An Roinn Airgeadais
Department of Finance

Minister's Brief

December 2022

Prepared by Corporate Affairs,
Department of Finance
www.gov.ie/finance

MINISTER'S BRIEF
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1. Introduction to the Department

The purpose of this brief is to give the Minister a high level introduction to the Department and a selection of the issues that can be expected to require Ministerial attention. It is not and could not be a comprehensive treatment of each of the issues highlighted. It is expected that, in due course, the Minister will seek more in depth and detailed briefing as these issues arise. The briefing is set out by Division or functional area of the Department. The structure and resourcing of the Department of Finance are subject to regular review to ensure they are sufficient to meet the Department's strategic goals.

While the document reflects the structure of the organisation at time of writing, a new Division has been established that has responsibility for considering longer-term trends and wider sectoral issues insofar as they are likely to affect sustainable economic development. The work of the Strategic Economic and Development Division will have a strong policy focus, in keeping with the Department's function of providing advice to the Minister. The Division will develop a programme of planned work across a number of areas undertaking specific projects, while also acting as a resource to colleagues across the Department, and working in joint teams as the need arises. The focus of the Division's work will be on policy-relevant analysis, such that the work of the Division clearly adds value and contributes to the Department's Strategic Objectives. The aim of the Division will be to enhance analysis and understanding of long-term and sectoral issues affecting the Irish economy and which affect the context for policy formation within the Department's mandate. The Division will act as a resource to the Department as a whole.

The Department is managed by the Executive Board and is organised into a number of Divisions and Units as follows:

John Hogan	Secretary General and Accounting Officer	
Des Carville	Lead Specialist	Shareholding and Financial Advisory Division
Oliver Gilvarry	Assistant Secretary General	Banking Division
Emma Cunningham	Assistant Secretary General	Tax Division
John McCarthy	Assistant Secretary General	Economic Division
Michael J. McGrath	Assistant Secretary General	Financial Services Division (incl. Legal Unit)
Paul Ryan	Director	International Finance & Climate Division
Gary Tobin	Assistant Secretary General	EU & International Division
Colm O'Reardon	Head of Secretariat	Commission on Taxation and Welfare
	Assistant Secretary General	Strategic Economic and Development Division

Corporate Affairs and Human Resources report directly to the Secretary General and the heads of both units are *ex-officio* members of the Executive Board:

Niall O'Ceallaigh	Principal Officer	Human Resources
Scline Scott	Principal Officer	Corporate Affairs (incl. Facilities Management Unit)

The biographical details of the members of the Executive Board follow below.

2. Executive Board

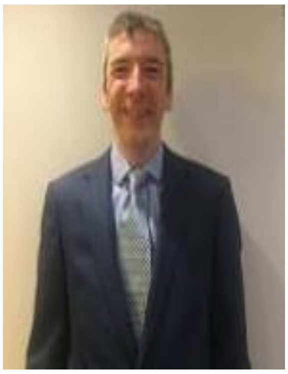
John Hogan
John Hogan is the Secretary General of the Department.

John has held a number of positions in the Department throughout his career. He was previously Assistant Secretary General with responsibility for Tax policy and prior to that for Banking Policy in the Financial Services Division of the Department.

He has worked as Financial Services Counsellor in the Permanent Representation of Ireland to the European Union and has held posts in a number of Government Departments.

Des Carville
Des Carville is head of the Shareholding and Financial Advisory Division (SFAD), which is responsible for the completion of the restructuring of the banking system and managing the State's shareholdings and investments in the banking sector.

He has previously worked for Davy Corporate Finance and KPMG. He is a member of Chartered Accountants Ireland (FCA), having trained with KPMG from 1994 to 1998, and is a Certified Bank Director with the Institute of Banking. He is a director of the European Investment Bank.



Oliver Gilvarry
Oliver Gilvarry is the Assistant Secretary in the Banking & Financial Stability Division. In his role, he is responsible for the development of policy and legislation at both a domestic and EU level on issues such as banking and payments regulation, the provision of credit and consumer protection. He has responsibility for policy development in relation to the powers and functions of the Central Bank of Ireland and the NTMA.

Prior to taking up his current role, Oliver was Chief Economist in the Department of Enterprise, Trade & Employment. He has also worked in the banking sector previously, including Lloyds Banking Group and KBC. He was also Head of Research & Economics in an Irish stockbroker and has previously worked in the Central Bank of Ireland. He is a graduate from NUI Maynooth and Dublin City University and holds post graduate degrees in Economics and Finance. Oliver is also a Fellow of the Chartered Management Accountants.

Emma Cunningham

Emma Cunningham is the Assistant Secretary General with responsibility for Tax policy. She is responsible for the development of efficient and effective taxation policies.

She was previously Assistant Secretary in the Banking Division.
Emma has held a number of positions in the Department throughout her career to date, including working in the International and EU Division and in Budget and Economic Division. She has also worked as Budget Counsellor in the Permanent Representation of Ireland to the European Union and at the International Monetary Fund.

Emma holds a PhD (History), a M.Econ.SC (Policy Analysis) and a BA (History & Economics) and has completed postgraduate training with the Institute of Banking in the areas of compliance, financial services and risk management.

John McCarthy

John McCarthy is an Assistant Secretary General and, as Chief Economist, has responsibility for the Economic Division.

The Chief Economist is responsible for the provision of advice to the Minister in the areas of economic and fiscal policy. He leads the team in a Division tasked with supporting the Minister in the areas of monitoring evolving developments, the production of short- and medium-term projections for the Irish economy, advising on fiscal rules and undertaking policy-relevant research.

Michael J. McGrath

Michael is an Assistant Secretary General with responsibility for the Department's Financial Services Division. His responsibilities include domestic, EU and international policy matters relating to Funds, Markets, Insurance, Pensions, the Government's international financial services strategy and Anti-Money Laundering/financial sanctions.

He is the Vice-Chair of the EU Financial Services Committee. He has management responsibility for the Department's internal Legal Unit and Chair of the staff/management Departmental Council. He is also a board member of the Irish Pensions Authority.

He has worked in a number of areas of the Department – economic, budget, tax, EU and financial. Between 2014 and 2017 he was the Alternate Executive Director for Canada, Ireland and 10 Caribbean countries at the International Monetary Fund Executive Board. He also previously served on the National Economic and Social Council, National Statistics Board, and a range of senior EU and OECD economic and fiscal committees. He has a BA (economics and sociological & political studies); MA (economics); MSc (taxation); Post Graduate Higher Diploma (Statistics); and is a Certified Bank Director.

Niall O'Ceallaigh

Niall O'Ceallaigh was appointed Senior Human Resources Manager in the Department of Finance in September 2011.

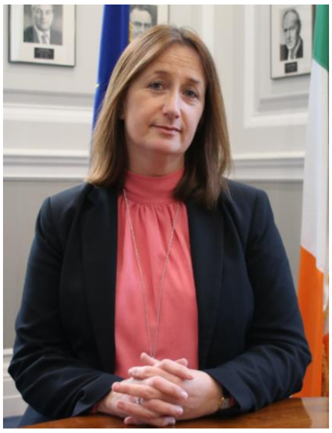
His brief is to modernise and professionalise HR services and is focused in the areas of human resource management, performance management, staff development and the driving forward of organisational change within the Department.

Dr Paul Ryan

Paul Ryan leads the International Finance & Climate Division covering the management of Ireland's relationship with, and shareholding in, International Financial Institutions. The Division also manages the Department's role in Climate Action which includes Climate Finance and Sustainable Finance.

Previously, Paul was responsible for Civil Service-wide Shared Service payroll projects which modernised and centralised these services across Government Departments and State Agencies. He also led the Department's Finance & Corporate Directorate and worked on international financial services, taxation policy, budgetary policy and debt management.

A career Civil Servant, Paul has experience across a number of other Departments: Education & Science; Environment & Local Government; and Justice. Educated in University College Cork and a Certified Bank Director with the Institute of Banking with qualifications in Corporate Governance.



Scline Scott

Scline Scott is Head of Corporate Affairs and is Secretary to the Executive Board.

She leads a team responsible for maintaining the Department's Governance Framework, coordinating the development of and monitoring execution of strategy and divisional business plans, developing an internal control framework of oversight for Bodies under the Aegis and delivery of ICT solutions capability and systems and improved information management. Scline also has management responsibility for the Facilities Management Unit and Press Office and supports the staff of the Minister's office and the Minister of State's office.

Gary Tobin

Gary Tobin is the Assistant Secretary General with responsibility for EU and International Division. He is Ireland's representative on the EU's Economic and Financial Committee and on the Eurogroup Working Group. He serves as Ireland's representative on the Board of Directors of the European Stability Mechanism and on the Board of Directors of the European Financial Stability Facility.

He was previously Assistant Secretary General with responsibility for Banking and Financial Stability and prior to that he was Assistant Secretary General in the Tax Policy Division. He is a Certified Bank Director with the Institute of Banking and is a member of the Irish Government Economic and Evaluation Service (IGEES). He edited and co-authored the book "Irish Tax Policy in Perspective", which is published by the Irish Tax Institute.

Colm O'Reardon

Colm O'Reardon is Secretary to the Commission on Taxation and Welfare. He has responsibility for the Strategic Economic and Development Division He previously had responsibility for Policy and Strategy at the Department of Health, and has served in a number of roles including as economic advisor to the Tánaiste and as an advisor in the European Commission. He studied economics at Trinity College Dublin, Cambridge University and the University of Oxford where he was also a Rhodes scholar.

Key Administrative Statistics

In 2021, the Office of the Minister for Finance processed 3488 Parliamentary Questions, 7149 Ministerial Representations, 1188 Ministerial submissions, 286 Freedom of Information requests, 82 Statutory Instruments and 4 pieces of Primary Legislation (published or enacted).

The Minister's Diary for 2021 included 1378 official entries as follows:

- Oireachtas Business (incl Leaders Questions) 119
- Cabinet Meetings 60
- Cabinet Committee Meetings 40
- Oireachtas Committee Meetings 6
- Pre-Arranged phone calls (incl. bilaterals with European Finance Ministers) 202
- Travel (National and International) 16
- External Events & Meetings (Speaking events/Interest Groups/Conferences) 326
- Internal Events & Meetings (Report launches/Business breakfasts) 238
- Media 152
- Other 219

Human Resources

As at 30 November 2022, the Department has a total workforce of 317 staff, 314 based in Dublin and 3 in Tullamore. 14 staff members are based in the following EU and International Institutions:

- **Brussels - 4 Permanent Representation to the EU and 3 European Commission**
- **Berlin - 1 Embassy**.
- **London - 1 Embassy**
- **Paris - 1 Permanent Representation to the OECD**
- **Washington – 2 IMF** The Minister for Finance nominates 2 officials to each of the Canada, Ireland, Caribbean constituency offices of the World Bank and the IMF (total 4); currently, the two officials in the World Bank are from the Central Bank and Department of Foreign Affairs.
- **London – 1 European Bank for Reconstruction & Development (EBRD)**
- **Manila, the Philippines – 1 Asian Development Bank (ADB)**

The addition of staff in overseas missions in London, Berlin, and Paris gives us a presence in the capitals of key economic partners. This has happened since the UK decision in 2016 to leave the EU.

We have a well-developed staff exchange arrangement with the Department of Foreign Affairs and Trade. Staff coming through that process are generally assigned to key missions abroad; the Permanent Representative of Ireland to the OECD in Paris was previously assigned to this Department under the exchange arrangement with the Department of Foreign Affairs and Trade.

Blended Working

The Department launched its Blended Working Policy on 1st July 2022. A key premise of the policy is to ensure business needs are met to the highest professional standards, while allowing for the maximum amount of flexibility and personal choice for our staff in relation to their working arrangements. This is an important addition to the suite of flexible working available to staff in improving their work life balance.

The Blended Working Policy is guided by the following high-level Department specific principles:

1. The Office will remain the principal workplace;
2. A 'fluid and flexible" approach to blended working;
3. Attendance patterns in the office are driven by business needs;
4. Remote working for 2 or 3 days a week (or less remote working when required for business needs);
5. There is no 100% remote working option available;
6. Anchor day(s) as necessary where team/Unit/Division would be in the office together as required;
7. Sufficient flexibility to enable staff who wish to attend the office 100% to do so.

Business Planning

The Department implements a comprehensive business planning process. Details of the Business Priorities for 2023 are being finalised and will be available shortly should you want them.

3. Detailed Briefing

3.1.2 Economic Division

The briefing prepared by Economic Division provides a high level introduction to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

Chief Economist/Assistant Secretary General - John McCarthy

DESCRIPTION:

This Division is responsible for the provision of analytical support and policy advice to the Minister for Finance in the areas of economic (macro and micro) and fiscal policy. Advice is based on economic principles, the need to ensure fiscal sustainability, counter-cyclical policy and value-for-taxpayers money.

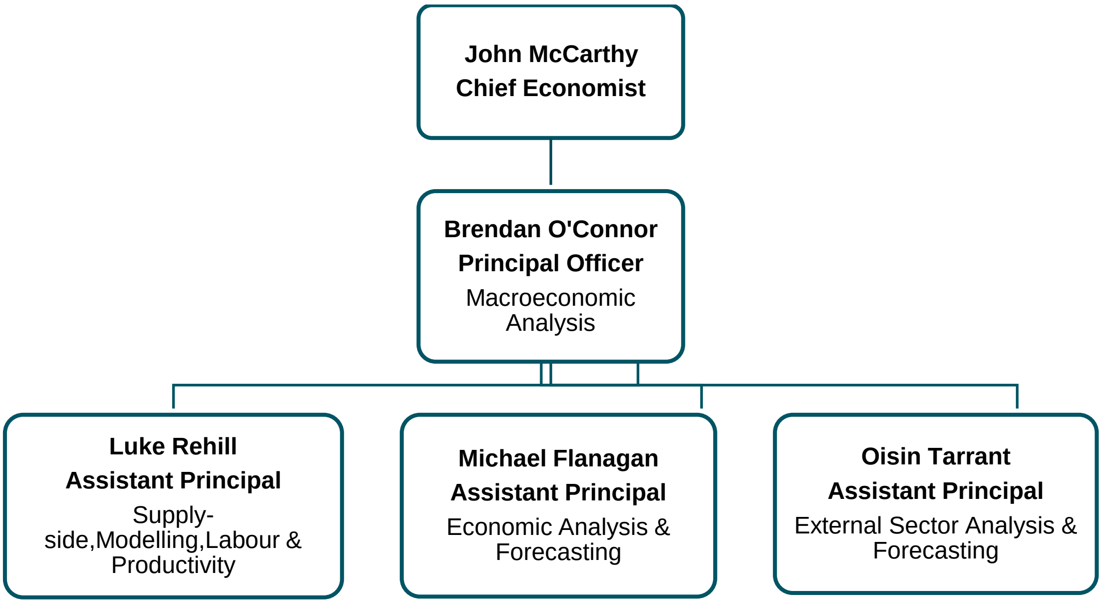
The Division produces macroeconomic analysis and research on a wide range of domestic and international economic issues. It produces two sets of short- and medium-term **economic forecasts** which underpin the medium-term budgetary strategy and the annual budget. To inform the wider public, the Division publishes an annual assessment of public debt developments and an in-depth analysis of taxation trends and vulnerabilities. Papers on topical economic and fiscal issues are also published, including a quarterly *Economic Insights* series.

The Division also deals with overall budgetary policy, including advising on the appropriate fiscal strategy, coordinating the budgetary process within the European Semester, the production of short- and medium-term **fiscal forecasts**, monitoring in-year budget performance, analysing the impact of policy on Government finances (including statistical issues) and liaising with the *Irish Fiscal Advisory Council.* The Division provides analysis of wider fiscal policy considerations, including the design and operation of fiscal rules, assessment of tax expenditures and the distributional impact of budgetary policy, as well as long-term sustainability issues, such as the costs of ageing and international tax reform.

Finally, the Division is responsible for organisation of the annual *National Economic Dialogue* and the production of the *Summer Economic Statement*.

3.1.2.1 Macroeconomic analysis and forecasting unit

Principal Officer: Brendan O'Connor



KEY POINTS

- The Department publishes two economic forecasts each year, one in the Spring as part of the *Stability Programme Update*, and the other in the Autumn alongside the Budget. Under EU law, these forecasts must be endorsed by the *Irish Fiscal Advisory Council*.
- Inflationary pressures have risen sharply over the past year and are expected to remain at high levels for the remainder of 2022 and into 2023.
- Inflation is now expected to peak in the fourth quarter of this year, and average 8.5 per cent for this year as a whole and just over 7 per cent next year.
- As inflation erodes the purchasing power of households and undermines the profitability of business, the Department forecasts an increase in Modified Domestic Demand of just 1¼ per cent for next year.
- Economic conditions in key export markets are weakening and some important sectors – that have a large weight in the domestic economy – are in an adjustment phase.
- Uncertainty is elevated, and risks to the outlook are firmly tilted to the downside.
- The labour market has rebounded rapidly from the ending of the pandemic, with well over 2½ million people in employment and a near-record-low unemployment rate of just under 4½ per cent recorded in October.
- A number of economic research projects are underway to enhance the evidence base for policy decisions.

DETAIL:

Macroeconomic Forecasts:

- The Department publishes two economic forecasts each year. The first is set out in the *Stability Programme Update* (SPU), which is submitted to the European Commission and Council in April. Under EU law, these forecasts must be endorsed by the *Irish Fiscal Advisory Council* (IFAC). The endorsement process is a robust one and adds considerable value (exchange of views, sharing of expertise, etc.) to the projections (which, in a sense, can be seen as a 'public good').
- The *Summer Economic Statement* (SES) is published over the summer. While not an EU requirement, it fulfils a number of important functions, including setting out the fiscal stance for the autumn Budget. It is followed by the *National Economic Dialogue*, which is organised by the Economic Division.
- The Department subsequently publishes its second set of forecasts alongside the Budget, which generally takes place in October. Again these are subject to the IFAC endorsement process.
- The unit is activity involved in various international, including at European and OECD level, as well as servicing a number of wider civil service for a (Senior Official Groups, Inter-Departmental Working Groups, etc.).
- To inform the wider public, the Division publishes several pieces of economic analysis and research, including a quarterly *Economic Insights* series, a regular release consisting of a number of short non-technical topical notes.

Macroeconomic Outlook

- Following the full relaxation of pandemic-related restrictions earlier this year, economic activity rebounded strongly with little, if any, evidence of permanent 'scarring' to the economy.
- This recovery has been most clearly evident in the labour market with a record 2½ million people in employment in the second quarter of this year whilst the unemployment rate was just 4.4 per cent in October.
- However, the invasion of Ukraine and Russia's weaponisation of gas supplies has triggered an exceptionally large energy price shock and undermined global economic prospects.
- Inflationary pressures have risen sharply and remained elevated over the last number of months, with an annual inflation rate of 9.0 per cent recorded in November.
- Inflation is now expected to peak in the fourth quarter of this year, averaging 8.5 per cent for this year as a whole and just over 7 per cent next year.
- Rising inflation has reduced the purchasing power of households and undermines the profitability of business, slowing economic activity generally. This is clearly evident from the fall in consumer sentiment, retail sales, and certain consumer focused services sectors in recent months.
- As a result, Modified Domestic Demand is projected at just 1.2 per cent for next year.
- Employment growth is expected to soften at the back end of this year and into the early part of next year. That being said the unemployment rate is expected to remain at low levels of in-or-around 5 per cent throughout next year.
- Overall, the central scenario is conditional on the assumption that the fallout from disruptions to energy supplies in Europe remains contained, with alternative supplies and demand management efforts preventing widespread rationing of energy supplies.
- However, given the degree of uncertainty, the margin of error around these projections is significant, with the balance of risks firmly tilted to the downside.

- In particular, the external economic environment is increasingly challenging and while (for continental EU) risks of energy outages have eased for this winter (i.e. 2022/2023) given high levels of gas storage, the risk has firmly shifted to next winter (2023/2024).

Adapting to an energy price shock

- The energy price shock represents a 'terms-of-trade' shock – Ireland is a net energy importer and so living standards will be lower than they would otherwise have been; this is unavoidable.
- Adapting to the shock involves allowing price signals to work and cushioning the impact on those least able to absorb the shock.
- On the demand side, higher prices (price signals) will lower demand by encouraging energy efficiency and conservation. On the supply-side, higher prices will boost investment in alternative supply sources (renewables).
- However, there will be some who are not in a position to absorb these higher prices – and short-term supports should be targeted towards these.

Inflation

- Inflation in all advanced economies is running at its highest rate in nearly half a century.
- In Ireland, the latest reading is 9 per cent in November.
- The key drivers are the sharp increases in energy, food and other commodity prices since the onset of the war in Ukraine, persistent global supply chain disruptions, exacerbated by China's 'zero-Covid' strategy, and the ongoing mismatch between demand and supply, including in parts of the labour market.
- The sharp rise in energy prices is now passing-through to other sectors, such as food (via fertilisers and fuel costs) and consumer goods (via higher energy inputs).
- Overall, the Department is forecasting inflation of 8½ per cent for 2022 as a whole and just over 7 per cent next year.
- However, the inflation outlook is highly uncertain with risks to the central inflation projections skewed to the upside.
- Central banks are tightening monetary policy in order to counter inflationary pressures. In the euro area, the ECB has raised its policy rate by a cumulative 2 pp since its low-point and markets are pricing in further increases.
- There is an open question as to whether there is a 'regime shift' under way – an end to the *Great Moderation* (the four-decade period during which price stability was aided by globalisation, the integration of China into the global economy, technology, etc.).

Labour Market Conditions

- The rapid rebound in the labour market is undoubtedly the most positive post-pandemic economic development. The employment level reached 2.55 million in the second quarter of 2022, its highest level on record.
- Increased labour force participation, mainly among female and youth workers, has been a key factor behind the strong employment recovery. Strong participation gains may be due to both cyclical and structural factors, such as greater flexibility afforded by remote-working opportunities.

- Despite the rapid rebound in overall employment, the recovery has been uneven across sectors, with some sectors impacted by the pandemic, such as hospitality, remaining below pre-pandemic levels of employment in the second quarter.
- Demand for labour has remained strong across the economy, including within those sectors that have lagged the recovery. As such, labour supply emerged as a constraint for some sectors as containment measures unwound.
- Reallocation to other sectors, and below trend migration, were key factors in the weaker rebound in contact intensive sectors, while global skills shortages that pre-date the pandemic continued in sectors such as ICT.
- Employment growth is forecast to continue next year, albeit at a more subdued pace in keeping with the general economic outlook; growth of 1.2 per cent (or around 32,000 jobs) is forecast, consistent with an unemployment rate of in or around 5 per cent for 2023.
- Nominal wage inflation has picked up in response to the mis-match between labour demand and supply; that said, nominal wages (at least in aggregate terms) are lagging inflation, implying falling real wages (in common with almost every other country).
- It is crucial that a wage-price spiral is avoided – this would damage economic prospects. The optimum policies to address falling real wages are a) get inflation down and b) boost productivity.

Budget 2023 Macroeconomic Forecasts					
	2021	**2022**	**2023**	**2024**	**2025**
Economic activity			***per cent change***		
Real GDP	13.6	10.0	4.7	3.3	3.8
Employment	11.0	18.3	1.2	1.6	1.8
Unemployment	15.9	5.2	5.1	5.0	4.7
MDD	5.8	7.7	1.2	3.3	3.6
Inflation (HICP)	2.5	8.5	7.1	2.4	1.8

Economic research and modelling

- The section has responsibility for providing technical economic support to the wider Department and to other Government Departments.
- As part of this role, a number of macroeconomic models are used (e.g. the ESRI COSMO model), and economists from the section are involved in joint work with the ESRI in developing and enhancing these models.
- Some of the section's technical work using the COSMO model has already been published. This work includes estimating the economic impact of the war in Ukraine for the SPU and the Budget.
- The COSMO model has also been used in a number of research papers on Brexit. It is the intention that further technical work will be published in order to highlight the analytical base upon which policy recommendations are made to Government.
- The technical economic support this unit involves the flexible use of modelling to respond to immediate public policy challenges. Macroeconomic models have been used assess the economic impact of changes in corporation tax receipts.
- The section continuously works on reviewing and improving the robustness of its forecast methodologies. Recent work in this area includes development of "**nowcast**" models for real-time forecasting (current quarter). These nowcasts primarily focus on domestic economic indicators such as modified domestic demand and consumption.

- The section has also started publishing a collection of research notes every quarter, known as the *Economics Insights* series. This provides analysis and insights on topical economic issues and developments.
- Management of the Departments Joint Research Programme with the ESRI is also housed in this section. Research projects for this year include work modelling the economic impact of long-term issues such as ageing or climate.

Modified metrics

- An indicator monitored closely by the Department as a measure of the **sustainability** and competitiveness of the economy, as well as a potential signal of future crises due to the accumulation of imbalances, is the **current account** of the balance of payments. A surplus on the current account indicates that a country is exporting more than it is importing, or alternatively, that the country as a whole is net lender to the rest of the world. A deficit means that the country is a net borrower from the rest of the world.
- However, this is indicator is heavily distorted by the MNE sector. The **globalisation** factors associated with the large MNE sector mean that Ireland's export figures are distorted (thus impacting GDP). Exports are inflated by '**contract manufacturing'**, whereby exports are recorded as Irish despite not being produced or transported here. **Imports** are inflated by the on-shoring of intellectual property and activities in the **aircraft leasing** sector, whereby aircraft are shown as Irish imports despite never crossing the Irish border. As such, the CSO publishes a **modified current account** (CA*).
- Ireland's underlying current account (modified current account (CA*)) has posted a **large surplus** in recent years (CA* of 11 per cent of GNI* in 2021), indicating that Irish residents are saving more than they are investing (and hence are lenders to the rest of the world). This largely reflects the accumulation of savings among households throughout the pandemic as well as a much reduced government deficit in 2021, owing to continued strong performance of corporate and income taxes.
- The magnitude of the surplus has been criticised in some quarters.

Productivity Analysis

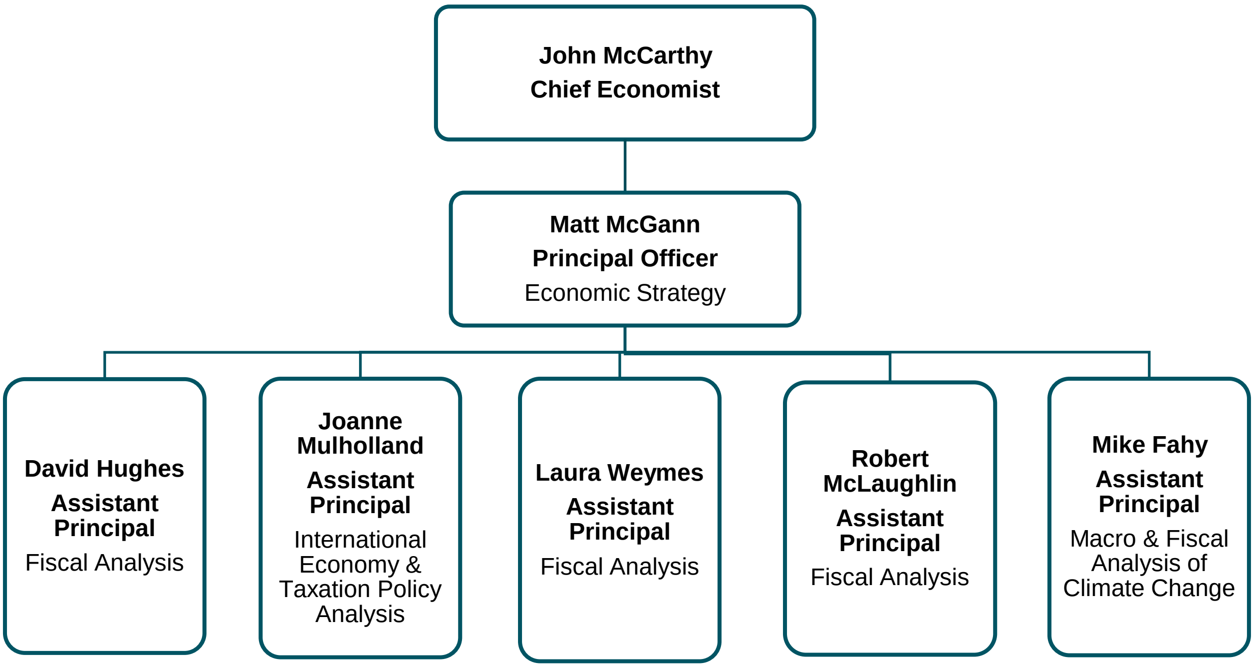
- Productivity measurement is a key element in assessing the technological advancement of countries. More importantly, living standards are ultimately enhanced through productivity gains and, for this reason, productivity is the single most important economic variable in the longer term. Internationally, there has been a structural slowdown in productivity growth and this is becoming one of the key global economic issues.
- Research by OECD demonstrates that globally, "frontier firms" continue to experience strong productivity growth; however, this is not being diffused to "laggards" as quickly as expected.
- The productivity divergence between frontier and laggard firms is believed to be one of the factors behind rising income inequality and the **fall in the labour share of income** (analytical paper recently published).
- Ireland has one of the highest levels of labour productivity among OECD countries, on a GDP per hour worked basis. However, the 'FDI effect' means that in GNI* terms, productivity levels are closer to the OECD average.
- Ireland's strong productivity performance, along with a number of other economic indicators, is built on a narrow base of highly productive, and mainly foreign-dominated, sectors such as

pharmaceuticals and ICT, and within these a small number of firms. We must therefore treat such 'aggregate measures' with caution.

- In partnership with the Department of Enterprise, Trade and Employment, the Department of Finance is a member of the Steering Group of the **OECD Global Forum on Productivity**, a body tasked by the OECD to foster international co-operation between public bodies promoting productivity-enhancing policies.

3.1.2.2 Fiscal and tax policy analysis and international economy

Principal Officer: Matt McGann



KEY POINTS

- The unit analyses and advises on the maintenance of sustainable budgetary policy, including in relation to the EU fiscal rules (the *Stability and Growth Pact*), proposals for reform of which were published by the European Commission on 9th November.
- This will be a key work-stream in the first half of next year, as the legislative package is published and worked through at official level.
- The unit has responsibility for assessing the fiscal impact of population ageing and publishes an assessment every three years, in line with the EU cycle.
- Working with the Revenue Commissioners, the team also assesses the impact of the OECD global tax proposals.
- The unit is also responsible for the Departments 'Green Budgeting' analysis, the distributional analysis that accompanies each Budget and the *Beyond GDP: Quality of Life Assessment* that is now published alongside the annual budget.
- This unit also undertakes and publishes assessments of various tax expenditures.
- Developments in the international economy, including the provision of briefing for Eurogroup/ Ecofin, are monitored in this unit

DETAIL:

Fiscal Sustainability Analysis

Fiscal Rules

- The section analyses and advises on the maintenance of sustainable budgetary policy, including in relation to the EU fiscal rules, known as the *Stability and Growth Pact* (SGP).
- In this regard, the section participates in the relevant EU working groups/committees, with the Principal Officer acting as EFC-Alternate.
- Most recently, this has led to involvement in discussions in working groups and in bilateral settings on possible reforms to the EU fiscal framework. On 9th November, the Commission published a Communication that outlined its proposals for this new framework.
- While still incorporating annual surveillance, the proposed new framework will have a greater focus on the medium-term; nevertheless, the Treaty reference values of 3 per cent budget deficit and 60 per cent debt-to-GDP ratio remain unchanged.
- New national fiscal-structural plans, with a four-year horizon, will be the cornerstone of the proposed framework.
- The new framework will have a more risk-based approach (based on a debt sustainability analysis) allowing for country-specific debt management strategies, abandoning the current debt reduction rule (which was viewed as unrealistic given the increases in the levels of public indebtedness among euro area Member States following the pandemic).
- In addition, annual fiscal surveillance will be based on a single operational indicator (net primary expenditure) anchored on a debt sustainability target, with the existing role for the structural balance largely abandoned.
- While the Communication's Communication on the new framework is dense in terms of technical detail, there remain a number of open practical questions relating to the application of the new framework. These issues will be teased out in discussion with Member States over the coming months.
- The unit will lead in both these discussions and the subsequent implementation of the new EU rules into the domestic fiscal framework.

Fiscal Sustainability

- From a broader fiscal sustainability perspective, in September, the section published analysis aiming to shed light on a major source of fiscal vulnerability, namely the overreliance on Corporation Tax receipts (*De-risking the Public Finances: Assessing Corporation Tax Receipts*).
- Using a range of methodologies, the analysis set out in this publication suggested the quantum of last year's (2021) CT receipts that are potentially at risk could be in the region of €4 to €6 billion. This figure was updated at budget-time with the level of windfall CT receipts estimated at €9 billion in 2022 and €10 billion in 2023.
- Building on this work, a new fiscal indicator, the underlying general government balance or GGB*, was published for the first time in Budget 2023. This indicator removes estimated CT windfall receipts from the general government balance to give a better barometer of the underlying position of the public finances. On this basis, the GGB moves from a projected surplus of €1 billion in 2022 to a deficit of €8 billion, while next year the €6.2 billion surplus translates to a deficit of €3.8 billion.

- Given the exposure to a fall in corporation tax, this unit will further analyse the relative merits and de-merits of adjusting the *Rainy Day Fund* to allow for a continuation beyond 2023 and whether caps on the contribution should be removed, with a view to advising Government accordingly.
- The section is also finalising the Department's 2022 *Annual Report on Public Debt*, the last version of which was published in February. This annual publication serves to raise awareness about public indebtedness and fiscal sustainability in Ireland.
- The most recent report showed that the debt-income trajectory is very sensitive to the path for nominal economic activity and the public finances remain exposed to a fall in corporation tax receipts. This analysis also suggested that the structural aspects of public debt in Ireland (a long maturity profile with majority of outstanding debt locked in with fixed prices) will limit the impact of an interest rate shock on the debt-trajectory in the short-term.
- This publication also highlights a number of longer-term structural challenges that will put pressure on the public finances. Amongst these is the impact population ageing will have on the fiscal position over the coming decades.
- At present, there are 4 people of working age for each retiree; this figure will fall to just over 2 people of working age for each retiree by 2050. This will have serious implications for the public finances, with increased outlays on healthcare, pensions and long-term care.
- By 2050, annual age-related expenditure is expected to be 8 percentage points of GNI* higher than at present– the equivalent of €19 billion each year in today's terms – illustrating the importance of structural reforms to ensure fiscal sustainability.
- To ensure fiscal sustainability and inter-generational equity issues, policy must act to mitigate these huge costs and the Department will advise on this basis.
- Government has reversed earlier decision to increase the retirement age; the Division will accordingly highlight the need for significant PRSI increases in order to fund the increased pension outlays arising from this decision
- The Irish Fiscal Advisory Council has estimated that the typical worker will have to pay an average of €1,900 in PRSI contributions in today's money in order to keep the state pension age at 66.

Taxation Policy Analysis

- This section works closely with Tax Division in providing economic analysis of tax policy issues, providing input to the Tax Strategy Group and evaluating tax expenditures.
- In addition, the section is responsible for analysis of the distributional impact of tax and welfare policy measures, in conjunction with the Department of Public Expenditure and Reform. This analysis is included in the *Beyond GDP – Quality of Life Assessment* publication on Budget Day.

Tax Expenditure Reviews

- Tax expenditures – that is spending conducted through the tax system rather than directly through public expenditure programmes – have come under increased scrutiny, reflecting the role they played in narrowing the tax base and contributing to the over-heating of the property market in the pre-financial crisis years.
- Typically, tax expenditure evaluations conducted by the section are published on Budget Day each year, with reviews of the Research and Development Tax Credit and the Section 481 Film Tax Relief completed this year.
- The Department published guidelines for tax expenditure evaluation in 2014 to promote higher standards in this area. These are now being applied to proposals for new tax reliefs (ex-ante

evaluation) and to existing tax expenditures (*ex post* evaluation). The Budget Oversight Committee has suggested that the Guidelines should now be reviewed and this work is intended for 2023.

Distributional Analysis of Budget Measures

- As reflected in the Programme for Government commitments regarding equality, over recent years there has also been an increased focus on the distributional impact of fiscal policy and the effects of tax and welfare measures on household incomes.
- This distributional analysis is carried out using the ESRI's SWITCH (**S**imulating **W**elfare and **I**ncome **T**ax **Ch**anges) tax-benefit model and the indirect taxes satellite model ITSim (**I**ndirect **T**axes **Sim**ulation), jointly developed by the ESRI and the Department of Finance.
- This year's analysis examines the measures included in the October to December Cost of Living package separately to those in the main Budget 2023 package.
- The impact of the measures is shown in nominal terms, so is not adjusted for projected inflation.
- Overall, the analysis shows that the impact of the budgetary measures is strongly progressive. Household disposable income increases by 3 per cent due to the Budget 2023 package and by 1.6 per cent due to the Cost of Living package.
- The lowest income deciles see the highest proportional gains in their disposable income. The Budget 2023 measures boost the net disposable income of those in the first three deciles by an average of 5.2 per cent, while the Cost of Living package boost them by 4.5 per cent.
- For households in the bottom five income deciles, welfare measures and the energy credit are responsible for most of the gains in disposable income. For the top five deciles, the gain is mainly from direct and indirect tax measures.
- The section also works with the Tax Division to support Equality Budgeting objectives. This work includes undertaking distributional analysis of tax policies. Along with this, the unit provides analysis of the progressivity of the income tax system for inclusion in the *Beyond GDP – Quality of Life Assessment* publication.

Economic Analysis of Climate Policy and Green Budgeting

- The section also advises on the macroeconomic and fiscal related impacts of climate change and related policy actions, including green budgeting.
- Currently as part of the whole-of-Government approach to address the actions outlined in the Government's Climate Action Plan, this section is working with other Government Departments, agencies, and stakeholders to develop the capacity to assess the economic impact of the targeted reductions in overall greenhouse gas emissions by 2030, and reach net-zero emissions by no later than 2050. This work is being coordinated through a Climate Research and Modelling Group chaired by the Department of the Taoiseach.
- In the context of this work, the section is currently engaged in setting up a joint research programme (JRP), with the Department of Public Expenditure and Reform and the Economic and Social Research Institute. The key aim of this new programme is to further develop the ESRI's macroeconomic-climate model's capacity to provide high-quality and policy-relevant research on the economic, fiscal and distributional impacts of climate policy in Ireland.
- This section is also undertaking a review of the potential impact on tax revenues as the economy transitions to less carbon intensive consumption patterns. This analysis will form an integral part of the Department of Finance's wider economic analysis of the effects of the green transition over the medium-term.

- In addition, the section produces the Department's Green Budgeting analysis of taxation policy, so that the costs of financing Ireland's climate-related commitments and delivering a zero carbon economy are embedded in the wider budgetary framework.
- In the context of engagement on the international stage, this unit engages with EU member States and institutions, and other international institutes and countries. This work includes representing Ireland on the EC Experts Group on Green Budgeting, the Coalition of Finance Ministers for Climate Action working group, along with the OECD Paris Collaborative on Green Budgeting in relation to climate developments in the areas of green budgeting, and macroeconomic and fiscal issues in relation to climate action policy.

International Economic Developments

- The unit also monitors trends and provides briefing on developments in the European and wider global economies.
- This includes working with the EU and International division on the coordination of Ireland's position on providing financial support to Ukraine through the EU's Macro-Financial Assistance programme.
- At present, the impact of the war in Ukraine is dominating global economic developments. The IMF have revised downwards the global growth outlook to 3.2 per cent this year and to 2.7 per cent next year, with a 25 per cent probability that it could fall below 2 per cent in 2023.
- The ongoing correction in the Chinese property market is also a factor weighing on global activity, with potential for larger spillovers.
- Europe is particularly affected given its proximity to the conflict and its reliance on trade with and energy supplies from Russia and Ukraine. This has led to higher energy and food prices and, along with supply bottlenecks and the post-Covid-19 recovery in demand, to the onward pass-through to broader price rises.
- While supply bottlenecks appear to be easing, inflation remains elevated. Headline inflation in the euro area did fall back from 10.6 per cent in October to 10 per cent in November, but core inflation rose to 6.6 per cent.
- While growth in the global and, indeed, European economy, is slowing, inflation remains high and more persistent. The IMF forecast inflation in the euro area to increase from 2.6 per cent in 2021 to 8.3 per cent in 2022, before falling back to 5.7 per cent in 2023.
- The combination of low growth and high inflation is sometimes referred to as 'stagflation' – in advanced economies, stagflationary pressures are building and this cycle could be difficult to break.
- Beyond the short-term, wider structural adjustments may be underway in the global economy – deglobalisation (or 'slo-balisation'), re-shoring (or near-shoring), etc. These trends will need to be monitored given Ireland's integration into global supply chains.

Revenue Impact of OECD Global Tax Proposals

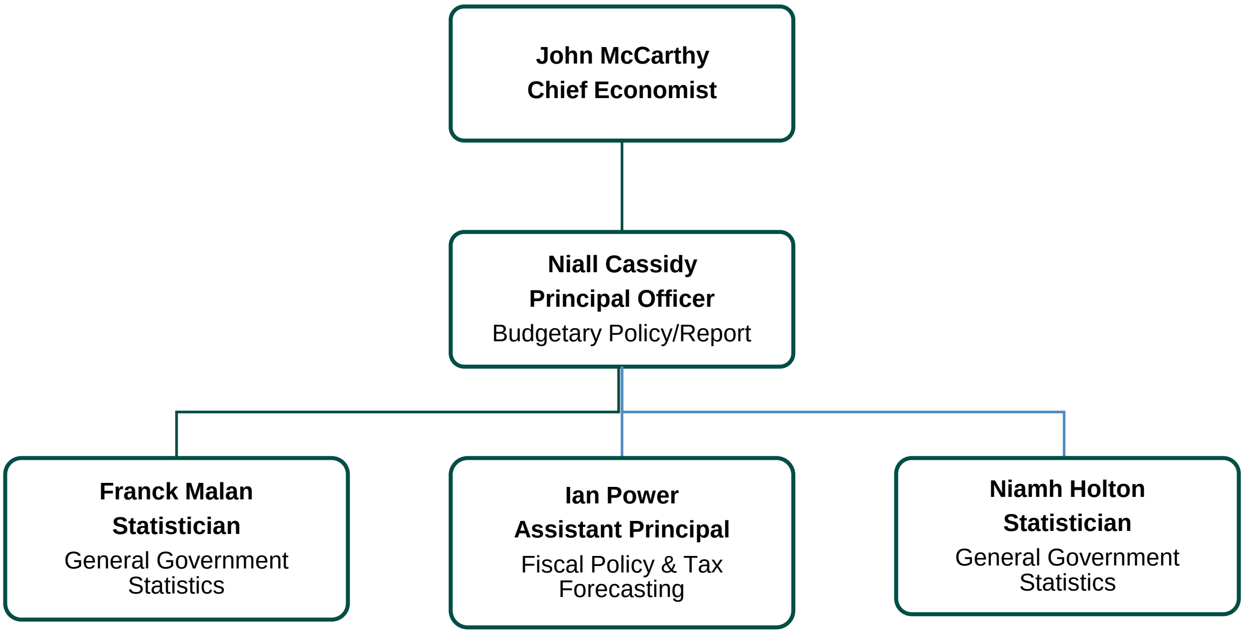
- In October 2021, Ireland, along with more than 135 other countries, signed up to the two-pillar solution to address the tax challenges arising from digitalisation.
- Detailed technical discussions are needed to operationalise the accord and this process is ongoing (see the Taxation Division's section of the brief).
- The Department's initial estimate for the reduction in Corporation Tax (CT) revenues that may arise from the reforms was c. €2 billion per annum by 2025.
- While some of the details of the rules have been published, there are many elements yet to be

agreed. Accordingly, it is not yet possible to provide a definitive estimate for the reduction in revenue that may result from these reforms.

- However, given the significant rise in CT receipts over recent years the loss in revenues may be more than €2 billion.
- As negotiations progress and more detail emerges, the Department of Finance will publish revised estimates for the decline in revenue resulting from the BEPS process in the near future.

3.1.2.3 Central Budget Office

Principal Officer: Niall Cassidy



KEY POINTS

- The Irish economy has recovered strongly from the pandemic, but inflationary increases are placing pressure on the public finances.
- Government has intervened on a significant scale to assist with the cost of living challenge, but it is crucial that policy is targeted so as to not fan the flames of inflation: fiscal policy must not become part of the problem.
- The monetary policy environment is tightening debt servicing costs are rising while Ireland's stock of public debt is one of the highest in the developed world.
- The budgetary position has returned to surplus, but this is heavily reliant on potentially volatile windfall corporation tax receipts, leaving the public finances vulnerable to a shock to the multinational sector.
- Excluding windfall corporate tax receipts, the underlying fiscal position (GGB*) is in deficit.
- It is necessary for Government to strike a balance between assisting with the challenges facing the economy today and keeping the public finances on a sustainable trajectory over the medium-term.
- To rebuild fiscal buffers, a portion of the excess corporate tax windfall will be committed to the National Reserve Fund and will not be used to fund permanent expenditure commitments.

DETAIL:

Budgetary position

- A general government surplus of c. €1 billion, or 0.4 per cent of GNI*, is in prospect for this year. The recovery in the public finances has been driven by a decrease in pandemic-related public expenditure and a robust recovery in tax receipts.
- Excluding windfall corporate tax receipts, the fiscal deficit is projected at €8 billion this year (3 per cent of GNI*)
- Ireland's public debt remains elevated. The stock of debt this year is projected at over €225 billion, an increase of €22 billion on pre-pandemic levels: on a per capita basis, this is among the highest in the developed world.
- Rolling over (re-financing) maturing debt will be more costly in an environment of rising interest rates. Any shock to the public finances that resulted in a deficit (rather than the surplus that is envisaged in the Department's baseline projections) would involve financing at higher rates than has been the case in recent years.
- Corporation tax receipts are highly concentrated and an exposure for the public finances: analysis published by the Department shows that in the region of €10 billion in receipts next year could be considered 'windfall' in nature and is therefore more at risk.

Budget 2023: Fiscal forecasts, per cent GNI* (unless stated)

	2021	2022	2023	2024	2025
General government balance, € bn	-7.0	1.0	6.2	10.7	13.7
General government balance	-3.0	0.4	2.2	3.7	4.5
GGB excluding windfall CT,€ bn	-12.0	-8.0	-3.8	1.7	4.2
GGB excluding windfall CT	-5.1	-3.1	-1.4	0.6	1.4
General Government debt ratio	100.8	86.3	81.5	78.3	73.3
Net general government debt ratio	82.2	72.9	68.9	63.4	57.8

Medium-term fiscal strategy

- The Government set out its medium-term budgetary strategy in the *Summer Economic Statement* last year. This outlined a plan to keep the public finances on a sustainable trajectory by linking core current expenditure to the trend growth rate of the economy (5 per cent) while allowing for gradual reductions in personal taxation.
- For *Budget 2023,* Government temporarily departed from this strategy in recognition of the cost of living challenge. It is intended that future Budgets will be drafted within the parameters set out in the strategy.
- In responding to the cost of living issue, a key focus of Government policy has been to pursue fiscal interventions that target the most vulnerable households without risking adding to inflationary pressures, and still ensuring that the public finances remain on a sustainable trajectory over the medium term.
- The risks to the public finances are firmly tilted to the downside. In particular, the increasing reliance on volatile corporation tax receipts are a key vulnerability.
- The Department's tax forecasts assume that €2 billion will be lost relative to baseline as a result of changes to the international tax regime.

- To mitigate the risk of a downturn in corporate tax receipts, Government has committed to transferring €6 billion in windfall corporation tax across two years to the *National Reserve Fund*.

Fiscal Policy Framework/Governance

- The Department has highlighted that the one-size-fits-all pre-pandemic fiscal rules are ill-equipped to deal with the specifics of the Irish economy.
- This view is shared by the Irish Fiscal Advisory Council, European Commission and IMF.
- As a result, a principles-based approach rather than a legalistic one, has been adopted over recent years. This aims to achieve a budgetary stance that is appropriate to the position the economy is at in the business cycle.
- The Minister for Finance has responsibility for proposing the Government Expenditure Ceiling (GEC) to Government. Once the GEC is set, the Minister for Public Expenditure and Reform is responsible for proposing the Ministerial Expenditure Ceilings which cannot, in aggregate, exceed the GEC.
- The Central Budget Office coordinates both the policy underpinning and preparations for the annual budget.
- Euro area Member States are obliged to publish their draft budget and submit their draft budgetary plan for the following year to the Commission and the Eurogroup before 15th October.
- The *Summer Economic Statement* (SES) is published over the summer. The SES is not part of the EU Semester however, from a domestic standpoint, it addresses budgetary policy issues, including the opening fiscal stance for the Budget.

Role of the Irish Fiscal Advisory Council

- The Irish Fiscal Advisory Council is an independent body established as part of Ireland's EU/IMF programme. Similar fiscal councils were established in other euro area Member States as part of legislative reforms adopted in response to the sovereign debt crisis.
- The Council's role is three-fold:
  - Firstly, it endorses (or not) the macroeconomic forecasts of the Department of Finance that underpin the Budget and the SPU.
  - Secondly, it assesses compliance with the fiscal rules (both the *Stability and Growth Pact* and the *Fiscal Compact*). In this regard, it has a role in the correction mechanism if there was a deviation from the fiscal rules.
  - Finally, it advises on the appropriateness of the fiscal stance.
- The Council is required to produce a Fiscal Assessment Report (FAR) at least once a year but in practice has produced two reports per annum, one following the SPU and one following the Budget. While not legislated for, it is normal practice that he Minister for Finance formally replies to these reports.
- The Council also produces other publications, including a Pre-Budget Statement.
- In terms of structure, the Council consists of five Members appointed for four-year terms. Two of the existing five Members are due to complete their first term by the end of next year; both are eligible for reappointment, as under the FRA 2012, Council Members may serve up to three consecutive terms.

National Economic Dialogue

- The unit leads the organisation of the annual National Economic Dialogue (NED) which is a key element of the annual budgetary framework. The objective of the dialogue is to facilitate open discussions on the competing economic and social priorities facing the Government. It usually takes place in late June/early July.

- The Dialogue is hosted jointly by the Minister for Finance and the Minister for Public Expenditure and Reform.
- It is important to stress that the NED is not in any way a form of 'social partnership' and should not be seen in this context.
- In 2022, the NED returned as a live in-person event in Dublin Castle; after being held virtually in 2021 and deferred/cancelled in 2020, due to COVID-19 restrictions.

Statistics

- The Statistics unit provides advice on the likely statistical treatment of policy proposals. As a general rule expenditure under State control for public policy purposes is classified as general government expenditure. Current issues include expenditure on housing initiatives (Land Development Agency, cost-rental initiatives) and climate/green measures.
- The classification of policy responses (expenditure, liability or contingent liability) as well as coordinated EU actions (e.g. guarantees related to the European instrument for temporary support to mitigate unemployment risks in an emergency, or SURE) will also be relevant.
- More generally, the 'off balance sheet' approach creates contingent liabilities for the State and less transparent than the 'on balance sheet' approach.
- The CSO is responsible for (and independent in) statistical classification decisions and the unit does not, and will not, seek to influence any of these decisions.
- The Statistics unit publishes the monthly revenues and expenditures of general government. This is part of the 'six-pack' requirements and provides an indication of the general government balance. A document is published on the website by the end of the month covering the previous month's position.

Other issues

- The Central Budget Office produces the monthly Fiscal Monitor (the monthly 'Exchequer Returns') which outlines developments in relation to the Exchequer position.
- It is published on the Department's website on the second working day of each month reporting on the preceding month's developments.
- The unit publishes the *Annual Taxation Report*, the purpose of which is to monitor more rigorously taxation revenue developments, in order to assess whether imbalances are emerging and to highlight structural problems such as the narrowness of the income tax base (and the associated threat to sustainability).

3.1.3 Strategic Economic Development Division

Assistant Secretary General - Colm O'Reardon

DESCRIPTION:

Over the past three decades, the Irish economy has been transformed. By any standards, the Irish growth performance in output and employment has been extraordinary, far exceeding what has been achieved in many other European countries, and has been accompanied by a major structural transformation including in the sectoral composition of output and the skills level of the workforce.

At the same time, however, a number of difficult issues persist and there are significant medium and longer-term challenges. These include long-run concerns such as the rapid aging of the population, climate change and the need to de-carbonise the economy, as well as seemingly intractable issues like housing. Other problems also present themselves, including the global slowdown in productivity growth, changes in the international tax environment and shifts in monetary policy. Taking a strategic approach to economic development requires that we think about emerging issues in advance and consider possible actions in light of our objectives and capacities.

Strategic Economic and Development Division

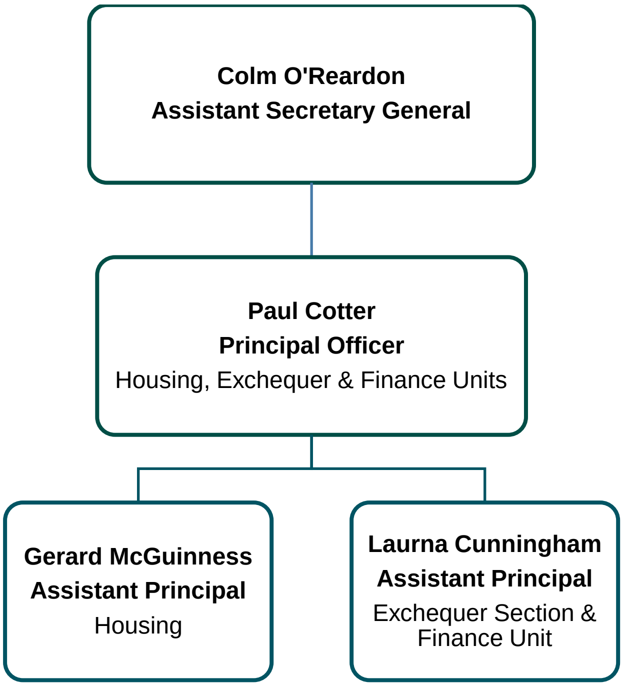
A new Division is being established that will have responsibility for considering these longer-term trends and wider sectoral issues insofar as they are likely to affect sustainable economic development. The work of the Strategic Economic and Development Division will have a strong policy focus, in keeping with the Department's function of providing advice to the Minister.

The Division will develop a programme of planned work across a number of areas undertaking specific projects, while also acting as a resource to colleagues across the Department, and working in joint teams as the need arises. The focus of the Division's work will be on policy-relevant analysis, such that the work of the Division clearly adds value and contributes to the Department's Strategic Objectives.

The aim of the Division will be to enhance analysis and understanding of long-term and sectoral issues affecting the Irish economy and which affect the context for policy formation within the Department's mandate. The Division will act as a resource to the Department as a whole.

3.1.3.1 Housing Unit, Exchequer Section & Finance Unit

Principal Officer: Paul Cotter



KEY POINTS:

Analysis of the housing sectors

- The unit undertakes analysis of the housing and broader construction sectors. It also serves as the point of contact for all matters relating to 'Housing for All '.
- While not directly within the Department's remit, developments in this sector have significant macroeconomic and fiscal implications, and also connect to the Department's role in oversight of the Banking Sector.
- Work undertaken by the unit stresses the importance of 'supply-side' measures that address the root-causes of the under-performing housing market.

Exchequer section

- The Exchequer Section manages the Central Fund transactions – a key part of the Government's financial infrastructure. The Exchequer Section is also responsible for the Paymaster General (PMG) functions of the Department of Finance, which is essentially a banking service for all 44 Government Departments and Offices with Votes.

Finance Unit

- This unit manages the internal finance and budget management activities for the Department.

DETAIL:

Housing market/construction developments

- The root cause of current difficulties in the housing and rental markets is under-supply. While demand continues to be strong; the supply response has been very weak, suggesting structural problems in the housing market
- Accordingly, correcting the imbalance in the housing market requires actions to boost supply.
- The Department has a number of key deliverables (actions) under Housing for All and the officials attend a number of cross-departmental groups. Officials from the Housing Unit are available to advise and inform the Minister, Secretary General and other senior officials on all matters relating to housing.

Management of the Central Fund – Exchequer Section

- The Exchequer Section is responsible for carrying out transactions on the Central Fund and produces the monthly Exchequer Statement and the annual Finance Accounts.
- The Exchequer Section also transacts on a number of other Funds and accounts managed and controlled by the Department of Finance, and produces annual accounts for most of these.
- The value of transactions processed by the Exchequer Section is c. €150 billion.
- The Exchequer Section processes all requisitions for credits for expenditure which must be granted by the Comptroller and Auditor General before any disbursements are made from the Central Fund.
- The Exchequer Section is also responsible for the Paymaster General (PMG) functions of the Department of Finance, which is essentially a banking service for all 44 Government Departments and Offices with Votes.
- The Exchequer Section also manages the Government Banking Services Framework.

