MINISTER’S BRIEF

JUNE 2017

ECONOMIC POLICY
TAX POLICY
EU & INTERNATIONAL
THE BUDGET
PUBLIC FINANCES
BANKING & FINANCIAL SERVICES

An Roinn Airgeadais
Department of Finance

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1. Introduction

For the purposes of day-to-day management the Department is organised into two Directorates as follows:

- Economic and Fiscal Directorate
- Finance & Banking Directorate

Within each Directorate there are a number of Divisions/Units.

1. Economic & Fiscal Directorate

The Economic and Fiscal Directorate, which reports to the Secretary General, comprises of:

Economic Division	John McCarthy	Assistant Secretary
Tax Division	John Hogan	Assistant Secretary
EU & International Division	Nicholas O'Brien	Assistant Secretary
Corporate Affairs	Nicholas O'Brien	Assistant Secretary
Human Resources Division	Niall O'Ceallaigh	Principal Officer
Facilities Management Unit	Gary Tobin	Assistant Secretary

2. Finance & Banking Directorate

The Finance & Banking Directorate, who reports to the Second Secretary General, comprises of:

Banking Division	Gary Tobin	Assistant Secretary
Funds, Insurance Markets & Pension Division	Aidan Carrigan	Assistant Secretary
Shareholding and Financial Advisory Division	Des Carville	Assistant Secretary
International Finance Division	Paul Ryan	Director
Legal Unit	Aidan Carrigan	Assistant Secretary
Finance Unit	John Hogan	Assistant Secretary

2. Business [Policy] Priorities 2017

2.1 Economic & Fiscal Directorate - Business Plan Policy Priorities

ECONOMIC DIVISION (John McCarthy)

1. Develop, disseminate and promote Department of Finance view on economic situation and outlook having regard to Brexit, EU & International developments.
2. Provide rigorous economic analysis on fiscal policy stance, taxation options and measures for Budget 2018
3. Enhance research and analytics capability of the Economics Division
4. Prepare Budget Strategy and publish official Annual & Multi-annual Budgetary Forecasts and Budget 2018
5. Monitor fiscal and economic position and advise on policy compliance with the fiscal rules
6. Manage transition of Exchequer Section to Headquarters.

TAX DIVISION (John Hogan)

1. Development of Tax Options for Budget 2018 having regard to Brexit and other challenges
2. Successful completion of the annual Finance Bill process
3. Successful management of ongoing legal cases
4. Successfully manage EU and International tax dossiers particularly in relation to CCTB, BEPS and evolving CT issues, both domestic and international
5. Manage Central Fund, Vote payment reconciliations and Exchequer returns/other accounts/transition to FMSS

CONSOLIDATED STRATEGIC PRIORITIES

1. Monitor fiscal and economic position having regard to external challenges and advise on policies
2. Integrate results of 1 above into SPU, SES and Budget formation process
3. Plan and execute National Economic Dialogue, TSG fora and Budget and Finance Bill having regard to 1 & 2

EU & INTERNATIONAL DIVISION (Nicholas O'Brien)

1. Ensure Ireland's interests are taken into account at EU fora, application of fiscal and economic architecture and in negotiations arising from EU/UK relationship
2. Further develop the Department's strategy on international and EU alliances
3. Development of Irish interests in the EU Budget and manage the EU budgetary cycle
4. Advance the framework / strategy for EU economic policy coordination
5. Manage post programme processes and membership of Euro area funding mechanisms

CORPORATE (Shared)

1. Enhance and promote good corporate governance and compliance
2. Develop and Implement underlying actions to HR Strategy (Leadership, Organisational Structure & Workforce Planning, Learning & Development, People Management and Employee Engagement)
3. Build fit for purpose ICT systems
4. Maximise efficient and coordinated usage of physical facilities.
5. Contribute to and implement Civil Service Reform

4. Develop themes, strategies and methodologies relevant to 3.

2.2 Finance and Banking Directorate - Business Plan Policy Priorities

FUNDS, INSURANCE, MARKETS AND PENSIONS DIVISION (Aidan Carrigan)

1. Implement Cost of Insurance Working Group Report Phase 1 Actions and Phase 2 Review, Contribute to Interdepartmental Flood Policy Coordination Group
2. Progress Policy Review of Pensions Sector
3. Continue EU/International anti-money laundering programme of work and achieve successful outcome to Financial Action Tack Force (FATF) inspection of Ireland.
4. Ongoing representation of Irish interests in the negotiation of the EU legislative framework for financial services
5. Complete EU transposition agenda through primary and secondary legislation in accordance with EU transposition deadlines

BANKING POLICY DIVISION (Gary Tobin)

1. Develop banking polices to deliver an effective and efficient financial regulatory regime and a diversified and competitive financial system
2. Implement Financing for Growth agenda and SME funding programme of work through Strategic Banking Corporation of Ireland (SBCI) having regard to Brexit Challenges
3. Transposition of Payment Accounts Directive, Payments Services Directive and Mortgage Credit Directive
4. Manage reorientation of relationship with key stakeholders including Central Bank of Ireland (CBI), National Treasury Management Agency (NTMA) to support optimal financial stability arrangements.
5. Advance responsible new lending while promoting consumer protection and continue Mortgage Arrears work.

CONSOLIDATED STRATEGIC PRIORITIES

1. Actively monitor performance of investments in BoI, AIB and PTSB and advance AIB exit options

2. Continue to develop banking system to support economic growth through Financing for growth agenda and through SBCI while having regard to Brexit and promoting payments and consumer protection agenda

SHAREHOLDING & FINANCIAL ADVISORY DIVISION

(Des Carville)

1. Advance plans for a partial exit of equity investment in AIB having regard to valuation considerations
2. Actively monitor performance of shareholdings to ensure they continue to meet targets, that taxpayer investment is protected
3. Manage restructuring of Credit Unions to completion, implement Credit Union Advisory Committee (CUAC) Report and wind-down of ReBO in H1 2017.
4. Manage NAMAs performance in line with its strategy along with the Resi 2020 and SDZ plans
5. Manage the continuation of the Special Liquidation of IBRC in a timely manner and respond to the Commission of Investigation in a professional and cooperative manner
6. Integrate the expertise within the Division to advise and input on Policy development across the Department e.g. Review of Financial Services sector in the context of Brexit and expert input to FSC NPL subgroup

INTERNATIONAL FINANCE DIVISION (Paul Ryan)

1. EIB and other International Financial Institutions – ensure ongoing and appropriate representation and maximise funding opportunities
2. IMF/World Bank: Service the Spring and annual meetings and the ongoing relationship with these two organisations
3. Climate Change: Participate in the negotiations at EU and UN on this issue
4. Support the continuing development of Ireland as a centre for international financial services through the International Financial Services Strategy, monitor its implementation and feed into Brexit Financial Services sub-group
5. Financial Services Ombudsman/Pensions Ombudsman merger (from January 2017) -amalgamate the two separate entities by primary legislation
6. Risk Management – maintain the Department’s Risk Register and contribute to the National Risk Assessment of Ireland coordinated by D/Taoiseach.

3. Continue to manage relationships with Key Stakeholders including CBI , NTMA, EU and International Financial Intuitions

4. Implement strategy for international financial services with a particular focus on Brexit

5. Ensure Irish financial services interests are represented and protected at EU and other international fora
6. Progress legislative/legal work programme

Glossary of International Institutions/Committees

Ad Hoc Council Working Party

Ad-Hoc Working Party, chaired by the rotating Presidency, is composed of representatives of all Member States participating in the Council and its preparatory bodies. The exact composition of each delegation is left to the respective Member State.

A recent Ad-Hoc group established was the Ad-Hoc Working Party on the Single Resolution Mechanism.

Ad hoc Working Group on Article 50

Established by GAC on 22 May, this Council Working Group will prepare the technical aspects of the Brexit negotiations for Council. Foreseen by the Council and Commission as the only dedicated Brexit-related working group, [redacted]. The group will meet in different and flexible formats with attendees based on the topic.

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

ADB

Asian Development Bank

The ADB is a regional development bank established on 19 December 1966 and focused on Asia and Oceania, which is headquartered in Manila, Philippines. The Minister for Finance acts as Governor for Ireland, the Secretary General is the Alternate Governor. Officials attend meetings.

ADF

Asian Development Fund

Part of the ADB, the ADF provides grants to ADB's lower-income developing member countries (DMCs) in Asia and Oceania. Governance and attendance at meetings as per ADB.

AfDB

African Development Bank Group

Ireland's membership of this institution is currently under consideration. The AfDB is a multilateral development finance institution, with a mission to fight poverty and improve living conditions on the continent. Should Ireland become members, the Minister for Finance would be the Governor for Ireland at the Bank, with the Secretary General the Alternate. Officials attending meetings as observers only in line with established practice.

AfDF

African Development Fund

Part of the AfDB, the AfDF provides development finance on concessional terms to low-income regional member countries in Africa which are unable to borrow on the non-concessional terms of the AfDB. Potential Governance and current attendance as per the AfDB.

AIIB

Asian Infrastructure Investment Bank

Based in Beijing in China, the AIIB is a multilateral development bank that aims to support the building of infrastructure in the Asia-Pacific region. Once legislation is passed to enable Ireland become a member, the Minister for Finance will be the Governor for Ireland with the Secretary General being the Alternate. Meetings attended by officials.

CEB

Council of Europe Development Bank

Based in Paris, the CEB is a multilateral development bank with an exclusively social mandate across Council Of Europe (based in Strasbourg) members, including lending to Ireland for infrastructure (social housing and the Justice sector (Prisons and Courts) and SME lending under the SBCI. Minister for Finance is the Governor for Ireland and meetings are attended by officials.

COP

Conference of the Parties

The parties to the United Nations Framework Convention on Climate Change (UNFCCC) that meet annually to assess progress in dealing with climate change. Meetings attended by officials with the international high-level conference (COP 22 in 2018 in Germany) involving Heads of State and Ministers (Climate Change and occasionally Finance).

Coreper

Coreper is composed of the permanent representatives from each member state, who, in effect, are their country's ambassadors to the EU. They express the position of their government. Coreper is the Council's main preparatory body.

The two configurations of Coreper (Coreper I and II) meet every week. Coreper II prepares the work of the economic and financial affairs council as well as foreign affairs, general affairs and justice and home affairs. Its main tasks are to prepare and coordinate the work of the different Council configurations, to ensure consistency of the EU's policies and to work out agreements and compromises which are then submitted for adoption by the Council.

Ireland is represented at Coreper II by Ambassador Declan Kelleher. As appropriate officials from the Department of Finance delegation in the Permanent Representation attend Coreper.

Council of European Union (ECOFIN)

Under the European Treaties, the EU operates as one body/council split into various formations to facilitate decision making, e.g. ECOFIN is the Council of Economic and Finance Ministers, Justice and Home Affairs Council, etc. Ecofin deals with a broad range of economic matters (e.g. country surveillance under the Stability and Growth Pact) and financial matters (e.g. Banking Union). The Council meets every month, except August. There are nine formal Councils (seven in Brussels, two in Luxembourg) and two Informal Meetings in April and September based in the Member State that holds the rotating six monthly EU Presidency. All 28 Member States are represented by their respective Finance or Economic Ministers. Senior officials from bodies such as ECB, EIB, ESM, etc. also attend.

The Finance Minister of the rotating Presidency of the EU Member State chairs the Council (currently the Maltese Finance Minister Edward Scicluna).

Council Working Party

Various Council Working Party formations are established which are chaired by the rotating Presidency, and are composed of representatives of all Member States participating in the Council and its preparatory bodies. The exact composition of each delegation is left to the respective Member State.

The working party can meets in three possible formats: experts, attachés and experts, or attachés only. The exact composition of the working party depends on the subject matter of the Commission's legislative proposal.

The Department participates in a number of these at official level or Attaché level, including the Working Party on Financial Services which negotiates financial market issues including banking, securities, financial market infrastructure and insurance; or the Working Party on Tax Questions meets in two subgroups - Indirect Taxation and Direct Taxation - which handle legislative proposals relating to taxation.

DG ECFIN

Directorate-General for Economic and Financial Affairs

The Directorate-General for Economic and Financial Affairs is the Commission department responsible for EU policies promoting economic growth, higher employment, stable public finances and financial stability. DG ECFIN develops and carries out the Commission's policies on economy, finance and the euro. It produces macro-economic forecasts for the EU and its member countries, in spring (May), autumn (November) and winter (February). Commissioner Pierre Moscovici heads the organisation.

EBA

European Banking Authority

The European Banking Authority (EBA) works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector. It is currently based in London but is due to move due to the decision of the UK to leave the EU.

EBRD

European Bank for Reconstruction and Development

Based in London, the EBRD was founded in 1991 after the fall of the Berlin wall to help the development of former Warsaw pact countries. As a multilateral developmental investment bank, the EBRD uses investment as a tool to build market economies and its remit has now spread to Asia and North Africa. The Minister for Finance is the Governor for Ireland at the Bank, Sec Gen is the Alternate Governor. Officials attend the meetings.

ECB

European Central Bank

The European Central Bank is the central bank for the euro and administers monetary policy of the eurozone. It is based in Frankfurt.

ECON

European Parliament Committee on Economic and Monetary Affairs

The European Parliament Committee on Economic and Monetary Affairs (ECON) is responsible for Economic and Monetary Union (EMU), the regulation of financial services, the free movement of capital and payments, taxation and competition policies, and the international financial system.

Brian Hayes MEP is an Irish Member of the ECON committee. Matt Carthy MEP, Marian Harkin MEP and Neasa Childers MEP are alternate members.

Economic and Financial Committee – Sub-committee on statistics

Statistical issues concerning Excessive Deficit Procedure/stability and convergence programme reporting.

Economic Policy Committee Working Party No. 1 on Macroeconomic and Structural Policy Analysis

OECD Working Group

To contribute to the analysis of macroeconomic and structural policy

ECSC

Euro Coin Sub-Committee

A sub-committee of the Economic and Financial Committee concerning euro coin related issues.

EDRC

Economic and Development Review Committee (OECD)

Examines economic trends and policies in individual OECD and key partner countries to assess the broad performance of each economy and make policy recommendations.

EFC

Economic and Financial Committee

This is a Committee of senior officials from Economic and Finance Ministries. It is an official committee, reflected in the EU Treaties, and has its own rules and procedures. It is chaired by an EU Official (EFC President), currently Mr Thomas Wieser. Its primary function is to prepare ECOFIN related matters.

Ireland is represented at full member level at Assistant Secretary General and at alternate level by the Chief Economist. It usually meets – in Brussels - monthly in advance of the ECOFIN.

EFC- A

Economic and Financial Committee Alternates

This is a Committee of senior officials from Economic and Finance Ministries of Member States. Its primary function is to address issues concerning fiscal rules and the implementation and monitoring of the Stability and Growth Pact on behalf of the EFC, which may then be forwarded to ECOFIN for political decision/direction.

Ireland is represented by the Chief Economist. It usually meets – in Brussels - monthly in advance of the EFC meetings. It may also meet in Euro Area formation feeding into the EWG and then Eurogroup if required.

EFSF **European Financial Stability Facility**

The EFSF was created as a temporary crisis resolution mechanism by the euro area Member States in June 2010. The EFSF has provided financial assistance to Ireland, Portugal and Greece. As of 1st July 2010 the EFSF no longer enters into any new financial assistance programmes but continues the management and repayment of any outstanding debt.

Under the EU/IMF programme of financial assistance Ireland has received loans totalling €18.4 billion from the EFSF.

Ireland is represented on the EFSF Board of Directors (BoD) by Assistant Secretary Nicholas O'Brien. Meetings are generally once a quarter.

EFSI **European Fund for Strategic Investments**

EFSI is an initiative launched jointly by the EIB Group and the European Commission to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. Following its launch in 2015 EFSI operates as a product line of the EIB.

EFSM **European Financial Stability Mechanism**

The EFSM was created in 2010 to provide financial assistance to euro area Member States in financial difficulty, using bonds issued on behalf of the European Union and backed by the EU budget.

This mechanism was used to provide financial assistance to Ireland and Portugal between 2011 and 2014, and to provide short-term bridge loans to Greece in July 2015. Under the EU/IMF programme of financial assistance Ireland has received loans totalling €22.5 billion from the EFSM.

Today, euro area countries in need of financial assistance turn to the European Stability Mechanism (ESM), a permanent intergovernmental institution. The EFSM, however, remains in place for specific tasks such as the lengthening of maturities for loans to Ireland and Portugal and providing bridging loans. Non-euro area Member States are also eligible for assistance under the Balance of Payments Regulation.

EIAH **European Investment Advisory Hub**

The European Investment Advisory Hub is a joint initiative by the European Commission and the European Investment Bank under the Investment Plan for Europe. The Hub offers a single access point to advisory and technical assistance services with the aim of strengthening Europe's investment and business environment.

EIB

European Investment Bank

The EIB is the European Union's non-profit long-term lending institution. Its current President is Werner Hoyer. It is based in Luxembourg. The EIB uses its financing operations to bring about European integration and social cohesion. The Minister for Finance is the Governor for Ireland. We have a non-resident Director who attends monthly Board meetings and officials attend all other meetings – Minister attends the annual and any ad hoc Governor meetings.

EIF

European Investment Fund

Part of the EIB and Luxembourg-based, the EIF, established in 1994, is a European Union agency for the provision of finance to SMEs (small and medium-sized enterprises), headquartered in Luxembourg. As with the EIB, Minister is the Governor and officials attend meetings.

EIOPA

European Insurance and Occupational Pensions Authority

EIOPA supports the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries. It is based in Frankfurt.

EPC

Economic Policy Committee

This is a Committee of senior officials from Economic and Finance Ministries of Member States. Its primary function is to provide economic analyses and address issues concerning structural policies and long-term sustainability of public finances for the improvement of growth potential and employment in the EU. Its work may be forwarded to ECOFIN for political decision/direction.

It usually meets - in Brussels - monthly in advance of the EFC meetings. It also meets in Euro Area formation feeding into the EWG and then Eurogroup if required. Ireland is represented at Principal level.

The following four subgroups also report into the EPC:

- The **Ageing Working Group (AWG)** provides assessment of public finances and economic consequences of ageing populations in the EU Member States.

- The **Working Group on Energy and Climate Change** provides economic analysis in the implementation of the EU energy and climate package.

- The **Output Gap Working Group (OGWG)** carries out analytical work to ensure robust indicators in the different areas of economic policy co-ordination. (Chaired by the Chief Economist)

- The **Working Group on Lisbon Methodology (LIME)** deals with the development of methodological approaches to analyse structural reforms.

EPC (OECD)

OECD Economic Policy Committee

Assesses policy developments in the OECD and prepares OECD ministerial meetings.

EPEC

The European PPP Expertise Centre

EPEC is an initiative involving the EIB, the European Commission and European Union Member States and Candidate Countries. EPEC helps strengthen the capacity of its public sector members to enter into Public Private Partnership (PPP) transactions.

ESDM

The Economic and Financial Committee's Sub-Committee on EU Sovereign Debt Markets

The ESDM was promotes further integration and better functioning of EU government bond markets. ESDM’s main tasks are to:

- monitor the EU bond market with a view to promote an efficient functioning of the EU’s primary and secondary government debt markets;
- review existing barriers to a further integration of EU government securities markets;
- support Member States in identifying and implementing best practices, including on transparency, through the exchange of information and experiences on both strategic and technical aspects of government debt management;
- deal with other important issues of public debt management on an ad hoc basis where necessary;
- to contribute to the preparation of EFC common positions on regulatory issues which significantly impact on sovereign debt markets (and therefore on the cost of public finance); and
- to prepare common understandings on technical issues such as collective action clauses and collateral swap agreements.

The Sub-committee is comprised of members from all 28 EU Member States. The European Commission, the European Central Bank, the EIB and the ESM are also represented. Ireland is represented by the NTMA.

ESFS **European System of Financial Supervision**

The European system of financial supervision (ESFS) was introduced in 2010. It consists of the European Systemic Risk Board (ESRB) and the 3 European supervisory authorities (ESAs). The main task of the ESAs is to contribute to the creation of the European Single Rulebook in banking whose objective is to provide a single set of harmonised prudential rules for financial institutions throughout the EU. They also play an important role in promoting convergence of supervisory practices.

ESM **European Stability Mechanism**

The permanent rescue mechanism, the European Stability Mechanism (ESM) started its operations on 8 October 2012, as a successor to the EFSF. It is based in Luxembourg.

The ESM is part of the EU strategy designed to safeguard financial stability within the euro area. Like its predecessor, the European Financial Stability Facility (EFSF) the ESM provides financial assistance to euro area countries experiencing or threatened by severe financing problems. The ESM remains the sole mechanism for responding to new requests by euro area Member States. Ireland has received no loans from the ESM.

Ireland is represented on the ESM Board of Governors (BoG) by the Minister for Finance, and on the board of Directors (BoD) by Nicholas O'Brien. BoD Meetings can be frequent, once a month. BoG meetings take place once or twice a year

ESMA **European Securities and Markets Authority**

The European Securities and Markets Authority (ESMA) contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets. It is based in Paris.

ESRB **European Systemic Risk Board**

The European Systemic Risk Board (ESRB) was established in 2010 to oversee the financial system of the European Union (EU) and prevent and mitigate systemic risk. It is based in the ECB in Frankfurt.

EURIMF

European Representatives (Sub-Committee) of the International Monetary Fund

IMF-related, EURIMF refers to the informal committee of EU Member State representatives at the IMF in Washington. Attended by officials seconded to the IMF in Washington from this Department/Central Bank.

Eurogroup

The Eurogroup is a meeting of the Economic and Finance Ministers of the 19 members of the Eurozone. It deals with the economic situation of the Eurozone and specific country issues. Technically it is an informal group as it is not covered by the EU Treaties. It meets formally on eleven occasions during the calendar year. In addition, there are also special meetings called, as needed, to deal with specific issues such as the consideration of the Draft Budgetary Plans of Eurozone Members (usually in October/November) and specific country issues (the situation in Greece has featured). Senior officials from bodies such as ECB, EIB, ESM, etc. also attend.

