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
Volume 2: Inquiry Framework
Volume 3: Evidence

Dept. of Finance
DOF: Core Book 26

January 2016

Table of contents – by line of inquiry

R3: Clarity and effectiveness of the nexus of institutional roles and relationships

R3a: Awareness and clarity of roles and accountability amongst the Regulatory / Supervisory Institutions of the State

R3b: Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), Department of Finance and the Banking Institutions

Letter from Alan Gray Indecon to DoF 02 Oct 2008	DOF02109 [001-002]	71-72
DOF and Funds Group and the IFSC	DOF06734 [001-003]	73-75

THEME: R3

Clarity and effectiveness of the nexus of institutional roles and relationships

LINE OF INQUIRY: R3a

Awareness and clarity of roles and accountability amongst the regulatory and supervisory institutions of the state

Ref:

Oifig an Aire Airgeadais
7 April 2003

Aide Memoire for the Government

Core Economic Strategy – Why, and to What Purpose

Introduction

1. This Aide Memoire summarises the fundamental objectives which our current economic strategy aims to secure; the key challenges to which that economic strategy is responding; and the core policies which are being pursued in order to secure our fundamental objectives.

Fundamental Objectives underlying Economic Strategy

2. The central aim of economic strategy is to sustain economic growth, with a view to:
   - Maintaining full employment;
   - Underpinning continuing improvement in real income, thus living standards, of the economically active; and
   - Delivering a growing volume of resources to support sustained improvement in the quality and quantity of public services.

Key Challenges

3. To sustain economic progress, we must face up to a number of unalterable facts which will continue to have a key influence on the degree of our economic progress:-
   - We are part of a monetary union where the overriding policy objective is a low-inflation environment of less than 2% per annum;
   - International competition is exerting downward pressure on traded goods prices and is likely to continue doing so for some time to come;
   - We are one of the most open economies in the world; and
   - International competition for jobs and investment is becoming much more intense all the time.

4. Flowing from these unalterable facts is the urgent need to position the economy to "move up the value chain". This is key to realising future economic progress because:-

- The economy is now operating at close to full employment so the boost to growth which employment of unused capacity provided in recent times cannot be repeated; hence,
- Our future ability to raise living standards, and to resource public service provision, will depend much more on our success in raising productivity than it has in the past.

Core elements of Economic Policy Strategy

5. Flowing from these considerations, the core elements of economic policy are:-

- Through the continuing social partnership arrangements agreed in Sustaining Progress, to sustain our ability to compete on international export markets;
- Through strong infrastructural investment, to sustain our ability to encourage continuing strong business investment, including mobile international investment, in Ireland;
- Essential supports for these two elements are strict adherence to the terms of *Sustaining Progress* and continuing to manage our public finances in a manner which gives a high priority to infrastructural investment;
- Through prioritisation of investment in human capital, and innovation and research capabilities, to facilitate increasingly sophisticated investment with the higher productivity which can sustainably underpin real increases in incomes and living standards;
- Through the vigorous promotion of competition and regulatory reform increase productivity and exert downward pressure on costs in the domestically traded sector; and
- Through sensible budgetary policies, to maintain and enhance consumer and investor confidence in economic management;

Oifig an Aire Airgeadais

Ref S 98/18/01

4 Meán Fómhair 2003

Aide Memoire for the Government

Intended Publication by the Department of Finance of the Report of its Long-Term Issues Group

1. Decision sought: The Minister for Finance asks the Government to note that the Department of Finance will publish soon the report of its Long-Term Issues Group (LTIG) by posting the report to the Department's website. The report of the first Long-Term Issues Group was also published in this way in 1998.

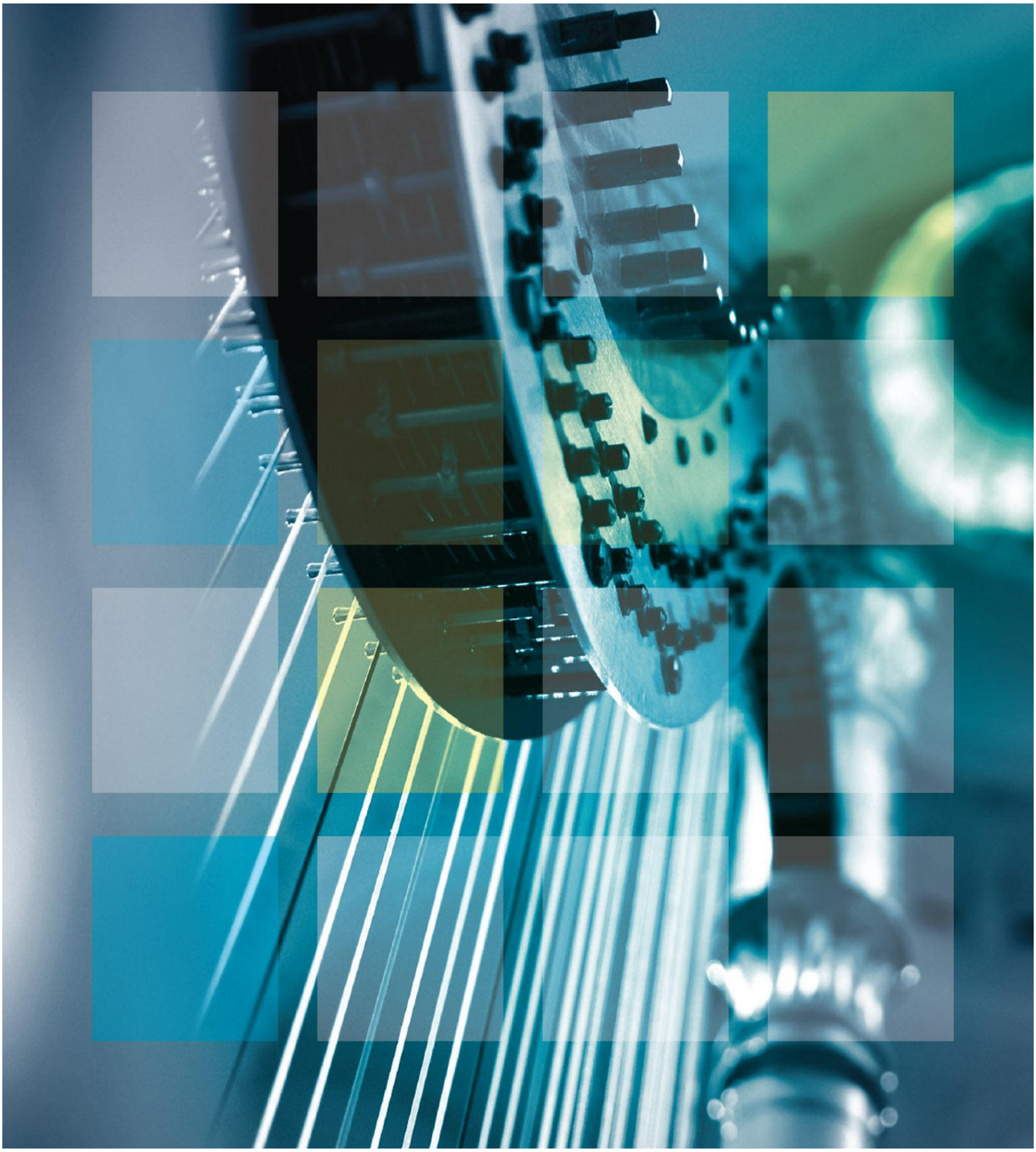
2. Background: The LTIG, a group of senior officials in the Department of Finance, was set up to explore how the public finances might be impacted upon by certain long-term trends out to 2050. Population ageing was the main issue explored, given the consensus view that this will be a feature of Irish demography going forward. However, the LTIG also considered other possible issues such as technology changes in healthcare, increased participation in education and the impact of efforts to reduce greenhouse gas emissions. The research and analytical work was undertaken by an economist from the ESRI who was seconded to the Department; he was assisted by an Administrative Officer from within the Department. The report contains the output of the research and analysis.

3. The Report's core findings: The purpose of the report is not to forecast what will be. Instead, it seeks to indicate how spending and revenue might evolve in the absence of corrective action to contain any fiscal imbalances. One scenario that is developed in the report includes only the effects of population ageing on spending and tax. Other possible impacts such as a technology effect in health are included in simulations in the Report. Total exchequer expenditure under the "ageing only" scenario is projected to reach 50% of GNP by 2050. Given that resources will not increase above current levels on a no policy change basis, the exchequer debt and exchequer deficit figures are projected to be large, at 252% and 19% of GNP respectively in 2050. The main pressure areas are health and social welfare. The very large deficit arises from an escalating debt burden as spending out-distances revenue throughout the period in question.

4. The Report should not be read as a forecast: The Report makes it clear that the projections are <u>not</u> forecast outcomes, nor do they indicate the actual outcomes we can expect. Failure to take corrective action as the position evolves would create an unsustainable debt burden. The Report identifies where the pressure points will arise up to 2050.

5. The general message: The general message from the report is that the public finances face severe pressures in the long-term which will need to be addressed if fiscal stability is to be maintained. This is the case even when account is taken of the National Pension Reserve Fund. For this reason, the long-term pressures which are presented in this Report should provide a context of caution in addressing short and medium term decision-making.

6. Reason for publishing the Report: While long-run projections of this type are highly speculative, and sometime controversial, they do clearly point to emerging pressures on the public finances. It is important that these pressures are brought to the attention of a wider audience and that they become part of debate and discussion about public finance issues. Publication of the Report will assist in achieving this goal.



REVIEW OF 2012

An Roinn Airgeadais
Department of Finance

3. Executive Summary

In May 2012 the Department of Finance in its revised Statement of Strategy set out its mission as follows:

> ***"The Department's mission is to manage Government finances and play a central role in the achievement of the Government's economic and social goals having regard to the Programme for Government. In this way we will play a leadership role in the improvement of the standards of living for our citizens."***

During 2012 steady progress was made in achieving these goals and while much has been achieved a sizeable amount remains to be done. Our efforts have been focused on achieving our strategic goals guided by our overarching principles. We have set out below examples of the progress made in each goal.

GOAL 1	
A resilient Irish economy founded on sustainable and balanced growth leading to significant increases in employment numbers	
Our Objectives	**Our Achievements**
• **Sustainable economic growth across domestic and international activities.** • **Increase in competitiveness, employment and productivity growth.** • **Appropriate credit available for viable households and businesses, etc.**	• Increased interaction with stakeholders (4.1) • Jobs and growth focus (4.2) • SME Taxation Measures (4.3) • SME Credit Initiatives (4.4) • Alternative non-bank funding (4.4.4 & 4.5)

GOAL 2	
A sustainable macroeconomic environment and sound public finances	
Our Objectives	**Our Achievements**
• **Decline in General Government Deficit.** • **Decline of Government debt ratio in line with European requirements.** • **Return to sovereign debt markets by 2014.** • **Sustainable, robust and efficient tax system that meets budgetary requirements.**	• Provision of multi annual macroeconomic and fiscal forecasts for Stability Programme Update, Medium-Term Fiscal Statement and Budget. (5.1) • Deepened engagement with Irish Fiscal Advisory Council and publication of the Fiscal Responsibility Bill (5.2) • Finance Act 2012 & Budget 2013 (5.3) • Work on Promissory Note Restructuring (5.4)

GOAL 3	
An improvement in the living standards of our citizens	
Our Objectives	**Our Achievements**
• **Conditions to support growth in household income and wealth.** • **Equitable, efficient and broadly-based tax system which meets Ireland's policy needs.** • **Equitable access to governmental services that underpin long term sustainable growth.**	• Influencing European Policy to encompass Growth and Jobs Imperatives (6.1) • Personal Insolvency Bill (6.2) • Financial Inclusion (6.3) • Mortgage Arrears Steering Group (6.4) • Broadening of the tax base (6.5)

GOAL 4	
Return by Ireland to international debt markets so as to achieve an exit from the EU/IMF funding programme at the earliest possible date	
Our Objectives	**Our Achievements**
• **A Programme of Support that meets Ireland's requirements.** • **Return to sovereign debt markets by 2014.**	• Ongoing successful management of EU/IMF Programme with over 190 programme targets met (7.1) • Programme Financing (7.2) • Improved relations with EU and International Partners (7.3) • Maintained and developed close relationships with potential investors along with NTMA colleagues (7.4)

GOAL 5	
Completion of the restructuring of the banking system and a vibrant, secure and well regulated financial sector	
Our Objectives	**Our Achievements**
• **A well-regulated, effectively supervised, competitive and more stable financial services sector.** • **A banking sector servicing the economy and the wider population and built for the future.** • **Continuing development of Ireland as a centre for international financial services and as a location of choice for investment for international foreign financial services firms.** • **Appropriate credit available for viable households and businesses.**	• Completion of the PCAR 2011 recapitalisations and submission of revised restructuring plans for AIB and PTSB (8.1) • Continued successful deleveraging and delivery of significant cost reduction plans across the system (8.1) • Implemented policies to support effective regulatory supervision of the financial sector (8.2) • Development of IFSC & International Banking (8.3) • Reduction in ELG & ELA (8.4) • Credit Union Reform and Development of ReBo (8.6)

STATEMENT OF STRATEGY SECTION 7	
Achieving a Higher Performing Department	
Our Objectives	**Our Achievements**
• **We must strengthen the leadership role we play in the rebuilding of our economy.** • **We must improve our performance by being more flexible and adaptable in the use of our resources.** • **We must re-optimise our resources by identifying our most significant initiatives and realign our resources in line with our revised and more forward looking strategic plan.**	• Staff development (9.1) • New Department Structure (9.2) • Improved Financial Management and Reporting (9.2.5) • Better Reporting and a revised MAC Structure (9.3) • Management Challenge sessions (9.3) • Internal Whistle-blower Policy (9.4) • Greater Visibility for the Department – speeches, stakeholder meetings & publications (9.5)

8. Goal 5 The completion of the restructuring of the banking system and a vibrant, secure and well-regulated financial sector

Undoubtedly, one of the most significant challenges facing our country in the aftermath of the financial crisis is repairing our banking system. Much work has taken place in 2012 to ensure we deliver a vibrant, secure and well regulated financial sector of which more detail is provided in the following sections.