Finance Unit

- The Finance Unit deals with internal financial management for the Department’s Vote and prepares internal financial management reports for the Executive Board.
- The Unit also prepares the annual Appropriation Account for the Finance Vote and negotiates the Department’s Estimate from the Department of Public Expenditure and Reform.
- The Unit is also involved in two Oireachtas committee hearings each year – the Finance (Select) Committee, which reviews the Estimate with the Minister, and the Public Accounts Committee (PAC), which reviews the Appropriation Accounts with the Secretary General.

3.1.4 Tax Division

The briefing prepared by Tax Division provides a high level introduction to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

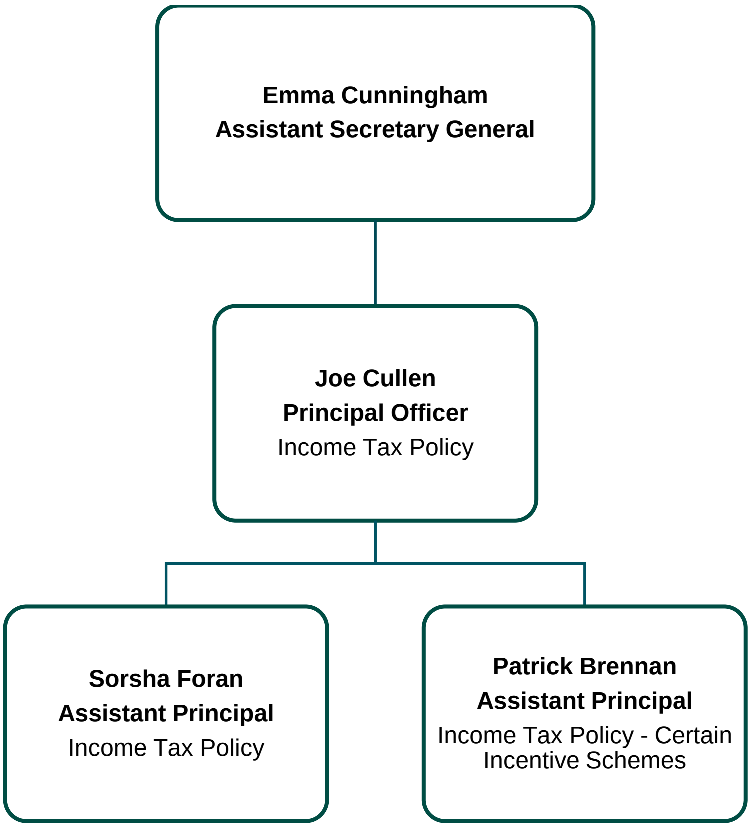
Assistant Secretary General – Emma Cunningham

DESCRIPTION

This Division is responsible for all aspects of tax policy, domestic and international. It works closely with the Office of the Revenue Commissioners, OECD and the EU on tax matters. It analyses policy proposals and drafts and prepares legislation, including the Finance Bill.

3.1.4.1 General income tax policy and reform

Principal Officer: Joe Cullen



KEY POINTS

- Income taxes are the largest annual source of revenue for the Exchequer, accounting for 37% of tax revenues forecast in 2023 (€32.1 billion total, c.€24.5 billion Income Tax, c.€5.2 billion Universal Social Charge (USC), c. €2.4 billion Other – DIRT, PSWT).
- It is very desirable that the income tax system should maintain the characteristics of stability in terms of its contribution to the total taxes collected by the State.
- Changes to the entry points of either charge may also impact on the overall stability of the tax base, noting that in 2023 it is projected that 35% of income earners are exempt from USC and 37% are exempt from Income Tax.
- Ireland has a competitive tax wedge for workers on average annual incomes and the highest marginal tax rate for incomes below €70,044 is 48.5%[1]. The highest marginal tax rate for incomes above €70,044 is 52%, rising to 55% in the case of self-employed individuals with annual incomes greater than €100,000.
- The current structure of the income tax system operates as an effective means of income redistribution, helping to reduce the comparatively high levels of market income inequality to around the EU average.

[1] Comprising Income Tax, USC and PRSI

DETAIL:

Current Income Tax Issues (November 2022)

Personal Income Tax System - Structure and potential reform

As per the Budget Day commitment, work has begun to develop a medium-term roadmap for personal tax reform taking account of the recent Report of the Commission on Taxation and Welfare, and considering a range of measures across income tax, USC and PRSI together with other personal taxation issues. This exercise will conclude ahead of the Tax Strategy Group deliberations which are likely to arise in the first half of July 2023.

In addition, the task has commenced of further analysing the impact of introducing an intermediate or third rate of income tax which was also committed to by your predecessor in his Budget 2023 address. The formal timeframe for this work was specified as being "prior to the publication of next year's Summer Economic Statement". However, practical considerations mean that the analysis is likely to conclude much sooner than that.

Income Tax Structure 2023

The Standard Rate Cut-Off Point is the maximum amount an individual can earn at the standard rate of Income Tax (20%) before entering into the higher rate of Income Tax (40%). The maximum level varies, depending on the personal circumstance of the taxpayer unit.

	Single	**Single Parent**	**Married 1 earner**	**Married 2 earners**
Standard Rate Cut-Off Point (2023)	€40,000	€44,000	€49,000	€80,000[2]

Income tax credits reduce the amount of income tax payable. The main income tax credits and their 2023 values include:

Credit	**Value (€)**
Single Person	1,775
Married or civil partnership	3,550
Employee Tax Credit (PAYE)	1,775
Earned Income Tax Credit	1,775
Home Carer Tax Credit	1,700
Single Person Child Carer Credit	1,650
Incapacitated Child Credit (Max)	3,300
Age Tax Credit	245 (single), 490 (married)
Blind Tax Credit	1,650

[2] The increase in the rate band is capped at the lower of €31,000 or the income of the lower earner.

USC Structure 2023

USC threshold: €13,000

	Rate	
USC Bands	**Employees**	**Self-Employed**
€0 - €12,012	0.5%	0.5%
€12,012 - €22,920	2%	2%
€22,921 - €70,044	4.5%	4.5%
€70,044+	8%	8%
€100,000+	8%	11%

Cross Border Worker Mobility

The tax treatment of cross border workers is an issue which became prominent during the Covid-19 pandemic where working from home became a key element in the response to the spread of the virus. There are settled rules governing arrangements in this complex area but, similar to other jurisdictions, Ireland is reflecting on whether any changes are warranted to reflect post-pandemic working arrangements.

The Department has engaged with relevant stakeholders, including the Cross Border Workers Coalition and the LEEF Shared Island Sub-Group, to keep them informed about the state of play and actions being taken. The following three strands of work are actively being pursued:

Obtain better data – there is a general acceptance that data in relation to the nature and extent of cross border working could be significantly improved. The ESRI has been commissioned to undertake a research project to obtain data. Preliminary results are expected in early 2023.

Minimise compliance burden - to the extent that individuals who are employed in NI work from home in Ireland and that this gives rise to tax compliance obligations for the employees and their employers, Revenue is currently looking at ways to minimise and simplify the administrative burden insofar as possible.

International level – the issue is relevant to many EU Member States and other jurisdictions. The Department engages in any international discussions on the policy implications of cross-border working. We also engage bilaterally with other jurisdictions as appropriate.

Income Tax incentives policy

Housing

Housing is a top priority area for progress within Government and the issue of the role that the tax system may play in support of this aim is one that is receiving increasing attention both in the context of the annual budget and more generally across the year.

Income tax supports that will apply in 2023 in relation to housing are as follows:

Help-to-Buy (HTB)

Estimated cost 2022: €175m; No of approved claims (inception to end September 2022): 35,374. Measure extended to end 2024 in Finance Bill 2022.

Rent-a-room relief

Provides an exemption from Income Tax, PRSI and USC on rent received from a room or rooms in an individual's principal private residence, where the total rent received does not exceed €14,000 per year (increased from €12,000 in Budget 2016).

Cost: €22m (2019); No. of claims (2019): 9,810.

Rent Tax Credit

A tax credit of €500 per annum will be available to those renting in the private rented residential sector who do not receive any other support from the State in respect of their rental costs. The credit will apply for each of the tax years 2022 to 2025. It may be claimed for 2022 early in 2023. A jointly assessed couple (married or in a civil partnership) may have entitlement to a credit of €1,000 per annum.

Estimated cost: c. €200m per annum; No. of claimants: c. 400,000 per annum

Deduction for retrofitting expenditure

A new tax incentive for small-scale landlords who undertake retrofitting works while the tenant remains in situ was introduced in the Finance Bill, which aims to attract and retain landlords in the private rental sector. This measure will provide for a tax deduction of up to €10,000 per property, against Case V rental income, for certain retrofitting expenses for a maximum of two rental properties. The scheme will run for 3 years.

Estimated cost: c. €21 million in 2024. This is based on an estimate of 4,000 landlords retrofitting one property each, which equates to 2.5% of the total number of landlords registered with the RTB.

Pre-letting expenses for landlords

A deduction from rental income is available for certain pre-letting expenditure on properties which have been vacant for a period and are subsequently let. This measure is being enhanced in Finance Bill 2022 by doubling the amount that may be claimed per premises to

€10,000 and by reducing the period for which a premises must be vacant before being let from twelve to six months. The enhanced measure will take effect from 1 January 2023.

Estimated cost: €0.8m (2019). No. of properties: c. 2,100. The enhancements are expected to cost c. €1m in 2023 to give a revised overall cost of c. €2m for the relief.

Living City Initiative (LCI)

LCI is a "niche" scheme of property tax incentives which applies in certain "Special Regeneration Areas" (SRA's) in the historic centres of Dublin, Cork, Limerick, Galway, Waterford and Kilkenny. The main aim of the relief is to assist and encourage people to live in those historic inner city areas designated and to allow owners and investors to claim tax relief for money spent on refurbishment and/or conversion of residential property either as income tax relief (for owner-occupied residential) or capital allowance (for rented residential).

The owner-occupier element of the relief is being enhanced in Finance Bill 2022. The deduction available to owner-occupiers is being accelerated so that the relief can be claimed over seven rather than ten years. Where the deduction cannot be absorbed in-year, claimants will have the ability to carry forward relief up to a maximum of ten years after the expenditure is incurred.

Estimated cost: €0.2m (2018); 78 successful claimants over the period from 2015 to 2018.

SME Income Tax Measures

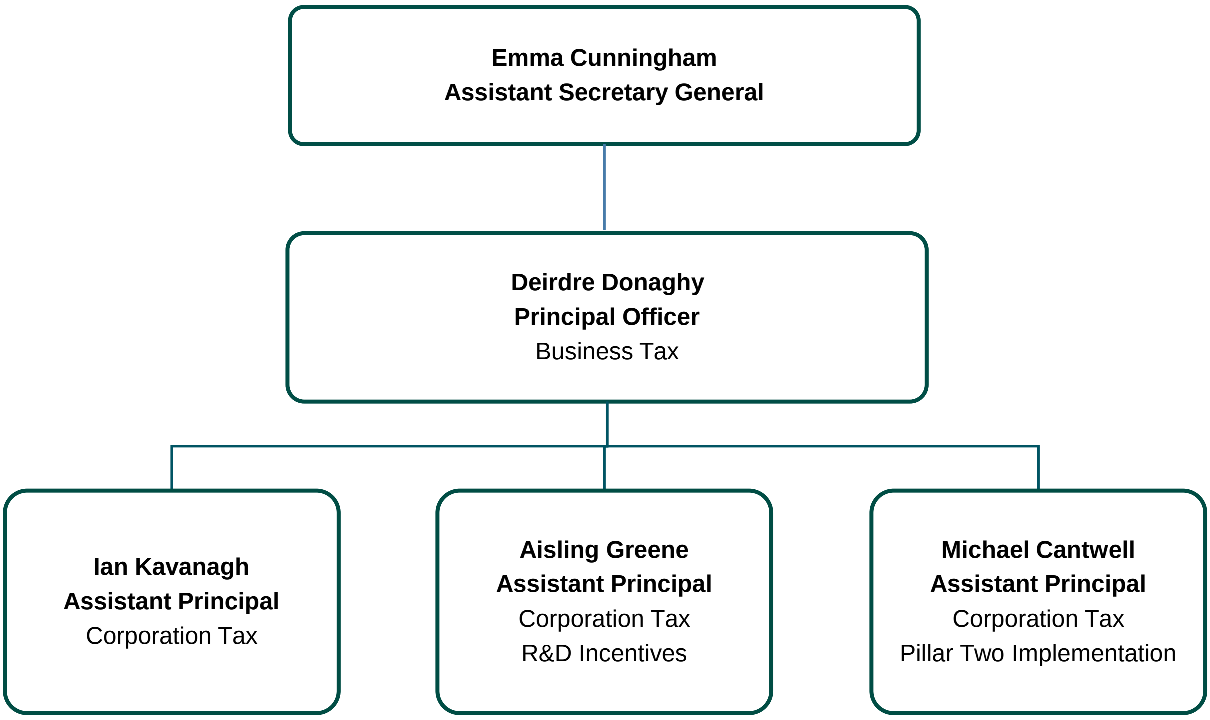
A number of incentives exist in the income tax area in support of enterprise development, including:

- the Employment and Investment Incentive (EII) (€14.5m cost in 2018),
- the Key Employee Engagement Programme (KEEP) (indicative €10m p.a. after a number of years),
- the Special Assignee Relief Programme (SARP) (€36.6m cost in 2020), and
- the Foreign Earnings Deduction (FED) (€4.9m cost in 2019).

These measures are kept under regular review with the aim of ensuring that they operate in an efficient and effective manner both from the point of view of potential beneficiaries and from the State's perspective.

3.1.4.2 Business Taxation, International Financial Services Tax Policy

Principal Officer: Deirdre Donaghy



KEY POINTS

- Corporation tax (CT) receipts for 2021 were €15.3 billion, up €3.5bn (29%) on 2020. This accounted for approximately 22.6%, or €1 in every €4, of all tax receipts for 2021.
- A significant challenge exists in the concentration of CT receipts. 53%, or €1 in every €8, of 2020 receipts were paid by the 10 largest payers (MNCs).
- Following implementation of the Pillar Two minimum effective tax rate, Ireland's long-standing 12.5% trading rate of corporation tax will increase to 15% for in-scope companies. This change is currently planned to take effect from 1 January 2024.
- The on-shoring of high-value Intellectual Property (IP) assets and consequential claims for capital allowances have become a feature of the Corporation Tax landscape in recent years. The value of IP capital allowance claims in 2020 doubled to €94.2bn. On-shoring by MNCs is driven in large part by global tax reform. The volume of on-shoring which has taken place, particularly in 2015 and 2020, has led at times to a significant distortion in Irish macro-economic indicators.
- Notwithstanding the challenges ahead, Ireland's core CT regime remains strong and competitive, but with identified sustainability and concentration risks which need to be monitored.

DETAIL:

Corporation Tax

Overview

Ireland's corporation tax (CT) regime is a core part of our economic policy mix and is a long-standing anchor of our offering on foreign direct investment. The 12.5% rate on trading income applies to a broad base, is internationally competitive and is notable for its long term stability, being unchanged since 2003. Certainty, transparency and a commitment to open engagement with stakeholders are cornerstones of the corporate tax regime.

As a result of Pillar Two of the recent OECD/G20 BEPS agreement, companies in Ireland with a group turnover of at least €750m will be subject to an effective CT rate of 15% on a country-by-country basis. This change is due to come in from the end of 2023. Legislative drafting and stakeholder consultation will take place throughout 2023.

Concentration and Sustainability of CT Receipts

Corporation tax receipts have been on a marked upward trend in recent years. CT receipts in 2021 of €15.3 billion accounted for 22.6% of total net receipts, a €3.5 billion increase over the 2020 performance. Cumulative Exchequer receipts up to end October 2022 show CT revenues of €16.2bn, up €6.6bn (41%) on the same period last year. Preliminary indications suggest full year receipts of around €21bn for the year.

This represents almost a doubling of corporate tax receipts just four years, (from €10.4 billion in 2018), and almost a six-fold increase from the low point following the financial crisis of €3.5bn in 2011. This rise is primarily driven by increases in profitability of a small number of multinational companies, primarily in the pharma and ICT sectors. As a result, the share of overall tax revenue accounted for by this revenue stream is now at historically high levels – around €1 in every €4 of all tax collected is sourced from corporate tax payments.

Projections are strong for 2023 also, but the economy is facing significant headwinds and the implementation of the OECD Two Pillar agreement could also lead to sharp reductions in CT receipts. The Department estimates that 'excess' corporation tax receipts - that is, the amount that cannot be explained by underlying drivers and may therefore be more vulnerable to a shock - could amount to €9 billion in 2022. While these receipts are extremely welcome, they cannot be depended upon to fund permanent expenditure.

Therefore, to provide a clearer picture of the health of the public finances, Exchequer returns will from now on be reported with an adjustment for any 'excess' receipts. Also, as part of Budget 2023 and to provide a fiscal buffer for future years, it was announced that €2 billion would be transferred to the National Reserve Fund this year, while a further €4 billion is to be transferred next year.

The concentration of receipts within a small number of firms (MNCs) is an additional vulnerability. 53% of corporation tax in 2021 was paid by just 10 companies. This means that around €1 in every €8 of all tax collected by the State is now directly sourced from just ten large corporate tax payers, presenting a major concentration risk. In total in 2020, the multinational sector accounted for approximately 89% of CT receipts.

There has consistently been a high level of concentration of CT receipts from the top ten companies, in the range of 35% to 45%, dating back to 2009. However, this has increased to 51% and 53% in 2020 and 2021.

There is a level of churn in the companies that make up the top ten in each year, indicating a somewhat broader base than might first be assumed.

Pillar Two – Minimum Effective Tax Rate

In October 2021, Ireland, along with almost 140 other countries in the OECD/G20 Inclusive Framework on BEPS, signed up to the two-pillar solution to address the tax challenges arising from digitalisation and globalisation. Pillar Two is the more fully-developed element of the agreement, and work is advancing on implementation.

Pillar Two provides for a minimum effective tax rate (ETR) of 15%, on a country-by-country basis, for large multinational enterprises. Implementation of Pillar Two in Ireland is expected to be primarily via transposition of the EU Minimum Tax Directive, which is still subject to final agreement.

Ireland also remains actively engaged in working party discussions at the OECD, where we are helping shape the detail of how the Pillar Two rules will work in practice. A number of items still under discussion have both revenue collection and administrative burden implications for Ireland and for in-scope companies located here. One such issue is how Pillar Two will interact with the pre-existing Global Intangible Low-Taxed Income (GILTI) minimum tax regime in the US. This is significant for Ireland given the number of US companies located here.

There will be four key elements to Pillar Two, as follows:

> <u>Income Inclusion Rule (IIR)</u>
> The IIR will impose a top-up tax on the ultimate parent entity of a corporate group based on its ownership interest in subsidiaries and branches located in jurisdictions in which their ETR is below 15%. The ETR is calculated on a jurisdictional basis, by reference to the agreed GloBE calculation rules.

Undertaxed Payments Rule (UTPR)

This is a backstop provision which allows the top-up tax to be collected in instances where the IIR does not or cannot apply. This will usually happen where the top-up tax cannot be collected from the ultimate parent entity. The UTPR will provide for collection from other group entities in the ownership chain. The UTPR is scheduled to come into effect one year after the IIR.

Qualified Domestic Minimum Top-up Tax (QDMTT)

Both the OECD Model Rules and the EU Directive allow each jurisdiction to elect to apply a QDMTT to the constituent entities of a group located within its borders. The EU Directive provides that implementation of a QDMTT will be recognised as sufficient to satisfy the requirements of Pillar Two, meaning that each jurisdiction applying a QDMTT would become a 'safe harbour' for Pillar Two tax purposes. The QDMTT safe harbour is an EU rule which is expected to be adopted globally, but the exact form is still under negotiation at the OECD.

Subject to Tax Rule (STTR)

This is a separate bilateral tax treaty rule, and is therefore outside the scope of the EU Directive. Although not yet finalised, the STTR is intended to apply in respect of certain intra-group cross-border payments, such as interest and royalties, where the payment is subject to taxation on receipt below the 9% STTR minimum rate.

If tax on the payment is below the STTR minimum rate, a taxing right (or additional taxing right, as the case may be) will be granted to the source jurisdiction. It is expected that a multilateral instrument will be developed to assist countries in adopting the STTR where required to do so.

Consideration of a move to a Territorial System for Corporation Tax

Ireland currently operates a worldwide taxation regime for corporation tax which considers all profits, both domestic and foreign sourced, of an Irish resident entity to be taxable here. Double tax relief is allowed for foreign tax paid on foreign source profits, up to the amount of Irish tax payable on the same income. A territorial system would, on the other hand, tax the income and gains earned in Ireland and exempt certain foreign-sourced income or profits of Irish resident companies from taxation in Ireland. Worldwide tax systems are now relatively uncommon and the Coffey review of Ireland's corporation tax system recommended that consideration be given to moves towards a territorial tax regime.

A public consultation was carried out earlier this year, with the responses showing broad support for the change. In his Budget 2023 speech, Minister Donohoe stated that serious consideration of options for a move towards a territorial corporation tax system will continue over the coming months, in conjunction with work to develop the multiple new elements required to give effect to the Pillar Two minimum effective tax rate in Finance Bill 2023.

Corporation Tax Reliefs

The Irish corporation tax system has been developed to focus on a low rate across a broad base, with a limited number of tax reliefs available.

Research and Development (R&D) Tax Credit

The primary policy objective behind the R&D Tax Credit is to increase business R&D in Ireland, as R&D can contribute to higher innovation and productivity. The R&D Tax Credit was introduced in 2004, and provides a 25% Tax Credit for qualifying R&D expenditure.

Due to the project-based nature of R&D activities, there can be year-on-year fluctuations in the overall cost of the credit. The cost of the relief peaked in 2015, at €708 million with 1,535 claims. The latest cost figures available for the credit are in respect of 2020, where the cost was €658 million with 1,616 claims.

Amendments were introduced in Finance Bill 2022 to align with two new international norms: the OECD BEPS Pillar Two definition of a 'qualified refundable tax credit', and related changes to US Foreign Tax Credit (FTC) regulations relating to their GILTI minimum tax regime. The existing R&D tax credit was very close to these new definitions of refundable credits, but not fully aligned, therefore changes were introduced in Finance Bill 2022 to the provisions governing payment / offset of the tax credit. No changes are being made to the quantum of credit that a company may be entitled to claim.

Knowledge Development Box (KDB)

The Knowledge Development Box or KDB is an OECD-compliant intellectual property (IP) regime, for income arising from qualifying assets such as computer programs, inventions protected by a qualifying patent, or certified inventions for SMEs. The qualifying assets must result from qualifying R&D activities carried out by the company in Ireland. A company qualifying for the KDB may be entitled to a deduction equal to 50% of its qualifying profits, resulting in an effective tax rate of 6.25% on qualifying profits. The relief is limited in scope as it must comply with the OECD modified nexus approach. The highest cost per annum to date was in 2020, at €16.3 million, with 17 companies claiming the relief.

The KDB will be impacted by the Pillar Two Subject to Tax Rule (STTR). Finance Bill therefore provided for an increase in the effective rate to 10%, to come into effect from a date to be set by Ministerial commencement order, once agreement is reached at the OECD/G20 Inclusive Framework on STTR implementation.

Capital Allowances for Intangible Assets

Section 291A of the TCA 1997 provides capital allowances (or "wear and tear" allowances) against taxable income for expenditure on the provision, for trading purposes, of specified intangible assets by companies. Among the qualifying intangible assets are: patents, designs, brands and copyright.

Claims under section 291A increased by €48 billion in 2020, to a total of €94.2 billion. The bulk of these claims (€83.7 billion) came from foreign-owned MNCs. This is a significant increase, but continues the trend of on-shoring of intellectual property by MNEs that started in 2015. This on-shoring of IP assets has largely been driven by global tax reform. Section 291A capital allowances are ring-fenced and may be offset only against profits generated by the relevant assets.

Film Relief

Section 481 TCA 97 provides relief in the form of a corporation tax credit related to the cost of production of certain audiovisual productions. The credit available is 32% of qualifying expenditure up to a maximum ceiling of €70 million – i.e. the maximum credit available per project is €22.4 million. Finance Bill 2022 provides for the extension of the relief from its current end date of 31 December 2024 to 31 December 2028.

Finance Act 2018 introduced the Regional Film Development Uplift. The Regional Uplift is a short-term, tapered uplift for productions being made in areas designated under the State aid regional guidelines. The Regional Uplift is a short-term, tapered measure which is being phased out on a tiered basis. The uplift was available at a rate of 5% in 2019, 2020 and 2021; currently stands at 3% in 2022; and will fall to 2% in 2023. The uplift will then cease from 2024 on.

Tax Credit for Digital Games

Finance Bill 2021 provided for the introduction of a new tax credit for the digital gaming sector. The relief is in the form of a corporation tax credit related to the cost of development of certain digital games. It was introduced subject to a commencement order, pending State aid approval. The credit available per digital game will be 32% of qualifying expenditure up to a maximum of €25 million.

In September this year, the European Commission provided State aid approval, and the relief was commenced in November following the signing of both the commencement order and the regulations.

Commission on Taxation and Welfare – Review Recommendations

The Commission on Taxation and Welfare recommended that consideration be given to reviews of two areas relevant to corporation tax:

- Section 110 TCA 1997, which sets out a regime for the taxation of special purpose companies set up to securitise assets.
- Real Estate Investment Trusts (REITs) and Irish Real Estate Funds (IREFs).

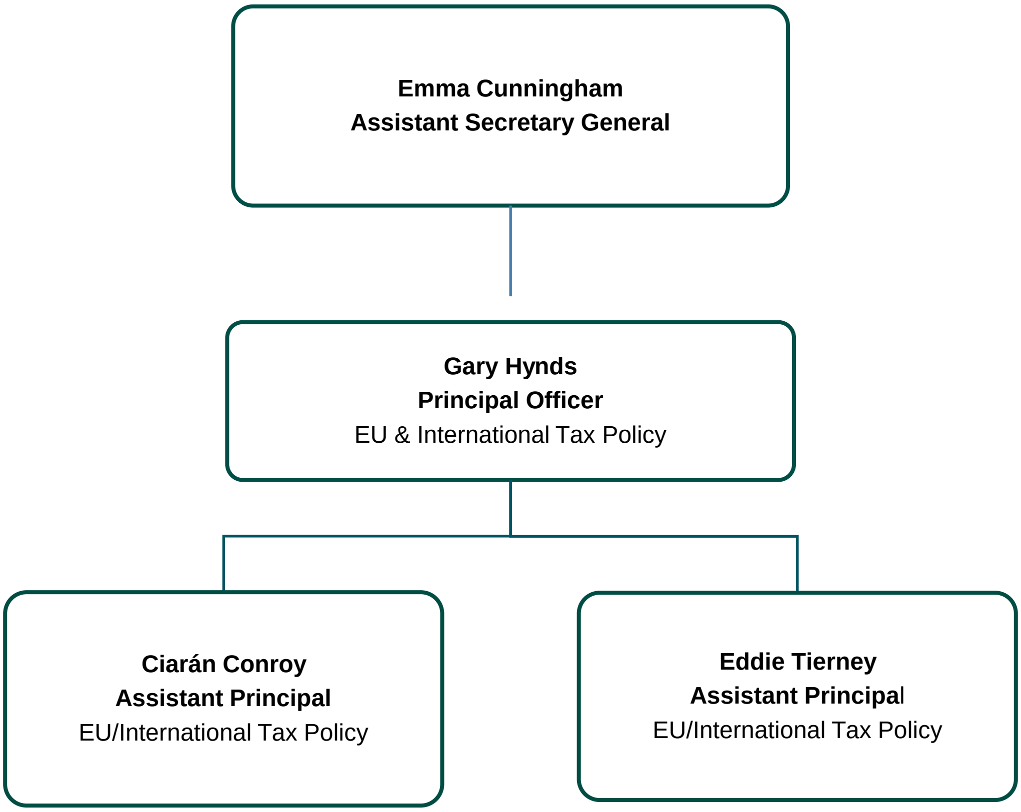
Brexit

Since 2010, the UK have competed strongly on corporation tax to attract foreign investment. This had included plans for the lowering of the corporate tax rate to 17% by 2020. However, this plan was reversed and the rate currently remains at 19%, and is set to increase to 25% from April 2023 for profits in excess of stg£250,000.

While the UK has more scope to introduce certain tax measures post-Brexit, the ability to set their own tax rate would have applied in any case. Additionally, the UK remains committed to the OECD BEPS project and to addressing harmful tax practices.

3.1.4.3 EU and International tax policy

Principal Officer: Gary Hynds



KEY POINTS

- The International tax policy section represents Ireland's interests in a variety of international fora, primarily at the EU and the OECD.
- At the **OECD** a series of proposals continue to be discussed with a view to amending the international tax framework to provide for the challenges brought about by the digitalisation of the economy. In October 2021, the Government took the decision to join with 136 other countries on a two pillar agreement. The OECD is progressing with the detailed development of this agreement to be implemented in 2024. Pillar One seeks to reallocate taxing rights to market jurisdictions and Pillar Two will see the introduction of a minimum effective tax rate of 15% for large corporates.
- The **European Commission** are working on a number of tax proposals. Active files currently under discussion are UnShell which aims to tackle the misuse of shell companies for tax purposes, and DEBRA which seeks to incentivise the use of equity rather than debt as the source of business funding in the EU. Further proposals will launch shortly including BEFIT (Business in Europe: Framework for Income Taxation) which will again see the Commission propose moves towards a common tax rulebook and a mechanism for allocating taxing rights between Member States.

- The **Corporation Tax Roadmap**, published in 2018 and updated in 2021, sets out the significant actions that Ireland has taken, and continues to take, to ensure that our corporation tax system remains competitive, fair and sustainable.

DETAIL:

International Taxation

OECD BEPS 2.0 – Addressing the Tax Challenges of Digitalisation

The OECD BEPS (Base Erosion and Profit Shifting) reports aimed at tackling aggressive tax planning and harmful tax practices were agreed in October 2015.

While the BEPS project is largely completed, taxation of digital companies led to a focus on digital tax. After years of turbulence the OECD reached a historic agreement on a two pillared solution to address the challenges brought about by the digitalisation of the economy in October 2021.

The Government, in October 2021, took the decision to join with 136 other countries on a two pillar agreement to create a new international tax framework comprised of two pillars:

- Pillar One will see a reallocation of 25% of profits to the jurisdiction of the consumer. Scope is confined to multination groups with turnover in excess of €20 billion annually. Residual profit is profit greater than 10% of turnover. The threshold will reduce to €10 billion after 7 years.
- Pillar Two will see the adoption of a new global minimum effective tax rate of 15% applying to multinationals with global revenues in excess of €750m.

While Pillar Two will be implemented in Ireland largely via an EU Directive, Pillar One will be implemented largely via a Multilateral Convention.

Vital and intensive technical work is ongoing at the OECD and officials from the Department, together with officials from Revenue, are diligently engaged in every aspect of these discussions to ensure that Ireland's interests are being protected and that the final provisions effectively implement and mirror the October agreement.

It is expected that implementation of the agreement will bring much needed stability to the international tax framework.

Pillar One

Pillar One applies to the biggest and most profitable Multi-National Enterprises (MNEs) and reallocates part of their profits to countries where they sell their products and services. Approximately 100 MNEs are in scope globally. Pillar One will come at a cost to Ireland.

A Multilateral Convention is being developed through the OECD to facilitate implementation of Pillar One. It is hoped this will be open for signature from mid-2023, it will take effect in 2024 once a critical mass of jurisdictions have ratified the Multilateral Convention.

Pillar Two

Ireland remains actively engaged at the OECD where we are helping shape the detail of how the Pillar Two rules will work in practice and to ensure that it is fully and fairly implemented by all countries. Pillar Two will be implemented in Ireland largely via the proposed EU Minimum Tax Directive (see section 3.1.3.2 on Business Taxation and International Financial Services Tax Policy for further detail).

Technically the Directive is agreed, but not at the political level. Currently one Member State has not signalled agreement, but it is possible that agreement could be reached at the December Ecofin meeting.

Cost of the Agreement

The estimated cost of joining this agreement was previously calculated to be in the region of €2 billion annually [redacted], however, it remains very difficult to accurately estimate the impact.

Redacted under Section 29(1)(a) and 33(1)(d) of the FOI Act 2014.

As corporation tax receipts have increased significantly in recent years, proportionally the cost of the agreement will rise. However, some of the detailed technical work that will ultimately decide the overall cost of the agreement remains ongoing. In particular, key elements of Pillar One of the Agreement have yet to be finalised such as the Marketing and Distribution Safe Harbour and its interaction with the Elimination of Double Taxation aspect of Amount A, the treatment of withholding taxes, and the withdrawal of digital services taxes and other similar measures.

Equally with Pillar Two there are outstanding issues particularly the co-existence of GILTI which is the US minimum tax regime.

European Commission tax plans

The European Commission outlined its intentions regarding taxation in both the short and medium to long term in its Communication on Business Taxation for the 21st Century (May 2021).

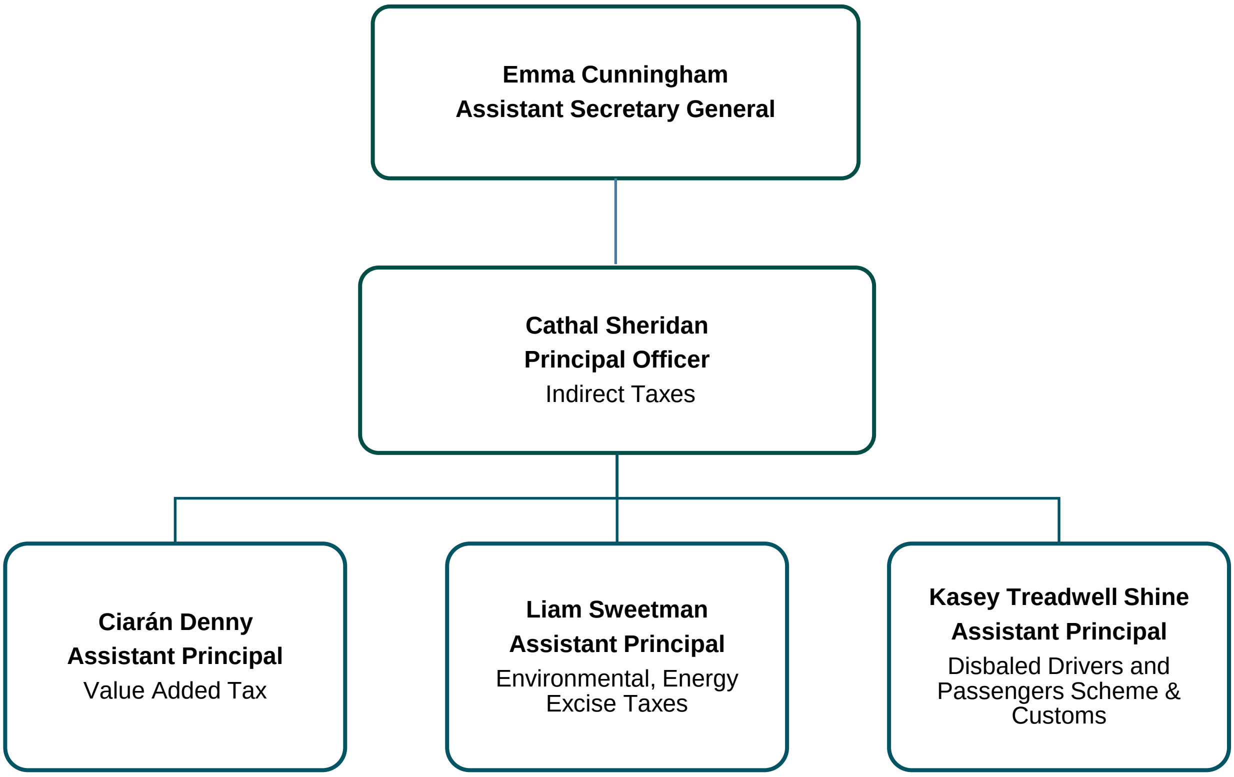
Since then at an EU level a range of tax proposals are under active discussion or consideration, these include the legislative proposals for (Un-Shell) setting out union rules to prevent the misuse of shell entities and (DEBRA) creating a Debt Equity Bias Reduction Allowance.

Further proposals are expected in the first half of 2023 for (BEFIT) Business in Europe: Framework for Income Taxation which will again see the Commission propose moves towards a common tax rulebook and a mechanism for allocating taxing rights between Member States. (SAFE) is an expected proposal for a Directive to tackle the role of tax enablers/advisors that facilitate tax evasion and aggressive tax planning in the EU.

We are engaging constructively on the policy and technical details of EU Commission proposals and seek through unanimity to find balanced solutions for 27 Member States with differing taxation systems. This is important for a level playing field.

3.1.4.4 Excise duties, customs issues, value added tax, EU and national indirect taxes, and associated tax policy issues

Principal Officer: Cathal Sheridan



KEY POINTS

- Indirect taxes made up 33% of all taxes collected in 2022. Recent Budgets have provided for increases in Energy (carbon) taxes, vehicle taxes, as well as annual increases in tobacco products tax.
- The increased focus on climate change, with the publication of the Climate Action Plan and the Climate Action and Low Carbon Development Act, has placed a greater emphasis on targeted tax measures to effect changes in behaviour to decarbonise the economy and to meet our binding 2030 targets. The 2020 Finance Act legislated for a trajectory of annual increases in the rate of carbon tax from €26 to €100 per tonne of CO2, by 2030.
- This climate action focus is mirrored at European level with the European Green Deal and Fit for 55 Package, which sets out proposals for achieving 55% greenhouse gas emissions reductions by 2030. Key files for the Department in this regard are the Energy Tax Directive and Carbon Border Adjustment Mechanism.
- Proposals to replace the Disabled Drivers and Disabled Passengers scheme with a new needs-based vehicular adaptation scheme are with the Department of Children, Equality, Disability, Integration and Youth. The context for this is a broader review of mobility supports being carried out by the National Disability Inclusion Strategy Transport Working Group review.
- Appeals process expected to re-commence in January 2023 under a new Disabled Drivers Medical Board of Appeal.

DETAIL:

Indirect Tax Policy

Tax Head	2017 (€m)	2018 (€m)	2019 (€m)	2020 (€m)	2021 (€m)
VAT	13,278	14,207	15,234	12,424	15,440
Energy taxes	2,485	2,597	2,599	2,311	2,583
Alcohol	1,220	1,240	1,232	1,203	1,176
Tobacco	1,397	749	1,137	1,201	1,318
Betting	52.2	52.3	95	86.6	89.1
VRT	840	885	941	751	786
Motor tax	1,021	977	962	940	907

Value Added Tax (VAT)

Revenues, Rates and Structure

VAT amounted to approximately €15.4 billion in Exchequer receipts in 2021, or some 22% of total tax revenue. As consumer spending dropped over the course of the pandemic, VAT receipts dropped sharply, falling by €2.7 billion in 2020 before recovering strongly in 2021.

Ireland applies reduced rates of VAT to an extensive range of activities relative to other Member States, including the application of the zero rate. VAT on goods and services is subject to EU VAT law, with which Irish VAT law must comply. The VAT Directive governs large portions of VAT policy, and proposals which alter the Directive are subject to discussion and unanimous agreement at EU Council level.

Ireland applies a standard VAT rate of 23% (cars, petrol, diesel, alcohol, tobacco, electrical equipment and CD/DVDs); two reduced rates (i) 13.5% on some domestic fuel, construction, housing and labour intensive services, and (ii) 9%, which applies to newspapers and admission to sporting facilities as well as the hospitality and tourism sectors, and gas and electricity; the zero rate applies to basic foodstuff, children's clothes and shoes and oral medicines and a 4.8% rate applies to the supply of live animals; while services such as transport, education, financial services, schools and hospitals are exempt from VAT. The 9% rate for tourism and hospitality, as well as the 9% rate for gas and electricity as scheduled to revert back to 13.5% from 1 March 2023.

An agreement was reached in April 2022 which allows for greater application of zero and reduced rates for Member States. Under this proposal the Government will be reducing VAT on newspapers, defibrillators as well as certain non-oral medicines to zero from 1 January 2023.

The next update to the VAT directive relates to VAT in the Digital Age. This file will address issues such as the appropriate treatment of goods and services provided through online platforms, introducing quasi-real time reporting for VAT, and further expanding the functioning of the VAT one-stop-shop to facilitate easier cross border trade. Ireland is broadly supportive of the proposals made by the Commission but no significant discussion at Working Party level is expected until 2023.

Energy & Environmental Taxes

The main energy taxes are Mineral Oil Tax (MOT), carbon tax and electricity tax. Total receipts from energy taxes ranged from approximately €2.3 to €2.6 billion between 2019 and 2021.

An increased focus on energy taxation as a means to tackle climate change is evident on a national and international scale. The EU Fit for 55 (FF55) Package includes reform of taxation via the revised Energy Tax Directive (ETD) and an extension of EU ETS to the Building and Road Transport Sector. The ETD is the legislative framework for taxation of energy products in the EU. The revision proposal seeks to align energy taxation with the climate action ambition of the EU by removing fossil fuels subsidies and basing taxation on environmental performance of fuel products rather than volume. The FF55 also includes a proposal for a Carbon Border Adjustment Mechanism (CBAM) which is being negotiated through the ECOFIN council. The CBAM seeks to reduce carbon leakage by placing carbon price equivalent to the EU ETS allowance price on third country imports. Nationally, the 2020 Programme for Government and the Climate Action Plan look to a future economy that is less reliant on fossil fuels.

2022 Mineral Oil Tax Reductions

MOT includes a carbon and a non-carbon component. The non-carbon component is commonly referred to as fuel excise or fuel duty and the carbon component is often referred to as carbon tax. MOT rates on petrol, diesel and MGO are currently 48.3 cents, 42.5 and 11.1 cent per litre respectively. These rates currently reflect a temporarily reduced rate of the non-carbon component, which was introduced by Minister Donohoe earlier this year in light of energy price inflation. The VAT inclusive reductions amount to 16, 21 and over 5 cent per litre on diesel, petrol and MGO respectively and are due to expire on 28 February 2023.

Carbon Tax

Carbon Tax was introduced in 2009 and applies to supplies of mineral oils, solid fuels and natural gas on the basis of the carbon dioxide emitted on combustion. In line with the policy approach of the Programme for Government, a carbon tax trajectory, which provides for annual increases in the rate up to €100 per tonne out to 2030, was introduced in Budget 2020. Revenue raised from increases in the carbon tax since the year 2020 is hypothecated and allocated for expenditure on climate action and the Just Transition. The rate increase to €48.50 per tonne on 12 October for autofuels and will apply to solid and other fuels used in home heating from 1 May 2023.

Electricity Tax

Electricity Tax is an excise duty that is charged on supplies of electricity. The current rate of electricity tax is €1 per megawatt hour. There is a full relief for household usage and reliefs for supplies of renewable electricity.

Indirect Tax and Fossil Fuel Subsidies

The CSO estimates that national fossil fuel subsidies amounted to €2.2 billion in 2020 and indirect fossil fuel subsidies such as reduced rates of taxation, reliefs and exemptions were responsible for 87% of this figure. Under the Climate Action Plan, the Department of Finance is committed to undertaking a review of fossil fuel subsidies in the Road Transport Sector with a view to creating a roadmap to transition away from fossil fuel subsidies.

VRT

Vehicle Registration Tax (VRT) is a tax chargeable on the registration of motor vehicles in the State. VRT is levied as a percentage of the open market selling price (OMSP) of a passenger motor car. VRT and Motor Tax on private motor cars are currently calculated on the basis of CO2 emissions, so that motor cars with higher emissions attracted a higher tax liability.

From 1 January 2021 a new VRT table was introduced that:

(a) Uses the CO2 values from the new, more accurate EU emissions test for passenger cars, the Worldwide Harmonized Light Vehicles Test Procedure (WLTP); and

(b) Strengthens the environmental rationale of the VRT regime in line with Government commitments as set out in the Programme for Government and Climate Action Plan.

The rates were changed in Budget 2022 to further incentivise motorists in the market for a new car to make ‘greener choices’. The new rates table increases VRT rates progressively from band 9 so that high emission vehicles pay more. In recent years, registrations of low emission vehicles are growing while the market for high emission vehicles is shrinking.

Electric Vehicles

As Government policy aims to support EV uptake, there are a number of generous tax supports such as a reduced rate of 7% VRT, a VRT relief of up to €5,000, BIK exemptions, low motor tax of €120 per annum, SEAI grants, discounted tolls fees, and 0% BIK on electric charging.

Benefit-in-Kind

In Finance Act 2019 a CO2-based BIK regime for company cars from 1 January 2023 was legislated for, as to align with other C02-based vehicle taxes and international practice. From that date the amount taxable as BIK remains determined by the car’s original market value (OMV) and the annual business kilometres driven, while new CO2 emissions-based bands will determine whether a standard, discounted, or surcharged rate is taxable. The number of mileage bands is reduced from five to four. This means that higher emission vehicles will experience BIK increases versus the 2022 year of assessment, while lower emission vehicles will experience similar or lower BIK liability depending on mileage levels in an effort to encourage uptake of lower emission vehicles.

In addition to the favourable treatment for low emission vehicles in this new structure, there is currently also a BIK exemption for BEVs with an OMV up to €50,000. The current BIK exemption will continue to apply to 31 December 2022 as currently provided for in the legislation. From 2023, the original market value (OMV) reduction for BIK purposes is progressively phased out until end 2025. This extension is in support of Government policy to incentivise the transition to electric vehicles. The relief serves to reduce the OMV of the vehicle, for the purposes of determining the taxable cash equivalent, by €35,000 in 2023, €20,000 in 2024 and €10,000 in 2025.

Alcohol and Tobacco

General excise tax policy is influenced by public health policy which has been driven by high rates of excise on both alcohol and tobacco products. This includes targets to reduce consumption of alcohol to average OECD levels of around 9%, and to reduce smokers to 5% of the population by 2025. While consumption trends for alcohol have been steadily declining since 2000, Revenue data revealed a fall of 9.6% between 2019 and 2021, partially as a result of Covid-19 restrictions. Daily smoking prevalence has fallen from 29% in 2007 to its current level of 16%.

Alcohol Products Taxation

Receipts from alcohol products tax have been very consistent in recent years at about €1.2 billion per annum with a small Covid-19 related decrease in 2021 to €1,1176m. Excise is levied at a rate of €0.54 on a pint of beer (4.3% ABV), €3.19 on a bottle of wine and €11.92 on a bottle of spirits (40% ABV) and has not been raised since 2014. In Finance Bill 2022 the production threshold for the 50% excise relief for microproducers of beer was raised from 50,000 hl to 75,000 hl with the relief available remaining restricted to 30,000 hl. A similar relief was introduced for small independent producers of cider allowing 50% excise relief on up to 8,000 hl for producers who have not produced more than 10,000 hl in the previous year.

Tobacco Products Tax

Tobacco products tax (TPT) accounted for €1.3 billion in revenue in 2021, 22% of total excise. Regular increases in the rate of tax has ensured that the tax revenues from TPT have remained consistent across the years. Ireland currently has the highest rate of duty in the EU. This provides an opportunity for a relatively high rate of consumption of illicit tobacco products and non-Irish duty paid tobacco products in the State. It is estimated that 13% of tobacco consumed in Ireland in 2021 was illicit, and a further 8% was non-Irish duty paid. The taxation of tobacco products is governed by the Tobacco Products Tax Directive 2011/64/EU, which is currently under revision. The main aims of the revised Directive include the update of the EU minima for current harmonised products, enlarging the scope of the Directive to include novel products (including heated tobacco products and e-cigarettes), bringing raw tobacco within the Excise Movement and Control System and focusing on illicit manufacturing and trade.

Betting Duty

In Budget 2019 the betting duty rate for retail and online operators was increased from 1% to 2% and the duty on betting exchanges increased from 15% to 25% of commissions earned on a bet. A breakdown of betting duty receipts in 2021 shows a total yield of €89.1 million (€24.4 million retail, €60.5 million remote and €4.2 million in intermediary commissions).

To provide some relief to small independent operators in particular, Budget 2020 introduced a relief from betting duty up to a limit of €50,000 per firm per year, in accordance with the EU Commission de minimis regulations.

The Department of Justice received Government approval to publish a draft version of the Gambling Regulation Bill in November 2022. While excise duties are not within the remit of the Bill, it is nonetheless foreseen that revised excise arrangements will have to be provided for. The Department of Finance is part of a steering group, alongside Revenue and the Department of Justice, which will mainly focus on transitional arrangements regarding licensees.

Disabled Drivers and Disabled Passengers Scheme

General Overview

The Disabled Drivers and Disabled Passengers Scheme provides relief from VAT and VRT, an exemption from motor tax and a grant in respect of fuel expenditure, on the use of an adapted car. Excluding the cost of the exemption from motor tax (c €12 m in 2021), the Scheme cost €60 million in 2021 in VAT/VRT reliefs and €8m with respect to the fuel grant.

The Scheme is open to severely and permanently disabled persons as a driver or as a passenger and also to certain charitable organisations. In order to qualify for relief, the applicant must hold a Primary Medical Certificate issued by the relevant Senior Area Medical Officer (SAMO) or a Board Medical Certificate issued by the Disabled Driver Medical Board of Appeal. Certain other qualifying criteria apply in relation to the vehicle, in particular that it must be specially constructed or adapted for use by the applicant.

To qualify for a Primary Medical Certificate an applicant must be permanently and severely disabled. The terms of the Disabled Drivers and Disabled Passengers Scheme set out six medical criteria, at least one of which is required to be satisfied in order to obtain a Primary Medical Certificate. The Minister has no role in relation to the granting or refusal of PMCs and the HSE and the Medical Board of Appeal must be independent in their clinical determinations.

Review of Scheme

Following a Supreme Court decision in July 2020 the six criteria were put into primary legislation to allow PMC assessments and appeals to re-commence. Minister Donohoe gave a commitment to a comprehensive review of the DDS to include a broader review of mobility supports. In order to achieve this objective, Minister O'Gorman agreed in September 2021 that the DDS review should be incorporated into the work of the National Disability Inclusion Strategy (NDIS) Transport Working Group (TWG).

The Working Group, under the Chairpersonship of Minister of State Anne Rabbitte, held a number of meetings across 2022 with the last meeting in November. It is expected to produce its report shortly.

As part of its engagement in this process, the Department of Finance established an information-gathering expert Criteria Sub-group (CSG) at the start of this year, made up of former members of the DDMBA and Principal Medical Officers (PMOs) in the HSE. Its purpose was to capture their experiences, expertise and perspectives in relation to the practical operational and administrative challenges of the DDS, as well as to explore what alternative vehicular arrangements were available for those with mobility issues based on international experience. The CSG work led to the production of five papers and a technical annex, submitted to the Department of Children, Equality, Disability, Integration and Youth in July 2022.

The main conclusion of the CSG is that the DDS needs to be replaced with a fit for purpose, needs-based vehicular adaptation scheme in line with best international practice. This conclusion together with proposed design principles and parameters for a new needs-based vehicular adaptation scheme was transmitted to the NDIS TWG with a cover letter from the previous Minister urging Ministers O'Gorman and Rabbitte to progress proposals urgently.

We are working with Revenue colleagues who administer and operate the DDS to improve oversight and governance of, and reporting on, the scheme, including in respect of payment of fuel grant claims twice a month and of key scheme statistics.

The Disabled Drivers Medical Board of Appeals

The Disabled Drivers Medical Board of Appeals (DDMBA) review decisions made by HSE SAMOs not to award a PMC, as a formal appeals process within the DDS, and in roughly 98% of cases upholds the HSE decision. Efforts are ongoing to establish a new DDMBA following the resignation of all members of the previous Board, effective from 30 November 2021. The Department of Health leads on all actions and tasks with respect to the Expression of Interest Campaigns. Department of Finance officials provide support to the Department of Health in this matter. These campaigns have produced five candidates, three of whom have successfully completed Garda vetting. Two other candidates are currently undergoing Garda vetting. Once these processes are complete, the Minister of Finance appoints members to the Board. Work to secure agreement with the National Rehabilitation Hospital to provide advice and premises to the new Board is ongoing. There were 762 appeals outstanding as of 22 November 2022.

Brexit

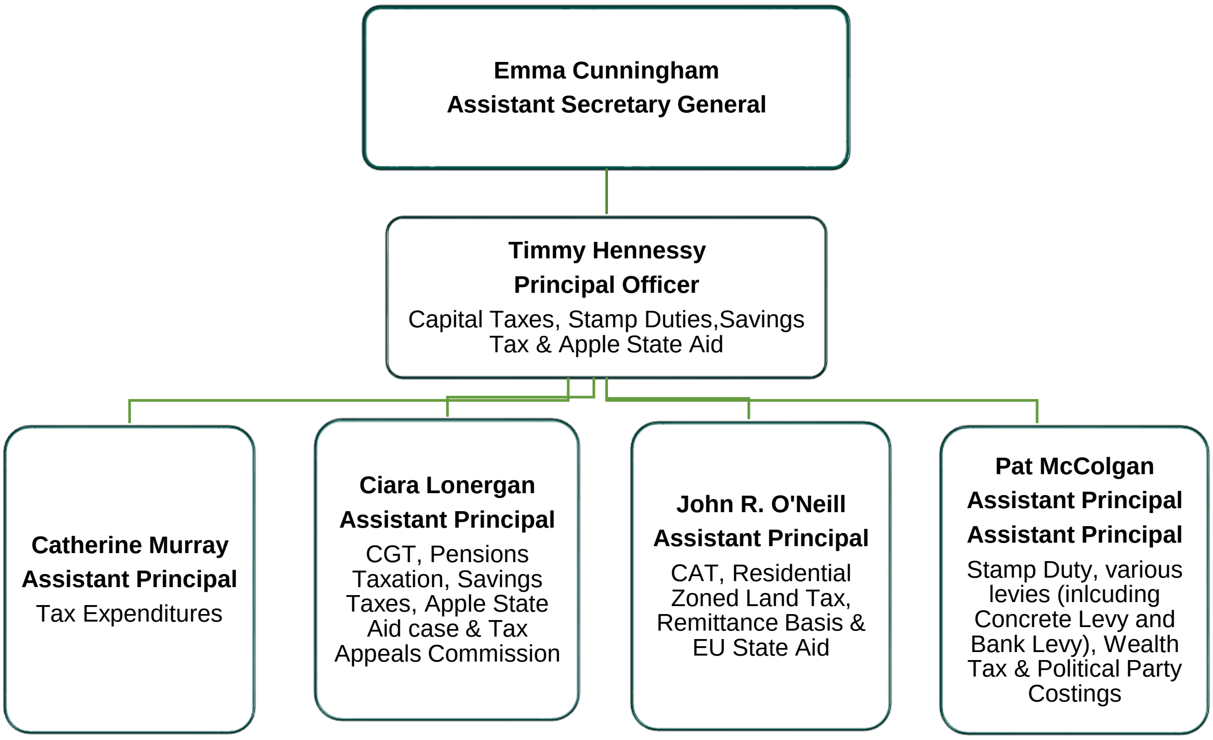
On-going uncertainty with respect to the NI protocol continues to generate customs-related issues and impacts. This Department has and will continue to work with the Revenue Commissioners and other Departments to find and implement workable solutions in the context of the EU/UK trade negotiations.

Customs coordination

We work closely with Revenue colleagues on a range of customs-related matters beyond those arising as a result of Brexit. This includes attendance at stakeholder forums, coordination of replies to Representations, PQs, coordination of inputs into EU working groups and other EU processes, and liaising in respect of the drafting of Customs related legislation.

3.1.4.5 Capital Taxes, Stamp Duties, Savings Taxes, Residential Zoned Land Tax, EU State Aid Matters & Tax Appeals Commission

Principal Officer: Timmy Hennessy



KEY POINTS

- **Stamp Duty:** Stamp Duty yield for 2021 was just below €1.5bn net (2.2% of total net exchequer receipts, ex. LPT). Topical matters in this area are the new Defective Concrete Products Levy (DCPL) and, to a lesser extent, the recently extended Bank Levy.
- **Capital Gains Tax (CGT) and Capital Acquisitions Tax (CAT)** make up a little over 3% of the estimated tax yield for 2021.
- **CGT/CAT**: the differential treatment of income and capital for tax purposes, the rates, thresholds, reliefs, the operation of the revised CGT entrepreneur relief and CAT agricultural relief for solar energy use are significant policy issues.
- **Residential Zoned Land Tax:** Draft maps published by local authorities on 1 November 2022, draft map submission deadline for landowners is 1 January 2023. Tax operational from 2024.
- **DIRT:** current rate is 33%, reduced on a staged basis from 41% in 2016.
- **Apple Case**: work is ongoing on the legal case, with a judgement awaited from the CJEU on the Commission's appeal. Ongoing input on the Escrow Fund which is managed by the NTMA.
- **Tax Expenditures**: Publication of the annual report on Tax Expenditures and implementation of COTW recommendations.