The President of Eurogroup is Mr Jeroen Dijsselbloem, the current Netherland's Finance Minister. His term of office ends in January 2018 but his position remains unclear owing to the outcome of the recent Dutch Elections which appear to make it unlikely that he will continue as Finance Minister following the formation of their new Government.

European Council

Meeting of the Heads of State and Government of 28 EU Member States usually meets in March, June, October and December (but may also meet ad hoc). If the meeting is held in Euro Area formation (this is not a regular occurrence) it is called a Euro Area Summit and is attended by the Heads of State and Government of the 19 Member States of the Eurozone. The President of the European Council – Mr Donald Tusk – convenes both formations.

D/Finance provide assistance – with attendance at Assistant Secretary General level – to the Taoiseachs Office to advise on matters pertaining to Economic and Financial issues.

Eurostat

Eurostat is the Directorate-General of European Commission dealing with the provision of statistical information to the institutions of the European Union (EU) and promoting harmonised statistical methods across its member states and candidates for accession as well as EFTA countries.

EWG

Eurogroup Working Group

This is a Committee of senior officials from Economic and Finance Ministries from the 19 Eurozone member states. Like the Eurogroup, technically this is an informal group. It does have its own rules and procedures and is chaired by an EU official (EWG President - Mr Thomas Wieser). Its primary function is to prepare Eurogroup related matters.

Ireland is represented at full member level at Assistant Secretary General. It usually meets – in Brussels - monthly in advance of the Eurogroup. There are also special meetings called to deal with specific issues, e.g. Greece. These meetings take place from time to time.

Experts' Group "Economic Forecasts"

This EU Commission Expert Group contributes to the production of macroeconomic forecasts for Member States, acceding countries, candidate countries and the US and Japan. The forecasts are used by DG ECFIN and other services of the Commission (DG BUDG, DG ADMIN, DG AGRI, etc.), as well as outside the Commission.

FEMIP

Facility for Euro-Mediterranean Investment and Partnership

Part of the EIB and Luxembourg-based, t FEMIP brings under one roof the whole range of financial instruments implemented by the European Investment Bank in support of the economic and social development of the Mediterranean partners countries (North Africa and Middle East). As with the EIB, Minister is the Governor and officials attend meetings.

FSB

Financial Stability Board

The FSB, established in 2009, is an international body that monitors and makes recommendations about the global financial system. It promotes global financial stability by coordinating the development of regulatory, supervisory and other financial sector policies and conducts outreach to non-member countries.

The FSB brings together senior policy makers from ministries of finance, central banks, and supervisory and regulatory authorities, for the G20 countries, plus four other key financial centres – Hong Kong, Singapore, Spain and Switzerland – as well as bodies like the European Central Bank and European Commission.

The FSB has set up six regional consultative groups (RCGs). Ireland is represented at the RCG Europe biannual meetings by the Assistant Secretary Banking Division, Gary Tobin, and a Deputy Governor from the Central Bank.

FSC

Financial Stability Committee

The FSC is composed of high-level representatives of the member states and the European Commission (DG FISMA - Directorate-general for financial stability, financial services and capital markets union). The FSC works closely with the EFC, especially in preparing Ecofin meetings. The European Central Bank and the relevant EU committees of regulators have observer status, as do each of the accession countries until the date of their accession, when they become full FSC members.

Ireland is represented at Assistant Secretary Level (Aidan Carrigan, also the current Vice Chair).

GCF

Green Climate Fund

Based in Seoul in Korea, the GCF is a fund established within the framework of the UNFCCC to assist developing countries in adaptation and mitigation practices to counter climate change. The Minister for Finance is the Governor for Ireland and officials attend the meetings.

GEF

Global Environment Facility

Based in Washington, related to the UNFCC and Climate Change, the GEF unites 183 countries in partnership with international institutions, civil society organisations, and the private sector to address global environmental issues while supporting national sustainable development initiatives. Works with the GCF and World Bank, but handled jointly by the Department for Climate Change working with this Department and the Dept for Foreign Affairs. No role for the Minister for Finance.

Global Forum on Productivity

The OECD Global Forum on Productivity fosters international co-operation between public bodies that promote productivity-enhancing policies

IBRD

International Bank for Reconstruction and Development

Part of the Washington-based World Bank Group, the IBRD is an international financial institution that offers loans to middle-income developing countries. Governance as per World Bank Group (WBG): Minister and Secretary General are the Governor and Alternate Governor, respectively and officials (seconded in Washington) and sometimes from Dublin attend meetings.

ICSID

International Centre for Settlement of Investment Disputes

Part of the Washington-based World Bank Group, he ICSID is an international arbitration institution established in 1965 for legal dispute resolution and conciliation between international investors.. Governance as per World Bank Group (WBG): Minister and Secretary General are the Governor and Alternate Governor, respectively and officials (seconded in Washington) and sometimes from Dublin attend meetings.

IDA

International Development Association

Part of the Washington-based World Bank Group, he IDA is an international financial institution which offers concessional loans and grants to the world's poorest developing countries. Governance as per World Bank Group (WBG): Minister and Secretary General are the Governor and Alternate Governor, respectively and officials (seconded in Washington) and sometimes from Dublin attend meetings.

IFC

International Finance Corporation

Part of the Washington-based World Bank Group, the IFC is an international financial institution that offers investment, advisory, and asset management services to encourage private sector development in developing countries. Governance as per World Bank Group (WBG): Minister and Secretary General are the Governor and Alternate Governor, respectively and officials (seconded in Washington) and sometimes from Dublin attend meetings.

IFC

Investment Facility Committee

Part of the EIB and Luxembourg-based, tThe Investment Facility was established under the Cotonou Agreement and Overseas Association Decision to facilitate investment to the African, Caribbean and Pacific countries. It is managed under the mandate by the European Investment Bank (by the IFC) and is funded from the resources of the EU Member States. As with the EIB, Minister is the Governor and officials attend meetings.

IMF

International Monetary Fund

The IMF is an international organization headquartered in Washington, D.C., of 189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The Minister for Finance is the Governor for Ireland at the Fund, Governor of the Central Bank is the Alternate.

We have two seconded officials (Central Bank and Department) based in Washington and officials from Dublin attend meetings as required. Minister for Finance attends Spring and Autumn (Annual) Meetings, plus any ad hoc meetings, if and when required and when possible.

MIGA **Multilateral Investment Guarantee Agency**

Part of the Washington-based World Bank Group, he MIGA is an international financial institution which offers political risk insurance and credit enhancement guarantees - part of World Bank group. Governance as per World Bank Group (WBG): Minister and Secretary General are the Governor and Alternate Governor, respectively and officials (seconded in Washington) and sometimes from Dublin attend meetings.

OECD **Organisation for Economic Co-operation and Development**

The OECD seeks to promote policies that will improve the economic and social well-being of people around the world. The Permanent Representation to the OECD and UNESCO is based in Paris, France. It works with the OECD to maximise the benefits of membership, ensuring we maintain and develop a strong impact on policy development globally. It represents Ireland on the Standing Committees Council which form the Organisation’s priorities and direction.

The Ambassador in the Permanent Representation is Dermot Nolan with Mícheál Tierney as Deputy Head of Mission and Mary Dalton as Economic Counsellor. The OECD Ministerial Council Meeting usually takes place in June.

SCIMF **Sub-Committee of the International Monetary Fund**

IMF-related, the SCIMF is a Sub-Committee of the EU Economic and Financial Committee, through which officials from EU Finance Ministries and Central Banks meet to discuss and coordinate on IMF issues on a regular basis. No Ministerial role – officials attend meetings.

SRB **Single Resolution Board**

The SRB is the resolution authority within the Banking Union. Together with the National Resolution Authorities (NRAs) it forms the Single Resolution Mechanism (SRM). Its purpose is to ensure an orderly resolution of failing banks with minimal costs to taxpayers and to the real economy. It is based in Brussels.

SSM **Single Supervisory Mechanism**

The Single Supervisory Mechanism (SSM) is the name for the mechanism which has granted the European Central Bank (ECB) a supervisory role to monitor the financial stability of banks based in participating states, starting from 4 November 2014. The SSM supervises the main Irish banks including Bank of Ireland, Ulster Bank, AIB, and PTSB. It is based in the ECB in Frankfurt.

STEP

Short-Term Economic Prospects

Assesses economic developments in the OECD and informs the OECD's macroeconomic forecasts.

TFCA

Task Force for Coordinated Action

This is a working group of the EFC. It currently meets every 2-3 weeks to work on technical aspects of the development of a permanent backstop to the Single Resolution Fund (SRF).

UNFCCC

United Nations Framework Convention on Climate Change

The UNFCCC is an international environmental treaty with an objective is to stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Meetings attended by officials with the international high-level conference (COP 22 in 2018 possibly in New York) involving Heads of State and Ministers (Climate Change and occasionally Finance).

WBG

World Bank Group

The World Bank Group (WBG) is a family of five international organizations that make leveraged loans to developing countries; i) IBRD; ii) IDA; iii) IFC; iv) MIGA; v) ICSID. The Minister for Finance is the Governor for Ireland at the Bank, Sec Gen is the Alternate. We have two seconded officials based in Washington and officials from Dublin attend meetings as required. Minister for Finance attends Spring and Autumn (Annual) Meetings when possible.

It has 189 member countries and offices in over 130 locations.

Ireland is also a member of the Canadian-led Canada-Ireland-Caribbean Constituency at the World Bank. The Canadian Executive Director is Christine Hogan. Alex Lalor works full-time as an Advisor in the Constituency Office in the headquarters in Washington DC.

Working Party No. 1 (WP1)

OECD Working Group on Macroeconomic and Structural Policy Analysis.

3. Detailed Briefing

3.1 Economic and Fiscal Directorate

DESCRIPTION:

The Economic and Fiscal Directorate is made up of a number of Divisions/Offices/Units. The day-to-day management of these Divisions/Units fall under the Secretary General. The Divisions and their core responsibilities are set out in the following paragraphs.

The Economic and Fiscal Directorate comprises of:

Economic Division	John McCarthy	Assistant Secretary
Tax Division	John Hogan	Assistant Secretary
EU & International Division	Nicholas O'Brien	Assistant Secretary
Corporate Affairs	Nicholas O'Brien	Assistant Secretary
Facilities Management Unit	Gary Tobin	Assistant Secretary
Human Resources	Niall O'Ceallaigh	Principal Officer

3.1.2 Economic Division

DESCRIPTION:

This Division is responsible for the provision of support to the Minister in the areas of economic and fiscal policy.

The Division produces macroeconomic analysis on a wide variety of domestic and international issues. A key output from the Division is the bi-annual set of short- and medium-term forecasts. The Division is also responsible for developing strategies for the Irish economy and inputting to the development of sectoral and other policies that affect the economy. It undertakes and publishes policy-relevant research and provides advice on the economic and distributional impact of taxation and other policies. The Division is the Department's primary interface with the OECD.

This Division also deals with overall budgetary policy, including 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 has responsibility for advising on and implementing the fiscal rules (the Stability and Growth Pact).

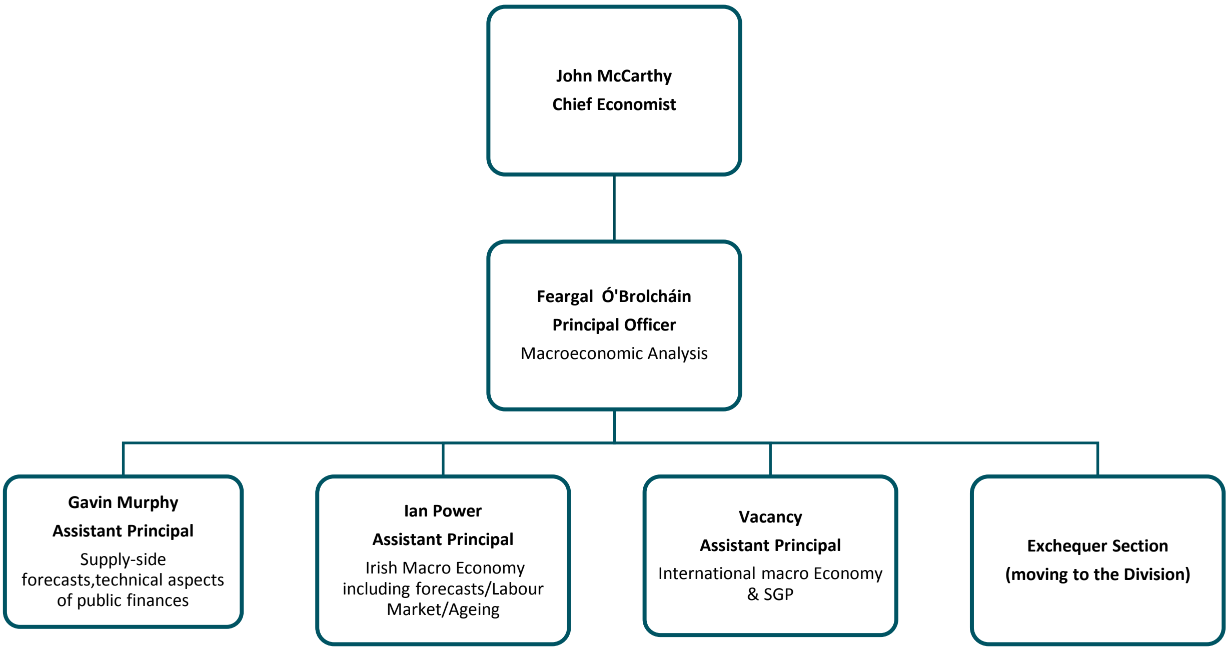
Senior officials in the Division represent the Department on cross governmental, high-level advisory groups including the National Economic and Social Council (NESC), the National Competitiveness Council and the National Statistics Board.

There is a significant European element to the work of the Division.

Chief Economist/Assistant Secretary - John McCarthy

3.1.2.1 Macroeconomic analysis and forecasting

Principal Officer: Feargal O'Brolchain


John McCarthy
Chief Economist
Feargal Ó'Brolcháin
Principal Officer
Macroeconomic Analysis
Gavin Murphy
Assistant Principal
Supply-side forecasts,technical aspects of public finances
Ian Power
Assistant Principal
Irish Macro Economy including forecasts/Labour Market/Ageing
Vacancy
Assistant Principal
International macro Economy & SGP
Exchequer Section
(moving to the Division)

KEY POINTS:

Domestic economy

- First estimates show that GDP rose by 5.2 per cent in 2016.
- The April Stability Programme Update forecasts GDP growth of 4.3 per cent this year and 3.7 per cent in 2018.
- Domestic demand is driving growth once again with strong contributions from both consumption and in particular investment spending.
- Risks to the forecast are firmly tilted to the downside and are mainly external in nature. Principal among these are the UK's exit from the European Union and the uncertainty associated with the policy stance in the US.
- The recovery in the labour market has accelerated over in recent quarters, with the unemployment rate currently at 6.4 per cent (compared to a peak of over 15 per cent in 2012).
- Despite a pick-up in 2017, consumer price inflation remains below 1 per cent as the lagged impact of the euro-sterling appreciation continues to weigh on consumer prices.
- The Department's next forecast, which must be endorsed by the Irish Fiscal Advisory Council, will be published with Budget 2018 in October this year.

DETAIL:

2016 Preliminary Outturn

- First estimates show that GDP rose by 5.2 per cent in 2016.
- Domestic demand made a strong positive contribution to growth in 2016 while the exporting sector for both goods and services appears to be holding up well despite the weakness in sterling.
- We now have three quarters of hard data since the Brexit referendum. They show that the immediate impact from Brexit has been more muted than initially anticipated.

Labour Market

- Labour market conditions continue to improve with annual employment growth of 3.5 per cent recorded in the first quarter of 2017 – with a corresponding fall in unemployment which stood at 6.4 per cent in April.
- There have now been 18 consecutive quarters of employment growth. The labour market recovery remains broad based with employment in all sectors and regions well above trough levels.

Inflation

- Consumer price inflation has been near zero in Ireland and in the euro area more generally over the past few years. However, there has been a pick-up in euro area inflation recently. to 1.9 per cent in April but is expected to decelerate again in the second half of 2017 as underlying price pressures have not taken off, despite the gradual euro-area recovery. While inflation in Ireland has picked up slightly in 2017, it remains below 1 per cent.
- This divergence between inflation in the euro area and Ireland reflects the euro-sterling depreciation and the importance of the UK as a source of Irish consumer goods imports.

Domestic Economic Outlook

- The Department of Finance published its most recent macroeconomic forecasts with the Stability Programme Update (SPU) dated April 2017. GDP is forecast to expand by 4.3 per cent this year, by 3.7 per cent in 2018 and by just under 3 per cent on average over the remainder of the forecast horizon.
- The medium-term outlook has been adjusted to reflect a more adverse Brexit impact, in view of the latest available information.
- Risks to the forecast are firmly tilted to the downside and are mainly external in nature. Principal among these are the UK's exit from the European Union and the uncertainty associated with the policy stance in the US.

International Economic Outlook

- The external economic environment is one of heightened uncertainty at present principally due to the UK's decision to leave the EU and the uncertainty associated with the policy stance in the US.
- Notwithstanding the external uncertainty, the baseline forecast is for a gradual firming in key export markets this year, continuing into next year.
- The European Commission Spring 2017 forecasts, show economic activity in the UK increasing by 1.8 per cent this year and by 1.3 per cent in 2018. Short-term prospects for the euro area economy are relatively good. In the US an acceleration in the growth rate is projected, which could be boosted by any fiscal stimulus, although the impact of any such stimulus would depend significantly on the response of monetary policy.

	2015	2016	2017	2018	2019	2020	2021
% change unless specified				year-on-year change			
Real GNP	18.7	9.0	4.2	3.5	2.8	2.3	2.1
Real GDP	26.3	5.2	4.3	3.7	3.1	2.7	2.5
Nominal GDP	32.4	3.9	5.5	5.0	4.6	4.4	4.2
Personal consumption	4.5	3.0	2.8	2.7	2.5	2.2	2.0
Government consumption	1.1	5.3	2.6	2.1	2.0	1.9	1.8
Investment	32.7	45.5	-17.1	5.4	4.3	3.3	2.9
Exports	34.4	2.4	5.0	5.1	4.2	3.9	3.8
Imports	21.7	10.3	-2.0	5.3	4.5	4.2	4.0
Consumer Prices (HICP)	0.0	-0.2	0.6	1.2	1.8	1.9	1.9
Employment	2.6	2.9	2.7	2.4	1.9	1.5	1.4

National Accounts 2015 and the Economic Statistics Review Group

- The CSO published the National Income and Expenditure results for 2015 in mid-July 2016. The figures suggest that the economy grew by 26 per cent in 2015.
- The exceptional figure is the result of reclassifications related to a number of exceptional one-off factors. These reclassifications do not reflect changes to the real economy, nor do they reflect activity levels we are seeing on the ground. On an underlying basis, the economy performed strongly, as evidenced by developments in labour market indicators and taxation receipts.
- The Economic Statistics Review Group (ESRG) was established by the CSO in light of the National Expenditure results for 2015. Its remit was to advise on alternative measures that would provide better indicators of economic trends in Ireland. The Department was represented on the Group by the Chief Economist.
- The recommendations of the ESRG were published in February 2017 and included a recommendation that the CSO publish an alternative indicator of the level of economic

activity in Ireland (GNI*) which excludes many of the well-known distortions from the multinational sector.

- The CSO has committed to implementing the majority of the recommendations from the ESRG. The alternative indicator of economic activity is targeted for publication with the annual National Accounts in late-June/early July.

Stability Programme Update and Summer Economic Statement

- The Department publishes two economic forecasts each year, one with the national budget in October and the other with the Stability Programme Update (SPU), Ireland's national medium-term fiscal strategy, which is submitted to the European Commission and Council in April. Under the "six-pack", both forecasts must be endorsed by the Irish Fiscal Advisory Council (IFAC) and, while there is always a risk that the IFAC will not endorse the projections, this has not occurred to date.
- Last year a Summer Economic Statement (SES) was published in June. The SES, while not an EU requirement, fulfilled a number of functions including setting out the amount of fiscal space available for the next Budget. An SES is again planned for this year with a proposed publication date of mid-June.

Macroeconomic Imbalances

- As part of the reforms introduced in response to the euro area crisis, Member States' economic policies are subject to more in-depth surveillance by the European Commission. The Economic Division plays a key role in this.
- Under the Macroeconomic Imbalances Procedure (MIP), introduced as part of the "six-pack", the European Commission produces an annual scoreboard of economic imbalances, known as the Alert Mechanism Report (AMR). Based on the 2017 AMR, the Commission undertook a detailed review of Ireland under the MIP which it published in a country report on Ireland in February.
- This year's procedure found Ireland to have imbalances which is the second of four possible categories (no imbalances, imbalances, excessive imbalances and excessive imbalances with corrective action) and noted that Ireland has made some progress in addressing the 2016 country specific recommendations.

Supply side

- Estimates of so-called potential output (the ability of the economy to grow in a 'balanced' manner) are crucial, both for medium term economic planning and for operationalising the fiscal framework. Potential output growth is unobservable and must be estimated using complex modelling techniques. Its purpose is to determine both the output gap (and hence the pace of structural budgetary effort) and the 'reference rate' of permitted spending growth under the so-called 'expenditure benchmark'.
- The methodology used on a pan-European basis is problematic for Ireland. Where difficulties arise, such as in the context of the July 2016 National Accounts (NIE) revisions for example, the Department engages proactively with the CSO, European Commission and Fiscal Advisory Council to devise solutions to ensure plausible estimates of potential output. In addition, the

Department continues to assess the merit of alternative models for estimating potential output for Ireland.

