF	Department of Finance
MAS	Management Accounts System
SAP	Financial System Used by the CBFSAI
ECB	European Central Bank
CESR	Committee of European Securities Regulators
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions
AML	Anti-Money Laundering

APPENDIX IV – DETAILED JOB DESCRIPTIONS

The detailed activities of the proposed new directorates, the Office of the CEO, and the specialist Enforcement unit and associated teams may be further represented as follows:

Prudential Director of Markets and Securities

We propose that this would take the form of a permanent role, with responsibility for the following:

- **Markets Supervision:** Market Abuse, Transaction Reporting, Prospectus approvals, transfer of undertakings from Irish Stock Exchange ISE i.e. the current activities carried out by the MSD department
- **ISPS:** transfer of the current ISPS department
- The Funds teams from the current FIFA department (post authorisation)
- **Authorisation** – on the basis that the current authorisations team manage a process rather than a specific sector of activity, we propose that part of this process team would be transferred to the Markets and Securities Directorate, and the other more limited part to the Prudential Directorate and that their significant expertise in the design of efficient processes should be drawn upon in the definition of standard processes for other activities as outlined above. A new team, which will be developed from the current FIFA department and which focus, by means of a standard organisation wide process on the authorisation of entities regulated in that directorate

This group would also

- Work on the CESR agenda and issues
- Work with the clearing house groups

We propose that this department would primarily function in accordance with the Organisation wide processes which will be developed and implemented by the Director of Regulatory Support Services.

Director of Regulatory Support Services

We propose that the Director would be responsible for the management of the implementation of standard processes, systems, information and structures across the Organisation and to manage the transition of many of the current PFD functions to other parts of the Organisation or to the Central Bank under the Shared Services agreement.

The Director of Regulatory Support Services would have responsibility for the following:

- **Regulatory Impact Assessment of new regulatory legislation**; representation of Regulator on AFFL (Forum on Financial Legislation) etc.

- Risk Assessment/ Model: The Financial Regulator currently operates a number of different versions of the risk model, which have been developed primarily by the INS department. The revised organisation structure proposes that the ongoing design and initial operation of the model, should be centralised under the Director of Regulatory Support Services and that a single organisation model for the prudential and consumer protection areas be developed and run as a service by this directorate, inputs to and outputs from which will be provided to prudential departments. The centralisation of the risk model does represent best practice amongst Financial Regulators who participated in the benchmarking exercise conducted as part of this project and will support some form of scenario planning, ensure consistency of sector-specific risk models and application of the risk rating process; the consolidation of risk assessment at sectoral level, the performance of risk scenario analysis for groups of regulated entities as a whole etc.

- **Development of Regulatory Approach**: We propose that this directorate would be responsible for the co-ordination of the Financial Regulator's policy on its regulatory approach, the examination of the application of rules-based vs. principles-based regulation and supervision and the translation of this policy into the formal approach for the Financial Regulator. This will include the definition and maintenance of the prudential/ supervision manual to be used across prudential departments and the monitoring of international developments in relation to regulatory approach and practices

- **Process Management**: the structure outlined above, is partly based on the implementation of standard processes across certain structured and repeatable activities that are carried out on an ongoing basis across the Organisation

  This is an approach that has already been adopted, and has worked well in the area of authorisations, which are currently located within FIFA. A standard authorisation process has been defined within FIFA, regardless of the sector for which the authorisation takes place. This standard process is then adapted, where required to suit the specific requirements of each individual sector. We propose that the authorisations team within FIFA, should be transferred to the Directorate of Regulatory Support Services, and that standard processes should also be defined, to be used on a whole of Organisation basis for the following activities:

Director of Regulatory Support Services

- Data analysis (prudential returns, annual reports, other returns, etc.)
- Inspections – on site
- Off site prudential analysis
- Themed inspections
- Investigations

Whilst we acknowledge, that an insurance inspection, is not conducted in exactly the same manner as a banking inspection, our analysis, together with international best practice would lead us to conclude that there is enough commonality to allow a standard process, system, set of tools and procedures to be developed, and that in turn, the specific technical inspection rules or criteria, may be sufficiently flexible so as to be adapted to suit each specific sector.

Critical to the development of these processes is the development of a supporting IT infrastructure and application base, and the definition and implementation of an Organisation wide information architecture, whereby information is stored in a common manner, in a central and automated system, that may be accessed either on or offsite with the appropriate security restrictions and permissions.

Whilst, at present the only area that has been structured around process – authorisations, has been structured on the basis of having a separate and dedicated team to manage that process, we do not propose that a similar structure should be adopted in the areas of inspections, data analysis etc. i.e. we do not propose that whole of Organisation teams be devised for each area. This is based partly on the risk associated with losing technical sector knowledge that might result if the current sectoral teams were split up, and partly because of the level of change to the Organisation that would result and the associated risk of such change to the basic activity of supervision.

As such we propose that for a period of 2 years, the Director of Regulatory Support Services would work with the individual sectoral departments with a view to designing a standard Organisation process for each of the following;

- Data Analysis (prudential returns, annual reports, other returns, etc.)
- Inspections – on site
- Off site prudential analysis
- Themed inspections
- Investigations

Data Warehouse – Prudential Data – at present, some of the information which is submitted to the Financial Regulator by regulated entities is submitted via the electronic reporting system and some is not. Some is submitted directly to the Financial Regulator and a small percentage comes through the Central Bank. As such a sizeable proportion of the time spent on the analysis of prudential data is in fact spent on data entry, data reconciliation, error detection etc. rather than on higher level activities.