DETAIL:

Stamp Duty

Stamp Duty is generally a tax on documents or instruments. The main Stamp Duties (and the rates applying) are:

- Residential property (1% on values up to €1 m and 2% on any balance over €1m)
- Non-residential property (7.5%)
- Transfers of shares in Irish registered companies (1%)
- Financial cards: Credit cards (€30 per year);
- Combined ATM/debit cards (12c per ATM withdrawal subject to a maximum of €5 per year)
- Cheques or "Bills of Exchange" (50c per cheque)
- Levies:

    (i) Non-Life Insurance Levy (3%; there is also a non-tax "Insurance Compensation Levy" of 2%);

    (ii) Life Insurance Levy (1%),

    (iii) Health Insurance Levy (charge is per person insured and varies according to age and the type of health insurance policy – this levy is transferred directly into the Risk Equalisation Fund, rather than into the Exchequer)

    (iv) Bank Levy (€87 million per year, paid primarily by BoI, AIB & PTSB) for 2022 & 2023)

    (v) Defective Concrete Products Levy (to come into effect on 1 Sept. 2023 at rate of 5% on limited range of concrete/concrete products (pouring concrete & bricks)

Exemptions/Reliefs from stamp duty

Certain types of instrument which are being used in certain specified circumstances, are exempt from Stamp Duty or benefit from a relief, subject to conditions stipulated in the legislation establishing them.

Amongst the most well-known of these that apply to the acquisition/development of property are:

- Transfer of a site to a child
- Transfers between spouses and civil partners
- Intercompany transactions
- Young Trained Farmer (Stamp Duty) Relief – farmers under 35 years of age and possessing an agriculture based educational qualification (from a list)
- Farm Consolidation (Stamp Duty) Relief – net. 1% stamp duty rate available where farm holdings are being rationalised through linked transactions
- Stamp Duty Refund Scheme – applies where non-residential property (stamp duty of 7.5% charged) is subsequently used for residential development, so reducing the net rate to as low as 2%

Topical Matters (Levies, Stamp Duty & Residential Zoned Land Tax)

Defective Concrete Products Levy (DCPL)

A new Defective Concrete Product Levy was announced as part of Budget 2023.

The introduction of this levy follows from a Government decision, taken in November 2021, that a levy intended to contribute towards meeting the substantial cost of the Mica redress scheme should be imposed on the construction sector, targeted to raise €80 million per annum over the lifetime of the redress scheme.

While originally intended, and as announced in/published with Budget 2023, it was to be charged at a rate of 10%, come into effect from 3 April 2023, and apply to pouring concrete, bricks and a selected range of pre-cast concrete products, and targeted to raise €80 million per annum.

Subsequent to that announcement, and in light of subsequent feedback from industry participants and others, it was decided that the rate at which the levy will apply will now be set at 5%. It will also now come into effect on 1 September 2023, in order to allow more time for all stakeholders to prepare for its introduction.

It was also decided to remove all pre-cast concrete products from the scope of the levy, so that it will now only apply to pouring concrete (aka ready-mix) and concrete blocks under two harmonised EU standards.

The levy remains unchanged in all other respects, and will apply to all concrete that falls within scope, charged at the point of first supply in the State, ensuring that all liable concrete and concrete products manufactured and/or used here will be liable to the new levy.

An analysis of the impact of the levy on construction costs has been carried out with the assistance of the Department of Housing, Local Government and Heritage. It is estimated that the revised levy will have an impact on costs in the order of 0.2% to 0.45%.

Bank Levy

In Finance Act 2021, section 60 provided for a 1-year extension of the bank levy (having been announced in Budget 22). This extension also provided that those banks that are in the process of winding up their retail banking operations here (Ulster & KBC) would be exempted from the levy, so as not to incentivise a more hasty exit whilst those banks still subject to it (primarily AIB, Bank of Ireland & Permanent TSB) would only be expected to pay what they had paid in 2021, i.e. a total of €87 million. The levy had previously targeted (and achieved) an annual revenue of €150 million.

In anticipation of the findings of the ongoing review of the retail banking sector (which is due to report to the Minister for Finance in November this year) it was proposed that the again levy be extended for a further year to end 2023 and this was announced in Budget 23 and is provided for in Finance Bill 2022, on the same basis as that which has applied in 2022.

While the terms of reference for the Retail Banking Review do not specifically refer to the levy, the levy may be pertinent to the review's considerations of the business model for retail banking in Ireland including among other issues, the cost of doing business here.

Further detailed consideration of the longer term future of the levy will be carried out next year in advance of Budget 2024. This will allow the review's findings and any pertinent recommendations it might make to be taken into consideration in the context of Budget 2024/Finance Bill 2023.

Residential Development Stamp Duty Refund Scheme

A stamp duty relief formally entitled "Repayment of stamp duty where land used for residential development", but more commonly known as the "residential development stamp duty refund scheme", provides for a refund of a portion of the Stamp Duty paid on the acquisition of non-residential land (which in the absence of this relief would normally be 7.5% of the value or purchase price of the property, whichever is the higher) where that land is subsequently developed for residential purposes.

The purpose of this relief, which was introduced in Finance Act 2017 is to encourage the use of non-residential land for the construction of badly needed new housing. While it is available in all parts of the country, it is primarily designed to promote the construction of high density housing in inner and outer urban settings where “brownfield” sites can be deemed uneconomical to develop owing to the 7.5% stamp duty rate on such property.

It was extended to operations commenced by 31 December 2022 in Finance Act 2020, and the time allowed between commencement and completion of a qualifying project was at the same time extended by 6 months to two-and-a-half years in that Act.

The further extension of the scheme to operations commenced by 31 December 2025 was announced in Budget 2023, and is provided for in Finance Bill 2022.

Residential Zoned Land Tax (RZLT)

The Residential Zoned Land Tax (RZLT) was introduced in Finance Act 2021. It applies to land that is both zoned as suitable for residential development and is serviced. The RZLT is an annual tax, which will be first due in 2024 in respect of land which met the relevant criteria on or before 1 January 2022 and which is reflected on the map to be published by local authorities on 1 December 2023. The tax will be administered on a self-assessment basis.

A key objective of the Government’s Housing for All plan is a pathway to increase housing supply. This includes a focus on providing an adequate supply of available serviced zoned land, within required densities. The Residential Zoned Land Tax will incentivise the use of existing zoned serviced land to provide housing. It is estimated that only one-sixth of residential zoned land is activated for housing during a local authority's six-year Development Plan.

Finance Act 2021 outlined the process by which a detailed mapping exercise will be undertaken by Local Authorities to identify liable zoned and serviced land. The first draft maps were published by Local Authorities on 1 November 2022 and landowners have the opportunity to make submissions seeking to have their land rezoned until 1 January 2023. Supplemental maps and final maps will be published in 2023 before the tax becomes operational and administered by Revenue in 2024.

Extension of Agri-Reliefs

The extension of 5 agri-reliefs was announced in Budget 2023, these reliefs are: Young Trained Farmer Stamp Duty Relief, Farm Consolidation Stamp Duty relief, Farm Restructuring CGT Relief, Stock Relief for Young Trained Farmers and Stock Relief for Registered Farm Partnerships. A new relief regarding accelerated allowances for capital expenditure on slurry storage was also introduced in Finance Bill 2022.

These reliefs constitute EU State Aid and are dependent on the Agriculture Block Exemption Regulation (ABER). The current ABER will expire on 31 December 2022. Article 51 of ABER allows for exempted schemes under the existing Regulation to remain exempted during an adjustment period of six months. Therefore, it was only legally permissible to extend these schemes until 30 June 2023 in Finance Bill 2022.

A revised ABER is currently being negotiated at European level. Officials from the Department of Agriculture, Food and the Marine are confident that these reliefs will continue to be considered an acceptable form of State aid under the terms of the revised ABER when it comes into effect.

The further extension of these reliefs will have to be provided for in early in 2023 when the revised ABER is introduced.

Capital Taxes & Apple State Aid case

Capital Gains Tax (CGT)

CGT is charged on the value of the capital gain made on the disposal of most property and equity assets, whether by sale or gift. CGT rates increased progressively from 20% in 2008 to the current level of 33%.

Disposals to spouses/partners, principle private residence relief, business retirement relief, entrepreneur relief, property purchased between December 2011 and end 2014 and held for 4-7 years are exempt. The first €1,270 of gains in a tax year are exempt. CGT yielded €1,645 million in 2021.

Capital Acquisitions Tax (CAT)

CAT includes gift tax and inheritance tax. The tax is charged on the amount gifted to, or inherited by, the beneficiary. There is a tax-free threshold (referred to as a 'group threshold'), based on the relationship between the person making the gift/leaving the inheritance (the disponer) and the beneficiary. Previous gifts/inheritances in the relevant group are taken into account when calculating the taxable amount over the threshold. The balance of the gift/inheritance above the threshold is taxable, currently at a single rate of 33%. The three group tax-free thresholds post Budget 2020 are based on the relationship between the disponer and the beneficiary and are:

Category	Relationship	Current threshold
Group A	Parent/Child	€335,000
Group B	Brother/Sister/Niece/Nephew	€32,500
Group C	All others	€16,250

These thresholds can be claimed in conjunction with other available reliefs.

Small gifts of up to €3,000 per annum, spouses/partners, dwelling house exemption, agriculture/business relief are exempt. CAT yielded €581 million in 2021.

A significant policy issue for CAT is agricultural relief and solar panel use, about which an interdepartmental working group has been set up involving DFIN, DECC and D/Agriculture. The measure will also be considered as part of The Tax Strategy Group papers next year.

Domicile Levy and Remittance Basis of Taxation

The Domicile Levy was introduced in Finance Act 2010 and its purpose was to ensure that individuals with substantial income and assets located in the State contributes to the Exchequer. The levy is currently set at €200,000 per year and applies to Irish domiciled individuals, wherever they are resident, who have a world-wide income greater than €1 million, own Irish property greater than €5 million and pay €200,000 or less in Irish income tax.

As outlined by the Commission on Taxation and Welfare (COTW) reports of 2009 and 2022, domicile is used to determine the charge to tax in Ireland. Individuals resident in Ireland for tax purposes are typically subject to Irish tax on their worldwide income and chargeable gains. However, individuals who are resident, but not domiciled in the State are subject to a different tax treatment known as the remittance basis. Where the remittance basis applies, foreign income and foreign gains are subject to Irish tax (being Income Tax, USC and Capital Gains Tax (CGT)) only to the extent they are remitted to the State.

Following on from the COTW recommendations, a review of the remittance basis of taxation in Ireland will take place in 2023.

State Aid Investigation regarding Apple

The Government decided in 2016 to appeal the Commission Decision in respect of alleged state aid given to Apple to the European Courts seeking its annulment. On 15 July 2020 the General Court of the European Union (GCEU) issued its judgment which annulled the Commission's State aid decision of August 2016. On 25 September 2020, the European Commission announced its decision to lodge an appeal with the Court of Justice of the European Union (CJEU) challenging the judgement of the GCEU in the Apple State aid case. Written procedure for the Appeal finished in 2021 and the next step will be an oral hearing before the CJEU. The timing of the oral hearing is entirely at the discretion of the Court and the Department has not received notification of a hearing date from the CJEU.

The State recovered the alleged State aid of €14.3bn from Apple in September 2018 and it was placed in an Escrow Fund. The Office of the Comptroller and Auditor General (C&AG) audits the Fund and the Public Accounts Committee examines the Fund annually. As at 31 December 2021, the net asset value of the Fund was €13,633m. At establishment, the value of the Fund was €14,285m. Third country adjustments took place in 2019 (€209m) and 2021 (€246m), totalling €455m. The additional reduction of €197m since the establishment of the Fund can be attributed to the negative interest rate environment and negative yields on highly rated euro-sovereign, quasi-sovereign bonds and fund operating expenses.

Tax Appeals Commission

The Tax Appeals Commission (TAC) was established on 21 March 2016 under the Finance (Tax Appeals) Act 2015, taking over from the former Office of the Appeal Commissioners. As of end October 2022 the TAC has 1,718 appeals on hand, with a value of €1.35bn and 162 determinations have been issued.

In 2018, due to the growing backlog of appeals and a request for considerable extra administrative resources, the then Minister for Finance appointed Ms. Niamh O'Donoghue to carry out an independent review of the staffing structure, governance and operation structure of the TAC. The resulting report made a number of recommendations which are complete or in progress.

Implementing one of the recommendations of the O'Donoghue report, the Finance (Tax Appeals and Prospectus Regulation) Act 2019 created the role of and responsibilities of a Chairperson of the TAC and the first Chairperson was appointed in 2020. Since the appointment of the Chairperson almost all the backlog of 'aged' determinations have been issued, and the quantum of outstanding appeals has reduced from €4.5bn at end 2020 to €1.35bn.

In 2021 a new tiered structure of Commissioners was approved and 5 temporary tier 3 commissioners were appointed and began work in 2022. Legislation will be required to fully implement the new structure.

Tax Expenditures

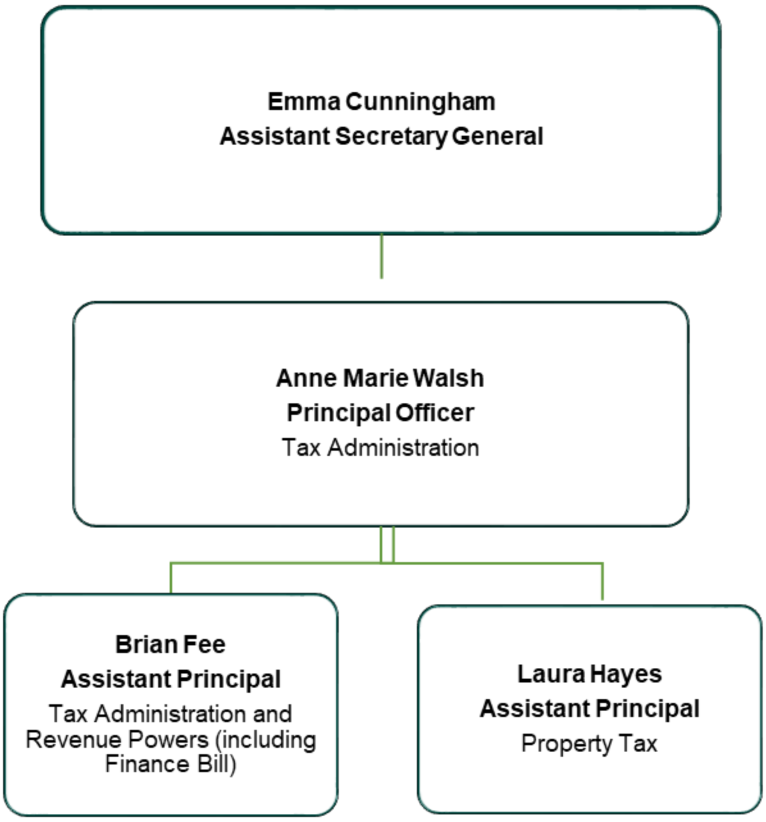
The Department publishes a report on Tax Expenditures alongside the Budget each year. This report, published each year since 2015, is published in line with the requirements of the EU Budgetary Framework Directive.

Tax expenditures are general government policy instruments used to promote specific social or economic policies and are closely related to direct spending programmes. The Department for the purpose of policymaking, adhere to the definition of Tax Expenditure, as defined by the OECD, as part of the annual budget process. The Department's Guidelines for Tax Expenditure (2014) form the basis for evaluation of reviews for existing and proposed new tax expenditures.

The Department will consider the recommendations of the recent report of the Commission on Taxation and Welfare.

3.1.4.6 Tax Administration, Revenue Powers & Local Property Tax

Principal Officer: Anne-Marie Walsh



KEY POINTS

- **Finance Bill:** Arising from EU “two pack” Regulations, Budget Day must be on or before 15 October each year and the Finance Bill must be enacted before end of the same year.
- **Local Property Tax (LPT):** The Local Property Tax is a recurring annual charge on the self-assessed market value of residential properties. The tax is administered by Revenue but the funds raised, approximately €500m annually, is used to fund local government with each local authority retaining the LPT raised in its area.
- **Vacant Homes Tax (VHT):** A vacant homes tax is being introduced in Finance Bill 2022. This follows from a Government commitment under Housing for All. The first chargeable period for the tax will commence on 1 November 2022, and owners of vacant properties will be required to file a return in November 2023. As a new tax measure, the VHT will be monitored and kept under review to ensure it operates as intended and is effective in meeting its policy objective.
- **COTW recommendations on Property taxation:** The Commission made recommendations in relation to increasing the yield of Local Property Tax and introducing a Site Value Tax.
- **Equality Budgeting:** The unit continues to consider how it can best contribute to the area of equality budgeting in respect of tax policy measures.

DETAIL:

Finance Bill process

There is a statutory requirement that the Finance Bill is enacted 4 months from Budget day. However, under the EU regulations a common budgetary timeline was introduced for all Euro area Member States and provided that the draft budget for central government and the main parameters of the draft budgets for all the other sub-sectors of the general government must be published by 15 October each year and the budget for the central government must be adopted or fixed upon and published by 31 December each year. Consequently, from 2013 onwards, Budget Day has been on or before 15 October and the Finance Bill also completes its passage through the Oireachtas by 31 December each year. Budget day was 27 September in 2022.

Tax Strategy Group

The Tax Strategy Group (TSG) is in place since the early 1990s and is chaired by the Department of Finance with membership comprising senior officials and political advisers from a number of Civil Service Departments and Offices. This year's meeting of the TSG was held on 12 July, with papers published on 10 August.

Papers on various options for tax policy changes are prepared annually by Department of Finance officials. The TSG is not a decision making body and the papers produced by the Department are simply a list of options and issues to be considered in the budgetary process. Any papers relating to PRSI and social welfare issues are also prepared for the Group by the Department of Employment Affairs and Social Protection.

Property Tax

Local Property Tax

LPT yield 2013-date

Annual Yield	2013 (€m)	2014 (€m)	2015 (€m)	2016 (€m)	2017 (€m)	2018 (€m)	2019 (€m)	2020 (€m)	2021 (€m)	2022* (€m)
LPT	316	493	469	463	477	482	474	482	552	480

*provisional

In November 2021, the Local Property Tax (LPT) was revalued for the first time since 2013, following the passage of the Finance (Local Property Tax) (Amendment) Act 2021. This provided for a new method of calculating liabilities by widening the valuation bands, achieving the Programme for Government commitment that most properties would face no increase in LPT after revaluation. As a result, approximately 75% of the properties were valued in the first three valuation bands compared with 76% under the previous arrangements. The revaluation also brought into the tax properties built since 2013, which had been excluded from the tax until then, and the Act provides that in future, properties built between revaluations will be automatically included in the tax, as will properties which cease to qualify for exemptions, broadening the base of the tax.

Of the properties returned, the number of property owners claiming exemptions was 16,800—significantly lower than the pre-revaluation figure of 48,500. The reduction in exemptions claimed is largely due to the phasing out of certain exemptions by the Finance (Local Property Tax) (Amendment) Act 2021.

The Commission on Taxation and Welfare noted that LPT functions well and achieves many of its policy aims, however the Commission considers that there is additional scope to increase the yield from LPT and for it to form a larger proportion of tax revenues.

Vacant Homes Tax

A new vacant homes tax (VHT) was announced on Budget Day in 2022. The aim of this new measure is to increase the supply of homes for rent or purchase. This follows from a commitment under Housing for All to collect data on vacancy with a view to introducing a vacant property tax.

A property will be considered vacant for the purposes of the tax if it is occupied for fewer than 30 days in a 12-month period. It operates by requiring owners of vacant residential properties to file an annual return declaring that their properties were vacant in the applicable period and indicating the LPT valuation band that applies to the property. These criteria will be used to assess their VHT liability.

VHT applies to properties which are residential properties for the purposes of LPT. As a result, derelict properties and properties which are not suitable for use as a dwelling do not fall in scope of the measure. The tax is charged at three times the property's existing base LPT charge. The legislation provides for a number of exemptions to ensure property owners are not unfairly charged for temporary vacancy arising from genuine reasons.

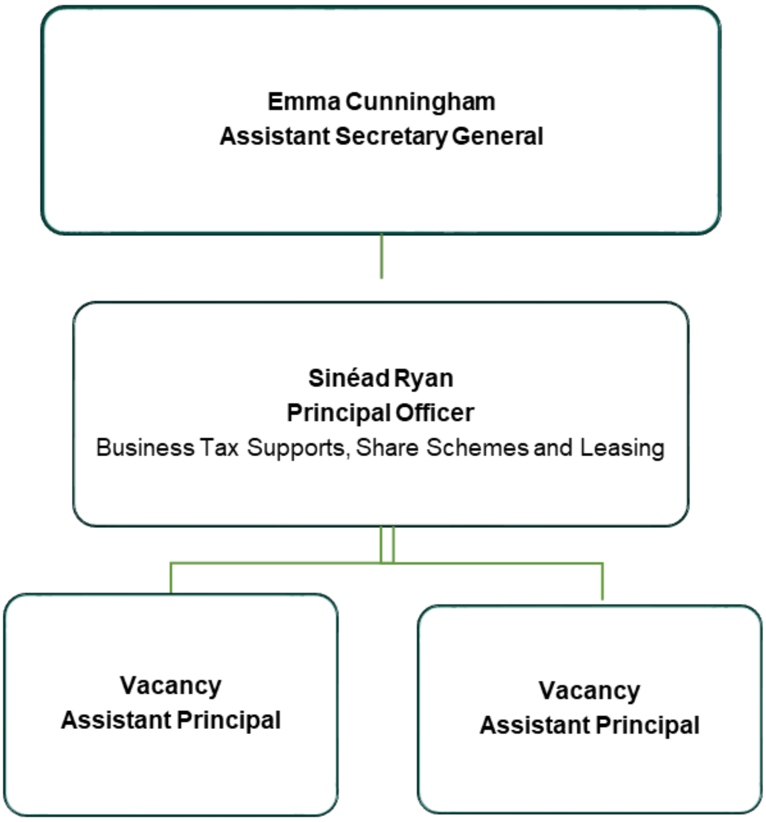
This measure aims to increase the supply of homes for rent or purchase, rather than raise revenue. The estimated yield is low; as the tax is intended to influence behaviour and lead to property owners bringing their vacant properties back into use. As such, VHT is not expected to yield significant revenue, with estimates in the region of €3-4 million at most.

Site Value Tax

The Commission on Taxation recommended that a Site Value Tax (SVT) is introduced on all land that is not subject to the LPT. This includes all commercial (developed and undeveloped), mixed-use, agricultural, undeveloped zoned residential lands, and State-owned lands as well as all land on which derelict and uninhabitable premises sit. The intention behind this recommendation is that SVT would replace the existing system of Commercial Rates and other taxes and levies over time. It also recommended that there should be differential treatment in the application of SVT to agricultural land. These longer-term reforms are wide-ranging and require careful consideration and consultation across Government.

3.1.4.7 Business Tax Supports, Share Schemes and Leasing

Principal Officer: Sinéad Ryan



KEY POINTS

This is a new section, the role of which will expand in 2023 to incorporate share-based remuneration and related matters. The key points to note currently are as follows:

- **TBESS:** The Temporary Business Energy Support Scheme (TBESS) was introduced in the recent Finance Bill. The scheme will provide support to qualifying businesses in respect of energy costs relating to the period from 1 September 2022 to 28 February 2023.
- **Leasing:** Ireland is the global centre for aviation finance and aircraft leasing. There are a number of tax issues that are currently under discussion by a working group consisting of representatives from Revenue, the industry, practitioners and the Department of Finance. The outcome of these discussions may lead to legislative amendments and will require additional Revenue guidance.

DETAIL:

Temporary Business Energy Support Scheme (TBESS)

The Temporary Business Energy Support Scheme was introduced in the recent Finance Bill. The scheme will provide support to qualifying businesses in respect of energy costs relating to the period from 1 September 2022 to 28 February 2023. The scheme is designed to be compliant with the EU state aid Temporary Crisis Framework and State aid approval was received for the scheme on 24 November 2022.

The TBESS, once enacted, will be available to tax compliant businesses carrying on a trade or profession the profits of which are chargeable to tax under Case I or Case II of Schedule D where they meet the eligibility criteria. Certain sporting bodies and charities can also claim in respect of activities which but for an exemption contained in the Taxes Consolidation Act 1997, would be chargeable to tax under Case I or Case II. Credit and financial institutions are excluded from the scheme, as this exclusion was a condition of State aid approval.

The scheme will operate by comparing the average unit price for the relevant bill period in 2022 and 2023 with the average unit price in the corresponding reference period in previous year. If the increase in average unit price is more than 50% then the threshold has passed and the business is eligible for support under the scheme. A €10,000 monthly cap applies to the relief that a trade or profession can claim. However, this may be increased to a maximum of €30,000 per month where the trade or profession is carried on across multiple locations, as identified by the business having more than one electricity account (or MPRN) in separate locations.

The scheme will be administered by the Revenue Commissioners, and will operate on a self-assessment basis. It is open to registrations from 26 November 2022 and claims from 5 December 2022. Payments will be made under the scheme, once the Finance Bill is passed.

The legislation contains provision allowing the Minister for Finance to, by Ministerial Order and following consultation, extend the end date of the scheme to no later than 30 April 2023 and to increase or decrease the monthly caps on relief of €10,000 and €30,000.

3.1.5 Commission on Tax and Welfare

Head of Secretariat: Colm O'Reardon

<u>Commission on Taxation and Welfare – Next Steps</u>

- The independent Commission on Taxation and Welfare was established in 2021 and was tasked by government to independently consider how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity while ensuring that there are sufficient resources available to meet the costs of the public services and supports in the medium and longer term.
- The Commission was comprised of 13 members drawn from a wide range of backgrounds with relevant experience and skills including in the areas of taxation, economics, business, public administration, law and broader civil society.
- "Foundations for the Future", the Report of the Commission on Taxation and Welfare, was published on 14 September 2022 by the Minister for Finance.
- The report contains over 500 pages and 116 recommendations regarding the future of our taxation and welfare systems.
- The Commission's recommendations are significant and wide ranging, and it is important to allow time for detailed consideration.
- As is clearly set out in the independent report, the recommendations are not intended to be implemented all at once but rather provide a direction of travel for this and future Governments around how the sustainability of the taxation and welfare systems may be improved in a fair and equitable manner.
- In his Budget 2023 speech, the Minister for Finance acknowledged that the Commission's report had already fed into a number of policy actions being announced. This included:
    - Commitment to developing a medium-term roadmap for personal tax reform (across income tax, USC, PRSI and other personal taxation issues), taking account of the Commission's report.
    - The establishment of a working group to consider the taxation of funds, life assurance policies and other investment products.
    - Commitment to a review of the REIT, IREF and section 110 regimes.
    - Commitment to careful consideration and consultation across Government regarding the Commission's proposals on changes to the Local Property Tax and a Site Value Tax.
- The members of the Commission on Taxation and Welfare have now concluded their work with the delivery of their report. However, their medium to long-term focused recommendations will serve to inform this and future governments' deliberations on the important challenges raised in the report for many years to come.
- The Commission's report has posed serious questions that we as a society must carefully consider and the recommendations will foster real debate around how we reform our taxation and welfare systems over the medium to longer term in order to safeguard their sustainability and adapt to a rapidly changing environment.

3.1.6 EU & International Division

The briefing prepared by EU & International Division provides a high level introduction to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

Assistant Secretary General: Gary Tobin

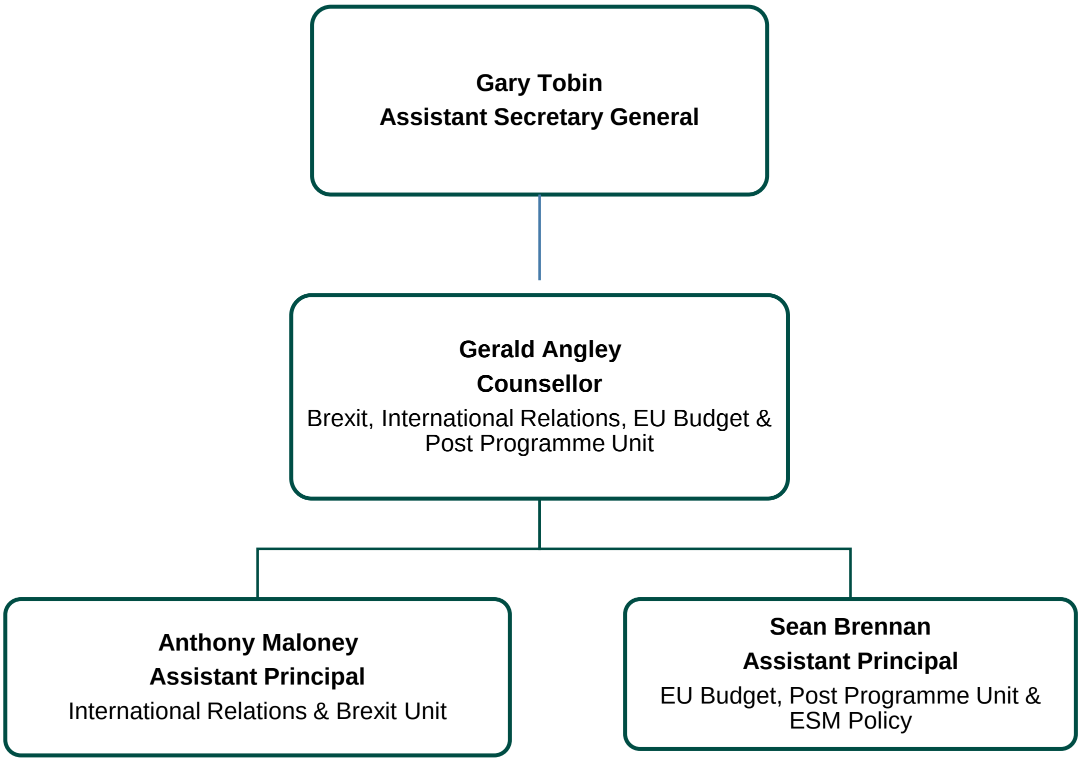
DESCRIPTION

EU & International Division deals with the development and implementation of strategies at EU/Euro area level; internationally in relation to economic, fiscal and financial policy formulation; and, the cross-Departmental coordination of EU policy. Currently, the Division is heavily focussed on managing Ireland's involvement in managing the EUs response to the Ukraine crisis and managing the post Covid recovery, and in supporting economic recovery. The Division manages the EU budgetary process which includes leading Ireland's negotiations on the Annual EU Budget, forecasting Ireland's contributions and processing Ireland's payments to the EU Budget. The Division will lead Ireland's participation in upcoming negotiations on the mid-term review of the 2021-2027 Multiannual Financial Framework (MFF) in 2023 and proposed Recovery Fund. The Division is beginning the work in planning for Ireland's Presidency of the European Council in 2026.

The Division also manages Ireland's participation in EU economic governance including ECOFIN and Eurogroup meetings and the development of Departmental policy advice on issues relating to UK/EU relationship. It also builds relationships through Ireland's diplomatic network and ensures that the Minister and Department is fully appraised of EU and international developments.

3.1.6.1 International Affairs and Brexit

Counsellor: Gerald Angley (secondment from Department of Foreign Affairs and Trade)



KEY POINTS:

International Relations & Brexit Unit

International Relations

The main objectives in respect of international relations are to manage outward and inward engagement at Ministerial and senior official levels; coordinate dialogue with EU Finance Ministries and drive alliance-building work, including in a post-Brexit context; develop and deepen engagement with the UK, US and other partners, and provide analysis and advice on external developments relevant to the Department's EU and international goals.

Brexit

The Unit provides policy advice and analysis, and coordinates the Department's input to cross-Government processes relating to Brexit and the Trade and Cooperation Agreement (TCA). The Unit is charged with providing a clear focus on Brexit within the Department and liaising with the Department of the Taoiseach and the Department of Foreign Affairs, as well as the Permanent Representation in Brussels. The Unit is in regular contact with relevant policy units, providing a supporting role to these units and ensuring that the Unit is kept up-to-date on all relevant matters. This support of course includes the arrangement and briefings for contacts between the Minister for Finance and his/her UK counterpart.

EU Budget, Post Programme Unit & ESM Policy

This Unit manages the EU budgetary process which includes leading Ireland's negotiations on the Annual EU Budget, forecasting Ireland's contributions and processing Ireland's payments to the EU Budget. The Unit also manages our relationship with the IMF, ECB and European Commission in the context of our post programme responsibilities arising from our EU/IMF programme, of financial support. In addition, the unit functions as Irelands ESM desk with responsibility for contributing to policy development regarding the ESM and supporting Irelands members of the ESM Governing Boards.

The Unit also acts as a policy level liaison between the Department and the Department of Foreign Affairs and Trade and Ireland's network of Embassies and Missions abroad.

DETAIL:

International Relations

In respect of international relations, the Unit supports inward and outward visits at both Ministerial and official level, with the objective of deepening engagement with key EU and international partners. At Ministerial level, this can include bilateral visits, as well as meetings in the margins of the ECOFIN and Eurogroup meetings and other international gatherings.

Discussions on the economic response to the Covid 19 pandemic reinforced the importance of engaging with a wide range of Member States. The pandemic also resulted in new and different approaches to engagement (i.e. virtual engagement), which continue to be utilised and are a valuable means, along with physical engagements, of maintaining and broadening international relationships with key partners.

The Unit coordinates engagement and alliance-building with EU Member States in a post-Brexit context. This includes engagement at Ministerial and senior official level in the margins of ECOFIN with the informal 'Hansa' group of countries (Denmark, Estonia, Finland, Latvia, Lithuania, Netherlands, Sweden and Ireland). There is also a focus on deepening engagement with Germany and France, including through processes established by recent reviews of relations with both countries, and with a number of other EU Member States. The Unit also manages official-level consultations with each incoming EU Presidency.

The Unit coordinates the Department's engagement with the United Kingdom, including meetings between the Minister and the UK Chancellor, and manages a framework that includes twice-yearly consultations at senior official level, supported by twice yearly consultations at operational level in a range of policy areas (taxation, financial services/banking, and international economic issues). A two-way staff exchange scheme has also been put in place with the UK Treasury.

The Unit also leads on engagement with the United States, including a framework for bilateral economic dialogue in conjunction with the Department of Business, Enterprise and Innovation. A first Ireland-US economic symposium was held in Washington in December 2019.

The Unit acts as a policy liaison with the Department of Foreign Affairs, and Ireland's network of Embassies and diplomatic mission abroad, to ensure the Minister and staff in the Department are briefed on EU and international developments, and to support economic messaging abroad. This includes reporting on the economic response to recovery from the Covid-19 pandemic and more recently in relation to the energy crisis, cost of living and the economic effects of the Russian war with Ukraine.

The Unit also works closely with the Department's officers posted to the Permanent Representation to the EU in Brussels; the Embassy in London; the Embassy in Berlin and the Permanent Mission to the OECD in Paris.

Brexit

Overview

The Brexit Unit co-ordinates the Department's engagement on post-Brexit issues, including the implementation of the Trade and Cooperation Agreement (TCA) between the EU and the UK. As part of this, the Unit supports the Minister for his engagements with his UK counterpart – such meetings are important high-level engagements, together with those by the Taoiseach and the Minister for Foreign Affairs with their counterparts.

The primary objective of the Department's work in this area is to defend Ireland's economic and financial interests. As a result, there is ongoing monitoring and close engagement with internal colleagues and on a cross-government basis regarding:

- the **implementation of the Trade and Cooperation Agreement (TCA);**
- the **economic impact on Ireland**, particularly on agri-food exports due to impending application of UK import controls on food and plant products;
- developments on the **UK's VAT margin scheme**, and UK proposals (currently being considered by the Commission) to address issues arising since the end of the transition period; and
- developments on **financial services,** including: (i) the signature of the EU-UK MoU on financial services regulatory cooperation which has been delayed, since text was agreed in March 2021, in the context of wider political issues yet to be resolved; and (ii) the UK authorities' equivalence assessments process for EU Member States which is currently being negotiated between the UK and the Commission.

Economic impact of Brexit - Summary Overview

- The TCA between the EU and UK was a positive conclusion to the transition period. However, the agreement still represents a break from previously existing arrangements.
- Given the phased introduction of the new procedures, the full economic impact of Brexit will not be evident for some time. However, the early data shows that Brexit has had an impact on IE-UK bilateral merchandise trade. In 2021, imports from the UK fell -4 per cent on an annual basis. By contrast, exports to the UK remain robust up 23 per cent over the same period.
- The early data also suggests that the new arrangements have led to substantial growth in merchandise trade with Northern Ireland, albeit from a very low base. This may indicate an initial substitution of goods trade and associated change in UK supply chains following Brexit.

Macroeconomic Impacts of Brexit on the Irish Economy

- Joint research published by the Department of Finance and the Economic Social Research Institute (ESRI) in March 2019 on the macroeconomic implications of Brexit captured a range of possible future relationships between the EU and the UK. This research included a limited Free Trade Agreement (FTA) scenario (based on zero-tariffs and zero-quotas goods-only agreement), which is broadly in line with the Trade and Cooperation Agreement.
- Under this Free Trade Agreement scenario, the level of GDP would be around 2 or 3 per cent lower over the medium-term (i.e. 5 years) and long-term (i.e. 10 years), compared to a situation where the UK remained in the EU.
- This incorporates both the principal negative impact which arises from the trade shock but also a positive FDI upside (that would otherwise have gone to the UK if it remained in the single market) which provides some partial mitigation of the overall negative impact.

Trade Impacts

- The **Trade and Cooperation agreement is positive for Irish exporters compared to a no-deal scenario,** as it provides for zero-tariffs and zero-quota trade for qualifying EU and UK goods.
- However, the agreement **doesn't completely mitigate against 'trade frictions'** in the form of non-tariff barriers (customs check, rules of origin requirements, regulatory requirements, etc.).
- While tariffs and quotas have been avoided for qualifying goods, non-tariff measures or non-tariff barriers represent a change in trading relations and an increased cost to trade.
- It is not just Irish exporters that are exposed to Brexit but also imports for firms integrated into supply chains due to the UK's role as a distribution hub.
- Disturbances to retail and distribution supply chains could have a direct impact on Irish consumers through reduced competition and higher prices.
- Therefore, although the **Trade and Cooperation Agreement** protects Irish firms from the more significant impact of a 'disorderly' scenario, they are still impacted by the change in trading arrangements and non-tariff barriers.
- When the TCA arrangements came into effect on 1 January 2021, the EU introduced customs and border procedures and checks on goods imported from the UK. However, the UK government has chosen to implement customs checks on a phased basis and postponed the implementation of customs checks.
- As a result, the Brexit impacts on Irish goods trade flows have been predominantly on the import side. In 2021, imports from the UK fell by -4 per cent. By contrast, Irish exports to the UK have remained robust reflecting the divergent implementation of non-tariff barriers following Brexit.
- Noticeably, trade with Northern Ireland picked up significantly over the past year. In 2021, both exports (54 percent) and imports (65 per cent) with Northern Ireland increased substantially on an annual basis. This growth has helped offset some of the significant falls in imports from Great Britain, pointing towards a substitution of goods trade following Brexit.
- The UK Government's announcement, on 28th April, means that no further UK import controls will be introduced this year. The UK's new target date for the introduction of further controls is now set for the end of 2023.

- As a result of these further postponements, the full impact of Brexit will not be evident for some time, particularly in terms of Irish exports.

Taxation: VAT Margin Scheme

- This centres on the re-introduction by the UK, in Q1 of 2021, of the VAT Margin Scheme for cars entering Northern Ireland from Great Britain.
- The UK has brought forward a revised proposal to address this through a motor vehicle export refund scheme that would allow businesses that remove used motor vehicles from Great Britain for resale in Northern Ireland or the EU to claim a refund of VAT following export.
- This is currently being examined by the Commission but while draft legislation has been published until such time as the detail is available it is difficult to say if it will resolve the issues at play.
- There is ongoing engagement with the European Commission, DFAT and the Revenue Commissioners in regards the Scheme.

Brexit and Financial Services - Key Points

- Over the past few years, the Department of Finance has worked closely with the Central Bank of Ireland and the National Treasury Management Agency (NTMA) to limit the impact of key identified risks in the Irish financial system and to ensure that the sector was adequately prepared for the possible effects of Brexit.
- An important step for the EU and the UK's co-operation in the financial services area will be the sign-off of the Memorandum of Understanding (MoU) that will lead to the establishment of a structured regulatory cooperation on financial services. This will be a positive development and will provide space for enhanced cooperation and coordination in a rebuilding of relations in the financial services area over the medium term.
- The Department of Finance continues to monitor developments and activities in the international financial services sector. The nature, scale and complexity of Ireland's international financial services sector is changing in a number of ways as a result of firms relocating within the single market, and the sector is broader and more diverse with more firms carrying out a greater range of regulated activities than at any time.
- The full impact of Brexit for Ireland's international financial services sector may not be fully evident for some years. At present, firms are establishing the foundations of a new or significantly expanded presence in Ireland, creating a platform for future growth opportunities in all sectors: insurance, banking, and investment management.
- The Government and various state agencies, in partnership with the sector, will continue to implement 'Ireland for Finance', the strategy for the development of Ireland's international financial services sector to 2025, and are working to fully capture any opportunities for inward investment that emerge through promoting Ireland's strengths as a leading financial services centre.

Financial Services in the Trade and Cooperation Agreement (TCA)

- The Trade and Cooperation Agreement (TCA) covers financial services in the same way that financial services are covered in the EU's other FTAs with developed countries. However, no Trade Agreement can match the single market.
- Both the EU and the UK preserve their right to adopt or maintain measures for prudential reasons (‘prudential carve-out'), including in order to preserve financial stability and the integrity of financial markets.
- The EU retained regulatory autonomy with respect to equivalence.
- The coverage of cross-border provision of financial services is very limited, because of the financial stability implications. Instead, the TCA commits both the EU and the UK to maintain their markets open for operators seeking to supply services through establishment.
- The EU and the UK also commit to ensuring that internationally agreed standards in the financial services sector are implemented and applied in their territories.

Joint Declaration and MoU

- Further to the TCA, the EU and UK agreed a ‘Joint Declaration on Financial Services Regulatory Cooperation’, in which both parties aim to agree an MoU on financial services cooperation by 31 March 2021.
- The purpose of the MoU is not to provide the UK with the market access that it lost on 1 January 2021. The MoU will be a self-standing, non-binding and voluntary framework for regulatory cooperation that is separate to legally binding rules on trade, and which does not limit EU autonomy.

From the EU’s perspective, the agreed MOU will provide for:

- bilateral exchanges of views and analysis relating to regulatory initiatives and other issues of interest;
- transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions; and
- enhanced cooperation and coordination including in international bodies as appropriate.
- The MoU was agreed at technical level by the 31 March 2021 deadline but is still going through internal approval processes in the Commission. Once approved and signed by the College it will go to Council for agreement.
- Approval and signature have been delayed due to lack of urgency given wider political issues to be resolved (implementation of Withdrawal Agreement, fisheries, Northern Ireland Protocol). It is not possible to predict when the MOU will be forthcoming.
- **Commissioner McGuinness** is on record as saying that the EU does not feel any pressure to rush decisions about financial services, whether in respect of the MoU or decisions on whether to grant equivalence to the UK (also see next section)).
- There have been no developments on the MOU in recent months.

UK equivalence assessment exercise

- The UK is intending to establish its own equivalence framework (similar to the EU), to grant access to its market to EU Member States.

- During the early months of 2022, the UK signalled that its authorities will conduct an equivalence assessment exercise on a member state by member state basis. The Commission, with the support and agreement of Member States, stated clearly that given the alignment of financial services regulation across Member States any such exercise should be consolidated and treat the EU as a whole.
- In recent weeks, the UK authorities have sought to clarify intentions regarding the process for this equivalence assessment exercise, through engagements with both Member States and the Commission, and have mapped out the process to the Commission. This is welcome, and the details are now being negotiated between the UK and the Commission. This issues is being discussed regularly at EU level, at Financial Services Committee (FSC); Working Party on the UK (WPUK)).

Post Programme Surveillance (PPS)

Following exit from the EU-IMF Programme of Financial Support in December 2013, Ireland is now subject to Post Programme Surveillance (PPS). Post-programme surveillance (PPS) is conducted by the European Commission and the ECB. The ESM attend the missions for the purpose of its Early Warning System (EWS) reporting. PPS review missions are held twice a year and normally take place in Spring and again in Autumn with the objective of assessing Ireland's capacity to repay the programme loans and to monitor the economic, fiscal and financial situation. The 17th PPS mission took place in Dublin in October 2022 and the resulting 17th PPS Report of the European Commission and ECB was published in November 2022, alongside the Commission's Autumn package of reporting. Based on the current repayment schedule, post programme surveillance will continue until 2031, when 75% of financial assistance will have been repaid. The IMF and bilateral lenders no longer participate in post programme reviews as these loans are repaid in full. The 15th PPS in September 2021 was the last mission that the IMF attended, as the Fund's post programme monitoring (PPM) period has now expired.

EU Funding Mechanisms/ Programme Loans

Ireland's EU-IMF Programme Loans

Ireland drew down €67.5 billion in external funding under the EU-IMF Programme and the remaining programme-related debt is as follows:

- European Financial Stabilisation Mechanism (EFSM): €22.5 billion
- European Financial Stability Facility (EFSF): €18.4 billion

The overall Programme financing package was to the amount of €85 billion and made up of contributions from the IMF, EU resources, bilateral loans from the UK, Sweden and Demark, and Ireland own resources.

The €85 billion programme was financed as follows:

- €22.5 billion was provided by the IMF through a three-year Extended Fund Facility (EFF) arrangement;
- €17.5 billion was provided from Ireland's own resources (treasury and national pension reserve fund)
- €4.8 billion through bilateral loans from UK, Sweden and Denmark

- from European Union sources, the EFSM provided €22.5 billion and the EFSF €18.4 billion.

Ireland's loans from the IMF, and bilateral loans from Sweden, Denmark and the UK are now repaid in full. The IMF, Swedish, and Danish loans were replaced with cheaper, market based funding and the interest savings resulting from the early repayments were estimated at circa €1.65 billion over the remaining lifetime of the loans. On 26 March 2021, Ireland repaid in full the loans to the UK as a bilateral lender.

EU Funding Mechanisms

The Unit supports the Minister as a Governor of the European Stability Mechanism, and the Assistant Secretary General as a Director of the ESM. It manages policy aspects of EU-IMF Programme loans, in conjunction with the NTMA; it also ensures that loan facility conditions continue to be observed. It implements the General Government Secured Borrowings Order (Section 67 of the Credit Institutions Stabilisation Act 2010), under which certain prescribed bodies which are classified in general government must apply for ministerial consent in order to engage in secured borrowings (a condition of our EU-IMF programme loans). It also manages the Greek Loan Facility, under which Ireland made €347 million available to Greece.

ESM Policy

The Unit provides advice to the Minister in relation to ESM policy matters. Recent focus has been on reforming the ESM as part of the wider agenda of deepening Economic and Monetary Union. The reforms of the ESM include the introduction of the **common backstop for the Single Resolution Fund (SRF),** with the ESM lending the necessary funds to the Single Resolution Fund. The **ESM precautionary financial assistance instruments** are also being reformed to enhance their effectiveness for countries with sound economic fundamentals. Another key reform element is to **strengthen the role of the ESM in future financial assistance programmes** to Member States. In collaboration with the European Commission, the ESM will design, negotiate and monitor future assistance programmes. The final element of the package of reforms relates to improving the **debt sustainability framework** in the context of ESM financial assistance programmes.

The amending agreements for the ESM Treaty and SRF Amending Agreement were signed by ESM member countries in early 2021. To date, 17 of the 19 member states have ratified both agreements (Ireland in December 2021). The reformed Treaty will enter into force when ratified by all parliaments of all 19 ESM members.

EU Budget

The Treaty on the Functioning of the EU (TFEU) provides for a European Union budget to finance the various activities which underpin its policies. These include agriculture (through the Common Agricultural Policy or 'CAP'), structural and cohesion funding, research, education, competitiveness for SMEs and a range of other activities. Ireland has been a significant net beneficiary from the EU Budget since accession in 1973. However, **Ireland became a net contributor in 2014** and now coordinates with other net contributors to develop joint positions on key issues, both in advance of and during negotiations.

The EU Budget section deals with the analysis, negotiation, payments, and forecasting of the Multiannual Financial Framework (MFF) and annual budgetary processes. The section also acts as Ireland's Anti-Fraud Coordination Service (AFCOS) and deals with other EU Budget fraud related matters. The work of the EU Budget Section is to ensure the outcome of the negotiations on the MFF and annual budgets reflects Irish policy priorities, whilst simultaneously protecting and advancing our national interests. The annual (Ecofin) Budget Council generally takes place in November, with a view to securing agreement on the annual budgetary package. Ireland is usually represented at Minister of State level.

In 2021, Ireland contributed c. €3.5 billion towards the financing of the EU budget and received €2.4 billion. The vast majority of Irish receipts are direct payments to Irish farmers. The EU budget section has responsibility for executing Ireland's bi-monthly national EU Budget contributions in an efficient and timely manner.

Multiannual Financial Framework 2021-2027

The MFF is the long term budget of the EU, agreed by unanimity, which lays down the maximum annual amounts that the EU may spend. In July 2020, EU leaders reached agreement on a package totalling €1.82 trillion for the 2021-2027 MFF and "Next Generation EU" (NGEU) recovery fund.

The MFF provides for a total budget of €1.074 trillion for the years 2021-2027, which is supplemented by the temporary NGEU of €750 billion, which is made up of €390 billion in grants and €360 billion in loans. To fund the NGEU, the Commission borrows the €750 billion on the capital markets. It is empowered to do so under the Own Resources Decision, which also increases the headroom (space between actual spending and the Own Resources Ceiling) which can be used to guarantee borrowing.

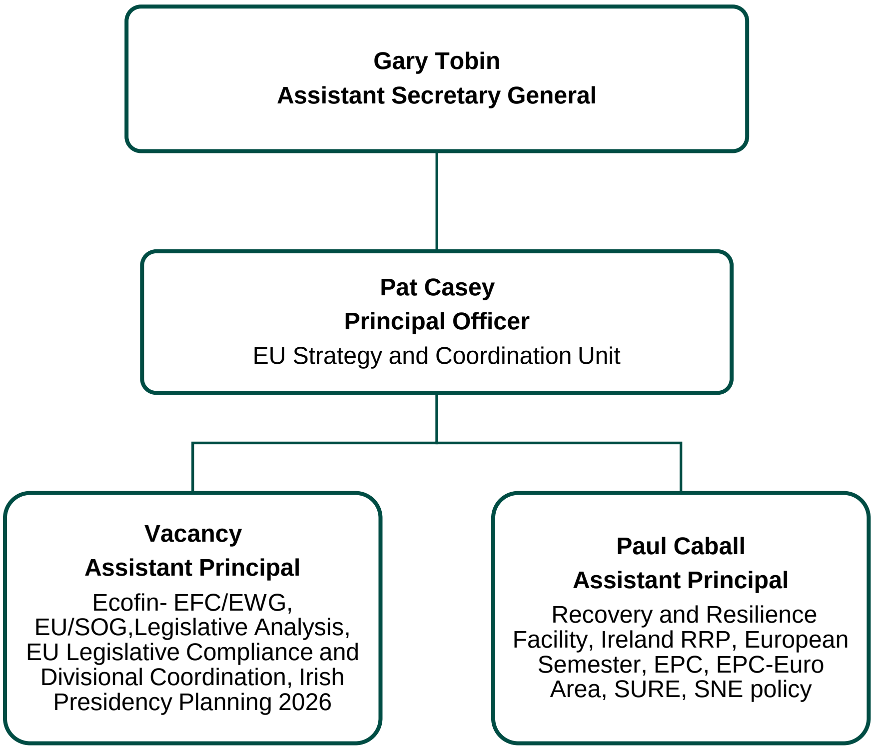
Member State contributions to the EU Budget must match the level of payments in the EU budget (i.e. the funds being transferred from the EU to beneficiaries). Member States contributions are currently calculated based on the Own Resources Decision 2020/2053, which sets out the different own resources each Member States must pay towards the Union's budget, which are as follows:

- GNI own resource – a GNI contribution based on a Member States share of total EU GNI (Ireland contributed c. €2.7 billion in 2021)
- VAT own resource – Member States pay 0.3% of its VAT base to the EU budget (Ireland contributed c. €286 million in 2021)
- Traditional own resources – primarily customs duties, Member States pay 75% to the EU budget and retain the remaining 25% (Ireland contributed c. €390 million in 2021)
- Plastics based own resource – Member States pay €0.80 per kg of plastic packaging waste generated that is not recycled (Ireland contributed c. €146 million in 2021)

In the first half of 2023, the European Commission is expected to publish a proposal for a mid-term review of the MFF. The exact details of this review are not yet known, but it is expected to deal with the exceptional set pressures on the EU Budget that have emerged since the July 2020 agreement for the 2021-2027 MFF.

3.1.6.2 EU strategy and co-ordination

Principal: Pat Casey



KEY POINTS

- Management of the Department's engagement at high level EU fora including the Economic and Financial Affairs Council (ECOFIN), Economic and Financial Committee (EFC) / Eurogroup Working Group (EWG), Economic Policy Committee (EPC) (and in Euro Area formation) and the European Council;
- Manages the Department's involvement in the European Semester process of economic governance, and works with other Departments to coordinate the overall Irish position on new initiatives under the Semester framework.
- Chair of the EU-level EPC in Euro Area formation, and EPC Climate Change and Energy Working Group;
- Management of Ireland's engagement with the Recovery and Resilience Facility (RRF) at EU level, including payment requests and the negotiation of the REPowerEU Regulation;
- Part of interdepartmental steering committee with the Department of Public Expenditure and Reform and the Department of the Taoiseach to oversee the implementation of Ireland's National Recovery and Resilience Plan (NRRP).
- The Unit acts as a focal point both internally and externally on EU Developments.
- Irish Presidency planning for 2026.
- IGEUB and Inter-Departmental Committee on EU Engagement (ICEE)

DETAIL:

ECOFIN and EU Coordination Unit

The EU Strategy and Coordination Unit manages the Department's engagement at a number of key EU Council formations and Committees, primarily ECOFIN (Ministerial level) and the European Council (Heads of State level). The Unit also coordinates briefing for the Department's officials/delegates (official level) to the Economic and Financial Committee (EFC) and the Eurogroup Working Group (EWG) (which prepares ministerial meetings).

ECOFIN meetings are convened monthly, except August. At ECOFIN level there are nine formal Councils (7 in Brussels with June and October being in Luxembourg) and two Informal Meetings in April and September based in the Member State that holds the rotating six monthly EU Presidency. On occasion, ad hoc videoconference meetings may be called for urgent matters, for example matters relating to the Russian war in Ukraine and payment requests under the RRF.

Preparation of the various briefs involves cross-Departmental divisional coordination (in particular with the Departments Financial Services Division, Fiscal Policy Division and Economic Division) and, on occasion, external Departments (including Department of Public Expenditure and Reform). The Unit also liaises closely with Ireland's Permanent Representation in Brussels.

EU Ministerial meeting Priorities

Presently, Czechia holds the role of EU President (to be followed by Sweden for H1, and Spain for H2 2023). The Czechia economic and finance priorities are:

- Managing the refugee crisis and Ukraine's post-war recovery
- Energy security
- Strengthening Europe's defence capabilities and cyberspace security
- Strategic resilience of the European economy
- Resilience of democratic institutions.

Domestic Engagement

The Unit prepares material for the Minister for engagement with the Cabinet Sub-Committee on EU Affairs, and manages the Departments domestic engagement with the Oireachtas on behalf of the Minister, which comprises a number of elements:

- Management of the transposition of EU Directives and coordination of compliance with any infringement proceedings on behalf of the Department;
- Department of Finance representative at the Inter-Departmental Committee on EU Engagement (ICEE), chaired by the Minister for European Affairs, to discuss Directives and Infringements;
- Management of the Department's information notes process on EU proposals and submission to the Oireachtas on behalf of the Minister;
- Submission of the bi-annual six-monthly Report on EU Developments to the Oireachtas on behalf of the Department, and;
- First point of contact for the Department of Finance on behalf of EU Enlargement Matters and Trade Agreements.

National Coordination

Preparation and coordination at the Interdepartmental Group on European Union and Brexit (IGEUB). This is the coordination of Ireland's overall policy on EU and Brexit matters, with the Department of An Taoiseach and Department of Foreign Affairs.

EU Strategy Unit

EU Strategy section is responsible for three main areas of work:

1. The European Semester;
2. Economic Policy Committee (EPC) and EPC in Euro Area Formation (EPC-EA);
3. The Recovery and Resilience Facility (RRF)

Economic Policy Committee (EPC) and EPC in Euro Area (EPC-EA)

The Economic Policy Committee (EPC) was set up in 1974 to contribute to the Council's work of coordinating the economic policies of the Members States and to provide advice to the Commission and the Council about areas under its remit.