- This unit actively contributes to the European Commission's Output Gap Working Group (OGWG). This technical working group seeks to improve the performance of the pan European harmonised methodology and is chaired by the Chief Economist.
- This unit estimates the trend position of the Irish economy. It produces all technical inputs used to (i) derive the pace of structural budgetary correction (used to assess our compliance with trajectory towards the MTO) and (ii) to estimate technical inputs to the expenditure benchmark. It also monitors for the emergence of inconsistencies between this two metrics and liaises with external stakeholders on these issues.
- These calculations determine the level of fiscal space consistent with complying with Ireland's SGP commitments. The work of the unit involves in-depth liaison with both the European Commission and the Fiscal Advisory Council as they conduct their assessment of the fiscal stance and the degree of compliance with the fiscal rules.

OECD Economic Review of the Irish Economy:

The OECD conduct a bi-annual review of member countries' economies. It is envisaged that the next review for Ireland will be published in early 2018. This review, will focus on productivity. It will start with a Structural Mission at technical level in June. A shorter, more high level, Policy mission takes place in early September. Following this, the draft survey report will be discussed at the OECD's Economic and Development Review Committee in December, with the final report scheduled for publication in January 2018.

Cabinet Committee on the Economy, Trade and Jobs.

This Cabinet Committee covers a number of issues, including preparation and implementation of the annual Action Plans for Jobs, the associated Regional Plans for Jobs, Trade policy, competitiveness including National Competitiveness Reports and measures to support SMEs. The unit coordinates the Department's interaction with the Committee and its associated Senior Officials Group, including attendance at meetings as required.

Exchequer Section (moving to the Division)

The unit will have responsibility for the Exchequer function on its transfer from Tullamore to Dublin, scheduled for June 2018.

In the light of the establishment of the Financial Management Shared Service (FMSS), the residual Department of Finance operations in Tullamore need to be relocated. The Exchequer function is the responsibility of the Department of Finance and cannot transfer to the FMSS. It deals with the transactions on the Central Fund and produces the monthly Exchequer Statement and the annual Finance Accounts. The Exchequer Section function will transfer to Dublin when the FMSS starts operating, which is scheduled for June 2018.

(See also Accountant's Branch/Finance Unit Section - 3.3.5)

Other issues:

(i) Consultants' contract litigation: The section Principal Officer leads the Department's response to this litigation.

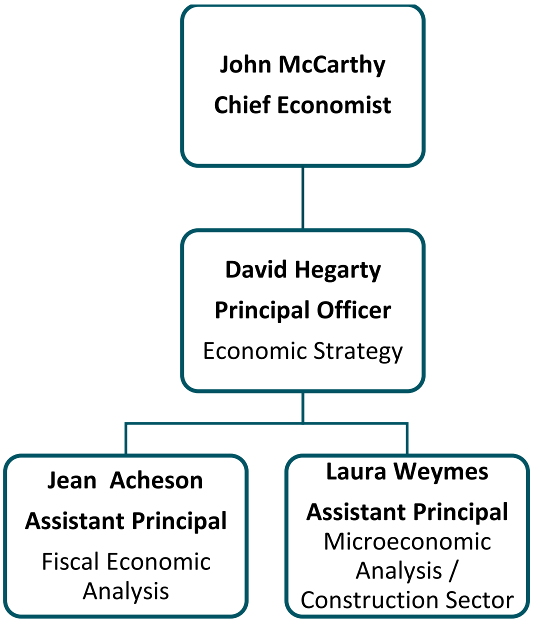
The issue arises due to the [alleged] non-payment of pay increases provided for in the Consultant Contract 2008. To date, about 528 consultants have submitted claims to the High Court for breach of contract. The Department was made aware recently, through the Attorney General's Office (AGO), that a further 190 cases have yet to be issued and/or served. The Department is also aware, through the AGO, of 76 cases where the Plaintiffs have elected to only sue the HSE or the employer Hospital. The total number of Plaintiffs, including intended Plaintiffs to date, is likely to be at least 797. These cases are being managed by the Chief State Solicitor's Office (CSSO) as the Minister for Health and the Minister for Finance and the Minister for Public Expenditure and Reform are named parties. The Government decided on 14 February 2017 that these cases should be vigorously defended. The Department of Finance is liaising closely with the Department of Public Expenditure and Reform and the Department of Health, the Office of the Attorney General and the CSSO along with the HSE, in defence of these cases.

(ii) Long Term Issues: The section also inputs into studies of longer term issues currently under way – specifically the EU's Ageing Report 2018, currently being prepared at technical working group level, and the Actuarial Review of the Social Insurance Fund being undertaken by the Department of Social Protection.

(iii) Children First Act 2015: The section's Principal Officer is the Department's representative on the statutory Inter Departmental Implementation Group and leads on implementation of the Act in the Department. This has limited application in the Department.

3.1.2.2 Microeconomic analysis underpinning taxation and other policies and sectoral policy economic analysis

Principal Officer: David Hegarty



John McCarthy
Chief Economist

David Hegarty
Principal Officer
Economic Strategy

Jean Acheson
Assistant Principal
Fiscal Economic Analysis

Laura Weymes
Assistant Principal
Microeconomic Analysis / Construction Sector

KEY POINTS:

Taxation Policy Analysis

- This unit works closely with Tax Division providing economic analysis of tax policy issues and evaluation of tax expenditures. Key projects for 2017 include analysis of inheritances and capital acquisitions tax (CAT) and analysis of the distributional impact of Budget 2018.
- To improve the evidence base on macroeconomic and tax policy issues, a joint research programme is underway with the ESRI. A number of joint research outputs will be finalised in 2017 relating to issues such as VAT revenue volatility and the responsiveness of income to the marginal tax rate for different taxpayer categories.

Housing market/construction sector analysis

- Given current pressures in the housing market and its importance for the economy, the Department has invested considerable resources in analysing this sector and has contributed to Government policy initiatives including *Rebuilding Ireland: An Action Plan for Housing and Homelessness* and the *Strategy for the Rental Sector*.
- Housing supply has not responded at a sufficient pace to meet increased demand leading to rising house prices and rents particularly in Dublin and the other cities.
- A number of inter-related factors are inhibiting housing supply including planning and building regulation issues; a slow transition by the sector to a new debt/equity development financing model; industry constraints; construction costs and infrastructural constraints.

DETAIL:

Taxation Policy Analysis

- While part of the Economic Division, this Unit works closely with Tax Division providing economic analysis of tax policy issues and evaluation of tax expenditures. It is also responsible for analysis of the distributional impacts of tax policy changes.
- Tax expenditures – that is spending conducted through the tax system rather than directly through public expenditure programmes – have come under increased scrutiny in recent years. In the period preceding the economic crisis, tax expenditures led to a narrowing of the tax base and contributed to the over-heating of the property market.
- 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). Typically, tax expenditure evaluations conducted by the Section are published on Budget Day each year; for example, an in-depth evaluation of the R&D tax credit was published with Budget 2017.
- Over recent years there has 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**imulating **W**elfare & **I**ncome **T**ax **Ch**anges (SWITCH) model. As taxation options for Budget 2018 are developed, these will be subject to analysis using SWITCH and the results will be provided for your review.
- The intention would be to again work with the Department of Social Protection on the publication of a "Social Impact Assessment" report – that would look at the combined effect of tax, social welfare and other changes - after the Budget.
- The Section will also begin collaboration with the ESRI this year on developing the SWITCH model to include indirect taxes (this is a multi-year project).

Collaborative research with ESRI

- The Department has sought to improve the evidence base available to it on macroeconomic and tax policy changes with a view to improving the quality of its policy advice. To this end, a joint research programme on *The Macroeconomy and Taxation* was agreed with the ESRI in early 2015. Originally a two year programme, it was extended in late 2016 for another year.
- 2016 tax-related research topics included analysis of the relationship between corporation taxation and foreign direct investment, income tax volatility (i.e. how responsive tax receipts are to changes in the relevant tax base) and the distribution of Irish household wealth and its implications in terms of a hypothetical wealth tax. As set out at the following section 3.1.2.3, an assessment of the potential macroeconomic impact of Brexit on the economy under a range of scenarios was also undertaken under the programme. Staff from the Unit worked jointly with ESRI researchers on a number of these topics.

- The research on income tax volatility in particular contributed to a re-evaluation of the parameters used the Department's revenue forecasting methodology. These parameters were subsequently changed in light of the research.
- 2017 tax-related topics include VAT revenue volatility (using the same methodology as the 2016 income tax volatility project) and the excess burden of taxation (which involves examining the responsiveness of incomes to changes in the tax rate).

Tax Policy Conference

- The Unit organises the Department's annual Tax Policy Conference, a keynote event which has been running for 4 years. The conference is opened by the Minister for Finance and in recent years has featured contributions from high profile experts from the OECD and IMF. The intention is to organise the next conference in early 2018 to coincide with the launch of the OECD survey of the economy.

Housing market/construction sector analysis

Recent developments

- National residential property prices increased by 10.5 per cent in the 12 months to April 2017. Prices in Dublin are up 8.2 per cent on an annual basis. Outside of Dublin, prices rose by 13.4 per cent compared to the same period in 2016.
- A number of indicators on the supply side point to improving market conditions including commencement notices, new house guarantee registration and ESB connections - a proxy for house completions – which increased by 19 per cent in the year to March. However the growth in construction activity is coming off a very low base and it may take some time to meet the underlying demographic demand for housing, which is estimated to be 25,000-30,000 units per annum.
- The rental market is under significant pressure. The most recent data from the RTB shows that the annual rate of growth in national rents was 7.8 per cent in Q4 2016. Rents in Dublin grew by 9 per cent and by 7.2 per cent outside of Dublin. Daft.ie figures indicates that were just 3,100 properties available to rent nationally and only 1,074 properties available to rent in Dublin on May 1st 2017.
- The rise in rents is contributing to the increased risk of homelessness. 4,909 adult individuals used State-funded emergency accommodation nationally during a week in March 2017.

Government policy initiatives

- The Governments *Rebuilding Ireland: an Action Plan for Housing and Homelessness (launched July 2016)*, sets out a number of measures to address the underlying issues in the construction and property sector. This Department contributed to the formulation of the Strategy and is actively involved in the formulation and monitoring of housing policy measures through the Cabinet Committee on Housing and Homelessness.

Help to Buy Initiative (Further details provided in the Income Tax Section)

- The Help to Buy initiative was initially announced on 19 July 2016 as part of Rebuilding Ireland. Details were formally announced in Budget 2017. The initiative provides qualifying first time buyers who purchase/build a new house/apartment between the 19 July 2016 and 31 December 2019 with a refund of their income tax and DIRT paid over the previous four years, up to a maximum of 5 per cent of the purchase price/value of the house/apartment.
- To ensure that this initiative is targeted at first time buyers in need of assistance the rebate is only available for first time buyers who drawdown a mortgage with a loan to value ratio (LTV) greater than 70 per cent, with the refund capped at €20,000.
- The Department has commissioned an independent impact assessment of the Help-to-Buy initiative to determine its general impact in terms of uptake and its potential impact on house prices. This report will be completed prior to Budget 2018.

Strategy for the Rental Sector

As part of the *Strategy for the Rental Sector* (launched in December 2016) the Government has set out a number of measures designed to provide immediate security and stability for those in the rental market and to support the long term sustainable development of the sector.

- One of the more prominent measures in the Strategy was the introduction of Rent Pressure Zones (RPZ). The Department raised concerns with the Department of Housing around the likely effects of such measures on investment and supply in the rental sector when the proposals were being drawn up.
- Within a RPZ the annual increase in rents is capped at 4 per cent per annum. The classification of an area as an RPZ is dependent on rents in an area meeting a set of objective criteria; firstly, average rents in the area must exceed the national average, secondly, rental inflation must exceed 7 per cent in 4 of the last 6 quarters.
- Where an area is designated as an RPZ, the minimum period between rent reviews will be reduced from 24 months to 12 months. Outside of an RPZ the minimum period between rent reviews will continue to be 24 months until the end of 2019. The designation of an area as an RPZ applies for a maximum of three years.
- In order to encourage the continued growth in the rental stock, new properties to the rental market and properties which have been substantially refurbished are exempt.

Tax and Fiscal Treatment of Rental Accommodation Providers *(Further details provided in the Income Tax Section)*

- Under the *Strategy for the Rental Sector* a Working Group, chaired by the Department of Finance, has been established to examine the tax and fiscal treatment of rental accommodation providers. The Working Group has recently completed a public consultation process and is due to produce a report for the Tax Strategy Group in July 2017.

Executive Board sub-committee on construction and property

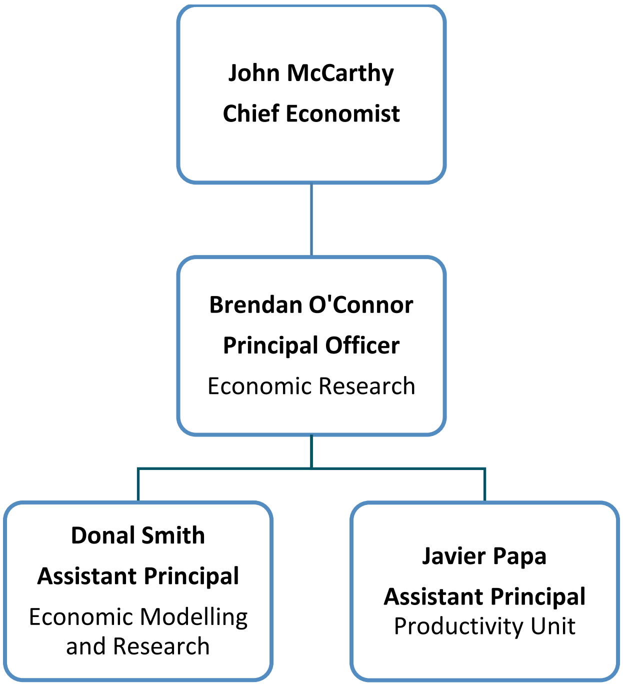
- The Executive Board sub-committee on the construction and property sector was established to ensure a consistent view across the Department on the sector, with a view to advising on appropriate policies, and inputting into external fora, particularly the Senior Officials Group and the Cabinet Committee on Housing and Homelessness.
- The Committee, which meets on a quarterly basis, is chaired by the Chief Economist and brings together officials at Assistant Secretary level from the Taxation Policy, Banking, Financial Stability and Risk Divisions. A quarterly report on the work of the sub-committee is provided to the Executive Board and the Minister.

Other issues

- The Unit represents the Department on the National Economic and Social Council (NESC) and the NESC Council was recently reconstituted. NESC advises the Taoiseach and Government on strategic policy issues relating to sustainable economic, social and environmental development.

3.1.2.3 Economic coordination including development and monitoring of economic strategy

Principal Officer: Brendan O'Connor



John McCarthy
Chief Economist

Brendan O'Connor
Principal Officer
Economic Research

Donal Smith
Assistant Principal
Economic Modelling and Research

Javier Papa
Assistant Principal
Productivity Unit

KEY POINTS:

This Section is responsible for providing technical economic support to the wider Department.

- The Section undertakes economic research in areas of relevance to the Department, including research utilising the COSMO macroeconomic model developed in partnership with the ESRI.
- The Section is responsible for Brexit related economic research and has produced a number of macroeconomic and sectoral papers. The section also participates in the Economy and Trade Working Group and the Brexit Investment and Trade Group, both of which report to the Cabinet Committee on Brexit.
- The Department's Productivity Unit is housed in this section, and will be undertaking joint research with the OECD on productivity in Ireland throughout 2017 in tandem with the OECD Survey of Ireland.
- The Section also monitors developments in the monetary area, in particular the ECB QE programme, an increasingly important area given developments in recent years.
- This Section attends the Cabinet Committee on Regional and Rural Affairs, and represents the Department at the relevant Senior Officials Group, and is responsible for coordinating the Department's actions under the new Action Plan for Rural Development.

DETAIL:

Economic Modelling

- This is a newly created unit which has responsibility for providing technical economic support to the wider Department, and to other Government Departments. As part of this role, the macro-econometric model 'COSMO' is housed in this area, and economists are involved in joint work with the ESRI in developing and enhancing this model. The model is use*d inter alia* to see how the economy responds to different policies / shocks and also for longer term planning purposes.
- The European Commission's QUEST model will also be housed in this area. The QUEST model is used to provide analysis on structural reforms at both a national and European level.
- Some of Unit's technical work using the COSMO model has already been published, including the 'sensitivity analysis', as part of the Budget documentation, and 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.

Brexit related research

- The Irish economy is heavily reliant on the UK as a trade partner with 17 percent (€39bn) of all exports destined for the UK and 14 percent (€30bn) of all imports sourced from the UK in recent years. For indigenous firms these share are significantly higher, particularly in goods sectors (e.g. agri-food and traditional manufacturing).
- A hard Brexit, where the UK exits the single market and the WTO tariff schedule is applied, is projected to reduce the level of economic output in Ireland by almost 4 percent after 10 years, compared with a no-Brexit baseline scenario, with the bulk of the impacts felt in the first five years. The level of employment would be 2 percent below a no-Brexit baseline after 10 years with the unemployment rate nearly 2 percentage points higher. On the public finances side, the deficit and debt ratios would increase by 1 and 10 percentage points respectively.
- At a sectoral level, certain sectors are highly exposed to the UK, with 45 percent of food and live animal exports, and 55 percent of traditional manufactured goods bound for the UK. Overall, the economic sectors most impacted by Brexit are generally comprised of indigenous enterprises that are small in scale, have deep links with the rest of the economy, have high levels of regional employment, and have relatively low profitability. Indeed, out of all regions in the country, the border region, the region in Ireland with the highest unemployment rate, records the highest share of employment in the highly exposed "traditional manufacturing" sector.
- Ireland is a substantial outlier in an EU-27 context in terms of its trade exposure to the UK, particularly in the case in the agri-food and traditional manufacturing sectors.
- The impact of tariffs under a hard Brexit scenario is projected to reduce Ireland's exports to the UK by 31 percent, and total Irish exports by 4 percent, the largest losses of any Member State in the EU-27. The burden of tariffs will fall disproportionally on agri-food exports, with dairy and meat products facing average tariffs of between 30 and 50 percent respectively,

while some beef products would face a tariff of over 80 percent. [redacted]

Redacted under Sections 29(1)a, 30(1)c, 33(1)d of the FOI Act 2014

- If the economic exposures are to be mitigated, strategic emphasis needs to be placed on trade as this will be the key economic transmission mechanism.

Productivity Unit

Overview:

- 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 seen as the single most important economic variable in the longer term. The Department has therefore increased its research capacity to analyse productivity developments and provide a stronger evidence-base for Government decisions. This is in line with efforts among OECD countries to promote productivity growth.
- Internationally there has been a structural slowdown in productivity growth and this is becoming one of the key global economic issues.
- 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 GNP terms, productivity levels are closer to the OECD average.

Collaborative research with OECD:

- The OECD has been to the fore in seeking to understand the global slowdown in productivity growth, a phenomenon that pre-dates the economic crisis, and which has also been observed in Ireland in recent years. 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. Understanding firm productivity differences, as well as why the diffusion of productivity gains from the frontier firms to laggards has stalled, is one of the key puzzles which must be solved to understand the aggregate productivity slowdown.
- Following on from the success of the joint research between the OECD and the Department of Finance on inclusive tax policy reform, conducted in tandem with the Economic Survey of Ireland in 2015, the Productivity Unit has agreed on a work programme with the OECD to undertake a joint in-depth productivity research in tandem with the upcoming OECD Survey of Ireland. This will comprise a number of research and policy papers, with a focus on developments and the sectoral and firm level including the interaction between foreign and domestic firms. It is intended to publish the research.
- To carry out the joint research, economists from the Unit have been granted access to confidential firm level data on-site at the CSO throughout 2017. The OECD has provided software, including economic models, to generate a collection of standardised statistics for various productivity metrics, and will provide technical support throughout the Review.
- A collaboration is also taking place with the ESRI, under the Taxation and Macroeconomy joint research programme, to estimate the extent to which Irish enterprises are benefiting

from the FDI sector through so-called 'productivity spillovers'. This research will also inform the OECD survey.

Recent developments:

- In partnership with the Department of Jobs, Enterprise and Innovation, the Department of Finance has joined the Steering Committee 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.