Director of Regulatory Support Services

We propose that under the new structure, a model similar to that used by a number of regulators

- All returns including annual reporting etc. would move to a fully electronic reporting system for all sectors
- This data would be submitted by regulated entities and would be collated into a central repository or data warehouse initially
- This data repository/warehouse would be managed by a support rather than a prudential function i.e. the Regulatory Support Services Directorate
- The Regulatory Support Services Directorate would design a series of preliminary completeness, accuracy and consistency checks which would be run by that unit on receipt of the data
- Once the data has been cleared following the preliminary checks, it would be released (through the system) to the relevant prudential departments to perform the specific analysis they require

IT Specification we propose that the Regulatory Support Services Director should represent the Financial Regulator on the ISSG. The IT role assigned to that Director, would also incorporate the following:

- The specification of the IT business needs of the Financial Regulator on a consistent, coherent and integrated basis
- The interaction with departments to determine their specific needs and the assessment of those needs to determine the technical and/or data implications
- To act as a single voice of the Financial Regulator in all matters of IT specification, development, implementation, support and maintenance
- To ensure that an appropriate business case exists for all IT development requested
- To oversee and procure the IT services of the Central Bank, under the Shared Services model and ensure that value for money is secured

Information Production – one of the activities which would appear to consume a high level of resources within the Organisation at present, is the manner in which information is collected, stored and produced for both internal and external consumption purposes.

As such we propose that a full, coherent information architecture should be defined by the Director of Regulatory Support Services.

In addition, we suggest that the Director of Regulatory Support Services should work with each of main governance groups in the Organisation and also the two panels to define their information and reporting requirements.

The Director of Regulatory Support Services should in turn work, over the course of his 2/3 year remit to implement an appropriate management reporting and information production framework, to lessen the number of excel spreadsheets currently kept throughout the Organisation to capture information and statistics, and to use and reuse standard reports as much as it is possible, to respond to ad hoc queries/ requests, rather than re-produce the information from source on each occasion, thereby

Director of Regulatory Support Services

consuming significant resources as is currently the case.

Shared Services Management - we propose that the Director of Regulatory Support Services, would also have responsibility for the specification, procurement and oversight of services provided by the Central Bank under the Shared Services agreement. We suggest that this would involve taking the current MOU's which are in place and translating them into more detailed and more formal service level agreements (SLA's) which in turn can be managed on a quarterly basis with the head of Shared Services.

Organisational Performance Management - we propose that the Financial Regulator, would continue to implement its current performance management system and that the implementation and management of this system would be the responsibility of the Director of Regulatory Support Services.

Operational Management - whilst under the proposed new structure, some of the current functions conducted as part of PFD would be transferred back to the Central Bank under the Shared Services Agreement, it is none the less important to ensure that a capability and resource for the management of finance and budgeting - and an oversight level is preserved within the Financial Regulator. As such we propose that the management of the budgeting and the oversight of the financial accounting and management accounting processes - at a management level only would remain within the Directorate of Regulatory Support Services.

Legal - we propose, that as a service critical to the operation of the Organisation, the current LED department should be transferred to the Directorate of Regulatory Support Services and specific SLA's be entered into between that department and the customers it serves in the other directorates. In addition, we propose that that some staff with enforcement expertise who are based in LED should be transferred as a separate unit to the dedicated Enforcement team which will report, under the new structure to Director of Regulatory Support Services. This legal enforcement team would also receive technical oversight and input from the head of LED.

Finally, we propose that any significant change project should be managed within the Directorate of Regulatory Support Services. We do not believe however that this requires the maintenance of a dedicated or full time resource to do so.

Office of the CEO

We propose the creation of the Office of the Chief Executive with responsibility for internal and external communications, performance management for the executive team, development of strategy and policy, strategic resource allocation and the oversight of effective risk management and controls systems within the Organisation. We propose that this would be led by a senior member of the management team. This may be further detailed as follows:

Strategy : the transfer of key members of the current planning team within PFD to the office of the CEO to support the revised strategic planning process, including the preparation of the Strategic Plan

Annual Report: the transfer of key members of the current planning team within PFD to the office of the CEO to support the preparation and publication of the annual report under the revised annual reporting structure

EU/International Coordination:_at present, the EU/International team is located within the PFD department. We do not believe that this location allows it to best support the Organisation and at present the role and remit of this unit are unclear. As such we believe that the unit should be located within a central location a whole of organisation level, and that this directorate should

- Support the definition the Organisation's policy in relation to participation at EU/International level
- Define the role of the unit - support or policy development etc.
- Ensure a coordinated Organisation view on EU and International matters as at present there a risk that departments may form conflicting views on an issue at EU and international meetings
- Define an MOU with the Central Bank in relation to EU and International activities
- Interact with a single nominated EU/international representative within each prudential and consumer department who is nominated as a single point of contact for the co-ordination of EU/international issues on behalf of that department and within the EU/international unit
- Provide clear direction to individual departments in relation to levels of engagement and interaction at EU/international level

It must however be recognised that specialists from individual departments will none the less be required to interact with and support the unit and to continue to participate in Level 3 and other similar meetings and committees. However this should be conducted in accordance with the clear policy, direction and support provided by the EU/International Co-ordination team within the Office of the CEO.