The EPC supports the Council with the implementation of the European Semester, specifically the formulation of the broad economic policy guidelines and the multilateral surveillance of macroeconomic imbalances and structural reforms. The EPC also supports the work of the Economic and Financial Committee (EFC) by preparing relevant parts of the EFC agendas. The EPC is also the forum for a technical-level macroeconomic dialogue with the ECB, the EFC, the Employment Committee, the Commission, and social partners.

The EPC generally meets monthly. Since the pandemic, the EPC met mostly by videoconference but is now back to meeting in person in Brussels for every second meeting. The EPC has two full members and two alternate members from each country; all four delegates work in the EU Strategy section.

The EPC also meets in euro area formation (EPC-EA), to support the work programme of the Eurogroup by preparing items for the Eurogroup Working Group (EWG). As well as attending the EPC-EA, the EU Strategy section PO currently acts as Chair of that committee, with support from the Council Secretariat.

The EPC has working groups which provide technical input on specific policy areas. These working groups are the Working Group on methodology to assess Lisbon related structural reforms (LIME), the Ageing Working Group, the Output Gap Working Group and the Energy and Climate Change Working Group. Specialist staff from relevant areas of the Department attend these working groups. However, the EU Strategy section PO is currently Chair of the ECCWG.

The Recovery and Resilience Facility (RRF)

The Recovery and Resilience Facility (RRF) is the key instrument in the EU's €750 billion[3] NextGenerationEU package. The Regulation establishing the Facility came into force in February 2021, and the Facility supports actions taken in the period 2020 to 2026.

[3] 2018 prices.

To date, 26 Member States have had Recovery and Resilience Plans approved. The implementation of these Plans is well underway, and Member States are in the process of submitting performance-based payment requests. So far, the European Commission has disbursed just over €135 billion euro in grants and loans to support Member States' Plans.

Ireland has supported the adoption of the Council Implementing Decisions for all Plans discussed at ECOFIN to date. These plans have the potential to contribute significantly to the green and digital transitions and they address a significant number of country specific recommendations facing EU countries.

Discussion and negotiations are underway in relation to proposals to amend the RRF Regulation to facilitate the financing of REPowerEU. REPowerEU is a plan to phase out the EU's dependency on Russian fossil fuel imports. The plan aims to boost the independence and security of the Union's energy supply. In practical terms, Member States will be invited to add a 'RePowerEU chapter' to their Recovery and Resilience Plans to finance key investments and reforms which will help achieve the REPowerEU objectives. The proposed financial package comprises €225 billion in un-used RRF loans, €20 billion in new RRF grants, and additional voluntary transfers from Member States' allocations of certain other EU funds.

Domestically, the Department works closely with the Implementing Body (the Department of Public Expenditure and Reform) and the Department of the Taoiseach to support the implementation of the Irish National Recovery and Resilience Plan (NRRP). The Minister for Public Expenditure and Reform and the Minister for Finance have brought a series of joint Memos to Government throughout the development and implementation of the NRRP. The Department of Finance acts as Deputy co-Chair of the Delivery Committee, the cross-government committee that monitors the implementation of the NRRP projects.

The Department of Finance is individually responsible for three reform projects which include the carbon tax, measures to combat aggressive tax planning, and changes to supplementary pensions. The Department is also partly responsible for another reform project in the area of anti-money laundering, in conjunction with the Department of Justice. All milestones under the remit of the Department are either completed or are on track for delivery in line with the agreed schedule.

The European Semester

The Unit is responsible for managing the Department's engagement in the European Semester, the process of economic policy coordination for EU Member States. At national level, Ireland's participation in the domestic elements of the Semester process is managed by the Department of the Taoiseach. At EU level, most of the core Semester activities take place in the ECOFIN Council and its preparatory bodies. The section manages Ireland's participation in discussions of Semester documents and issues in those fora.

The European Semester operates on an annual cycle. The purpose of the framework, which brings together several distinct legal and administrative processes (e.g. the Macroeconomic Imbalances Procedure and the Stability and Growth Pact) is to facilitate bilateral and multilateral surveillance, and support policy coordination in areas where competence lies with national governments. It was introduced in 2010 (2011 Semester cycle) as a response to the financial crisis.

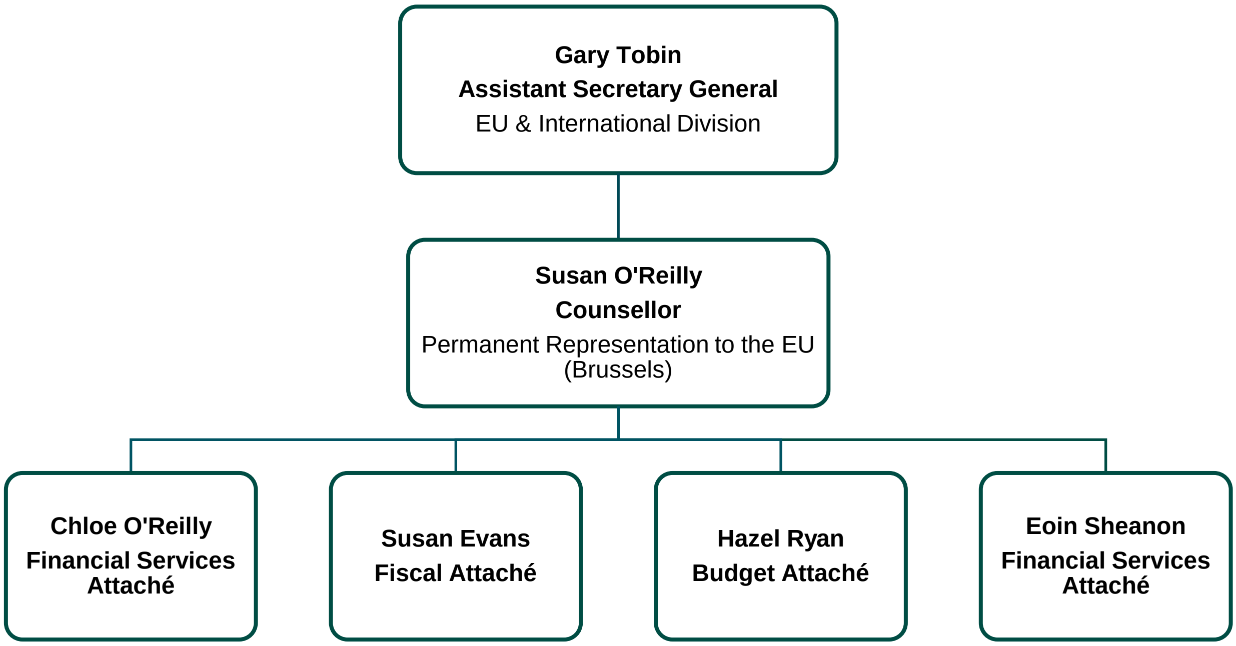
The 2021 Semester cycle was significantly altered to accommodate impact of Covid 19 and the implementation of the Recovery and Resilience Facility. During the 2021 Semester cycle, Member States focused on the preparation of their Recovery and Resilience Plans. The Commission did not produce Country Reports or issue new country specific recommendations (except fiscal guidance). The integration of the Semester and the RRF will continue up to 2026.

The 2022 Semester cycle returned to a more normal footing, bringing back Country Reports and Country Specific Recommendations (CSRs). However, the 2022 cycle continued to incorporate the implementation of the Recovery and Resilience Facility as a core priority. Further, the new country specific recommendations included a focus on energy policy, in reaction to the war in Ukraine and the resulting energy price crisis.

The 2023 Semester cycle will be launched on the 22 November when the European Commission publishes the Autumn Package. This Package includes key Semester documents that set the policy priorities for the next 12-18 months, and draft recommendations for the economic and fiscal policy of the euro area member states.

3.1.6.3 Permanent Representation of Ireland to the EU

Financial Counsellor – Susan O'Reilly



KEY POINTS

Five Department of Finance officials are seconded to Ireland's Permanent Representation in Brussels with responsibility to:

- support the Minister and officials in the discharge of strategic objectives;
- monitor and advance, as appropriate, the Irish policy agenda across all dossiers of relevance to the Department of Finance;
- participate in meetings at Council (ministerial level), Coreper (Ambassador level) and Working Group level as appropriate;
- The financial services attaché, Eoin Sheanon, is seconded from the Central Bank of Ireland.

DETAIL:

The Permanent Representation in Brussels is dedicated to pursuing, securing and protecting Ireland's interests and objectives in the EU. At the highest level is the European Council, a meeting of leaders (either Heads of State or of Government (HOSG)) which sets EU strategic direction. The Taoiseach attends these meetings, which take place about six times a year. In addition, HOSG also meet in Euro summit format (EU27 or Euro area 19 format). The Euro summit provides guidance to ensure the smooth functioning of the Economic and Monetary Union.

The Council of the European Union ('the Council') are meetings at ministerial level which take place in various formations i.e. finance, agriculture, justice etc. Matters related to Economic and Financial Affairs are discussed at the monthly meeting of ECOFIN attended by Ministers for Finance/Economy. Member States whose currency is the Euro meet in advance of ECOFIN, in the formation known as Eurogroup. The current president of Eurogroup is Minister Paschal Donohoe, Irish Finance Minister, with confirmation of a second term possible at the December Eurogroup. Ministers may also meet in Eurogroup Inclusive format i.e. EU27 Finance/Economy Ministers. This grouping is also presided over by Minister Donohoe.

On a day to day basis, the Department is represented in Brussels by Perm Rep officials, supported as necessary by colleagues travelling from Dublin. Ireland is thus represented at every meeting, at every level in the Council, to make Ireland's case and strengthen alliances to influence EU policy. One such example is the "Hansa" alliance – an informal network of small, similarly-minded, export oriented countries. Hansa is comprised of Ireland, Netherlands, Baltics (Estonia, Latvia, & Lithuania), and Nordics (Finland, Sweden, & Denmark). Meetings have been taking place at ministerial and senior official level over the last number of years. On the EU budget, our alliance with net contributors (Austria, Belgium, Denmark, Finland, France, Germany, Netherlands and Sweden) is useful strategically and in terms of information-sharing.

The Finance team in the Permanent Representation has a team of five staff who are seconded to the Permanent Representation. The team consists of a Financial Counsellor, two financial services attachés, one EU budget attaché and one fiscal (tax) attaché. One of the financial services attachés is seconded from the Central Bank.

On the instruction of the Minister, and in close consultation with the Department, the team in the Permanent Representation negotiates and lobbies on behalf of Ireland to ensure that Ireland's interests are reflected in EU laws and decisions. In order to deliver this, the staff work closely with all other Member States in the Council, with the Commission, the European Parliament in particular Irish MEPs, other institutions, the Council Secretariat, and a wide variety of other stakeholders.

EU Policy Priorities

The staff in the Permanent Representation take policy direction from the Minister for Finance. The relevant line Divisions in the Department have responsibility for proposing policy choices with respect to the policy priorities to the Minister. The team in the Permanent Representation provides early warning and intelligence to assist in the formulation of policy and participate in negotiations, as appropriate, to advance Ireland's interests.

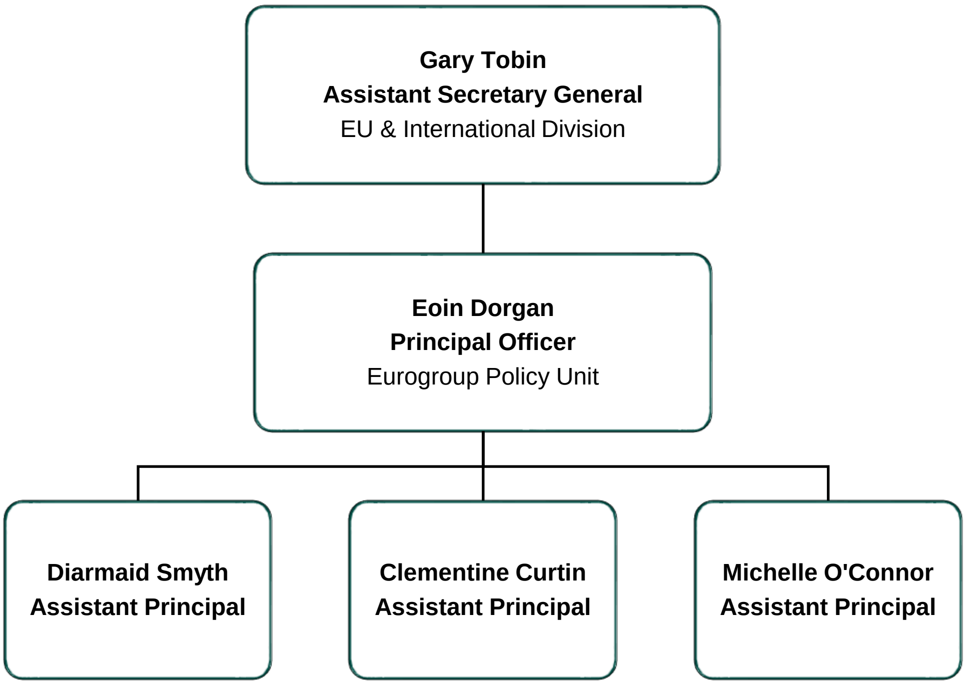
The current focus of the Department's EU policy, as outlined above, is directed at promoting and protecting Ireland's position in the following six areas, including managing the detailed negotiation of certain COVID related instruments;

- **Emergency Response to Covid, Energy crisis and the war in Ukraine:** Represent Ireland at negotiations on new response instruments to the energy crisis, financing Ukraine and the implementation of Covid response instruments (including SURE and Recovery and Resilience Facility).

- **EU/UK:** Strategically manage the EU-UK agenda as it impacts on the Departments responsibility for economic and financial matters.
- **Governance:** Ensuring that the outcome of the debate on the future of the Economic and Monetary Union (EMU) is aligned with protecting Ireland's interests.
- **Taxation:** Protecting our national interests on Direct and Indirect EU taxation policy.
- **Financial Services/Banking**: Progressing files on Capital Markets Union, Anti-money laundering, Solvency II, and Instant Payments and advancing Sustainable Finance and Fintech.
- **EU Budget**: Promoting and protecting our key national interests on the budget, in what we receive, what we contribute and how the budget is managed.

3.1.6.4 Eurogroup Policy Unit

Principals – Eoin Dorgan & Declan Kelly



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3.1.7 Banking Division

The briefing prepared by Banking Division provides a high level introduction to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

Assistant Secretary General – Oliver Gilvarry

DESCRIPTION:

This Division deals with policy for the banking sector, EU banking, credit and payments regulation, financial services consumer protection policy, small/medium business access to credit and mortgage arrears. The Division is also responsible for the Department's work on financial stability, Central Bank powers and functions, and NTMA managed State funding and investment strategies (e.g. NewEra, ISIF).

Irish Banking Sector

The Division as a whole works to monitor the performance of the Irish Banking sector and the challenges facing the sector. The size and complexity of the Irish banking landscape materially changed in light of Brexit, with the increase in sector size primarily driven by the expansion of international banks – Irish banks' balance sheets stand at €928bn at end September 2022[4].

The regulatory framework of the banking sector has changed significantly over the last decade, driven by domestic and European legislation. This has included a material strengthening of banking regulation. In the Eurozone, the Single Supervisory Mechanism (SSM) was established to directly supervise Europe's largest banks (currently comprises c. 110 banks, including AIB and BoI). In Ireland domestic reforms included significant changes to the legislation related to the Central Bank such as the Central Bank (Supervision & Enforcement) Act 2013, a strengthening of the Consumer Protection Code (CPC) and the introduction of the Code of Conduct on Mortgage Arrears (CCMA).

Retail Banking Review

In November 2021, Minister Donohoe published the Terms of Reference for a broad-ranging review of the retail banking sector in Ireland. The Review was conducted by officials in the Department with assistance from other Government agencies and Departments. Implementation of the recommendations of the Review will form a substantial part of the workload of the Banking Division in 2023.

Mortgage Market

The traditional banks have the vast majority of new mortgage lending and the exit of KBC and Ulster Bank will increase this share further. Non-bank lenders have grown their share of new mortgage lending in recent years from almost zero to 13%.

[4] Central Bank of Ireland

The rising interest rate environment has also resulted in an increase in the level of re-mortgaging, with Q3 re-mortgaging and top-ups totalling €1.3bn compared to €0.5bn in the same period last year according to BPFI data.

Consumer Protection

The framework for consumer protection has been enhanced significantly over recent years, for example by the introduction of new legislation for High Cost Credit Providers, and bringing Personal Contract Plans (PCP) car loans and 'Buy Now Pay Later' within the regulatory perimeter. The launch by the Central Bank of Ireland of a comprehensive review of the Consumer Protection Code (CPC) will be a further catalyst for ensuring a comprehensive consumer protection framework operates in Ireland.

The banks themselves have taken steps such as the establishment of the Culture Board to face up to and deal with the mistakes of the past in their engagement with consumers. In addition, the forthcoming introduction of the Senior Executive Accountability Regime will also require staff across the impacted organisations to consider the impact on their customers from their actions.

Thus, industry plays a key role in supporting their customers in an evolving retail banking environment. The current work of the traditional banks in supporting customers impacted by the exit of KBC and Ulster Bank is one example, another is the work of BPFI in supporting customers in vulnerable circumstances. Industry must continue to build upon this work especially in support their customers in the roll-out of digital enabled products and services, especially those more at risk, including the vulnerable.

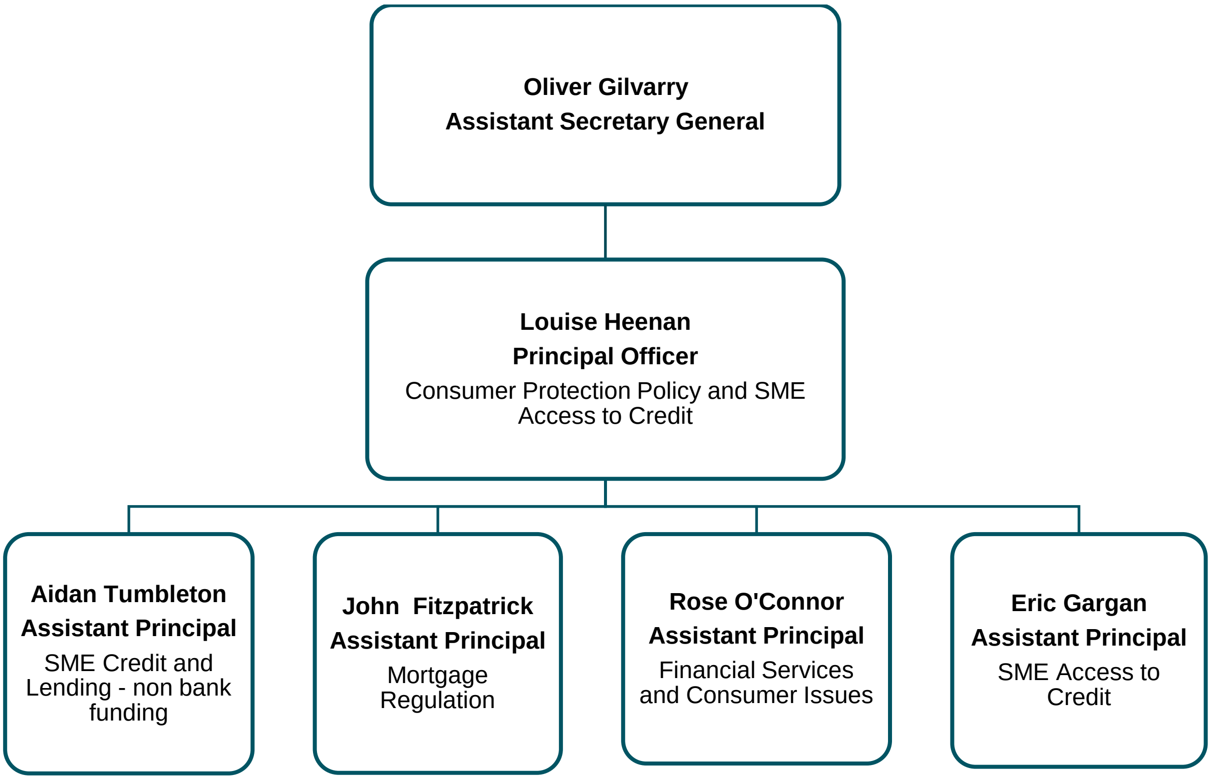
Other challenges to the banking sector

The immediacy and significance of the impact of Covid-19 on the bank sector should not distract from other interlinked challenges also facing the sector, including:

- Changing interest rate environment;
- Geopolitical and macroeconomic uncertainties, including Brexit and the Russian invasion of Ukraine;
- Ever greater competition from Fintech companies;
- Increase in cyber risks;
- Level of EU regulation and more intrusive supervision; and,
- Digitisation-cost of technology transformation.

3.1.7.1 Policies on mortgage arrears, mortgage regulation, consumer protection issues, SME credit & lending, the Strategic Banking Corporation of Ireland, the Credit Review Office and the Financial Services and Pensions Ombudsman

Principal Officer: Louise Heenan



KEY POINTS

- Ensuring that the appropriate structures and protections for consumers are in place is an ongoing challenge. Consumer protections are vital to equalise the advantages that financial services firms have relative to retail consumers. However, it is important to get the balance right as excessive and inefficient levels of consumer protection could lead to consumers paying higher costs for financial services (in terms of interest rates and charges). It could also lead to unequal access to financial services (as risk averse firms will only extend credit/services to wealthy or less risky consumers thus impeding social mobility).
- One of the challenges of the moment is protecting consumers through the consolidation taking place in the retail banking sector. The withdrawals of Ulster Bank and KBC involve a number of large loan sales, the closure of branches and centrally, the forced migration of over 1 million current and deposit accounts from the exiting banks.
- Residential mortgage new lending continues to grow and it reached a post financial crash high of €10.5bn in 2021, an increase of 25% on the 2020 position. In the first none months if 2022, new mortgage lending amounted to €9.7bn which was 36% higher than the same period in 2021.

- The interest rate cycle has now changed and, while the impact on non-tracker mortgage rates has so far been limited, it can be expected that this will more widely impact on the mortgage market in the coming period as interest rates continue to increase as expected. Including an increased level of mortgage switching.
- SME access to credit from bank and non-bank sources remains important for economic recovery. The key objectives for 2023 in relation to SME Credit and Lending/Finance are to ensure that viable SMEs continue to have access to appropriate finance at a reasonable cost from both bank and non-bank sources and to put in place appropriate supports to assist SMEs deal with the economic impact of the invasion of Ukraine.
- Progress Credit Review Service Bill to put the Credit Review Office on a statutory footing and widen its remit.
- Implement the recommendations of the Retail Banking Review on the SME Regulations

DETAIL:

This section is largely focused on ensuring that the consumer's interests are protected in the financial services industry. The main issues arising in this area are as follows:

Consumer Protection Policy

The focus is on promoting consumer protection in financial services at domestic and EU level. The Department maintains close links with the Financial Services and Pensions Ombudsman (FSPO) and the Central Bank – both of these bodies have a role in consumer protection and are bodies under the aegis of this Department. The Competition and Consumer Protection Commission under the Department of Enterprise, Trade, and Employment has a broad mandate for the enforcement of competition and consumer protection law and its remit includes financial education and the division has a strong working relationship with it on consumer issues.

Withdrawal of Ulster Bank and KBC, and mass account migration

The Minister for Finance does not have a role in the operations of any bank. The priority is that the withdrawals take place in an orderly manner.

Officials are engaging regularly with both banks, the Central Bank, the Competition and Consumer Protection Commission, and the Banking Payments Federation of Ireland to ensure a cohesive approach regarding consumer protection and information provision. Regular submissions are prepared to keep you up to date on issues.

The Central Bank is actively supervising the exits. As part of the Central Bank's supervisory engagement, it has met with the CEO's of the five main retail banks a number of times and outlined the need for better planning, customer focused arrangements, proactive communications and system wide engagement. In September, the Central Bank began publishing monthly statistics on account migration. Migration activity has been in line with the expectations of the Central Bank to date.

In December, Ulster Bank and KBC will begin closing accounts, starting with accounts that have a low volume of activity (customer initiated transactions).

Ulster Bank recent updates

In February 2021, Natwest announced it was withdrawing Ulster Bank from the ROI market. The remaining banks are purchasing different parts of Ulster Bank's loan book:

- Permanent TSB (PTSB) has completed its acquisition of Ulster Bank's performing non-tracker residential mortgage business. The portfolio comprises loans with a value of €6.2bn. Of this total amount, €5.2bn was migrated on the 7th of November and the remaining €1bn is expected to be transferred in the second quarter of next year but no later than the final quarter of 2023. PTSB will add 56,000 new customers who are connected to around 36,000 accounts. This will increase PTSB's mortgage book by around 40%.
- AIB will purchase c. €4.2bn of performing commercial loans (transaction approved by the CCPC in April 2022).
- In June 2022, AIB entered a legally binding agreement to purchase c. €6bn of Ulster Bank's performing tracker (and linked) mortgages (c. 47,000 customers). The CCPC is currently reviewing this transaction from a competition perspective.

A total of 25 of Ulster Bank's 88 branches will transfer to PTSB in January 2023.

KBC recent updates

In April 2021, KBC announced it was withdrawing from the Irish market. Bank of Ireland will acquire nearly all of KBC's assets (€8.8bn portfolio of performing loan products, a €4.4bn deposit book, and a €300 million portfolio of non-performing mortgages). The CCPC approved this transaction in May 2022. Eleven of the 12 KBC hubs will close in March 2023, with one Dublin hub remaining open until August 2023.

ESRI Switching Research

Following two advertising campaigns, in November 2021, the third and final phase of the Switch Your Bank campaign was launched. The Economic and Social Research Institute's (ESRI) Behavioural Research Unit has been contracted to use behavioural economics to create tools to assist people in choosing good financial products. A number of research papers are close to being finalised at present.

Moneylending/High Cost Credit

The Consumer Credit (Amendment) Act 2022 was enacted in June and commenced in November. It makes changes to the 'high cost credit providers' (formerly moneylending) framework, by amending the Consumer Credit Act 1995.

Under the legislation the Minster for Finance, via Regulations, sets maximum interest rates that a high cost credit provider can charge a borrower, subject to ceilings:

- For cash loans the max rate of simple interest chargeable must be ≤1% per week, and ≤48% per year
- For a running account the max rate of monthly nominal interest must be ≤2.83%

The current regulations set the rates at the maximum level initially and the caps can be revised downwards in the future. The Central Bank will report on the impact of the caps being set at these rates within 3 years.

The Act also modernises the high cost credit (moneylending) sector, by:

- extending the licence period from 1 year to 5 years;
- removing the requirement for high cost credit providers to register in each District Court;
- prohibiting collection charges on loans;
- introducing a choice for consumers between a paper or online repayment record; and
- replacing the term 'moneylender' with 'high cost credit provider' on the statute book.

Financial Services and Pensions Ombudsman (FSPO)

The Financial Services and Pensions Ombudsman (FSPO) was established on 1 January 2018 following a merger of the Financial Services Ombudsman's Bureau (FSOB) and the Pensions Ombudsman.

The FSPO is an independent, impartial, fair and free service that helps resolve complaints from consumers, including small businesses, against financial service providers and pension providers. The FSPO is funded by levies on financial services providers for financial services complaints, and by a government grant in order to deal with pension complaints.

The Minister for Finance has a number of duties under the FSPO Act in relation to appointments of key personnel in the FSPO and its Council, the making of regulations and legislation necessary for the functioning of the Office of the FSPO, and the laying of key documents such as Annual Reports and Strategic Plans before the Houses of the Oireachtas.

Mr Liam Sloyan was appointed as the Financial Services and Pensions Ombudsman for a 5-year term, effective from 1 December 2022. Officials are now engaged with State Boards to fill a vacancy on the FSPO Council. This process will be concluded in H1 2023.

In April 2021, the Supreme Court found that the Workplace Relations Commission (WRC) is 'administering justice'. The FSPO is also a legislative body which pursuant to the Financial Services and Pensions Ombudsman Act 2017 administers justice in a manner which is limited in scope, as anticipated by Article 37 of the Constitution. The Department is engaged with the FSPO and the Attorney General's Office to explore the implications of this Supreme Court ruling for the FSPO, and to make amendments to the FSPO Act where necessary.

Central Bank of Ireland - Review of the Consumer Protection Code

The Consumer Protection Code (CPC) is at the core of consumer protection in financial services in Ireland. In October 2022, the Central Bank of Ireland launched a Discussion Paper on the review of the Consumer Protection Code on important topics including:

- availability and choice of financial products;
- firms acting in consumers' best interests;
- innovation and disruption;
- digitalisation;
- vulnerability; and,
- financial literacy.

The feedback received will inform the Bank's proposed revisions to the Code, which will be the subject of a formal public consultation in Q4 2023.

G20/OECD High Level Principles on Financial Consumer Protection

The G20/OECD High-Level Principles (the Principles) on Financial Consumer Protection were adopted in 2012, in response to the global financial crisis to enhance financial consumer protection. There is a process underway to update the Principles. It is expected the OECD Council will adopt the new principles in December 2022. The Principles are not legally binding, but there is an expectation on OECD members to do their utmost to implement them.

Proposal to replace the Consumer Credit Directive (CCD)

In June 2021, the European Commission published a proposal to replace the 2008 Consumer Credit Directive (Directive 2008/48/EU) in order to address digitalisation and the emergence of new providers and products. The European Council agreed its General Approach in June 2022.

Political trilogues on this Directive are currently ongoing. The main changes in the proposed new Directive are to increase its scope to cover new products, to require Member States to introduce measures to protect customers from being charged excessive interest rates and to revise advertising and pre-contractual information requirements.

Proposal to update the Distance Marketing of Financial Services Directive (DMFSD)

In May 2022, the Commission published a proposal to update the Distance Marketing of Consumer Financial Services Directive (Directive 2002/65/EC) to address the impacts of digitalisation, the new business models and new distribution channels (e.g. financial services sold online) that have emerged, and associated marketing and business practices.

European Council Working parties to agree a General Approach are ongoing. The main areas under discussion include the provision of pre-contractual information, the right of withdrawal, and online fairness.

Residential mortgage market and other issues

New mortgage lending

The level of new residential mortgage lending, which reached an annual low of €2.5bn in 2013, continues to increase. The market has now recovered with new residential mortgage lending amounting to €10.5bn in 2021. In 2022, over €9.7bn in new lending mortgage was provided in the first nine months of this year which was 36% higher than the same period in 2021.

Macro prudential policy on residential mortgage lending

In February 2015, the Central Bank introduced macro-prudential rules with loan-to-value (LTV) and loan-to-income (LTI) limits on residential mortgages provided by regulated financial service providers. Following a comprehensive review of the rules, on 19 October 2022 the Central Bank announced changes to the lending rules to come into effect from the start of 2023. The main changes to the lending rules are:

- The loan to income (LTI) for first-time buyers will increase to 4 times their gross income (the previous limit was 3.5 times income and that remains the LTI limit for second & subsequent buyers);

- The loan-to-value (LTV) limit for second & subsequent buyers will increase to 90% (the previous limit was 80% and the existing 90% LTV limit for first time buyers and the 70% limit for buy to let buyers will remain unchanged);
- The discretionary allowances (ie the amounts lenders can lend above the thresholds) have also been adjusted and streamlined;
- The definition of “first time buyer” for the purpose of the lending rules was also changed to permit borrowers who are divorced or separated or have undergone bankruptcy or insolvency may be considered a first time buyer (where they no longer have an interest in the previous property).

In accordance with the statutory requirement (as provided for in the Central Bank (Supervision and Enforcement) Act 2013), the Central Bank consulted the Minister for Finance on these changes but the decision on the mortgage lending rules is a matter for the Central Bank Commission.

Mortgage interest rates

The interest rate environment is changing and the ECB has so far implemented three increases in official lending rates in the second half of 2022. For the past number of years, new Irish mortgage rates had been higher than the Eurozone average but that has changed (at least so far) in recent months.

For example, at the end of December 2021, new Irish mortgage rates were 1.4% higher that the Eurozone average but by end June 2022 this had declined to 0.8% and by end September 2022 (which is the latest available published Central Bank data) the differential is now 0.2%. Nevertheless, there has been upward interest rate pressures in the retail mortgage market, in particular in the case of ‘non-banks’, and the two main banks have also recently announced increases in their fixed interest rates (but not, so far, in respect of their variable interest rates).

New mortgages are now predominantly at a fixed interest rate (in September 2022 91% of new mortgages were at a fixed interest rate), and in respect of outstanding with credit institutions the Central Bank has indicated that, as at end June 2022, 53% of primary dwelling mortgages were at a fixed interest rate, 27% were at a tracker interest rate and that a further 20% are on a non-tracker variable rate. While the changed interest rate environment has so far impacted on all existing tracker and some variable rate mortgages and on some new fixed rate mortgages, as the official and market interest rates continue to increase it can be expected that it will have a wider impact on the retail mortgage market in due course.

However, from a legislative and regulatory position, there are no controls on the setting of mortgage interest rates in Ireland and it is a matter for individual lenders to determine their own interest rates having regard to their costs, competitive situation, level of demand and other relevant considerations.

Nevertheless, the Central Bank has, without interfering with the market mechanism for determining interest rates, introduced a number of regulatory measures in its Consumer Protection Code over recent years that are designed to improve the variable interest rate setting process by making it more transparent and by also helping consumers make savings.

It should be noted that a private member's bill, entitled the Central Bank (Variable Rate Mortgages) Bill 2022, was published in June 2022 and its primary objective is to provide powers to the Central Bank to, having regard to various factors, to assess whether or not a market failure exists in the residential mortgage market. If it concludes such a failure exists, the Bill allows the Central Bank to control the level of variable mortgage rates sets by a particular mortgage lender or lenders.

Tracker mortgage examination

The final report of the supervisory phase of the Central Bank Tracker Mortgage Examination was published in July 2019. It outlined that over 40,000 customer accounts were impacted by lender failings and that almost €700 million of redress and compensation was paid to impacted borrowers.

The Central Bank has concluded enforcement actions and imposed fines on lenders for their tracker related failures which were BOI €100.5m; AIB/EBS €96.7m; Ulster Bank €38.8m; PTSB/Springboard €25.5m; KBC €18.3m. The Central Bank has indicated that it will now monitor developments in the Financial Services and Pensions Ombudsman (FSPO) and the courts in relation to the tracker issue to see if any further action is required by it arising from decisions which may be made in those for fora (the FSPO has indicated that it currently has over 1,000 tracker related complaints on hand).

Credit Servicers Directive

The Credit Servicers Directive was agreed in November 2021 and it has to be transposed by December 2023.

The main purpose of the directive is to promote a secondary market for non-performing loans and it lays down a common framework for the sale and management of bank originated non-performing loans which are transferred or sold after 29 December 2023. In particular, it provides for a new EU wide authorisation and regulatory framework for 'credit servicers' to be overseen by national competent authorities [redacted] and it allows such authorised entities to passport credit servicing activities across the EU based on a home Member State authorisation.

Redacted under Section 29(1)(a) of the FOI Act 2014.

This EU framework, however, will not apply to the sale of performing loans originated by credit institutions, or to the sale of non-performing loans originated by credit institutions which take place before 30 December 2023, or to the sale of performing or non-performing loans originated by non-credit institutions. [redacted]

Redacted under Section 29(1)(a) of the FOI Act 2014.

In addition to the activities of 'credit servicers', the Directive also places certain obligations on credit institutions, 'credit purchasers', 'credit service providers' and 'appointed representatives'. [redacted]

Redacted under Section 29(1)(a) of the FOI Act 2014.

[redacted]

[redacted]

Finally, the Directive contains amendments to the Consumer Credit Directive and the Mortgage Credit Directive which will, inter alia, impose obligations on creditors to have adequate policies and procedures so that they adopt reasonable forbearance procedures before initiating default enforcement proceedings.

[redacted]

Redacted under Section 29(1)(a) of the FOI Act 2014.

Mortgage Arrears

There has been an overall decline in mortgage arrears, and in long term mortgage arrears, in recent years. The latest available Central Bank data on mortgage arrears - which for the quarter ending June 2022 – indicates that slightly over 46,000 primary dwelling (PDH) mortgages were in arrears.

When those mortgages which are in very short term arrears are excluded, some 31,645 mortgages were in arrears of more than 90 days, which is 4.4% of all PDH mortgages (this key arrears indicator peaked at 12.9% in 2013 when almost 99,000 PDH mortgages were more than 90 days in arrears).

In relation to long term arrears (i.e. where mortgage accounts have accumulated arrears of more than 1 year in arrears), the number of PDH accounts in this arrears category was 24,900 at end June 2022 down from 26,800 at end 2021. The Central Bank recently published an analysis of long term mortgage arrears which found, inter alia, that:

- 65% of long term mortgage arrears are held by non-bank creditors;
- around half of all those in long-term arrears made no repayment towards their mortgage in 2020 and 2021 and 75% of such accounts that made no payments are held by non-banks (nevertheless the data also showed that borrowers can exit long-term arrears where there is cooperation between a borrower and a lender) and
- at end-2021 lenders had classified 15,000 (circa 55 per cent) of all accounts in long-term arrears as 'not co-operating' (however, against this 45% of LTMA accounts were classified as

'co-operating' and separate Central Bank data would suggest that only some of these accounts were on a formal restructure arrangement).

The framework to address mortgage arrears, which is broadly that as set out in the 2011 Keane Report, which comprises the following elements:

- consumer protections and a mortgage arrears resolution process, in particular utilising the framework and protections contained in the Central Bank Code of Conduct on Mortgage Arrears;
- Central Bank regulatory engagement with mortgage lenders and servicers;
- the provision of an independent mortgage information and advice service, in particular utilising the MABS service and the 'Abhaile' scheme;
- under the framework of the Insolvency Service of Ireland, significant personal insolvency options are now available to insolvent borrowers, including those in arrears on a primary home where the Courts can impose a restructure arrangement on a secured lender if deemed appropriate in all the circumstances of an individual case;
- the Department of Housing mortgage to rent (MTR) as a social housing response to households with a social housing need following the conclusion of an unsustainable private mortgage.

In a report published earlier this year, the IMF recommended a number of changes in the area of repossessions, the courts and insolvency systems to further tackle the issue of long term mortgage arrears including to 'further develop the government strategy, ensuring coordination across multiple responsible agencies, to provide targeted solutions to LTMA borrowers based on their financial situation and debt servicing capacity, taking into account the experiences of the last decade, increased data collection and the entrance of non-banks into the area'.

SME Access to Credit

Policy in relation to SMEs is led by the Minister for Enterprise, Trade and Employment. However, this Department works very closely with the Department of Enterprise, Trade and Employment in relation to SME access to credit.

Strategic Banking Corporation of Ireland

The Strategic Banking Corporation of Ireland (SBCI) was established by the Strategic Banking Corporation of Ireland Act 2014. The SBCI delivers financial supports to Irish SMEs and seeks to address failures in the Irish credit market. It does not lend directly to SMEs, but rather provides funding through its finance partners (known as 'on-lenders'), both bank and non-bank.

The SBCI began lending in March 2015. By the end of December 2021, the SBCI had supported lending of €2.8 billion to SMEs to 46,000 SMEs from all sectors of the Irish economy and across a wide geographical spread.

Ukraine Credit Guarantee Scheme

In recent years, a number of State-backed guarantee schemes have been developed to support SMEs impacted by Brexit and Covid-19 and delivered through the SBCI. In light of the economic impact of the invasion of Ukraine, the European Commission has developed a Temporary State Aid Framework so that Member States can use further schemes to support affected businesses.

In July 2022, the Tánaiste and Minister for Enterprise, Trade and Employment informed Government that he was considering a credit guarantee scheme to provide liquidity support to businesses as part of the response to the Ukraine crisis. An amendment to the Credit Guarantee Act 2012 was required to facilitate this scheme. Government permission to draft these amendments was received in July 2022 and the legislation was brought through the Houses of the Oireachtas in November 2022. The Credit Guarantee (Amendment) Act 2022 was signed into law by President Higgins on 2 December 2022. The Ukraine Credit Guarantee Scheme (UCGS) was established by Statutory Instrument on 8 December 2022.

The UCGS will avail of the Temporary State Aid Framework to unlock up to €1.2 billion of low-cost unsecured working capital for SMEs, small Mid-Caps, and primary producers affected by the Ukraine crisis. The Strategic Banking Corporation of Ireland will deliver the scheme, aiming for its rapid deployment. To ensure availability as early as possible, a pre allocation of €200 million will be made equally to the two largest SME finance providers in the state, Allied Irish Bank and Bank of Ireland. Work is well underway on all operational arrangements required between SBCI and these two banks. This will be followed by the €1 billion Open Call, which takes approximately three months to complete, but allows other smaller lenders to apply to operate the scheme, including non-banks and credit unions.

Growth and Sustainability Loan Scheme

In 2018, an investment gap was identified for SMEs in Ireland which was higher than the EU average. A market failure in relation to the availability of longer-term lending for SMEs in Ireland was also identified. Government responded to this issue by introducing the Future Growth Loan Scheme (FGLS) in June 2019. This State-backed loan guarantee scheme, delivered by the SBCI, made €800m available to SMEs in 7 to 10 year loans. This scheme received a counter guarantee from the European Fund for Strategic Investments

Due to a rapid uptake of the scheme, it was fully subscribed and closed to new applicants in May 2022. An independent review of the FGLS provided strong evidence of positive economic benefits for many SMEs that accessed finance through that scheme, including increases in employment and turnover. The review of the FGLS also confirmed that there is continued demand by SMEs for appropriate longer-term external finance for investment purposes.

On 8 November 2022, Government approved the establishment of a €500 million Growth and Sustainability Loan Scheme (GSLS). The GSLS will be a successor scheme to the FGLS and provide for loans of €25,000 to €3m for terms of 7 to 10 years. Loans of up to €500,000 can be unsecured. The GSLS will be available to SME’s, including farmers and fishers, with maximum loans to mid-caps limited to €937,500 due to State-Aid restrictions.

Under the scheme, 70% of the lending volume will be provided for investment in business growth and sustainability, while a minimum of 30% of lending volume will be directed to investment in environmental sustainability. The SBCI will deliver the scheme, on behalf of the Ministers for Enterprise, Trade and Employment and Agriculture, Food and the Marine. The GSLS is underpinned by a counter-guarantee from the EIF/EIBG and the maximum cost of €115 million in Exchequer funds will be met by Department of Enterprise, Trade and Employment and Department of Agriculture, Food and the Marine on a 60:40 basis.

The GSLS will be launched by the Strategic Banking Corporation of Ireland, on behalf of the two Ministers, in Q2 2023.

Retrofit Scheme

The launch of a Retrofit Loan Guarantee Scheme is a key requirement if Ireland is to deliver on its Climate Action Plan. The creation of this loan scheme was announced in February 2022 with the intention that the scheme be deployed in late 2022. The Department of Finance and the SBCI are currently working with DECC to develop and implement the scheme.

The proposed scheme has a capacity of €500m and is to be part-funded by DECC and the EU Recovery and Resilience Facility under Ireland's National Recovery and Resilience Plan and backed by a counter guarantee provided by the EIB. [redacted]

Redacted under section 36(1)(b) of the FOI Act 2014.

[redacted]

Credit Review Office (CRO)

The Credit Review Office provides an independent review process for SMEs, sole traders and farm enterprises that have had requests for credit refused or had existing credit facilities reduced or withdrawn in respect of loans up to €3 million. AIB, BOI, Ulster Bank and PTSB are the participating institutions.

The Credit Reviewer, a Government appointee (Catherine Collins), provides annual reports to the Minister containing commentary on the SME credit and lending environment. Since its inception in April 2010, the CRO has overturned over €76.2m of bank refusals (representing over 54% of cases that have been appealed to the office) and protecting or creating over 5,152 jobs.

Credit Review Service Bill

The CRO gets its powers under the NAMA Act 2019 and SI 127/2010. Following advice of both the Attorney General's Office and the Department's Legal Unit, the Government approved a General

Scheme on 6 July 2021 to put the CRO on statutory footing. The Bill will provide for the extension of the scope of Credit Review to all regulated SME lenders including non-bank lenders, State-supported loan schemes and on-lenders who participate in SBCI schemes.

Access to Credit and Credit Demand

Since 2012, the Department has commissioned biannual SME credit demand surveys. Key trends evidenced by the survey show that the demand for credit remains moderate with the main reason for low demand is that credit is not required reflecting the strong financial performance of SMEs. An agreement is in place with AIB and BOI to fund this until the end of 2022. It is intended to continue the SME Credit Demand Survey on an annual basis from 2023 as it provides important firm level data used to inform a number of stakeholders and is an important tool to support evidenced based policy formulation with other Departments and to monitor developments in the SME finance market.

G20/OECD High Level Principles on SME Access to Financing

The G20/OECD High-Level Principles on SME Financing were adopted in 2015. In recognition of several important developments in the landscape since 2015, there was a review and the G20/OECD Principles for SME finance were updated to include three additional core principles. These include:

- Principle 8. Leverage the role of financial technologies. Fintech institutions and digital relationships to reduce barriers to SME access to finance.
- Principle 9. Strengthen the availability and uptake of sustainable finance for SMEs.
- Principle 10. Strengthen the resilience of SME finance in times of crisis.

The final version was approved on 30 June, and the 2022 Updated G20/OECD High-Level Principles on SME Financing were transmitted in July, as planned, to G20 Finance Ministers and Central Bank Governors, who welcomed them during their meeting on 15-16 July.

The Principles are not legally binding, but there is an expectation on OECD members to do their utmost to implement them. Officials from the Department participate in the OECD CSMEEE and engage in conjunction with the Department of Enterprise Trade and Employment on this matter as well as related matters in terms of SME financing.

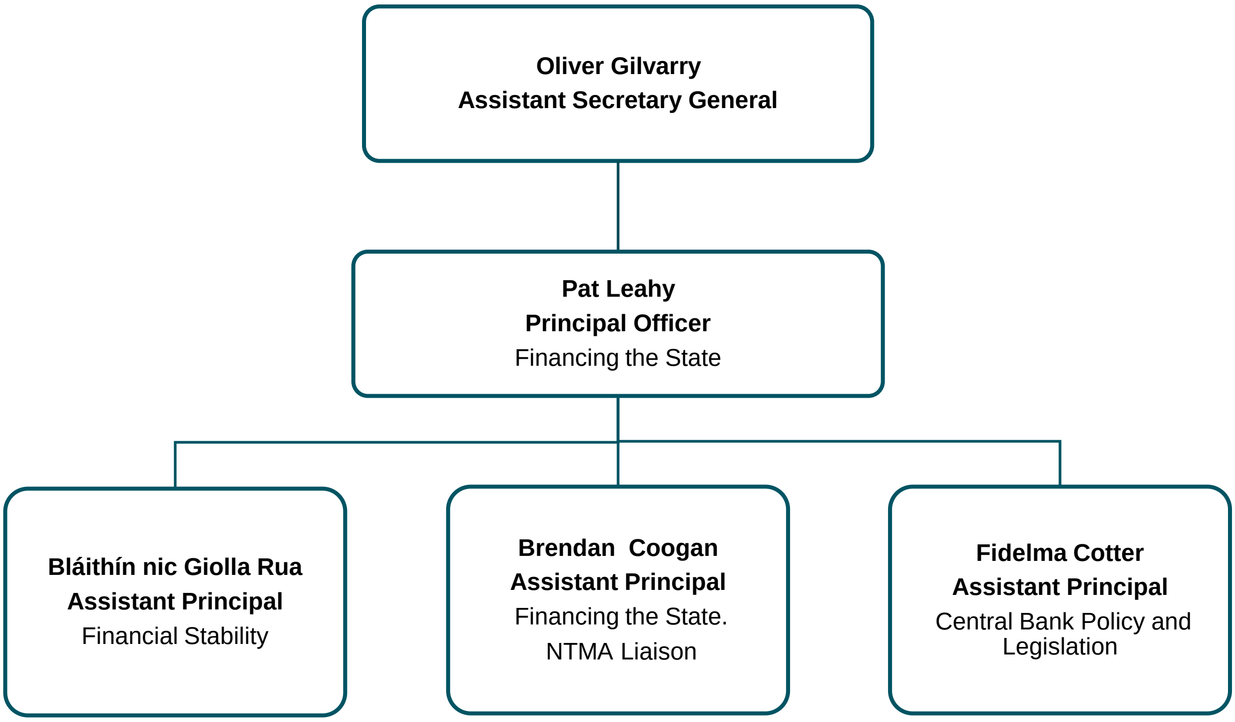
Other non-bank finance initiatives

Crowdfunding

The Crowdfunding Regulation (EU 2020/1503), which lays down uniform requirements for the provision of crowdfunding services throughout the Union, came into effect on 10 November 2021. Following a transitional period, which expires on 10 November 2023, crowdfunding service providers operating in the State must be authorised by the Central Bank.

3.1.7.2 Financial Stability, Central Bank and NTMA policy section

Principal Officer: Pat Leahy



KEY POINTS

- Monitoring and analysing risks to financial stability, including Secretariat to the Financial Stability Group, and coordination of FSG Sub-Groups (Energy Market).
- Relationship with the Central Bank, including financial regulation levies, and the Irish Financial Services Appeals Tribunal (IFSAT)
- Delivering Central Bank (Individual Accountability Framework) Bill.
- NTMA related functions including National Debt management policy, Ministerial consents/guarantees for State borrowing, and Irish Sovereign Green Bonds.
- Administration of the National Reserve Fund – Drawdown and future contributions.

DETAIL:

FINANCIAL STABILITY

Role in Financial Stability

While the Central Bank has statutory responsibility for safeguarding financial stability, the Department supports the Minister by monitoring and analysing risks to financial stability and assisting in the development of mitigants and policies to address potential financial stability risks. As part of its role, the Department serves as Secretariat to the Financial Stability Group (FSG).

Financial Stability Group (FSG), including the Department, the Central Bank, and the NTMA

The core objective of the FSG is to monitor and assess economic and financial stability risks and oversee financial crisis management. The FSG membership includes:

- Department of Finance - Secretary General, Assistant Secretary for Banking and Financial Stability, Assistant Secretary for Financial Services and the Head of the Shareholder and Financial Advisory Division.
- Central Bank of Ireland – Governor, Deputy Governors, and Director of Financial Stability.
- NTMA - CEO and Director, Funding and Debt Management

The FSG meets on a bi-monthly basis and is chaired by the Department. The FSG allows for coordination and sharing of information across the three agencies to manage policies and risks to the State's financial stability.

Crisis Coordination Framework

A Crisis Coordination Framework was developed by the FSG and it details procedures for responding to a potential or actual crisis event. In 2019, the Framework was invoked on two occasions into its initial "Readiness" state in response to a heightened risk of a sudden no-deal Brexit. As part of these invocations, FSG Sub-Groups were formed to manage the coordinated responses and sharing of information. It was also invoked in 2020 to the "Activation" state due to Covid-19, with the formation of a Crisis-Coordination Group to coordinate policy actions and share information between the three bodies on the impacts of Covid-19 on the financial system and the wider economy.

Further FSG Sub-Groups

The FSG has also established Sub-Groups outside of the Crisis structure to share information, coordinate responses and report back to the FSG. In 2017, a Brexit Contact Group was formed to share information on Brexit related financial services issues and to provide the FSG with detailed information of these matters. The Group ran until January 2021.

In March 2022 a Ukrainian Crisis Sub-Group was established to ensure FSG members had a shared understanding of the developments in Ukraine, with a specific focus on the related impact on the Irish financial system and economy. The Sub-Group ran was disbanded in September 2022.

However, a new FSG Energy Market Sub-Group was formed in its place to monitor the current economic, supply and fiscal challenges to the operation of energy markets in Ireland. In addition to the three FSG agencies, this group also includes representatives from the Department of the

Environment, Climate and Communications and the Commission for Regulation of Utilities. The Sub-Group is due to report its finding to the FSG in late November.

Cyber-Payments Exercise

As part of the Crisis Coordination Framework an exercise is being developed to take place on 8 December which examine how the FSG agencies and the National Cyber Security Centre would effectively co-ordinate during a potential or actual cyber-attack that has a significant and systemic impact on the operation of the Irish financial system.

International Monetary Fund – Financial Sector Assessment Programme

The IMF Financial Sector Assessment Programme (FSAP) on Ireland reported in July 2022 after a two-year analysis process. The IMF FSAP is a standard in-depth examination of a countries' financial sector, which primarily focuses on risks and vulnerabilities. It is undertaken every 5 years on the 29 countries with the most systemically important financial sectors. Ireland is part of the process due to our large international financial sector. The FSAP found that while Ireland's financial sector remains resilient, further efforts are needed to fully address global financial crisis legacies that weigh on retail banks and hinder credit growth.

The Department and the Central Bank will update the IMF on the implementation of the FSSA recommendations as part of the annual Article IV process. There will be work to implement its recommendations over coming years.

Central Bank Policy and Legislation

Central Bank Policy

The Department is responsible for advising the Minister on his/her powers and functions as set out in the Central Bank Acts. In practice, this means preparing submissions on Ministerial consents, approvals and consultative functions. It should be noted that the Ministerial powers are relatively limited given the independence of the Central Bank under national legislation and more importantly, under EU Treaties.

Central Bank – Stakeholder Interaction

Similar to many other jurisdictions, there is a natural tension between the regulator and regulated firms. The Department encourages the Central Bank to engage with its key stakeholders such as the Oireachtas, the public and regulated entities, as although independent in its functions, the Central Bank should be accountable for its actions. In recent years, the Central Bank has increased these engagements and further increases are to be encouraged.

Central Bank Commission

Under Section 18CA of the Central Bank Act 1942 (as amended), the Central Bank Commission shall have between ten and twelve members. Four of those members are ex-officio members; the Governor and the two Deputy Governors of the Central Bank, and the Secretary General of the Department of Finance. Of the remainder, at least six, but no more than eight, are to be appointed by the Minister for Finance.

There are currently six members appointed by the Minister, Patricia Byron, John Trethowan, Niamh Moloney, Shay Cody, David Miles and Sarah Keane. John Trethowan and Niamh Moloney will each complete their first five-year term in September 2023. The Act provides that persons may be re-appointed for a second 5-year term.

Central Bank (Individual Accountability Framework) Bill

The Central Bank (Individual Accountability Framework) Bill (IAF) which is a commitment of the Programme for Government is currently progressing through the Houses of the Oireachtas. The Bill will provide an effective framework for changing and improving the culture within the financial sector. Much of the detail of the Individual Accountability Framework, including the initial scope of the Senior Executive Accountability Regime (SEAR), will be included in regulations made by the Central Bank.

Before making these regulations, the Bank intends to conduct a comprehensive consultation exercise. The regulations will require approval of the Minister. Following enactment there will be a requirement to sign Commencement orders and approve regulations relating to aspects of the legislation.

Central Bank Annual Report and Annual Performance Statement

Section 32J of the Central Bank Act 1942 (as amended) requires the Central Bank to transmit its accounts each year to the Comptroller and Auditor General who, in turn, is required to furnish his report to the Minister to be laid before both Houses of the Oireachtas.

Section 32K of the 1942 Act requires the Central Bank to prepare a report of its activities annually to present to the Minister for Finance to be laid before the Houses of the Oireachtas.
Section 32L of the Central Bank Act 1942 (as amended) requires the Central Bank to prepare an Annual Performance Statement (APS) on its financial regulatory activities, to present to the Minister to be laid before the Houses of the Oireachtas. The Governor or Deputy Governor may be examined by a Committee of the Oireachtas on the documents' contents.

The Annual Report and Annual Performance Statement combined are submitted to the Minister by 30 April each year and are brought to Government and laid before the Houses of the Oireachtas.

Central Bank Strategic Plan

Under section 32B of the Central Bank Act 1942, as amended, the Central Bank is required to prepare a Strategic Plan for each period of three financial years, with the next period beginning on 1 January 2025. The legislation provides at 32B(3) that a strategic plan shall specify:

the objectives of the Bank's activities for the relevant period;

the nature and scope of the activities to be undertaken;

the strategies and policies for achieving those objectives;

targets and criteria for assessing the performance of the Bank; and

the uses for which the Bank proposes to apply its resources.

Section 32B(4) provides that if the Minister has notified the Bank in writing of any requirements with respect to the form in which a strategic plan is to be prepared, such a plan shall comply with those requirements. The latest Strategic Plan 2022-24 was agreed and laid in 2021.

Industry funding of the costs of financial regulation

The Central Bank raises revenue for its financial regulation activities through levies on financial services firms, with the remainder of the cost being covered by a subvention from the Central Bank (reducing the Bank’s surplus income, the bulk of which would otherwise go to the Exchequer). In 2015, a joint consultation undertaken between the Department of Finance and the Central Bank aimed to examine the appropriateness of implementing a funding model that would move from partial funding (which existed at the time) to a model that covered the full cost of regulation.