Monetary Policy Area

- The unit also monitors developments in the monetary area. This is an increasingly important area given its inter-relatedness with fiscal policy (e.g. the non-standard monetary policies now being adopted have had a major bearing on debt service costs). There has also been an increasing demand from the *Oireachtas* for information on the economic impact of unconventional monetary policies.
- The ECB's departure into full scale Quantitative Easing (QE) came with the commencement of purchases on the secondary market of national and supra-national debt from EU Member States and Institutions under the Public Sector Purchase Programme (PSPP) in March 2015. Initially, purchases under the QE programme were to total €60bn per month (of which the PSPP would contribute c. €50bn, with covered bonds and asset backed securities making up the balance), a figure which has since been increased to €80bn. This figure was reduced to €60bn per month in April 2017, with the majority of purchases continuing to come from the PSPP.
- The purpose of the QE programme is to ensure price stability in the euro-area economy through three transmission channels, namely: portfolio effects through asset purchases which increase the value of household portfolios and therefore consumer spending; increased bank lending which stimulates economic activity; and a signalling effect by which the commitment of the ECB to achieve its inflation target is expected to engender consumer confidence.
- Net purchases under the QE programme for the month of May 2017 amounted to just over €62bn, with €51.5bn of these relating to the PSPP. As of 31 May 2017, €21bn worth of Irish debt out of a total of nearly €1.6tn is held under the PSPP.
- Notable developments in this area over the last year include the expansion of the QE programme to include the purchase of corporate sector bond issues under the Corporate Sector Purchase Programme (amounting to nearly €91bn as of June 2nd, 2017), and an extension of the end date of the overall programme until December 2017 at the earliest.
- At June 2017 meeting, the Governing Council confirmed its decision that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively.
- While the Governing Council continues to expect the key ECB interest rates to remain at present levels for an extended period of time, and well past the horizon of the net asset purchases, the overall monetary policy stance in the medium term is expected to be less

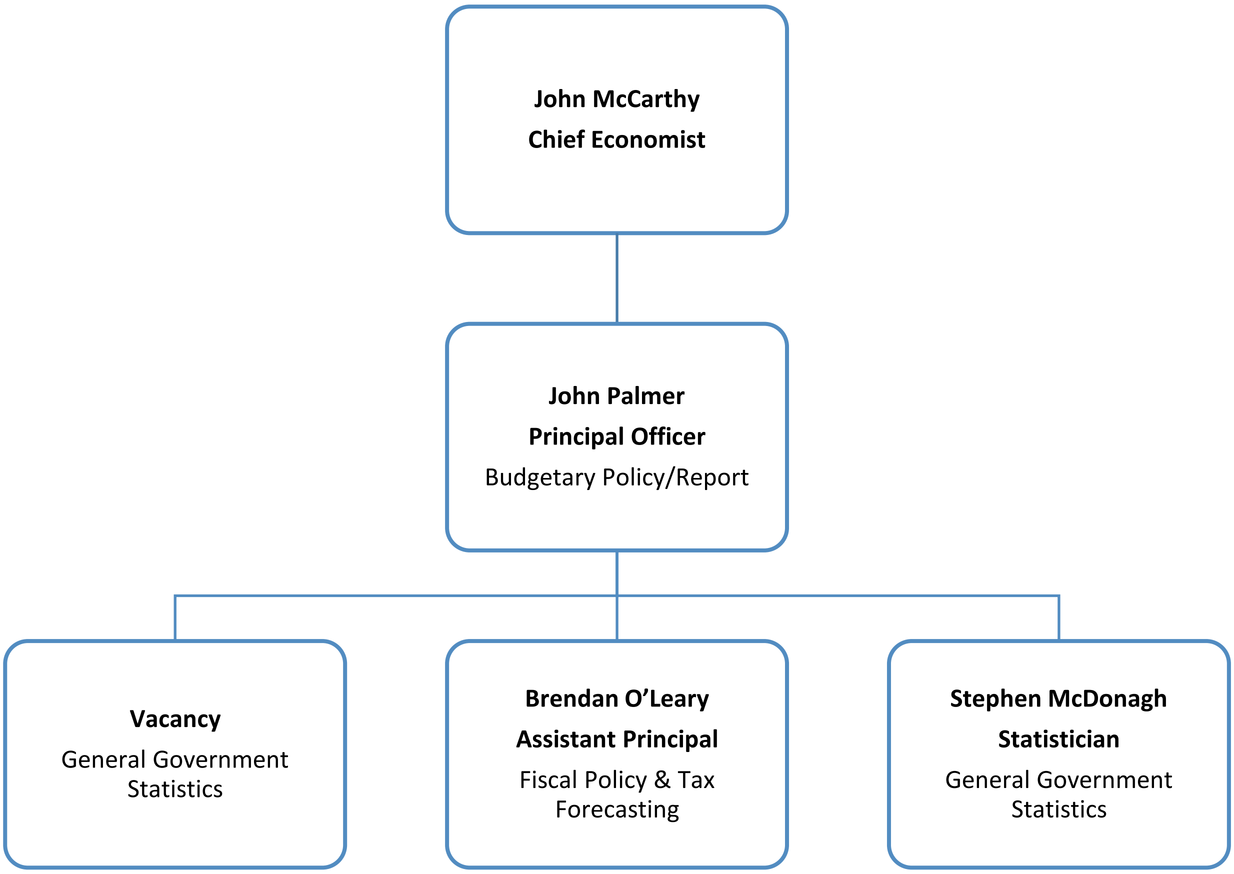
accommodative. The economic impacts of policy rate tightening were highlighted by the Department of Finance in the Stability Programme Update using the ESRI COSMO model. The model based results indicate that a 1 percentage point increase in the ECB rate would reduce the level of GDP, relative to baseline projections, by 1.8 percent over a five year period.

Regional and Rural Affairs Cabinet Committee and Senior Officials Group

- This Section attends the Cabinet Committee on Regional and Rural Affairs and represents the Department on the Senior Officials Group. The section is also responsible for coordinating the Department's actions under the new Action Plan for Rural Development that was published in January this year.
- Out of a total of 276 actions included in the overall Action Plan for Rural Development, the **Department of Finance has a role in 13 actions** in the areas of Banking, Credit Unions, Taxation and Insurance, and **is the lead Department in 7 of these actions.**
- Implementation of the actions in the new Action Plan for Rural Development will be monitored closely and reports will be submitted every six months to the Cabinet Committee on Regional and Rural Affairs.

3.1.2.4 Budgetary/fiscal policy, governance, reporting, coordination and production of Budget; tax revenue forecasting; general government statistics - reporting, forecasting and classification advice

Principal Officer: John Palmer



John McCarthy
Chief Economist

John Palmer
Principal Officer
Budgetary Policy/Report

Vacancy
General Government Statistics

Brendan O'Leary
Assistant Principal
Fiscal Policy & Tax Forecasting

Stephen McDonagh
Statistician
General Government Statistics

KEY POINTS:

- The debt to GDP ratio is misleading because of the distortions to GDP. A host of other metrics show that public debt remains a key challenge.
- Fiscal rules are legally binding;
- We are required to eliminate the structural deficit as a priority, this is currently planned to happen in 2018;
- Available fiscal space is currently projected to be tight in 2018 but should ease thereafter.

DETAIL:

Budgetary position

- The general government deficit for this year is estimated at about 0.4 per cent of GDP.
- The general government debt-to-GDP ratio is projected to be at about 73 per cent at end-2017 (below the euro area average), down from the 2013 peak of 120 per cent. This figure is misleading however, as other debt metrics such as income to revenue or debt to revenue show that debt is still very high.
- Tax revenues for the month of May closed the month 1.5% or €76 million above target. As a result, the cumulative tax revenue shortfall has been reduced to 1.4% or €268 million against profile, which represents a year-on-year increase of 2.9% or €551 million.
- Gross voted expenditure of €22,387 million to end-May was €274 million (1.2 per cent) below profile, but up €947 million (4.4 per cent) in year-on-year terms.

Fiscal Policy Framework/Governance

- Public finances in Ireland are subject to the requirements of the preventive arm of the Stability and Growth Pact (SGP).
- The requirements are set in structural terms (rather than headline terms). In summary, the requirements are to:
  - Progress towards Ireland's country-specific medium term (budgetary) objective MTO of a structural budget balance of -0.5 of cent of GDP at a sufficiently rapid pace (currently 0.6 per cent of GDP, but it may vary depending on economic circumstances);
  - Remain at the MTO once it has been achieved;
  - Reduce the level of general government debt in excess of 60 per cent of GDP by one twentieth each year on average;
  - For the most part, converging to this MTO and staying there can be achieved by complying with the so-called 'expenditure benchmark';
  - This limits the growth in public expenditure taking account of discretionary revenue increases/decreases, to the trend growth rate of the economy if a Member State is at its MTO and to a lower rate if the MTO has not been achieved;
  - Setting expenditure (net of discretionary taxation measures) in line with the trend (as opposed to the actual growth rate of the economy) helps prevent adopting pro-cyclical budgetary policy;
  - In addition, expenditure changes linked to trend growth reduces the likelihood of windfall taxes being used to finance permanent increases in expenditure;
- Ireland is not yet at its MTO. As set out in the Country Specific Recommendations published last month we must therefore improve the structural deficit by at least 0.6 per cent this year. The 2017 Commission Spring Forecast projects an improvement of 0.6 per cent. The Department's forecast is an improvement of 0.3 per cent of GDP.
- The central fiscal assumption of the SPU is that Ireland remains on-course to achieve its medium term budgetary objective of a structural budget deficit of -0.5 per cent in 2018.

Assessment of compliance with SGP obligations

- Compliance with SGP obligations is assessed *ex-ante* and *ex-post* by the Commission, primarily on the basis of its own metrics, following the submission of (i) the Stability Programme Update (SPU) submitted in April each year (*ex-post* for previous year and *ex-ante* for the coming three years); and (ii) the Draft Budgetary Plan submitted by 15 October each year (*ex-ante* for coming year only).
- Deviation from the adjustment path towards the MTO by more than 0.5 per cent of GDP can lead to a Commission warning and a requirement to take corrective action. Failure to take effective corrective action can lead to the imposition of an interest bearing fine.
- Under the Fiscal Responsibility Act 2012, the Irish Fiscal Advisory Council has to assess the budgetary forecasts and the fiscal stance in the SPU and the Budget.
- In the event of a significant deviation, it also has to assess whether a corrective action plan incorporating the Council recommendations has been presented to the Dáil and, if it has, whether it is being implemented as planned.

Ex post assessment of 2016

- Based on the 2017 SPU, Ireland was compliant with both fiscal rules last year. A structural improvement of 0.5 percentage points (pp) was achieved on the structural balance which is considered 'broadly compliant'. In terms of the complementary expenditure benchmark our figures indicate Ireland was also compliant with this measure. [It should be noted IFAC's recently published *ex-post* assessment for 2016 broadly concurred with this].
- The European Commission in its separate *ex post* assessment of 2016 found the structural balance improved by 0.3 pp. Whilst below the recommended structural adjustment of 0.6 pp, it is not a significant deviation. In relation to the expenditure benchmark the Commission differ from both the Department's and IFAC's assessment.
- The Commission estimates that Ireland's spending breached the expenditure benchmark by 0.5 per cent of GDP last year. However, this is based on a retrospective application of a technical change agreed in late 2016. The change is that assessment of expenditure benchmark compliance will take one-offs into account.
- This appears to run counter to a) the Commission's own guidance on the rules and b) Member States' legitimate expectations that the conduct and assessment of fiscal policy be based upon the rules that prevailed at that time. As a result, a large one-off transaction of 0.5 per cent in 2015 (€2.1bn AIB Share transaction was classified as expenditure) is the reason behind the Commission's estimate of a deviation.

Ex ante assessment of 2017

- The European Commission in its *ex ante* assessment projects that the structural effort will be in-line with the recommended effort 0.6 pp in 2017. However, on the expenditure benchmark it states that spending will lead to a breach of close to 0.5 per cent of GDP for this year. In turn, when 2016 and 2017 are taken together, based on the average of the annual deviations under the expenditure benchmark in each year, this suggests risk of a 'significant deviation'.

- This results from the effect of the retrospective application of the technical change to the expenditure benchmark assessment in relation to 2016. Ireland does not accept this and is raising the issue bilaterally with the Commission.

Budget Policy Implications – Fiscal Space and Flexibility under SGP

- 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.

What is IFAC?

The Irish Fiscal Advisory Council (IFAC) 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 IFACs role is three-fold. Firstly, it endorses (or not) the macroeconomic forecasts of the Department of Finance that underpin the Budget and the Stability Programme Update.

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 IFAC 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. During the passage of the Fiscal Responsibility Act 2012, the Minister for Finance agreed to reply substantively to these reports. The IFAC also produces other publications, including Pre-Budget Statements.

In terms of structure, the IFAC consists of five Members appointed for four-year terms. As the appointments were staggered, two of the five, including the Chairman, are due complete their current terms at the end of this year.

IFAC Fiscal Assessment Report

- IFAC recently published its June Fiscal Assessment Report (FAR) which assessed the *2017 Stability Programme Update*. Amongst the key points this made were:

  - Overall, the Council endorsed the SPU 2017 macroeconomic projections to 2021;
  - The FAR states that the 'SPU plans risk a significant deviation on the structural balance pillar'. It is important to note however that the Department's structural adjustment estimate of 0.3 per cent implies broad compliance with the structural adjustment requirements;
  - The Council noted the volatility and high concentration of corporation tax receipts continues to be a source of potential risk to Ireland's fiscal position. The Department has acknowledged this on several occasions, most recently in the SPU; and
  - The FAR states that the economy is performing strongly and does not require additional fiscal stimulus;
  - Counter-cyclical fiscal policy may be necessary to offset any overheating pressures or to prepare for any risks which may materialise which may emerge [e.g. Brexit, housing-driven growth momentum];
  - Instruments such as the proposed Rainy Day Fund could have a useful role to play in this regard [a draft consultation document for the Oireachtas is being prepared for the Minister].

- As is the usual practise a formal response from the Minister for Finance to the FAR will be prepared for submission and publication.

Other issues

- Cumulative tax revenues at end-May, of €19,385 billion were 1.4 per cent or €268 million below profile, which represents a year-on-year increase of 2.9 per cent or €551 million. However, adjusting for a large one-off payment of c. €100 million in April 2016, the underlining tax position is showing a year-on-year increase of 3.5 per cent or €651 million.
- Across the 'Big 4' taxes, income tax is 2.6 per cent below profile but up 2.5 per cent year-on-year. VAT remains the stand-out performer with receipts in the year to date of €6.8 billion up 3.9 per cent against profile and 13.3 per cent year-on-year. Corporation tax, which is non-linear in terms of payment to the Exchequer is down 10.0 per cent against profile, however important payment months remain. Finally, excises at €2.25 billion are 4.3 per cent off profile.

- *General government classification* – The Statistical Unit provides advice on the likely statistical treatment of policy proposals. A great many of the innovative proposals seek ways to stay "off the balance sheet". However, the general rule is that expenditure under State control for public policy purposes is classified as general government expenditure. Current issues include broadband provision and housing initiatives.

Annual Debt Report

- A new *Annual Debt Report* has been recently published by the Department of Finance. This purpose of this document is to report on public debt developments in Ireland and assess our progress towards the SGPs 60 per cent of GDP target and then towards the lower national-level target which overachieves on this threshold. This publication is consistent with the Department's key strategic goal of the achievement of a "*sustainable macro-economic environment and sound public finances*".

Fiscal Monitor

- The Central Budget Office produces the monthly *Fiscal Monitor* which outlines developments in relation to the Exchequer position. This publication represents a new innovation, consolidating a number of previously separate documents into one source, provides analysis and commentary on revenue and expenditure developments. The Fiscal Monitor is disseminated to key stakeholders and is published on the Department's website on the second working day of each month reporting on the preceding month's developments.

3.1.3 Tax Division

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.

Assistant Secretary - John Hogan

Functions of the Tax System

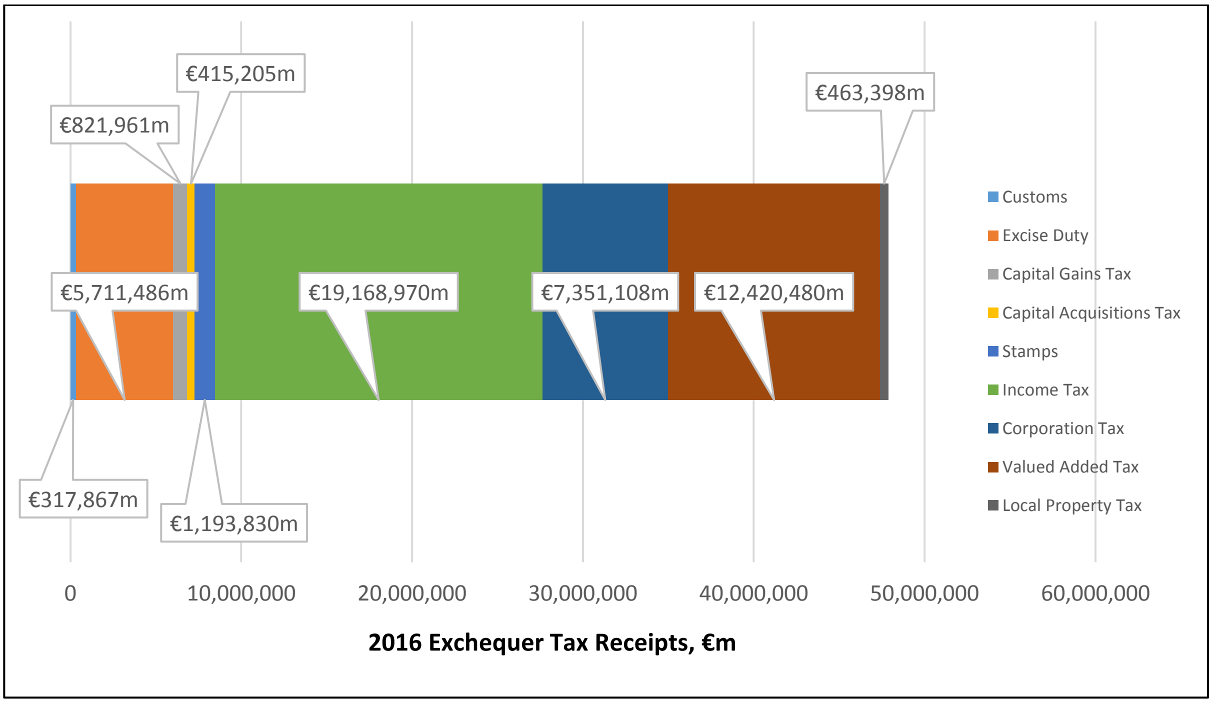
The primary function of the tax system is to finance public expenditure. In combination, taxation and public spending can also contribute to public policy objectives such as economic growth, macroeconomic stability, equity and sustainable development. Taxes influence economic activity through their effects on decisions by households and firms on investment, savings, labour market participation and employment. These decisions are affected not only by the level of taxes but also by how taxes are designed and combined to generate revenues.
Taxation and economic growth are interdependent. GDP and its components form the vast bulk of the tax base in Ireland. As a result, greater economic growth (i.e. larger GDP) increases the potential tax revenue that can be raised to finance public expenditure. In turn, taxes influence economic activity and therefore the composition and evolution of GDP. Hence the importance of growth-friendly taxation.

Tax (and expenditure) policies need to be carefully calibrated to help ensure that the benefits of such growth are distributed widely across society. Without inclusive growth, the social and economic costs of inequalities can increase and ultimately erode confidence in public institutions. Within tax systems, two distinct concepts of equity are used. Horizontal equity implies that the tax system should afford similar treatment to similar people while vertical equity indicates that those with a greater ability to pay should pay more.

Notwithstanding these roles related to economic growth and equity, financing the expenditure of the State remains the primary function of taxation.

Composition of Tax Revenues in Ireland

Figure 1: Exchequer Tax Receipts 2016



Of total exchequer tax receipts in 2016 of €48 billion, Income Taxes (including €4bn Universal Social Charge) comprised 40%, VAT and Excise (i.e. consumption taxes) 38% and Corporation Taxes 15%. Smaller amounts were attributable to Stamp Duties 2%, Capital Gains Tax 2% and 1% each for Capital Acquisitions Tax and Customs Duties. In addition to these exchequer receipts, PRSI receipts accounted for €9 billion.

Ireland's Overall Tax Burden

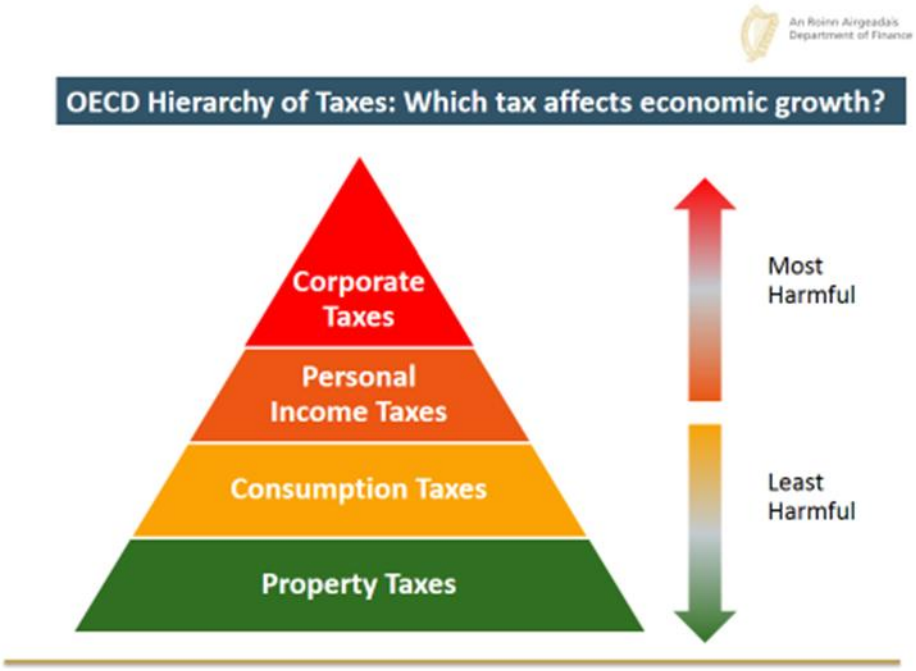
Measured as a proportion of Gross Domestic Product (GDP), Ireland has a relatively low tax burden by European standards according to the latest data. In 2015, total taxes were 24.4% of GDP, the lowest among EU-28 countries, which averaged 37.1%, although this comparison is distorted by the unexpected upward revision of 32% in GDP in Ireland in 2015. There are known issues around the measurement of GDP in Ireland which are being addressed by the development of a GNI* (Gross National Income "Star") indicator. In the interim, a hybrid measure, taking Gross National Product (GNP) plus 40% of the gap between GDP and GNP, puts the tax take burden at 27.9%.

If social security contributions (SSC) are excluded from the comparison (given the stronger insurance character of these systems in other EU countries compared with Ireland), the tax take at 20.0% of GDP compares to the EU-28 average of 25.7%. As a percentage of the hybrid measure this reaches 22.8%, the 10th lowest in the EU-28.