Communication/ External Stakeholders - we propose that a dedicated resource be assigned to support the CEO in the management of relationships with key stakeholders outside of the Organisation. We also propose that this resource operate on the basis of a direct relationship with the Press Office in the Central Bank, but that in essence will represent a Financial Regulator specific press office manager for the Financial Regulator, who in turn will use the resources of the main press office in the Central Bank under the Shared Services Agreement. This should also include a dedicated Press Office for the Financial Regulator and the co-ordination and oversight of the corporate website.

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Office of the CEO

Strategic Resource Allocation - working in conjunction with the Director Of Regulatory Support Services, we propose that the Office of the CEO, is responsible for the analysis of resources, resource utilisation patterns, management and operation of a whole of Organisation resource allocation model and the calculation of resource requirements.

Performance Management for Executive Team: we propose that this office, under the direction of the CEO, would support the preparation of outcome/achievement oriented performance reports for the Executive Board members. These indicators might include the effective communication and interaction with main stakeholder groups; contribution to the mitigation of systemic risks, completion of supervision programmes etc.

Quality Assurance

Whilst we appreciate that an internal audit unit is shared with the Central Bank, our understanding is that the issues which that group focuses on are primarily ECB and financial control in nature.

In recent years, many leading financial regulators have introduced a small quality assurance role, which would be fulfilled on a part time basis and is located in the office of the CEO.

The purpose of this role (for example in the case of other leading financial regulators) is to review the supervision processes in place throughout the Organisation and provide a level of assurance to the Directors, the CEO and the Authority that minimum agreed standards and internal controls are being adhered to and similar levels of quality delivered throughout the Organisation. We propose that this function be introduced on a part time (.5 FTE) basis, initially, within the Office of the CEO, under the proposed revised organisational structure.

APPENDIX V – WORKSHOPS/ CONSULTATIONS HELD

The following table illustrates the full list of workshops conducted in the course of the project, together with a list of other third party consultations conducted:

No	Department	Process / Topic
1	Cross Organisation	Planning and reporting processes i.e. • Strategic planning (3 year and annual) • Annual reporting • Work planning • Stakeholder protocol • Consumer panel report • IT planning
2	Cross Organisation	Funding and Finance processes i.e. • Manpower planning • Budget setting and reporting • Calculation and collection of funding levy
3	Cross Organisation	Enforcement
4	Cross Organisation	EU and International Coordination
5	Planning and Finance	Strategic planning / annual reporting
6	Planning and Finance	Central Services
7	Consumer Information	Consumer queries/ complaints/ information provision
8	Consumer Information	Procurement and stock management
9	Consumer Information	Awareness campaigns, research studies and surveys
10	Consumer Information	Economic and policy
11	Consumer Information	Publications (development and review)
12	Consumer Information	Reporting
13	Consumer Protection Codes	Themed inspections

No	Department	Process / Topic
14	Consumer Protection Codes	Investigations/ enforcement
15	Consumer Protection Codes	Bank charges notifications/approvals
16	Consumer Protection Codes	Authorisations - moneylenders
17	Consumer Protection Codes	Enforcements
18	Registrar of Credit Unions	Off site inspections
19	Registrar of Credit Unions	On site inspections (themed, general, special)
20	Registrar of Credit Unions	Analysis of the prudential return
21	Registrar of Credit Unions	Application changes process
22	Registrar of Credit Unions	Enforcements
23	Registrar of Credit Unions	Risk model and how it supports processes
24	Banking Supervision	Off site inspections / ongoing prudential supervision of a credit institution
25	Banking Supervision	On site inspections
26	Banking Supervision	Authorisations / Application changes process
27	Banking Supervision	Enforcements
28	Banking Supervision	Risk model and how it supports processes
29	Investment Service Providers Function	Off site inspections / ongoing prudential supervision of an institution
30	Investment Service Providers Function	On site inspections
31	Investment Service Providers Function	Authorisations / Application changes process

No	Department	Process / Topic
32	Investment Service Providers Function	Enforcements
33	Investment Service Providers Function	Risk model and how it supports processes
34	Markets Supervision	Transaction reporting
35	Markets Supervision	Markets Abuse
36	Markets Supervision	Approval of prospectuses
37	Markets Supervision	Enforcements
38	Insurance Supervision	Authorisations / Application changes process
39	Insurance Supervision	Off site inspections / ongoing prudential supervision of an institution
40	Insurance Supervision	On site inspections
41	Insurance Supervision	Enforcements
42	Insurance	Risk model and how it supports processes
43	Financial Institutions and Fund Authorisations	Authorisation of Banks, Investment Firms, Money Transmitters Insurance, Reinsurance, Bureau De Change, Part V Companies (home reversions)
44	Financial Institutions and Fund Authorisations	Authorisation of retail intermediaries incl. Insurance intermediaries, Mortgage intermediaries, Retail IIA, IMD firms
45	Financial Institutions and Fund Authorisations	Authorisation of funds
46	Financial Institutions and Fund Authorisations	Authorisation of Service Providers incl. Trustees, Custodians, Self-managed Investment Companies
Internal Stakeholders		
47	Budget and Remuneration	Throughout