The then Minister for Finance agreed to a phased move towards 100% industry funding contingent on the Bank agreeing to cost control measures and greater transparency. A detailed trajectory for the transition to 100% industry funding was approved by Minister Donohoe in 2019. All banks, insurance firms, investment firms, fund service providers and funds now pay 100% of the cost of their regulation. All other financial institutions with the exception of Credit Unions paid 80% in 2022 (for 2021), and will pay 90% in 2023 and 100% from 2024 onwards.

The move towards 100% industry funding of financial regulation, eliminating taxpayer subvention, is in line with many other jurisdictions and regulatory bodies, and with the ‘user pays’ principle.

However, in 2019 when approving the detailed trajectory, concerns were raised by the representative bodies of the Credit Unions in relation to the levy on their members. As a result, when Minister Donohoe approved the trajectory of rates, it was agreed that Credit Unions would move to 50% in Levy 2021 (levied in 2022) and that progression beyond that would be subject to a public consultation and Ministerial approval.

In September 2022, Minister Donohoe agreed to a public consultation, to be undertaken by the Central Bank, on next steps for the credit unions with regard to the Industry Funding Levy.

Irish Financial Services Appeals Tribunal

The Irish Financial Services Appeals Tribunal (IFSAT) is established under Part VIIA and Schedule 5 of the Central Bank Act 1942, as amended, as set out in the Central Bank and Financial Services Authority of Ireland Act 2003.

IFSAT is a quasi-judicial independent tribunal which has jurisdiction to hear and determine appeals from aggrieved parties against certain decisions of the Central Bank of Ireland, namely, “appealable decisions” as defined in section 57A(1) of the Central Bank Act 1942, as amended. It aims to provide an accessible, efficient and effective method of appeal in an informal and expeditious manner. An appellant may appeal a decision of IFSAT to the High Court.

The Tribunal is made up of the Chairperson, Deputy Chairperson, and five lay members. These are all appointed by the President on the nomination of the Government.

Each year IFSAT submits a Statement of Estimates of Income and Expenditure (Budget) for the Minister's approval, as required by section 57AX(2)(b) of the Central Bank Act 1942, as amended. The Minister approves the statement and directs the Central Bank to release the requested funds to IFSAT. Before doing so, the Minister is required to have regard to the Rome Treaty and the European System of Central Banks Statute, namely, whether IFSAT's budget could affect:

1. The carrying out by the Bank of its obligations with respect to the promotion of the financial stability of the State, and

2. The performance of the functions of the Bank in its capacity as a member of the European System of Central Banks.

The last Chairperson, Mr. Justice John D. Cooke died in April 2022, and the Deputy Chairperson, Patricia O'Sullivan Lacy, has been Acting Chairperson, as provided for by the Central Bank Act, pending the appointment of a new Chairperson.

Financing the State and NTMA liaison

Role in Financing the State

The Department deals with high-level National Treasury Management Agency (NTMA) policy matters, including monitoring the operation of the NTMA and its constituent entities (National Development Finance Agency, State Claims Agency, NewEra, and Ireland Strategic Investment Fund (ISIF) and advises the Minister on the use of his/her powers under the NTMA Acts.

Since inception, the NTMA has operated under a Ministerial delegated function in managing the National Debt but the Minister can also issue guidelines on matters such as debt management and directions on specific issues such as the use of the proceeds from the disposals of the State's shareholdings in Banks. Proceeds from previous disposals have flowed to the Exchequer to reduce the State's debt levels.

In 2022 PAS ran a recruitment process to fill 3 upcoming NTMA Board vacancies - one arising in December 2022 with the departure of the current Chair, Ms. Maeve Carton and two arising in December 2023.

Focus of Debt Management Policy

While significant progress has been made over the past number of years in bringing the public finances onto a more sustainable footing, the absolute level of debt remains high at c. €237 billion at end 2021, with an element of the increase in recent years due the funding of the Government's response to Covid-19. Notwithstanding its relatively high level, several structural factors have helped to limit the burden of this debt.

These include relatively low (average) interest rates and an elongated maturity profile. Additionally, the State has accumulated significant liquid assets, so that net debt is considerably lower. On the other hand, the monetary policy landscape is changing and sovereign borrowing costs are rising;

maturing debt will, therefore, need to be re-financed at higher rates than Ireland and other countries have become accustomed to over recent years.

The issuance of Ireland's first Green Bond in October 2018 has been a successful innovation in terms of diversifying the market for Irish debt resulting in a cumulative issuance to date of c. €7 billion.

Ireland Strategic Investment Fund – Pandemic Stabilisation and Recovery Fund

As part of the previous Government's preparation for the recovery from Covid-19, ISIF's remaining uncommitted resources of €2 billion were allocated to a Pandemic Stabilisation and Recovery Fund. The Fund invested in strategically important medium and large enterprises to assist them meet the challenge of Covid-19 but in mid-2022 was wound down in tandem with the launch of ISIF's updated impact investment strategy in support of the recovery of Irish businesses and in light of developing challenges such as the impact of war in Ukraine.

National Surplus (Exceptional Contingencies) Reserve Fund (National Reserve Fund)

As part of the response to Covid-19, the Government drew down the total fund of €1.5 billion to the Central Fund as part on Budget 2021 in October 2020.

Under the 2019 Act establishing the National Reserve Fund (NRF) the Minister for Finance was required to pay €500 million from the Exchequer into the Fund in each of the years between 2019 and 2023. However, no such transfers were made between 2019 and 2021 by reason of the exceptional circumstances which the UK's exit from the EU and the COVID-19 pandemic presented. Following work conducted by the Department of Finance on the State's Fiscal Vulnerabilities, it was considered prudent that some of the "windfall" receipts arising from the volatility in Corporation Tax would be ring-fenced and transferred to the 'Rainy Day Fund'.

On Budget night, 27 September 2022, the Dáil approved a resolution brought by the Minister for Finance to transfer €1.5 billion in the year 2022 and €3.5 billion in the year 2023 into the Fund which along with the annual transfer of €500m provided for under Act means that the overall contribution in 2022[5] is €2 billion and will be €4 billion in 2023.

Borrowing, guarantees and shareholding functions

Financing the State section is responsible for the preparation and submission to you, as Minister for Finance, of consent requests from State Bodies for (i) borrowing and (ii) state guarantees that are required under statute.

The Minister for Finance is providing borrowing facilities to both Irish Water and An Post. Under Section 37 of the Water Services (No. 2) Act 2013 the Minister for Finance may advance moneys out of the Central Fund to Irish Water. Government Decision S180/20/10/1277C on 18 October 2016 agreed that Irish Water's external commercial debt facilities be replaced, where possible, with more competitively priced State funded debt facilities. Government Decision S180/20/10/1277D of 26 March 2019 agreed the recommendations of the final Report of the Department of Finance's Working Group on replacing Irish Water's debt i.e the methods by which the debt should be replaced.

[5] €2 billion was transferred to the NRF on Tuesday, 1 November 2022.

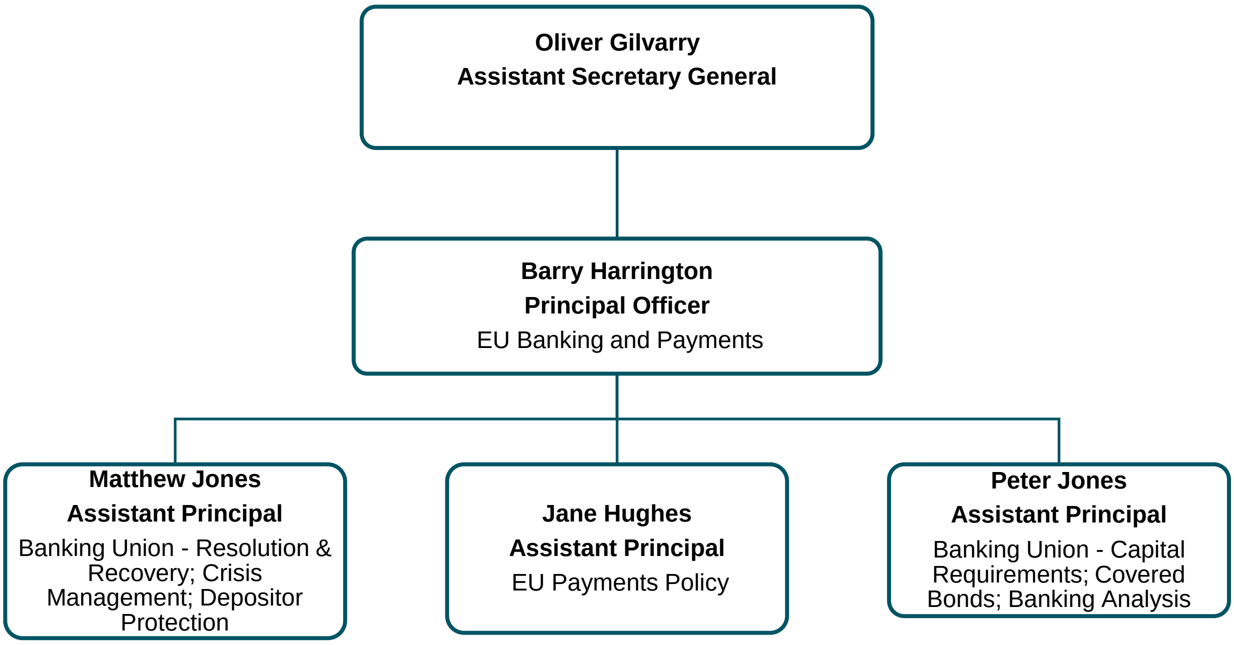
The Department completed phase 1 of this replacement through a capital contribution of €758 million in December 2019. Phase 2 of the replacement is a facility agreement between the Minister for Finance and Irish Water dated 24 June 2020 for existing and future borrowing related to non-domestic sector capital investment (approx. €1.02 billion out to 2024). Phase 3 is a €350 million Working Capital facility provided to Irish Water under the NTMA's Central Treasury Service (CTS).

In December 2017, the Minister for Finance loaned €30 million to An Post on commercial terms in support of the company's strategic restructuring plan. The 5-year term expires in December 2022 but the loan agreement provides for two 1-year extensions at the Minister's discretion. [redacted]

Redacted under section 36(1)(b) of the FOI Act 2014.

3.1.7.3 Policies on EU Banking and Payments

Principal Officer: Barry Harrington



KEY POINTS

- Banking and Payments policy is increasingly determined at an EU level. In the payments policy area, a significant EU Directive transposed in 2018 is currently under review. The European Commission is currently undertaking a review of the revised Payment Services Directive (PSD2). The report on this is expected to be published in Q1 2023.
- A significant development in the EU Payments space in recent years was the publication of the Digital Finance Package. As part of this package, the Commission published a proposal for a Digital Operational Resilience Act (DORA) to ensure that financial entities and the third party providers they use are able to withstand the increasing threats that come with moving towards more digital financial services. The Council held a series of working parties on this proposal throughout 2020 and 2021 and agreement was reached following trilogues in May 2022. It is expected that the Regulation and accompanying Directive will need to be transposed into Irish law within the next 24 months.
- A proposal on Instant Payments was published by the European Commission in October 2022. This proposal mandates adherence to the Single European Payments Area (SEPA) Instant Credit Transfer Scheme, which allows for "instant" payments (in under 10 seconds).
- The final significant development coming down the line in the payments sphere is the examination of the potential for a Central Bank Digital Currency, called the "Digital Euro". In July 2021, the ECB agreed to launch the investigation phase of digital euro project in October 2021. The investigation phase will last 24 months and aim to address key issues regarding design and distribution.

- In EU Banking policy, a key work stream is the ongoing negotiations on the finalisation of the Basel III package. Following agreement of a Council general approach at the November 2022 ECOFIN, the banking package will proceed to the trilogue negotiation process once the European Parliament reaches its position. This process is expected to begin in the first half of 2023. It is expected that once adopted, the EU banking package will require transposition into Irish law before 1 January 2025.
- Also in the EU Banking policy area, negotiations continue on the development of European Deposit Insurance Scheme (EDIS) to protect depositors. This is a particularly challenging project at the political level as it requires a wide range of topics to be addressed. As such, at Eurogroup, it has been agreed that rather than progressing one large file, work is will proceed on number of discrete packages, with the Crisis Management and Deposit Insurance (CMDI) framework expected to be published in early 2023.

DETAIL:

Payments Policy

The Department is primarily responsible for the legislation governing payments. In recent years, there has been a shift in the way that consumers and businesses are paying for goods and services. As a traditionally cash intensive economy, we have seen a significant move towards digital payments in recent years. New technologies combined with the catalyst that was Covid-19 has brought about a rapid increase in the move towards digital payments and this has been reflected in EU legislative proposals such as the Digital Finance Package, the proposal on Instant Payments, the review of the revised Payment Services Directive and the examination of a Digital Euro. The payments policy section also ensures that the role of the Minister is acquitted in respect of commemorative and collector coins.

Review of the revised Payment Services Directive

The European Commission will conduct a review of the revised Payment Services Directive (PSD2). PSD2 was adopted in 2015 and transposed in January 2018. The legislation contained a review clause, which requires the Commission to analyse the implementation and overall impact of PSD2. The review is expected to cover a wide variety of areas related to PSD2. Some of the key focus areas include:

- Strong Customer Authentication (SCA) – this relates to the implementation of additional security requirements for online transactions above €30. European and Irish industry had experienced a number of problems implementing SCA. This was largely due to a lack of clarity around the technical specifications required. This is expected to be a key focus in the review.
- Prevention of new types of fraud - particularly in the context of instant payments, as well as strengthening payer’s protection. One specific issue to be examined is the concept of a chargeback whereby a payer can be refunded the amount of a transaction to their card.
- Increased standardisation – there is the possibility for additional standardisation in terms of the information provided to users in their account statements, particularly for card payments. The sophisticated business models using multiple intermediaries result in users’ confusion, e.g. where the name of a merchant from the account statement does not coincide with the

merchant's trademark and thus hinders the identification of unauthorised payment transactions.

- Interaction with other legislation - The Digital Finance Package contained two proposals for legislation that may need to be examined during the review. These are the Digital Operational Resilience Act (DORA) and the Markets in Crypto Assets (MiCA) Regulation. In the case of DORA, there was much discussion during Council working parties as to whether or not payment systems should be within the scope of the Regulation and it was decided that they would be scoped out for now and examined within the PSD2 review.

A report on the review is expected to be published in Q1 2023.

Digital Operational Resilience Act

A significant development in the EU Payments space in recent years was the publication of the Digital Finance Package. As part of this package, the Commission published a proposal for a Digital Operational Resilience Act (DORA) to ensure that financial entities and the third party providers they use are able to withstand the increasing threats that come with moving towards more digital financial services. The Council held a series of working parties on this proposal throughout 2020 and 2021 and agreement was reached following trilogues in May 2022. On 10 November 2022, the European Parliament provisionally passed DORA.

The provisional agreement is subject to approval by the Council and the European Parliament before going through the formal adoption procedure. Once the proposal is fully adopted, it will be passed into law by each EU Member State. The regulations established by the law will take effect 24 months after its publication in the Official Journal of the EU, which means that the earliest new law will be fully enforced is 2025.

Instant Payments

A proposal on Instant Payments was published by the European Commission in October 2022. This proposal mandates adherence to the Single European Payments Area (SEPA) Instant Credit Transfer Scheme, which allows for "instant" payments (in under 10 seconds).

Digital Euro

In October 2020, the ECB published a report on digital currency. In the report, the ECB first examines the idea of Central Bank Digital Currency, more specifically, a "Digital Euro". The Digital Euro would be a central bank liability offered in digital form for use by citizens and businesses for their retail payments. The ECB is currently in an investigation phase started in October 2021 and is expected to take around two years, concluding in October 2023.

While details of a final proposal are not clear, it is clear that a Digital Euro will have an impact on Retail banking and this needs careful examination.

The European Commission's work plan for 2023 includes a Policy Objective entitled, "Strengthening the role of the euro" which includes a legislative proposal for a Digital euro in Q2 2023 and examining the Scope and effects of legal tender of euro banknotes and coins in Q2 2023.

Collector Coin

The Department's primary responsibilities in relation to annual the collector coin programme is arranging for Ministerial approval of the overall programme and of the technical specifications of each individual coin. The Department also manages the Minister's responsibility for copyright of national coin designs and attends meetings of the Euro Coin Sub Committee.

EU Banking Policy

EU Banking Package (Basel Finalisation)

The Basel Committee on Banking Supervision (BCBS) is the primary authority for establishing global standards for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters.

Basel III is the internationally agreed set of measures developed by the BCBS in response to the financial crisis of 2007-09. The measures aim to strengthen the regulation, supervision and risk management of banks.

At EU level, Capital Requirement Directives (CRD) and Regulations (CRR) have implemented prior Basel Agreements in the European Union. In October 2021, the European Commission published legislative proposals (the EU banking package) to bring the European banking regulatory framework in line with Basel requirements. The EU was the first key jurisdiction to do so and the US and the UK have yet to publish their proposals.

The proposals are broad ranging and voluminous, although many of them are uncontentious. The key issues include the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) Deduction Cap, the Output Floor, Operational Risk, Supervisory Independence and the Third Country Branch regulatory framework.

In addition to Basel III implementation proposals, the package also recommends a number of further measures including proposals regarding the harmonisation of the regulatory framework governing third country branches in Member States, which is currently a national competence.

Following the conclusion of discussions at Working Party level on 26 October, ***the Czech Presidency reached agreement on a Council general approach at the ECOFIN meeting on 8 November***. Following agreement at ECOFIN, the banking package will proceed to the trilogue negotiation process once the European Parliament reaches its position.

While Irish negotiators are satisfied that Irish interests have largely been reflected in the agreed compromise text, there remains the possibility for further amendments throughout the trilogue process. Trilogues are expected to commence in the first half of 2023 with transposition likely to be required before 1 January 2025.

Daisy Chain Regulation

The “Daisy Chain” Regulation was agreed by the co-legislators on 28 April 2022, and adopted by the European Parliament and the Council on 13 September and 4 October 2022, respectively. It was published in the Official Journal of the EU on 25 October 2022 and entered into force on 14 November 2022.

Member States are required to bring into force the necessary laws and administrative provisions necessary to comply with certain provisions in the Regulation by 15 November 2023. The Regulation aims to clarify the treatment of certain instruments used by financial entities to meet their Minimum Requirement for own funds and Eligible Liabilities (MREL Requirement).

This Regulation is part of the series of reforms included in the Basel III Finalisation Package. This Regulation amends Regulation (EU) 575/2013 (the Capital Requirements Regulation) and Directive 2014/59/EU (the Bank Recovery and Resolution Directive (BRRD)). However, there is only a requirement to bring forward transposing measures for the amendments to the BRRD.

Regulatory treatment of Non-performing loans post COVID-19 pandemic

There is a detailed regulatory framework at EU level in place for the banking sector which establishes how to classify non-performing loans and the capital that must be set aside for loans that turn non-performing.

In response to COVID 19, the European Central Bank and the European Banking Authority issued statements which allow limited regulatory flexibility to ensure that the banking sector can support their customers who experience repayment difficulties due to the COVID-19 Pandemic.

This is an area that will require close attention due to the volumes of payment breaks granted to mortgage customers and the likely increase in non-performing loans that will emerge.

Banking Union

The creation of the Banking Union in 2014 was a response to the financial crisis, with significant progress on an EU common rulebook and the establishment of a new European architecture for supervision and resolution. The Banking Union is an important step towards a genuine Economic and Monetary Union. It allows for the consistent application of EU banking rules in the participating countries. The new decision-making procedures and tools help to create a more transparent, unified and safer market for banks. While this has contributed to making Europe’s banks more robust and businesses, investors and citizens more confident in the European financial system, the Banking Union remains incomplete.

Banking Union is based on three pillars:

- the Single Supervisory Mechanism (SSM)
- the Single Resolution Mechanism (SRM)
- the European Deposit Insurance Scheme (EDIS)

The first two pillars of the banking union – the SSM and the SRM – are now in place and fully operational. However, a common system for deposit protection has not yet been established and further measures are needed to tackle the remaining risks of the banking sector (in particular, those related to non-performing loans, or the initiatives to help banks diversify their investment in sovereign bonds). In October 2017 the European Commission published a communication urging the European Parliament and the Council to progress quickly in the adoption of these measures and to complete all parts of the banking union's architecture.

A European Deposit Insurance Scheme (EDIS) is intended to buttress and eventually merge national guarantees of up to €100,000 of people's bank deposits into a single fund. The political deadlock over EDIS, first proposed in 2015, stems from concerns among fiscally conservative Member States that a shared deposit insurance scheme could result in "their" funds being used to remedy problems in less prudent Member and they want financial risks within the industry be defused before EDIS is introduced.

Banking Union remains a very complex project, both technically and politically, a project that the Eurogroup is continuing to try to make progress on in very challenging times.

In June 2022, the Eurogroup agreed that, as an immediate step, work on the Banking Union should focus on strengthening the common framework for bank crisis management and national deposit guarantee schemes (CMDI framework). A Commission proposal is expected in Q1 2023.

The Eurogroup has agreed on the following broad elements to underpin a strengthened CMDI framework:

- A clarified and harmonised public interest assessment.
- Broadened application of resolution tools in crisis management at European and national level, including for smaller and medium-sized banks, where the funding needed for effective use of resolution tools is available, notably through MREL and industry-funded safety nets.
- Further harmonisation of the use of national deposit guarantee funds in crisis management, while ensuring appropriate flexibility for facilitating market exit of failing banks in a manner that preserves the value of the bank's assets. A harmonised least-cost test, administered by national authorities, to govern the use of DGS funds outside payout to covered depositors, to ensure consistent, credible and predictable outcomes.
- Harmonisation of targeted features of national bank insolvency laws to ensure consistency with the principles of the European CMDI framework.

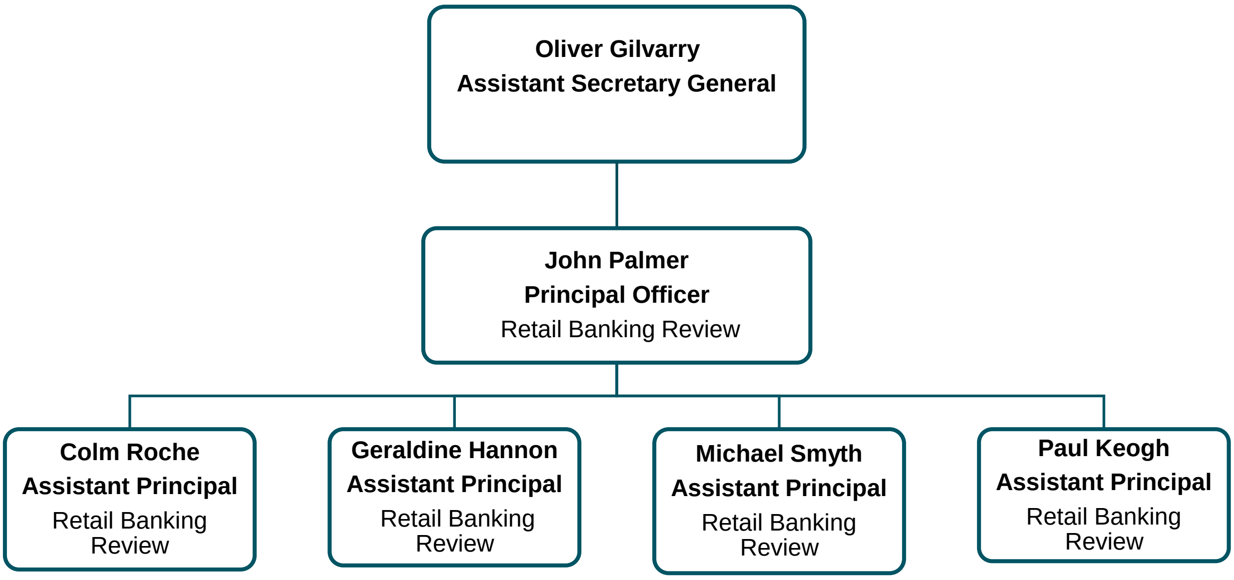
While maintaining a level playing field, the improved CMDI framework will take due account of the specificities in the national banking sectors, including by preserving a functioning framework for institutional protection schemes to implement preventive measures.

The Eurogroup has invited the European Commission to consider bringing forward legislative proposals for a reformed CMDI framework and the co-legislators to complete any legislative work during this institutional cycle until early-2024.

Subsequently, the Eurogroup will review the state of the Banking Union and identify in a consensual manner possible further measures with regard to the other outstanding elements to strengthen and complete the Banking Union.

3.1.7.4 Retail Banking Review

Principal Officer: John Palmer



KEY POINTS

- In November 2021, the Minister for Finance published the Terms of Reference for a broad-ranging review of the retail banking sector.
- The timing of the Review was prompted by the significant changes in the sector including the exits of KBC and Ulster Banks, and the closure of a material number of branch offices.
- The Terms of Reference required the Review Team to submit its draft report to the Minister in November 2022.
- The Minister secured Government approval for the Retail Banking Review, including its recommendations, on 29th November, 2022 and it was launched on the same day.

The Retail Banking Review (the Review) was conducted by a dedicated team of seven comprising five Department of Finance officials and two officials seconded from the Central Bank). The Review Team was assisted by other Government Departments and agencies.

As part of the Review, the Review Team

- Conducted a Consumer Survey of 1,500 individuals.
- Organised a public dialogue which was attended by over 100 individuals representing over 60 organisations.
- Conducted a Public Consultation process with 102 responses being received.
- Commissioned an international comparison.
- Met with various stakeholders throughout the process including union representatives, public agencies and organisations representing a wide range of interests.

The report of the Review covered the Terms of Reference comprehensively and included a total of 34 recommendations over a number of themes including ones in relation to access to cash, consumer protection and competition. Recommendations were also made in relation to mortgages, SMEs, consumer credit, current and savings accounts, financial literacy, climate and staffing (including an easing of the remunerations restrictions for the three remaining banks recapitalised by the State – AIB, BOI and PTSB).

The recommendations are primarily intended for the Department, the Central Bank and industry. The Department will engage with the Central Bank both in relation to the recommendations to be implemented by the bank, and legislation to be drafted by the Department. The recommendations addressed to industry are matters for it to consider.

The key recommendations with implications for the Department, which will be included in the business plan of the Banking Division, include

- Preparing heads of bills in 2023 in relation to i) access to cash, ii) authorisation and supervision of ATM operators by the Central Bank, and iii) protection of the cash system, including the authorisation and supervision of cash-in-transit firms.
- Taking the lead in the preparation of a new National Payments Strategy to be ready in 2024. This will include consultation with all stakeholders.
- Working with other relevant State bodies to progress the IMF recommendation that the resolution of long-term mortgage arrears should be considered and addressed in a coordinated way.
- Preparing legislation, following consultation with all stakeholders, requiring all providers of SME credit to be authorised and supervised by the Central Bank.
- Rationalising and simplifying consumer protection legislation with the objective of eliminating overlapping provisions.
- Engaging and participating fully in the financial literacy stream of the Adult Literacy for Life Strategy. This includes ensuing compliance with relevant OECD requirements.

On remuneration, the Review Team recommended the permitting of variable pay up to €20,000 and the provision of standard non-pay benefits for all employees in the 3 banks. The €20,000 limit on variable pay aligns with the limit set by the 89% super-tax which remains in place.
In addition, the Review Team recommended the removal of the pay cap of €500,000 for Bank of Ireland, recognising that the State is no longer a shareholder in the bank, and the removal for AIB and PTSB when the State's shareholding reduces to a certain level.

The amendment of the shareholder agreements with the three banks is expected to be completed by mid-December.

Immediately following the publication of the Report, initial reaction and feedback focused on the easing of the remuneration restrictions.

With the Review now completed, staff will be reassigned within the Department or will return to the Central Bank as relevant.

3.1.8 Financial Services Division

The briefing prepared by Financial Services Division provides a high introduction level to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

Assistant Secretary General – Michael J. McGrath

DESCRIPTION

The Financial Services Division is responsible for the development of domestic and EU/International policy and legislation in relation to the financial services sector (excluding banking issues). The primary topics relate to insurance, pensions policy, funds, markets, anti-money laundering/combating the financing of terrorism and the proliferation of weapons of mass destruction (AML/CFT) and financial sanctions policy. Having a robust, resilient and well regulated financial services sector that is outwardly focused while meeting the needs of both domestic and EU/international consumers/investors is an over-arching tenet of policy and our approach. The large size of our international financial sector, relative to the size of the economy/country, and developments post-Brexit have a large impact on the Division's work, with issues such as "cross-border activity", "passporting of financial services" and terms such as "open strategic autonomy" and the "level playing field" central to the EU financial services debate.

Most of Ireland's financial services legislative and regulatory framework is developed at an EU level and the Division manages the transposition of the non-Banking EU legislation. The Division engages at different EU committees with the assistance of the Department's two Financial Services Attachés and our Financial Counsellor seconded to the Irish Permanent Representation in Brussels. There is extensive engagement with the EU Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), various other EU institutions (incl. the European Central Bank & the European Supervisory Authorities), international organisations (Financial Actions Task Force & IMF) and with other member States. A large number of EU working groups and committees, are serviced by our Brussels and Dublin based staff, who deal with various technical and complex issues especially in the markets and funds area. A/Sec McGrath is the vice-Chair of the EU Council's Financial Services Committee (FSC).

The Division has significant and detailed engagement with the Central Bank of Ireland and many of the policy issues that we handle, especially insurance, pensions and AML & our sanctions framework, rely on the active engagement of other Government Departments (notably, D/ETE, DSP, D/Justice and D/FA as well as with D/Taoiseach in relation to Cabinet Committees). Engagement with the Pensions Authority – where the A/Sec is a Ministerial appointed member of the Pensions Authority's Board – is also a feature of the work of the Division.

The Division also supports the Minister and the Minister of State in relation to International Financial Services (IFS), specifically the development and implementation of the Government's *Ireland for Finance* Strategy – updated to 2026 and launched in October 2022. This aspect of the work involves a promotional and advocacy role and often officials, as well as Ministers, are on panels/give speeches, articulating the Irish policy position, both domestically and abroad.

3.1.8.1 National and EU policy and legislation in relation to Insurance & Pensions policy

Principal Officer: Brendan O'Leary

Michael J. McGrath
Assistant Secretary General

Brendan O'Leary
Principal Officer
Insurance & Pension Policy

Mila Sullivan
Assistant Principal
Insurance

Shauna Preston
Assistant Principal
Insurance

Bernard Kelly
Assistant Principal
Insurance Reform

Cecilia McAllister
Assistant Principal
Pensions Policy

KEY POINTS

Cabinet Committee Sub-Group on Insurance Reform – oversees implementation of the *Action Plan for Insurance Reform.* Chaired by the Tánaiste, with other attendees including the Minister for Finance, and the Minister of State at the Department of Finance with special responsibility for insurance.

Competition: issues relating to competition in the insurance market, accessibility and affordability of insurance are channelled through the *Office to Promote Competition in the Insurance Market*, which is chaired by the Minister of State & meets monthly.

EU Insurance Issues (Solvency II; Insurance Recovery and Resolution Directive; and Motor Insurance Directive (MID) all under consideration at present)

Flood/Climate Insurance issues – Domestically, there are flood-prone areas that find it challenging to get flood cover. This is the subject of a working group with the OPW and Insurance Ireland. More widely, climate change poses challenges for the availability of insurance coverage – often referred to as the insurance protection gap.

Pensions Policy – The Pension Policy Unit provides a central, coordinating focus to the formulation of Departmental policy input in this area. It actively contributes to ongoing whole-of-Government pension reform initiatives which have crosscutting application across areas such as financial services; taxation; the public finances; and longer-term economic competitiveness. The Unit also supports the Assistant Secretary in his duties as a member of the Pensions Authority.

DETAIL:

Cabinet Committee Sub-Group on Insurance Reform – Action Plan for Insurance Reform

The cost and supply of insurance remains an issue, particularly employers' liability and public liability (EL/PL) insurance. The 2020 Programme for Government contained a number of commitments in relation to insurance reform. A Sub-Group was established within the Cabinet Committee for Economic Recovery and Investment to help drive this reform agenda. This Sub-Group, currently chaired by the Tánaiste, is overseeing implementation of the *Action Plan for Insurance Reform*, a whole-of-Government strategy containing 66 actions to increase the affordability and availability of insurance for individuals, businesses and sporting/voluntary groups. The current make-up of the Sub-Group is: Ministers for Finance; Public Expenditure and Reform; Justice; Children, Equality, Disability, Integration and Youth; and the Ministers for State at the Department of Finance; and Enterprise, Trade and Employment also attend, along with officials.

An implementation report published in November indicates that approximately 90 per cent of actions are now completed or ongoing, including all those assigned to the Department of Finance. As of mid-November, there are a couple of key outstanding priority actions, to reform the duty of care legislation, and the Personal Injuries Assessment Board (PIAB). While CSO data indicates that overall insurance prices are declining, particularly in the motor segment, the Sub-Group will continue to meet in 2023 to review developments in the sector, monitor price developments, and engage with stakeholders to resolve issues in the market.

Insurance (Miscellaneous Provisions) Act 2022

The *Insurance (Miscellaneous Provisions) Act 2022* which was enacted in July, contains a number of pro-consumer measures to complement the Action Plan and enhance transparency in the sector. These include measures to address the issue of insurers deducting Government payments from claim settlements, which arose in the context of some COVID-19-related business interruption claims. The Act enables the National Claims Information Database (NCID) to collect data on such deductions. From January 2023, it will also require insurers to inform consumers of any deductions of State supports from compensation payments.

Office to Promote Competition in the Insurance Market

The *Office to Promote Competition in the Insurance Market* was established under the Programme for Government and is chaired by the Minister of State at the Department of Finance. It involves officials from both the Departments of Finance and Enterprise, Trade and Employment. The Minister of State chairs the Office's bilateral engagements as well as the monthly Competition Office meetings, which considers issues relating to the insurance market.

The Office works closely with the IDA to help encourage new entrants into the Irish insurance market, through leveraging the achievements of the reform agenda. It also deals with issues resulting from a lack of competition in some areas and has regular, extensive contact with businesses and representative groups regarding the cost and accessibility of insurance.

Right to be Forgotten

The Right to be Forgotten (RTBF) aims to ensure equal access to financial services for individuals who have recovered from a previous illness. In the case of insurance, the RTBF initiative seeks to prevent providers taking into account such illnesses, particularly cancer, when calculating the risk involved in providing cover e.g. in the case of mortgage protection the insurer would not be allowed to refuse cover, charge an additional premium, or exclude any risks due to this previous illness.

In November, the Central Bank (Amendment) Bill 2022 was introduced into the Seanad, on behalf of the Cross Party Oireachtas Group on Cancer, which aims to enshrine a RTBF into law, *via* the Central Bank (Amendment) Bill 2022. It was decided not to oppose this private members Bill and instead, Government agreed to seek a timed amendment deferring its consideration for 12 months. This means that after this period the Bill will be deemed to have passed 2nd Stage. The time period allows further work on what is a complicated issue at both EU and domestic level. The debate on 17th November was adjourned meaning the timed amendment was neither discussed nor adopted. However, it can be expected the RTBF will return during 2023. In the interim, the Insurance Unit will continue work on this, including consideration of what legislative proposals can be developed.

Flood insurance

While the majority of property insurance policies in Ireland hold flood cover, issues exist in some flood prone areas. Prioritising expenditure by the Office of Public Works (OPW) on flood relief schemes remains the key policy anchor. However, despite significant State investment differentiated cover levels appear to exist where demountable[6] rather than permanent defences are in place. While recognising that this is a commercial matter for insurance companies, based on an assessment of the risks they are willing to accept, this issue is being discussed as part of the OPW's MoU Working Group (including the OPW, Insurance Ireland and the Department of Finance). The Department has advocated for a closer examination of the individual demountable schemes and the operational framework to ensure best practise is being adopted.

More widely, recognising the long-term risk of climate change on insurance cover, the Department continues to monitor international developments, engage with the Central Bank of Ireland and actively participate in cross-departmental working groups on insurance. In this context, there is a growing focus on the so-called insurance protection gap – where cover may either be diminished or not forthcoming on account of climate change.

EU Issues - Solvency II Review

The 2016 Solvency II Directive is the underlying EU legislative framework for insurance. It contains minimum capital, supervisory and reporting requirements, to ensure the solvency of the insurance market, while also protecting policyholders across the Union. It is important for Ireland as it allows insurance firms across the EU to operate on a "freedom of establishment" (FoE) and "freedom to provide services" (FoS) basis. Ireland is a hub for many insurers to write business into other Member States, and is the largest exporter of insurance services in the EU.

A review of Solvency II saw a Council position, supported by Ireland, agreed at ECOFIN in June 2022. Ireland's key priorities during the negotiations were: policyholder protection; the status of cross-border (FoE/FoS) operators; the balance between home and host supervisors; and ensuring a consistent

[6] Demountable protection is a system of flood defences that require action to be taken in advance of a known flooding event so as to ensure that the flood protection system is therefore temporarily installed. As such it requires human intervention, which in turn presents a risk factor.

application of macro-prudential tools by all supervisors (the “level playing field”).”The European Parliament is considering the proposals and once concluded Trilogues to iron-out the differences between the Council and Parliament’s positions are expected in early 2023 under the Swedish Presidency.

Home/Host Funding Principle

The Host State Principle in the context of Insurance Guarantee Schemes is when all insurers operating in the country, regardless of where they are headquartered, are required to participate in the insurance guarantee scheme. Under a host-based scheme, compensation is paid by the Member State in which the insured risk is located. This is what currently pertains in Ireland. As such, the Host Supervisor exists in the Member State where the branch is established and its operations occur.

Separately, a Home-Based Principle in the context of Insurance Guarantee Schemes is where compensation is paid by the insurance compensation scheme of the Member State where the insolvent insurance company is regulated. Under this model, the Insurance Guarantee Scheme must cover policies issued by a domestic insurer and the policies issued in its branches abroad.

Our position is the funding should be harmonised to the fullest extent possible. This is in the interests of consumer protection and to safeguard the functioning of the single market. However, a move to a Home based approach is likely to incur a greater financial exposure as insurance service exports, supervised here come in scope under both the Motor Insurance and the Insurance Recovery and Resolution Directives (see below).

EU issues

Motor Insurance Directive

The Department is engaged in preparatory work for the transposition of the Motor Insurance Directive (MID). This seeks to improve consumer protection by ensuring that injured parties of motor vehicle accidents receive full and prompt compensation when an insurer becomes insolvent. This is a particular focus as Ireland writes a significant amount of EU business. These new rules will require significant changes to the current Irish Insurance Compensation Fund (ICF) framework. It will likely increase the ICF’s exposure and change the scope of how it is funded as the Irish ICF will be responsible for European policyholders where the insurance company is authorised in Ireland. Currently the ICF is funded by means of a levy on policies servicing the domestic market, which is considerably smaller relative to the overall EU market that is written from Ireland.

In terms of implementation, Member States have until end-June 2023 to nominate a motor insurance compensation body. The new rules will apply by end-December 2023 with primary legislation likely to be needed to give effect to the new rules.

Insurance Recovery and Resolution Directive (IRRD)

The Department is also currently engaged at EU level on the Insurance Recovery and Resolution Directive (IRRD) which seeks to introduce a harmonised recovery and resolution framework for failing, or likely to fail EU insurers and reinsurers. Based on past experience of firm failure in our markets – both domestic and those ‘passporting-in’, Ireland is generally supportive of a harmonised EU approach. However, we have identified gaps in the existing proposal in terms of the lack of provisions on funding. Harmonised insurance resolution funding rules across Member States would help protect the level playing field for consumers and integrity of the single market. However, currently there is no emerging consensus on an agreed approach to the funding. We continue to engage with the ongoing Council negotiations, with the aim of agreeing a General Approach by early 2023.

PENSION POLICY

The Pension Policy Unit considers pensions issues from a financial services product perspective. The Unit provides a central, coordinating focus to the formulation of Departmental policy input in the pension space. The Unit also actively contributes to ongoing whole-of-Government pension reform initiatives which have crosscutting application across areas such as financial services, taxation, the public finances and longer-term economic competitiveness.

Interdepartmental Pensions Reform and Taxation Group

The Interdepartmental Pensions Reform and Taxation Group (IDPRTG), chaired by the Department of Finance, was tasked with reviewing certain areas of the Roadmap for Pension reform 2018-2023. The Group includes representatives from the Department of Public Expenditure and Reform, the Department of Employment Affairs and Social Protection, the Office of the Revenue Commissioners and the Pensions Authority.

The IDPRTG Report, published in November 2020, makes a number of practical, focussed recommendations on the reform and simplification of the existing supplementary pension landscape, elements of which have developed in an *ad hoc* manner over a number of years.

The IDPRTG Group has made good progress in implementing a package of tax-related measures over the past two years. These largely technical changes represent a significant building block for a piece of long-term structural reform in the area of supplementary pension provision. Most recently Finance Act 2022 addressed the differences in tax treatment between occupational pension schemes and Personal Retirement Savings Account (PRSAs)[7]. This represents a key tax policy change which facilitates a reduction in the number of occupation schemes. The Group is currently considering further items for implementation in 2023, both through legislative and non-legislative means.

Pension Reform - Ireland's National Recovery and Resilience Plan

Under our EU National Recovery and Resilience Plan and linked to our European Semester Country Specific Recommendations, the Section has responsibility to help advance supplementary pension reform. This will address the expected increase in age-related expenditure and is underpinned by the work of the IDPRTG. Through implementation of specific measures, including recent changes to the tax treatment of employer contributions to employees' pensions, this will support the harmonisation across pension products and occupational pension schemes. The target date for implementation of this reform is Q4 2022, which is on-track to be achieved.

[7] Now employer contributions to an employee's PRSA are not considered a taxable BIK and employer and employee contributions to an employee's PRSA are not aggregated for the purposes of the individual's tax relief.

Automatic Enrolment

Whilst overall pension policy and the delivery of auto enrolment (AE) is under the remit of the Department of Social Protection (DSP), the introduction of AE has policy implications for this Department. Government has approved the final design principles, with DSP working towards having a draft Bill ready for Q1 2023. The envisaged commencement of AE is 2024, which at this point seems somewhat ambitious given all that needs to be done. The focus of our policy input will be to be supportive while minimising the cost and operational risk for the State arising from the establishment of the Central Processing Agency (CPA) and assist where appropriate on design. The Unit works closely with the Department of Public Expenditure and Reform on this particular issue.

Over the last number of years, there has been considerable engagement with DSP involving this Department and the Revenue Commissioners to discuss the tax treatment of AE pension funds, which will continue as implementation of AE progresses. Finally, in relation to the design, eligibility, coverage and roll out of AE, it should be noted that there are a number of concerns being expressed by private pension providers notably the Irish Association of Pension Funds (IAPF) and Insurance Ireland.

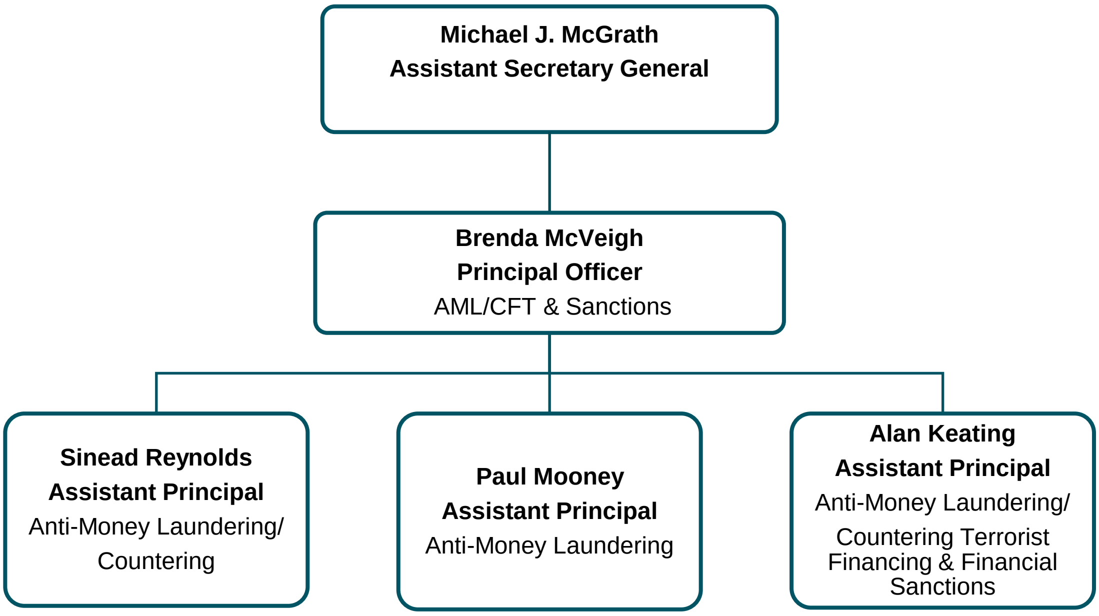
Other pension-related work

The Unit supports the ongoing participation of the Assistant Secretary who is a Ministerial appointment to the Pensions Authority's Board. This a 3-person Board that is chaired by Mr David Begg and the other member of the Authority is an Assistant Secretary from the Department of Social Protection.

The Unit recently completed transposition of the EU Pan-European Personal Pension Product (PEPP) regulation into Irish law, with Finance Bill 2022 to grant the PEPP similar tax treatment to other pension products in the State. The Unit also provides policy advice and oversight on a broad range of pension policy matters that arise.

3.1.8.2 National and EU policy in relation to Anti-money laundering policy and legislation, oversight of the Financial Action Taskforce (FATF) country assessment and Financial Sanctions

Principal Officer: Brenda McVeigh



KEY POINTS:

EU AML/CFT Policy: We negotiate at EU level in developing AML/CFT policy and are currently working with Member States on a very large EU legislative package that will establish a new central EU AML/CFT supervisor (financial and non-financial sector) and a new rulebook.

EU Obligations: Work is ongoing to establish a Bank Account Register of Beneficial Owners (BO) and to interconnect 3 existing registers of BO information (companies & trusts) with an EU portal.

Financial Action Task Force (FATF): Ireland is a long-standing member of the FATF, which is the global standard-setter in AML/CFT. As a member, our AML/CFT framework is periodically evaluated and must continue to be strengthen. We are working with relevant stakeholders on an action plan to address outstanding deficiencies identified in our last evaluation.

UN and EU Sanctions: the Unit advises on measures and drafts legislation related to restrictive measures, commonly known as sanctions. Overall sanctions policy is a matter for D/FA but this Department has s significant role in relation to financial sanctions. Further detail on the sanctions process which is subject to very tight timelines and current issues is set out below.

DETAIL:

ANTI-MONEY LAUNDERING

Financial Action Task Force (FATF) Evaluation Process

The FATF organises peer reviews ("Mutual Evaluations") of its Members in a seven to ten-year cycle whereby each Member undergoes an in-depth examination of its AML/CFT framework and its effectiveness. Ireland's most recent Mutual Evaluation took place in 2017 and resulted in a largely positive review. Since then, we have also had upgraded ratings on our compliance with twelve of FATF's forty Recommendations. We have a ten-month action plan currently, designed to work with relevant stakeholders to address outstanding deficiencies identified in our last evaluation.

AML/CFT Legislation

The EU Anti-Money Laundering Directives (AMLD)

Irish AML/CFT legislation is largely contained within the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended. This Act, and the legislation which has amended it, gives effect to the EU's AML Directives, the latest of which is the Fifth Anti-Money Laundering Directive or "5AMLD".

Elements of the Directive dealing with beneficial ownership of corporate entities and trusts have been transposed by the Department of Finance by way of Statutory Instrument. These established three registers of Beneficial Ownership information:

- Register of Beneficial Ownership of Companies and Industrial and Provident Societies (based within the Companies Registration Office);
- Central Register of Beneficial Ownerships of Trusts (based within the Revenue Commissioners);
- Register of Beneficial Ownership of Certain Financial Vehicles (based within the Central Bank of Ireland).

Bank Account Register

A register of beneficial ownership of Bank Accounts identified by IBAN and safe-deposit boxes held by credit institutions is another requirement of the 5AMLD. Member States were obliged to have the registers set up by 10 September 2020. In January this year, we responded to a November 2021 reasoned opinion from the European Commission about Ireland's failure to notify transposition of the relevant provisions. The necessary Statutory Instrument, S.I. 46 of 2022, was signed by the Minister for Finance in February 2022. The Commission has not taken any further action.

The Central Bank of Ireland had been informed in September 2019 that it would be designated as responsible for establishing and operating the register. However, owing to legislative delays, resource issues, data gaps and technical issues, the register is now not expected to be operational until the end of Q1 2023.

Beneficial Ownership Register Interconnection System (BORIS)

Under the terms of 5AMLD, all EU Member States must interconnect their national registers of beneficial ownership (other than for bank accounts) to a central European portal. The project is referred to as "BORIS" (beneficial ownership registers interconnection system). A project to develop the necessary IT solution is being led by the Department of Finance in conjunction with contractors

SIA Consulting, the Office of the Government Chief Information Officer (OGCIO) and the three registers (the CRO, Central Bank of Ireland and Revenue).

We have actively engaged with the EU Commission and agreed an end-June 2022 deadline for the first phase of connection. With the exception of the register operated by the Central Bank, Ireland's BORIS Phase I connection is broadly in line with and in many cases ahead of, other Member States. Delays with the Central Bank connection relate to the Bank's internal governance and decision making processes and a need to build its infrastructure. Overall, while the interconnection of the registers is behind the overly optimistic times that the Commission originally set out, they are satisfied with our progress on this complex project.

New EU Legislative Package

In 2021, the European Commission presented an ambitious package of legislation to strengthen the EU's AML/CFT rules. This new legislative package has four elements:

1. a recast of the existing Regulation on Transfers of Funds (TFR) to apply its provisions to crypto-asset service providers;
2. a Regulation establishing a new EU Anti-Money Laundering Authority (AMLA);
3. a Regulation on directly applicable anti-money-laundering requirements (AMLR);
4. a (sixth) Directive on anti-money-laundering mechanisms (6AMLD);

In negotiations on the draft package, key challenges for Ireland have been ensuring its elements are consistent with our common law framework, e.g. in relation to our usage of express trusts, and appropriate support for our financial services and fintech sectors. We secured language in Council conclusions to take account of member States' legal systems, but we continue to remain vigilant on this matter as one of the only fully common law members of the EU.

AMLA

The package includes provisions for the creation of a new Anti-Money Laundering Authority (AMLA) at EU level. One of the main aims of the Authority is to harmonise and coordinate AML/CFT activity, by both directly supervising some entities and providing harmonised guidance for others. The Authority is scheduled to be established in 2023, fully staffed by 2024 and commence supervision in 2025. The location for AMLA has not yet been decided and while no timeline on the bidding process has been announced the expectation is that this will be dealt with by a new process involving the European Parliament in the first month or so of 2023. A number of member States have expressed interest in hosting the new Authority, which is likely to be a large EU institution. As of now, no decision has been taken as to whether Ireland would seek to host and if not who we would wish to support.

AMLR and 6AMLD

This Regulation and Directive are commonly known as the "rulebook" for AML/CFT as they collectively set out the rules that will apply to supervisors, obliged entities (those businesses and persons having AML/CFT obligations) and enforcement agencies. The new Directive, 6AMLD, will require transposition into national law once completed, via the Criminal Justice Act. It is hoped that expert level discussions on the rulebook will conclude during the term of the current Czech Presidency and proceed to trilogue discussion under the Swedish Presidency in early 2023.

Anti-Money Laundering Steering Committee (AMLSC)

The Department of Finance chairs the multi-departmental and multi-agency Anti-Money Laundering Steering Committee. The purpose of the Steering Committee is to provide a national, cross-sectoral forum for the oversight and active review of Ireland's AMLCFT framework. During the last year, the membership was expanded to include key private sector stakeholders as well as ensuring appropriate representations from the relevant government departments and agencies and the terms of reference were amended to try to bring a better focus to ensuring that our AML framework is improved and remains fit for purpose by the ever evolving international standards. As part of that process the Minister for Finance has also attended a meeting of the AMLSC during 2022 to set out his priorities and concerns as well as listen to the views of Members.

Sanctions

The Department of Foreign Affairs is the policy lead for sanctions policy across Government. However, the Department of Finance has a key role in relation to sanctions, particularly financial sanctions and the Minister for Finance is one of two ministers that is currently tasked with signing necessary statutory instruments (see below).

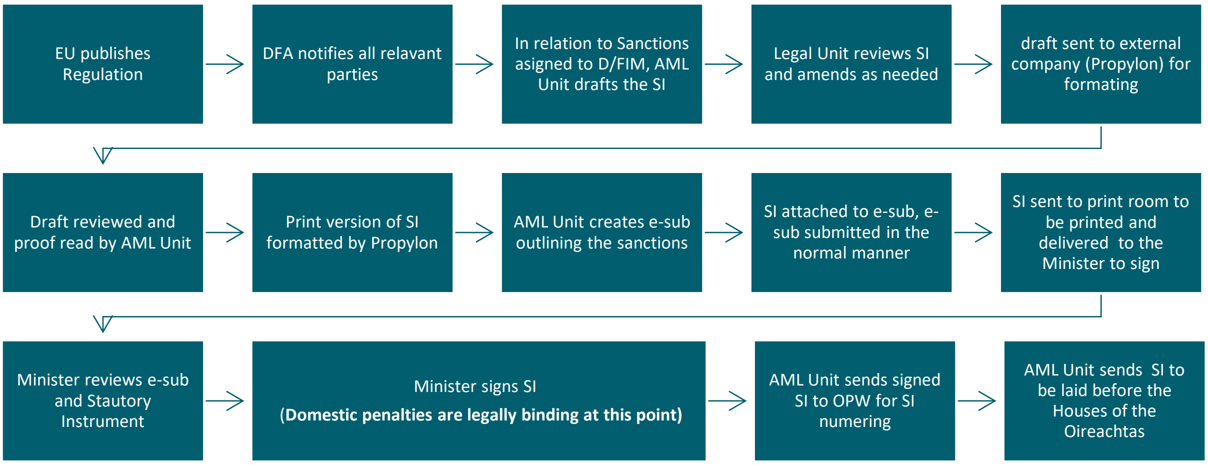
Sanctions are legally binding measures that can be taken against individuals, entities or countries. Sanctions are adopted by the United Nations Security Council under Chapter VII of the UN Charter and through decisions taken at European Union level. Sanctions are often published at short notice and, in particular in relation to the Ukraine situation, frequently.

Any new sanction requires immediate attention at domestic level. EU and UN sanctions are implemented in Ireland through EU Council Decisions and Regulations. EU Regulations have direct effect, but each Member State is required to apply penalties for breaches of sanctions. In Ireland this is achieved by way of Statutory Instrument under the European Communities Act, 1972.

There is a long standing agreement that the Minister for Finance and the Minister of Enterprise, Trade and Employment share responsibility for implementing the SIs which apply penalties for breaching sanctions. When a new regime is created, it is decided on an alternating basis which Department is responsible for producing all future SIs for that particular regime. The Department of Finance is responsible for many high profile sanctions regimes including the recent packages of measures adopted as a response to Russian and Belarusian actions in Ukraine. This Department also has responsibility for applying penalties for breaches of sanctions in respect of Al- Qaeda, ISIL and several other regimes.

Current process

When an EU Regulation is published, a new SI must be created to apply penalties for breaches of the measures introduced. The process is administratively heavily, under very tight timelines and can be best described by the following graphic:



Timeliness – FATF guidance

The global anti-money laundering task force, FATF, has issued guidance on sanctions, stating that sanctions and associated penalties must be implemented "without delay". The meaning of "without delay", while not defined, is taken as being as near to "real time" as possible.

Ad-hoc solutions have been implemented to ensure sanctions are drafted and signed in a timely manner, but it is acknowledged that these solutions are not also optimal. It is important to note that the measures are intended to be temporary pending a longer term solution, which is being laid out in a draft action plan which is under preparation by the AML/Sanctions Unit.

While the SIs are usually signed by the Minister for Finance, the Ministers and Secretaries Act 1924 provides that the Secretary General or person at Assistant Secretary General level can sign on the Minister's behalf. However, this is viewed as an option only to be done in exceptional circumstances.