Structure of the Tax System

At an overall level, there is no proven link in developed economies between economic growth and the total tax burden (tax revenues as a proportion of GDP). For a given overall tax burden however, the structure of the tax system and individual taxes can significantly alter the overall impact of that burden.

Figure 2: OECD Hierarchy


An Roinn Airgeadais
Department of Finance
OECD Hierarchy of Taxes: Which tax affects economic growth?
Corporate Taxes
Personal Income Taxes
Consumption Taxes
Property Taxes
Most Harmful
Least Harmful

Source: Tax Policy Reform and Economic Growth, OECD Tax Policy Studies, No 20, 2010

The OECD has produced a hierarchy that ranks taxes on the basis of impacts on economic growth. This suggests that corporate income taxes are the most growth-harmful type of tax, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property the least growth-harmful. The Commission on Taxation (2009) recommended a similar approach indicating a preference for revenue raising from "property taxes, spending taxes (especially environmental taxes), and income taxes in that order". A Department of Finance Staff Working Paper (2013), using the HERMES macroeconomic model of the Irish economy, estimated that a revenue neutral shift of €1 billion from labour taxes to property taxes would result in GDP being 0.38% higher and employment 0.43% higher after 5 years.

Broadening the Tax Base

As well as improving the tax mix, taxation can be made more growth friendly by broadening the tax base so that tax is levied on a wider range of income, expenditure and assets (both across and within tax heads). It is generally accepted that a “broad base, low rates” approach is conducive to an efficient tax system as a narrower tax base, where more activities are exempt or subject to reduced rates, means that the remaining base must be taxed at a higher rate to achieve the same revenue. The higher tax rate results in a more than proportional increase in the efficiency costs of taxation (i.e. greater distortions to economic behaviour).

Reducing tax expenditures also serves to broaden the tax base. The Commissions on Taxation (2009 and 1984) took the view that maintaining a focus on a well-designed tax policy system has a much greater capacity to achieve economic and social goals than could be promoted through individual tax incentives.

Equity

Broadening the tax base, including reducing tax expenditures, is one of the four tax policy design principles identified by OECD for achieving inclusive economic growth. The importance of progressivity (vertical equity) of the overall fiscal system is another principle highlighted. In Ireland, the reduction in the Gini coefficient (a measure of income inequality) as between market incomes (i.e., before taxes and transfers) and disposable incomes is greater than in any other OECD country reflecting the progressive nature of the income tax system and the effect of transfers.

Stability of Tax Revenues

Tax revenues need to be stable in order to ensure that public expenditure is sustainably financed. The impact of the housing bubble on the public finances has highlighted the danger of excessive dependence on relatively narrow and volatile tax bases such as Stamp Duties and Capital Gains Taxes. However, it is widely recognised that Ireland’s status as a small open economy means that economic activity generally is relatively volatile. The resulting implication is that, in order to achieve the same degree of tax revenue stability that applies in other countries while minimising the efficiency costs of taxation, Ireland needs a relatively broader and more diverse tax base.

Trade-Offs

In the pursuit of these different goals, trade-offs are faced. One example of the trade-offs that arise between horizontal equity and efficiency considerations is that, from the former perspective, it might be argued that all types of income should be taxed similarly. On the other hand, an efficiency perspective would suggest differential tax treatment on the basis of the OECD hierarchy.

Another trade-off, particularly relevant for income taxation, is that between revenue volatility and progressivity. Ireland's income tax system is notably progressive but due to its design, which relies on one rate threshold and multiple tax credits, its revenues are also highly sensitive to small changes in income growth. Tax credits, in particular, are a driver of progressivity but also of revenue volatility.

However, as indicated by the OECD's 'Tax Design for Inclusive Economic Growth', there are some design approaches which are aligned with and contribute to multiple goals at the same time, or with minimal trade-offs (for example broadening the tax base can further both efficiency and equity goals, as highlighted above).

Other Principles

Taxation can also be used to address "market failures", circumstances when the economic choices of households and firms leads to an under or over-production of a good (from the point of view of maximising the welfare of society as a whole). This is known as corrective taxation. For instance, the plastic bag tax imposed a charge on purchasers of plastic bags to reflect the environmental harm caused by excessive production and consumption of plastic bags.

Market failures may also be addressed by tax expenditures. For example, as firms under-invest in R&D activities from a social point of view, Ireland, along with many other countries, offers a tax credit to businesses to stimulate additional R&D.

Other important principles in tax system design include: neutrality (meaning that the tax system should not affect taxpayer behaviour so that decisions are based on preferences before tax considerations); stability (economic actors benefit from certainty while significant changes to the tax system can be associated with substantial transition costs); and flexibility (the tax system should be responsive to changed economic circumstances).

Finally, it is important to bear in mind that the national fiscal rules now in place require that public expenditure commitments are sustainably financed and safeguarded from dependence on cyclical revenues.

Tax Strategy Group – What Does It Do?

The Tax Strategy Group (TSG) is an interdepartmental committee chaired by the Department of Finance, with membership comprising senior officials and political advisors from various Departments and Offices. It meets in the run up to the Budget. Papers on various options for the Budget and for the medium and longer term are prepared for the Tax Strategy Group. Its terms of reference are as follows:

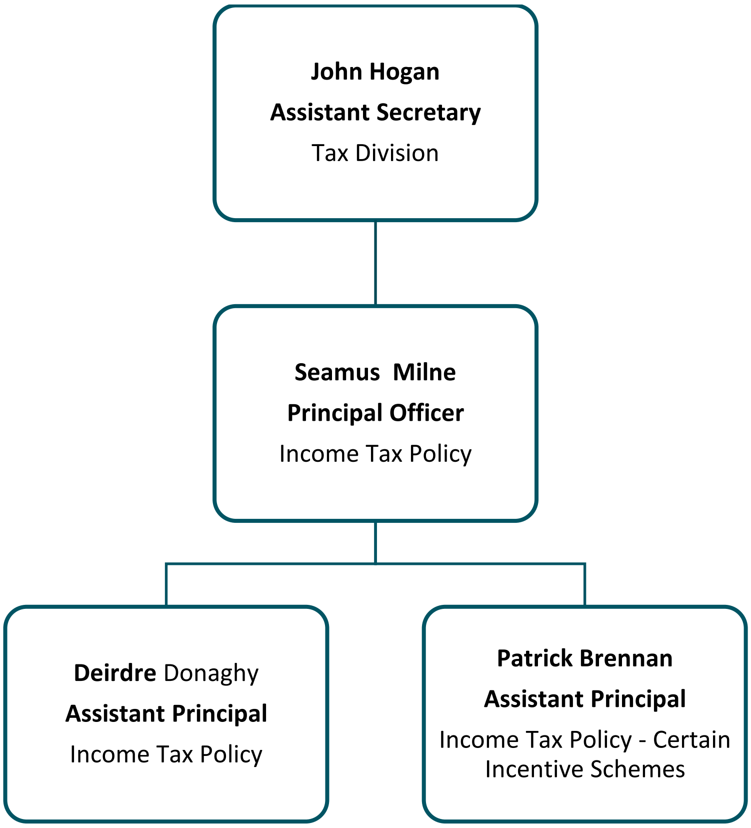
To examine and develop proposals for measures in the areas of taxation, social insurance and levies, for Budget and Finance Bill within agreed Government parameters for the overall Budget position and in the context of the framework of a medium term and longer term strategy set out in the Government's programme, and

To examine the strategic approach for a general social welfare package and to assess the interaction of income tax/social insurance/levies proposals with social welfare proposals including child income support, and in particular the impact of this interaction on the labour market and income distribution.

The TSG is a useful forum for discussion across Government. However all decisions in relation to tax changes in the Budget are made solely by the Minister for Finance, i.e. the Group is not a decision-making body and the papers produced are a list of options and issues. They are only one part of an overall Budgetary and Finance Bill process which now includes the National Economic Dialogue, the Budget Oversight Committee and the provision of pre-Budget submissions and engagement with specific groups and individuals. In line with the Government's commitment to Budgetary reform, including greater engagement with the Oireachtas, the Tax Strategy Group papers relating to Budget 2017 were published in July 2016, i.e. well in advance of Budget Day. This was a departure from previous practice and helped to facilitate informed discussion. It is proposed, subject to your agreement, to employ a similar approach this year.

3.1.3.1 General income tax policy and reform

Principal Officer: Seamus Milne



John Hogan
Assistant Secretary
Tax Division

Seamus Milne
Principal Officer
Income Tax Policy

Deirdre Donaghy
Assistant Principal
Income Tax Policy

Patrick Brennan
Assistant Principal
Income Tax Policy - Certain Incentive Schemes

KEY POINTS:

Income taxes make up 40% of all tax revenues projected for 2017. Of the projected income tax receipts of €20.2 billion, Income Tax is expected to yield €16.5 billion and USC to yield €3.7 billion.

Given its significance in revenue raising, substantial reductions to the USC would likely require the introduction of other discretionary revenue raising measures to fund them.

Following recent Budgets 30% of income earners are already exempt from USC, up from 25% in 2013. This compares with 37% who are exempt from Income Tax.

Employees on incomes below €70,000 are liable to a maximum marginal tax rate of 49.5% comprising Income Tax, USC and PRSI. Employees on incomes above €70,000 remain liable to a maximum marginal tax rate of 52%.

Correction: This figure should read "49%"

Self-assessed individuals with incomes greater than €100,000 are liable to a marginal tax rate of 55% on that income.

Correction: These lines are repeated from above.

~~Income taxes make up 40% of all tax revenues projected for 2017. Of the projected income tax receipts of €20.2 billion, Income Tax is expected to yield €16.5 billion and USC to yield €3.7 billion.~~

~~Given its significance in revenue raising, substantial reductions to the USC would likely require the introduction of other discretionary revenue raising measures to fund them.~~

~~Following recent Budgets 30% of income earners are already exempt from USC, up from 25% in 2013. This compares with 37% who are exempt from Income Tax.~~

~~Employees on incomes below €70,000 are liable to a maximum marginal tax rate of 49.5% comprising Income Tax, USC and PRSI. Employees on incomes above €70,000 remain liable to a maximum marginal tax rate of 52%.~~

Correction: This figure should read "49%"

~~Self-assessed individuals with incomes greater than €100,000 are liable to a marginal tax rate of 55% on that income.~~

DETAIL:

Income Tax Policy

Income Taxes

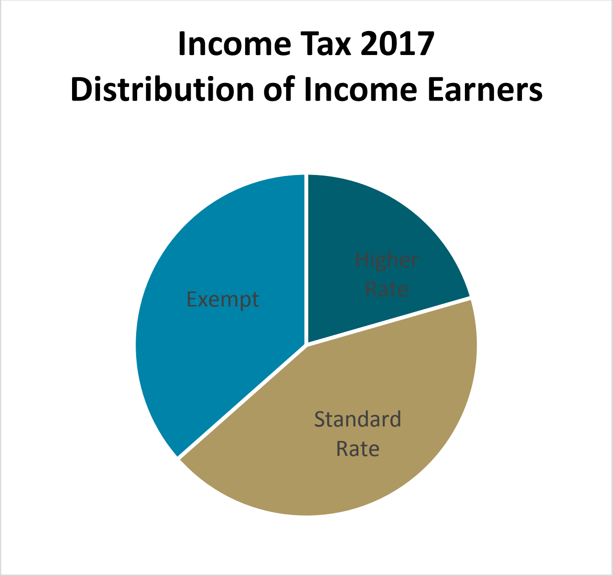
Tax Head	2007 (€m)	2013 (€m)	2014 (€m)	2015 (€m)	2016 (€m)	2017 (e)(€m)
Income Tax	13,583	11,822	13,486	14,170	15,205	16,520
USC	n/a	3,930	3,647	4,174	3,968	3,725
PRSI	7,721	7,304	7,863	8,451	9,213	9,566

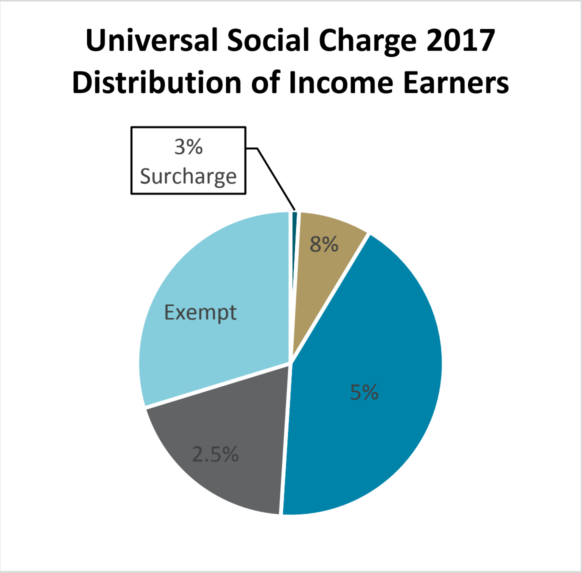
Revenues

Income taxes (including USC) make up the largest share by tax head of Exchequer tax revenues. Receipts of €20.2 billion are forecast for 2017, 40% of total tax revenues. Of this, Income Tax is expected to comprise c.€16.5 billion and USC c.€3.7 billion.

Distribution of Income Earners

The projected distribution of income earners in 2017 is as follows:





Income Tax*	Earners	% of Earners
Higher Rate	517,300	20.5%
Standard Rate	1,080,300	43%
Exempt	919,700	36.5%
Total	2,517,300	

USC*	Earners	% of Earners
3% Surcharge	22,600	1%
8%	195,000	8%
5%	1,066,600	42%
2.5%	484,700	19%
Exempt	748,300	30%
Total	2,517,200	

*Please note that these figures are 2017 estimates from the Revenue tax forecasting model using latest actual data for the year 2014, adjusted as necessary for income, self-employment and employment trends in the interim. They are provisional and may be revised. Figures including percentages may change due to rounding.

Marginal Tax Rate

Pay Related Social Insurance (PRSI) is a separate social insurance charge also payable on income, at a rate of 4%. This charge forms part of the top marginal rate of taxation – 40% income tax, 8% USC and 4% PRSI = **52%** tax (employees). The self-employed are also liable to an additional USC surcharge of 3% on income over €100,000, and therefore have a top marginal rate of **55%.**

Income Tax Structure

	Single	Single Parent	Married – 1 earner	Married – 2 earners
Standard Rate Cut-Off Point	€33,800	€37,800	€42,800	€67,600*

* Minimum €24,800 allocated to each spouse

The Standard Rate Cut-Off Point (SRCO) is the maximum amount an individual can earn at the standard rate of tax (20%) before entering into the higher rate of tax (40%).

A single individual has a SRCO of €33,800. A qualifying single parent has an additional €4,000 rate band. In the case of spouses or civil partners, up to €9,000 of one individual's rate band can be transferred between the partners.

Taxation of Self-Employed

A number of differences exist in relation to the taxation of self-employed individuals, as compared to employees taxable under the PAYE system. These differences have their roots in the different way in which the self-employed assess and pay their tax liabilities. The self-employed are currently disadvantaged by factors such as the following:

- The self-employed do not qualify for the PAYE tax credit which, at €1,650, effectively shelters income of €8,250 from tax. A new Earned Income Credit of €550 was introduced in Budget 2016 to partially address this gap and this was increased to €950 in Budget 2017.
- A USC surcharge of 3% also applies on non-PAYE income in excess of €100,000.

It should be noted that there are also differences in the current tax treatment which are beneficial to the self-employed, including the following:

- A more beneficial expense deduction regime applies for the self-employed.
- Significant timing benefits with regard to the payment of income tax liabilities, depending on the accounting year chosen by the self-employed individual.

There are also differences in the PRSI treatment of the self-employed as compared to employees. The self-employed pay Class S PRSI which generates the same entitlement to the State Pension as an employee's Class A contributions, however, up until the last Budget many other benefits were not accessible to the self-employed. In Budget 2017, many benefits were made accessible to the self-employed - Invalidity Pension was extended to self-employed workers from December 2017, Dental and Optical Benefits and the Medical Appliances scheme (hearing aids) were extended to self-employed workers from March 2017; Dental Benefit will be expanded in October 2017 for all insured employees and the self-employed; Optical Benefits will be expanded in October 2017 for all insured workers including the self-employed to cover the cost of glasses or a contribution towards the cost, depending on customer choice. Both cohorts pay 4% PRSI in their own right, but in the case of employees a further employer's PRSI charge of 8.5% or 10.75% is also payable, resulting in a significantly higher contribution to the Social Insurance Fund in respect of an employee's earnings.

Income Tax Credits

Income tax credits reduce the amount of income tax payable. They are not refundable i.e. if the credits available exceed the tax liability, the net result is Nil, not a refund. Many tax credits were reduced by 10% in Budget 2011 as part of the fiscal consolidation.

- Each individual is entitled to a personal tax credit of €1,650. In the case of married couples, the married credit (equal to two personal tax credits) can be claimed in full by one spouse.
- The PAYE credit of €1,650 is available to taxpayers with PAYE income – generally employment or occupational pension income – or social welfare income.
- An Earned Income Credit of €950 is available to individuals with an active trade or profession who do not qualify for a PAYE credit. This credit was introduced in Budget 2016 at €550 and increased in Budget 2017 to €950. Increasing this credit to match the value of the PAYE credit (€1,650) is a Programme for Government commitment.
- The Single Person Child Carer Credit (SPCCC) consists of a credit of €1,650 and an additional standard rate band of €4,000. It is available to a single person who is the primary carer of a qualifying child. The SPCCC replaced the One Parent Family Credit in 2014 – that credit was of similar value but could be claimed by multiple persons in respect of a single child.
- In Budget 2017, the Home Carer Credit (HCC) was increased to €1,100 (from €1,000). This is available to families where one spouse works primarily in the home to care for children, or an elderly or disabled person.

Some of the Larger Income Tax Reliefs

Mortgage Interest Relief (MIR)

MIR was abolished for new mortgages with effect from 1 January 2013. Relief for qualifying home loans taken out between 2004 and 2012 remains in place up to and including the tax year 2017.

The rate of relief is 25% in years 1 and 2; 22.5% in years 3 to 5; 20% in years 6 and 7; and 15% in subsequent years. An increased rate of relief of 30% applies for first time buyers who bought homes at the height of the property boom between 2004 and 2008.

A ceiling on allowable interest of €10,000 per annum (€20,000 for married/widowed persons) applies in the first seven years of a mortgage. The ceiling falls to €3,000 / €6,000 for the eighth and subsequent years.

The cost of MIR in 2014 was €266 million.

In the Programme for a Partnership Government there was a commitment to retain mortgage interest relief beyond the original end date of December 2017 on a tapered basis and in Budget 2017 it was announced by the Minister for Finance that mortgage interest relief would be extended out to 2020. The purpose of the proposed tapered extension is to avoid a sudden significant increase in mortgage repayments for those losing the relief, but instead to withdraw the relief gradually, allowing the mortgage holder time to adjust to the change in mortgage repayments. The details of the extension will be set out in Budget 2018. A review of policy considerations and potential costs of an extension of mortgage interest relief is contained in the Income Tax Reform Plan published in July 2016.

Health Insurance Relief

Tax relief at source is allowed in respect of health insurance premiums paid, subject to a cap of €1,000 for an adult insurance premium and €500 for a child premium. The cap was introduced with effect from October 2013 in the context of the fiscal consolidation and also because of the rising Exchequer cost of the relief – it was estimated that the annual cost would have reached €500 million in 2013.

The ceilings, recommended by the 2009 Commission on Taxation, ensure that a level of continuing support for insurance is maintained, while minimising the cost to the Exchequer of more expensive policies. The cost of health insurance relief in 2014 was €355 million and in 2015 was € 325 million.

Health Expenses Relief

Tax relief at the standard rate may be claimed in respect of qualifying medical expenses incurred, such as medical practitioner fees, prescription costs, certain non-routine dental expenses etc. Tax relief at the marginal rate may be claimed in respect of nursing home expenses incurred. The cost of this relief in 2014 was €146 million.

Selected Housing-Related Income Tax Incentives

Working Group on the Tax and Fiscal treatment of Rental Accommodation Providers

The Strategy for the Rental Sector, published by the Department of Housing, Planning, Community and Local Government in December 2016, committed to the establishment of a working group to examine and report on the tax treatment of landlords (or rental accommodation providers), and to put forward options, where appropriate, for amendments to such treatment. This working group was set up in January 2017, is chaired by the Department of Finance and its membership consists of officials from the Tax and Economics Divisions of the Department of Finance; the Revenue Commissioners; the Housing Division of the Department of Housing, Planning, Community and Local Government (DHPCLG); and the Residential Tenancies Board.

A public consultation lasting for 4 weeks was conducted from March to April 2017 and the consultation paper asked ten targeted questions which covered subjects such as mortgage interest relief, capital repayment relief, rental accommodation as a pension investment, the deductibility of various expenses, Capital Gains Tax, long-term tenancies, accidental landlords, the Rent-a-Room Scheme and vacant properties. Individuals had the option to answer any, all, or none of the questions, when making their submissions. The consultation received almost 70 written submissions from a wide range of interested parties, including individual landlords, representative bodies and charitable organisations.

To date, the Working Group has met six times and a report of the Working Group will be presented to both Ministers in advance of deliberations on Budget 2018.

Help to Buy Incentive

The Help to Buy (HTB) incentive was introduced in Budget 2017. It is designed to assist first-time buyers with obtaining the deposit required to purchase or build their first home. With a view towards increasing the supply of new housing, the relief is only available in respect of new builds.

Broadly, the relief takes the form of a rebate of income tax, including DIRT, paid over the previous four tax years. The maximum rebate is the lower of:

1. €20,000, or
2. The amount of income tax and DIRT paid in the previous 4 years, or
3. 5% of the purchase price or valuation for a self-build.