No	Department	Process / Topic
	Committee	
48	Central Bank - Shared Services	Overview of the project, shared services agreement, working relationship between Central Bank Shared Services and Financial Regulator
49	Central Bank - ISD	Systems support of key processes and ICT strategy
50	GSD	Various
51	Executive Board	Throughout
External Stakeholders		
52	Consumer Panel	Various
53	Industry Panel	Various
54	IDA	Overview of the project , benchmarking
55	Dept. of the Taoiseach - Economist Intelligence Unit	Overview of the project , benchmarking
56	Department of Finance	Overview of the project

APPENDIX VI – LEGISLATIVE ACTIVITY DEPARTMENTAL MAP

Central Bank Act 1942 (Nr. 22/1942 – as amended) – Schedule 2 i.a.w. Section 33C(1) and (2) – Enactments and Regulations under which Regulatory Authority is to Perform Functions of the Bank

X = indicates relevance for department

Enactments:

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
1909 c. 49	Assurance Companies Act, 1909		X					
No. 45 of 1936	Insurance Act, 1936		X					
No. 7 of 1953	Insurance Act, 1953		X					
No. 33 of 1963	Companies Act, 1963	X	X	X			X	
No. 18 of 1964	Insurance Act, 1964		X					
No. 24 of 1971	Central Bank Act, 1971	X	X	X		X	X	X
No. 30 of 1978	Insurance (Amendment) Act, 1978		X					
No. 24 of 1983	Postal and Telecommunications Services Act, 1983	X						X
No. 29 of 1983	Insurance (No. 2) Act, 1983		X					
No. 3 of 1989	Insurance Act, 1989		X					
No. 16 of 1989	Central Bank Act, 1989	X	X	X		X	X	X
No. 17 of 1989	Building Societies Act, 1989	X						
No. 21 of 1989	Trustee Savings Banks Act, 1989	X						
No. 27 of 1990	Companies (Amendment) Act, 1990	X	X	X			X	
No. 33 of 1990	Companies Act, 1990	X	X	X			X	
No. 37 of 1990	Unit Trusts Act, 1990			X				
No. 18 of 1992	Housing (Miscellaneous Provisions) Act, 1992	X						
No. 15 of 1994	Criminal Justice Act, 1994[16]							

[16] *No. 15 of 1994 – Criminal Justice Act 1994 – section 32(10)(e)* - was removed (as evidenced by its inclusion in red) from Schedule 2 by section 20 of the Central Bank and Financial Services Authority of Ireland Act 2004

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
No. 24 of 1994	Investment Limited Partnership Act, 1994			X				
No. 27 of 1994	Solicitors (Amendment) Act, 1994	X						
No. 9 of 1995	Stock Exchange Act, 1995			X		X		
No. 11 of 1995	Investment Intermediaries Act, 1995			X				
No. 24 of 1995	Consumer Credit Act, 1995	X	X	X				X
No. 25 of 1995	Netting of Financial Contracts Act, 1995	X	X	X		X		
No. 8 of 1997	Central Bank Act, 1997	X	X	X		X	X	X
No. 15 of 1997	Credit Union Act, 1997				X			
No. 37of 1998	Investor Compensation Act, 1998			X				
No. 32 of 2001	Dormant Accounts Act, 2001	X						
No. 47 of 2001	Asset Covered Securities Act, 2001	X	X					
[No. 28 of 2001	Company Law Enforcement Act 2001	X	X	X	X	X	X	X
No. 2 of 2003	Unclaimed Life Assurance Policies Act 2003		X					
No. 12 of 2005	Investment Funds, Companies and Miscellaneous Provisions Act 2005			X				
[No. 41 of 2006	Investment Funds, Companies and Miscellaneous Provisions Act 2006			X				
[No. 37 of 2007	Markets in Financial Instruments and Miscellaneous Provisions Act 2007	X	X	X		X	x	

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
[No. 19 of 2007	Consumer Protection Act 2007	X	X	X				X

Statutory Instruments:

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
S.R. and O. No. 75 of 1940	Actuary (Qualification) Regulations 1940		X					
S.R. and O. No. 76 of1940	Industrial Assurance (Contents of Policies) Order 1940		X					
S.R. and O. No. 78 of 1940	Insurance (Deposits) Rules 1940		X					
S.R. and O. No. 80 of 1940	Insurance Regulations 1940		X					
S.R. and O. No. 81 of 1940	Industrial Assurance (Fees for Determination of Disputes) Regulations 1940		X					
S.I. No. 64 of 1971	Decimal Currency (Friendly Society and Industrial Assurance Contracts) Regulations 1971		X		X			
S.I. No. 115 of 1976	European Communities (Non- Life Insurance) Regulations 1976		X					
S.I. No. 178 of 1978	European Communities (Insurance Agents and Brokers) Regulations 1978		X					
S.I. No. 382 of 1978	European Communities (Insurance) (Non-life) Regulations 1978		X					
S.I. No. 65 of 1983	European Communities (Co Insurance) Regulations 1983		X					
S.I. No. 57 of 1984	European Communities (Life Assurance) Regulations 1984		X					
S.I. No. 27 of	Building Societies	X						