8.1 Covered Bank Restructuring

In April 2012, a way forward for Permanent TSB was agreed with the Troika which envisaged it playing an important role in the future of Irish retail banking. PTSB's European Commission (EC) Restructuring Plan was submitted to DG Comp in June 2012 and involves the split of its operations into three strategic business units (1) Retail Bank (2) Asset Management Unit and (3) Capital Home Loans (CHL).

In June 2012, the acquisition of Irish Life for €1.3bn completed the PCAR 2011 recapitalisation requirements of PTSB. An agreement to sell Irish Life to Great-West Lifeco was subsequently agreed in February 2013. This marks the first time that a company acquired by the State during the financial crisis has been returned fully to private ownership.

AIB's EC Restructuring Plan was submitted to DG Competition in September and the Department has been leading discussions between the bank and the Commission in the months since. Post this process AIB will be a smaller, profitable, Irish focused organisation capable of supporting the recovery in the Irish economy.

The Covered banks have commenced significant severance and branch closure programmes to reduce costs. During 2012, over 2,900 staff left AIB and BOI under the various redundancy programmes with further reductions in staff levels expected in 2013.

Total deleveraging achieved across the covered banks totalled €66.5bn as at 30 Oct 2012 (c. 78% of deleveraging targets are now completed). Deleveraging to date has been achieved within average planned assumed discounts. Both AIB and BOI remain on track to achieve their year-end 2013 deleveraging targets.

The on-going progress in deleveraging and deposit gathering activities has seen both AIB and BOI make further progress towards improving their Loan to Deposit ratio's (LDR), which had reduced below 125% at year-end 2012.

ECB funding to AIB, BOI and PTSB reduced from €67bn at December 2011 to €49bn at end 2012 arising from continued deleveraging, increased deposits and availability of market funding. Of note BOI and AIB issued un-guaranteed Covered Bond funding of €1bn and €500m respectively in late 2012. In addition BOI was able to raise €250m subordinated debt in December 2012 and AIB was able to raise another €500m of un-guaranteed Covered Bond funding in January 2013. PTSB then raised €400m of unguaranteed secured funding in February 2013.

In 2012, an additional €3.5bn of Government Guaranteed NAMA Senior Bonds were redeemed. To date there has been cumulative NAMA Senior Bond redemptions of €4.75bn representing 63% of the agencies year end 2013 target of €7.5bn. NAMA remains firmly on target to achieve its debt reduction milestones.

Relationship Frameworks were agreed and implemented in March 2012 to set out the framework for our engagement with each of the covered banks.

8.2 Regulation and Monitoring of Financial Sector

The Department continues to take steps in order to ensure that the financial sector will be well regulated in the future. These steps include:

- Preparation and consultation on EU and national legislation, for example Alternative Investment Fund Managers Directive (AIFMD),
- The transposition of Short selling Regulations and the Omnibus I Directive into national legislation and preparatory work for the transposition of other EU measures e.g. Financial Conglomerates Directive, and
- On-going monitoring of financial services trends and international developments and the development of appropriate policy responses.

8.2.1 Management Changes / Remuneration and Directors Policy

Part of the Department's strategy with regard to the Banking Sector in Ireland has been to lower the operating costs and improve the viability of the sector. In an effort to achieve this following steps have been taken:

- The refresh of management teams continued in 2012 with new CEOs appointed in AIB and PTSB in late 2011/early 2012 supplemented by new executive committee members later in 2012. A total of 9 new non-executive directors were appointed to the covered banks in 2012,
- Review/Negotiation and implementation of a new sector wide standard endorsed by the Department of Public Expenditure & Reform (DPER) for voluntary redundancy across the covered institutions as a new benchmark,
- In order to complete the Programme for Government commitment to undertake a Remuneration Review of the Covered Institutions Mercer were appointed and will complete their work in early 2013, and
- Only one Board member in situ at 30 September 2008 continues to serve on an Irish covered bank board. This individual has recently been cleared by the Central Bank of Ireland to remain, following fitness and probity reviews.

8.3 IFSC and International Banking

A further important focus during 2012 was the continued development of the international banking sector and IFSC. Development in this area is essential for sourcing funding for Irish companies.

- **International Banking** - The Minister for Finance and senior officials from the Department met regularly with banking business figures at the highest levels to inform

Brief note of meeting on 26 January 2007 Office to discuss scoping etc of the consolidation/modernisation project

Attendance:
D/Finance - Phil Ryan (Chair), Colm Breslin, Kevin Nolan.
Attorney General's Office – Damien Moloney
Financial Regulator – Brendan Nagle
Financial Services Ireland (FSI) – Brendan Kelly

This note records the main points arising.

The meeting was one of a series of informal discussions being held with the main stakeholders in advance of the establishment of the Advisory Forum. The scoping out of the project is being undertaken with a view to being in a position to assist the stakeholders that will be represented on the Forum which it is expected will be established in Q1-Q2 of 2007.

The meeting had a number of documents before it; FSI preliminary views on the Dept's draft outline of a consolidation bill and associated explanatory note (already discussed informally with the FR, AG's and FSI) and an indicative list of key milestones to the inauguration of the Forum and the start of the project proper. The meeting focussed on the scope of the project, the question of the inclusion of principles in the consolidation bill and the resources required by the Advisory Forum.

<u>Scope</u>

- Banking, insurance and investment services will be covered in the bill. However, credit union legislation is expected to form a separate corpus that could be treated separately later though it may be possible to apply some cross-sectoral provisions to the credit unions.
- It was noted that arising from the Government decision, the Forum would be asked to consider whether funds should be encompassed by the consolidation/modernisation project and that it would therefore be important that the Dept of ET&E be represented on the forum.
- Mr. Moloney's view was that treating funds, for which the Minister for ET&E is the responsible Minister, in a bill sponsored by the Minister for Finance, should not present any legal difficulties and was essentially a policy matter.
- With just two years for the entire project, there was consensus that the inclusion of funds would necessitate a substantial input from the industry in legal and other expertise.
- Noted that the ECB has been critical of the fragmented nature of our banking legislation and that it supports its consolidation.
- As regards scope for modernisation add-ons, it was expected that this area would be reviewed throughout the project to identify instances where it made obvious sense and fitted in without creating too much difficulty.

Principles

- Mr. Kelly said that the industry would wish to see the Dept of Taoiseach six 'Better Regulation' principles[1] reflected in the consolidation bill. AG and FR felt that their inclusion could give rise to issues of interpretation with perhaps recourse to the courts where disputes arose between the FR and a regulated entity.
- Mr. Kelly indicated that industry was particularly concerned to see the principles of necessity and proportionality included. The FR undertook to reflect on this and revert.
- Mr. Breslin pointed out that we were not in a 'green field' situation in that there was a large corpus of EU derived law in force, (which would be encompassed by the consolidation), which pre-dated the Better Regulation principles. We would have to be careful that the consolidation did not interfere with the faithful transposition of this EU legislation and the EU Commission would, of course, be vigilant in that regard.
- Mr. Moloney emphasised that any powers in a bill to make regulations needed to be prescribed carefully and supported by principles and policies.

Forum Resources and Chair

- Mr. Kelly will consider further the resources that the industry is committed to providing to assist the Forum in its work particularly for the drafting sub-group where lawyers with relevant sector knowledge and expertise would be needed. He felt a minimum commitment to the project of about two days per week would be required of sub-group members with backup support as appropriate from their organisations.
- Mr. Moloney said he would consult shortly with the Attorney concerning nomination of the Forum Chair.
- Mr. Nagle stressed the importance of exploring and agreeing a *modus operandi* particularly for the detailed drafting work and suggested that the approach adopted by the Company Law Review Group in its work be examined. Mr. Moloney said that the AG's Office uses a variety of software tools to assist its work such as Lotus Notes, MS-SQL and Meridio (a records and document management system).

Other

- It was noted that DoF had made plans for a website dedicated to the Forum to contain relevant documentation e.g. minutes, agendas, as well as current work projects and other relevant documentation. Members would also be able to up/download documents to the site with a facility to track any changes.
- A person in HM Treasury who had been heavily involved in the drafting of the UK FSM Act 2000 is available to meet to share his experience of consolidating financial services legislation.

Next Steps

[1] NECESSITY; EFFECTIVENESS; PROPORTIONALITY; TRANSPARENCY; ACCOUNTABILITY; CONSISTENCY

It was agreed that DoF would prepare a draft position paper outlining the issues that had emerged in the informal discussions held to date that could be circulated to the main stakeholders in advance of the establishment of the Forum. This draft will be circulated to those present for comments.

K.Nolan

Number 12 *of* 2003

CENTRAL BANK AND FINANCIAL SERVICES AUTHORITY OF IRELAND ACT 2003

ARRANGEMENT OF SECTIONS

PART 1

Preliminary

PART 2

Amendment of Central Bank Act 1942

'Central Bank and Financial Services Authority of Ireland' in English.

(2) The Bank—

(*a*) has perpetual succession, and

(*b*) may take legal proceedings and be proceeded against in its corporate name.

(3) The Bank is required to have a seal. The seal is to be judicially noticed.

(4) Except as expressly provided by this Act, the affairs and activities of the Bank are to be managed and controlled by the Board of Directors of the Bank.''.

Substitution of section 5A of the Principal Act.

5.—The Principal Act is amended by substituting the following sections for section 5A (as inserted by section 4 of the Central Bank Act 1998):

''General functions and powers of the Bank.

5A.—(1) The Bank has the following functions:

(*a*) to carry out the efficient and effective co-ordination of—

(i) the activities of the constituent parts of the Bank, and

(ii) activities undertaken by any of those parts with persons who provide services to, or receive services from, the Bank, and

(iii) the exchange of information among those parts and between any of those parts and any of those persons;

(*b*) to promote the development within the State of the financial services industry (but in such a way as not to affect the objective of the Bank in contributing to the stability of the State's financial system);

(*c*) where appropriate, to represent and co-ordinate the representation of the Bank on international financial bodies and at international meetings relating to financial or economic matters;

(*d*) to establish and maintain, either directly or indirectly, contact with

Direction Number 4

Department of Finance reporting structures and communications channels for the period

2001 to 2010

a. Central Bank of Ireland

Following the passing of the Central Bank and Financial Services Authority of Ireland Act 2003, the Central Bank of Ireland was re-structured and re-named as the Central Bank and Financial Services Authority of Ireland. Under this Act the supervision of all financial institutions operating in Ireland was consolidated under an autonomous body - the Irish Financial Services Regulatory Authority (IFSRA) - which was established within the Central Bank.

Since the financial crisis a whole series of reforms have been introduced to underpin a more effective and efficient financial regulatory regime. The Central Bank Reform Act 2010 created a single fully-integrated Central Bank of Ireland with a unitary board – the Central Bank Commission – chaired by the Governor of the Central Bank. The unitary Central Bank structure gives the Commission members a more complete remit over prudential regulation and financial stability issues. The Central Bank Reform Act 2010 also gave effect to significant structural changes in the operation of financial regulation in Ireland which, inter alia, provided for the dissolution of the IFSRA.

The Central Bank is now a single fully-integrated structure with the unitary Board responsible for the stability of the financial system overall, for prudential regulation of financial institutions and for the protection of consumer interests. The Governor of the Central Bank remains solely responsible for European System of Central Banks (ESCB) related functions.

The Central Bank operates independently of the Department of Finance and the Minister has no role in day-to-day operations of the Central Bank. Nevertheless, the Department of Finance enjoys a close working relationship with the Central Bank. Officials at all levels are in regular contact at domestic and European level across a wide range of financial services and regulatory issues.

Formal Reporting structures post 2010 Central Bank Reform Act

The Central Bank Reform Act 2010 enhanced accountability, oversight and reporting mechanisms through a number of measures including the following.

- Annual Performance Statements on regulatory performance are prepared by the Central Bank, presented to the Minister for Finance and laid before the Houses of the Oireachtas. The performance statement is to be in the form, and is to relate to matters, that the Minister directs, with the exception of the exercise by the Governor of his functions under the ESCB Statute. A committee of the Oireachtas may call the Governor and/or the Deputy Governors to be examined on the Performance Statement.

- Annual Report (accounts) is prepared by the Central Bank each year. The statement of accounts is to be in such form as approved by the Minister for Finance, and on approval by the Comptroller and Auditor General, is laid before the Houses of the Oireachtas.

- A Strategic Plan is prepared by the Central Bank at least every three years. The Minister for Finance may request the form in which the Strategic Plan is prepared. The Strategic Plan is laid before the Houses of the Oireachtas by the Minister for Finance.

- A Statement of Income and Expenditure (Budget) is prepared by the Central Bank and submitted to the Minister for Finance. Any subvention by the Central Bank to cover an estimated shortfall in income from levies and fees is approved by the Minister for Finance.

- At least every four years, the Central Bank is to arrange for either another Central Bank or another person or body certified by the Governor, after consultation with the Minister for Finance, to carry out an international peer review of the Central Bank on the performance of its regulatory functions.

- The 2010 Act confers on the Central Bank the power, with the approval of the Minister for Finance, to make regulations prescribing an annual Industry Funding Levy to be paid by regulated financial service providers to the Central Bank. The purpose of this levy is to fund or partly fund the cost of the annual budget for financial regulation.

- The Central Bank (Supervision and Enforcement) Act 2013 enables the Central Bank to make regulations across a number of areas including consumer protection, client assets, account switching and related party lending. Before making regulations under section 48 of the 2013 Act, the Central Bank is required to consult with the Minister for Finance and for that purpose shall provide to the Minister a draft of the proposed Regulations

- The Secretary General of the Department of Finance is an ex-officio member of the Central Bank Commission.

<u>Formal Reporting Structures Pre 2010 Central Bank Reform Act</u>

Prior to 2010 and the passing of the Central Bank Reform Act, reporting structures and mechanisms between the Central Bank and the Minister/Department were on a less formal footing apart from formal legislative requirements around the Annual Report, Statement of Income and Expenditure and Industry Levies.