The extent to which the scheme could lead to an increase in residential property prices will very much depend on the speed and efficiency with which structural supply constraints are eliminated and residential building activity increases. Therefore, the impact of the HTB incentive on property prices should not be considered in isolation from the impact of other measures contained in *'Rebuilding Ireland: Action Plan for Housing and Homelessness'*, which are primarily designed to increase supply. In this regard a number of indicators point to a strengthening recovery in the housing market. The latest Ulster Bank construction PMI indicates a pickup in the rate of construction activity growth of approximately 1% between March and April. The index suggests that housing activity has continued to expand each month since July 2013.

From a supply perspective, commencement notices in the 12 months to February 2017 (13,169), increased by approximately 27.4% compared to the same period in 2016 while new house guarantee registrations (6,537) increased by approximately 53%. ESB connections, a proxy for house completions rather than the level of construction activity (15,327), increased by 15.7% in the 12 months to February 2017 compared to the same period in 2016. However, the growth in both starts and completions continues to emanate from a very low base and it will take some time for the level of new construction to meet the current demographic demand for housing.

In April 2017, following a competitive tender process, Indecon Economic Consultants were commissioned to undertake an independent economic impact assessment of the Help-to-Buy incentive, which will examine:

- whether the policy objectives on the supply of new homes are being met,
- what impact (if any) the scheme is having on new and second-hand house prices, and
- what impact the scheme is having on the residential property market generally.

The review is due to be completed by 31 August and Minister Noonan indicated his intention to share it with the Oireachtas.

The cost of the scheme is currently in line with that estimated at the time of its introduction.

Home Renovation Incentive

The Home Renovation Incentive (HRI) came into operation on 25 October 2013. It provides tax relief for homeowners, landlords and tenants of local authority housing by way of a tax credit at 13.5% of qualifying expenditure incurred on repair, renovation or improvement work carried out on a principal private residence, or to landlords for rental properties. Qualifying expenditure is that which is subject to the 13.5% VAT rate. The work must cost a minimum of €5,000 (inclusive of VAT) which would attract a credit of €595. Where the cost of the work exceeds €30,000 (exclusive of VAT) a maximum credit of €4,050 will apply. The credit is payable over the two years following the year in which the work is carried out.

In Budget 2017 HRI was extended until the end of 2018. The latest figures available, from April 2017, show that since commencement HRI has seen 87,900 works undertaken on 59,001 properties, with the total estimated value of these works at just over €1.4 billion. This equates to a total cost to the Exchequer in tax credits of €98.58 million, of which €62.12 million has been claimed to date.

Living City Initiative

The Living City Initiative was commenced and launched on 5th May 2015. The Living City Initiative is an urban regeneration incentive which focuses on the regeneration of the historic centres of six cities. This initiative is a scheme of property tax reliefs which applies in certain "special regeneration areas" (SRAs) in the centres of Dublin, Cork, Limerick, Galway, Waterford and Kilkenny, particularly those areas which are most in need of regeneration. The aim of the Living City incentive is to bring life back into the heart of the relevant cities by offering tax relief for qualifying expenditure incurred on the refurbishment or conversion of certain buildings where conditions are met.

Take-up of this scheme had been lower than anticipated and as a result the Government introduced changes to the Initiative in order to make it more effective, following a review which was undertaken prior to Budget 2017. Several changes were made to the scheme, including extending the residential element of the scheme to landlords and removing the floor area restriction for owner-occupiers. These changes came into effect from 1 January 2017.

Rent a Room

Provides for an exemption from tax on income earned through renting a room in a person's principle primary residence. The cap on qualifying earnings was raised to €14,000 in Budget 2017. Regarding the tax treatment of rental income from short-term lettings, the Revenue Commissioners have clarified that income from the provision of accommodation to occasional visitors for short periods does not qualify for the relief as, in this scenario, the visitors use the accommodation as guest accommodation rather than for residential purposes.

Mortgage Interest Deductibility for Landlords

In Finance Act 2015, a new relief was introduced which allows a full 100% (an increase from 75%) mortgage interest deduction where a landlord undertakes, for a period of at least three years, to provide accommodation to tenants in receipt of social housing supports and registers such undertakings with the Private Residential Tenancies Board within certain time limits.

In Budget 2017, deductibility of mortgage interest for all landlords was increased from 75% to 80% and this is scheduled to increase by a further 5% per annum until it reaches 100% by 2021.

Other Income Tax Incentives

Agri-Taxation

A comprehensive review of tax measures in the farming sector was announced in Budget 2014, as a joint initiative between the Department of Finance and the Department of Agriculture, Food and the Marine. Following on from this review, a significant number of measures were introduced, retained or refocused in the last three Finance Acts. Most recently, Budget 2017 provided for an opt-out from the system of income averaging to permit farmers to "opt out" of the scheme if they encounter an unexpectedly bad year, while the system of accelerated capital allowances for energy efficient equipment was extended to sole traders, allowing farmers to benefit from this initiative.

Budget 2016 introduced a scheme to facilitate the passing of farms from older farmers to young trained farmers by way of a succession farm partnership. This is a structure in which eligible persons enter into a partnership, as well as an appropriate profit-sharing agreement, with the provision for the transfer of the farm to the younger trained farmer at the end of a specified period (not exceeding ten years). The partnership model enables a gradual transfer of control and also facilitates knowledge transfer from one generation to another. A €5,000 p.a. tax credit is available for five years for these partnerships.

Following receipt of State aid approval from the European Commission, this scheme was commenced on 31 May 2017.

Artist's Exemption

Income earned by writers, composers, visual artists and sculptors from the publication, production or sale of their works is exempt from income tax in certain circumstances. From 1 January 2015, the annual maximum threshold has been increased to €50,000. A review of the scheme was carried out in 2015, while a further examination of the potential for income averaging for artists was undertaken prior to Budget 2017, but no policy changes were recommended or progressed with as a result of these reviews.

Childcare

Tax relief is not available in respect of the costs of childcare. An Inter-Departmental Working Group on the Future Investment in Childcare in Ireland was tasked with identifying and assessing policies and future options for increasing the quality, accessibility (including supply) and affordability of early years and school-age care and education services in Ireland. In their final report in July 2015, the working group agreed with the Department of Finance's policy viewpoint and recommended against the introduction of a tax credit measure for childcare.

Following on from this report, a new subsidised childcare regime was announced in Budget 2017. We understand that it is due to become operational in 2018 and legislation is being prepared by the Department of Children and Youth Affairs (DCYA). Officials from DCYA are liaising with the Revenue Commissioners regarding the drafting of this legislation, and a decision on the tax treatment of this subsidy will be required as part of the Budgetary process.

The Employment and Investment Incentive (EII)

The EII scheme is targeted at job creation and retention and is available to the majority of small and medium- sized trading companies who have commenced trading in the last seven years. The EII scheme allows an individual investor to obtain income tax relief on investments, up to a maximum of €150,000 per annum, in each tax year up to 2020. Relief is initially available to an individual up to a maximum of 30% of the amount invested. A further 10% tax relief is available where it has been proven that employment levels have increased at the company at the end of the specified period (3 years) or where evidence is provided that the company used the capital raised for expenditure on research and development. Changes were made in Finance Act 2015 to bring the scheme under the EU General Block Exemption Regulation (GBER), which will permit future changes to be implemented without the need to seek the approval of the EU Commission each time. The EII was removed from the High Earner's Restriction permanently in Finance Bill 2017 following a 3-year trial period.[1]

Foreign Earnings Deduction (FED)

The Foreign Earnings Deduction is a deduction from income for income tax purposes for employees who travel abroad to certain countries as part of the duties of their employment. The list of eligible countries initially comprised Brazil, Russia, India, China and South Africa. In 2013 this was extended to include travel to Algeria, the Democratic Republic of the Congo, Egypt, Ghana, Kenya, Nigeria, Senegal or Tanzania. From 2015 the list was further expanded to include travel to Japan, Singapore, South Korea, Saudi Arabia, the UAE, Qatar, Bahrain, Indonesia, Vietnam, Thailand, Chile, Oman, Kuwait, Mexico and Malaysia in line with the Government's Trade, Tourism and Investment Strategy. Finally, Colombia and Pakistan were added to the list from 2017.

This scheme was reviewed in 2014 and a number of changes were made to it on foot of that review. The cost of FED to the exchequer in 2014 (the most recent year for which figures have been finalised) was €1.1m. The scheme was extended in Budget 2017 until end 2020 in order to provide certainty for enterprises following Brexit.

Marine Taxation

In Budget 2016, a review of the taxation supports available to the Marine Sector was published, which contains a number of recommendations for changes which could be made to enhance or maximise the value for money to the tax payer, taking EU State Aid considerations into account. Officials examined the proposals in conjunction with the relevant departments, and a number of them were acted upon in Budget 2017, including the introduction of a tax credit for fishers and provision for a tax-relieved vessel decommissioning scheme. A report on the Department's response to the twelve recommendations was prepared and circulated to members of the FinPer committee in May.

[1] Provided a future Minister does not decide to place it back within the High Earner's Restriction.

Special Assignee Relief Programme (SARP)

The Special Assignee Relief Programme was introduced in 2012. This programme reduces the cost to employers of assigning skilled individuals in their companies from abroad to take up positions in the Irish based operations of the employer. The scheme allows an exemption from income tax on 30% of salary in excess of €75,000 for employees that are assigned for a minimum of 1 year, where other conditions are met. Claimants remain liable for USC on the full income amount, while social Insurance is also payable where the individual is not liable to it in their normal State of residence. The scheme was reviewed in 2014 and was extended in Budget 2017 until end 2020 in order to provide certainty for enterprises following the UK vote to leave the European Union.

Start Your Own Business (SYOB)

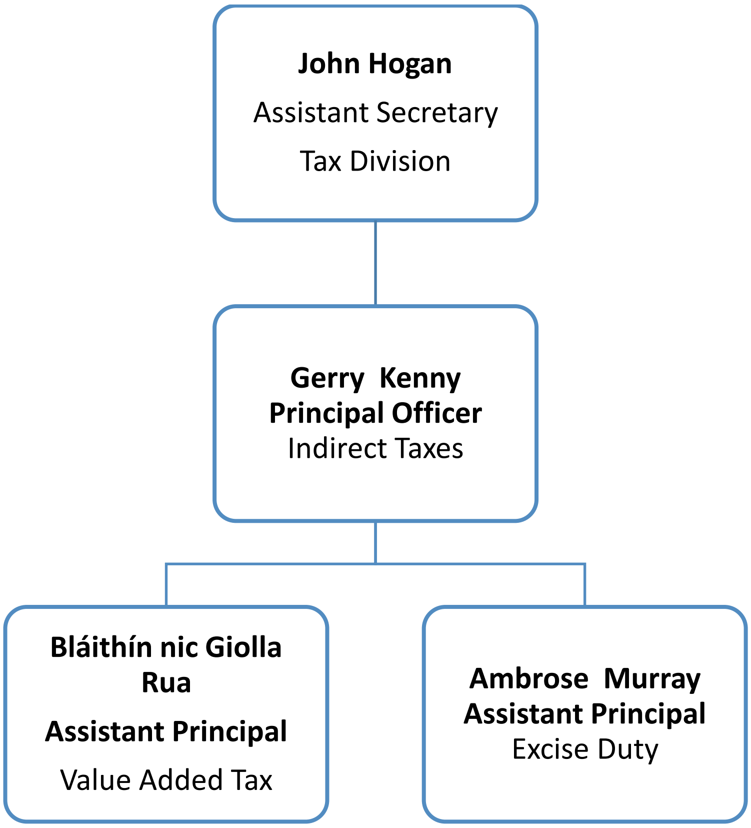
This measure was first introduced in October 2013 as an incentive to encourage new business start-ups with a view towards the creation of additional employment. It provides an exemption from income tax on profits up to a maximum of €40,000 per annum for a period of 2 years for individuals who set up a qualifying business, having been unemployed for at least 12 months. This scheme was extended in Budget 2017 until the end of 2018.

Share Based Remuneration

As part of an ongoing process to support entrepreneurship and start-up companies generating employment, work has commenced on the development of a new, SME-focussed, share-based incentive scheme, to be introduced in Budget 2018. In order to target a scheme specifically at small to medium enterprises, careful design and a process of engagement with the EU will be required to ensure compliance with State Aid principles. This process has commenced. Employee participation in their company’s ownership and profits has been shown to increase competitiveness and support employment growth, and it is hoped that such an incentive will support Irish SMEs to compete with larger companies to attract and retain key staff.

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

Principal Officer: Gerry Kenny



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KEY POINTS:

Indirect taxes make up 38% of all taxes projected for 2017. Indirect taxes such as VAT and Excises have been favoured across Europe for revenue raising purposes as they are seen as being less harmful to economic growth than Direct taxes.

New and alternative sources of revenues need to be developed to allow for the provision of additional and new services.

On foot of the Paris agreement and Programme for Partnership government commitments on climate change, there will be pressure to bring forward targeted tax measures, such as the introduction or incentivisation of alternative fuels, to effect changes in behaviour to decarbonise the economy and to meet our binding 2020 and 2030 targets.

In the area of customs and Brexit, creative solutions are required to meet the Government's stated objective of continued freedom of movement, absence of a hard border and minimising disruption to business and trade.

DETAIL:

Indirect Tax Policy

Tax Head	2007 (€m)	2014 (€m)	2015 (€m)	2016(€m)	2017(e)(€m)
VAT	14,519	11,153	11,944	12,420	13,375
Environmental taxes	2,204	2,414	2,537	2,603	2,632
Alcohol	1,130	1,139	1,137	1,207	1,304
Tobacco	1,192	984	1,082	1,098	1,222
VRT	1,406	542	648	814	820

VAT

	2003 €m	2007 €m	2011 €m	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m
VAT Total	9,716	14,519	9,753	10,166	10,325	11,153	11,944	12,420
Total Tax Receipts	32,219	47,505	34,221	36,656	37,877	41,282	45,601	47,954
% of total	30.2%	30.6%	28.5%	27.7%	27.3%	27.0%	26.2%	25.9%

Revenues, rates and structure

VAT amounted to over €12 billion in Exchequer receipts in 2016 or some 26% of total tax revenue. The increase in receipts in recent years reflects growth in consumer confidence and the economy rather than any specific intervention in the rates or structures of VAT. The last change in rates was a 2% increase in the standard rate from 21 to 23% in Budget 2012. Ireland applies reduced rates of VAT to an extensive range of activities relative to other Member States, including the application of the zero rate.

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 domestic fuel, construction, housing and labour intensive services, etc. and (ii) 9%, which applies to the hospitality and tourism sector; 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 most recent change in the structure of VAT rates was the introduction of the second reduced rate of 9% for the hospitality sector in 2011. This was initially introduced on a temporary basis to give a boost to this area. While all the indications are that the measure has done its job with robust growth in visitors and employment in the tourism area, the general recovery of the economy and increasing prices in the sector raises questions about its future. The rate was retained in Budget 2017 due to concerns regarding the effect of Brexit on tourism. It is estimated that the abolition of the 9% rate and a return to 13.5% for the goods and services in this sector would result in increased revenues of around €500m (this figure is €120m lower than 2016 estimate due to Revenue base changes).

Issues

Definitive System of VAT

Since 2011 the EU has been focused on progressing a definitive system of VAT based on taxing cross-border supplies in the country of the consumer instead of the supplier, for competition reasons. The Commission published proposals on modernising VAT on e-commerce last December which are currently being discussed. This deals with the move to destination based VAT for business-to-consumer supplies. Ireland is generally supportive of these measures.

E-books and Newspapers

The Commission e-commerce proposals also deal with the VAT treatment of e-publications, allowing Member States to treat electronic publications the same as their physical counterparts, which are generally taxed at low or reduced VAT rates. We have been supportive of the proposal which is due to go to ECOFIN in June for decision. However, the original text also allowed Member States apply a zero rate to newspapers and magazines, which is not part of the proposal due to go to ECOFIN. The application of the zero rate was the preferred approach of the Irish Newsmedia sector.

VAT Rating

A new proposal on the future of VAT Rating as a whole will be published by the Commission in September. The Commission sought Member States' initial position in May and Ireland wrote in support, as with all MS, of maintaining a system of limited ability to apply reduced VAT rates, as opposed to a free-for-all system of rating. We sought to maintain the VAT treatment we have, including 5 separate VAT rates and our historical derogations, but are open to extending this treatment to all other Member States.

Charities

As with all individuals and persons not charging VAT, charities cannot claim back the VAT paid on the goods and services that they receive, but have been campaigning to do so for some time. In 2015 a working group was set up between officials of the Department, Revenue and the charities sector to look at options in this regard. A report of VAT on charities was published in advance of Budget 2016 but the Minister decided at that time not to make any change to the current system. In last year's Budget the Minister committed to reviewing options available ahead of Budget 2018 and Department and Revenue officials have re-engaged with the sector to this end. The main difficulties with providing VAT relief to charities are the likely costs and possible knock on effects to other Vat exempt sectors such as sporting organisations.

Horse racing scheme

Following a CJEU judgement against Ireland, the rate of VAT on horses was increased from 4.8% to 9% with effect from 1 January 2015. Persons racing horses are not considered economic operators in Ireland and so must absorb the VAT on the purchase of horses. UK and France treat horse racing as a business, allowing racehorse owners claim VAT on the purchase of horses. Ireland, along with most EU MS do not consider this as an economic activity. In the wake of a CJEU that forced Ireland to increase the VAT rate on horses from 4.8% to 9%, Horse Racing Ireland is seeking to make horse-racers liable to VAT similar to UK/France, to encourage persons to purchase and train horses in Ireland. However, there is a concern that such a scheme could lead to tax planning and spread to other sectors.

GRCM

Generalised reverse charge mechanism is another active Commission proposal, driven by Austria and the Czech Republic, which seeks to have purchasers pay VAT on invoices over €10,000, instead of suppliers. Ireland, along with many other Member States believe this proposal could create more fraud than it resolves.

Alcohol Products Tax

	2003 €m	2007 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m
Excise Receipts	4,736	6,004	4,835	4,872	4,759	5,007	5,132	5,428	5,795
Alcohol	988	1,130	826	829	846	1,002	1,139	1,137	1,207
% of total	21%	19%	17%	17%	18%	20%	22%	21%	21%

Background

Budgets 2013 and 2014 provided for significant increases on alcohol products - €1.50 on wine and 20 cent on beer and spirits, by way of revenue raising. There were no increases in Budgets 2015 to 2017. In the decade leading up to Budget 2013, there had been little change to the excise on alcohol, except for a 20% reduction in Budget 2010. Consumption per capita of alcohol products declined from a high of 14.3 litres in 2001 to 10.6 litres in 2013 but has increased since to around 11.5 litres in 2016. The level of excise on alcohol products has remained largely unchanged since 1994 – suggesting that the fall in consumption levels (particularly in pubs) is not necessarily tax related but reflects wider societal issues driven, for the most part, by public health policy.

Issues

Public Health (Alcohol) Bill 2015 is still progressing through the Oireachtas. If passed by the Oireachtas it will provide for the imposition of Minimum Unit Price (MUP) on alcohol products, structural separation, health labelling and regulation of marketing and advertising of alcohol products. MUP was designed to target below cost selling of alcohol in large multiple outlets that use alcohol as a loss leader. The MUP included in the Bill will impact on the sale of cheaper products in these large outlets.

The Alcohol Products Tax Directive allows for reduced excise rates for micro-breweries of beer. The expansion of this industry and the growth in the export market led to an increase in limits for qualifying breweries and ceiling for qualifying relief in Budgets 2015 and 2017. An analysis of the impact of the structure and level of this relief may be necessary to ensure its continued efficacy.

Energy & Environmental Taxes

	2003 €m	2007 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m
TOTAL Excise Receipts	**4,736**	**6,004**	**4,835**	**4,872**	**4,759**	**5,007**	**5,132**	**5,451**	**5,795**
Petrol	854	1,051	982	993	904	850	800	768	721
Diesel	843	1,152	1,093	1,130	1,116	1,177	1,224	1,346	1,447
Mineral Oils Total	**1,701**	**2,204**	**2,074**	**2,122**	**2,020**	**2,027**	**2,024**	**2,114**	**2,168**
Carbon Tax	-	-	223	298	354	388	385	418	430
Electricity Taxes			7	6	7	6	5	5	5
Total Environmental taxes	1,701	2,204	2,304	2,426	2,381	2,421	2,414	2,537	2,603
% of total Excise	36%	37%	48%	50%	50%	48%	47%	47%	45%

Background

The upturn in the economy has brought about an increase in environmental and energy tax receipts as more people are back at work. The significant increase in excise from auto diesel reflects the switch from petrol to diesel cars in recent years, as well as the reduction in the availability of laundered fuel on the market as a result of a series of measures taken in recent Finance Acts.

Issues

The illicit fuel trade and the practise of laundering the dye from the MGO has dominated the debate around excise duty on mineral oils in recent years. However, a range of measures introduced in recent Finance Acts providing for (i) strengthening of the licensing regime for fuel traders, (ii) new requirements for record keeping and making returns to Revenue in respect of distribution of fuel, (iii) introduction of new fuel marker, etc. appear to have had a significant impact on the illicit trade.

The application of a lower rate of excise on diesel (48 cent) as against petrol (59 cent), as well as the current vehicle registration tax system, is seen by many to encourage the greater use of diesel vehicles whose emissions of nitrogen dioxides, sulphur dioxide and particulate matter are more harmful to the public health.

The application of Carbon Tax to solid fuels has given rise to claims that the tax differential (lower VAT of 5% and no Carbon Tax) north of the border has resulted in a significant cross border trade in solid fuel.

Ireland has binding EU 2020 climate targets which will be difficult to achieve, especially in the case of CO2 emissions. The National Mitigation Plan, which is due to be published in June 2017 will outline a pathway to decarbonising the economy especially in relation to transport and power generation. Targeted tax expenditures and the introduction or incentivisation of alternative fuels are likely developments in this area.