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
1987	Regulations 1987							
S.I. No. 78 of 1989	European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 1989			X				
S.I. No. 191 of 1990	Insurance (Bonding of Intermediaries) Regulations 1990		X					
S.I. No. 142 of 1991	European Communities (Non- Life Insurance) (Amendment) (No. 2) Regulations 1991		X					
S.I. No. 197 of 1991	European Communities (Non- Life Insurance) (Legal Expenses) Regulations 1991		X					
S.I. No. 244 of 1992	European Communities (Non- Life Insurance) (Amendment) Regulations 1992		X					
S.I. No. 294 of 1992	European Communities (Credit Institutions: Accounts) Regulations 1992	X						
S.I. No. 395 of 1992	European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992	X						
S.I. No. 396 of 1992	European Communities (Consolidated Supervision of Credit Institutions) Regulations 1992	X						
S.I. No. 359 of 1994	European Communities (Non- Life Assurance)		X					

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
	Framework Regulations 1994							
S.I. No. 360 of 1994	European Communities (Life Assurance) Framework Regulations 1994		X					
[S.I. No. 27 of 1995	European Communities (Unfair Terms in Consumer Contracts) Regulations 1995							X
S.I. No. 128 of 1995	Insurance (Fees) Order 1995		X					
S.I. No. 168 of 1995	European Communities (Deposit Guarantee Schemes) Regulations 1995	X			X			
S.I. No. 202 of 1995	European Communities (Non- Life Insurance Accounts) Regulations 1995		X					
S.I. No. 23 of 1996	European Communities (Insurance Undertakings: Accounts) Regulations 1996		X					
S.I. No. 25 of 1996	European Communities (Swiss Confederation Agreement) Regulations 1996		X					
S.I. No. 267 of 1996	Supervision of Credit Institutions, Stock Exchange Members Firms Regulations and Investment Business Firms Regulations, 1996	X		X		X		
S.I. No. 380 of	Rules entitled Stock					X		

MAZARS

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
1997	Exchange Act, 1995 (Determination Committees Rules of Procedure) Regulations 1997							
S.I. No. 381 of 1997	Rules entitled Investment Intermediaries Act, 1995 (Determination Committee) Rules of Procedure 1997			X				
S.I. No. 399 of 1999	European Communities (Supplementary Supervision of Insurance Undertakings in an Insurance Group) Regulations 1999[17]							
[S.I. No. 307 of 2000	European Communities (Unfair Terms in Consumer Contracts) (Amendment) Regulations 2000							X
S.I. No. 473 of 2000	Insurance Act, 1989 (Reinsurance) (Form of Notice) Regulations 2000		X					
S.I. No. 15 of 2001	Life Assurance (Provision of Information) Regulations 2001		X					
S.I. No. 221 of 2002	European Communities (Electronic Money) Regulations, 2002	X						
S.I. No. 335 of 2002	European Communities (Cross Border Payments	X						

[17] *S.I. No. 399 of 1999 - EC (Supplementary Supervision of Insurance Undertakings in an Insurance Group) Regulations 1999* - was revoked by Regulation 20 of the EC (Insurance and Reinsurance Groups Supplementary Supervision) Regulations 2007 which also amended Schedule 2 of the 1942 Act to remove (as evidenced by its inclusion in red) reference to the above Regulation;

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
	in Euro) Regulations, 2002							
[S.I. No. 168 of 2003	The European Communities (Reorganisation and Winding-up of Insurance Undertakings) Regulations 2003		X					
S.I. No. 211 of 2003	European Communities (Undertakings for Collective Investments in Transferable Securities) Regulations 2003			X				
S.I. No. 198 of 2004	European Communities (Reorganisation and Winding-Up of Credit Institutions) Regulations 2004	X						
S.I. No. 727 of 2004	European Communities (Financial Conglomerates) Regulations 2004	X	X	X		X		
S.I. No. 853 of 2004	European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004	X	X	X				X
S.I. No. 13 of 2005	European Communities (Insurance Mediation) Regulations 2005		X					
S.I. No. 342 of 2005	Market Abuse (Directive 2003/6/EC) Regulations 2005					X		
S.I. No. 324 of 2005	Prospectus (Directive 2003/71/EC) Regulations 2005					X		

Number and Year	Short Title	BSD	INS	ISPS	RCU	MSD	FIFA	Consumer Directorate
[S.I. No. 380 of 2006	European Communities (Reinsurance) Regulations 2006		X					
[S.I. No. 660 of 2006	European Communities (Capital Adequacy of Investment Firms) Regulations 2006			X				
S.I. No. 661 of 2006	European Communities (Capital Adequacy of Credit Institutions) Regulations 2006	X						
[S.I. No. 60 of 2007	European Communities (Markets in Financial Instruments) Regulations 2007	X	X	X		X		

EPD012/036/02/PART001

Minutes of Management Meeting on 28 February 2002

(46)

Attendance: Secretary General, Secretary General PSMD, David Doyle, Donal McNally, Noel O'Gorman, Ciaran Connolly, Colm Gallagher, Aidan Dunning and Michael Scanlan.