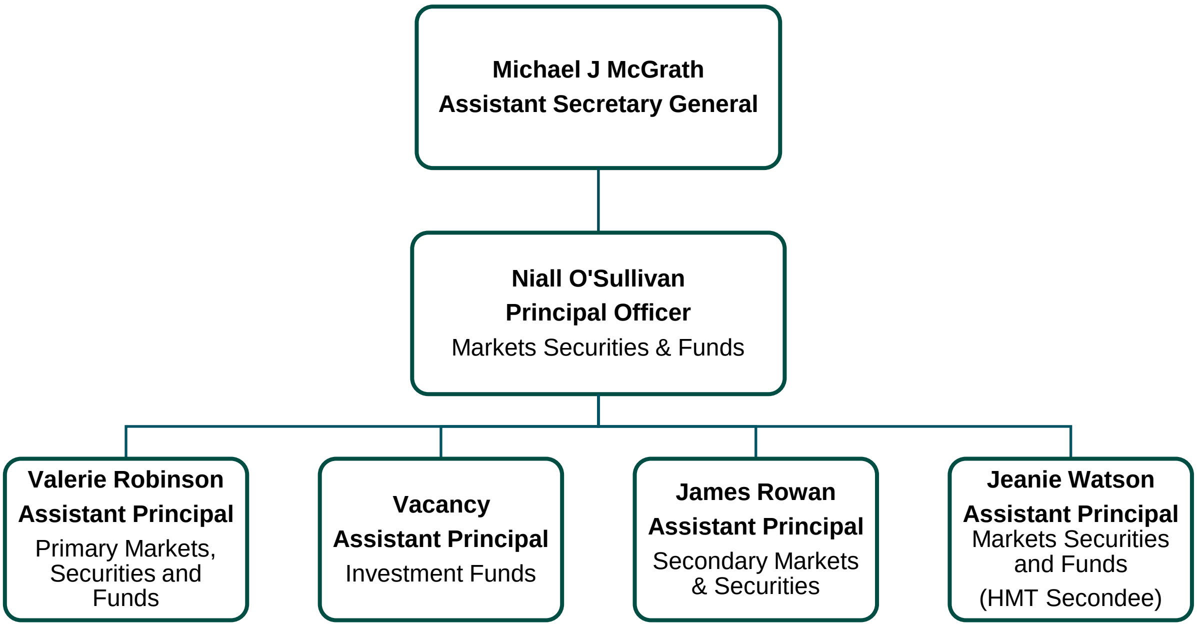
Proposed new Single body and Primary Legislation

We are strongly of the view that the current domestic framework for implementing sanctions is less than ideal, both from an enactment point of view, but also in terms of the levels of penalties available, the lack of a legislative basis to clarify the roles of National Competent Authorities for sanctions, screening for compliance and processing applications for derogations from sanctions.

As a result, an interdepartmental working group was established following a Government decision in 2021. The Department of Finance was a lead member of the working group and is a strong advocate for improvements being made in our sanctions framework. The independent chairperson produced a report containing recommendations, including that the Department of Finance lead on creating and implementing an action plan for sanctions, to include the establishment of a national single body for sanctions and defined AML functions. Our current thinking envisages that the Department of Finance would lead on an action plan to improve Ireland's financial sanctions framework and to give approval for the establishment of a nation financial sanctions agency that could be set up under the aegis of the Department of Finance. Work on a draft memo to Government on the matter is underway.

3.1.8.3 EU and national policy on Financial Markets, Funds Securities and Capital Markets Union

Principal Officer: Niall O'Sullivan



KEY POINTS

Capital Markets Union (CMU) - A flag ship EU project which Ireland broadly supports. CMU package currently running through the EU legislative process involves amendments to the Markets in Financial Instruments Directive/Regulation (MiFID/MiFIR), Investment Funds legislation and a Regulation to establish a European Single Access Point (ESAP) (centralised EU database providing information on the activities/products of entities active in EU capital markets).

Investment Funds – current EU negotiations on the review of the Alternative Investment Funds Managers Directive (AIFMD), incorporating changes to the UCITS Directive. Ongoing work on issues such as the reform of Money Market Funds legislation, engagement with the Central Bank on domestic legislation and on a range of other files.

Cross cutting themes – significant input into cross cutting Department work on areas such as digital finance, ESG/sustainable finance, the EU regulatory architecture (European Supervisory Authorities), Brexit related issues and energy derivatives.

Body under the aegis: Manage relations with the Investor Compensation Company DAC (ICCL) and responsible for the Investor Compensation Act 1998.

Other notable files: Prudential framework for Investment Firms Directive & Regulation (IFR/IFD); European Market Infrastructure Regulation (EMIR)/Central Counterparties (CCPs), Sustainable Finance Disclosures Regulation (SFDR)

DETAIL:

Markets & Securities

Irish equity capital markets are small in EU terms. The principal equity markets in Ireland are operated by Euronext Dublin (formerly the Irish Stock Exchange, now owned by the pan European Euronext group). However, Ireland is a major EU and global domicile for the listings of debt securities and exchange traded funds. The Central Bank supervises c.92 investment firms (authorised under the Markets in Financial Instruments Directive). In Ireland, the legal framework for securities markets regulation is based closely on EU law. As such transposition of EU legislation forms a significant part of the work. The work of the Unit is often highly complex and involves a significant amount of engagement with various parts of the Central Bank as well as other EU member States and the various EU institutions.

Capital Markets Union

Capital Markets Union (CMU) is a flagship project of the European Commission which aims to deepen and further integrate Europe's capital markets, support growth and enhance the resilience of the financial system. Ireland has been very supportive of the broad aims of CMU. The three key objectives in the CMU Action Plan 2020 are:

- Ensuring that the EU's economic recovery is green, digital, inclusive and resilient by making financing more accessible for European companies, in particular SMEs;
- Making the EU an even safer place for individuals to save and invest long-term;
- Integrating national capital markets into a genuine EU-wide single market for capital.

The Markets Unit is responsible for negotiating on the CMU legislative package brought forward by the Commission in November 2021 (consisting of 4 legislative proposal), as well as a non-legislative measure on the promotion of financial literacy. This includes amendments to the **Markets in Financial Instruments Regulation (MiFIR)** which among other things will seek to create the conditions conducive to the emergence of consolidated tape providers (CTP). An EU consolidated tape will provide consolidated data on prices and volume of traded securities in the EU (from hundreds of venues), thereby improving overall price transparency across trading venues. It would also improve competition between trading venues.

Markets & Securities – other

Further CMU legislative measures are anticipated over the coming months including cross cutting files on the Retail Investor Strategy and a Listings Review. This Retail Investor Strategy aims to ensure that consumers who invest in capital markets can do so with confidence and trust, that market outcomes are improved and that consumer participation is increased. The primary objective of the Listings Review is to make EU public capital markets more attractive for EU companies and facilitating access to capital for SMEs.

The Department is also currently involved in negotiations on EU legislation concerning the prudential framework for Investment Firms (specifically on the requirement for the most systemic investment firms to re-authorise as credit institutions), amendments to certain EU legislation governing commodity/energy derivative activities and on amendments to the Central Securities Depositories Regulation (CSDR).

Investment Funds

Ireland is an important global domicile for the international funds industry, and is the second largest European domicile for investment funds, with c.€3.7 trillion in Assets under Management (AuM) at end June 2022. In particular, Ireland is the main location in the EU for Money Market Funds ("MMFs") and Exchange Traded Funds ("ETFs"). The Department closely coordinates with the Central Bank of Ireland on national and international developments in this regard and with Irish Funds and other market participants.

Review of the Alternative Investment Funds Managers Directive (AIFMD)

The AIFMD provides an EU framework for the regulation and oversight of alternative investment fund managers (AIFMs). As part of the Capital Markets Union response, last November the Commission published a legislative proposal with targeted amendments to the AIFMD as well as to the UCITS framework.

The key changes to these Directives focus on delegation arrangements, liquidity risk management, supervisory reporting, provision of depositary and custody services and loan origination by alternative investment funds. The plenary of the European Parliament is due to vote on the ECON report on AIFMD shortly, which should pave the way for trilogue negotiations early in 2023.

[redacted]

Redacted under Section 29(1)(a) of the FOI Act 2014.

Investment Funds - other

Money Market Funds (MMFs) perform an important role for many different types of investors (including public authorities and non-financials) as a cash management and liquidity tool. Ireland is the premier location in Europe for establishing and servicing MMFs.

The EU Commission is scheduled to publish a review on the adequacy of the MMF Regulation framework shortly. The review will assess the adequacy of this Regulation from a prudential and economic point of view based on comprehensive evaluation of current rules. It may or may not result in a legislative proposal.

Should a legislative proposal emerge, Ireland's position has been to date to be open to targeted amendments, but changes should not undermine the viability of MMFs, leading to over-reliance on banks for short term funding and cutting across efforts to develop the Capital Markets Union (CMU).

In particular, we have opposed any recommendations related to the Low Volatility Net Asset Value (LV-NAV) MMF type, which would likely have a significant adverse effect on the Irish market.

The Department is responsible for some primary investment funds legislation, such as the Investment Limited Partnerships (ILP) Act 1994 and has a role in relation to any secondary legislation which the Central Bank brings forward under delegated powers granted to it, in section 48 of the Central Bank Supervision & Enforcement Act 2013, as a result of the requirement under section 49 of that Act for the Central Bank to first consult with the Minister for Finance.

Cross cutting themes

The section is responsible for, or inputs to, financial services thematic areas which are cross cutting in nature. This includes:

- **Digital Finance** (e.g. via contribution to the Department Fintech group and leading on the EU Regulation establishing a pilot scheme on for DLT market infrastructures).

- **ESG/Sustainable Finance** (e.g. the Sustainable Finance Disclosures Regulation, inputting to EU Company Law ESG legislation that bring financial institutions in scope, legislative initiatives on 'green securisations'). The Unit also inputs into other ESG legislation such as on the EU Green Bond Standard. It is a strategic priority for Ireland to grow its sustainable finance base and the ever growing volume of (sometimes overlapping) EU ESG/Sustainable Finance legislation is a significant challenge. We are currently supporting the Department of Enterprise in negotiations on a Company Law Directive on Corporate Sustainability Due Diligence (as regards its application to the financial services sector).

- **the EU financial services regulatory architecture** (principally regarding the functions and powers of the European Supervisory Authorities (the so-called ESAs), of which the principal one for this area is the European Securities and Markets Authority (ESMA). More generally the Unit monitors the work of ESMA, in particular where it may impact on the Irish market, such as Peer Reviews which include the Central Bank of Ireland.

- **Brexit related issues** e.g. related to UK market developments impacting the Irish financial services sector, the EU/UK Memorandum of Understanding and equivalence decisions by either the EU or UK. The section was also required to address UK market infrastructure dependency issues such as occurred when the Irish corporate securities market was required to migrate from a UK Central Securities Depository to a Belgian one to stay in compliance with EU law.

- **'EU open strategic autonomy'**. [redacted]

Redacted under Section 33(1)(d) of the FOI Act 2014.

- **EU Financial Services Committee (FSC):** The FSC, which meets monthly, is composed of high-level representatives of the member states and the Commission (DG FISMA). The ECB and the relevant EU committees of regulators have observer status and regularly present to the Committee. The FSC acts as a preparatory body for the Economic and Financial Committee (EFC) for financial services items of Ecofin meetings. It also provides a forum for cross-sectoral strategic reflection and helps define the medium and long-term strategy for financial services issues while also considering sensitive short-term issues. The vice-chair of the FSC is Assistant Secretary Michael McGrath and the Unit, among other things, prepares and co-ordinates briefing and positions for him for his attendance at FSC meetings.

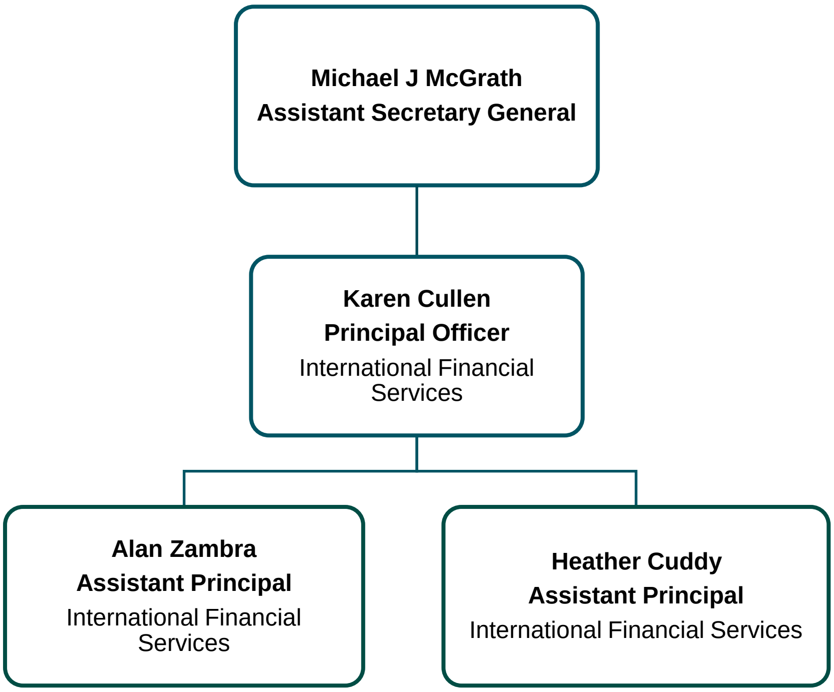
Body under the Aegis: Investor Compensation Company DAC (ICCL)

The Investor Compensation Company DAC ("ICCL") is one of the bodies under the aegis of the Department. It is not a State Body and does not receive any funding from the Exchequer. The principal objectives of the ICCL are to operate a financially sound scheme in order to provide statutory levels of compensation to eligible investors of failed investment firms and to make sure compensation is paid without undue delay.

The section is responsible for managing relations with the ICCL, the primary legislation under which it is established (which is a transposition of the minimum harmonisation EU Investor Compensation Directive 1997) and assisting the Minister in the process of periodically appointing consumer interest Directors to the Board of the ICCL.

3.1.8.4 International Financial Services

Principal Officer: Karen Cullen



KEY POINTS

International Financial Services (IFS) sector

Ireland attracts a significant number of global financial services firms across a range of sectors including aviation financing, investment management and fund services, investment/international banking, international insurance, payments, fintech and sustainable finance. The enterprise agencies report that some 52,000 people were employed in the sector at the end of 2021.

'Ireland for Finance' Strategy

'Ireland for Finance' is the whole of government strategy to further develop the international financial services sector. Following Government approval, an Update to the strategy was launched in October 2022, and it is to run an extended term to the end of 2026. The Strategy is underpinned by annual Action Plans with deliverables by the public and private sector stakeholders. The Action measures are structured around the five themes: Sustainable finance; Fintech and digital finance; Diversity and Talent; Regionalisation and Promotion; and Operating Environment. Sustainable finance and digital finance are described as priorities (in line with EU twin transition and government policy). The key target is to achieve employment growth of 5,000 net new jobs in the sector between 2023 and 2026.

Draft Action Plan 2023

A draft Ireland for Finance Action Plan 2023 is being prepared by officials following engagement with stakeholders. The various Action Measures will be derived from the updated Strategy 2022 and, subject to Cabinet approval, fall for publication in Q1 2023.

DETAIL:

International Financial Services

Over the last 30 years, Ireland has built a substantial specialist international financial services sector and it consists of more than 430 firms employing approximately 52,000 people at the end of 2021.

'Ireland for Finance' Strategy

The *Ireland for Finance* strategy aims to further develop the international financial services sector in Ireland. On 3 October 2022, the Minister of State with responsibility for Financial Services launched the update to the *Ireland for Finance* strategy. It is a whole-of-government strategy and is delivered as a partnership between the public and private sectors. Its vision is for Ireland to continue to be a premier location of choice for specialist international financial services.

There was significant input from public bodies to the Strategy Update including the relevant government departments, the IDA and Enterprise Ireland, as well as from industry representatives and other stakeholders. The Update is a strategic response to the acceleration of a number of trends that impact the growth of the sector, and to the passage of time. The ambition of the strategy has been enhanced bringing the target of 5,000 net new jobs forward and extending the term of Ireland for Finance, and the commitment of the Government to the sector to the end of 2026.

The sustainable and digital transitions are the defining societal changes that the world is confronting and they are creating long-term opportunities for Ireland in international financial services.

Ireland for Finance architecture

The *Ireland for Finance* strategy (update) is structured around five themes:

1. Sustainable finance
2. Fintech and digital finance
3. Diversity and talent
4. Regionalisation and promotion
5. Enhancing the operating environment

In its role as the *Ireland for Finance* Secretariat, the Division is responsible for overseeing the development, implementation and monitoring of the annual Action Plans that underpin the overall Strategy. Action measures under each of these themes are set out in annual action plans. The plans aim to ensure the continued development and growth of the international financial services sector across the five themes of the Strategy to enable Ireland withstand competition from other jurisdictions (as far as practicable) and to proactively address emerging challenges and opportunities, domestically and internationally.

Three committees support the Minister of State and the Division in developing, implementing and monitoring *Ireland for Finance:*

- High level Implementation Committee (HLIC) of Secretaries General of the relevant Government Departments and CEOs of IDA and Enterprise Ireland (9 members including the Chair and the Secretary from the Dept). The Central Bank attends as an observer.

- Industry Advisory Committee (IAC) of representatives of the financial services industry, an overseas member and a Secretary (18 in total). (neither the Minister of State nor officials attend)
- Joint Committee (JC) consists of the HLIC and IAC meeting together and it is chaired by the Minister of State (with the Secretariat coming from the Department).

The Committees usually meet quarterly and between meetings, representatives of the relevant Government Departments and State Agencies meet as the Public Sector Coordination Group.

Annual Action Plans

The strategy is implemented by means of annual Action Plans. Action Plans are prepared by the Department of Finance following consultation and discussions with the other relevant Government departments/state agencies and industry interests. While the plans are approved by the Minister of State/Minister and ultimately the Government, a key feature of them is that they are jointly developed and implemented by the long-established and successful 'public-private' partnership between government departments/agencies and industry: representative organisations, advisory firms and individual businesses. Their responsible owners drive actions in accordance with the required targets, outcomes and timelines.

The main industry organisations are: Banking & Payments Federation Ireland (BPFI), Financial Services Ireland (FSI, a division of IBEC), Irish Funds, Insurance Ireland, Irish Association of Investment Managers, Law Society, Institute of Banking and Chartered Accountants Ireland. The other industry organisations that are consulted include Sustainable Nation Ireland, 100 Women in Finance and the 30% Club as they have particular expertise in areas relevant to the Strategy.

In excess of 40 measures were submitted for consideration for Action Plan 2023 across all 5 Themes of the updated Strategy. Considerable more work by the Secretariat is required, but we believe that it is likely that between 10 and 15 measures are appropriate for inclusion in the Action Plan following further consultation and engagement. The Action Plan is likely to be published in Q1 2023 subject to Cabinet approval.

Finally, in 2022, the Central Bank established a Stakeholder Engagement Body to follow on from work done under earlier Action Plans. Industry welcomed this development and it has met twice this year so far. They have also established an Innovation Sub-Group to engage with industry on this topic.

Progress reports

Progress reports on the previous year's action plan are sent to Government for information on an annual basis and published thereafter. The latest report is Progress Report 2021 and work is about to begin in relation to Progress Report 2022 and we anticipate that report will be published in H1 2023.

Showcase Events

A European Financial Forum (EFF) was held virtually (due to COVID-19 health restrictions) in 2022 in conjunction with the IDA. The EFF – held normally early in the year physically in Dublin Castle – provides participants with insights into the latest macroeconomic and regulatory scenarios and their impact on the financial sector and also hears first-hand about forces re-shaping the financial sector and where opportunities lie. It attracts over 500 delegates and showcases Ireland as a financial services location in a European and global context. Speakers in the past have included the Taoiseach and Tánaiste and key overseas contributors.

For 2023, Bloomberg (a global leader in business and financial information) and the IDA are to host a conference – in April - with leaders from private and public sectors to focus on Europe's role in the Global Economy. This is a major event to showcase Ireland in general as an FDI location (not just for financial services). There may also be a fintech conference in H1 2023 that we will required us to play a major role. Furthermore, the Central Bank recently held a major financial services conference in November 2022. In light of these developments, options for holding the next EFF are being examined with the IDA.

Fintech Steering Group

A Fintech Steering Group was established in the Department of Finance in 2021 under *Ireland for Finance* Action Plan 2021. Its role is to:

- co-ordinate on fintech-related policy proposals across the department and across government
- contribute to the development of EU policies and laws on digital finance to foster real innovation in fintech having due regard to other relevant policy considerations including protecting consumers against risks
- consult with industry, and
- liaise with the relevant departments and bodies on consumer education and digital financial literacy.

Under *Ireland for Finance* Action Plan 2022, the Group was expanded in H1 to include relevant departments and agencies across Government. The members are D/Finance (Chair), D/Enterprise, Trade and Employment, D/Further and Higher Education, Research, Innovation and Science, IDA Ireland, Enterprise Ireland, Ireland Strategic Investment Fund (ISIF) and Skillnet. The observers are the Central Bank and the Competition and Consumer Protection Commission (CCPC).

In November 2022, a new industry group was established to work with the public sector Fintech Steering Group (Joint Committee Fintech). This will deepen the engagement between the public and private sector in relation to fintech and allow industry and academia to share their expertise to inform policy development that will benefit fintech. An introductory meeting of the new Group has taken place and some potential future work items in relation to asset management (tokenisation) and digital assets were outlined by industry.

Women in Finance Charter

Ireland's Women in Finance Charter was launched in April 2022. The development of the Charter was led by industry and supported by Government over a number of years, and its launch was a key milestone in the project.

The Charter is open to all financial services firms operating in Ireland. Companies that sign the Charter aim to progress gender balance in their organisations by setting their own targets. The ESRI is the independent data partner for the Charter and will periodically publish progress reports. In the order of 53 companies have signed the Charter. A Steering Group for the Charter has been established to ensure the Charter is supported on an ongoing basis. Representatives from four industry bodies (BPFI, FSI, Insurance Ireland, Irish Funds), the two Co-Chairs of the Balance for Better Business Review Group, 30% Club, 100 Women in Finance, 100 Women in Finance Early Career, Financial Services Union, the Department of Finance and the Department of Enterprise Trade and Employment sit on the Group. The Department of Enterprise Trade and Employment provides the Secretariat to the Group. This action measure was an important priority for the Department. We were also very active at senior levels in brokering an agreement between the various parties on the public and private sides on the operation of the charter and providing government support for the industry led initiative.

3.1.9 Shareholding and Financial Advisory Division

The briefing prepared by Shareholding and Financial Advisory Division provides a high level introduction to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

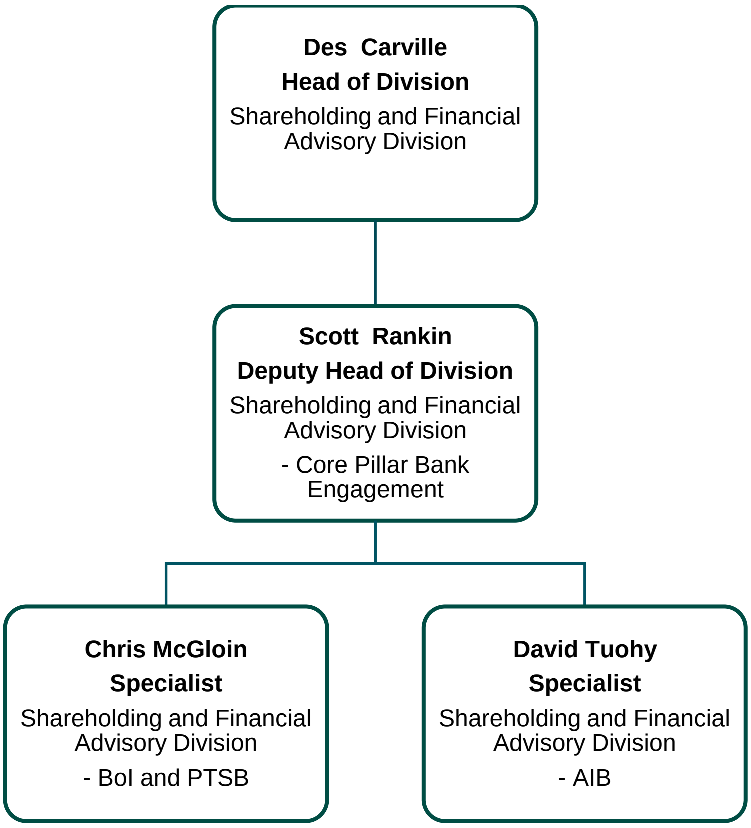
Head of Division - Des Carville

DESCRIPTION:

The Shareholding and Financial Advisory Division (SFAD) manages the State's investments in the banking sector (Allied Irish Banks and Permanent TSB), the Minister's shareholding in the National Asset Management Agency (NAMA) and represents the Minister's interests in relation to the oversight of NAMA in line with the NAMA Act. SFAD also represents the Minister's interests in relation to the liquidation of IBRC, and advises the Minister in relation to the Credit Union sector. Finally, using the expertise within the Division, it provides financial advisory services to the wider Department as required. The Division has 17 staff of which 11 are on long-term secondment from the NTMA. The Head of Division is Ireland's director on the board of the European Investment Bank.

3.1.9.1 State’s Banking Investments Overview

Deputy Head of Unit - Scott Rankin



KEY POINTS

Ireland’s banking investments amounted to State aid, and as such the banks and the State are effectively obliged to reverse these investments over time, market conditions permitting, in order to repay the aid provided. The Department keeps under constant review the exit options available to the State in order to maximise the return from these investments over time.

A total of €64bn was invested in six banks of which c. €35bn went into Anglo/INBS, only a small portion of which will be recovered. The remaining €29bn went into AIB/EBS, BOI and PTSB, and in recent years DoF had been confident that the full amount of this investment could be recovered over the medium to long term. Given current market conditions, even before the impact of Covid-19 is fully factored in, reaching this target now looks unlikely, at least within the next few years.

AIB

The State invested €20.8bn in AIB between 2009 and 2011, and following an IPO in 2017, the ongoing AIB trading plan which commenced in January 2022, participation in AIB’s directed buyback programme and the two successful share sales during 2022, now owns 57% of its ordinary shares. While the State’s shareholding in AIB has reduced during 2022 the value of our shareholding today is c. €513m higher than at the start of the year. While we have been selling into an environment where banks are more in demand due to rising rates, there is no doubt that by creating liquidity we have had a direct positive influence on AIB's share price. AIB is now up 43% this year vs. -8% for European bank shares generally.

The relationship between the State and AIB is managed through a Relationship Framework Agreement which guarantees that the State will not interfere with the day to day running of banks. SFAD monitors performance and significant issues on an ongoing basis.

Bank of Ireland

The State invested €4.7bn in the bank during the period 2009-2011. Following the sale of the CoCo and preference share investments in 2013, the State's remaining investment of 13.9% equity stake was fully divested by September 2022, returning the bank to full private ownership.

In June 2021, The Minister for Finance announced that the State would begin selling its 13.9% shareholding in BOI through a pre-arranged trading plan. Given the success of phase one of the trading plan, we subsequently renewed the programme for a second and third phase, for which the details are set out below. In September 2022 it was announced the State had exited its shareholding in BOI, having achieved a higher price as each phase progressed, bringing total proceeds from the trading plan to €841m.

Though the State has exited its BOI shareholding, the State retains contractual powers and rights from the 2009-11 recapitalisation transaction agreements. We believe it is inappropriate to retain statutory powers and obligations relating to BOI that reside in the Credit Institutions (Financial Support) Scheme 2008 and Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. Following approval from the Minister for Finance, SFAD officials have commenced preparatory work to amend the Schemes to remove these powers and obligations, which are no longer relevant or necessary.

BOI's board selected the group's former CFO Myles O'Grady to become its next CEO, replacing Francesca McDonagh, who was named COO at Credit Suisse in April 2022.

PTSB

The State invested €4bn in Permanent TSB ("PTSB") in 2011 to address the recapitalisation needs of the bank. To date, total proceeds of €2.7bn have been generated from disposals, investment income and liability guarantee fees. The market value of our remaining 62.4% equity stake in the bank was c. €0.5bn at 11 Nov 2022.

The financial position at PTSB has improved substantially since 2016 with the bank returning to profitability, significantly reducing its NPLs and achieving a material increase in its mortgage market share. Another key achievement by the bank was its successful exit from its EU Restructuring Plan announced in early 2019.

Notwithstanding this progress, major challenges remain for PTSB both on the income side, and in managing a cost base appropriate to the bank's balance sheet size, though the banks significant acquisition of Ulster Bank assets sets the bank up well going forward.

As of early November 2022, PTSB has materially completed the acquisition of the performing non-tracker residential mortgage business of Ulster Bank. The Residential Portfolio being acquired currently comprises loans with a value of €6.2 billion. Of this, c. €5.2bn is being migrated in early November and the remaining c. €1bn is expected to migrate in Q2 2023 but no later than Q4 2023. As a result of the acquisition, PTSB is welcoming approximately 56,000 residential mortgage customers connected to the c. 36,000 accounts migrating to the Group. The transaction has increased the size of PTSB's mortgage book by approximately 40%.

As expected, PTSB have issued subscription shares to NatWest Group Plc (NatWest) as partial non-cash consideration for the transaction. As a result, NatWest now hold 16.66% of the issued share capital of PTSB and the State's shareholding in the bank has reduced from 74.9% to 62.4%.

The State's relationship with PTSB is governed by the Relationship Framework which is dated 29 March 2011 and amended and restated as of 23 April 2015. Legacy legal actions relating to the State's investment in PTSB are ongoing. Details are included in the Legal section.

DETAIL:

What is our objective and strategy?

Ireland's banking investments were involuntary and resulted from emergency measures to protect the financial system. They also amounted to State aid, and as such the banks and the State are effectively obliged to reverse these investments over time, market conditions permitting, in order to repay the aid provided. The Department keeps under constant review the exit options available to the State in order to maximise the return from these investments over time. Aside from following the principle of not wanting the State to remain an outside and distortionary force in the economy, successive Governments have taken the view that holding risky equities is not a sensible financial decision and the proceeds from disposals should be used to reduce the national debt.

A total of €64bn was invested in six banks of which c. €35bn went into Anglo/INBS only a small portion of which will be recovered. The remaining €29bn went into AIB/EBS, BOI and PTSB, and in recent years DoF had been confident that the full amount of this investment could be recovered over the medium to long term. Given current market conditions, even before the impact of Covid-19 is fully factored in, reaching this target now looks increasingly unlikely, at least within a five year period. In measuring our progress towards this yardstick we have been very transparent that we include all cashflows associated with State support i.e. income and disposal proceeds, fees and charges for the guarantee schemes. We have also been very clear that we look at our three remaining investments on a portfolio basis.

Unlike the approach of the C&AG, we have not factored in a funding or opportunity cost for these investments. Such a cost is very significant particularly for IBRC and AIB. For instance, in their most recent update on the cost of the banking rescue, the C&AG have calculated a funding cost figure for rescuing the system of as much as €28.8bn, €8.5bn of which related to the three remaining banks.

While the C&AG funding cost figures are perfectly rational[8], what they don't measure is the benefit to the wider economy from rescuing the core of the banking system which was the reason for the intervention in the first place. This intervention had a knock on positive impact for government spending and tax receipts with the latter back to record levels pre-Covid-19.

Table 1 below summarises the amount invested compared with the amount recouped to date (through disposals and fees) and the most recent valuations of our remaining investments. The comparison shows a current net deficit of €2.9bn. This is in contrast to the position at the peak in bank valuations in H1 2018 when it showed a surplus of €2bn. Of course it should be remembered that the interest rate environment and macro environment in 2018 was completely different to that of today with a direct read across to the relative valuations for European bank stocks. It is important to note that we are running a fairly large unrealised loss in AIB and PTSB which is only partly offset by the surplus on BOI.

Table 1: Viable banks - summary investment position				
	AIB €bn	**BOI €bn**	**PTSB €bn**	**Total €bn**
Total invested by the State	**20.8**	**4.7**	**4.0**	**29.4**
Cash received to date				
- Disposal/redemptions	8.0	4.4	1.9	14.4
- Coupons/dividends/fees	3.6	2.3	0.8	6.7
	11.6	6.8	2.7	21.1
Net cash position - In/(out)	**(9.1)**	**2.1**	**(1.3)**	**(8.3)**
Valuation of remaining investments –11 Nov 2022	4.8	-	0.6	5.4
Net position – Nov 2022	**(4.4)**	**2.1**	**(0.7)**	**(2.9)**

Executing share sales has proven more difficult than envisaged even before Covid-19

Given the size of our AIB exposure (8x larger than our BOI investment) our strategy has prioritised the return of this value, with disposal strategies for BOI and PTSB facilitating, or at a minimum not hindering, this objective. DoF has previously posited a number of pre-conditions that should be in place for us to execute any bank disposals. These are:

i. The financial sector must be stable and no longer be dependent on State involvement
ii. The relevant bank must be ready for the State to start selling down
iii. The market appetite must be there for our shares
iv. The disposal must meet our value for money considerations

Across 2021/22, we have made good progress in delivering on State policy of returning the banks to private ownership.

Bank of Ireland

In June 2021, we began selling the State's 13.9% shareholding in BOI through a pre-arranged trading plan. Given the success of phase one of the trading plan, we subsequently renewed the programme for a second and third phase, for which the details are set out in the table below. In September 2022

[8] C&AG also helpfully adds the profits earned by the Central Bank on bonds it received as part of IBRCs liquidation (c. €13bn) and deducts this from the total cost of rescuing the system

it was announced that the State had exited its shareholding in BOI, having achieved a higher price as each phase progressed, bringing total proceeds from the trading plan to €841m.

Phase	Started	Ended	Start %	End %	No. Shares Sold (m)	Average Price Per Share (cents)	Total (€m)
1.	Jun-21	Nov-21	13.9%	9.3%	50.0	496	249
2.	Nov-21	Mar-22	9.3%	4.6%	50.2	564	283
3.	Apr-22	Sept-22	4.6%	0%	50.0	617	309
Total							**841**

AIB

To 8 November 2022, the State has recovered €4.33bn of our investment in AIB by way of the IPO of AIB in 2017, the ongoing AIB trading plan, the two share sales during 2022 and the proportionate directed buyback which together have reduced our shareholding from 99% to below 57%. The timeline by completion date and relevant details of these transactions are set out in the table below.

Transaction	Completed	Start %	End %	No. Shares Sold (m)	Average Price Per Share (cents)	Total (€m)
IPO	June-17	99.9%	71.1%	772	440	3,400
Phase 1 Trading Plan	Jan-Jun-22	71.1%	68.5%	68	232	164
Share buyback programme	May-22	70%	70%	28.5	245	64
Block Sale 1	Jun-22	68.5%	63.5%	134	228	305
Block Sale 2	Nov-22	62%	57%	134	296	397
Total						**4,330**

Please note that phase 2 of the AIB trading plan, while now paused following the most recent block sale, is still on-going and we are unable to disclose the final proceeds from this until it has completed in January 2023.

In relation to the share buyback programme, the State participated in this on a proportionate basis as the share price was quite volatile at the time given the invasion of Ukraine. This strategy ensured our shareholding in the bank didn’t increase, which would have been the case if we hadn’t participated at all.

In terms of 2022, the State has recovered €1.05bn of our investment in AIB this year through the AIB trading plan (phase one and two, the latter which we have yet to disclose), the two block trades and the directed buyback which has reduced our shareholding from 71.12% at the beginning of the year to 57% now. While the State’s shareholding in AIB has reduced throughout 2022, the value of our shareholding today is €513m higher than at the start of the year given the upward trajectory of AIB's share price especially over the past two months.

DATE	AIB CLOSING PRICE PER SHARE	STATE'S SHAREHOLDING IN AIB	VALUE OF STATE'S SHAREHOLDING IN AIB
31 December 2021	€2.14	71.12%	€4.13bn
28 June 2022	€2.36	63.5%	€4.0bn
9 November 2022	€3.06	57%	€4.65bn

The AIB free float has increased in value by 121% since 31/12/21 – see below

DATE	FREE FLOAT - NO. OF SHARES	% OF OUTSTANDING SHARES	VALUE
31 December 2021	743m	29%	€1.59bn
9 November 2022	1,151m	43%	€3.52bn

A higher share price and rising free float that improves liquidity is a virtuous circle that benefits the State as seller and ensures that investors remain interested in future sell down opportunities.

For the first time since the GFC, sustainable profits are emerging for Irish banks. The interest rate environment continues to be a significant positive for Irish banks income. We have already started seeing this upside in 2022 earnings, though we expect the greater part of the upside will begin to emerge in to 2023. Irish bank valuations are now starting to reflect their improved profitability as reflected in the material share price outperformance in 2022 relative to European banks. It is worth noting that asset quality is also a key driver in the outperformance, with Irish banks having significantly de-risked balance sheets (as a result of more stringent mortgage lending criteria) relative to European peers and also relative to Irish banks during the GFC. The positive sentiment toward Irish banks in 2022 has allowed us to sell BOI and AIB shares in to a rising market, protecting taxpayer investment.

The best way to see how well capitalised Irish banks are relative to their peers is to look at the leverage ratio which is a simple ratio of shareholders' equity (plus tier 1 debt) over total assets. It ignores the complexity associated with risk weighted asset models which include 20 years or more of historic loan losses and therefore in Ireland still punish Irish banks and ultimately consumers for the enormous losses incurred during the 2009-11 crash. This is despite the fact that lending practices have changed utterly since then and we also have Central Bank restrictions on the quantum of mortgage lending. Data shows that leverage ratios in Ireland are amongst the highest in Europe.

The Department published a paper on risk weighted assets (RWAs) in 2019 which explained the link between crisis era loan losses, very high capital demands and mortgage rates. The subject matter is complex but we have made some progress in getting this across in media and political circles. However, the facts do not suit the widely held but simplistic narrative that Irish banks are profiteering through higher interest rates than other European countries. If this were the case KBC and Ulster Bank would not have exited the market due to their extremely low level of profitability and regulatory pressures.

The Department also published a paper on deferred tax assets in late 2018 showing the negative impact of impeding the banks' ability to carry forward losses. The State would take a large upfront hit in the value of its investments in return for an annual cash inflow of corporate tax payments. It would take a number of years for the latter benefit to equal the upfront loss.

In terms of share sales, even if market conditions are conducive, there are a surprisingly low number of days in any given year where the State is capable of selling shares for various reasons including our possession of price sensitive information. For instance, advisors and investment banks generally have a preference for not selling shares on Mondays and Fridays. In addition, Jan, Feb and July are ruled out ahead of banks' reporting their results as are the two weeks leading up to quarterly trading updates (usually late April and Oct/early Nov). Trading either side of major holidays like Easter and Christmas is also ill-advised as is selling in the holiday month of August. This makes execution a challenge and the messaging around the price achieved in any sale equally a challenge e.g. why didn't you sell in, say, Jan when the price was higher? This underscores the need to take advantage of good opportunities and execute quickly when they do arise.

PTSB is clearly in a different position to our investment in AIB. Profitability is still challenged and the investment case for institutions is not there right now. Despite very strong progress in reinvigorating the franchise and fixing the balance sheet, the bank has a widely known problem, namely the high capital requirements being set by the regulator. The bank is not too different from a Building Society in the UK yet has to operate with a multiple of the equity for every loan (leverage) that UK peers operate with. As a result, the Department of Finance does not envisage any reduction in the State's investment in PTSB in the short term.

In relation to the State's role in the Irish banking sector, it is important that we don't misdiagnose the problems and challenges that we face when it comes to the availability and cost of financial services. Fundamentally, banking is about taking risk, including on deciding who should receive credit and who should not, and this is not the business of the State in a modern economy. Banking in the main is an activity that should be provided by the private sector and that taxpayer funds which were used to rescue the banks should be recovered and used for more productive purposes. More Government involvement is not the solution in our view, in fact it is likely to reduce competition not increase it.

We want to ensure that the banking and financial system is one that will effectively contribute to and support economic growth and employment. In order for this to happen, it is an uncomfortable truth but banks will need to be profitable as profits are a source of capital to support losses which inevitability arise in periods of economic stress and to support loan growth and investment in the business. Without some prospect of return, the private sector will not invest in the provision of banking services in Ireland, this is evidenced by the withdrawal of KBC and Ulster Bank from the market.

3.1.9.2 NAMA, IBRC & HBFI

Principal Officer – Aileen Gleeson

KEY POINTS

NAMA

By end-June 2022, €3.25 billion from NAMA's surplus had already been transferred to the State, with a further €250 million scheduled for transfer in H2 2022. NAMA's expected lifetime contribution to the Exchequer, between the projected surplus of €4.5 billion and projected total tax payments, will be in the region of €4.9 billion.

Some 13,479 residential units were delivered through NAMA funding between 2015 and end-June 2022.

By end June 2022, 284 residential units have been delivered. A further 758 units are under construction and some 1,300 units have NAMA funding committed subject to these developments being commercially viable.

NAMA's remaining secured landbank is estimated to have the potential to deliver circa 18,800 new homes in the medium to long term.

As at the end of June 2022, 2,687 social housing homes have been delivered or committed by NAMA, excluding those delivered under Part V arrangements on NAMA-funded residential developments.

NAMA aims to conclude its work no later than December 2025. The organisation is undergoing a phased and orderly wind down.

In 2021, NAMA submitted to the Minister for Finance a detailed wind-down plan for its ultimate dissolution to 2025, which will be reviewed annually.

IBRC (in special liquidation)

The 9th liquidation update report was published in September 2022. As set out in the Progress Update Report, the timeline for completion of the liquidation remains forecast to be 31 December 2024. This is subject to ongoing review and is primarily dependant on resolution of litigation proceedings and stable market conditions for asset sales.

All admitted unsecured creditors (including the State) at the date of liquidation have been fully repaid. To date the State has received approx. €1.7bn from the special liquidation in respect of its unsecured creditor claims, interest on these claims and its holding of the preference shares in the Bank. Any remaining funds left in the liquidation once all remaining tasks are completed will be returned to the State as the owner of the equity in the former bank.

The current par value of the loan portfolio is c. €3.6bn as at end June 2022, from an initial par value of €21-22bn.

[redacted]

Redacted under Section 36(1)(b) of the FOI Act 2014.

Legal fees incurred up to end June 2022 were €308.7m.

A Commission of Investigation into IBRC was established in 2015 to investigate certain matters of significant public concern regarding certain decisions, transactions and activities entered into by IBRC (pre-liquidation) between the period 21 Jan 2009 and 7 Feb 2013.

On 7 September 2022 the Taoiseach published the report of the Commission of Investigation (IBRC) in relation to the transaction in relation to Siteserv and principles and policies within IBRC on interest rates. The SLs are currently considering the recommendations contained in the report.

Home Building Finance Ireland (HBFI)

HBFI was established to increase the supply of new homes for owner-occupiers, renters and social housing by providing funding on commercial terms to house builders for commercially viable developments throughout Ireland.

HBFI has been provided with access to €750 million of funding from the Ireland Strategic Investment Fund.

To end of June 2022, HBFI has approved funding of €1,156m across 86 projects in 20 counties.

HBFI have an agile and flexible business model which can respond to disruptions to residential development finance by tailoring our offering towards those areas of the finance market where gaps emerge.

The first strategic review of HBFI was completed by the Department of Finance in May 2021, which concluded that HBFI is having a positive impact on the availability of development finance and should continue in operation at this time.

A second strategic review is due for completion by the Department in May 2023.

DETAIL:

NAMA

Progress since Inception & Current Position

NAMA acquired its loans for a total of €31.8bn from the participating banks. Reflecting the steep reduction in property values following the financial crisis, this amount represented 43% of the outstanding amount (€74bn) owed by debtors. The market value of the acquired loans was €26.2bn, €5.6bn less than the €31.8bn NAMA paid for the loans. It was through this overpayment that NAMA delivered €5.6bn of State aid to the participating Irish banks.

To achieve its current success NAMA had made numerous important, well founded and commercially informed decisions at a time of great economic crisis for the State. It has been these decisions that have allowed NAMA, against all expectations, to redeem all of its senior debt two years ahead of schedule eliminating the State's contingent liability. NAMA's success is recognised internationally but less so locally.

NAMA Surplus

By end-June 2022, €3.25 billion from NAMA's surplus had already been transferred to the State, with a further €250 million scheduled for transfer in H2 2022. NAMA's expected lifetime contribution to the Exchequer, between the projected surplus of €4.5 billion and projected total tax payments, will be in the region of €4.9 billion.

Poolbeg SDZ

In Oct 2017, Dublin City Council approved a Planning Scheme for the Poolbeg West SDZ, which was then controlled by a NAMA appointed receiver. This site has the capacity to deliver up to of 3,800 residential units, and 1 million square feet. of commercial space, as well as community amenities. 25% of the delivered residential housing will consist of social housing and affordable housing.

In 2019, NAMA issued a Request for Expressions of Interest for developers to enter into a Joint Venture (JV) with NAMA to develop the Poolbeg SDZ. In June 2021, NAMA received €200 million for an 80% stake in a key development site in the Poolbeg West SDZ, with NAMA retaining a 20% interest in the site.

The development has received planning permission from Dublin City Council (DCC) for the first 570 residential units and additional planning applications have been lodged with DCC for a further 872 residential units.

Dublin Docklands SDZ

NAMA originally held an interest in 75% of the 22 hectares of developable land in Dublin Docklands Strategic Development Zone (SDZ). NAMA has been instrumental in driving and facilitating the development of the Docklands area, transforming previously derelict and brownfield sites. When fully developed, these sites will provide 4.2 million sq. ft. of commercial space and 2,183 residential units, accommodating 20,000 office workers and 5,000 residents in the area.

By June 2022, approximately 99% of NAMA's original interests in the Docklands SDZ have been completed or sold. NAMA retains a residual interest in five sites, four of which are construction complete. A site sale is planned for the other site where NAMA has a leasehold interest.

Residential Funding Programme

Some 13,479 residential units were delivered through NAMA funding between 2015 and end-June 2022. To end June 2022, 284 residential units have been delivered. A further 758 units are under construction and some 1,300 units have NAMA funding committed subject to these developments being commercially viable. NAMA's remaining secured landbank is estimated to have the potential to deliver circa 18,800 new homes in the medium to long term.

Social Initiatives

NAMA has an established policy (subject to its Section 10 commercial mandate) of identifying to Local Authorities, properties which may be suitable for their purposes and has facilitated the sale or lease by its debtors and receivers of properties at market value to public bodies for a wide-range of purposes, including social housing, schools, healthcare facilities and urban economic, environmental and cultural regeneration.

As at the end of June 2022, 2,687 social housing homes have been delivered or committed by NAMA, excluding those delivered under Part V arrangements on NAMA-funded residential developments.

NARPS

NARPS was established by NAMA in 2012 to expedite the delivery of social housing. It is the Government's position to protect NARPS social housing mandate and maintain it within State ownership following the wind down of NAMA. As part of the Minister for Finance's Section 227 Review of NAMA, the Minister recommended that ownership of NARPS should be retained by NAMA in order to protect the vehicle's social housing mandate into the future.

Under Housing for All, the process for the transfer of NARPS from NAMA to the LDA was to be agreed by the end of Q2 2022. An 'Agreement in Principle' was drafted by the Department of Housing in June 2022 which requires amendments to the LDA Act amongst other steps in order to enable the transfer to proceed.

Carrickmines Green (Apartment defects)

There has recently been some correspondence received in respect of an apartment development located at Carrickmines Green, Dublin. The development is a private residential development consisting of a number of apartment blocks and houses.

NAMA owns certain loans which are secured by a small number of individual apartments in the development. These units are under the control of a receiver (McStay Luby) who acts as agent of the original developer and is responsible for the management and maintenance of the properties over which they are appointed.

There is currently extant litigation between the receiver and the Owners Management Company ("OMC") in relation to the development at Carrickmines Green, which we are advised is expected to be back in court imminently. NAMA is not a party to the litigation**.** Given the on-going litigation, NAMA is not in a position to substantively engage in certain issues, which it is understood are the subject of disputed claims in the ongoing pending litigation.

The receiver, in his capacity as agent of the developer and without any legal obligation or requirement to do so, has carried out very substantial remediation works to the development, funded by NAMA, certification of which has been provided to the local authority.

NAMA was established as an independent commercial body and the Department or the Minister for Finance does not have a role in its operations or decisions and cannot direct a receiver to act counter to their statutory and fiduciary obligations. In addition, given the ongoing litigation it is not appropriate for NAMA, the Department of the Minister for Finance to interfere with an ongoing legal case.

Forward Looking

NAMA aims to conclude its work no later than December 2025. The organisation is undergoing a phased and orderly wind down. In 2021, NAMA submitted to the Minister for Finance a detailed wind-down plan for its ultimate dissolution to 2025, which will be reviewed annually.

IBRC (in special liquidation)

Background

On 15 Jan 2009, the Irish Government decided, having consulted with the Board of Anglo Irish Bank, to take steps to enable the bank to be taken into public ownership. The Anglo Irish Bank Corporation Act 2009 was enacted and transferred the ownership of Anglo Irish Bank to the Minister. In total the State invested €34.7bn in Anglo and INBS, including promissory notes totalling €30.6 billion. In early 2011 the majority of the deposits held in Anglo Irish Bank and INBS were transferred to Allied Irish Banks and Permanent TSB respectively and in July 2011 Anglo Irish Bank and INBS were merged to form Irish Bank Resolution Corporation ("IBRC").

In February 2013, following discussions between the Irish Authorities and the ECB, the Irish Bank Resolution Corporation Act 2013 was enacted and a special liquidation order was signed by the Minister for Finance placing IBRC into special liquidation. The joint special liquidators ("SLs"), Kieran Wallace and Eamonn Richardson, were appointed and now control the operations of IBRC pursuant to the IBRC Act 2013. The IBRC promissory notes were exchanged for a portfolio of long-term government bonds with a weighted average maturity of 34 to 35 years which compared favourably to the weighted average maturity of the promissory notes of 7 to 8 years. This significantly smoothed Ireland's debt profile and reduced near-term borrowing requirements.

The Special Liquidation

Overview

The success of the liquidation, along with the numerous benefits obtained through the promissory note transaction itself, have been critical to the restoration of confidence in Ireland. A ninth liquidation progress update report was published in September 2022 and is available on the Department of Finance website https://www.gov.ie/en/publication/cf1de-ibrc-ninth-progress-update-report.

As set out in the Progress Update Report, the timeline for completion of the liquidation remains forecast to be 31 December 2024. This is subject to ongoing review and is primarily dependant on resolution of litigation proceedings and stable market conditions for asset sales.

Loan Sales

Since Feb 2013, loans with a par value of €21.7bn have been prepared, brought to the market and sold. Among other assets, loans with a par value of €3.6bn remain which the SLs continue to manage. These are loan assets are mainly connected to ongoing and recently settled litigation.

Payments to Creditors

Over 3,200 claims were submitted to the SLs, the majority of which have been adjudicated on with a small number of claims outstanding. As of September 2022, all admitted unsecured creditors of the liquidation have received 100% of what they were owed at the date of the liquidation (including interest where applicable). To date, the State has received c. €1.7bn (€1.6bn capital and €0.1bn interest) from the special liquidation in respect of its unsecured creditor claims, interest on these claims and its holding of the preference shares in the Bank.

Cost of Liquidation

Fees incurred in the liquidation for the 12 month period to 31 December 2021 were €11.4m. There are total fees incurred since the beginning of the liquidation in February 2013 to 31 December 2021 of €305 million. The Special Liquidators have forecasted fees of between €15.5 million-€19.5 million will be incurred to complete the liquidation, which will bring the total fees incurred to €320.5 million-€324.5 million.

Commission of Investigation (CoI)

A Commission of Investigation into IBRC was established in 2015 to investigate certain matters of significant public concern regarding certain decisions, transactions and activities entered into by IBRC (pre-liquidation) between the period 21 Jan 2009 and 7 Feb 2013.

On 7 September 2022 the Taoiseach published the report of the Commission of Investigation (IBRC) in relation to the transaction in relation to Siteserv and principles and policies within IBRC on interest rates. The SLs are currently considering the recommendations contained in the report.

IBRC SLs departure from KPMG

The Department of Finance has been informed that the Special Liquidators of the Irish Bank Resolution Corporation Limited ("IBRC") have advised KPMG of their intention to leave that firm from April 2023.

The Department of Finance has engaged with KPMG and the Special Liquidators and has received strong assurances that there will be full continuity of service from the Special Liquidators and from KPMG to complete the special liquidation of IBRC and to achieve the maximum return for the State.

The Special Liquidators are expected to remain at KPMG until April 2023, and work has already commenced in making arrangements to ensure that the Special Liquidation will continue seamlessly after their departure from KPMG.

The Department will continue to actively engage with the Special Liquidators and KPMG to ensure that all efforts continue to be made to achieve this objective.

Forward Looking

In order to maximise the ultimate return for the State, the Special Liquidators have extended the timeline to end-2024 (from end-2022). This is primarily as a result of ongoing legal cases being significantly delayed and asset sales being deferred.

The Special Liquidators committed to a review of this timeline, which was provided to the Department in April 2022. We will continue to monitor this and engage with the SLs to ensure they are working towards this projected timeline.

The remaining key tasks in the liquidation of IBRC include:

- Disposal of remaining assets;
- Adjudication of final creditor claims;
- Resolution of outstanding litigation; and
- Commission of investigation.

HBFI

Background

HBFI was established to increase the supply of new homes for owner-occupiers, renters and social housing by providing funding on commercial terms to house builders for commercially viable developments throughout Ireland.

Residential Funding

To end of June 2022, HBFI has approved funding of €1,156m across 86 projects in 20 counties. HBFI actively engages with potential borrowers throughout Ireland and is seeking to fund new homes in all 26 counties, subject to commercial viability.

To end of June 2022, 715 HBFI-funded units have been completed with a further 1,783 contracted for sale or sale agreed.

To end of June 2022, a total of 3,229 homes supported by HBFI financing have been completed or are currently under construction.

The products HBFI offer can fund projects from 5 to 300 units as follows:

- Under 10 Units – aimed at funding projects of between 5 and 9 residential units.
- 10 Units or above – designed to fund residential products of 10 units or more.
- Apartment Development – geared towards apartment development.
- Social Housing - providing funding for projects that are contracted for sale to a Local Authority or Approved Housing Body.
- Green Funding - to encourage the development of sustainable housing across all HBFI products.

HBFI have an agile and flexible business model which can respond to disruptions to residential development finance by tailoring our offering towards those areas of the finance market where gaps emerge.

HBFI Momentum Fund

Following the outbreak of Covid-19, HBFI widened its remit on a temporary basis to allow it to provide finance for larger prime residential projects that were experiencing difficulties in accessing financing through the introduction of a new prime lending facility, the Momentum Fund. A total of €274m of funding was provided by the Momentum Fund, which funded 5 facilities and 1,018 homes. This "step-in" fund was set up specifically to help house builders commence large housing developments in prime locations in cases where funding may not have been available.

The end date for Momentum Fund approvals was 31 December 2021.

HBFI will continue to review product offerings in line with demand, to remain agile, and will respond to disruption in the market where possible.

The Momentum Fund is just one example of how HBFI's agile business model can respond to disruptions to residential development finance and tailor its offerings towards those areas of the finance market where specific demand has emerged that may not otherwise have been possible.

HBFI Private Rental Sector

HBFI was established to increase the supply of new homes for owner-occupiers, renters and social housing by providing funding on commercial terms to house builders for commercially viable developments throughout Ireland.

The breakdown of units funded by HBFI to end June 2022 is:

- 50% owner occupier
- 23% social/affordable
- 22% private rental
- 5% part V

The vast majority of HBFI approved funding has been for houses – with 65% of approved funding supporting the delivery of 3,410 houses. In contrast, 35% of total HBFI approved funding has been for the delivery of 1,800 apartments.

Given HBFI's range of products, this has included funding for various scheme sizes, including small developments of 5 units and up to 350, covering both rural areas and Dublin city centre. HBFI will continue to review product offerings in line with demand, to remain agile, and will respond to disruption in the market where possible.

Forward Sold Developments

HBFI cannot fund developments that are not commercially viable, as HBFI has a legal obligation to protect the taxpayer by ensuring that all developments funded by HBFI are commercially viable and that all funding is on commercial terms. It is well accepted that apartment developments, in particular, are capital intensive, longer-term in nature, and cannot be sold in phases. This increases risk, and therefore securing development capital is more constrained. Having a committed forward sale in place significantly mitigates this risk for a lender. Therefore, many apartment developments would not receive development funding to proceed without having a forward committed sale in place prior to commencement.

HBFI, in common with other commercial lenders, therefore funds developments that are forward sold to deliver apartments that would not otherwise be commercially viable and hence would not be built, thus restricting supply in the rental market.

If HBFI did not fund these apartments, it is likely that they would not have been built. Therefore, the tenants living in these apartments would have to source alternative homes which would increase demand and exacerbate the housing issue. Forward sales with institutional buyers' accounts for approximately 1% of houses and 62% of apartments funded by HBFI.

HBFI's Role

The Government's priority policy objectives for HBFI are set out below:

- To provide credit for commercially viable residential developments within the state;
- To increase the availability of finance for commercially viable residential developments throughout the State where debt funding shortages exist;
- To contribute to the economic and social developments of State by facilitating social and affordable residential developments where commercially viable;
- To achieve commercial return on its lending.

HBFI's role is to provide loans directly to house builders to build new homes for owner-occupiers, renters, and social housing. HBFI's wide range of products means they can provide funding for all home types from small housing schemes to larger apartments developments.