Tobacco Products Tax

	2003 €m	2007 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m
TOTAL Excise Receipts	4,736	6,004	4,835	4,872	4,759	5,007	5,132	5,428	5,795
Tobacco Total	1,157	1,192	1,160	1,126	1,072	1,064	984	1,082	1,098
% of total	24%	20%	24%	23%	23%	21%	19%	20%	19%

Background

Tobacco Products tax accounted for some €1.1 billion in revenue in 2016, 19% of total excise. Regular increases in the rate of tax has ensured that the tax revenues from TPT have remained consistent across the years. However, these increases mean that Ireland currently has the second highest rate of duty in the EU (behind the UK) and 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 some 10% of tobacco consumed in Ireland in 2016 was non-duty paid, and a further 8% was duty paid in another Member State.

More fundamental threats to tobacco revenues come from more legitimate sources:

- Consumption trends are in decline with less people smoking and those who do smoking less. The Health agenda “A Tobacco Free Ireland” sets a target of less than 5% smoking prevalence in 2025, this figure has already fallen from 28.3% in 2003 to 18.7% in 2016. Additional Health-related initiatives, such as standardised packaging, are designed to encourage reduced consumption.

- The move towards alternative/novel products such as e-cigarettes, which is not currently subject to the Tobacco Products Tax, and heated tobacco products, which may or may not fall under the definition of ‘other smoking tobacco’ currently provided for in the legislation. The EU Commission is currently undertaking a review of the Tobacco Products Tax Directive with a view to examining definitions and treatment of novel products in the Directive.

VRT

	2003 €m	2007 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m
VRT	819	1,406	383	388	379	437	542	648	814
TOTAL Excise Receipts	4,735	6,003	4,834	4,871	4,759	5,006	5,131	5,428	5,795
% of total Excise	17%	23%	8%	8%	8%	9%	11%	12%	14%

Introduction

Vehicle Registration Tax (VRT) is a tax chargeable on the registration of motor vehicles in the State, and has been in place since 1993, when it replaced the Motor Vehicle Excise Duty. VRT is levied as a percentage of the open market selling price (OMSP) of a passenger motor car. Since 1 July 2008, both VRT and Motor Tax on private motor cars have been calculated on the basis of CO2 emissions, so that motor cars with higher emissions attracted a higher tax liability. Car registrations and VRT receipts are, to a large extent, driven by the strength of the economy. Revenues collapsed from a high of €1,406m in 2007 to a low point of €379m in 2012, before a recovery in the economic cycle allowed receipts to pick up in 2013 and grow to €814m in 2016.

Challenges

As mentioned above, VRT is divided into bands with lower rates charged on lower CO2 emitting vehicles. This, together with EU green initiatives, has incentivised manufacturers to develop cleaner and more energy efficient cars, with more and more vehicles falling into the lower rates of VRT. This in itself puts downward pressure on the VRT receipts.

The character of VRT and the way it is applied in Ireland can give rise to charges from the EU Commission that it imposes barriers to the freedom of movement of goods and service. In this regard, the Commission initiated infringement proceedings in relation to our treatment of leased vehicles. The Advocate General gave his opinion in March this year and it was not favourable. We expect the Courts ruling to be announced in July. The Court does not always concur with the Advocate General’s opinion.

Betting Duty and other taxes

Betting duty applies at 1% on all bets accepted by licenced bookmakers. The Betting Amendment Act 2015 extended this duty to the remote sector with the 1% duty applying to licenced remote bookmakers and a 15% duty applying to the commission of licenced betting intermediaries. The

Act put in place a regulatory and licencing regime for the remote sector, thus allowing for a levelling of the playing field with regard to tax. The application of duty to the remote sector was commenced in August 2015. The total revenue from Betting in 2016 was €50.7m.

	Traditional Betting	Remote Betting	Remote Betting Intermediary Commissions	Total
	€m	€m	€m	€m
2016 (Jan to Dec)	28.1	20.7	1.9	50.7

It was agreed at Committee Stage of the Finance Bill 2016 that a review of Betting Duty would be undertaken as part of the Tax Strategy Group 2017. A consultation process was launched in May 2017, where submissions are sought from relevant stakeholders on the current system of betting taxation. The review will consider different options for taxation, such as increasing rates, changing to a gross profits tax like the UK, or placing the tax on the punter.

Sugar Tax

Further to a commitment in the Programme for Partnership Government, Budget 2017 announced a tax on sugar-sweetened drinks to be introduced from April 2018, to coincide with the introduction of the soft drinks industry levy in the United Kingdom.

This sugar-sweetened drinks tax is one of the pillars of the Department of Health's overarching strategy to tackle obesity in Ireland.

A public consultation process was launched on Budget day, seeking input from relevant stakeholders on how the tax will operate in practice. Some 30 submissions were received, primarily from the soft drinks industry and health lobby.

The Department of Finance engaged with DG Competition in the European Commission to protect against any potential State aid issues.

It is expected that full details of the tax will be announced as part of Budget 2018. In the meantime, the development of the tax is ongoing, together with input from Industry, to prepare for the introduction of the tax in April 2018.

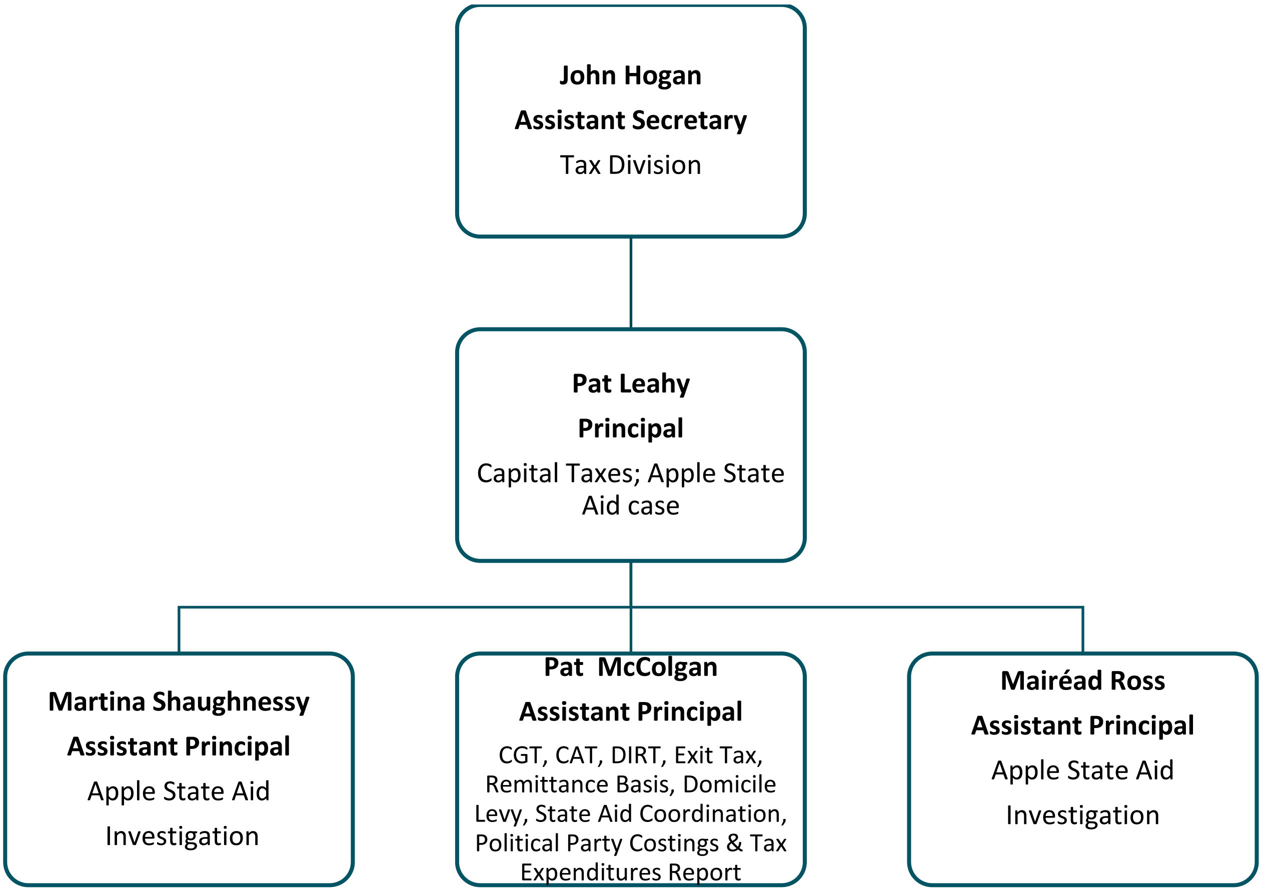
Brexit – Customs issues

Up to now, customs has been viewed largely as an operation issue falling within the competency of the Revenue Commissioners. However, with the advent of Brexit, customs issues are firmly back in the policy sphere. In this regard, creative solutions must be found to meet the

Government’s stated objective of continued freedom of movement, absence of a hard border and minimising disruption to business and trade. This Department will work with the Revenue Commissioners and other Departments to find and implement workable solutions in the context of the EU/UK negotiations.

3.1.3.3 Capital Taxes and EU State Aid Matters

Principal: Pat Leahy



John Hogan
Assistant Secretary
Tax Division

Pat Leahy
Principal
Capital Taxes; Apple State Aid case

Martina Shaughnessy
Assistant Principal
Apple State Aid Investigation

Pat McColgan
Assistant Principal
CGT, CAT, DIRT, Exit Tax, Remittance Basis, Domicile Levy, State Aid Coordination, Political Party Costings & Tax Expenditures Report

Mairéad Ross
Assistant Principal
Apple State Aid Investigation

KEY POINTS:

Capital Gains Tax (CGT) and Capital Acquisitions Tax (CAT) make up 2.3% of the projected tax yield for 2017.

CGT/CAT: current standard rate is 33% for both CGT and CAT. The differential treatment of income and capital for tax purposes, the rates and thresholds are significant policy issues.

DIRT: current rate is 39%, with further reductions to 37% in 2018, 35% in 2019 and 33% in 2020 legislated for in Finance Act 2016.

Exit tax: current rate 41%, exceeding the higher rate of income tax (40%) and the CGT/CAT and DIRT rates.

Apple Case: work is ongoing on the legal case seeking to annul the Commission State Aid decision, and on the recovery of the alleged State Aid.

DETAIL:

Capital Taxes; Apple State Aid case

Capital Taxes

Yield: The Revenue Net Receipts from CAT and CGT in each of the years 2014 to 2017 (estimated for 2017) are set out in the table below (2007 is shown as a comparator) .

Tax Head	2007 (€m)	2014 (€m)	2015 (€m)	2016 (€m)	2017(e)(€m)
CAT	391	356	400	415	440
CGT	3,097	539	692	819	710

Capital Gains Tax (CGT)

CGT is charged on the value of the capital gain made on the disposal of an asset, whether by sale or gift. All classes of assets are covered by CGT, but the majority of the yield relates to property and equity transactions. The significant drop in the CGT yield since its peak in 2007 is due to declining asset values and a reduction in the number of property and share transactions. Liability to CGT is determined by the difference, at the time of disposal of an asset, between the cost of acquisition and the value at the time of disposal. The 2015 and 2016 yields from CGT were slightly higher than projected. These increased yields are related to a rise in both equity markets and property prices. It is currently expected that the 2017 Revenue Net Receipts from CGT will be around €710m. Primarily for protection of yield, CGT rates have increased progressively from 20% in 2008 to the current level of 33%. From 1 January 2016, as a targeted measure, a reduced rate of 20%, up to a limit of €1m, applies to gains from business asset disposals (known as entrepreneur relief). This reduced rate was cut further in Budget 2017, bringing it to 10%, with the same lifetime limit of €1 million.

Main exemptions: disposals to spouses/partners, principle private residence relief, business retirement relief, entrepreneur relief, property purchased between December 2011 and end-2014. The first €1,270 of gains in a tax year are exempt.

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 based on the relationship between the disponer and the beneficiary were increased in Budget 2017 are (with the pre Budget 2017 figure in brackets):

Group A - Son/Daughter: € 310,000 (€280,000);
Group B - Parent/Brother/Sister/Niece/Nephew/ Grandchild: €32,500 (€30,150);
Group C - All others: €16,250 (€15,075). These thresholds can be claimed in conjunction with other available reliefs. The Dwelling House Relief was restricted significantly in Finance Act 2016.

Main exemptions: small gifts of up to €3,000 per annum, spouses/partners, dwelling house exemption (significantly curtailed in Finance Act 2016), agriculture/business relief.

Deposit Interest Retention Tax (DIRT)

DIRT is deducted from deposit interest paid to the accounts of Irish residents. The basic rate is 39% (having been 41% from 1st January 2014 to 31st December 2016, but was reduced by 2% in Budget 2017, which also provided for further 2% cuts in each of the next three years, so that the rate of DIRT will be 33% from 1st January 2020). DIRT is deducted at source by deposit takers (e.g. banks, building societies, Credit Unions, Post Office Savings Bank, etc.) from interest paid or credited on deposits of Irish residents. The basic rate was increased from 20% in 2008, the standard rate of income tax at the time, to 23%, and moved upwards to a high of 41% over time. The increases were introduced primarily to generate additional yield and to encourage spending in the economy to stimulate growth and employment.

DIRT is a “final liability tax”, i.e. it satisfies the individual’s full liability to Income Tax in respect of deposit interest. The individual may still be liable to PRSI on the interest. Deposit interest is not subject to the Universal Social Charge.

Exit taxes; apply to payments and deemed payments from life assurance and funds products, at the same rate as DIRT. The current rate of Exit tax is 41%. Since 2002 it had been the practice to increase/decrease the rate of Exit tax (and some other minor taxes) in tandem with the rate of DIRT, so that they were at the same level, but this was not carried into Budget 2017 due to the high cost of doing so. Had all previously linked taxes been reduced in line with the rate of DIRT, it would have cost an estimated €13.8 million per year per 2% reduction, or €55.2 million per year after four years.

In response to an amendment seeking to retain the link between the DIRT and Exit tax rates during the passage of Finance Act 2017, Minister Noonan made a commitment to refer the issue to the tax strategy group or TSG. The TSG is an interdepartmental committee chaired by the Department of Finance, with membership comprising senior officials and advisors from a number of Government departments and Revenue. It considers papers on various options for the Budget and for the medium and longer term, which meets annually in mid-summer. A paper which covers this matter is currently being prepared for the 2017 TSG.

Main exemptions: Individuals aged 65 and over with total income, including the deposit interest, below €18,000 for single individuals or €36,000 for married couples/civil partners, can have interest paid without deduction of DIRT or can apply for a refund of DIRT deducted. Permanently incapacitated persons whose tax credits exceed any tax payable (including DIRT) are also exempt.

Companies can have bank interest paid without deduction of DIRT, but are liable to CT on the interest at the CT "passive income" rate of 25%. The Exit Tax rate for payments to companies is also 25%.

Yield: The Revenue Net Receipts from DIRT, Life Assurance Exit Tax (LAET) and Investment Undertakings Tax in each of the years 2014 to 2017 (estimated for 2017) are set out in the table below (2007 is shown as a comparator).

Tax Head	2007 (€m)	2014 (€m)	2015 (€m)	2016 (€m)	2017(e)(€m)
DIRT	153	435	300	170	175
Life Assurance Exit Tax (LAET)	75	130	247	228	238*
Investment Undertakings Tax (IUT)	9	29	38	37.45	**

*This is the amount of LAET profiled for 2017
** Profiles for Investment Undertakings Tax (IUT) are not usually prepared

State Aid Investigation regarding Apple

In August 2016 the European Commission announced they have adopted a "Final Decision" in respect of two Apple companies and the Revenue opinions provided to them, stating the Commission's view that State aid was provided.

Separate appeals have been lodged by the Government and Apple in the General Court of the European Union, in the form of an annulment application asking the court to void the whole Decision. The timeline is at the discretion of the court but it is not expected to be concluded before the end of 2017 and possibly later.

Notwithstanding the difference in view between Ireland and the Commission, Ireland is bound by the binding legal obligations the Commission's Final Decision. The Government is therefore committed to ensuring that recovery takes place without delay.
Apple therefore must be deprived of the benefit of the alleged aid and this involves two actions:

1. The calculation of the amount of aid
2. The process by which Apple are denied this amount of money

The Commission have estimated that this will amount to €13bn but the precise sum is to be calculated using the methodology set out in the Decision, which is then subject to interest as set out in EU Regulations. The intensive calculation work has been prioritised and progressed but is

Correction: the word "not"
should be inserted here

not yet concluded, though it is expected that the final recovery amount will be materially different from the Commission's estimate (EU interest is estimated to be under €2bn).

These sums will be placed into an escrow fund with the proceeds being released only when there has been a final determination in the European Courts over the validity of the Commission's Decision (expected to be several years hence).

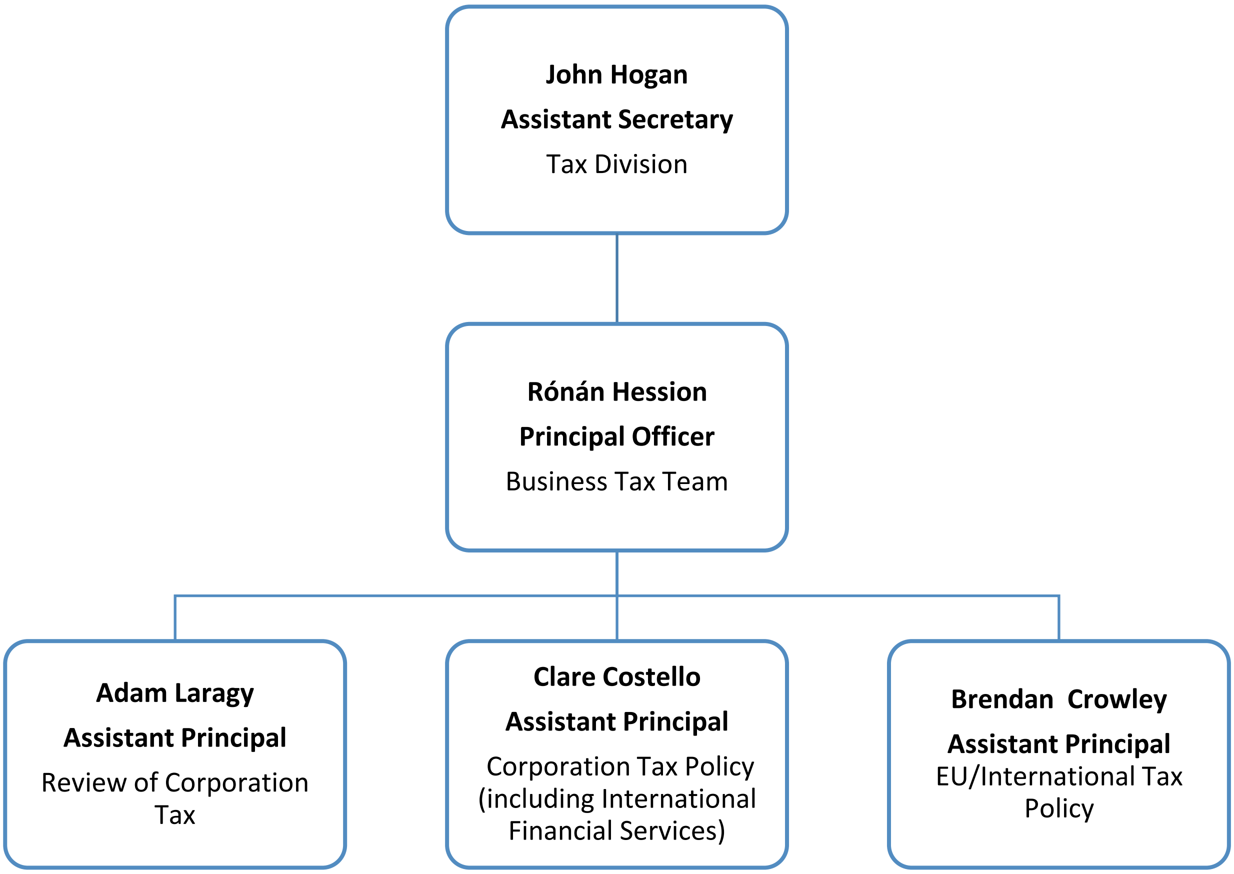
Given the scale and bespoke nature of such a fund, the precise terms are still being developed and negotiated with Apple and the Commission – involving commercially sensitive deliberations. It is expected that the arrangements (including signed contracts) will be in place and the initial funding paid over to the fund before the end of the year.

Significant State resources have been dedicated to this matter - led by the Tax and Banking Divisions of the Department and including officials from the Revenue Commissioners, the National Treasury Management Agency and the Attorney General's Office. External expertise has also been engaged where appropriate (including William Fry who are our main advisers on the escrow contracts).

Although the formal deadline has now passed, it is not uncommon for Member States to require more time for recovery. The Commission have acknowledged the complexity involved in our case but continue to send reminders about Ireland's obligations. Officials remain in regular contact with the Commission and Apple.

3.1.3.4 International and corporation tax policy

Principal Officer: Rónán Hession



John Hogan
Assistant Secretary
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Rónán Hession
Principal Officer
Business Tax Team

Adam Laragy
Assistant Principal
Review of Corporation Tax

Clare Costello
Assistant Principal
Corporation Tax Policy (including International Financial Services)

Brendan Crowley
Assistant Principal
EU/International Tax Policy

KEY POINTS:

Corporation tax receipts are projected to yield €7,715 million in 2017. This is expected to account for 15.2% of the total tax take, in line with previous parameters.