In addition, prior to the 2010 Act, the Secretary General of the Department of Finance was a member of the Board of Directors of the Central Bank, and the Minister for Finance, after consulting the Minister for Enterprise, Trade and Employment, appointed between 6 and 8 members to the Irish Financial Services Regulatory Authority.

Please also refer to Direction Number 23-28 inclusive in relation to the Domestic Standing Group and Principals Group.

b. Committees of the Oireachtas including but not limited to the Finance Committee

The Department of Finance would have attended various Dáil Committees principally the Public Account Committee and the Finance Committee. These are discussed as follows;

Public Account Committee

The Committee Secretariat issued the draft upcoming monthly programme to the Government Accounting section. This was issued to internal votes/sections who had responsibility for any of the items listed and informed Government Accounting Section of same. Government Accounting then notified the Secretariat of the Public Accounts Committee. Where attendance was required, briefing remained the responsibility for the section/vote in question. Where business items related to other Government Departments, D/Finance officials attended.

Committee on Finance (at that time)

Requests came from the Secretariat for the Committee on Finance to the Central Votes Section. Central Vote Section coordinated attendance and requested briefings. Where attendance was required, briefing remained the responsibility for the relevant section who also nominate those officials attending.

c. Cabinet

Each Government Department wrote to the Minister for Finance in relation to Government memoranda requiring input by the Department. The Minister's Office circulated draft memoranda to relevant sections. Once observation issued from the sections were cleared by the Ministers, the individual sections contacted the relevant Government Departments to communicate observations.

With the introduction of eCabinet contact between the Department of Finance and the Government Secretariat through eCabinet resided with the Estimates Office – Central Section. The Estimates Office distributed, coordinated and returned responses through eCabinet/Government Secretariat.

d. Oireachtas

Questions raised by Deputies relating to Public Affairs connected with this Department were received by the Estimates Office – Central Section for distribution, coordination and return of replies via the Minister's Office.

Department of Finance

January 2015.

REVIEW | 2013

An Roinn Airgeadais
Department of Finance

Achieving a Higher Performing Department

Overview

As envisaged in our Statement of Strategy (SoS) the delivery of our objectives requires a new approach by us to the workings of our Department. The Department has continued to play a leadership role across the wider public service by leading and influencing key initiatives such as:

- Management of the EU/IMF programme ultimately resulting in a successful exit (Goal 4, Objective 1);
- Drafting and implementation of the MTES (Goal 1, Objective 1);
- The SME State Bodies Group (Goal 1, Objective 3);
- The Clearing House Group (Goal 5, Objective 3);
- The Mortgage Arrears Steering Group (Goal 1, Objective 1);
- Improved financial reporting (Goal 2, Objective 2);
- Financing the State Steering Group (Goal 1, Objective 3);
- Irish co-chairmanship of the EFC high-level Working party on SME and infrastructure financing (Goal 1, Objective 3);
- Participation in regional economic initiatives such as Activating Dublin, Commission for the Economic Development of Rural Areas, Cork Development Forum, Limerick Economic Forum (Goal 1, Objective 1);
- The National Payments Plan (Goal 3, Objective 2).

As we move from a period of crisis management to recovery and renewal we must continue to adapt, realign and enhance our resources. Changes were achieved through an organisational restructure and bi-annual allocation of resources so that we could:

- Provide the best possible and coordinated advice to our Minister to inform his policy choices;
- Continue to develop into a modern, professional and forward-looking Department with more modern, efficient work practices that embrace a culture of challenge and higher performance.

These changes included:

- The appointment of additional senior level officials to enhance the management team;
- Investing in and enhancing our Learning & Development strategy to ensure that staff are developed and appropriately skilled to meet the challenges;
- Strengthening the support functions that assist us in our day to day activities;
- Further reinvesting in areas which have been neglected during the "crisis" years;

- Improving the Department's structure and enhancing the capabilities of the risk, compliance and legal functions, a task cemented through the recruitment of a Compliance Officer;
- Embracing external independent oversight through the services of Internal Audit and the Audit committee;
- Beginning the upgrading of our IT infrastructure and systems to facilitate more modern, efficient work practices and enable the automation of certain processes; and
- Enhancing the Department's Strategic International policy positions.

While managing significant challenges in terms of policy and undergoing organisational changes the Department continues to work towards further improvements in terms of openness, transparency and accountability. We now provide regular reporting against targets through these annual reports and our periodic report cards. Outreach to our national and international stakeholders has grown in order to better explain our work to others and help inform our policy development. The statistics bear this out - during 2013, the Department processed 5,866 Parliamentary Questions, processed 220 Freedom of Information requests, processed 302 Government memos, and delivered over 70 speeches and presentations.

In support of our efforts towards increased transparency and openness the Department launched a new website in late 2013.

Staffing & Performance Management and Development

Resourcing
A number of high level appointments were made during the year to further enhance the Department's senior management team. John McCarthy was appointed as Chief Economist, Greg Dempsey was appointed as the Chief Financial and Operations Officer, Des Carville took over as head of the Shareholding Management Unit and Neil Ryan was appointed the Department's Chief Risk Officer.

Appointments have been made at all levels of the Department over the past two years since the separation of the Departments of Finance and Public Expenditure and Reform. We have committed to augmenting our capabilities and rebuilding our teams. The scale of the adjustment involved in this process is evident in that out of a staff of just over 300 we have had significant recruitment and selection events including:

- 104 new entrants have been welcomed into the Department since 2012
- 50 promotions have taken place
- 12 officials have been appointed to positions outside Ireland
- 11 additional staff were seconded into the Department on a fixed term basis to assist with the EU Presidency
- 26 officials left the Department through a combination of retirements and resignations.

Performance Management and Development

Staff development is a central pillar driving the ambition and effectiveness of the Department but one very much under-emphasised in the years prior to 2012. We committed at the time of the launch of our revised Statement of Strategy to focus particularly on this, but not just on "hard skills", although they too are important. Our HR strategy has resulted in greater awareness of development opportunities and increased uptake of training/education opportunities. By investing in and enhancing the skill-sets of our staff, we are confident the Department can further improve its performance and also create a more desirable workplace for good talent.

Training and development of staff is essential but cannot take place without proper assessment of the organisation's needs. Coming from a low level of 32% in 2012, the Department achieved a 100% completion rate for PMDS in 2013. The wider civil service's commitment to the PMDS process has been reinvigorated in the past 18 months and the Department of Finance has been to the forefront in this regard.

During 2013, HR developed and implemented an organisational learning and development strategy. This included a coaching programme for senior management as well as a pilot mentoring programme for all staff in the Department. The success of the mentoring programme has been recognised and will be extended to compliment a new programme that is now being introduced across the wider civil service. Other development courses are now being rolled out for all levels in the Department.

The Department continues to run an in-house tax training course that is certified by the Irish Tax Institute and a number of staff completed their studies in 2013.

A new learning and development plan was implemented to build project management capability across the Department. This involved rolling out induction training, a certified Diploma and Strategic Diploma in project management coupled with international accreditation (the Department's candidate on the strategic diploma achieved a national award) and specialised training. In tandem, the PMO has also rolled-out a project management guidance framework and associated supporting tools and continues to support project teams to achieve Department and Cross-Department objectives.

The Department held eight 'Lunch and Learn' seminars where staff were invited to presentations during lunch. A range of speakers, including Ronan Lyons (DAFT), Garett Blaney (Commission for Energy Regulation), Pat McLoughlin (Stiefel) and Gina Quin (Dublin Chamber of Commerce), as well as speakers from within the Department spoke on a variety of topics. The Department held two seminars in which its economic projections (April and October) were presented and discussed with economists from the wider public sector and the private sector.

In a further new development, the Department also developed and implemented an Employee Engagement Survey which was rolled out to all staff in November 2013. The aim of the survey was to gain a better understanding of people's views and attitudes towards their working environment. In 2014, action strategies will be designed and implementation plans will be put in place, both at a departmental and divisional level, to address the issues raised in the survey results.

Our staff continued to raise the bar in 2013. For example:

- An official was top of their class in Ireland for the FE1 law exams;
- Another official topped their class in attaining a diploma in Strategic Project Management;
- A number of officials received Certificates in Tax Policy Making from the Irish Tax Institute (ITI);
- An official achieved came first in class in the Institute of Public Administration's Professional Certificate in Governance;
- Several articles authored by Department staff were published in the Irish Tax Review and the Economic and Social Review;
- A senior official was appointed as Vice Chair of the EU Financial Services Committee;

Development of Department structures for greater efficiencies

A consistent goal across the wider public service and in particular in the Department, is to identify efficiencies in the way we operate. To achieve this goal, the Department focussed on three key initiatives in 2013:

1. Embedding a new Corporate Office and PMO function
2. Sharing Services and a Finance Function
3. Technology – ePQs, mobile hybrid devices, IT infrastructure

Embedding Corporate Office and PMO

The Corporate Office function was developed further to drive coordination, efficiency and delivery with special focus on the business planning process to ensure the continued achievement of the Statement of Strategy objectives. This was central to aligning the Department's governance and organisation structure to reflect a new direction, leadership style and culture.
A PMO was established over the course of 2013 as set out in the Department's Statement of Strategy. During 2013, the PMO rolled out an Integrated Business Planning Process, which ensured:

- Weekly reporting to the Management Board of actions on priority items by each section
- Bi-annual assessment and reallocation of resources to match shifting priorities and facilitate mobility of experience
- Monitoring of priorities against a "traffic light" system for early identification of slippages.

As pointed out above, new training has been rolled out to ensure the new approach is embedded for the future.

Shared services and the finance function

Across the broader civil service, services are being centralised and delivered on a shared services basis to increase efficiency. The Department has not only participated but volunteered for phase one or indeed led some of these projects themselves. The Department was among the first group of Departments to

BOX 13

HUMAN RESOURCES SHARED SERVICES

In March 2013, the Department's Human Resources Service transferred the transactional elements of HR processes to Peoplepoint HRSSC (Human Resource Shared Services Centre). This has:

Created efficiencies across the wider civil service; and

Reduced operational HR at local departmental level permitting a smaller HR team to focus on more strategic HR matters such as resource optimisation, employee engagement and performance management.

transit to the centralised HR operational system (PeoplePoint) and has been efficient in its management of the Civil Service Payroll Shared Services (PRSS) Project.

The Department is also involved in delivery of services, for example, shared services in its print function and finance function. It has continued to ensure the accurate delivery of on-going salary, pension, banking, and exchequer finance transaction processing and reporting services for 32,500 employees on payrolls at year end. It also played a lead role in the move towards e-payments and the abolition of payable orders with over 16,900 e-payments being processed annually. This was undertaken by Department staff based in the Tullamore office. An external evaluation of our operations was conducted and as a consequence the Tullamore office was chosen as one of the three key centres for the future centralisation of payroll and related services.

The Department is also managing the Civil Service Banking and Financial Management Shared Service (BFMSS) Project. During 2013, the Department provided expertise in the planning and implementation of these projects.

Technology – ePQs, mobile hybrid devices, IT infrastructure

In 2013, the Department began the process of improving IT infrastructure and information systems, not only to ensure that efficiencies are achieved but also to ensure better knowledge-sharing and information management. This was assisted through the enlisting of an MBA team from the UCD Michael Smurfit Graduate Business School which carried out a root and branch assessment of how information flows are managed in the Department. Allied to this, an IT Steering Committee was established to identify new or improved technology solutions and prioritise possible IT projects to support the Department in its day-to-day activities. The committee is currently drafting an ICT strategy.

An example of the efficiencies to be gained is illustrated by the Department's new ePQ[29] system to process and manage Parliamentary Questions which was rolled out during 2013. The Department engaged with OGCIO in the design of the system and the introduction of the system with the provision of training and an instruction manual. The ePQ system allows for the electronic processing of parliamentary questions across the department with greater search and retrieval functions. The 2013 experience of 5,866 paper based files physically travelling around the Department for review and approval will no longer be a factor of our work in 2014.

During the Presidency, a live shared intranet site was used to update staff on the many dossiers and daily meetings.

A further goal is to reduce the compilation of paper based briefings by ensuring access remotely to such stock information across the Department's work using the Department's new Intranet. To this end, new team sites are being developed. A number of staff have been provided, on a test basis, with mobile devices to assist them in working remotely and to access Departmental information when abroad or throughout Government buildings and other meetings rooms or locations where Wi-Fi is now available.

29. An ePQ system is an electronic Parliamentary Question system.

Development of Department structures for greater challenge

In 2013, the Department continued its progress in implementing a revised organisational structure as set out in the revised Statement of Strategy. Instilling a greater culture of challenge within the Department has underpinned much of the organisational restructuring. The Department has advocated a greater sense of openness to internal and external challenge amongst its staff to test thinking and to mitigate risks of 'group-think'. The goal is to ensure all policy advice is rigorously assessed and questioned so that advice to the Minister and to Government incorporates all relevant considerations.

Risk and Compliance

As part of this initiative, risk capabilities have been enhanced and we now have a greater embedding of a risk management and control culture throughout all areas of activities in the Department in 2013. The Department commenced development of a more structured risk management framework and more formal compliance processes. This work will feed into the State's National Risk Assessment.

The Department's risk committee now meets every month to consider the most significant risks affecting the Department and the economy. This is chaired by the Chief Risk Officer, Neil Ryan and the membership represents all business units of the Department. The Risk Register was updated twice through a bottom-up process with specific action plans put in place to manage, mitigate or monitor these items. The top risks are identified using a risk weighting methodology, which are then discussed at management board level.

Policy development

The new Policy Committee which is chaired by Second Secretary Ann Nolan, now assesses policy proposals under consideration by the Department. Its membership, comprising senior officials from throughout the Department, challenge the analysis and thinking underpinning the policy advice being offered by divisions to ensure all appropriate considerations have been taken into account.

Legal services

The legal function has begun its transition from reactionary and transaction-based to being fully central to the business of the Department. This ensures a holistic view of legal matters across the Department while also providing efficiencies to every business unit as legislative advice and support is centrally available. When specialised legal advice is required, the internal legal expertise ensures consistency of approach for all contracts. It is sometimes necessary to call on additional resources to augment the small team and we are moving towards a new process to permit a wider range of firms to tender for work in 2014.