A substantial increase in the supply of new homes is the only route to solving Ireland's housing crisis and HBFI is making an important contribution to increasing the supply of housing in the State.

3.1.9.3 Credit Union Reform and Strategy

Specialist - Brian Corr

KEY POINTS

Persistent low loan to asset ratios of 26-28% have led to €15 billion of funds invested at low or negative yields. The low loan to asset ratio, low yields on investments and relatively high costs lead to a low return on assets (2022: 0.3%) and high cost income ratios 2002: avg: 95%. However the increasing interest rate environment will be beneficial for investment income. Despite this support coming from a rising interest rate environment credit unions should continue to focus on balance sheet restructuring – growth in lending and new products – and cost efficiency in order to ensure financial sustainability.

DETAIL:

Background

Credit Unions are mutual independent not-for-profit organisations that provide savings-and-loan services to members, who are linked by a 'common bond'. They are established and regulated in accordance with the Credit Union Act 1997 (the 1997 Act), the Credit Union and Co-operation with Overseas Regulators Act 2012 (CUCORA) and Central Bank and Credit Institutions (Resolution) Act 2011 (CIRA). Supervision is led by the Registrar of Credit Unions in the Central Bank.

Credit Union Advisory Committee available as advisory support for the Minister

CUAC[9] advises the Minister in relation to the improvement of the management of credit unions, the protection of the interests of members and creditors of credit unions. The Minister can seek advice from CUAC on any credit union matter. In February 2020 CUAC published "A Report on Research into Credit Union Directors". In January 2022, the CUAC decided to revisit this Research from 2020, through the "Addendum to Report on Research into Credit Union Directors (the 2022 Addendum). CUAC is currently focussed on research in relation to current accounts and Central Bank lending regulations, due for completion by end Q1, 2023. The terms of two members of the CUAC are due to end in December 2023.

Engagement with Representative Bodies and many other stakeholders

There is a range of representative bodies for the sector:

- Irish League of Credit Unions (ILCU) – all island body, represents majority of credit unions.
- Credit Union Development Association (CUDA) – 16 full members (assets of €2.5bn) and 34 affiliate members (assets of €4.8bn), the majority of which are also members of ILCU).
- Credit Union Managers Association (CUMA) – for professional credit union managers
- National Supervisors Forum (NSF) - for all supervisory committees for Ireland north and south.

The primary Representative Bodies, ILCU and CUDA, collectively represent almost all credit unions, but do not necessarily share the same views on issues relevant to credit unions. The Department is conscious that it leads policy for the whole sector and as a result we proactively engage via regular meetings with CUAC, Representative Bodies and collaborative ventures. We also engage directly with credit unions through bespoke events, which the Department has initiated, and bilaterally to ensure we understand the issues at an individual credit union level.

Profile of Credit Union Sector

- 204 credit unions as at October 2022; 66 credit unions control 69% of sector assets. The largest credit union has assets over €500m and over 20 credit unions have assets over €200m.
- Average size is €97m which represents growth of 285% from €34m in 2011.
- Credit unions have gained over 10% market share in new current account openings
- Lending has grown in both mortgages (+21% YoY) albeit to a low level of €317m and SME (+14% YoY to €146m) focussed primarily on agri-lending in community credit unions.
- The 28% average loan to asset ratio has remained static.
- Reserves averaged 16% at September 2022, with the corresponding figure in 2015 at 16.2%.
- Return on assets has fallen from 1.4% in 2015 to 0.3% in September 2022[10], but is expected to rise in 2023 as a result of rising investment yields.

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[9] Current members : Lorraine Corcoran, Afanite; Olive McCarthy, UCC; Seamus Newcombe, CEO, Payac; Diarmaid O'Keeffe, Eisen Amper; Dermot Griffin, CEO, CUSOP; Elizabeth Boylan, Director, Progressive Credit Union; Micheal Ahern, Dubco Credit Union.

[10] Preliminary Central Bank data, may change. Impact of pension fund restructuring and dividend from ILCU Savings Protection Scheme.

Financial Sustainability Challenges

Until the recent interest rate rises credit unions had been operating in an extremely challenging economic conditions with a fall in investment returns combined with an increase in deposits, loan books that were not growing much faster than deposits and low loan to asset ratios. Loan to assets ratios range from 12% to 73%, reflecting differing performance and common bonds across the sector. While similar conditions also impacted banks throughout the EU, the issue was acute due to the business model of credit unions. Credit unions are having to explore new options in terms of both lending, investments, generation of non-interest income, management of savings and costs efficiencies. Despite the positive impact of interest rate increases credit unions should not lose sight of the need to restructure.

Programme for Government commitment

The PfG states that the Government will "Review the policy framework within which credit unions operate", "Enable and support the credit union movement to grow", "Support credit unions in the expansion of services, to encourage community development" and "Enable the credit union movement to grow as a key provider of community banking in the country".

The legislative framework is primarily established in the Credit Union Act 1997 (as amended) (the Act) and the Credit Union and Cooperation with Overseas Regulators Act 2012. The policy framework was last reviewed in detail by the Commission on Credit Unions in 2012 and the implementation of its recommendations took place from 2012-2016. The implementation of the recommendations were reviewed by the Credit Union Advisory Committee ("CUAC") which determined they had been materially implemented.

With regard to fulfilling the commitments in the PfG, the Review of the Policy Framework was completed and, in July 2022, the Government approved the drafting of legislation to implement the proposals. The Credit Union (Amendment) Bill was introduced in the Seanad on 6 December 2022. Timelines for 2023 will be a matter for the incoming Minister and the Oireachtas.

Targeted policy proposals to meet key objectives

The desired outcome of the proposals, including legislative amendments, is to strengthen the role of credit unions as a provider of community banking, to further enable the people working and volunteering to focus on priorities that will better position the sector to face the challenges and opportunities of the future and to enhance engagement between them and the regulator.

Recognition of the role of credit unions

Credit unions fulfil an important role in communities. In recognition of this role it is proposed to amend the Act by way of an additional object highlighting and acknowledging the role of the movement in building and developing the volunteer and cooperative movements.

Supporting Investment in Collaboration

There are two legislative provisions categorised under this objective.

- The first is a clarification and a broadening of the language in Section 43(2)(b) of the Act to make it clear that credit unions can invest in Credit Union Service Organisations.
- The second is the introduction of corporate credit unions, a credit union whose members would be other credit unions, as entities for further collaborate.

Supporting Enhanced Governance

There are a number of provisions intended to free credit union boards from some of the burden of operational management, facilitate a greater focus on strategic planning and redress the balance of responsibility on the board between directors and management, including inter-alia:

- the option of making the manager/CEO an ex-officio member of the board;
- reducing the minimum number of board meetings to six per annum;
- mandatory review of policies every three years from annually at present and removal of the requirement for the board to review procedures;

Improving Member Services

At present it is a lottery as to whether a credit union member can access the fullest range of services. If a member's local credit union doesn't provide a current account or mortgage lending they can't join a credit union that does. Nor can the credit union introduce the member to another credit union, though they can introduce a member to a bank or non-bank. Proposals are being made to make the common bond more flexible.

Transparency of Regulatory Engagement

Non-legislative proposals to provide clarity on engagement with and improve the working relationship with the Central Bank:

- Enhanced Engagement Protocol between credit unions and the Central Bank
- Memorandum of Understanding to establish a defined relationship between the Minister, the CUAC and the Central Bank; and
- Amended Terms of Reference for the Stakeholder Roundtable to allow for wider attendance, the involvement of a Minister and greater transparency of its work.

Lending Regulations: Review of the Lending Framework for Credit Unions completed in 2019

The Central Bank published amending lending regulations on 1 January 2020. The changes introduced were positive, particularly increased capacity for house lending, the change to limits as a percentage of assets rather than loans and the simplification of maturity limits. The Central Bank is due to undertake a review of the impact of the 2019 changes during 2023. Section 32M of the Central Bank Act requires the Bank to carry out an independent review of the performance of its regulations every 4 years. The last review was carried out in 2019. This review is one of the key items on the Central Bank's work plan for 2023.

One of the new regulations is a combined concentration limit for house and business loans, which allows 7.5% (or 10% if compliant with certain criteria) of assets in house and business lending combined, while also containing a 5% limit for business lending.

Since 1 January 2020, credit unions now have a combined capacity to provide up to €1.1 billion in additional SME and mortgage loans, with further capacity of up to 15% available to credit unions on approval by the Central Bank. 7 credit unions are currently approved for the combined lending limit of 15% of assets with 1 additional application currently under consideration.

Capital Requirements for Credit Unions set by Central Bank at 10% of assets

Under the Credit Union Act 1997 (as amended) credit unions are required to maintain adequate reserves. The Central Bank has the power to prescribe the regulatory reserve requirement a credit union must maintain at a minimum, which is 10% at present, and to introduce risk weighting. In terms of total realised reserves, the average for the sector was 16% as at end September 2022. Credit unions in Ireland have an exemption from the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) which apply to most credit institutions in the EU.

Wide range of collaborations established

Recently a range of collaborative ventures have been established to expand services and increase efficiencies including: Cultivate (agri-lending), PAYAC (current accounts), CUSOP (payments), Peopl (insurance, JV with CUNA) and Metamo (JV with Fexco). Further collaborations are possible to assist with mortgage and SME lending and IT projects.

SME Lending: growth in lending to €146 million, but from a low base

Credit unions are permitted to provide commercial loans. Commercial lending requires specific skills and expertise and may not be appropriate for all credit unions. Credit unions have capacity to lend up to €1bn of SME lending. As at September 2022, the commercial loan book was €146m, an increase of 14% YoY. Included in the total outstanding are agri-loans under the Cultivate scheme, which is a collaboration of 47 credit unions that provides loans for farmers up to €50,000. 22 credit unions are now providing loan products guaranteed by the Strategic Banking Corporation of Ireland.

New Debit Card Services launched by c 35 credit unions in late 2019, 77 now approved

Debit card provision requires Central Bank approval. It allows approved credit unions to offer personal current accounts, and a range of payment services including debit cards, overdrafts. Currently 77 have been approved to provide current accounts, including over 80% of large credit unions. They have gained over 10% market share in current account openings. Credit unions are now seeking Central Bank approval to offer current accounts to businesses.

Personal Micro Credit Scheme

DEASP established the Personal Micro Credit (PMC) scheme. The scheme is aimed at moving welfare recipients away from the use of high cost moneylenders and providing an alternative, low cost personal loan scheme. 101 credit unions are offering the 'It Makes Sense' loans.

Levies and charges on credit unions

Credit unions are subject to the Industry Funding Levy, Resolution Levy, Stabilisation Levy and Financial Services & Ombudsman Levy (FSPO Levy). They also contribute to the Deposit Guarantee Scheme (DGS). While the Industry Funding Levy is increasing, other levies have fallen (Stabilisation

Levy, FSPO Levy, Resolution Levy) or been eliminated (ReBo Levy). The Resolution Levy fell from €9m to €5m pa, a fall of 44%. The Stabilisation Levy fell from €3m to €0.3m in 2021, a fall of 90%. The table below details levies and charges for 2020 - 2022 and forecast for 2023. The forecast industry funding levy will depend on actual costs of regulation.

€m	2020	2021	2022	2023
Resolution Levy	5.0	5.0	5.0	5.0
Stabilisation Levy	0.3	0.3	0.3	0.3
ReBo Levy	-	-	-	-
Industry Funding	2.8	4.5	6.0[11]	TBD
FSPO Levy	0.1	0.1	0.1	0.1
Total	**8.2**	**9.9**	**11.4**	**TBD**

Central Bank Industry Funding Levy rose to 50% of regulatory costs during 2022

The Central Bank Act 1942 provides that they may, with approval of the Minister, prescribe an Industry Funding Levy. The levy is a financial services industry wide levy, not specific to credit unions. Banks have been at 100% since 2012, other sectors will reach 100% during 2020-2023.

In 2015 the Minister agreed to a phased movement towards 100% Industry Funding in order to eliminate subvention, by taxpayers, of regulatory costs. Since then, recovery rates have increased across most industry sectors. The Minister approved the Central Bank's proposal to increase the levy from 2019. However, the Minister, having taken into consideration the unique and important role of credit unions, recommended that they be provided with an exemption from the 100% target, the only part of the financial services sector to have such an exemption. Credit unions have a 50% target, to be recovered on a phased basis: 20% for 2019; 35% for 2020; and 50% for 2021. Recovery rates from 2022 on will be subject to further review and public consultation.

ReBo – awaiting completion of audited accounts to dissolve the entity

The Credit Union Restructuring Board (ReBo) was established in 2013 to facilitate mergers. ReBo was operationally wound down in July 2017. The Credit Union Restructuring Board (Dissolution) Act 2020 provides for its dissolution. In late November 2022, the accounts for 2018 – 2021 were approved by the C&AG.

[11] Estimate based on 2021 year-end assets of €19.989 billion for the credit union sector and levy rate 0.03022% of total assets which was approved by the Minister for Finance in August 2022 (S.I. No. 426 of 2022).

3.1.9.4 Management of all legal matters concerning the Shareholding and Financial Advisory Division

Specialist - Emily King

Des Carville
Head of Division

Emily King
Senior Legal Advisor

KEY POINTS

The Senior Legal Advisor within SFAD provides advice on all legal matters pertaining to:

- the State's investments in the banking sector (Allied Irish Banks, Bank of Ireland and PTSB);
- the Minister's interests in relation to NAMA;
- the Minister's interests in relation to the liquidation of IBRC;
- certain legacy litigation matters; and
- the Credit Union sector.

In addition, the Senior Legal Advisor works with the Legal Unit of the Department on commercial law matters and proceedings as they arise within the Department.

The current panel of legal advisors was put in place in June 2022 following a procurement exercise to ensure that the Department has access to legal advice on a once off or project basis as necessary. At present, William Fry are advising the Department on the legal aspects of two projects following mini-competitions in which they were the successful tenderer. One is the Commission of Investigation into certain transactions at IBRC (which is has concluded, bar the determination of costs), the other is advising the Minister on the disposal of part of the State's shareholdings.

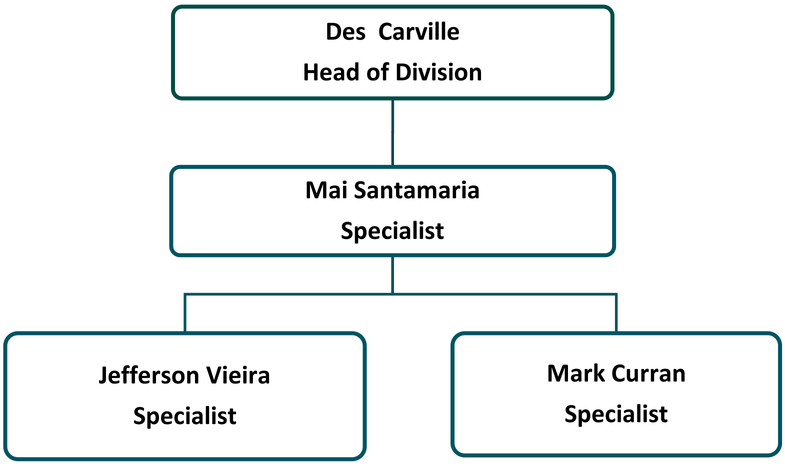
We deal with various matters of ongoing litigation including:

- NAMA CoI;
- IBRC CoI (costs issues);
- Challenges relating to the transfer of certain assets from NAMA to IBRC; and
- Challenges relating to the recapitalisation of ILP

We will provide a legally privileged briefing under separate cover in due course.

3.1.9.5 Financial Advisory Services

Specialist – Mai Santamaria



KEY POINTS

- The Financial Advisory Team carries out evidence based research to provide empirical insights and input into policy considerations for the Department of Finance (examples: venture capital funding gaps, crowdfunding, REITs, PCP, equity funding review, strategic financing initiatives for national ports and offshore funding needs; emergent sectors of interest such as the space sector).
- The team carries out ongoing research and monitoring of Blockchain & Crypto assets. During 2021 and 2022, it managed the negotiations of the EU's proposed **Market in Crypto Assets** Regulation.
- It provides insight and objective analysis on emerging areas of financial services and technology, developments in "digital finance economy" in Ireland, EU and globally.
- The team participates in a wide range of fora that relate to new and emerging topics of importance to the Department and the private sector, in areas such as equity funding, blockchain and climate change, like monitoring progress of Net Zero commitments for global standardisation.
- The team have been members of the Blockchain Ireland initiative for c. 5 years; they represent Ireland at the OECD Ad Hoc Expert Group on Digitalisation; Mai Santamaria is a bureau member of the OECD's Committee for Financial Markets since 2018.
- Finally, the team are members of several EU and global initiatives like INATBA, Global Digital Finance, Global Blockchain Association, Digital Euro Association, inter Alia.

DETAIL:

The financial advisory specialists team was created in April 2017.

During this time, the team have collated, appraised and socialised a draft working list of areas of interest for research and review. The team liaises with other Divisions (Banking policy, climate change, tax and Economics) to ensure that initiatives are carried out within the strategic objectives of the Department as a whole. Continued engagement and collaboration is actively pursued to ensure we capitalise on the varied and expert knowledge of the financial services industry across the Department and other public bodies (i.e. ESRI).

One example of this collaboration is the team's membership of the sub-committee on housing, for which it assists with research and analysis into the Irish residential housing sector. As an example, the team has provided reviews on the role of Real Estate Investment Trusts (REITs) and the concentration of residential property ownership in Ireland.

A further example relates to research into the availability of debt and equity funding required by Irish SMEs. In Q1 2019, the team assisted with the Banking Policy team's review of hybrid financial instruments as a financing tool for high growth SMEs.

One sector in particular that was identified as a potential source of additional capital for Irish SME was the Irish institutional investor community. To explore this topic further, the Department hosted a learning session on 12 June 2019 titled 'Institutional Investment in Private Capital'.

Since 2020, the team provided technical support to Irish Revenue in their discussions with the OECD for a global crypto asset tax reporting framework and continues to provide technical support to the Tax Division, Banking policy, Anti-money laundering and digital euro teams on crypto-asset related technical topics.

Additional Workplan for 2022-2023

We would like to continue to be a source of "expert" knowledge for the Department in the area of blockchain and cryptoassets, particularly in light of DAC8, MICA and 6th AML discussions. This will require a continuous time investment in ongoing research and learning, particularly as we see a significant push for global efforts at G7/G20 and EU level in this area.

We expect to continue providing support for the other divisions in this space; supporting discussions at EU level (FSC, EFC, ECOFIN). This will continue with our involvement with Blockchain Ireland and participation in conferences, fora and events in Ireland, EU and abroad, like OECD, WEF or INATBA.

We would like to focus on these topics selected for research and monitoring due to their potential impact on the economy, business sector and consumers:

- Follow up on seed and venture capital gaps identified in prior research;
- Decentralised Finance developments;
- Sustainable finance initiatives for port and offshore wind sector infrastructure;
- Emergent industry developments across SpaceTech and its associated launch infrastructure;
- Digital data conglomerates, cryptocurrencies and payments;
- Use of AI in financial services;
- Monitoring and contributing to the development and implementation of ESG frameworks and the EU Green Taxonomy, liaising with domestic and international stakeholders;
- Keep a watching brief on emerging topics on sustainable finance such as biodiversity and permitting issues; as well as new technologies with a potential to be adopted in Ireland such as hydrogen and carbon capture; and
- Advance our understanding of potential financial stability risks arising from the interaction between the traditional financial system and innovative digital assets, with a focus on crypto, decentralised finance, asset tokenisation, stablecoins and CDBCs.

3.1.10 International Finance and Climate Division

The briefing prepared by International Finance and Climate Division provides a high level introduction to the issues relevant to the Division. More detailed and in depth analysis of any of the topics can be provided if needed.

Head of Division - Paul Ryan (Director)

DESCRIPTION

The Division is responsible for managing Ireland's relationship with International Financial Institutions (IFIs)/Multilateral Development Banks (MDBs) and the Department's role in Climate Action.

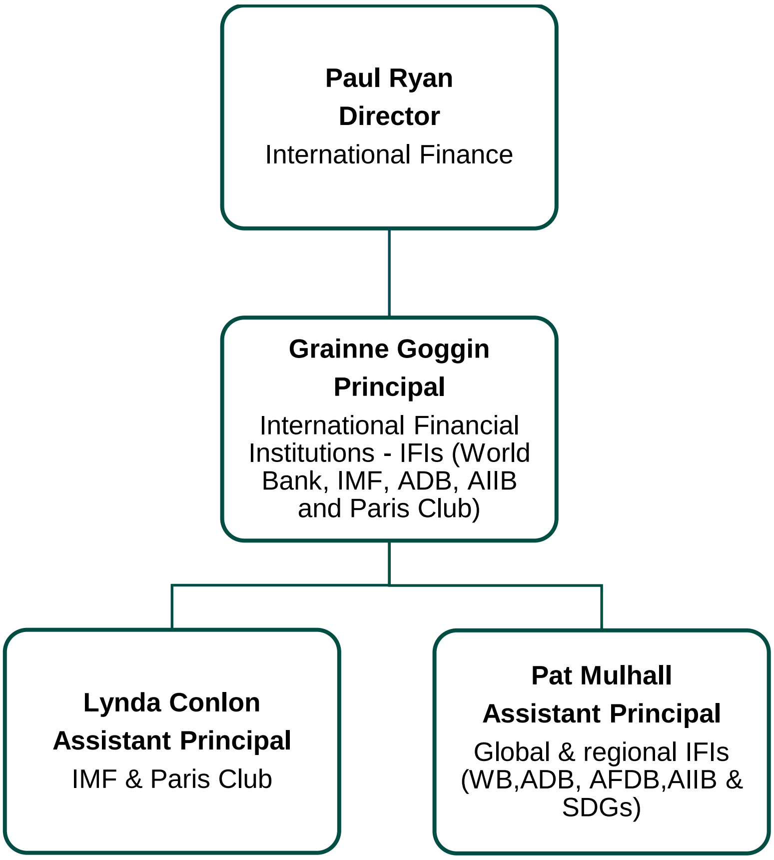
Global IFIs/MDBs include the IMF and World Bank Group (WBG). European Institutions include the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD) and Council of Europe Development Bank (CEDB). Other IFIs/MDBs include: Asian Development Bank (ADB); Asian Infrastructure Investment Bank (AIIB); African Development Bank (AfDB); and Green Climate Fund (GCF).

Climate Action covers domestic climate change issues and also includes Climate Finance (international issues) and Sustainable Finance which primarily deals with financial services.

In addition, the Division is responsible for the Department's Risk Management and Compliance Functions in line with its Corporate Governance Structure.

3.1.10.1 Global and non-European International Financial Institutions

Principal Officer: Gráinne Goggin



KEY POINTS

Ireland is a member of a wide range of International Financial Institutions/Multilateral Development Banks. Generally speaking, the Minister acts as Ireland's Governor and the Secretary General acts as Alternate Governor (except in the case of the IMF where it is the Governor of the CBI). The Division supports all our dealings with these Institutions, specifically managing our relationship with, and shareholding in, them. Within each Institution, Ireland is a member of a Constituency made up of different countries. We are members of the following IFIs/MDBs:

International Monetary Fund (IMF): Managing Director Kristalina Georgieva (Bulgaria) - Ireland shares a Constituency with Canada and 10 English-speaking Caribbean countries led by a Canadian Executive Director, Mr Philip Jennings.

World Bank Group (WBG): President David Malpass (USA) - Ireland shares a Canadian-led Constituency with 11 English-speaking Caribbean countries as at the IMF with one extra country. Ms Katharine Rechico is the Constituency ED at the World Bank.

Asian Development Bank (ADB): President Masatsugu Asakawa (Japan) - Ireland shares a Canadian-led Constituency with Denmark, Finland, Netherlands, Norway and Sweden.

Asian Infrastructure Investment Bank (AIIB): President Jin Liqun (China) - Ireland shares a Euro Constituency with Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, Netherlands, Portugal and Spain.

African Development Bank (AfDB): President Akinwumi Adesina (Nigeria). Ireland was declared the 81st member of the AfDB on 24th April 2020. Ireland is a member of the Nordic + India Constituency which includes Denmark, Finland, India, Norway and Sweden.

The Paris Club: French Treasury Chair and Secretariat. Established, 1956 and Paris-based, it consists of 22 countries who are major creditor countries.

DETAIL:

Current IFI Membership

International Monetary Fund (IMF)

Overview

The IMF promotes international monetary cooperation and provides policy advice, technical assistance and loans to help countries build and maintain strong economies. It also provides loans and helps countries design policy programmes. A near-global 190 countries are members.

The IMF's stated objectives are to: (i) provide a forum for cooperation on international monetary problems; (ii) facilitate the growth of international trade, thus promoting job creation, economic growth, and poverty reduction; (iii) promote exchange rate stability and an open system of international payments; and (iv) lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help them address balance of payments problems.

Minister's role as Governor: The Minister is periodically required to consider and decide upon matters proposed by management for votes by the Board of Governors. These usually relate to governance or shareholding issues, but there are also periodic strategic and policy issues.

Representation: The Minister represents Ireland on the Board of Governors. The Central Bank of Ireland Governor, Mr. Gabriel Makhlouf, is Ireland's Alternate Governor. The Secretary General or Senior officials from the International Finance and Climate Division are designated as Temporary Alternate Governor in the absence of the Minister/CBI Governor at Plenary Meetings.

Ireland is permanently represented at the IMF in Washington by two seconded officials, both nominated by the Minister. The role of Alternate Executive Director is currently held by Feargal O'Brolchain (Department of Finance), while Matthew Day (Department of Finance) serves as Advisor in Ireland's Constituency Office.

IMF - EURIMF and SCIMF**:** Coordination between the EU Member States is facilitated by the following two bodies:

- *EURIMF* – EU Executive Directors/Alternate Executive Directors/Advisors meet regularly in Washington D.C. to discuss and agree a common EU position on IMF issues.
- *SCIMF* (Sub-committee on IMF issues) – SCIMF is a sub-committee of the IMF, serviced by officials from the International Finance and Climate Division, which meets periodically to discuss issues and developments of particular interest to EU Member States.

IMF and World Bank Spring and Annual Meetings: As the component parts of the Bretton Woods Institutions, the IMF and World Bank Group hold joint Spring and Annual Meetings. The 2022 Annual Meetings took place in Washington D.C. from 10 to 14 October. An Irish delegation, led by Minister Paschal Donohoe (then Ireland's Governor to the IMF and World Bank), Central Bank Governor Gabriel Makhlouf (Ireland's Alternate Governor to the IMF) and Secretary General John Hogan (Ireland's Alternate Governor to the World Bank), travelled to Washington to attend a range of engagements as part of the Annual Meetings.

Under normal circumstances, the Annual Meetings are held outside of Washington D.C. every three years with the next external meeting due to take place in Marrakech, Morocco from 9 to 15 October 2023. The 2023 Spring Meetings will take place in Washington D.C. from 10 to 16 April. When possible, the Minister and CBI Governor attend – otherwise, they are represented by senior officials.

IMF Quota Review: The IMF Articles of Agreement mandate the Board of Governors to undertake a general review of Quotas (shareholding) every five years. Any changes to the Quota, due to their zero-sum nature, need to be supported by an 85% majority with the consent of those countries affected. Despite the support of most Directors, it was not possible to secure the required level of support for a Quota increase or a consensus on a new Quota formula under the Fifteenth Review that concluded in 2020. Discussions on the Sixteenth General Review of Quotas have commenced and are due to be finalised by 15 December 2023. Negotiations on a potential Quota increase and revised formula are expected to intensify following the recent mid-term elections in the USA (8 November) and once India assumes Presidency of the G20 (1 December).

New Arrangements to Borrow (NAB): In the absence of an agreement on a Quota increase under the Fifteenth General Review of Quotas, the IMF doubled its New Arrangements to Borrow (NAB) facility in 2020 in order to ensure that it had sufficient resources to deal with any future crises. The NAB is a credit arrangement between the IMF and a group of members to provide supplementary resources to the IMF when these are needed to forestall or cope with an impairment of the international monetary system. The facility provides the main supplement to quota subscriptions as a source of IMF resources and effectively acts as a temporary measure in lieu of a quota increase, thereby ensuring the adequacy of IMF resources for the period up to 2025. The 2020 NAB Decision, which took effect on 1 January 2021, will make available an aggregate amount of SDR 361 billion (US$521 billion) to the Fund's resource envelope in case of a shortfall in the IMF's lending capacity.

In total, 40 member countries have committed to lend NAB resources to the IMF. Ireland, as a 'prospective member' (membership was in abeyance due to our 2011-14 Financial Programme) is counted among the 40 participants and the formalities of finalising our membership will be completed in the coming months. This reflects the enactment of the Bretton Woods Agreements (Amendment)

Act 2022 under which a number of steps will be taken to allow the Minister for Finance to sign and deposit an 'Instrument of Adherence' which provides for Ireland's formal membership of the NAB. Upon depositing the 'Instrument of Adherence', Ireland could be called upon to make available a credit arrangement of up to SDR 1.9 million, roughly equivalent to €2.5 billion, to the IMF as per the terms of the 2020 NAB Decision. In the case of a call on Ireland's commitment, the Central Bank of Ireland will make the payment to the IMF, using Central Bank resources. A Ministerial guarantee to fully compensate the Central Bank for any shortfall in regard to the NAB is provided for in Section 4 of the Bretton Woods Agreements (Amendment) Act 2022.

Bretton Woods Agreements (Amendment) Act 2022 - IMF Trust Funds

The recently enacted legislation empowers the Minister for Finance to provide grant contributions to IMF Trust Funds. This covers existing Trust Funds and any future ones that may be created for issues such as climate change, debt relief or crisis such as Covid, etc.

The Act provides for grant contributions to the following named Trust Funds:

- *Poverty Reduction and Growth Trust (PRGT)*

  The Bretton Woods Agreements (Amendment) Act 1999 permitted the Minister to make payments to the PRGT up to a total of £20 million (€25.3 million). However, given the increasing demand for the Fund's concessional finance in the context of the COVID-19 crisis and the fact that Ireland's contribution to the PRGT has almost reached the limit set out in the 1999 Act, it was decided to increase the threshold for payments to the PRGT to a maximum aggregate amount of €75,000,000 under the 2022 Act.

- *Catastrophe Containment and Relief Trust (CCRT)*

  The CCRT allows the IMF to provide grants for debt relief on monies owed to the Fund to eligible low-income countries hit by catastrophic natural disasters or public health disasters. Following a number of fundraising requests from the IMF Managing Director, the 2022 Act empowers the Minister to make payments to the CCRT up to a maximum aggregate amount of €50,000,000.

In order to allow Ireland to respond swiftly to future crises, the Bretton Woods Agreements (Amendment) Act 2022 provides a mechanism for contributions to Trust Funds yet to be established by the IMF or existing Trust Funds to which Ireland has not previously contributed. The Act imposes an aggregate cap of €50 million on grant contributions to each individual Trust Fund and a collective aggregate limit of €325 million on total contributions to all IMF Trust Funds.

Consideration will be given to possible contributions to IMF Trust Funds in due course, following consultation with stakeholders including the Department of Foreign Affairs and the Central Bank of Ireland.

IMF SDR Allocation: On 23 August 2021, the IMF's largest general SDR allocation, equivalent to US$650 billion, took effect. However, a significant drawback of the general allocation was the fact that the distribution of SDRs did not necessarily reflect individual countries' reserve needs. In an effort to address concerns about the untargeted nature of the SDR allocation, the IMF has been encouraging countries with strong external positions to reallocate part of their SDR holdings on a voluntary basis for the benefit of the most vulnerable countries. There are two options for "rechannelling" SDRs to poor and vulnerable countries:

- Poverty Reduction and Growth Trust (PRGT) - the PRGT provides loans on concessional terms to low-income developing members of the IMF.
- Resilience and Sustainability Trust (RST) – the RST provides long-term balance of payments support to help meet a range of financing needs, including the direct costs of reforms to address longer-term structural challenges such as climate change.

EU Member States have had to contend with a number of significant legal, procedural and budgetary challenges before making a commitment to rechannel SDRs. To date, at least five EU Member States (France, Germany, Italy, Netherlands and Spain) have made commitments to the RST with all except Germany choosing to provide support through SDR rechannelling. However, only Spain's commitment to rechannel SDRs to the RST had been finalised by the time of the 2022 Annual Meetings.

Ireland's share of the 2021 SDR allocation amounted to SDR 4.1 billion (approximately €4.9 billion). These SDRs form part of the official external reserves of the Central Bank (and the State).[12] As a component of Ireland's foreign reserves, they are subject to any guidelines issued by the ECB under Article 31(3) of the Statute of the European system of central banks and of the ECB to ensure that these operations will not interfere with the monetary and exchange rate policies of the euro area. With regard to any possible rechannelling of SDRs to poor and vulnerable countries, the Central Bank is also bound by the prohibition of monetary financing laid down in the Treaty on the Functioning of the European Union.

Following extensive work by the Central Bank and the ECB on these issues, the Department is currently examining the viability of rechannelling SDRs to RST and the PRGT.

IMF Article IV 2022

As a member of the IMF, Ireland undergoes a regular review under the Article IV process (Article IV being the relevant provision in the IMF Articles of Agreement). This is a periodic strategic review of the current position of the economy and its medium-to-long term prospects, medium-term fiscal policy and financial and banking policy. During the consultation, an IMF team of economists visit the country to assess economic and financial developments and to discuss the country's economic and financial policies with various Government Departments, Central Bank officials and representatives of the private sector, unions, parliamentarians and financial institutions. Ireland's most recent Article IV consultation took place in the Department of Finance and Central Bank in April and May 2022. Following Executive Board approval, the Article IV Staff Report for Ireland was published by the Fund 7 July.

Ireland's 2023 Article IV consultation is tentatively scheduled for the last week of April and the first week of May. In preparation for this review, the IMF Mission Team travelled to Dublin in November (29 November to 2 December) to hold a number of meetings with Department officials, as well as representatives of outside bodies (including IFAC, CBRE and AIB) who were selected by the IMF.

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[12] The Bretton Woods Agreements (Amendment) Act 1969 provides that SDRs allocated to Ireland will be held by the Central Bank and that the Central Bank will be responsible for all transactions and operations relating to SDRs.

Financial Sector Assessment Program (FSAP) 2022

The FSAP is a comprehensive and in-depth analysis of a Country's financial sector with a two-fold goal: (a) to gauge the stability and soundness of the financial sector; and (b) to assess its potential contribution to growth and development. In 2021, following an IMF Review, 47 jurisdictions were assessed as having "systemically important financial sectors" (based on the size and inter-connectedness of their financial sectors). Thirty-three jurisdictions with relatively more systemically important financial sectors would participate in FSAP every once in five years, while the other 15 (many of them are emerging market economies) would participate every once in ten years. Ireland is one of the 33 jurisdictions on a five-year FSAP cycle.

Ireland's most recent FSAP, facilitated by the Central Bank and the Department of Finance, took place over a period of two years and concluded with the publication of the final report in July 2022.

World Bank Group (WBG)

The World Bank Group (WBG) comprises five Institutions with a common commitment to reducing poverty, increasing shared prosperity, and promoting sustainable growth and development:

- *International Bank for Reconstruction and Development (IBRD)* - aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable and equitable development through loans, guarantees, risk management products, and (non-lending) analytical and advisory services.
- *International Development Association (IDA)* - financing on highly concessional terms to governments of the poorest of the developing countries and is the world's largest source of concessional financial assistance to the developing world.
- *International Finance Corporation (IFC)* – providing loans, equity, and advisory services to stimulate private sector investment in developing countries.
- *Multilateral Investment Guarantee Agency (MIGA)* – providing political risk insurance/credit enhancement to investors/lenders facilitating FDI in emerging economies.
- *International Centre for Settlement of Investment Disputes (ICSID)* - international facilities for conciliation and arbitration of investment disputes.

Minister's role as Governor: The Minister is periodically required to consider and decide upon matters proposed by management for votes by the WBG Board of Governors. These usually relate to governance or shareholding issues, but there are also periodic strategic and policy issues.

Representation: The Minister is Ireland's Board of Governors representative with the Secretary General Ireland's Alternate Governor. As with the IMF, senior officials from the International Finance and Climate Division are designated as Temporary Alternate Governor in the absence of the Minister at Plenary Meetings.

Ireland is represented in Washington by two officials, both nominated by the Minister for Finance and shared between this Department, the Central Bank and the Department of Foreign Affairs. The Constituency is represented on the Board by Executive Director, Ms. Katharine Rechico (Canada).

Ireland's senior advisor in our Constituency Office is Anne Marie McKiernan (Central Bank of Ireland) and the advisor is Cormac Mangan (Department of Foreign Affairs).

Apart from the Spring and Annual Meetings, which are held jointly with the IMF (see above), there are periodic meetings of the various component elements of the World Bank Group that are covered by Departmental officials with representatives from the Department of Foreign Affairs when necessary.

IDA (International Development Association) Replenishment: IDA is the WBG's fund for the world's poorest and least creditworthy countries to whom it provides financial support on concessional terms (grants or very low interest rates). It is one of the largest sources of assistance for the world's 74 poorest countries, 39 of which are in Africa, and is the single largest donor for basic social services in these countries. IDA is funded largely by contributions from its richer member countries including Ireland. An IDA replenishment, during which contributors to IDA make their pledges, takes place every three years. The World Bank launched the twentieth replenishment on 15 April 2021, a year early in response to the impacts of COVID-19 and elevated financing needs. The implementation cycle was launched on 15 September 2022 in Tokyo. Ireland pledged almost €106 million, its highest contribution to date. The overarching IDA20 theme is *"Building Back Better from the Crisis: Towards a Green, Resilient, and Inclusive Future"*

In relation to World Bank Trust Funds, total contributions from Ireland to WBG funds, from inception until the end of fiscal year 2022 (June 30 2022), came to a total of $1,876 million. This breaks down as follows: $1,017m to IDA; $301m to IBRD/IDA Trust Funds; $523m to FIFs and $35m to IFC Trust Funds.

Bretton Woods Institutions - Reporting to the Oireachtas: Under the Bretton Woods Agreements Act of 1999, the Minister is required to lay an Annual Report on Ireland's IMF and WBG participation before the Oireachtas. The most recent is the 2021 Report which summarises major developments at the IMF and World Bank.

Paris Club and Sovereign Debt

Even before the COVID-19 outbreak, public debt was already at record highs in emerging and developing economies. The sharp rise in debt levels and the fall in growth resulting from the COVID-19 pandemic has further exacerbated these debt vulnerabilities. Preliminary estimates by the World Bank indicate that borrowing to mitigate the economic and social impacts of the pandemic added around US$550 billion to low- and middle-income countries' combined external debt obligations in 2021. As a result, the external debt stock of low- and middle-income countries rose, on average, 6.9 percent in 2021 to US$9.3 trillion.

Several countries are already in debt distress and additional episodes of distress are to be expected in both low-income countries and emerging market and developing economies. According to the IMF's latest assessment in August 2022, 37 of the 70 poorest countries are assessed as at high risk of debt distress or already in debt distress and up to seven emerging market countries with high medium-term debt vulnerabilities have been identified.

Since the onset of the pandemic, several countries announced their intention to seek debt restructurings. Some have already concluded (e.g., Argentina, Ecuador, Belize, and Suriname), while other debt restructurings remain in progress (e.g., Zambia, Chad, Ethiopia.)

Looking forward, tighter monetary policies in advanced economies are poised to push up international interest rates, which tends to put pressure on currencies and heighten the odds of default. To complicate matters, the extent of many emerging market and developing economy liabilities and their terms are not fully known. In addition, growing diversity of creditors and complexity of debt instruments in recent years has led to greater uncertainty about the level and composition of debt. A lack of clarity about the level and composition of a country's debt is a major challenge to debt sustainability analysis and may also encumber debt restructuring negotiations.

Established in 1956 and based in Paris with a Chair and Secretariat provided by the French Treasury, the Paris Club consists of twenty-two mainly major creditor countries (mainly EU and OECD). Its role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor countries.

Members are: Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, UK and USA. South Africa is currently a "prospective member" and is expected to join as a full member in 2023. Others bilateral creditors have also been invited to attend in an observer capacity in the last year, including China and India. The inclusion of China, a major source of credit to developing countries on relatively high terms and conditions, is a major policy issue.

During the COVID-19 pandemic, the Paris Club co-operated with the G20 to devise and deliver the Debt Service Suspension Initiative (DSSI) and the 'Common Framework' to provide liquidity relief and debt restructuring respectively to a number of poor and vulnerable countries. It is hoped that such co-ordination between Paris Club creditors and non-Paris Club creditors (principally China, India and Saudi Arabia) can be replicated in the future, particularly given the impending global sovereign debt crisis.

Asian Development Bank (ADB)

Established in 1966 and headquartered in Manila in the Philippines, the ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and Pacific, while sustaining its efforts to eradicate extreme poverty. It assists its regional members and partners (State enterprises and businesses) by providing loans, technical assistance, grants and equity investments to promote social and economic development. Most recently the Bank released *Strategy 2030* which sets the course of ADB's efforts to respond to the changing needs of the region until 2030. Mr. Masatsugu Asakawa (Japan) took office as President on 6 January 2020. He is strongly supportive of *Strategy 2030*.

Minister's role as Governor: Issues for consideration by the Minister include matters proposed by management for votes by Governors usually relating to governance/shareholding representation with periodic strategic and policy issues. The Minister may be required to meet with visiting high-level delegations at Presidential and Vice Presidential Levels.

Representation: Ireland is represented through a Canadian-led Constituency (shared with Norway, Sweden, Finland, Denmark and the Netherlands).The Canadian Executive Director, Mr Donald Bobiash took up his appointment in August 2022., Ms Renee Martin (Dept. of Finance) was seconded to the Bank HQ as a Director's Advisor in 2022, Ireland will hold this position until 2025 and shall fill an Alternate Executive Director posting from 2027 to 2029.

Meetings: Apart from the Annual Meeting (held every third year in Manila and in a beneficiary member state in each of the other two years), other meetings such as those relating to the ADF Replenishment are also attended by officials from the International Finance Division. The 2023 Annual Meeting is currently scheduled to take place in Korea in May. EU Ministers do not generally attend Annual Meetings and representation is at senior official level from this Division only.

Asian Development Fund (ADF): In addition to capital contributions, Ireland has contributed approximately €110m to Special Funds. The main fund is the Asian Development Fund (ADF), established in 1973 as a three-year revolving source of concessional assistance. At the end of the last replenishment cycle, ADF13 Ireland pledged €13.6m to be encashed over 11 years. Replenishment negotiations for ADF-14 will commence in 2023.

ADB Single Donor SIDS Trust Fund: In 2019, Ireland and the Asian Development Bank (ADB) agreed to the establishment of the single-donor Ireland *Trust Fund for Building Climate Change and Disaster Resilience in Small Island Developing States* (SIDS Trust Fund). The Trust Fund mainly provides support through grants for technical assistance on the basis of annual calls for proposals. Ireland initially committed €12 million to the Trust Fund over the six years 2019-2024. This was increased to €14.1 million in 2021 through replenishment of €2.1 million in Trust Fund resources that had been repurposed for COVID-19 emergency response in 2020. All sixteen SIDS members of the ADB[13] are eligible to apply for Trust Fund resources and the operation of the Fund will be subject to review during the course of 2023.

Asian Infrastructure Investment Bank (AIIB)

The AIIB came into operation in January 2016. Based in Beijing, China played a leading role in the Bank's establishment. Its mission is to promote social and economic development in Asia by investing in sustainable infrastructure. The Bank was founded to address the significant infrastructure gap in Asia. The Bank's Corporate Strategy, 'Financing Infrastructure for Tomorrow' was adopted in September 2020 and outlines the Bank's vision to 2030.

Minister's role as Governor: Issues for consideration by the Minister include matters proposed by management for votes by Governors usually relating to governance/shareholding representation with periodic strategic and policy issues.

Representation: Upon joining the Bank, Ireland became a member of the Euro Area Constituency, comprised of Cyprus, Germany, France, Italy, Spain, Austria, Finland, Luxembourg, Malta,

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[13] Cook Islands, Fiji, Kiribati, Maldives, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Netherlands, Portugal, Greece and Belgium. Ireland is currently represented on the AIIB Board of Directors by the Italian Director of our Constituency, Mr. Fabrizio Costa. There are no Irish officials seconded to the Bank.

Meetings: The Board of Directors meets quarterly with additional 'virtual meetings' called when necessary. In preparation for the Board, the Euro Constituency meets in advance to formulate a co-ordinated approach to present to the Board and Bank officials. Department officials attend these Euro Constituency and Board meetings. EU Ministers do not generally attend Annual Meetings and Ireland is represented at senior official level from this Division only. The 2023 Annual Meeting is scheduled for Egypt in October.

African Development Bank (AfDB)

Membership: On 24th April 2020 Ireland was formally declared as the 81st member of the African Development Bank Group (AfDB), headquartered in Abidjan, Ivory Coast. The Bank is a regional multilateral development finance institution which is focused on reducing poverty, improving living conditions, and mobilizing resources for the continent's economic and social development. The Group comprises three entities: African Development Bank (Bank), the African Development Fund (Fund) and the Nigeria Trust Fund (NTF). Membership of the AfDB now comprises 54 African countries and 27 non-African countries.

The African Development Fund (AfDF) is the concessional arm of the Bank and mainly provides development finance on concessional terms to low-income Regional Member Countries which are unable to borrow on the non-concessional terms of the Bank.

Minister's role as Governor: The Minister will be periodically asked to consider on matters proposed by management for votes by Governors which usually relate to governance or shareholding representation issues with periodic strategic and policy issues. The Minister may also be required to meet with visiting high-level delegations.

Representation: Ireland is a member of the Nordic + India Constituency which includes Denmark, Finland, India, Norway and Sweden. We are represented at the AfDB Board by the Finnish Executive Director, Ms Mette Knudsen. There are no Irish officials seconded to the Bank.

Meetings: The Board of Directors meets on a monthly basis. In preparation for the Board, the Constituency meets in advance to formulate a co-ordinated approach to present to the Board and Bank officials. Department officials attend these Euro Constituency meetings. EU Ministers do not generally attend Annual Meetings and Ireland is represented at senior official level from this Division only. The 2023 Annual Meeting is scheduled for Egypt in May.

African Development Fund (ADF)

The African Development Fund (ADF) is the concessional window of the African Development Bank (AfDB) Group. Established in 1972, it comprises, to date, 32 contributing countries and benefits 37 countries. On joining the Bank, Ireland contributed approximately €65m to the African Development Fund (AfDF), Negotiations for the current AfDF replenishment cycle, AfDF15, are due to conclude in early-December 2022.

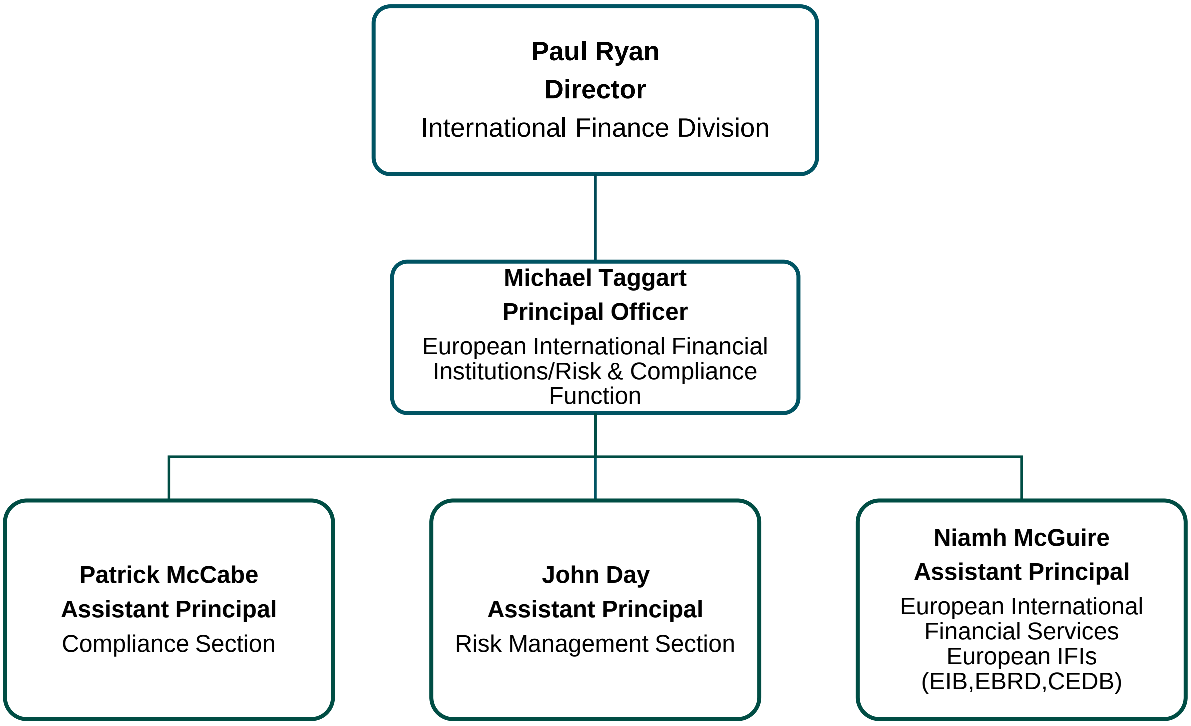
Responses by Global International Financial Institutions to the War in Ukraine

The **International Monetary Fund (IMF)** disbursed emergency assistance of US$1.4bn to Ukraine on 9 March under the Rapid Financing Instrument to help meet urgent financing needs and mitigate the economic impact of the war. This was followed by a further disbursement of US$1.3 billion (just over SDR 1 billion) under the new food shock window of the Rapid Financing Instrument (RFI) which was approved by the IMF Executive Board on 7 October. On 8 April, the IMF Executive Board approved the establishment of an Administered Account for Ukraine, to which the Canadian Government has disbursed a loan of CA$1bn while Germany has disbursed a grant contribution of €1bn. Canada has announced future loan commitments of CA$450 million to the Administered Account. Netherlands has also signalled that it would channel a €200 million loan for Ukraine through this facility. IMF staff remains closely engaged with the authorities to provide policy support as they continue to design and implement effective crisis mitigation measures.

By the end of September, **the World Bank** had mobilised about $13 billion in emergency financing for Ukraine, including commitments and pledges from donors, to support the continuation of essential government services and to help blunt the widespread human and economic impacts of the war. The mobilised figure includes the World Bank Groups own finance and channelling donor money & parallel financing and/or guarantees. More than $9.5 billion of this financing has been disbursed.

3.1.10.2 European International Financial Institutions & Department's Risk Management and Compliance Functions

Principal Officer: Michael Taggart



KEY POINTS

European International Financial Institutions

European Investment Bank (EIB): President Werner Hoyer (Germany) - Shared Constituency with Denmark, Greece and Romania.

European Bank for Reconstruction and Development (EBRD): President Odile Renaud-Basso (France). Shared Constituency with Denmark, Lithuania and Kosovo.

Council of Europe Development Bank (CEDB): Governor Carlo Monticelli (Italy) – no Constituencies. Ireland joined the CEDB in 2004.

The EIB and CEDB are the only IFIs/MDBs that can provide funding to Ireland; this is done at State (NTMA, Departments, Agencies, Local Authorities and SSBs) and private sectors.

Risk and Compliance Monitoring Functions:

Formal risk and compliance monitoring functions are gaining increasing importance in the public and private sector. The Department is leading out on best practice in these new formal functions across the Civil Service. For the Compliance Function, the provision of Data Protection and Procurement advice, underpinned by an audit approach to check that the advice is followed, are increasingly important areas of work.

DETAIL:

European Investment Bank (EIB)

Based in Luxembourg, the EIB was established in 1958, under the Treaty of Rome, as the long-term investment bank of the European Union. The purpose of the EIB is to help implement the EU's policy objectives by financing investments that address these policy objectives. To finance these projects, the EIB borrows on the capital markets, passing on the benefit of its low borrowing cost, due to its AAA credit rating, to Member States. It also provides lending for investment and development purposes, in line with the EU's Neighbourhood and Development policies, to pre-accession and neighbourhood countries (*Eastern Partnership and Mediterranean - FEMIP*), to developing countries in Asia, Africa, the Caribbean and the Pacific (ACP countries) and South - Africa.

Minister's role as Governor: The Minister is frequently required to consider and decide upon matters proposed by Bank Management for votes by Governors which usually relate to governance, shareholding or Board representation issues with periodic strategic and policy issues.

Representation: Ireland is represented on the non-residential Board of Directors by Des Carville - Director (Head of Shareholding and Financial Advisory Division, Dept. of Finance) and Des O'Leary – Alternate Director (Former Principal in International Finance and Climate Division). Michael Taggart (Principal Officer, IFCD) and Niamh McGuire (Assistant Principal, IFCD) represent Ireland on the Bank's Advisory Group (project assessment) and European Guarantee Fund (EGF – funding for Covid impacted entities) Contributors' Committee, respectively.

Ireland is represented at the Bank's Senior Management, Vice President, (one of eight) level by a Dane, Christian Kettle-Thomsen, under our Constituency Agreement – Ireland will next hold this position in 2032 for four years. Under the rules of the EIB, the Board and Vice-Presidents have to resign at a five-yearly 'annual election' which is next scheduled for May of 2023. The Minister can then wish to appoint a new Director and Alternate Director, if desired. The Vice President position will be renewed under the Constituency Agreement until September of 2024 when it passes to Greece.

Meetings: The Board of the EIB meets ten times during the year with nine meetings held in Luxembourg and another rotated amongst countries. Unlike all other IFIs/MDBs, there is no specific Annual Meeting. Instead, a short pro-forma covering Annual Accounts, etc. is held before the ECOFIN Breakfast in May or June. This is covered by the Minister for Finance or a senior official from the Department.

EIB Dublin Office: In line with its practice across EU member states, the EIB opened an Office in Dublin in December of 2016 headed by Cormac Murphy, an Irish national who works in the Bank. A Corporate Loan Officer is also assigned to the Office. Mr Cormac Murphy will retire from this position in December 2022 and a recruitment process to replace him is currently underway in the Bank and the Department does not have any role in this.

EIB Advisory Hub: The EIB Advisory Hub was established in 2015 and provides technical assistance to Irish companies, State bodies and Government Departments. The Advisory Hub is currently engaged in discussions regarding climate, housing and transport projects, among others.

EIB-Ireland Financing Group: An ‘EIB-Ireland Financing Group’, chaired by the Department, was established by the Minister for Finance and EIB President in December 2016 to bring together relevant stakeholders to explore the potential for enhanced EIB funding on a sectoral approach combined with greater other supports in terms of advisory services to potential borrowers. This group meets twice during the year: once in Luxembourg and once in Dublin.

EIB-Ireland Financing Sub-Groups: In 2021 three sub-groups were established covering Digital, Connectivity and Transport; Enterprise, Agriculture and Innovation; and Social Infrastructure with Climate as a cross cutting theme through all the sub-groups. This structure provides a forum for Senior Officials from Key Departments/Agencies to meet and hold more detailed discussions on how EIB investment can be utilised to support the goals of the Programme for Government. The sub-groups are chaired by senior officials from the International Finance and Climate Division.

EIB Funding to Ireland: Ireland is a significant recipient of EIB funding covering both public and private sectors. Loans are made to a broad range of sectors, including: Broadband; Energy generation and transmission; Transport; Health; Water; Education (schools and Third Level); SMEs via SBCI; Social Housing; and Roads PPPs; with a broad geographic spread. In recent years, our engagement with the Bank has significantly broadened and deepened to cover new areas of activity, especially the private sector including agri-food, ICT and financial services.

Ireland has benefitted from loans from the EIB to the value of approximately €1billion per annum in recent years. In 2021, total funding, including traditional lending from EIB and funding from the *European Guarantee Fund* amounted to €1.2 billion.

In this regard, traditional lending funding to Ireland in 2021 totalled €672.3m. This supported a range of sectors, including a €200m loan to the Housing Finance Agency (HFA) Irish Social and Affordable Housing Programme, a €35m loan to the GAA for development of conference, hospitality and cultural facilities, and a €31m loan to An Post/ Avantcard which will support the energy rehabilitation of residential buildings by homeowners, including energy efficiency measures and small-scale renewable energy installations.

European Guarantee Fund (EGF): In addition to traditional lending from the EIB Group, Ireland also benefitted from the European Guarantee Fund (EGF). The EGF aims to respond to the economic impact of Covid-19 by ensuring that SMEs, midcaps and corporates have sufficient liquidity to weather the crisis, by providing a €24.4bn guarantee through the contributing 22 Member States.

€46m was signed for individual operations in 2021 for Ireland through the European Guarantee Fund (EGF). In addition, there are also a number of multi-country EGF operations, of which Ireland is a beneficiary country. The SBCI have been a key beneficiary of the EGF in Ireland in the form of a loan of €60m, approved under the EGF uncapped Guarantee product followed by a further €350m loan to support the Brexit/Covid Impact Loan Scheme.