Apologies: C. O'Loghlin

Agenda Item 1: Minutes and Matters arising

The minutes of 20 February were approved. There were no matters arising.

Agenda Item 2: Update on Expenditure, Pay and Budget

Mr Doyle said that the REV had been published earlier to-day. The Revised Estimates include spending measures announced on Budget Day together with some adjustments arising since across Departments involving a net increase of €39 million. On the basis of the REV and a provision of €150 million for Benchmarking, total net voted expenditure in 2002 will be €29 billion (€23.38 billion current and €5.62 billion capital) an increase of 14.8% on projected outturn for 2001. There will be ongoing pressure on expenditure arising from Environment and Health in particular. Mr McNally reported that tax receipts showed "some slight improvement" in February but the underlying trend in income tax and stamp duties remains weak. Mr Considine briefed the meeting on developments in relation to ASTI and the contingency arrangements being put in place to deal with the industrial action scheduled to commence on 4 March. Mr Connolly reported on the ASTI stance regarding pensionability and the recent claims made by School Secretaries. Mr Considine updated the meeting on developments in relation to the claim made by Medical Laboratory Technicians and the wider implications for the public service. He informed the meeting of the CPSU's intention to hold a Delegate Conference following the publication of the report of the Benchmarking body in June 2002.

Item 3: Establishment of IFSRA - Implication for the Department

A paper entitled "Establishment of IFSRA: Implications for the Department of Finance" was circulated to the MAC as the basis for discussion. Mr J. Doyle and Mr M. Moloney made a presentation on the new functions and likely key priorities which will transfer to the Department on the establishment of IFSRA, possible staff resources implications and the current position in relation to transfer transitional arrangements. The following matters were addressed

- New functions and possible key priorities
- Functions which should not transfer to this Department
- Internal organisation
- Timescale for transfer of functions

Mr J Doyle said that a Memorandum for the Government seeking clearance for the Central Bank of Ireland and Financial Services Authority (No.1) Bill will be submitted as soon as possible. This Memorandum will also advise Government of our intention to consult with the other relevant Government Departments and submit a further Memorandum regarding departmental responsibility for the functions currently carried out by the Minister for Enterprise, Trade and Employment which are not transferring to this Department.

Following discussion, which included references to the implications of the Ministers and Secretaries Act and the Prices Acts, it was agreed that

- the Memorandum for Government seeking clearance for the publication of the Central Bank of Ireland and Financial Services Authority (No.1) Bill should be progressed as a priority in accordance with the end March timetable.
- Administrative matters identified in the paper should be pursued and brought to conclusion as a matter of urgency
- the assessment of staffing needs were noted and will be considered further in the context of functions transferring to this Department.

Item 4: Report of Working Group on Developing on Negotiating Strategy for the Department of a New National Programme

Mr Pat Ring presented the Report prepared by the Working Group. Among the issues identified were

- the changed budgetary position, the constraints imposed by the projected deficits after 2002 and responsibilities under the Stability and Growth Pact.
- the changed circumstances since the 1980s and the loss of wage competitiveness under the PPF
- the need for a more focussed programme
- recognition of the need for prioritising spending (and to match revenue to spending) and the limits on cutting taxes further
- the difficulties involved in negotiating a new agreement for a number of reasons including the impact of the Benchmarking body report and disenchantment with this type of process by some unions and in parts of the private sector.
- the possible downsides of a move away from national programmes.
- the need to maintain the link between pay and the achievement of modernisation objectives in the public service.

Following discussion of the above and a number of related issues, the MAC agreed that

- the Department should be well prepared to influence the size and style of any new programme and the relevant sections should prepare the necessary position papers as a matter of urgency
- Internally the Department should closely co-ordinate its approach to the NESC discussions.
- the Department should seek to influence the NESC Strategy to give the necessary framework to any new programme and should explore with the Department of the Taoiseach, at the highest level, whether the approach of the two Departments on a number of issues could be co-ordinated at NESC
- Informal discussion should take place with NESC and a presentation dealing with Expenditure, Pay and the Economic Outlook should be made by the relevant Divisions
- the Department should liaise with the Department of the Taoiseach and the Implementation Group of Secretaries General on priorities for public service modernisation to be tabled in any negotiations.

- a review of the report should take place in the light of the Public Service Benchmarking Body's Report and the publication of the Economic Review and Outlook.

Item 5: AOB

The terms of an Office Notice to mark Family Friendly Workplace Day were approved. A schedule of SMI Reviews will be drawn up and circulated to the meeting on 8 March.

Next Meetings
08 March at 3.30 p.m.
14 March at 9.30a.m.

SMI Reviews
11 March at 10.00a.m.: Colm Gallagher

R1 – Effectiveness of the Regulatory, Supervisory and Governmental Regime Structure

R1d – Composition, skills, experience and number of resources at the Central Bank, Financial Regulator (and Department of Finance)

Information Summary (Section 33AK)

Note: All references are aggregated.

Document category	Time period
• Audit Committee	• 2004-2008
• Budget and Remuneration Committee	• 2005-2008

Audit Committee 2004-2008

- The minutes indicate that recruitment, specialist needs and staff shortage retention was an on-going concern:

"The recruitment and retention of staff with specialist skills is an ongoing difficulty for the organisation, especially in a tight labour market.