EPD/012/036/02 Part 1

Management Meeting

225

Thursday, 28 February 2002 (4.30 pm)

Venue: Conference Room .3, Ground Floor, South Block

Agenda

1. Approve draft minutes of 20 February, matters arising
2. Update on Expenditure, Taxation, Pay and Budget
3. Establishment of IFSRA - Implications for Department of Finance
4. Report of Working Group on Developing a Negotiating Strategy for the Department on a New National Programme
5. A.O.B.
5. Next Meetings:
8 March at 3.30 pm

MH

27 February 2002

SMI Reviews:

01 March at 10.00a.m.: Jim Duffy
11 March at 10.00 am: Colm Gallagher

C O'Loghlin, C Connolly, C Gallagher, A Dunning and M Scanlan to attend

EPD 012/036/02/PART 004

(80)

Minutes of MAC Meeting on 1 October 2002

Attendance: Secretary General, Secretary General PSMD, David Doyle, Michael Scanlan, Philip Hamell, Kevin Cardiff, Colm Gallagher, Cathal O'Loghlin, Jim Duffy, Joe McGovern, Carmel Keane

Exchequer Statement

The MAC convened to consider further the Exchequer Statement for the period ended 30 September. There was a detailed discussion on current receipts and expenditure figures and their implications for the Exchequer balance.

On the basis of current trends, the MAC considered that a shortfall in tax revenue of the order of €1.3 billion could be anticipated by end year. In relation to expenditure, the aim and expectation was that net voted spending would come in on target. The MAC noted that since talks with the Public Service Unions on the implementation of the PSBB would take some time to complete, the likelihood was that the €150 million allocated for the PSBB increases would not be ready for payment in 2002.

Next Meetings

Monday, 07 October @ 11.00am

Thursday, 10 October @ 8.30am (Minister/MAC)

EPD 012/036/02/PART 001 (47)

Minutes of Management Meeting on 20 February 2002

Attendance: Secretary General, Secretary General PSMD, D. McNally, D. Doyle, N. O'Gorman, J. McGovern and C. Gallagher.

Apologies: C. O'Loghlin, K. Cardiff and J. O'Brien.

Agenda Item 1: Minutes and Matters arising

The minutes of 14 February were approved subject to inclusion of a reference to staffing and accommodation matters under AOB.

Agenda Item 2: Update on Expenditure, Pay and Budget

Mr Doyle reported that the Government had endorsed the REV based on a € 39 million increase on Budget figures. However, there were ongoing pressures arising from Environment, Tourism, Sport and Recreation and Health. The timetable for the 2003 Estimates was discussed briefly. Mr McNally said that the tax revenue figures to date were not encouraging and gave little grounds for optimism. Receipts were being closely monitored. Mr Considine reported on recent developments in ASTI and the contingency arrangements being put in place to deal with the industrial action scheduled to commence on 4 March. He reported also on developments in relation to Residential Care Workers and the claim by Medical Laboratory Technicians and its wider implications. A number of scenarios were discussed in the context of the emerging economic and budgetary situation and the report of the Benchmarking Body due in June 2002.

Item 3: Report on Management Accounts

Ms J. Brady and Mr N. Tallon presented a report to the MAC on Vote 6 - Outturn 2001 and Administrative Budget/Programme expenditure January 2002. This report illustrated the format of reports to be developed in the coming months. The MAC noted the report and a short discussion took place. It was agreed that reports to MAC should be on the basis of aggregate information accompanied by appropriate explanatory notes. The report was referred to the Assistant Secretary group for consideration.

Item 4: AOB

The MAC noted that Mr John Palmer would take up the Budget attaché post in Brussels in April. It was agreed that arrangements would be put in place to ensure that the standard of services provided in offices outside Government Buildings and Lansdowne House were approved. A member of staff on each floor of the buildings (Mount Street, 5-9 South Frederick Street, Setanta Centre, Molesworth Building and 13-15 Hatch Street) should be nominated to co-ordinate requirements and liaise with CSD on improving facilities.

It was agreed that the agenda for 28 February would include the following:

- Staffing implications for the Department of the establishment of the IFSRA
- Report of the Working Group on Developing a Negotiating Strategy for the Department of a new National Programme.

Next Meetings

28 February at 4.30p.m.

08 March at 3.30p.m.

SMI Reviews

01 March at 10.00a.m.: Jim Duffy

Minutes of MAC Meeting on 28 June 2004

Attendance: Secretary General, Secretary General PSMD, David Doyle, Michael Scanlan, Ciaran Connolly, Colm Gallagher, Jim O'Brien, Carmel Keane.

Apologies Donal McNally, Noel O'Gorman.

Agenda Item 1: **Draft minutes of 21 June, matters arising**

The draft minutes were approved subject to a drafting change on Item 1. There were no matters arising.

Agenda Item 2: **2004 Budget, Expenditure, Taxation and Pay**

No significant changes were reported on expenditure. Receipts under the main tax heads were discussed and will be further reviewed in the light of the end-June exchequer returns. On the pay side, the Secretary General PSMD reported on the ongoing disputes with the POA and with the Prison Medical Officers. The threat of industrial action by the ESB Officers' Association was also discussed.

Agenda Item 3: **Budget 2005**

The MAC agreed that the updated draft of the Budget Strategy Memorandum should be submitted to the Minister.

Agenda Item 4: **Update on EU Presidency**

The MAC noted that Estonia, Lithuania and Slovenia had joined the ERM. The Secretary General, on behalf of the MAC, acknowledged the excellent work done by the staff during the EU Presidency and the commitment in all Divisions to the ongoing work of the Department during this very demanding period.

Agenda Item 5: **Decentralisation**

The Secretary General PSMD said that since there was no decision yet on the locations for the IT and the Health sectors, it was likely that the initial completion date for the CAF would be extended to September. Mr. Scanlan reported on budgetary aspects of the decentralisation programme. Ms. Keane said that the staff were concerned mainly about the arrangements for staff transfers and when and how the Central Applications Facility for staff remaining in Dublin would be implemented. While this would depend to a significant extent on the outcome of the CAF, it was likely that there would be staffing implications for all Divisions in the Department.

Agenda Item 6: **Monthly Financial Report**

The MAC noted the Financial Report to month ended 31 May 2004. The figure of €515,000 under Other Administration on Table 2 was queried and will be followed up.

Agenda Item 7: **Resolving issues arising in a PPP context**

The MAC discussed the issues set out in the Note entitled "Resolving Issues of Major policy which present in the context of PPP Projects". It was agreed that the following approach should be adopted.

- The membership of the standing PED PO PPP Communications Group will be expanded to include representatives from other relevant areas across the Department (e.g. pay side; tax side etc.)

- The additional members will be required to attend only when a topic arises for resolution which is cross-divisional. Exceptionally an AP may be sent by the relevant Division if that is the best source of expertise on the issue. The representative should carry the mandate to offer constructive approaches to the issue. Each Assistant Secretary is to nominate a representative from their area. Where due to the untried nature of the issue arising there is no obvious lead area, the Assistant Secretary Group will try to agree on a lead area.

- If agreement on how to resolve the cross-divisional issue is not reached through the PED PO Group, the major policy issue arising will be referred to the Assistant Secretary Group.

- The MAC is to be kept informed of developments and, in the few instances where there is still no solution, will be asked to advance matters to conclusion.

Agenda Item 8: **Statutory Framework for Working Time**

The MAC discussed the statutory framework for working time on the basis of a paper circulated by CSD. It was agreed that while there is a need for extra attendance at certain times, regular extra attendance is not desirable in the long run, whether from an individual or corporate perspective. This is set out clearly in the Department's policy on Equality and Diversity.

The MAC directed that all managers should monitor and agree in advance any hours worked by their staff in excess of normal working hours. It was also agreed that CSD would seek legal advice on the interpretation of Section 3(1)(c) of the Organisation of Working Time Act which provides that the Act shall <u>not</u> apply to

> "a person the duration of whose working time (saving any minimum period of such time that is stipulated by the employer) is determined by himself or herself, whether or not provision for the making of such determination by that person is made by his or her contract of employment".

<u>Agenda Item 9</u>: **AOB**

The MAC agreed to nominate <u>one</u> Principal Officer to participate in the Common Purpose Matrix Programme 2004/05.

<u>Next Meetings</u>

Friday, 9 July @ 10 a.m. (Business Planning Review – Eamonn Kearns, Conference Room 0.2, South Block

Monday, 12 July @ 11 a.m.

Minutes of MAC Meeting on 6 April 2004

Attendance: Secretary General, Secretary General PSMD, David Doyle, Donal McNally, Jim Duffy, Stephen O'Sullivan, Michael Scanlan, Aidan Dunning, Ciaran Connolly, Noel O'Gorman, Brigid McManus.

Apologies: Carmel Keane, Derek Moran.

Agenda Item 1: Approval of minutes of 29 March 2004

The minutes were approved with minor amendment.

Agenda Item 2: Budget 2004

Mr Doyle reported that the expenditure position was unchanged from that reported at the meeting of 29 March, Mr McNally reported on Tax receipts. Secretary General PSMD updated on discussions in relation to Bord na Móna. It was agreed a report would be prepared of Prospective Windfall Gains from Overseas Accounts.

Agenda Item 3: Update on EU Presidency

The Secretary General reported on the success of the informal ECOFIN. It was agreed that this be noted in the minutes of the meeting and that staff be informed.

Agenda Item 4: Decentralisation

It was noted that the report of the Decentralisation Implementation Group (Flynn) would be published on the afternoon of Wednesday 7 April.

Agenda Item 5: Official Languages Act

The MAC noted a short paper from CSD outlining the provisions of the Act and directed that CMOD prepare a short report on the obligations imposed by the Act on the Department, the specific steps required to be taken and timetable and how this can be approached.

Agenda Item 6: Preparation of the Departments Customer Charter and revised Customer Action Plan

The MAC decided that the proposed consultation circulation list be revised as discussed, and that the questionnaire be amended.

Agenda Item 7: Progress Report to the Civil Service Performance Verification Group

The MAC agreed a number of drafting changes to the report and noted that it would be discussed shortly by the Partnership Committee.

Agenda Item 8: AOB

Mr Doyle reported on developments in relation to Electronic Voting.

Overview of Banking and Financial Regulation

Presentation to Review Group

17 September 2010

“Banking and Financial Regulation” in Department of Finance

- Core Activities 2005 - 2008
  - EU Financial Services Legislation and Policy
  - Financial Services Consumer Issues
  - Financial Regulation –accountability requirements
  - Credit Unions (i.e. community S&Ls) / Social Finance
  - IFS / IFSC issues
- HR: 25 FTEs approx.
- FR interaction – 0.5 PO 1 AP

Organisational Change 2005 -

- Banking Finance and International Division (2005 & 2006) (incl. IMF, World Bank relationship, debt relief, Development Bank, NTMA relationship)
- Banking Finance and Pensions Division (2007) (PPPs)
- Financial Services Division (Bank Guarantee Scheme, Bank Re-capitalisation, EU State aid, EU Restructuring Plans, Distressed Credit Institutions, SRR legislation, UK Cross Border Stability Group)

Role of the Department: Financial Services Legislation & Policy

- Implementation of comprehensive and detailed framework of EU Financial Services Legislation into Irish Law
  - Banking, Insurance and Securities
  - Consumer Legislation
  - Anti-Money Laundering, Terrorist Financing and Economic Sanctions
- Domestic Financial Legislation – Asset Covered Securities, Regulation of Sub-Prime Mortgage Lenders
- Consumer Policy – overcharging issues, Financial Education, Financial Exclusion, Payment Strategy
- EU Financial Services Policy – EU supervisory architecture, “Lamfalussy Process” FSC, ESC, EBC, EIOPS, MCP
- IFSC Clearing House Group / industry bodies
- Proposed Modernisation and Consolidation of Financial Services Legislation

Role of the Department: Financial Regulation

- Responsibility for overseeing new legislative framework for financial regulation
  - Institutional structures for financial regulation (i.e. CBFSAI Act, 2003 & 2004)
  - Appointment of Central Bank Board Directors, Members of the Regulatory Authority and Members of the Consultative Panels
  - Overseeing compliance by the Financial Regulator with statutory accountability requirements
  - Credit Union Regulation

Institutional Structure for Financial Regulation

- Banking "scandals" 1980s & 1990s
- Central Bank considered ineffective "banking regulator"
- Significant controversy and debate late 1990s onwards regarding new structure
- Integrated regulator versus "twin peaks" (proposed "SRA")
- Political agreement on two-pillar CBFSAI structure
- Particular focus on consumer protection and ability for co-ordinated approach between the two pillars on financial stability issues
- Regulatory approach "Principles-led" versus "Rules"

FR Accountability

- International debate on importance of Independence and appropriate Accountability
  - EU ‘best practice’ IMF Research
- Legislative accountability requirements (administrative)
  - Annual Reports
  - Budgetary approval
  - Annual Strategic Plan
  - Parliamentary oversight
- EIU Review of Economic Regulatory Environment (2008)
  - Weaknesses in the effectiveness of scrutiny by Parliament
  - Departmental expertise to supervise regulators
  - Performance measurement and evaluation weak
  - Largest regulator income per capita (no of international comparators)
- Central Bank independence in Eurosystem, legal position of Governor

Financial Stability Planning

- Financial Stability Contingency Planning ("CB Black Book")
- EU Treaty / statutory responsibility & legislative design
- Strictly differentiated role of monetary and fiscal authority
- Regulatory Independence / Supervision versus Regulation
- DoF / CBFSAI Domestic Standing Group (MoU and information exchange)
- Honohan Report & Commission of Investigation
- Reform of Institutional Structures for Financial Regulation, Central Bank Bill 2010

Future Priorities

- “Normalisation”
- Accountability of new integrated Central Bank Structure
- DoF: Expertise and Resources
- EU Dimension – EU and international financial regulatory reform and new EU supervisory architecture
- European Systemic Risk Board – Macro-prudential Regulation
- Special Resolution Regime, Resolution and Recovery Plans (“Living Wills”)
- Future Banking Landscape / competition
- Future development / role of IFS in Ireland