The current portfolio of operations for Ireland include loans for:

- €240m loan for schools signed on 28 June at the Department of Education.
- €300m financing of the Celtic Interconnector between Ireland and France was approved by the EIB Board of Directors on 4 October and contracts were signed on 14 November.
- €20m investment loan for XOcean unscrewed surface vessels to collect offshore wind energy and marine data signed on 15 November
- €12m R&D investment in Siren under EGFF for cybersecurity technology solutions signed on 22 November
- €275m long term (Growth and Sustainability Loan Scheme) guarantee scheme with DETE/ SBCI that will focus in particular on support for green investment.

[redacted]

Redacted under Section 36(1)(b) of the FOI Act 2014.

European Investment Fund (EIF) Membership: The SBCI (Strategic Banking Corporation of Ireland) has 10 shares in the EIF. Benefits include an increased insight into the operations of the EIF as well as increased opportunities to work with the EIF. The shares also demonstrate the SBCI's commitment to EU-backed guarantee schemes. The EIF operates in a manner similar to Enterprise Ireland by working closely with private sector companies via joint ventures and equity investments with a focus on companies involved in innovation, research and development across a range of sectors.

Innovation Equity Fund: As part of Budget 2021, the Minister for Finance proposed the establishment of an equity fund for early-stage seed and growth capital. Officials from Department of Enterprise Trade and Employment, Department of Finance, Ireland Strategic Investment Fund (ISIF), Enterprise Ireland (EI), the European Investment Bank (EIB) and the European Investment Fund (EIF) worked together to develop a €90m Fund, the Irish Innovation Seed Fund Programme (IISF).

This fund was made up of a €30m investment from DETE, through EI, which is matched by a €30m investment from the EIF. This €60m will be managed by EIF and ISIF will co-invest a further €30m alongside on a deal-by-deal basis. Investment will be targeted at the early stages of external funding for innovative, high growth, scalable sectors including:

- Life-sciences;
- Healthcare and Pharma;
- Technology and Digitalisation;
- Food and Agri-tech;
- Sustainability and Climate;
- Women-led enterprises and regional development.

Future Growth Loan Scheme: The Future Growth Loan Scheme (FGLS) was established in 2019 and made available up to €800m in lending to assist long term, strategic investment by eligible businesses, including in response to Brexit and Covid-19. This scheme was also available to businesses engaged in the farming and seafood sectors. The Future Growth Loan Scheme was underpinned by a counter-guarantee from the EIBG. There was significant demand for lending under this scheme, which is now fully subscribed - 3,499 loans progressed to sanction under the scheme, to a total value of €764.7m. The Review of the FGLS has provided a strong evidence base that a new long-term scheme will drive increased investments by SMEs in their business sustainability and growth. The new 'Growth and Sustainability Loan Scheme' (GSLS) will also include a climate change and environmental sustainability dimension to encourage SMEs to invest for these purposes. The GSLS has been jointly developed by the Department of Enterprise, Trade and Employment (DETE) and the Department of Agriculture Food and the Marine (DAFM) in partnership with the Strategic Banking Corporation of Ireland (SBCI) and the European Investment Bank Group (EIBG).

The EIB as the Climate Bank of the EU: In November 2019, the EIB Board of Directors approved the Energy Lending Policy which stopped financing for unabated fossil fuel energy projects, and approved a new set of targets for climate action and environmental sustainability, drastically increasing its ambition for the next critical decade. This policy includes three key elements:

- The EIB Group will aim to support EUR 1 trillion of investments in climate action and environmental sustainability in the decade from 2021 to 2030;
- The EIB will gradually increase the share of its financing dedicated to climate action and environmental sustainability to reach 50% in 2025;
- The EIB Group will align all its financing activities with the principles and goals of the Paris Agreement by the end of 2020, in line with the EU's aim to be carbon neutral by 2050.

In November 2020, the EIB approved the Climate Bank Roadmap 2021-2025, a detailed strategic and operational framework for the EIB Group's activities on climate action and environmental sustainability to help achieve these commitments. This five-year plan will ensure that the EIB; supports a green recovery from the Covid-19 crisis; fully backs the European Green Deal, including its Just Transition; keeps supporting countries in need outside the EU; and contribute to the achievement of the UN Sustainable Development Goals. This will be achieved through cooperation with the public sector, mobilising private investment and advisory services to make projects bankable. A shift away from fossil fuels implies the need for innovation and investment in new technologies. As access to finance is not always easy, the EIB has been developing climate finance instruments to address market failures and support investments that are economically viable but do not receive sufficient commercial finance due to perceived risks.

The EIB has also contributed significantly to the scaling up of private finance for climate action since the launch of the world's first green bond in 2007 and has issued more than EUR 44 billion in 13 currencies since then. In 2018, the Bank added a new instrument, Sustainability Awareness Bonds (more than EUR 6.5 billion issued to date). The EIB has shared experience with the NTMA in launching Ireland's successful green bonds initiative.

Review of European Financial Architecture for Development: Wise Persons' Group

The so-called Wise Persons' Group was established in early-2019 to review the European Financial Architecture for Development, specifically the respective roles of the EIB and the EBRD (see next section). The Group comprised of seven 'wise persons', led by a Chairman, Thomas Weiser (Germany).

The Group's Report, issued 7 October 2019, proposed three options:

(i) Create a *European Climate and Sustainable Development Bank*, building on the EBRD and the external financing activities of the EIB (in such a scenario the EIB would concentrate on Europe and accession countries only);

(ii) New mixed ownership *European Climate and Sustainable Development Bank* – EIB, EBRD, the Commission and other stakeholders; or

(iii) *European Climate and Sustainable Development Bank* based on an EIB subsidiary.

The Report also recommended further analysis and feasibility studies of the options be completed.

Following the Feasibility Study of the European Financial Architecture for Development (EFAD), Member States agreed Council Conclusions in June 2021. Following this, in December 2021, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) presented a joint report to the Council on actions undertaken following the Council Conclusions to deepen cooperation between the two International Financial Institutions (IFIs). A High-Level Working Group between the two banks was established and a Framework Cooperation Agreement (FCA) was signed which aims to improve coordination, efficiency and information sharing.

The Council Conclusions on enhancing the European Financial Architecture for Development adopted in June 2021 stressed the need to increase development impact in partner countries and to address the development challenges reinforced by the COVID-19 pandemic and called on the Commission to present a roadmap to improve the European financial architecture for development.

The Commission's roadmap for an improved European financial architecture for development and 2021 progress report was published on 24 March 2022.

This report detailed the achievements to date and outlined specific measures the Commission is putting forward to enhance the European financial architecture for development by building on the Team Europe approach and focuses on the actions, which are in the remit of the Commission in cooperation with the EU High Representative/Vice President.

The improvements proposed aim at achieving the following four objectives:

- Affirming a strong EU policy steer
- Promoting enhanced coordination
- Building a more inclusive financial architecture
- Ensuring increased visibility and influence for EU and Member States actions in a Team Europe approach.

Both the EIB and the EBRD have recently been contemplating strategic orientations that could have an impact on the European financial architecture for development.

EIB Global: The European Investment Bank (EIB) established its new development branch, EIB Global, on 1 January 2022. EIB Global is under the management of a Director General in the EIB, reporting to the Management Committee, and is governed by the newly established EIB Advisory Group on Global Operations.

Ireland is represented on the Advisory Group by Mr Michael Taggart (PO IFI Division) and Joseph Gildea (Deputy Director, DFA). This Advisory Group provide opinions on all outside-EU policy areas and operations to the Board of Directors for approval. Each Member State, as shareholders in the EIB is represented by a full and alternate member to the Advisory Group, in addition to one full and alternate member from the EEAS and two full and two alternate members from the Commission. The Operational Plan of the Branch, including its dedicated capital allocation, is approved by the Board as part of the EIB Group Operational Plan, including a dedicated section on outside EU activity and performance indicators.

European Bank for Reconstruction and Development (EBRD)

The EBRD, headquartered in London, was established in 1991 to provide finance to help build market economies in ex-Warsaw Pact and Soviet Union countries in Central and Eastern Europe. Since then, the Bank has progressively and significantly extended to include Southern/Eastern Europe and SEMED (Turkey, Egypt, Jordan, Morocco and Tunisia) as its 'countries of operation'. The Bank provides project finance and equity for banks, industries and businesses, both new ventures and existing companies. It also works with publicly-owned companies to support privatisation, restructuring of state-owned firms and improvement of infrastructure.

Minister's role as Governor: Issues for consideration by the Minister include matters proposed by management for votes by Governors usually relating to governance/shareholding representation with periodic strategic and policy issues.

Representation: A residential Board of Directors is responsible for management of the day-to-day operations. Directors represent single or multi-country Constituencies (Ireland shares with Denmark, Lithuania and Kosovo). Denmark currently holds the Director post, Lithuania holds the Alternate Director post and Ireland holds the Advisor post until 30 April 2024 (Alan Hall, seconded from the Dept. of Finance since 1 May 2021). The Advisor provides support to the Director and to the Alternate Director in Ireland's EBRD Constituency, providing opportunities for developing closer relationships between Ireland, other member countries and the EBRD and undertaking responsibilities determined in accordance with the requirements of the constituency to assist the Director and Alternate Director in fulfilment of their duties.

Meetings: Apart from monthly Board and periodic Constituency/like-minded country meetings, the Bank holds an Annual Meeting which is held in London every three years. EU Ministers do not generally attend Annual Meetings and Ireland is represented at senior official level from this Division only. The 2023 Annual Meeting is scheduled May of 2023 in Uzbekistan.

EBRD Climate Ambition

In 2021 the Board of Governors adopted a resolution (Resolution 239, EBRD Climate Ambition) during the 2021 Annual Meeting that commits the Bank to having all its activities fully aligned with the goals of the Paris Agreement no later than 31 December 2022, thus accelerating the EBRD's support for countries of operations as they build sustainable and inclusive market economies on the basis of ambitious low carbon and climate resilient pathways.

Review of European Financial Architecture for Development: Wise Persons' Group

As noted above, both the EIB and the EBRD have recently been contemplating strategic orientations that could have an impact on the European financial architecture for development.

The European Bank for Reconstruction and Development (EBRD) had undertaken preliminary investigative studies on a limited and incremental expansion to Sub-Saharan Africa and Iraq. A vote on this geographic expansion was due to take place at the EBRD Annual Governors meeting in May, however, this decision was postponed due to the evolving needs in current countries of operation as a result of the invasion in Ukraine. The EBRD will conduct further operational and financial analysis to establish when the conditions are appropriate to proceed with the expansion to Sub-Saharan Africa and Iraq.

Amongst members of our Constituency and like-minded countries (Scandinavia and Baltics), there is a concern that expansion to Sub-Saharan Africa and Iraq will jeopardise the EBRD's support for Ukraine and also undermined ongoing work in its countries of operation that include Lithuania and Kosovo in our Constituency. Long-standing concerns about this expansion were somewhat alleviated by the Bank's phased approach to this work as agree at recent Annual Meetings but this was subject to covering this work within existing resources and not adversely impacting on ongoing work. It is likely that the matter will be re-opened at the next Annual Meeting of the Bank in May of 2023.

Council of Europe Development Bank (CEB)

Based in Paris and with 41 member countries, the CEB was established by the Council of Europe (based in Strasbourg) in 1956 to assist refugees. It has continued to maintain a focus on investment to meet social objectives within its member countries under the following themes: social integration (aid to refugees, social housing, SME financing, improvement of living conditions), environmental protection and rehabilitation and public infrastructure with a social vocation (health, education and judicial infrastructure).

Representation and Minister's role: Unlike other IFIs, the Governor for Ireland is the Minister for Foreign Affairs because the CEB was established under the remit of the Council of Europe. As such, the Minister for Finance has a different and smaller role than with other Institutions. However, any engagement with the Bank is done by this Department rather than the Department of Foreign Affairs and Trade. This involves funding proposals, governance, shareholding, strategic and policy issues.

Ireland joined the CEB in 2004. The collegial organs of the CEB are the Governing Board, consisting of the member states' Ambassadors to the Council of Europe, representing Ireland is Ambassador Breifne O'Reilly, and; the Administrative Council, consisting of representatives of the member states' Finance Ministries, representing Ireland is Niamh McGuire (Assistant Principal), International Finance and Climate Division, Department of Finance. Ireland is an active member of the Governing Board and of the Administrative Council and contributes through these bodies to policy and governance developments in relation to the Bank.

CEB funding to Ireland: Ireland has received loans from the CEB for various housing and social sustainability projects, including: €75m loan to the HFA for purpose-built student accommodation; €85m loan to Limerick City and County Council towards the Limerick Regeneration Programme; €33.7m to Cork County Council for the partial financing of a broad set of investments within Cork County Council's Social Sustainability Investment Programme, and; €150m to the Housing Finance Agency (HFA) for new energy efficient social housing. Most recently, on 8 July 2022, a loan of €20 million to the Social Finance Foundation was approved. [redacted]

Redacted under Section 36(1)(c) of the FOI Act 2014.

Meetings: Apart from an Annual Meeting (held in a Member State which Ministers do not normally attend), periodic meetings involve Department officials.

Ireland's pledge of EUR 1 Million to establish a Fund for Ukraine: In July 2022, Ireland hosted the Council of Europe Development Bank (CEB) Joint Annual Meeting of the Governing Board and Administrative Council. The focus of the meeting was Support for Ukraine. This was a key event in Ireland's term of Presidency of the Council of Europe's Committee of Ministers. In his address to the CEB Governing Board and Administrative Council, the Minister for Finance announced a EUR 1 million contribution to establish an Irish initiated Fund for Ukraine. The Fund was formally established on 2 December 2022.

CEB Capital Increase: Earlier this year the CEB carried out an analysis of current resources and emerging business needs, including the expansion to Ukraine (agreed in July) and the Bank's ongoing response to the Ukrainian refugee crisis across Europe and have identified the requirement for a capital increase from shareholders amounting to €4.5bn of which €1.5bn will be paid-in.

This will be its first capital increase from shareholders since the banks was established in 1956. On 5 November members of the Administrative Council approved a compromise proposal of €4.25bn of which €1.2 bn will be paid in. This proposal was approved by the CEB Governing Board on 2 December. In Irelands case (shareholding of 0.882%) this amounts to a subscribed capital contribution of €37.5 m with a paid in capital contribution of €10.6 m.

Legislative proposal to enable contributions to Donor or Trust funds in the EIB, EBRD and CEB

The Department is currently working on the development of a General Scheme for the Financial Provisions (State Guarantees and International Financial Institution Funds) Bill.

This draft Bill has two main objectives, firstly to enable Ireland to enter into a guarantee agreement in accordance with the decision of the Council and the European Parliament (Decision (EU) 2022/1628) regarding the disbursement of €5 billion in the EU Commission's Macro-Financial Assistance (MFA) to Ukraine.

The second objective of the draft Bill is to enable Ireland to participate in certain donor or trust funds established by International Financial Institutions to enable a swift response to crises.

IFIs complement their resources through Trust Funds. These funds are financial and administrative arrangements with external donors, and are intended to finance high-priority development needs such as research, technical assistance, advisory services, debt relief and post-conflict transition. The funds come from donor countries, foundations, the private sector and sometimes the IFI's own grant resources. The IFI is responsible for administering and allocating the funds.

The EIB, EBRD and CEB are increasingly using Trust and Donor Funds to address specific issues, such as the Covid 19 pandemic and the current Ukraine war. There is currently no legislative basis to provide for voluntary payments or donations by the Minister for Finance out of the Central Fund to Donor or Trust funds in the EIB, EBRD and CEB. This legislation will provide a legal framework to enable future commitments on behalf of Ireland to such funds.

Responses by European International Financial Institutions to the War in Ukraine

The **European Investment Bank (EIB)** has prepared an emergency Ukraine Solidarity Package, encompassing the provision of immediate financial support of €668 million to Ukrainian authorities, all of which has been disbursed, and the repurposing of infrastructure project commitments to accelerate delivery of an additional €1.3 billion. A €4 billion program for 2022 and 2023 was approved by the Board of Directors on 18 May, to help cities and regions in EU Member States address urgent investment needs and meet the challenges of welcoming and integrating war refugees from Ukraine. EIB Group services have also developed a dedicated Advisory Platform to support EU MS impacted by the influx of persons fleeing the invasion of Ukraine, to accelerate proposed project investments and to support the development of a robust and coherent pipeline of quality, financially viable projects. On 25 July, the EIB approved a second relief package of support to Ukraine, namely a disbursement for a total of over EUR 1.59 billion. The EIB are in discussions with the Commission and Member States about the role it can play in the wider EU response, including the establishment of an EU-Ukraine Gateway Trust Fund, as well as further own resource financing and technical assistance to Ukrainian authorities.

The **European Bank for Reconstruction and Development (EBRD)** has approved a "War on Ukraine – EBRD Resilience Package", covering the areas of energy security, nuclear safety, municipal services, trade finance support and liquidity for SMEs in Ukraine and in neighbouring affected countries, and will invest EUR 3billion be end 2024 responding to the immediate needs of the people affected by the war and when conditions permit to support the substantial reconstruction of Ukraine. The EBRD has also suspended the Russian Federation and Belarus from being able to access its funding and services and closed its offices in both countries. At the EBRD Annual Meeting on 11 May, shareholders expressed support for the EBRD's response for Ukraine and other war-affected countries. Ireland has decided to contribute €4m to the EBRD Small Business Impact Fund to support SMEs in Ukraine. This contribution is being funded from the Department of Foreign Affairs, following the recent Government Decision to provide additional funding to Ukraine and Moldova.

The **Council of Europe Development Bank (CEB)**, On 17 March, the Administrative Council of the CEB, agreed to a proposal from the Governor, to transfer €5 million from a the CEB Social Dividend Account (SDA) to the Migrant and Refugee Fund (MRF) bringing the amount available for approvals in the MRF to €5,150,000, to enable a flexible and swift response to address Member States urgent needs and manage the refugee flows. On 3 June the Administrative Council approved the proposal to transfer an additional €5 million from the SDA to the MRF. The CEB has so far approved almost €6.4 million in grants from its Migrant and Refugee Fund (MRF) to the offices of the International Organization for Migration (IOM) and CEB member countries that are recording substantial refugee inflows from Ukraine. The CEB has also approved €1.3 billion to-date in new loans to support CEB member countries in dealing with the humanitarian emergency caused by the war in Ukraine. As noted above, in July 2022, Ireland hosted the Council of Europe Development Bank (CEB) Joint Annual Meeting of the Governing Board and Administrative Council. The focus of the meeting was Support for Ukraine. In his address to the CEB Governing Board and Administrative Council, the Minister for Finance announced a EUR 1 million contribution to establish an Irish initiated Fund for Ukraine. The Fund was formally established on 2 December 2022. This contribution is being funded from the Department of Foreign Affairs, following the recent Government Decision to provide additional funding to Ukraine and Moldova.

Risk Management Function

The Division is responsible for the Department's Risk Management function in line with its Corporate Governance structure. This function has developed significantly over recent years and aims to fully embed risk as part of the culture of the Department, in terms of governance, management and operations. The Department of Finance Risk Management Framework operates on the 'three lines of defence' method, consisting of local management (as first line of defence), risk management structures (as second line), and internal audit (as the third line).

Within the risk management structures are a Risk Section and the Departmental Risk Committee. The primary focus of the Risk Committee is on any identified top risks and uncertainties as outlined in the Risk Register, with other risks being monitored and reported on at other levels within the organisation. However, the Risk Committee should satisfy itself that appropriate risk management systems are in place for the management of these risks throughout the organisation

The Risk Section also, where appropriate, aligns and co-ordinates with the Government's National Risk Assessment structure (under the Department of the Taoiseach).

Department of Finance Top Risks as at November, 2022

The draft top risks from the Risk Register entries presented to the Risk Committee for Q3, 2022 are set out below.

Ranking	Risk Title	Category	Rating
1	Exogenous shock leading to increased debt burden/indebtedness	Strategic	20
2	Implications of Ukraine invasion	Strategic	16
3	Deterioration in the international economic environment	Strategic	16
4	Deterioration in domestic economic performance	Strategic	16
5	Pressures in Housing Market	Strategic	16
6	CT receipts - volatility/concentration	Strategic	16
7	Reform of the international tax rules	Strategic	16
8	[redacted]	[redacted]	[redacted]

Redacted under Section 33(1)(a) of the FOI Act 2014.

9	Operational issues due to introduction of new financial management system	Operational	15
10	Global Financial Shock (adverse market impacts from)	Reputational	12
11	Geopolitical Issues - impact on sovereign bond yields	Financial	12
12	Maintaining Ireland's AML/CFT framework through implementation of FATF/EU obligations	Reputational	12
13	Implications of Brexit	Strategic	12
14	Fiscal Rules Compliance	Strategic	12
15	Environmentally sustainable financial, fiscal or economic policies not promoted	Strategic	12
16	Current account migration due to KBC and Ulster Bank withdrawing from the market	Reputational	12

Compliance Monitoring Section

The Compliance Monitoring Section seeks to provide assurance to the Executive Board, and ultimately to the Secretary General and Minister, that the Department is adhering to the legal, regulatory and governance obligations applying to the Department and aegis Bodies as follows:

- Data Protection
- Procurement
- Irish Language
- Protected Disclosures
- Ethics in Public Office
- Lobbying
- Other statutory and mandatory obligations.

The Department's Compliance Framework is an important part of the Department's management of risk. Failure to comply with statutory or other obligations could result in significant reputational damage to the Department. The Section examines and monitors the Department's current systems and procedures to meet each of its obligations as set out in a *Compliance Obligations Register*. There are currently approximately 130 obligations listed on this Register.

On an annual basis, the Compliance Monitoring Section circulates a *Financial Control and Compliance Questionnaire* to all business unit owners and this questionnaire supports the signing, by the Secretary General of the Statement on Internal Financial Control (SIFC) attached to the Department's annual Appropriation Accounts.

The Department has a designated *Data Protection Officer* (DPO), as required under the General Data Protection Regulation (GDPR) and Section 34 of the Data Protection Act 2018. The DPO is responsible for the management of all requirements of the GDPR and the Data Protection Acts 1988 to 2018. This includes the Department's responsibilities as a data controller and processer, dealing with data breaches, data subject access requests and providing support and training to the Department's staff to ensure that personal data in the Department's possession is safe and secure.

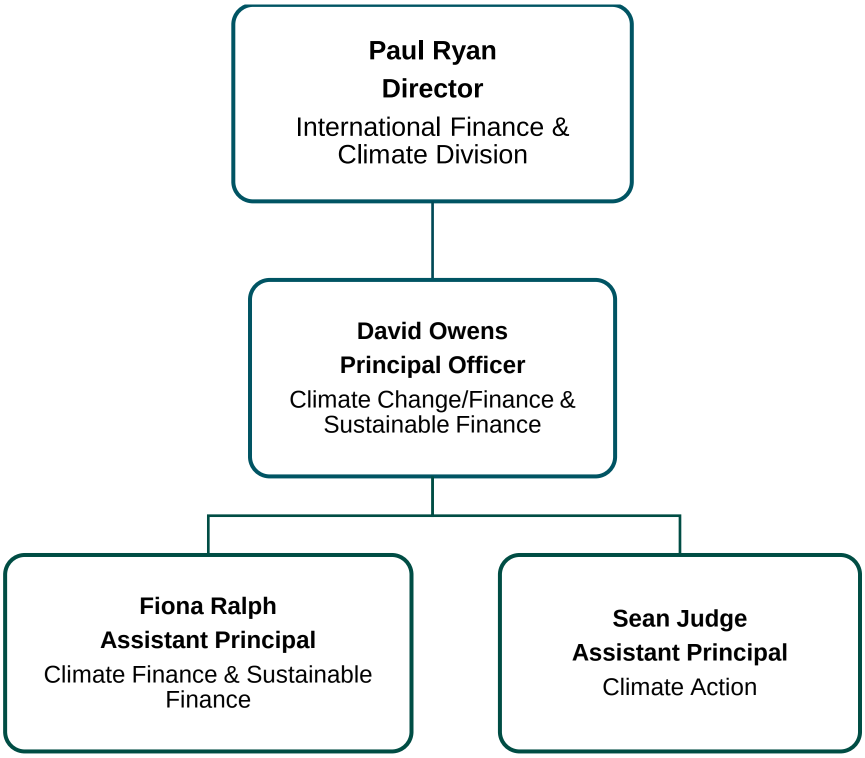
The Compliance Monitoring Section has a central oversight function with regard to all *procurement* in the Department and provides support and guidance to Divisions with their procurement. It also maintains a contracts register and prepares the annual return required under Circular 40/02 (report from the Secretary General to the C&AG on any procurements above a certain threshold undertaken outside of agreed procedures i.e. without a competitive tendering process).

The Department's third *Irish Language* Scheme 2022 - 2025 was published by the Compliance Monitoring Section in May 2022 and contains the Departments commitments in relation to the provision of services through Irish.

The Section also provides policy guidance for the Department on *Protected Disclosures*, ensures the timely return of annual declarations in respect of the *Ethics Acts* and monitors and reports on any activity under the *Regulation of Lobbying* Act 2015.

3.1.10.3 Climate & Sustainable Finance

Principal Officer: David Owens



KEY POINTS

This area includes Climate Action, covering domestic climate change issues, and also embraces Climate Finance (international issues) and Sustainable Finance which primarily deals with financial services and their contribution to funding efforts to combat climate change domestically and internationally.

Climate Change:

- The first statutory Climate Action Plan (CAP23), under the Climate Action and Low Carbon Development (Amendment) Act, is currently under development (expected to be published in December) and will set out a roadmap of actions consistent with the carbon budget programme adopted earlier this year. The Department will continue to contribute to the achievement of CAP23 and the Government's emission reduction targets across the headings of fiscal, economic and financial services policy.
- In line with the increasing focus on climate issues across Government, a Climate Unit was established in the Department in July 2020. The Unit operates as the Department's focal point for all of its work on climate action-related issues. To support climate-related policy development within the Department, a *Climate Economy Group* chaired by the Secretary General was established this year. The Climate Unit provides the secretariat function to the Group.
- As part of the *EU Green Deal*, the EU has committed to cutting emissions by at least 55% by 2030 (relative to 1990 levels), with the *Fit for 55 Package* published in July 2021

containing a number of proposals to revise and update EU legislation. While the majority of files are negotiated through the Energy and Environment Councils, the Department of Finance inputs to Ireland's positions through the inter-departmental Assistant Secretary Group on Climate Action, attended by Paul Ryan.

- The World Bank-supported *Coalition of Finance Ministers for Climate Action* was launched in April 2019 at the World Bank/IMF Spring Meetings, with Ireland becoming one of the founding members. Ireland is actively engaged with the Principle 5 workstream which relates to mobilising climate finance.

International Climate Finance: Ireland's International Climate Finance Strategy directs the Department's engagement with IFIs/MDBs on climate issues and input into the EU's negotiating strategy for UN climate conferences (UNFCCC COP). The Strategy was developed in conjunction with other Departments most notably the Dept. of Foreign Affairs.

Sustainable Finance: Ireland prioritises sustainable financial services domestically through the Ireland for Finance Strategy and the Sustainable Finance Roadmap. Legislation is negotiated at EU level, with key features for this Division being the Commission's strategy and development of the EU Taxonomy for sustainable activities and the EU Green Bond regulation. The overall goal for Climate Finance and Sustainable Finance is to ensure that Ireland meets our commitments under the Paris Agreement reached at UNFCCC COP21 where developed countries committed to help poorer countries by facilitating funding to help them deal with climate change.

Green Climate Fund (GCF): Ireland commenced contributions to the UNFCCC's Green Climate Fund (GCF), based in Seoul, in 2016. In 2019, Ireland pledged €16m for the 2020-23 period and established a constituency with Spain and New Zealand. As largest contributor, Spain holds the Board seat and Ireland rotates the Alternate Board seat with New Zealand (we hold it for 2020 and 2022). This is covered under the Climate Action Section, see below.

DETAIL:

Climate Change and Climate Finance issues

Background

International Finance and Climate Division currently provides the policy input for the Department on matters relating to Climate Action/Climate Change, Climate Finance and Sustainable Finance. This takes account of the role of International Financial Institutions in encouraging low carbon and climate-resilient investments and in the context of overall national policy on climate change on which the Minister for Environment Climate and Communications leads.

In line with the commitment in the Programme for Government 2020 that every Minister should make climate action a core pillar of their new Departmental strategies, and that each Minister should direct each of the Agencies and Offices under their Department to adopt a climate mandate, the Department of Finance Statement of Strategy covering the 2021-2023 period includes "*promoting environmentally sustainable economic progress*" as one of its five main strategic goals. In support of this objective, the Department seeks to support the development and promotion of economic, fiscal and financial policy advice in support of the Government's policy on climate action. A dedicated Climate Unit was established in the Department in July 2020. The Unit operates as the Department's focal point for all of its work on Climate Action-related issues such as taxation, economic analysis and financial services.

Ireland's climate ambition

The Programme for Government lays out a commitment to achieve emissions reduction of 51% by 2030 relative to 2018. The enactment of the updated Climate Action and Low Carbon Development (Amendment) Act on 23 July 2021 places this target on a statutory basis. Through establishing a legally binding framework with clear targets and commitments set in law, the amended Climate Act significantly strengthens the governance structure in supporting Ireland's response to climate change. In particular, the Act places on a statutory basis a net zero target for 2050, the interim 2030 target, as well as establishing a process for adopting a series of five-year carbon budgets, and related sectoral emissions ceilings.

In line with the requirements of the Act, proposals for carbon budgets were published by the Climate Change Advisory Council (CACC) on 25 October 2021, and these subsequently came into effect in April following approval by Government and the passing of motions in both Houses. The three five-year budgets are as follows:

- 2021-2025: 295 Mt CO2eq. an average reduction of 4.8% per annum
- 2026-2030: 200 MT CO2eq. an average reduction of 8.3% per annum
- 2031-2035: 151 Mt CO2eq. an average reduction of 3.5% per annum

On 28 July 2022, the Government also reached agreement on Sectoral Emissions Ceilings (SECs) which set out the maximum amount of GHG (greenhouse gas) emissions that are permitted for different sectors of the economy (e.g. electricity, buildings, agriculture, enterprise) for the first 2 carbon budgets). Government Ministers will be responsible for achieving the legally binding targets for their own sectoral area with each Minister accounting for their performance towards sectoral targets and actions before an Oireachtas Committee each year. However, the SEC for the land use, land use change and forestry (LULUCF) sector was deferred for 18 months following significant developments in the scientific knowledge of net LULUCF emissions, and to coincide with the completion of a Land-use review.

Climate Action Plan 23 (CAP23)

The development of the next update to the Climate Action Plan (CAP23) is now underway and is due to be published in early December. CAP23 will be the first statutory Plan under the Climate Act and hence there is a legal requirement to set out a roadmap of measures and actions consistent with the carbon budget programme and SECs – this was not the case for earlier plans. Of note, the EPA's latest greenhouse gas projections published in June highlights that in 2021 emissions are estimated to have totalled 69.3Mt CO2 eq. This accounts for about 23.5% of the emissions allowance for the first period and means that there will be a requirement for emissions to fall more quickly over the period 2022-2025(i.e. at rate of 8.4% per annum) than originally anticipated if the first budget is to be met. The EPA projections show that the CAP 2021 falls short of achieving our domestic and new EU emissions reductions targets by 2030 and calls for the "urgent implementation of all climate plans and polices, plus further new measures" to rectify this. CAP23 will aim to resolve these issues, through building upon CAP 21 as well as providing further clarity on the policies needed to deliver the necessary emission reductions.

Some of the concrete actions contained in CAP21 are as follows:

(i) Changing our electricity system in particular through increasing the proportion of renewable electricity to up to 80%;
(ii) Investing in our transport systems (500,000 extra walking, cycling and public transport journeys every day, roll-out of rural public transport and of electric vehicles);
(iii) Helping over 500,000 people insulate their homes and installing 600,000 heat pumps;
(iv) Investing in forestry and rewetting and restoring bogs; and
(v) Making agriculture and our food systems more sustainable, working with farmers in our beef and dairy sectors to reduce emissions.

Role of the Department of Finance

The Department of Finance's interaction with the domestic climate agenda primarily arises under the headings of fiscal, economic and financial services policy. In particular, over the past number of years, a number of environmental taxation reform including increases in the carbon tax, and reforms to the VRT and motor tax regimes have been introduced. As part of this approach, and in line with the Government commitment to raise the carbon tax to €100 per tonne CO2 by 2030, Budget 23 increased the carbon tax to €48.50. The Department has also worked with the ESRI on the economic and distributional aspects of the carbon tax, and has begun to implement green budgeting from a tax perspective. With regard to the financial services sector, sustainable finance is a horizontal priority within the Government's financial services strategy, Ireland for Finance.

The Department of Finance will continue to contribute to the planning for the Government's emission reduction targets across these areas, including with regard to CAP23. The Climate Unit manages the Department's input into the domestic climate agenda, including through ensuring the Department's objectives are articulated at the Cabinet Committee on the Environment and Climate Change and supporting interdepartmental and senior official structures. The Unit is also responsible for liaising with other sections within the Department and with the Department of the Taoiseach to ensure timely, accurate and comprehensible Climate Action Plan quarterly reporting.

Climate Economy Group

In light of the increasing focus on climate action across Government, earlier this year a Department of Finance Climate Economy Group was established under the chairmanship of the Secretary General. The Group is an integral part of the governance of climate-related policy development in the Department, including through ensuring that the Executive Board are advised in relation to climate issues. Membership of the Group includes senior management from various units within the Department, as well as representatives from the Department of Public Expenditure and Reform, the NTMA and CBI. The Group meets monthly and has met 9 times to date in 2022. The Climate unit provides the secretariat support to it.

Central Bank of Ireland Climate Forum

The Central Bank recently established a Climate Forum to encourage and facilitate discussion between the Bank and stakeholders on climate-related issues of common interest with a specific focus on financial services and the economy. The Forum meets twice a year and participation includes Government Departments, State Agencies, private sector companies, advisory firms and representative organisations. The Department is represented by Paul Ryan.

European Green Deal and Fit for 55 package

As part of the *European Green Deal*, and with the *European Climate Law*, the EU has set itself a binding target of achieving climate neutrality no later than 2050. As an intermediate step towards climate neutrality, the EU has raised its 2030 climate ambition, committing to cutting emissions by at least 55% by 2030 (relative to 1990 levels). The *Fit for 55 Package* published in July 2021 is a set of proposals to revise and update EU legislation, and to put in place new initiatives with the aim of ensuring that EU policies are in line with the EU's enhanced climate goals.

Key aspects include amendments to the EU Emissions Trading System (EU-ETS) Directive, and the Effort sharing regulation which sets emission reduction for MSs non-ETS sectors; the creation of a new EU emissions trading system for buildings and road transport; a proposal for a carbon border adjustment mechanism and revision of the Energy Tax Directive. The majority of files are been negotiated through the Environment and Energy Councils, with the Department of Finance inputting on negotiation positions as necessary through Assistant Secretary Group on Climate Action. The Department of Finance Tax Division is leading on the Carbon Border Adjustment Mechanism (CBAM) and ETD negotiations. A common position was reached on a number of files including the EU ETS Directive and Effort Sharing regulation at the Environment Council in June.

Coalition of Financial Ministers on Climate Action

The *Coalition of Finance Ministers for Climate Action* (CFMCA) was launched in April 2019. It is a group of Finance Ministries that collaborate on strategies to integrate climate considerations into economic and financial policies. The objective of the CFMCA is to support the use of fiscal policy, public financial management and mobilisation of investment to promote domestic and global action on climate change by facilitating the exchange of best practice.

As one of the founding members, Ireland's decision to join the Coalition was taken both in the context of the increasing focus on the important role that Finance Ministries and the tools at their disposal can play in contributing to the climate agenda, and in recognition of the need for international collaboration given the global nature of the climate challenge. The Coalition's 78 member countries have been increasing in number and represent different geographic regions and levels of economic development, collectively accounting for about 39% of global energy-related CO_2 emissions and 66% of global GDP. There are six so-called Helsinki Principles around which the Coalition's work programme is based. Due to Ireland's successful experience with Sustainable Finance and Green Bonds Ireland has been actively involved with the Principle 5 work stream which relates to Mobilising Climate Finance. Major meetings of the Coalition are held on the margins of the IMF/World Bank Spring and Annual Meetings as well as the annual UN COP event. When the Minister for Finance is not available to attend meetings, he is represented by Paul Ryan.

Sustainable Finance

The transition to a sustainable economy involves meeting vast investment needs in Ireland, Europe and globally, meaning comprehensive participation from business and financial services firms is needed to achieve our carbon emissions reductions.

Ireland is a strong supporter of Sustainable Finance. Domestically, it is a key theme within the *Ireland for Finance Strategy*. In 2021, led by Sustainable Finance Ireland and together with other public sector actors and industry, the Department participated in developing a national *Sustainable Finance Roadmap*, which sets out various actions aimed at building Ireland to become a leading international centre for Sustainable Finance by 2025.

The Strategy and Roadmap particularly prioritise skills and talent development so that Irish-based financial services staff are well-equipped to expand sustainable investments and comply with legislative requirements on reporting and disclosures. It is envisaged that this work on skills and talent development will be rolled-out to Sustainable Finance practitioners in the wider EU and G7/G20 countries aiming to link the work in this area with Irish-based expertise at State, company and university/college levels to increase economic activity and employment in Ireland. In time, these services will be made available to developing countries.

Under the Roadmap, a *Sustainable Finance Centre of Excellence* has been set-up which is to be a focal point for skills development and knowledge sharing. This will be formally launched in Q1 of 2023. This Centre will work in close collaboration with the UNDP Sustainable Finance Hub which will establish a presence in Dublin at the same time. This will identify and develop proposals to facilitate Sustainable Finance actions for developing countries in line with commitments under the Paris Agreement reached under the UNFCCC COP21.

Climate Finance Week

Globally, investment in ESG (Environmental, Social and Corporate Governance) funds is steadily increasing. Ireland has a number of world leaders in Sustainable Finance investments, and increasingly in Asset Management companies, insurance companies and pension funds. Climate Finance Week Ireland is hosted by Sustainable Finance Ireland and organised in conjunction with the Department of Finance, with the 2022 event attracting around 6,000 attendees both in person and virtually, up from around 5,000 from the entirely virtual 2021 event.

EU developments on Sustainable Finance

The European Commission is driving the development of a regulatory framework to ensure sustainability is integrated into financial services, so that risks and impacts are well-communicated and the quality and transparency of investments is guaranteed and greenwashing avoided. When all actions under 2018 Action Plan were underway, the Commission published in 2021 the strategy for financing the transition to a sustainable economy. Ireland engaged closely with the Commission in its development.

Core to the EU's Sustainable Finance framework is the Taxonomy for sustainable activities, which sets out requirements for economic activities across different sectors that must be met in order to be considered sustainable, as well as setting out minimum standards to be considered doing no significant harm. Reporting by covered firms is set to begin in 2023 and relates to standards for climate mitigation and adaptation activities, including transitional but nonetheless stringent provisions for nuclear and natural gas investments, Standards on the remaining four environmental goals of sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems are under development, with Ireland engaging with Commission and other Member States.

A regulation to establish a voluntary gold standard for European Green Bonds is also under negotiation. This would establish the supervision and reporting rules corporates and sovereigns must comply with to issue a green bond under that label, including Taxonomy-alignment.

International Climate Finance

Developed countries are required under the Paris Agreement to provide financial support to developing countries to adapt to and mitigate climate change. This is referred to as Climate Finance and is commonly considered a sub-section of development aid. There is currently a global UN target of USD 100 billion per annum, which is not being reached. A new goal is under negotiation in UN channels, and would begin in 2025, where the Department leads Ireland's input into the EU's negotiating positions.

Ireland's priorities on International Climate Finance are set out in July 2022's International Climate Finance Strategy that was launched by Minister Donohoe at the recent IMF/World Bank Annual Meetings in Washington. Led by the Department of Foreign Affairs, Ireland has committed both to doubling the proportion climate finance forms of development aid, and spending €225 million annually by 2025 on climate finance (currently spending around €90 million annually).

After the Department of Foreign Affairs, this Department is the second largest climate finance spender through our contributions to Multilateral Development Banks, each of which is expanding its climate mandate and increasing the financing being extended for climate purposes.

UNFCCC's Green Climate Fund (GCF)

The GCF was established under the United Nations Framework Convention on Climate Change (UNFCCC) to channel financing for climate change adaptation and mitigation to developing countries. Ireland pledged €16 million to the GCF for the period 2020 to 2023 (€4m per annum); this contribution is paid by the Department of the Environment, Climate and Communications, but the Department of Finance manages Ireland's GCF engagement. Ireland is currently in a constituency with Spain and New Zealand, and we held the Alternate Board seat in 2020 and 2022. The GCF is based in Seoul in South Korea and its Board meets 3-4 times per year. The GCF's second replenishment process is underway and this Department will manage it for Ireland, with input from DECC and DFA.

Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP)

COP27 was held in Sharm El-Sheikh, Egypt in mid-November 2022. Ireland negotiates at the COPs as part of the EU, and positions are agreed at EU level beforehand. The Department represents Ireland in EU working parties developing positions on climate finance issues, and we co-ordinate on this with

D/Foreign Affairs, and D/Environment, Climate, and Communications. COP28 will be held in the United Arab Emirates in November of 2023.

Corporate

The briefing prepared by Corporate provides a high level introduction to the issues relevant to the units within its remit. More detailed and in depth analysis of any of the topics can be provided if needed.

3.1.11 Corporate Affairs

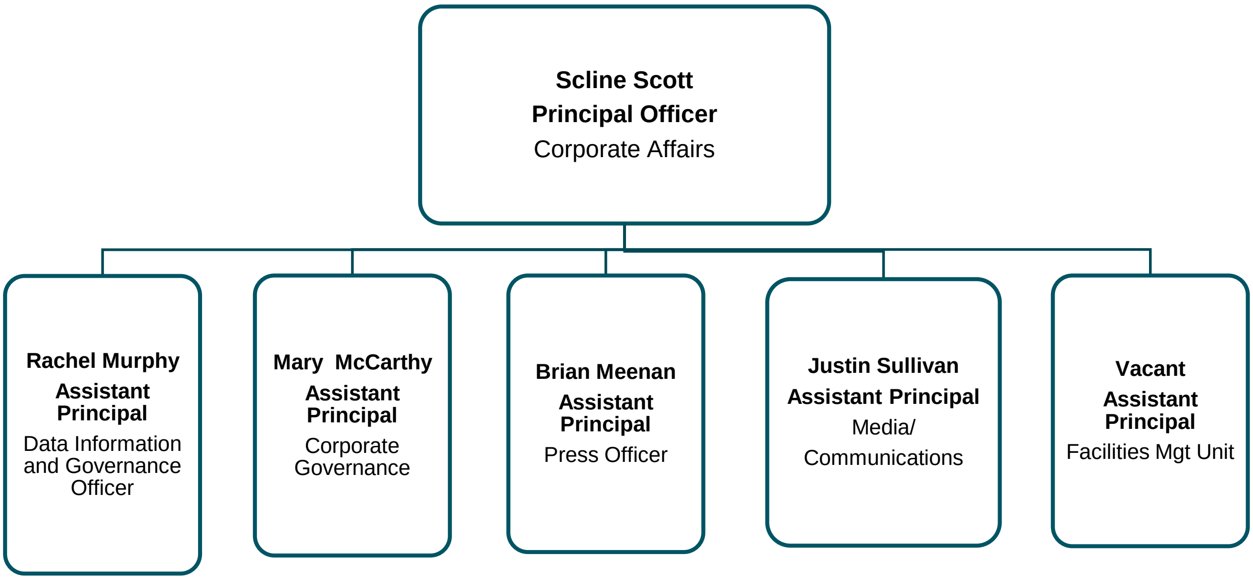
Head of Corporate Affairs – Scline Scott

DESCRIPTION

Corporate Affairs is responsible for developing and overseeing the implementation of the Governance Framework, the Integrated Business Planning Framework and an internal control framework of oversight for bodies under the aegis of the Department. It is also responsible for internal communications, delivery of ICT solutions capability and systems and improved information management in cooperation with the OGCIO shared service facility, Business Continuity Management and Facilities Management Unit.

3.1.11.1 Corporate Governance, Corporate Communications, ICT and Business Continuity Management, Freedom of Information, Parliamentary Questions, Print Room, Press Office & Facilities Management Unit

Principal Officer: Scline Scott



KEY POINTS

- Managing and maintaining codification of a Governance Framework for the Department
- Development of new Statement of Strategy (new statement required for 2023 under PSM Act 1997)
- Coordinating the underlying business planning process.
- Managing an Oversight Framework for 17 bodies under the Department's aegis.
- Managing the relationship with the Office of the Government Chief Information Officer (OGCIO – D/PER) as the core ICT services and support provider for the Department.
- The Unit manages a relationship framework for both the Audit Committee and Internal Audit services on behalf of the Secretary General/Accounting Officer.
- The Business Continuity Management Policy, currently being developed, is part of the Executive Board's overall management system that establishes, implements, operates, monitors, reviews, maintains and improves business continuity processes in the Department.
- There is greater transparency with FOI requests as the Department operates a publications scheme whereby additional material is included on the Department's website.
- The Print Room and Facilities Management Unit are managed by Corporate Affairs.

DETAIL:

Governance & Strategic Planning

In 2015 the Department codified a Governance Framework. The Objective was to produce a concise organisational specific Governance Framework that provides a clear and comprehensive summary of the principal aspects of corporate governance within the Department of Finance. The Statement of Strategy, informed by the Programme for Government, outlines high level priorities agreed by the Minister and these priorities are reflected in the annual work programme. To bring clarity to roles and responsibilities at the level of the individual staff member, the Department has a Business Planning Framework. This framework is implemented by Corporate Affairs and supported by Senior Management.

Bodies under the Aegis of the Department

The Department of Finance has 17 bodies under its aegis. These require varying degrees of oversight in accordance with their governing legislation and central regulation. The 17 bodies are:

Central Bank of Ireland	Irish Financial Services Appeals Tribunal
Credit Review Office	Irish Fiscal Advisory Council
Credit Union Advisory Committee	National Asset Management Agency
Credit Union Restructuring Board	National Treasury Management Agency
Disabled Drivers Medical Board of Appeal	Office of the Revenue Commissioners
Financial Services and Pensions Ombudsman	Office of the Comptroller & Auditor General
Home Building Finance Ireland	Strategic Banking Corporation of Ireland
Investor Compensation Company DAC	Tax Appeals Commission
Irish Bank Resolution Corporation	

Records Management & ICT

eDocs was developed by the Office of the Government Chief Information Officer (OGCIO) to provide a centralised system of storing digital files. Most newly created official documents are stored in eDocs in digital format rather than in physical paper files. eDocs facilitates greater efficiencies in records management particularly in relation to the retrieval of documents, increased security and accountability for official files. Corporate Affairs manages the relationship with the (OGCIO) which provides ICT support, advice, infrastructure, service management and systems development expertise as a shared service.

Corporate Affairs also manages the purchasing and distribution of devices and licenses throughout the Department. This enables staff connectivity to the Departments various systems and network as and where appropriate. This is of particular relevance with regards to Covid-19, the Department's Blended Working Policy and staff working remotely. Since the Covid-19 crisis commenced, numerous extra devices and licenses were purchased to enable remote access for all staff whose duties facilitated working remotely. Corporate Affairs is currently working with OGCIO on a Wi-Fi installation project for our 14-16 Merrion Street campus. The Corporate Unit also represents the Department at meetings of the Government Cyber Core network which was established to improve the resilience and security of public sector IT systems.

A significant component of the Department's workload relates to the provision of parliamentary support. This includes processing large numbers of Parliamentary Questions, Freedom of Information requests, Government memos and Ministerial representations. Corporate Affairs, with OGCIO, support the delivery of ePQ, eSubmissions, eCorrespondence, eRisk and eDocs.

Business Continuity Management Policy

Corporate Affairs is developing a Business Continuity Management (BCM) Policy. This is part of the Executive Board's overall management system that establishes, implements, operates, monitors, reviews, maintains and improves business continuity processes in the Department. It sets out the minimum standards to which the Department shall operate to minimise the likelihood of employee, stakeholders or general public impact, regulatory breaches and reputational damage arising from disruption to business operations. Covid-19 brought about a rapid response from all divisions in relation to BCM and has shown that access to a reliable ICT infrastructure is imperative to staff in undertaking Departmental work. The completed BCM policy will provide an overarching framework which will include the development or consolidation of incident management, response and recovery plans by relevant support functions and divisions.

Systems to support internal financial control: Audit Committee & Internal Audit

Audit Committee

The role of the Audit Committee is to consider the adequacy and effectiveness of the Department's internal control systems, control environment and control procedures, to oversee the work of the Internal Audit Unit (IAU) and to provide guidance in relation to the suitability and robustness of the systems of risk management and internal control within the organisation. The Audit Committee, comprising a majority of non-executive members, reports to the Secretary General, and works to an agreed Charter that is reviewed annually.

Internal Audit

IAU assesses areas that are specifically requested by the Department's Executive Board and the Audit Committee in respect of the areas of responsibility of the Accounting Officer of the Department. The IAU's expertise and independent approach evaluates management's approach to risk and internal controls. IAU services are provided by the Department of Public Expenditure and Reform (DPER) and this relationship is managed by Corporate Affairs through a relationship framework, and regulated by a service level agreement which is revised annually.

The Print Room

The Print Room provides a professional and confidential printing service to the Department of Finance, the Department of the Taoiseach and DPER. Current annual outputs include Budget books and associated publications, Summer Economic Statement, Revised Estimates and National Economic Dialogue material.

Communications/Media Manager

The Communications/Media Manager reports to the Head of Corporate Affairs and is involved in a range of activities across the Department, working closely with Heads of Division and policy leads on specific areas of work in accordance with the priorities set by the Department's overall communications strategy and key messages.

Press Office

The Press Office is the primary point of contact between the Department and members of the media, as well as members of the public. Its responsibilities include responding to queries regarding the work of the Minister for Finance and the Department from all members of the media, advising the Minister and senior officials on interaction with the media and organising all public and press events and appearances for the Minister and senior officials. The Press Officer accompanies the Minister for Finance to official events which have a media element.

Facilities Management Unit

Facilities Management Unit is responsible for on-going operations to support the Department through planning and management of office space and facilities and for planning and implementing the major elements of the Health and Safety (safety management) System. The unit's main priorities are: ongoing review of office and common areas to ensure efficient use of available space; management of the Departmental Safety Management System; undertake a number of "Green" initiatives; support the Department in the implementation and ongoing monitoring of the *Blended Working Policy and* blended working arrangements; and progress a programme of continuous improvement for our buildings.

Additionally, since the onset of the Covid-19 crisis, FMU has been operating in a fluid and progressive situation requiring a more flexible response. The Unit has been working to safeguard a healthy environment for staff both in their office and home set up; coordinating with Corporate Affairs and Human Resources on the development and implementation of a *Blended Working Policy*; and engaging interdepartmentally to ensure any new post-crisis procedures or processes enacted are consistent with those across the wider Civil Service.

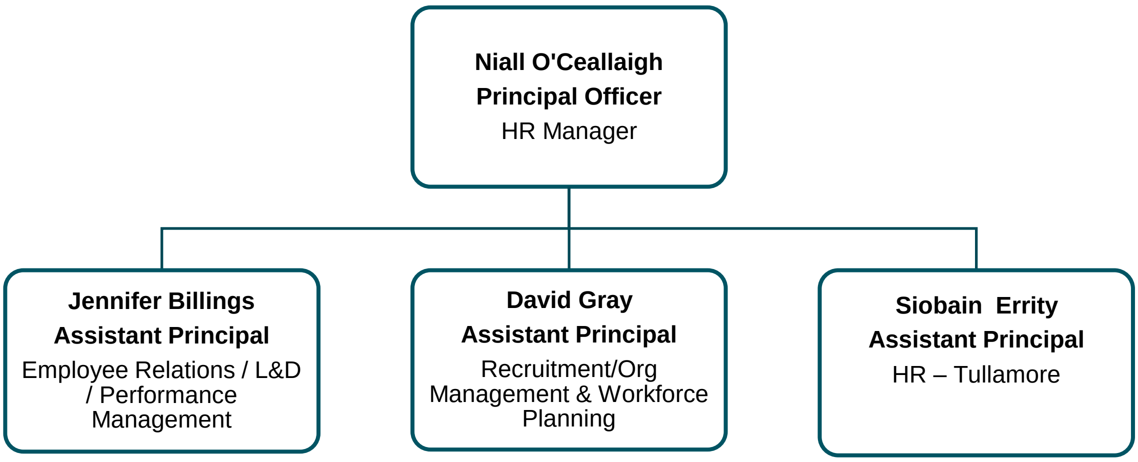
3.1.12 Human Resources Unit

DESCRIPTION

Human Resources is responsible for the development and delivery of the Department's HR strategy and the provision of a wide range of HR services to management and staff. The Department's HR Business Strategy is focused on five key elements; **Organisational Structure and Workforce Planning, Leadership, Organisational Learning and Development, People Management and Employee Engagement.**

The Unit's Mission is to be the best HR Unit in the Civil Service. We achieve this through providing best in class HR services to management and staff. The Unit is measured by the quality of our reporting to the Executive Board, turn times of service and surveys on our services provided. Actions to deliver the HR Business Strategy are developed each year as part of the business planning process in the Department.

Principal Officer: Niall O'Ceallaigh



KEY POINTS

The Department has a total workforce of 317 staff, 315 based in Dublin and 2 in Tullamore. A number are based in Europe (in EU Institutions) and the USA (the World Bank and the IMF), and The Philippines. The pay bill approved for 2022 is € 23.421m.

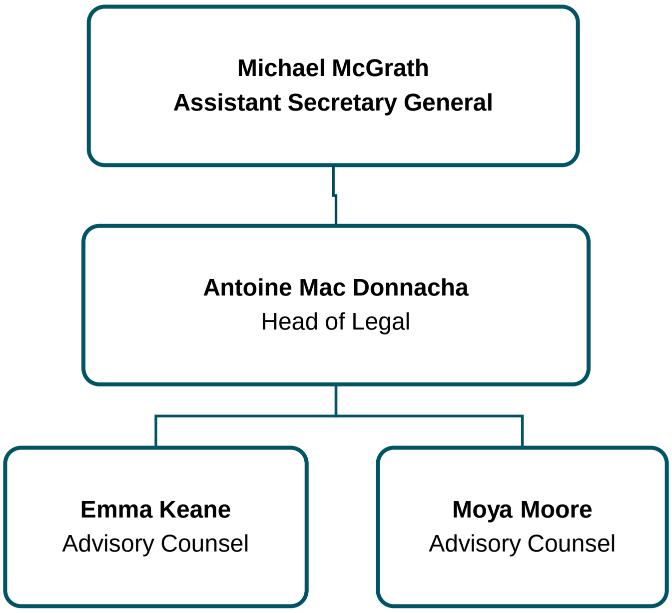
The HR Unit is focussed on having the right people with the right skills doing the right job at the right time. All elements of the HR Business Strategy work towards equipping the Department with the sufficient resources, the necessary skills and expertise, and the right environment to maximise both potential and performance.

The Department strives for high levels of performance, through investment in L&D and high levels of attendance (1.65% sick leave rate to end of Q3 2022). The staff attrition rate to end of Q3 2022 (i.e. resignation or retirement from Civil Service) was 4.61% (15 people) and our turnover rate for to the end of Q3 2023 was 19.69% (64 people), this figure includes transfers within in the wider civil service as well as secondments. This figure is in large part due to the high success rate of our staff in Civil Service promotional competitions.

3.1.13 Legal Unit

The Legal Unit is responsible for providing legal advisory services for the Department through the Head of Legal.

Head of Legal Unit: Antoine Mac Donnacha



KEY POINTS

- The Legal unit supports and advises the various business units across the Department whenever the need arises. It is staffed by secondees from the Attorney General's Office.
- The unit is involved in all Departmental Legislation, litigation and transpositions and provides legal services to support all areas of the Department.
- The legal unit works closely with and liaises with the Attorney General's Office and external legal advisers, as well as lawyers working in other organisations.

DETAIL:

The legal unit is available to provide legal advice across the Department and is generally involved in a supporting role in respect of all legislation and litigation in which the Department is involved, as well as advising on legal issues which arise in the course of the Department's operations. The legal unit monitors private member's bills relevant to the Department and supports the relevant policy units in responding to them. The legal unit also works closely with the senior legal adviser in SFAD.

In-house advice is generally provided and where appropriate legal issues are referred to the Attorney General. As the various issues the legal unit is involved with will be included in this brief separately by the policy units concerned we do not propose to go into detail on those issues here. The head of the legal unit is seconded from the AGO as are Emma Keane and Moya Moore.

An Roinn Airgeadais
Department of Finance