In this context, particular attention was drawn to the situation that exists in the Internal Audit Department (IAD) which is currently below staff complement"

- The staffing requirements were reviewed and addressed, but this issue did not go away:

"The earlier staffing problems in the Department had now been addressed and it would very soon reach full complement"

- Concerns over human error and staff shortage arising from the significantly increased workload and reputational risks were raised as a concern.

"the increased risk of human error arising from the significantly increased workload for staff in a number of areas arising from the continuing crisis in financial markets, the ongoing dependency on experienced/specialist staff".

"The Acting Chief Executive stated that the Authority had recognised that resources were very stretched".

Budget and Remuneration Committee 2005-2010

- Frequent references to the Mazars report were made during Board meetings, especially to the report's finding that the ratio of supervisors to high risk firms was too low particularly in respect of prudential supervision.

"…. in their recent report, Mazars had indicated that the ratio of supervisors to high risk firms was too low particularly in respect of prudential supervision"

- Staffing issues were still a concern and an urgent need for recruitment was recognised.

"The Budget and Remuneration Sub-Committee, while making no final recommendation as to the staffing requirements of the Financial Regulator for the remainder of 2005 and 2006 recognised the urgent need for recruitment of a number of specialist staff for a number of Prudential Departments"

- Skills concerns were raised and additional complexity in existing roles was a major issue.

"an annual review of the allocation of resources to ensure that it reflected our current strategic objectives and agreed that the skills concern raised by additional work and additional complexity in existing roles was a major issue."

- Staffing issues continued to be identified as an issue and were reviewed monthly

> *"Mr X introduced a paper quantifying the perceived requirement for additional staff in initial requests from Heads of Department and reported that actual staff numbers are now 345, due to rise to 351 in September 2007 and 355 in December 2007. Mr X clarified that the Executive was not proposing a staff increase of 77, the number quantified in the paper, but would be reverting to the next meeting with a proposal taking account of the preliminary exchange of views that took place with the Committee at this meeting*."

- A review of the Mazars Business Process was presented. The staffing issues were identified.

> *"In general, the preliminary view of the consultants at this stage was that resources appear relatively tight given the strategy and mandate of the Financial Regulator. Any savings or efficiencies are likely to emerge from a reorientation of resources and streamlining of processes over a period of years."*

R1 – Effectiveness of the Regulatory, Supervisory and Governmental Regime Structure

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CB01B02	CB01151-004	R1d

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CB01B02	CB01213-002	R1d
CB01B02	CB01361-002	R1d
CB01B02	CB01373-002	R1d
CB01B02	CB01376-001	R1d
CB01B02	CB01395-002	R1d

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CB01B02	CB01361-002	R1d
CB01B02	CB01373-002	R1d
CB01B02	CB01376-001	R1d
CB01B02	CB01395-002	R1d

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R1d: Composition, skills, experience and number of resources at the Central Bank, Regulator and Department of Finance

Information Summary (Section 33AK)

Note: All references are aggregated.

Categories of Documents summarised:	• **Minutes of Remuneration and Budget Committee and all sub-Committees** • **Minutes of Audit Committee**
Time period covered:	• **September 2004 to March 2010**

Remuneration and Budget Committee and all sub-Committees: 2004

The Committee noted that the Manpower Plan and Budget for IFSRA 2005 (Authority Paper No. 79 of 2004) had been considered and agreed by the Authority following a review by a Sub-Committee of the Authority.

X summarised the Sub-Committee's assessment of the principal features of the Manpower Plan and Budget for IFSRA 2005. The Budget provisions agreed by the Authority were incorporated in the overall CBFSAI Budget.

Remuneration and Budget Committee and all sub-Committees: 2005

The Committee, while making no final recommendation as to the staffing requirements of the Financial Regulator for the remainder of 2005 and 2006, recognised the urgent need for recruitment of a number of specialist staff for a number of Prudential Departments.

The Committee indicated that they would be recommending to the Authority that, pending the outcome of the Authority's review of the Financial Regulator's manpower requirements for the remainder of 2005 and for 2006, the Chief Executive be given authority before September to initiate a process for the recruitment of:

- an additional 10 specialist staff, increasing the staff complement to 345; and
- additional qualified specialist staff over and beyond the level of 10 referred to above, with the Chairman's prior approval, in the unlikely event that appropriately qualified specialist staff are identified as meeting the needs and requirements of the Financial Regulator before September.

This latter approval would still be subject to the overall constraint in staff complement of 345.

Audit Committee: 2006

A report on the operational risk assessment for the CBFSAI " 2005 Review" was presented to the Committee which noted that the recruitment and retention of staff with specialist skills was an ongoing difficulty for the organisation, especially in a tight labour market. In this context, particular attention was drawn to the situation that existed in the Internal Audit Department (IAD) which [is] currently below staff complement.

To ensure that Internal Audit's work plans for 2006 can be achieved, it was agreed that management and the Head of Internal Audit would discuss the necessary measures to be taken to bring resources up to complement as soon as possible and would communicate proposed actions to the Chair.

At a later meeting in 2006, the issue of the staffing of internal Audit was again raised. It was noted that while significant progress had been made in this area it may be necessary to employ consultants on an ad-hoc basis to supplement staff resources, particularly in respect of IT and ESCB audits.