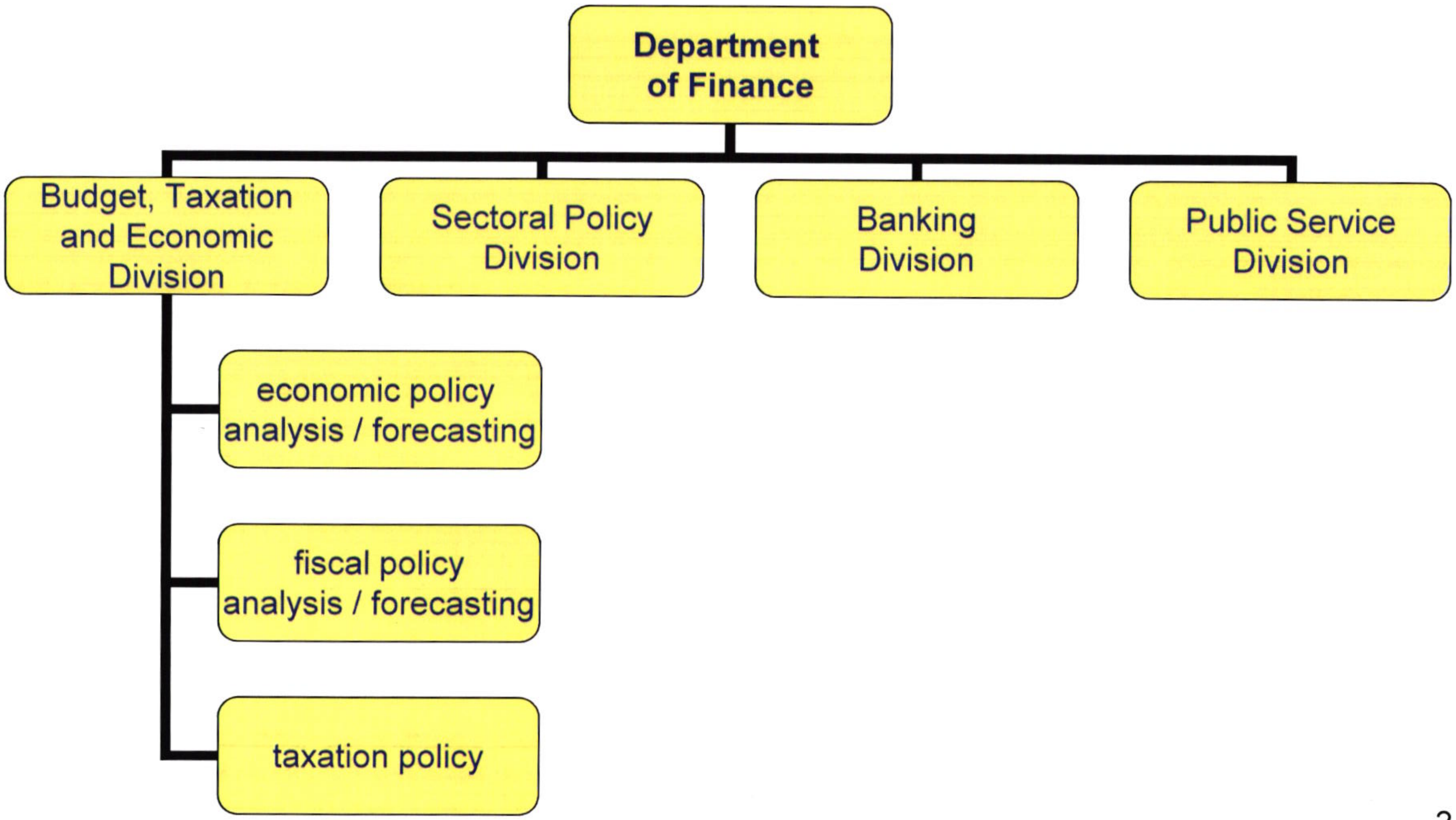
Economic Forecasting in the Department of Finance

13 September 2010

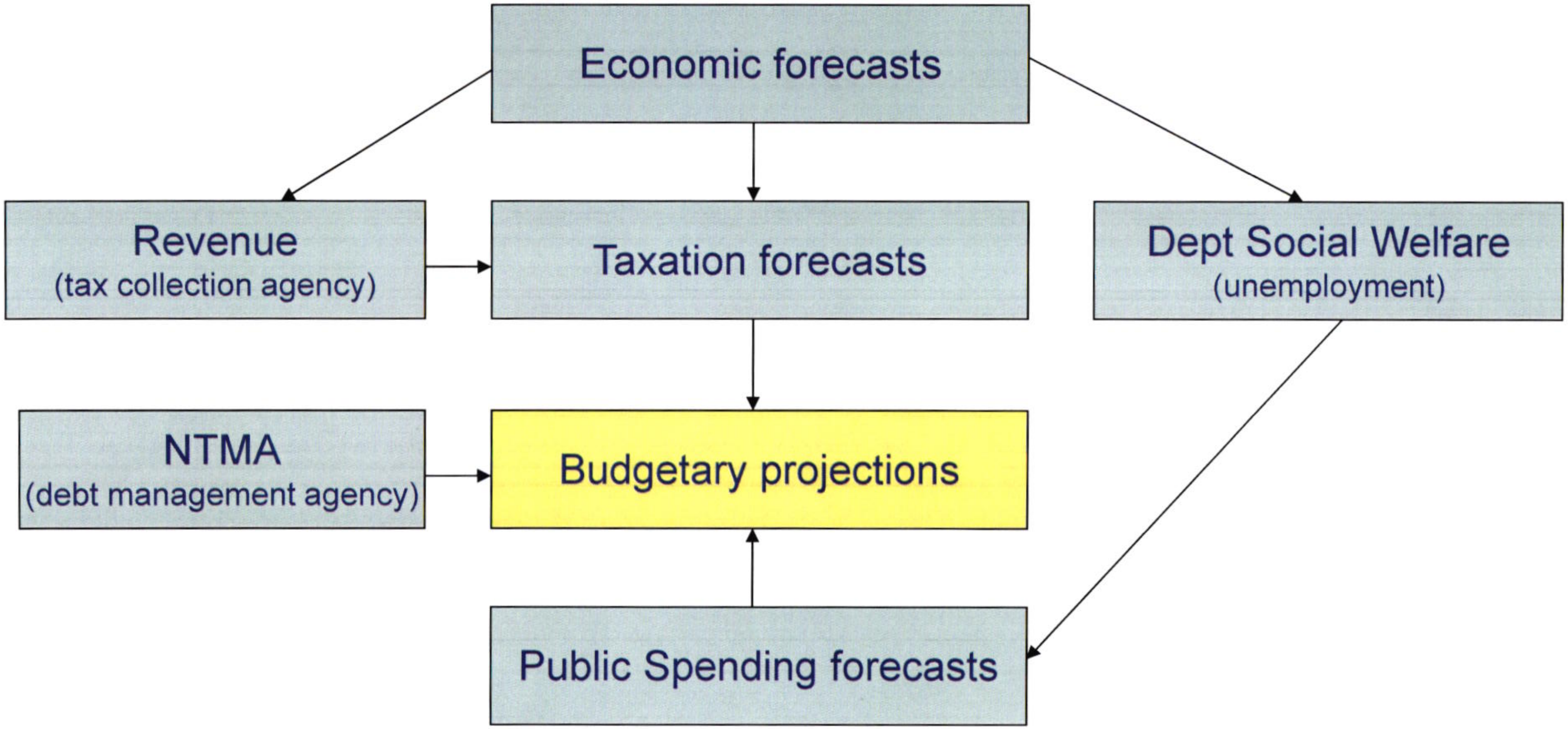
John McCarthy
Budget, Taxation and Economic Division

contact: john.mccarthy@finance.gov.ie

Organisational structure…



Role of economic forecasts…



Economic Forecasts
(in a "normal" cycle)…

- Production of three sets of macro-forecasts a year
- mid-year **Budget Strategy Memorandum** (June)
  - updates forecasts from previous Budget
  - unpublised
- **Pre-Budget outlook** (October)
- **Budget forecasts** (December)
  - exogenous variables determined by EU Commission
  - usually three-year horizon
  - now a five-year horizon
- Have had to update more frequently over past eighteen months

Short-term Economic Forecasting…

- Focus on income and expenditure approaches
- **Expenditure:**

  - spending on components of demand

  - 'deflated' to produce volume estimates
- **Income:**

  - profit and labour income generated from production
- **Model budgetary measures**

Address by Secretary General Moran

To The Public Accounts Committee

May 8th 2014

PAC-R-1376 Correspondence 3C.2
Meeting 125 – 08/05/2014

Introduction

Thank you, Chairman.

I am pleased to be here today to meet with the committee for the third time as Secretary General of the Department.

With me this morning are: Mr. John McCarthy, Chief Economist, Mr. Greg Dempsey, Chief Finance and Operations Officer; Mr Des Carville, Head of our Shareholder Management Unit; Mr John Hogan, Head of our Banking Unit and Ms. Cep Carty – also from the Finance and Operations office.

While we are here mainly to examine the accounts for 2012, the year of my first meeting with you as Secretary General, a lot has changed and been achieved in the past 2 years. I hope you agree it is appropriate to touch on that too.

Statement of Strategy Goals

You may recall that in 2012, against the backdrop of the significant changes facing our country, our management team took the opportunity to revise our 3 year Statement of Strategy to redirect and refocus our efforts in the period from 2012 to 2014.

In that document, we set ourselves five ambitious goals, around the economy and jobs, public finances, living standards, exit from the troika programme and a solid financial sector.

What to say?

Yesterday, I communicated to the Minister and the Government my decision to step down from my role given the successful completion of the first post-troika programme review mission last week and the very significant progress achieved already in restoring economic and banking sector stability. These were my objectives when I took up the role and I also felt that I owed this Committee the courtesy of announcing it before my appearance here today.

In the light of my announcement yesterday, I have given particular thought to what I might highlight to you for our discussion today.

Outcome

I could discuss the significant savings in our 2012 outcome as we delivered our programme using less resources than allocated in the budget.

Economy, Banking Sector and Jobs

Or I could relate to you details of the very significant stabilisation and progress we see in the economy, in the fiscal situation or even in the banking sector. For example, the first goal we set ourselves in 2012 included working to create an economy with significant increases in employment. At that time, the Irish economy was losing nearly 350 jobs per week.

Some described it as foolhardy to set ourselves up to fail so openly by including this goal in what was then a two year strategy. This was a natural reaction, it seemed to me, for people working under the environment of easy criticism (some fair but much unfair) which prevailed at the time which can easily inhibit the setting of stretching targets.

But who now can say that the public sector cannot set itself ambitious targets? More particularly, people said it was not wise as creating an environment conducive to job creation was a task not just for ourselves but a multi-disciplinary shared task involving both the private and public sector, especially colleagues in the Department of Jobs, Enterprise and Innovation.

As the Department's management team, we felt though that given the seriousness of this problem we had to be courageous enough to work to ambitious non-silo'ed tasks and targets and also had to make this our first priority and core to all we have been doing.

Under direction from the Minister, we looked not just at the macro situation, which of course was important, but also sector by sector micro analysis of the economy was conducted by our new expanded economics team, looking not just at sectors by department but also at any barriers to growth in the key but not-necessarily aligned sectors of the economy.

Our efforts (still ongoing of course) included identification of triggers that might be pulled to help growth in the sectors with high potential and relentless pursuit of solutions for financing the economy.

We also embarked on a coordinated effort to publicly explain our decisions and our forward looking strategies to both foreign and domestic investors and businesses to help create confidence and inform their own investment decisions.

These actions of ours were but a small part of an integrated broader whole of Government effort.

I believe we are entitled, therefore, to take some satisfaction from the fact that while at still unacceptably high levels, within only two years, the unemployment rate continues to fall incrementally from a peak of 15.1% in February 2012 to the April figure released last week of 11.7%. Also, at a rate of 3.3%, Irish employment growth now outpaces anywhere else in Europe. Furthermore, at less than 3%, the Irish Government can now borrow to finance further measures at the lowest rates ever in the history of the State and a long way from the 14% which prevailed during July 2012.

The performance of the economy, public finances and banking sectors and the main continuing risks for the future are documented in our Report Card which was circulated to you all last week so it may not be the best use of our time to dwell any further on all of that here today.

Performance Against Goals

I also thought to attempt to set out for you fuller details of the tremendous achievements of the Department in 2013 towards each of our five goals, but there again, to maximise our time, I have simply distributed to you our Annual Review which was communicated to the Government earlier this week and published yesterday. I think the Review speaks for itself. I would like especially to express my thanks to my colleagues in the Department and their families for their personal contributions and single-minded dedication to these tasks.

There are only just over 300 people in the Department of Finance (I have heard people who think that there are thousands), that means under 1% of the civil service. During 2013, we operated as four groups of often times overlapping teams dealing respectively with business-as-usual priorities driving towards a higher-performing Department, legacy issues from the crisis, forward planning issues and the EU Presidency.

Even a cursory review of their achievements in our annual reviews for 2012 and 2013 in that light will help you understand why I am so proud of their work and achievements which culminated in a safe and successful exit from the troika programme at the end of last year.

Workings of the Department

Given that this is likely to be my last appearance before you in my current role, what I thought would be most beneficial is to share some more detailed observations with you about the changes and improvements we have been making to the governance mechanisms and workings of the Department itself and answer any questions you might have on these. I was pleased to see your own reference to this in the press release issued about our discussions today.

Given that the Comptroller and Auditor General has raised no specific concerns about the accounts of 2012, these changes are perhaps as critical to your analysis of how well we are spending our time and resources in rebuilding the Department for the future. They are also key to understanding the challenges to delivery of future strategies by the Department and so I hope you will forgive me for taking this opportunity to expand on them at some length for you.

For me, the important point is not so much the result of our handling of any specific policy item but whether in handling that, we are displaying now a governance structure and capabilities that gives comfort that we are able to identify trends and risks and to deal well to avoid those risks or deal with issues as they arise no matter how sizeable they might be.

I understand that it is not typical to make such a lengthy statement but given the importance of the issues you raised and for which I wished to share my observations, I have taken the liberty of producing a longer written statement the contents of which I shall summarise here today.

Many have questioned how the failings occurred in the past in our system and how we might move to fix that. I believe new processes embedding principles of good governance, more effective communications and a culture encouraging open challenge and questioning will go a long way to addressing many of the past failings.

I am grateful therefore to the Committee for agreeing to my request to share in some detail with you the work being done by my management team to identify and begin to rectify deficiencies in the governance and operation of the Department.

It is worth observing at this point that the current management team of the Department is now a blend of necessary and relevant experience both with pre-crisis and post-crisis individuals. I believe that to be the right combination of management change, drawing on the skills and knowledge of the past, supplementing with new skills and perspectives, coaching and training the whole team and then moving forward as a new diverse and cohesive unit. It would be foolhardy to expect people like me to arrive into a complex system and be able to achieve results without being able to draw on the best of the pre-existing and experienced colleagues.

Given this combination of experience, I would like to believe that our priority identification and recent work reflects a balanced set of views and an appropriate blends of insights. I would also like to especially pay thanks to Jim O'Brien and Michael McGrath who like me are moving on to new challenges over the summer but who have devoted themselves fully to support our efforts and achieve our results since my appointment.

A Parallel programme of reform

Behind the more visible reforms of the economy and banking sector, in our Department, our new management team have been pursuing a parallel but less visible course of reform of the essential governance and workings of the Department, in many cases, paving the way for similar actions taking place in the broader civil service.

You may recall that when we set out the revised Statement of Strategy during 2012, we indicated an intention to make the Department "modern, professional and forward-looking", and to introduce equity, partnership, leadership, challenge and integrity as our core values and of course to be more transparent.

A measure of the quantum of change already well under way is reflected in the very structure of the Department which now better embraces modern best practice, going beyond in some areas even the recommendations such as those contained in the Wright Report.

In 2012, our Department was structured around three policy areas of “Financial Services and Taxation”, “Banking Division”, “Budget and Economic Division”. Less attention was directed at the support and control functions. Our changes have involved focussing, resourcing, and investing more in areas like a more formalised risk management process, a risk committee, a policy committee for robust debate of policy ideas, internal and external communications to avoid silo’ed information sharing, more appropriate use of IT, a better modern HR function and a Project Management Office for the Department’s own annual priorities and deliverables – not only for the successful management office set up for the troika programme.

Under the new management team, we continue to radically change the way the Department operates, working quietly away. The job is now well mapped out and we are well underway.

As we set out to do in 2012, for efficiency, we have reunited the budget and tax policy areas and reunited the banking and financial services areas. The newly created International Division has opened up our Department to the world (as I shall more fully describe below).

With our fourth policy area, the new Economics Division, we have made economic analysis more central to our daily work, separating the analysis from the budgetary office pressures to encourage the formulation of more independent views. Since John (McCarthy)’s appointment we have been better able to play our true role in the development of economics thinking in the State and apart from recruiting in new economists, we have also moved the focus from short-term forecasting into the development of broader economic analysis to be shared with a wider community encouraging robust stakeholder debate. We hosted a gathering of the Irish public sector economists, at an IGEES forum to debate our developing thoughts of the important issues for the Medium Term Economic Strategy (MTES). We would now love to do even more to enhance our economic modelling capacity and integrate that better with our emerging financial stability and risk analysis and capabilities.

Equally importantly as these changes to our policy areas, we have moved to become a Department with an entirely different support structure for what we have to do:-

- Internal structures have been revisited to better facilitate a culture of greater challenge. The new risk, legal and compliance functions and enhanced peer review of policy directions are central pillars in this regard.
- The State’s accounts are now produced by a team led by an accountant of over 20 years’ experience, Greg Dempsey who is here today.
- We have a risk office led by our Chief Risk Officer, Neil Ryan, who has over 20 years’ legal and banking experience.

- We have a policy committee under the direction of Ann Nolan one of our most experienced senior civil servants who has unparalleled knowledge of each area of practise in the Department so as to encourage cross-discipline and cross-unit debate.
- We have a newly formed legal and compliance unit under Antoine MacDonncha's direction with newly recruited lawyers and a specially recruited experienced Compliance Officer.
- Our Management Advisory Committee is becoming an executive style Management Board.
- Under Greg (Dempsey)'s continuing direction, we now have a new Corporate Office to support the operation of both the Management Board and its new subcommittees, notably the Risk Committee and the Policy Committee.
- The Corporate Office now also houses a Project Management Office who run quarterly business planning processes and weekly updates on deliverables as well as training for other staff in project management techniques.
- We are reinventing how we communicate internally and externally having established a Communications Office to augment our Press Office's efforts.
- Under the leadership of Niall O'Ceallaigh, we have outsourced operational HR so as to have a more professional HR function increasingly able to focus on strategic HR issues like recruitment, learning and development, flexible resource management and performance management using our new Integrated Business Planning Process.
- We are managing the good and bad performance of our teams. We moved from a 32% compliance record in 2012 Performance Management to 100% completion in 2013.
- We have begun the long process of enhancing our IT systems, starting with a new website for clearer communication and increased use of technology for internal communications, document sharing and working while "on the road".
- As I mentioned last year, we have redirected our Audit Committee and Internal Audit Reviews to identify vulnerabilities in more strategic areas and help us scope the remedial action.
- And this year we have begun the process of combining our former Troika management team with our MTES team to create an Economic Development and Growth Office.

These changes do not become fully operational and embedded overnight but I am very happy to see the considerable progress we have been making in such a short time. This is not just my own view. The progress, for example in the important area of risk management, was indeed positively recognised by our outgoing Audit Committee Chairman.

Reputation ReBuilding – a key mission

Like the reputation of Ireland, the reputation of the Department of Finance has taken a considerable beating. I believe things are now different. People now recognise the changes that have been taking place.

Back in 2012, like statements about being Irish when abroad, saying one worked at the Department of Finance was something people avoided volunteering to others.

That is not a comfortable place in which to drive policy innovation and implementation. It was not a comfortable place for our management team to begin the task of rebuilding morale, our reputation and belief in delivery. Remember, many of our team had been just diligently doing what they had been asked to do. Many had then jumped in to help with extraordinary efforts once the crisis hit. Frankly, it was not a comfortable place either from which to re-stabilise an economy and banking sector. I would not be truthful if I did not confess to a very considerable degree of reluctance myself at taking on the task and the reputational risks of same, back in 2012.

More worryingly, for you as the Public Accounts Committee and for us as a management team, hiring discussions during 2012 and early 2013 shared these same reputational risk concerns. The Department and even the broader public sector had gone from being a "go to place" to work to being a place people preferred to avoid. That was not the ideal starting place for our new management team and broader staff to begin the hard job in hand during 2012. I would ask you, though, to review our teams' output against this real backdrop of the time and in future continue to be supportive of ways in which we can continue to improve, be innovative, audacious in setting our targets, and attract the best available talent to our public sector.

Rebuilding a Strong Team

Like we have seen has been the case with the economy of Ireland, the fundamental foundations were present in the Department for a rebuilding exercise. What I found among the staff in the Department was a deep commitment to the job at hand and a willingness to go beyond the call of duty to devote time and energy to the task.

There was also an acknowledgement at all levels throughout the Department though that it was necessary to deploy more investment in the people, in the systems and in the embracement of modern management techniques which might have ensured a more robust warning system and associated remedial action.

There was also an acknowledgement that there was a need for additional skills and resources especially to fight the extent and nature of the challenges facing us. Despite misconceptions among some of the public, thanks to a determined recruitment campaign (including many pro bono assignments to meet short term needs), we no longer have a static closed team and have also begun to plan for future expected departures. Over 100 new people have been recruited into the 300 or so Department staff since 2012 supplementing and enhancing the existing teams. Many of our own team members have been refocused and trained allowing them to compete for new positions and promotions but only where they were the best person for the job. We quickly instituted a rule that positions of Assistant Principal and above were to be filled only with competitions open to the public as well as internal staff where possible. All of this has allowed us to set the bar even higher for what we want to achieve.

Putting Stakeholders First

What I'd like to highlight for you today in the time that remains is how we as Department officials have begun the job of restoring the Department's capabilities and reputation by putting stakeholders first. During or after our engagement today, I welcome your further thoughts about how we might do more.

Learning the lesson to become a Stakeholder-focussed Department has guaranteed the Department has started to become a more open and modern one.

Many more changes are set out in Section 3 our 2013 Annual Review.

Government and Oireachtas

Of course, the Government and Oireachtas remain amongst our most important stakeholders. As well as implementing the Programme for Government, we have also tried to reinvent the way in which we interact with the Government and the Oireachtas, including with important committees such as your own, sharing much fuller information and analysis to enable better challenge to our own views as we develop policy advice.

We cannot be afraid of fair challenge to our own thoughts and more importantly not be afraid if appropriate to modify our own advice to the Minister taking into account new perspectives or arguments brought to our attention.

Our own Minister has led the initiative of enhanced engagement with the Oireachtas. For example, he now appears with officials before the Oireachtas Committee on European Affairs ahead of every ECOFIN. John, our new Chief Economist, and his team also recently appeared in front of the FinPER Committee to brief them on Ireland's Stability Programme Update before it was formally submitted to the European Commission.

But achieving what we would like to ultimately achieve will also require a quite dramatic transformation of the way in which information is handled and stored in the Department. Before that job is completed, quite considerable and frankly at times expensive investment in technology may be required to do same. I would urge you in the future to be supportive of my successor as that job is continued and the right expertise and technology to do so is engaged. The quality of information on which we have to base our decisions, while much improved in recent years, is still very much below what I would consider to be an optimum level and to get there will require considerable further investment of technology and time. We are a long way away from being able to data mine the wealth of information present across other organs of government.

A mindset change is however one of the first things to change in terms of a willingness to share information and break down silos and improve communication flows. There we are making progress. But that is not all that is required. Sharing has to be efficient and easy too and work across all government departments.

A small measure of the efficiencies we can and need to secure is well illustrated by one little success from 2013 in the matter of Parliamentary Questions with which the deputies will be familiar. Our new automated process means the 2013 experience of 5,866 paper based files physically travelling around the Department for review and approval is no longer a factor of our work in 2014.

While the task ahead is yet considerable, the road is now mapped out and progress already is significant. Given the scepticism at large about the Department in 2012, we were particularly pleased and appreciative of the public acknowledgements in 2013 of our more recent efforts, for example when the Taoiseach recognised the work of the Department's officials during his speech on the Budget in October of last year and again in connection with the promissory note negotiations. And indeed the positive comments made by many of you at my last meeting here was welcome and indicative of how we are improving our stakeholder engagement. I might take the liberty to point out the obvious - these recognitions when a job is well done are very important to rebuilding morale in the public sector to where it needs to be!

Wider Public Service

As a central Government Department, we are also acutely aware of the leadership role we must play across the wider public service, including internationally.

In a period where the challenge is to do more with less, closer collaboration and team-work with our colleagues across other Government departments and agencies and the private sector is critical. We have tried to lead from the front. Our efforts include:

- Under John Hogan's direction, taking the initiative to set up and chair the cross-governmental State Mortgage Arrears Steering Group to drive coordinated policy development in this key area for the lives of an over-indebted public. I want to particularly recognise the way John led by example in embracing not just in his own unit but in this wider framework our own newly created PMO methodology to track action points and deliverables there to report them and progress to the relevant Cabinet Sub-Committee;
- Setting up and Chairing a similar SME State Bodies Working Group (and associated broader consultation group) to identify and drive measures to increase credit levels for economic and employment growth;
- Under the direction of Paul Ryan, driving a number of shared services projects and volunteering Senior Responsible Officers (SROs) for the Civil Service's Payroll Shared Service (PRSS), the Banking Shared Services Project and the Financial Management

Shared Service projects which, respectively, aim to deliver savings and better service for the Irish taxpayer;

- Playing a leading role in the Clearing House Strategic Group to develop opportunities for growth in International Financial Services;
- Leading the preparation of a Medium Term Economic Strategy, the post troika medium-term forward-looking strategy we had called for as early as 2012;
- Ensuring our support for the annual Action Plan for Jobs was not just about tax measures and included broader analysis like for example chairing the Activating Dublin public and private sector group to identify ways to further enhance Dublin as a global location for tech start-up companies.
- Setting up and chairing a "Financing the State" Steering Group to progress alternative funding mechanisms for investment in infrastructure from the State's upcoming priorities.

As well as domestic engagement, the secondment of staff from the Department of Foreign Affairs and Trade in my Department has resulted in far closer and more effective ties with our Embassy network than in 2011. Our International Economic Relations Unit not only now arranges all of our international visits with the relevant ambassadors and their staff but also holds weekly video-conferences with key embassies to ensure Ireland's economic messages are consistently delivered across the world and our economic priorities reflected in the diplomatic efforts of our global colleagues.

We have also stepped up to the mark in Europe. My colleague Aidan Carrigan, Head of our Financial Services Policy area has been appointed Vice Chair of the European Financial Services Committee. I have also been honoured to co-chair an Expert High Level Group exploring pan-European capital markets ideas for Financing for Infrastructure and SMEs and to present our conclusions to the European Finance Ministers and Governors at the Informal Ecofin meeting in Athens.

Industry & Social Pillars

I have heard it said that the Department was closed to views from industry and the social pillars. This was not true.

Every year, for many years now under Derek Moran's direction the tax policy unit of the Department has led the way in open consultation with stakeholders and receives budget submissions from a wide range of stakeholders including the industry and social pillars. The Department's Tax Strategy Group (TSG) has a well-established record of facilitating in-depth consultation in assessing taxation options. Papers from the TSG are available on the Department's website now along with a much greater range of documents across all our divisions.

But we recognised a lot more could be done.

Firstly, to ensure this was done transparently, I have published periodically my own diary in full detail. In a further break from tradition, we also identified on our website by name and profile the individual management team leader dealing with each policy area to facilitate consultation and promote accountability.

Perhaps, the most obvious example though of the Department's new way or working was our commitment that enhanced engagement with such stakeholders would underpin the preparation of the Medium Term Economic Strategy. We did not restrict ourselves to wide-ranging consultations with other Government departments and economists. We also engaged bilaterally and in groups with other domestic and international bodies, NESC, other administrative structures and sectoral representatives and businesses.