Remuneration and Budget Committee and all sub-Committees: 2007

X pointed to the commitment in the strategy to an annual review of the allocation of resources to ensure that it reflected current strategic objectives. In this context, the Committee agreed that the skills concern raised by additional work and additional complexity in existing roles was a major issue.

A general discussion followed. It was agreed that the next meeting would consider a paper covering the following items:

- Update on the achievement of the target of 355 staff;
- Additional manpower/skills requirement identified;
- Potential for changing priorities/integrating work/ discontinuing or reducing certain activities to make resources available;
- Net position;

- Options for outsourcing, consultancy and short-term contract work to reduce net permanent staff requirement;
- Longer term work to be done to build efficiency/effectiveness and resources and timetable involved.

At a later meeting, X introduced a paper quantifying the perceived requirement for additional staff in initial requests from Heads of Department and reported that –

- actual staff numbers are now 345,
- due to rise to 351 in September 2007 and to 355 in December 2007.

X clarified that the Executive was not proposing a staff increase of 77, the number quantified in the paper, but would be reverting to the next meeting with a proposal taking account of the preliminary exchange of views that took place with the Committee at this meeting.

Each of the requests for staff relating to new work were examined in detail by the Committee and comments given to help establish bottom-line needs.

Remuneration and Budget Committee and all sub-Committees: 2008

The Committee agreed with the management proposal that the saving should be achieved by delaying recruitment to replace staff leaving by turnover and, if necessary, to control overtime.

These measures should deliver the required saving of €833,000 and in the event that this saving is likely before end-2009, recruitment timetables should be adjusted accordingly.

In a later meeting, the Director General stated that, while the CBFSAI was statutorily independent, the Governor had committed the CBFSAI to seeking to achieve corresponding savings as far as possible subject to having the capacity to fulfil its statutory responsibilities. Accordingly, a comprehensive review had been undertaken of all proposed expenditure for next year, which had yielded substantial reductions in the aggregate provisions originally sought by Departments.

Audit Committee: 2009

The Committee considered a paper on the Review of Operational Risk for 2008.

X summarised the main risks identified in the report and referred to the increased risk of human error arising from the significantly increased workload for staff in a number of areas arising from the continuing crisis in financial markets, the ongoing dependency on experienced/specialist staff and the need for effective Business Continuity Planning arrangements.

The reputational risks that had resulted from regulatory issues during 2008 were also highlighted.

The Committee discussed issues arising from the Report. The Committee emphasised the particular importance of managing reputational risk in the current very difficult environment for the Financial Regulator and the Central Bank. The major commitment of staff, who were under continuous pressure in areas within the Financial Regulator, and in Central Bank Market Operations in particular, was noted. The Acting Chief Executive stated that the Authority had recognised that resources were very stretched and had sanctioned the recruitment of twenty additional staff for the Banking Supervision Function. There was also significant pressure arising from the relatively small senior management team - which had also been highlighted in the recent Mazars review of the Regulator's business processes.

However, any change would have to await the outcome of the Government's decision on the future regulatory architecture. The Director General advised the Committee that he had taken steps to strengthen the resources of the Financial Market Operations area and was keeping the position under review. It was noted that forthcoming fundamental changes to the system of financial regulation would present challenges while the need for a more proactive and open approach in the area of external communication was raised.

Remuneration and Budget Committee and all sub-Committees: 2010

A paper on proposed recruitment for the Financial Supervision Division was presented.

There was a requirement for a significant increase in staffing levels in the Division. It was proposed that over the three year period 2010-2012, the complement should be augmented by **275-300** staff to ensure appropriate supervision of regulated entities. In that context, it was planned to recruit 100 additional staff over those previously sanctioned by the Board during 2010, with the balance being employed over the following two years.

It was stated that the Division was understaffed relative to other financial supervisory organisations. Mazars had indicated that the ratio of supervisors to high risk firms was too low particularly in respect of prudential supervision. It was also imperative that resources be deployed in the development of the risk model. In addition, there would be a substantial increase in the workload of the Markets Supervision Department arising from the implementation of a number of forthcoming EU Directives.

At a later meeting, the Chairman recalled that the Board had agreed last month that the preliminary budgetary provisions for 2010 presented at that time would be updated to incorporate the full implications of the planned large increase in Financial Regulator staff for Central Bank and Services Departments which had been unavailable.

Revisions to the proposed staff complements were discussed as follows:

	Revised to	**Increase over previous year**
Central Bank	746 FTE	52 FTE[1]
Financial Regulator	532 FTE	117 FTE[2]
Total	1,278 FTE	169 FTE

[1] including redeployments from the Regulator

[2] net of transfers to the National Consumer Agency and redeployment to the Central Bank

Audit Committee: 2010

The Committee considered the Operational Risk Assessment for the CBFSAI-2009 review paper, which had been prepared by the Operational Risk Committee.

The paper informed that the review process had yielded operational risk totals as follows:

Year	Red	Amber	Green	Total
2008	13	277	201	491
2009	26	353	269	648

Issues related to the following were the predominant risks faced by the Bank:

- human resources,
- information technology,
- accommodation and
- business continuity planning.