We now think differently about how we approach tasks. In a new departure, but reflecting how the best ideas are developed in other spheres, we engaged the views of design engineers in how we might further enhance the process of policy development. A team from Pivot Dublin worked with our own team and their combined output included running a 'Young entrepreneurs event' to specifically seek the views of a more diverse group of entrepreneurs, specifically, female entrepreneurs, young entrepreneurs (mainly under 35) and 'new Irish' entrepreneurs and students. Our earlier consultations had already highlighted to us how much and how quickly Irish society was changing and so soliciting these new views was also key.

Academia

We have also led the way in breaking the taboo that the views and analysis of identified civil service officials should not be shared in public. This must be further encouraged. It is good for the development of our own talent and it helps better inform other academic thought about shared problems.

Officials have published a number of academic papers that have been published in various academic publications. I'm proud that the Department has led the debate on important issues. For example, over the past year papers have been published on issues such as the Patent cliff, the R&D tax credit and the structure of Ireland's tax system. We have been also active in sharing information to help inform and participating ourselves in debates about entrepreneurship and other industrial policy matters, taxation, regional planning, housing and construction policy, the problems of excessive debt, and shifting trends in how to fund economic growth. Given the need for quicker analysis of the mortgage arrears situation, we took the initiative to create and make available to the public our own time series of information on a higher frequency basis, as we had done in 2012 with deposit numbers to help stabilise that situation.

The Department was once viewed as not receptive to outside views. I would say this is certainly not now the case, if it ever was. For example, Des and the Shareholder Management Unit engage on a constant basis with outside advisers and hear their views. The Economics Division now invites a number of prominent economists as a group into the

Department twice a year to share their views on the economic outlook. This process feeds into the preparation of the Department's two main sets of forecasts each year, the annual Budget and the Stability Programme Update. We also have lunch and learn sessions for staff where outside experts come in and share their views and of course bilateral discussions take place with outsiders all of the time now.

In a new initiative to encourage next generation thinking, the Department has also launched an *"Economic Policy Advancement"* prize in partnership with the Trinity Economic Forum. All 3rd level students were asked to develop a policy proposal for identified concerns of macroeconomic policy. The winner will now be offered a three-month internship in the Department over the summer months.

International Engagement

From the outset, Minister Noonan recognised the integral role international relations plays for Irish economic and financial policy.

We have opened the Department's work out to the world with our new international division, whose successful work was evident during the presidency but more discretely during the intense global diplomatic efforts around the renegotiation of the troika programme, the promissory note restructuring and the clean exit from the troika programme. Two-way international secondments and international missions led by the Minister and myself are now commonplace in the Department's quarterly work programmes. Equally, as economic policy thinking became front and centre in international investor focus, we stepped up to the plate with considerably enhanced engagement and information to support the NTMA and IDA.

Public

The public however remain our most important stakeholders.

Our Department is perhaps less public facing than others in terms of the delivery of our services.

We are conscious however of the very direct impact of our actions on all public stakeholders.

This means that we need to be fully aware at all times of our responsibility not only just to work to increase the living standards of and alleviate the impact of legacy problems for all citizens but also to make sure that we do our maximum to ensure sustainable growth for the future and avoid the pitfalls lurking ahead.

We have invested much effort into improving the communications channels we use to all, but particularly to the public taxpayer and we will continue to do more to find new means of communicating with those impacted by our actions, whether it is social media, use of video (the preferred internet communication channel) and public consultation or just a simple one-to-one conversation.

I can also say that in the Department there is greater recognition that we owe a particular duty to the public to also ensure that we do whatever we can to avoid having further failings in the management of the economy.

For that, further embedding of a culture of openness, of internal and external challenge and peer review, of risk management and robust and innovative policy formulation is key. This is not easy stuff though. It requires ensuring adequate investment to have access to the best talent and information. It means learning to listen. It means embracing an environment often lacking in organisations across the world of open, free and honest debate and mutual trust where everyone's views are well received and cheap shots avoided. It requires the nurturing of talent so as to create the leaders of tomorrow who need to be instilled with a sense of creativity to develop policies for a changing world but also a sense of conviction and courage to be able to identify the next problem and shout stop when it is needed.

I said earlier that I am proud of the team with whom I have worked. I hope you and our other stakeholders also are happier with what we have been doing these past couple of years. Along the way above, I have had occasion to mention many of the senior members of our team but it is the contribution of the other unsung members of the staff to whom real credit goes. They are the people that make all of our results a reality.

I thank for your attention and this opportunity to address you and look forward to your questions.

Number 23 of 2010

CENTRAL BANK REFORM ACT 2010

ARRANGEMENT OF SECTIONS

PART 1

PRELIMINARY

Section

PART 2

REFORM OF THE CENTRAL BANK OF IRELAND — TRANSITIONAL AND SAVING PROVISIONS

Item	Provision affected	Amendment
19	Section 2	After subsection (2), insert: "(2A) Commission Regulations (EC) No. 1287/2006[1] and (EC) No. 924/2009[2] shall be taken to be designated enactments.".
20	Section 5	Substitute: "*Establishment of Central Bank of Ireland.* 5.—(1) The body corporate formerly called the Central Bank and Financial Services Authority of Ireland is continued in existence under the name 'Central Bank of Ireland'. (2) The Bank— (*a*) has perpetual succession, and (*b*) may take legal proceedings and be proceeded against in its corporate name. (3) The Bank is required to have a seal. The seal shall be judicially noticed. (4) Except as expressly provided by this Act, the affairs and activities of the Bank are to be managed and controlled by the Central Bank Commission.".
21	Section 5A	Substitute: *"General functions and powers of the Bank.* 5A.—(1) The Bank has the following functions: (*a*) to carry out the efficient and effective co-ordination of— (i) the activities of the Bank, (ii) activities undertaken by persons who provide services to, or receive services from, the Bank, and (iii) the exchange of information between the Bank and any of those persons; (*b*) where appropriate, to represent and co-ordinate the representation of the Bank on international financial bodies and at international meetings relating to financial or economic matters; (*c*) to establish and maintain, either directly or indirectly, contact with the monetary authorities established in other countries and in territories; (*d*) whenever it thinks fit, to provide governments of, and financial institutions and other bodies established in, other countries and in territories with advice or other assistance on matters within its expertise; (*e*) the function of holding an inquiry under Part IIIC; (*f*) the function of monitoring the provision of financial services to consumers of those services to the extent that the Bank considers appropriate, for the purposes of protecting the public interest and the interests of consumers; (*g*) to provide for the collection and study of data that deal with monetary and credit problems and to publish information about that data;

[1]OJ L 241, 2.9.2006, pp. 1-25.
[2]OJ L 266, 9.10.2009, pp. 11-18.

THEME: R3

Clarity and effectiveness of the nexus of institutional roles and relationships

LINE OF INQUIRY: R3b

Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), Department of Finance and the Banking Institutions

20/02/2009

Ref: Ref. No. F9/18//73

Oifig an Aire Airgeadais

Draft Memorandum for the Government

Reappointment of Governor of Central Bank and Financial Services Authority of Ireland

1. Decision Sought

Approval to be given to:

The nomination of Mr John Hurley, current Governor of the Central Bank and Financial Services Authority of Ireland, to be re-appointed by the President as Governor of the Central Bank and Financial Services Authority of Ireland, as announced by the Minister on 8 January 2009, with effect from 11 March 2009.

2. Background/Reason for Memorandum

The term of office of the current Governor of the Central Bank and Financial Services Authority of Ireland (CBFSAI), Mr John Hurley, ends on 10 March 2009.

The Minister has stated, in his announcement on 8 January, that he was anxious that the Governor would continue in office over the coming months to ensure continuity and leadership during the current disruption in financial markets.

The Governor is appointed by the President on the advice of the Government. The current Governor was appointed by the President on 11 March 2002 following the retirement of Mr Maurice O'Connell. The tenure of office of the Governor is seven years from the date of appointment. A new Governor must therefore be appointed by the President, or the current Governor reappointed, by 11 March 2009.

3. Details of Post

Under current legislation, the Governor of the CBFSAI is also the Chairman of the Board of Directors of the CBFSAI for the duration of his or her tenure as Governor. Since 1999, the Governor is also ex-officio a member of the Governing Council of the European Central Bank (ECB).

The Governor has sole authority and responsibility for the performance by the CBFSAI of the European System of Central Banks (ESCB) functions and duties, and the exercise of the ESCB powers. All other functions and duties of the CBFSAI are vested in the Board.

In the event that the office of the Governor becomes vacant, the Board may appoint one of the Directors to act as Governor to carry out the designated responsibilities of Governor for a period not longer than three months.

The remuneration and allowances of the Governor are determined by the Board of the CBFSAI and the Minister for Finance does not have any role in this matter. The total remuneration paid to the Governor during 2007 was €368,703. Superannuation benefits attaching to the Governor's salary are in accordance with the terms of the Civil Service Superannuation Scheme.

4. Public Announcement

The Minister has already announced (on 8 January 2009) that the Government would request the President to re-appoint the current Governor on the completion of his term of office. The Minister does not propose to issue any further press statement.

5. Notification of reappointment to European Central Bank

As the reappointment of the Governor does not require any legislative change, there is no obligation to consult the European Central Bank in advance of any Government decision. It is proposed therefore that notification to the ECB will be made as a formality, once the reappointment is confirmed by the President.

6. Impacts

There are no impacts for the following: Employment, North-South, East-West Relations, Gender Equality, Poverty Proofing, Industry Costs, Rural Communities, Quality Regulation.

7. Cost to Exchequer of Proposal

There are no costs to the Exchequer arising from this proposal.

8. Observations Returned

No observations supplied

good governance and a step back to how 'Old Anglo' did these things. It was clear to me that there was a lack of expertise in the DoF regarding bank board composition and banking operations (in either a going concern or wind-down situation) and it seemed to be either a disregard for or lack of understanding of the legal requirements for an independent board.

While the existing board at that time was composed of a number of highly competent and appropriately skilled individuals, the significant challenges facing the Bank would have been better supported through a speedier decision process in the DoF that would have seen the valuable skills of the additional directors focused on the task some nine months or so earlier.

B1: c

Quality of the business model setting process

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

Shortly following my arrival in Ireland in September 2009 I met with the Minister for Finance, the late Brian Lenihan, on two occasions, both included DoF officials and one was extended into a private segment – it was during these meetings that the Minister confirmed his initial desire/preference to clean up the bank and use the clean entity to centre-post establishment of a 'Business Bank' for Ireland.

During 2009 however, the extent of the damage done in the crisis years was not yet fully apparent. The initial DoF estimate of likely damage showed a requirement to inject €1.5 billion into the bank following nationalisation. As the market deteriorated, between June and September 2009 an initial €4 billion was required. By year end, the market had fallen significantly further and the post-nationalisation Anglo Irish Bank had begun to make progress in the detail of analysing, impairing and provisioning for losses. This involved creation of a robust portfolio review / monitoring / management and NPV based decision making process along with vigorous engagement with borrowers, addressing leakage, and repair and perfection of documentation and security.

At year end 2009 a loss of €12.7 billion was produced driven by an impairment provision of about €15billion, offset by a gain of about €1.8 billion on the buy-back of a portion of the bank's subordinated debt at a discount. Not only was the Bank well and truly in crisis due to the extent of losses being revealed in the Asset Quality Reviews, but funding pressures were increasing dramatically as clients withdrew deposits across all jurisdictions.

2010 showed a progressive and continuous downward spiralling of markets and by year end further losses of €17.7 billion was taken based on a combination of impairment charges and losses on sale of assets to NAMA. 2010 also continued to see deposit flight from not only Ango, but all Irish banks, and during the 3rd Quarter it was apparent that the the scale of the systemic funding issue, combined with the devastating deterioration of the loan portfolio throughout the year, had eliminated any possibility of retaining a viable and/or sustainable 'stub' bank.

By the end of 2010 a total of €29.3 billion of State money had been pumped into Anglo in order to offset losses, provisions, and to recapitalise the Bank.

It is notable that of the €29.3 billion of State funding, €21 billion related solely to losses on the €33.9 billion of gross loans transferred to NAMA (using the NAMA valuation process which did not allow for sale price negotiation) – these losses were taken in the 2009 and 2010 accounts of the bank. No doubt there will be a public interest at a point in the future in reconciling the €21 billion of losses taken by the Bank against the actual recovery levels achieved in the work-outs by NAMA.

The business model setting process was conducted against this backdrop and, as explained in the Chairman's statement to the Joint Committee, over this period, went through a process of preparing four restructuring plans for submission to the European Commission.

A further key factor influencing the business model setting process was the deterioration of the relationship with certain officials in the DoF and the NTMA during 2010 which, in my view, was the result of a lack of banking expertise in the DoF and a lack of understanding of the Bank's provisioning challenge on the one hand and on the other hand a position taken by the bank against the NTMA's/DoF's wishes with regard to the valuation methodology used for the NAMA bonds that the Bank had received in payment for the loans it had sold to NAMA .This had an impact on the level of State funding required.

<u>Bank's loan Provisioning process</u> – there was a high degree of friction with the DoF over the huge provisioning and loss numbers being produced throughout 2009 and 2010. There seemed to be a belief in official circles that the bank was *'over egging it'*. The Bank's position was that it had to thoroughly review each individual loan and value it according to accounting and regulatory obligations – a process which, in a downwardly spiralling market, would continue to show increasing losses on distressed assets. The Bank's portfolio was exceptionally heavily exposed to property values with, I recall, more than 80 percent of the asset book linked to property held as security. The collapse of values in the three major markets (Ireland, UK/Europe, US), in some cases up to 90 percent plus, was directly correlated to reduced loan portfolio quality / value. Notwithstanding the fact that the new post-nationalisation Board and Management had absolutely nothing to do with the acquisition of any of the Bank's loans, we were viewed with mistrust by certain senior DoF officials – whether this was based on a total lack of understanding of the loss drivers or whether it simply did not suit the agenda of the DOF, I am unclear. In a discussion with a retired DoF official in late 2012 regarding reasons for the poor perception of the Bank within the DoF, I was told that in his view *"it*

went back to the time that <u>*you*</u> *were making those large losses in 2010, and the numbers just kept on getting bigger*".

<u>NAMA Bond Valuations</u> – the methodology used to value the NAMA bonds when the Bank booked them onto its balance sheet, effectively created a need for additional capital at IBRC. The methodology was based on market standard valuation principles validated with the Bank's external auditors. The DoF/NTMA pressurised the IBRC CFO and Board to use an alternative methodology that was unacceptable to the Bank's auditors and Board. The Bank was well aware of the unfortunate pressures on the State's finances at that point but was not in a position to ignore/contravene accepted valuation principles and legal requirements. This decision created a long period of conflict and friction during the course of 2010 at the same time as the various restructuring plan iterations were underway. It was a situation perhaps exacerbated by direct conflict between the Bank's Chief Financial Officer and certain DoF/NTMA officials which culminated in the CFO expressing a high level of concern over the legality of DoF proposals, his declining to co-operate based on his concerns and his walking out of a meeting in frustration.

The Bank's CFO resigned shortly after that and in his resignation letter to me stated the following:

"I have shared with you my view that although the management of the Bank has been overhauled, the system here in Ireland has not. You will be aware that I have very bad memories of the undue pressure the authorities exerted in the context of the NAMA bond valuations. I have great concerns regarding the concentration of power that the new law for the financial sector will put into the hands of the government and I do not think I will want to make myself subservient to it. I have no confidence whatsoever in the ability of government to do the right thing for the financial sector" and … "Within a very short time it seems that the new Management was seen to be part of the old Anglo in spite of the radical changes implemented within the organisation. There has been a complete lack of engagement from the authorities and decisions have come out of left field." and …"As part of the new Management team at Anglo I have seen no change dealing with the authorities to the pattern I have described. The authorities are stuck in their old ways. They do not recognise nor understand conflicts of interest."

It is notable that the valuation methodology used by the Bank was eventually accepted as correct and I understand has since been adopted generally by all Irish banks holding NAMA bonds.

The actual process pursued by the Bank in the formulation of the required plans and business model was thorough and robust. It was a fact-based analysis that utilised a combination of specialist external strategy, valuation and planning resources of top tier advisory firms. A key flaw with this process, however, was that there was not always an open and transparent dialogue between the DoF, it's advisors and the Bank on these

- Collection Review forum (Residential Mortgages)

The operations and activities of such control bodies were reflected in specific committee Charters and reported regularly up through the Board and Board committee process.

The Bank ran an active Compliance unit that regularly monitored the business and reported its findings to the Board / Board Committees independently. At the operational level, the Bank created a bespoke case management system which provided the structure needed to ensure a systematic file management / review / recovery process.

B2: a

<u>Appropriateness of property-related lending strategies and risk appetite</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

The lending strategies and risk appetite were required to conform with the European Commission's Commitments Letter detailing all commitments taken by the Irish authorities (and the Bank) relating to the wind down and work out of the merged Anglo Irish Bank and IBRC. Its worth noting the Bank was essentially not lending through the 2010 planning process and subsequent wind down. Only very limited number of small sums were advanced and in each case only where an improved NPV recovery would be achieved.

The Commitments were designed to support the Bank in its wind down process by specifying activities that could be undertaken with clients that would enhance recoveries, but also to detail activities prohibited, in order to maintain focus, momentum and adherance to wind-down timeframes.

The Bank was also required to consider and support the Minister's objectives which were embedded in the Anglo Irish Bank Act 2009. These were:

- To accelerate deleveraging of the Bank through disposal of assets to the extent possible while minimising capital impact
- To preserve the capacity of the Bank to continue its operations as a going concern in accordance with the Restructuring Plan
- To minimise cost and other risk to the Exchequer and the taxpayer
- To remedy a serious disturbance in the Irish economy by helping to restore the reputation and enhance stability of the financial system in the State
- To ensure that all Legacy issues are efficiently and comprehensively identified and addressed in accordance with the Legacy Plan
- To ensure compliance with: (i) any conditions or commitments attaching to any decision of the European Commission in relation to EU State Aid, competition law or other requirements which may arise, including without limitation the Approval

Decision; and the Programme of Support insofar as it relates to the financial sector; and

- Otherwise to ensure that the Bank operates in accordance with the public interest and in a manner consistent with Section 2 of the NAMA Act.

While consistent in nature and intent, the Commitments Letter and Ministers Objectives required careful management of potential conflicts, the most significant of which was the pace of wind down versus minimisation of capital impact. During 2011 and 2012, the Bank's deleveraging activities were ahead of targets as set in the Restructuring Plan. This was primarily due to the bulk sale of assets in the US loan book, a number of which were included at the request of the DoF and sold at sub-optimal levels under Ministerial Instruction.

The ongoing pressure from DoF / JM to accelerate the wind down well beyond the targets embedded in the wind down plan required careful assessment by the Bank and 'push back' in order to avoid increased losses and thus further bail-out funding which was deemed unacceptable and to maintain compliance with the Commitments Letter.

B2: b

Appropriateness of credit policies, delegated authorities and exception management

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

A full suite of policies and delegated authorities were put in place to ensure ongoing, efficient and safe management during the wind down process. The policies as noted above in B1:d were underpinned by 3 key framework documents but were also aligned with best current risk management practices. The policies included a wide range of controls and constraints, but also exception aspects to ensure the business could effectively respond to the wide ranging events which the Bank was required to manage on a day to day basis. Exception management was controlled within delegated authorities and reported up through the chain of command including to Board if required.

Credit Polices in particular were fully developed and modified as the Bank proceeded through the restructuring plan development to the approved wind-down stage to ensure proper alignment with objectives. The policy was descriptive and included governance frameworks, sanctioning processes, Credit Risk and Recovery Approval Policy, Committee and Process terms of reference, Codes of Conduct, Conflicts of Interest Policy, Probity Policy, 'Chinese Wall', and a wide range of Portfolio Management

34

International Economic Consultants

Indecon

Strictly Personal and Confidential
Addressee Only

Mr. David Doyle,
Secretary General,
Department of Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

2nd October, 2008

Dear David,

Well done to you and your team on all your excellent work in responding to the major challenges in the banking sector.

I attach a short one page bullet point note which may or may not be of assistance but I thought it was useful to share my thoughts which I am sending to you on a personal and confidential basis.

I have also copied this on the same basis to the Governor and to the Director General and to the Chairman and Chief Executive of the Financial Regulator and also to Kevin Cardiff.

If I can be of any assistance at any stage please just call.

Kind personal regards,

Yours sincerely,

Alan W. Gray

Indecon (Ireland), Indecon House, 4 Fitzwilliam Place, Dublin 2, Ireland.
phone: + 353 1 677 7144 fax: + 353 1 677 7417 email: mailbox@indecon.ie web: www.indecon.ie

directors: P.Mullarkey (Chairman), A.W.Gray (Managing), D.S.King, P.Muller, J.McGuire.

SUGGESTIONS ON KEY NEXT STEPS RE IRISH BANKING SECTOR

1. Determine Eligibility Criteria and Terms and Conditions

This is the immediate priority but we need to carefully assess the likely consequences.

2. Ensure Compatibility with EU State Aid Issues and Ensure Scheme is Proportional and Minimises Competitive Issues

This will be influenced in part by the eligibility criteria and terms and conditions. However, I thought I would share some possible other ideas on this which may merit consideration as follows:

(i) In order to minimise the impact in the UK it might be worth considering restricting the guarantee on any new* personal retail deposits secured in the UK to a maximum of €100,000 per person per institution (i.e. confining new personal retail deposits to the standard €100,000 guarantee schemes). [This restriction would of course not apply to corporate deposits or to bonds or inter bank lending]. This could possibly also assist in preparing for the exit strategy, see below. If this was considered to have merit we would need to be careful how the message was handled as it could cause some confusion. Another way to achieve the same aim would be to prohibit the institutions from offering rates above a certain level to retail depositors in the UK for sums above €100,000. While such interference in commercial decisions in general is not desirable, we have to consider the need to achieve a number of objectives including ensuring no distortions of competition in order to protect against any State aid challenge.

(ii) Consideration of the merits of restricting the overall level of funds which can be obtained by each institution to a fixed upper limit.

(iii) Establishing criteria to permit certain overseas retail banks in Ireland to qualify.

3. Actions to Reduce Exposure to Loan Defaults in Individual Institutions

Once 1 and 2 are addressed this will be the key task. In this context it may be worth considering:

(i) Restricting expansion in the loan books;

(ii) Exempting from the guarantee any deposits the source of which are loans provided by the same institution, i.e. prohibiting any back to back loans/deposits from inclusion in the guarantee. (This is also necessary to prevent abuse);

(iii) Other actions to reduce exposures.

4. Exit Strategy in 2 Years

As soon as the immediate tasks are addressed we need to urgently plan for the exit strategy and this might include a scaling down of the amount of funds which institutions could borrow using the guarantee on a phased basis. This might involve an increase over time in their dependence on deposits of €100,000 or less or on ECB resources or a decline in overall lending funding permitted. We also need to consider how to facilitate any necessary structural adjustments in the sector.

---

* After the date of publication of criteria.

Cullen, Karen

From: Manley, Michael
Sent: 12 February 2008 11:32
To: Padraig ORiordain
Cc: Katie Musgrave; Cullen, Karen
Subject: FW: You better let POR have a copy of this

Attachments: Meeting with Dept of Finance- Funds legislation.doc

Padraig,

The attached note was prepared by the IFIA (Irish Funds Industry Association) following a recent meeting that they had with the Dept and you will be interested to see their report of the discussion of issues around the appropriate locus for funds industry legislation.

Michael

From: Beausang, William
Sent: 12 February 2008 11:05
To: Manley, Michael
Cc: Cullen, Karen
Subject: You better let POR have a copy of this

Meeting with Dept of Finance- ...

Meeting Between the Investment Funds Industry and the Department of Finance to discuss issues relevant to investment funds legislation

22nd January 2008

Present:	
Kevin Cardiff	Department of Finance
Colm Breslin	Department of Finance
Deirdre Power	Deloitte
Gary Palmer	IFIA
Michael Jackson	MOPs
Noel Moynihan	INVESCO
Declan Casey	IFIA

Legislative and Regulatory Responsibility for Investment Funds

Introducing the meeting Kevin Cardiff highlighted the relevant activity and responsibilities of the Department of Finance, DOF, which he noted are important when considering the appropriate Government Department which should lead on the consideration and application of investment fund legislation. Kevin noted that the DOF was the Government Department that participates at the relevant EU policy meetings e.g. Ecofin and the ESC, and it was at these meetings and around these meetings where the issues relevant to funds were discussed/considered. It was also mentioned that it was the Department of Finance attaché in Brussels to whom fund industry questions are asked and engagement requested. As the lead Department, the DOF would have a better understanding, be better engaged with the issues and challenges facing the Industry and be better placed to support Ireland's position in European discussions.

In addition, Kevin noted that the DOF is the Government Department with definite and continuous responsibility for the Financial Services industry, whereas the DETE's involvement in this area is on an issue basis or as necessary and as such the level of continuity, particularly in the longer term could be intermittent. It was further noted that, given their remit, the DOF have an ongoing and established engagement with the Financial Regulator whereas the Department of Trade and Employment, DETE, would on an ongoing basis, have less need to engage with the Financial Regulator.

Responding the Industry representatives recognised the lead role that the DOF play in terms of the European agenda and the fact the DOF w ere the lead Government Department for the Financial Services industry and as such, working with the DOF going forward had obvious benefits. However, it was noted that a significant factor, and one the industry would be reluctant to lose, was and has been the knowledge and expertise of investment funds built up within the DETE (albeit much of this knowledge is with one individual). Discussing how funds might fit within the DOF's structure the Industry representatives asked whether it was anticipated or intended that there would be a dedicated investment funds individual/unit to concentrate specifically on investment funds and investment fund issues. Kevin advised that the DOF was not structured where individuals/units would have responsibility for specific industry sectors and in fact such a structure would not be the best use of resources, as

FOR 7/36

it could potentially mean that one individual/unit may have a significant work load where another had relatively little. Kevin noted that the DOF was generally well resourced and extra resources can be made available as and when required. Furthermore it was noted that within the DOF the individual/unit responsible for engagement at a European level would also be responsible for the domestic transposition of the relevant legislation.

Further discussing Industry and authority engagement the activity undertaken and the forum provided for discussion and progression of industry relevant initiatives by the IFSC legislative sub-group and the IFSC Funds Group was noted. While the DOF participate at the IFSC Funds Group, it is typically those from the tax side and it was suggested that it might be appropriate for the relevant representative to participate at both the legislative sub-group and the Funds Group. Such participation would encourage exposure to investment funds issues while also smoothing the way for the transfer of responsibility to the DOF.

Given that many investment funds are established as corporate structures the meeting considered how, going forward, company law issues may be addressed and it was noted that it would be likely that DETE would retain some involvement for company law aspects of investment funds. However, it was agreed that this is not dissimilar to the current situation where although DETE have responsibility for investment funds legislation, there is a need to engage with other Government Departments where other departments are responsible for legislation which impacts investment funds.

Investment Funds and the Consolidation of Financial Services Legislation

Discussing the Financial Law Advisory Forum and the consolidation of Financial Services legislation project it was noted and agreed that the investment funds Industry are not a natural fit within this project. Unlike other industry sectors much of the development and activity in the investment funds industry is product focused rather than service provider driven.

Discussing proposed investment fund legislation developments it was highlighted that a consolidation of investment fund legislation was an activity that was previously considered and agreed; expectations are that following the current activity of the IFSC legislative sub-group in the company law area, that the consolidation of investment funds legislation was the next activity to be undertaken. Kevin remarked that he was unaware of this proposed activity.

Concluding this aspect of the meeting and notwithstanding the above, the funds industry are actively involved in the Financial Law Advisory Forum both to assist the work of the forum and in recognition that all consideration of Financial Services legislation can and has impacted the funds industry.

Conclusion

Concluding the meeting it was agreed that a meeting between the industry, DETE and DOF would be scheduled to conclude the discussions and bring forward the proposed activity.