We have been an early adopter of the OECD Base Erosion and Profit Shifting (BEPS) reforms and have been commended for that; however, some important decisions lie ahead about the implementation of further measures, in particular transfer pricing. The Coffey review is expected to make a number of recommendations in this regard. The EU has had a full agenda on business tax in recent years, and the agenda will remain heavy. The Anti-Tax Avoidance Directive was agreed last year which commits Member States to implement significant OECD BEPS recommendations, beginning in 2019. Work at EU level will focus on agreeing a common 'blacklist' of third countries by the end of 2017 and the re-launched CCCTB proposal.

Notwithstanding the challenges ahead, our core offering remains strong and competitive; we will continue to explore ways to keep the Irish system attractive, but in a way that meets new international standards.

DETAIL:

Corporation Tax

Tax Head	2007 (€m)	2013 (€m)	2014 (€m)	2015 (€m)	2016 (€m)	2017 (€m) (Budget 2017 forecast)
CT	6,391	4,270	4,614	6,872	7,351	7,715

Overview

Ireland's corporation tax regime is a core part of our economic policy mix and is a long-standing anchor of our offering on foreign direct investment.

Our **12.5% rate** is internationally competitive; iconic from a policy point of view; and often the subject of comment and pressure on the international stage. This rate is applied to a broad base, a policy which is endorsed by the OECD as it is good for growth in our economy.
Ireland has a competitive corporation tax offering encompassing:

- a 12.5% rate;
- a best-in-class research and development tax credit;
- a competitive regime for intellectual property; and
- a new knowledge development box, offering an effective rate of 6.25% for certain income related to intellectual property.

Corporation Tax Reliefs

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 provides a 25% Tax Credit for qualifying R&D expenditure.

This is a generous tax credit, but is one of the few corporation tax credits that we have in Ireland, when compared with other jurisdictions. The provisional cost for 2015 is €640 million. The cost of the R&D Tax Credit has been steadily increasing in recent years e.g. €282 million in 2012, €421 million in 2013 and €553 million in 2014.

In line with the Tax Expenditure Guidelines, the Department published an 'Economic Evaluation of the R&D Tax Credit' with Budget 2017. The evidence from the evaluation indicates that the R&D Tax Credit is responsible for 60% more R&D being conducted that would be the case if there was no R&D tax credit in place. This is considered to be a reasonable level of additionality.

Knowledge Development Box (KDB)

The KDB is the first patent box of its kind to be OECD compliant. It is an innovation incentive with the purpose of encouraging companies to carry out their substantive activities in Ireland.

The KDB provides that profits from certain qualifying assets, to the extent that these relate to R&D undertaken by the company, chargeable to Corporation Tax in Ireland, can avail of a 6.25%

rate of tax. The estimated annual cost is €50 million, but as the KDB has only been available since 2016, there is no definitive data available on the cost of this measure yet. It is anticipated that the KDB will initially be of most use to smaller indigenous businesses.

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.

Companies can avail of these capital allowances either by fixed write-down period of 15 years or the expenditure can be written off as the value of the intellectual property depreciates in line with accounting standards. The measure is designed to enhance Ireland's competitiveness as a location for the centralisation, management and development of intellectual property.

Alongside their Annual Report, Revenue published 'An Analysis of 2015 Corporation Tax Returns and 2016 Payments'. The report noted that claims under section 291A had increased from €2.7 billion in 2014 to €28.9 billion in 2015. However, this increase is not unexpected given the significant onshoring of intellectual property that took place in 2015, evidenced in the spike in 2015 GDP.

Film Relief

The film relief scheme is intended to act as a stimulus to the creation of an indigenous film industry in the State, creating quality employment opportunities and supporting the expression of the Irish culture. Since 2015, the scheme provides direct support to film producer companies in the form of a tax credit.

Three Year Start-up Relief

Section 486C of the Taxes Consolidation Act 1997 provides for a three-year relief from corporation tax on the trading income and certain gains of new start-up companies, with the value of the relief being linked to the amount of employer's PRSI paid by a company, subject to a limit of €40,000 per year.

Recent Changes

Residency Rules

Recent changes to our corporate tax system include:

- Changing our residency rules, such that the **'double Irish'** tax structure is eliminated over time; and
- Addressing the **'stateless'** issues, such that Irish companies can no longer structure themselves to make themselves tax resident nowhere.

In both cases, the core issue was a mismatch between the Irish and US systems that was exploited by companies; however, the sustained criticism of both were particularly damaging to Ireland's reputation. While these were difficult reforms to introduce because of the uncertain reaction of the FDI community, time has shown them to be the right thing to do, as we achieved greater certainty in the longer-term and these changes kept us ahead of the reforms emerging from the OECD BEPS project.

Finance Act 2016

Section 110 TCA 1997

Finance Act 2016 introduced provisions to deal with the issues concerning the use of the section 110 regime by international investors for Irish property transactions. The amendments were made to ensure that tax will be payable by section 110 companies on their profits from Irish property transactions from September 2016 onwards.

Property Related Funds

Finance Act 2016 also provided for the introduction of a tax regime for Irish Real Estate Funds ("IREFs"). The objective of these provisions is to provide for taxation of investment undertakings, where 25% of the value of that undertaking is made up of Irish real estate assets. IREFs must deduct a 20% withholding tax on certain property distributions to non-resident investors. The withholding tax will not apply to certain categories of investors such as pension funds, life assurance companies and other collective investment undertakings.

International Context

Ireland has been supportive of the **OECD BEPS** project, dealing with aggressive tax planning and harmful tax practices; issues which have emerged as a global priority and which are the subject of much political and societal opprobrium. We have already implemented country-by-country reporting and ensured that our patent box complies with OECD standards. We also agreed the Anti-Tax Avoidance Directive and Dispute Resolution Mechanism Directive at EU level which commit Ireland to implementing four of the additional key BEPS recommendations over the next few years.

As part of the BEPS project, in May 2016, the OECD adopted new guidelines on **transfer pricing**. This is a very hot issue internationally as transfer pricing is a key mechanism for aggressive tax planning and the new rules are intended to address some of the more egregious problems. This is an extremely technical and complex area, where reform requires careful consideration. Ireland's transfer pricing regime is limited in scope and an issue for consideration is whether and how to bring it fully in line with the new OECD requirements in terms of both scope and standards. Handled well, this could modernise our regime with a minimal loss of competitiveness. This is one of the key areas being looked at as part of the Coffey Review.

A **multi-lateral instrument** will be signed by Ireland and around 60 other countries at the OECD on 7 June. This provides the basis for implementing the OECD BEPS changes across the international tax treaty network. Countries signing up to the Instrument have to decide how far they wish to go in implementing the relevant BEPS recommendations. Ireland has indicated the provisional approach to take, which will need to be confirmed by Government when we seek to ratify the Instrument by way of primary legislation.

At **EU level**, there has been significant work on international tax over the last couple of years. A number of Directives agreed over the past year will need to be implemented in the coming years. Currently the priority work is the agreement of a common EU "**blacklist**" of third countries who do not meet agreed tax standards. Ministers have agreed to have a first version of the list in place by the end of 2017. Work is also underway on attempting to agree the defensive measures to take against listed countries. Agreement of the first version of the list will be the key priority for the Estonian Presidency on corporate tax.

The Common Consolidated Corporate Tax Base (CCCTB) proposal will continue to be debated at technical level. The proposal, which was first proposed in 2011, seeks to agree a common tax base among Member States as a first step, before seeking to agree a formula as to where tax should be paid by companies operating within the EU (the "consolidation" aspect of the CCCTB). Ireland has a number of concerns with the proposal as it would narrow our tax base, reduce or competitiveness and restrict our sovereignty to set our own corporate tax rates and policies. There is a lot of negativity among Member States about the proposal although Ministers have agreed to continue discussions. It is unlikely that significant progress will be made.

Debate continues in the US on proposals for significant US tax reform. Changes in the US tax system could have an impact on Ireland given the large volume of US investment in Ireland. The most likely reform would be a lowering of the US corporation tax rate from its current 35% rate. There could also potentially be a change in how the US taxes the overseas operations of US multinationals (including those in Ireland). A more radical proposed reform, which has not been endorsed by the US President, is the introduction of a border adjustment tax which would impose a tax on all imports into the US. At this point, it is very unlikely that any significant progress will be made on US tax reform before the summer.

Any tax changes in the US could pose challenges for Ireland's competitiveness if they alter the competitive balance between Ireland and the US. The exact impact of any changes would depend on the nature of changes ultimately agreed and the Department are carrying out analysis of the potential impact of the various proposals.

Brazil added Ireland to their national tax "blacklist" in September 2016. The listing has negative tax consequences for any Irish business operating in, or with investments in, Brazil. Ireland has appealed the listing and there has been ongoing engagement with Brazil to seek our removal from this list. You may wish to raise the issue with your Brazilian counterpart to support these efforts.

Brexit

Since 2010, the UK have competed aggressively on corporation tax to attract foreign investment. This has included the lowering of its corporate tax rate which will be 17% by 2020. While the UK would have more scope to introduce certain tax measures post-Brexit, it will not impact their ability to set their own tax rate. Additionally, the UK are likely to remain committed to OECD BEPS project and therefore not engage in harmful tax practices.

We are mindful that Brexit could potentially have an impact on a number of sectors of the economy, and any economic impact is likely to see a reduction in corporation tax collected.

Coffey Review

In September 2016, the Government made a number of decisions relating to corporation tax including, commissioning a review of Ireland's corporation tax code by an independent expert, convening a multi-stakeholder event (which took place earlier this year) and appealing the Commission's State Aid ruling regarding Apple. In his Budget 2017 speech, Minister Noonan announced that Seamus Coffey had been appointed to carry out the independent review.

A previous review of corporation tax policy was carried out in 2014. Since that time there have been a number of developments in the international tax environment, in particular the OECD's initiative to combat BEPS and legislative proposals on tax from the European Union. Given these changes it is timely to carry out this review.

The terms of reference of the review address the following matters:

- Further implementing Ireland's commitments under BEPS to tackle harmful tax competition and aggressive tax planning;
- Ensuring that the corporation tax code does not provide preferential treatment to any taxpayer;
- Achieving the highest international standards in tax transparency;
- Delivering tax certainty for business and maintaining the competitiveness of our corporation tax offering;
- Maintaining the 12.5% rate of corporation tax; and,
- The role and sustainability of the corporation tax receipts.

The Department of Finance has recently facilitated a public consultation which sought the views of the public and interested parties on the matters identified by the terms of reference of the review. Responses to the consultation may assist in the formulation of recommendations.

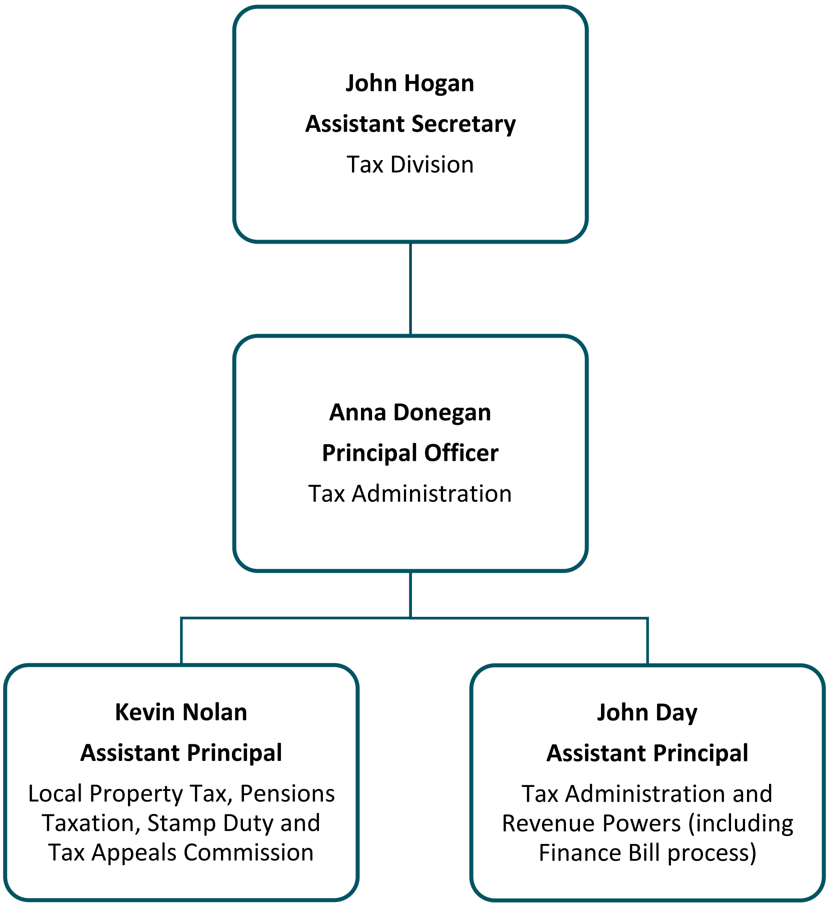
The independent expert will present his recommendations to you by the end of Q2 2017. You will need to decide on bringing the review to Government and on publication of the review.

Interest Limitation

The Anti-Tax Avoidance Directive includes a requirement for countries to amend their rules on allowing companies claim tax deductions for interest payments. The Directive allows Member States to keep their existing rules in place until 2024 if they consider their rules to be "equally effective" to the rules in the Directive. Ireland's current system is different to the Directive, but our analysis suggests that the current rules are at least "equally effective" to the rules in the Directive. To avail of this extension we must provide certain information to the Commission by 1 July and will be requesting your approval to submit this information before then.

3.1.3.5 Tax Administration, Revenue Powers, Local Property Tax, Pension Taxation, Stamp Duty and Tax Appeals

Principal Officer: Anna Donegan



John Hogan
Assistant Secretary
Tax Division

Anna Donegan
Principal Officer
Tax Administration

Kevin Nolan
Assistant Principal
Local Property Tax, Pensions Taxation, Stamp Duty and Tax Appeals Commission

John Day
Assistant Principal
Tax Administration and Revenue Powers (including Finance Bill process)

KEY POINTS:

Pensions: the scope for returning to a long-term stable tax policy suited to a long-term savings commitment, and policy on marginal rate tax relief for pension contributions.

Local Property Tax: examination of the practicalities of implementing the remaining Thornhill recommendations, or a more fundamental review of the LPT.

Tax Appeals: Monitoring the progress of the new Tax Appeals Commission established in March 2016.

Finance Bill: arising from EU “two pack” Regulations, Budget Day must be on or before 15th October each year and the Finance Bill must be enacted before end of the same year.

Restrictions to voluntary disclosure regime: 2,500 disclosures made before cut-off day, to a value exceeding €73m.

DETAIL:

Stamp Duty

Stamp Duty is generally a tax on documents or instruments. The main Stamp Duties are:

- residential property (1% on values up to €1 m and 2% on any balance over €1m)
- Non-residential property (2%)
- Transfers of shares in Irish registered companies on the Main Securities Market (1%)
  - Transfers of Shares in companies listed on the Enterprise Securities Market are exempt from Stamp Duty as of the 5th of June 2017.
  - Minister Noonan, in his Budget 2017 statement, committed to conduct during 2017 a review of the1% stamp duty to be conducted. Preparations for the review are underway.
- 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 on
  - non-Life Insurance (3%; there is also a non-tax "Insurance Compensation Levy" of 2%)
  - Life Insurance (1%), introduced in 2009
  - Health Insurance (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)

Main exemptions: Young trained farmer relief and consanguinity relief.

Issues: monitoring developments on proposals by 10 EU member States (Ireland not part of the group) under enhanced co-operation provisions to introduce a Financial Transactions Tax (FTT).

Pensions

Pension savings for retirement to supplement the basic State pension is encouraged through the tax system by exempting employee and employer contributions from marginal rate taxation (within limits for employee contributions, generally), exempting pension fund investment growth while taxing the pension benefit on drawdown (except for the permissible tax-free lump sum). General restrictions have been applied to the tax reliefs available over the period of fiscal consolidation with the removal of PRSI exemption on and the application of USC to pension contributions. More targeted restrictions on higher-earners have been applied by significant reductions in the annual earnings cap for determining annual tax-relieved contributions, a lifetime cap on tax-free retirement lump sums and a lifetime cap on the maximum allowable pension fund at retirement for tax purposes (the Standard Fund Threshold). In addition, stamp duty levies were applied to the assets of funded pension saving arrangements over the period 2011-2015 to pay for the Jobs Initiative.

While the levies were removed, the effect on pension funds and scheme members remains. Pension schemes passed on the levy to members, which means existing pensioners received permanent cuts to their pensions. This is a matter which receives frequent attention in the form of representations and parliamentary questions.

Over half of the workforce (mostly in the private sector) do not have supplementary pension coverage. Consistent with the commitment in the Programme for a Partnership Government to work to make “older years better years”, the Minister for Social Protection is working to develop an Action Plan for pension reform. This is expected to set out a vision and five-year plan to enable sustainable and adequate income for people in retirement. We understand the Minister is examining areas for inclusion including reform of the contributory State Pension, the introduction of automatic enrolment in a new earnings-related retirement savings system, measures to provide for improved standards and governance of existing schemes and the establishment of an Inter-Departmental pensions reform and taxation group. The Action Plan is expected to be brought before Government before end year.

The Minister for Social Protection recently announced that the Government had approved the publication of the General Scheme of the Social Welfare and Pensions Bill 2017, which contains measures to increase protections for members of Defined Benefit Occupational Pension Schemes and respond to the difficulties in DB schemes.

Issues: Pension saving is a long-term commitment best served by stable long-term policy. Tax policy changes in this area in recent years have of necessity been determined by shorter-term fiscal needs. This has created uncertainty and damaged trust in pension saving. Marginal rate tax relief on pension contributions is costly to the Exchequer and its retention is an ongoing issue. The pensions sector argues that its removal would further damage pension saving. The ARF option for Defined Contributions pension savings has been in place for 17 years and some aspects need to be reviewed (for example the Approved Minimum Retirement Fund).

Local Property Tax

Annual yield	2007 (€m)	2013 (€m)	2014 (€m)	2015 (€m)	2016 (€m)
LPT	NA	316	493	475	463

The Finance (Local Property) (Amendment) Act 2015 provided for the postponement of the next LPT revaluation date from November 2016 to 2019. The Government decided that the remaining 11 recommendations in the 2015 Thornhill Report were to be left for consideration in due course by the incoming Government. Amongst these is the Report's central recommendation which can be summarised as -

- a minimum yield, comparable to current amounts raised by local authorities, which must be raised by each local authority would be set centrally by Government as part of the process for setting the national budget.
- Revenue and the Department of Finance would estimate the property tax rates to be applied in each local authority area in order to raise this minimum yield.
- Local authorities, on receipt of this information, could adjust this rate upwards by a factor of up to 15%.

Issues: Examination of the practicalities of implementing the remaining Thornhill recommendations, or a more fundamental review of the LPT.

Tax Appeals Commission

The Tax Appeals Commission was established in March 2016 and replaced the Office of the Appeal Commissioners. The Commission was created as part of the reform of the tax appeals system undertaken by the Minister for Finance which has its legislative underpinning in the Finance (Tax Appeals) Act 2015. The Act streamlines various provisions in the tax code relating to the making of an appeal against taxes and duties, and the standardising of timeframes for lodging an appeal.

Key changes in the tax appeals system include –

- The processing of tax appeals is now entirely independent of the Revenue Commissioners, as all appeals are made by taxpayers directly to the Tax Appeals Commission.
- In pursuance of the objective of increased transparency of the appeals process, taxpayers now have the right to have their appeals heard in public if they so wish.
- When determining an appeal, the Appeal Commissioners may now have regard to previous determinations in appeals that raised common or related issues and may in appropriate cases determine the new appeal without holding a hearing.

- The Appeal Commissioners may now determine an appeal without holding a hearing which means that in suitable cases a taxpayer can have his/her case determined without incurring the cost of professional representation at a hearing.
- The Appeal Commissioners now have significantly greater statutory powers to issue directions, the right to schedule case management conferences, the right to stay proceedings and the right to dismiss an appeal.
- The Appeal Commissioners are now required to issue a concise reasoned determination in all cases within a short period of their determination, including a summary of the facts and giving reasons for the decisions.

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. Specifically:

- 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 the 15th of October each year;
- draft budgetary plans in a common format must be submitted by all Euro area Member States not in a programme of assistance; and
- the budget for the central government must be adopted or fixed upon and published by the 31st of December each year.

From 2013 onwards, Budget Day has been on or before the 15th of October. The Finance Bill also completes its passage through the Oireachtas by the 31st of December each year. This is in line with EU legal requirements.

The Finance Bill, which is a Money Bill, addresses all tax measures included in the Budget which require legislative provision or amendment. It also addresses measures related to tax administration, Revenue powers and the statutory imposition of anti-avoidance measures. The Bill is drafted through close consultation between the Department, Revenue and the Attorney General's Office, subject to approval of all measures by the Minister.

Restrictions to voluntary disclosure regime:

In his Financial Statement to the House on 11th October 2016, Minister Noonan indicated that he would act to restrict the opportunity for tax defaulters to use the voluntary disclosure regime with effect from May 2017. In line with this undertaking, section 56 of the Finance Act 2016 provided that, as and from the voluntary disclosure deadline date, the making of a qualifying disclosure is no longer permitted where the tax liabilities involved relate to offshore matters.

The period during which a qualifying disclosure could be made to the Revenue Commissioners in relation to offshore matters ended on 4th May 2017. As of 18th May disclosures received were still being processed by Revenue. Revenue advised the number of disclosures exceeds 2,500, with a value of more than €73 million, the disclosures relate to a range of offshore matters, including foreign sources of employment–related income, foreign pensions, income from overseas property, offshore bank accounts and trusts and funds.

Revenue are now examining all of the disclosures received, to determine which of them can be settled without further action and to identify any cases in which further inquiries may be required before they can be brought to finality. Anybody who has tax liabilities relating to offshore matters and who did not act by the deadline of 4th May to address them now faces the prospect of substantially higher penalties, publication in Revenue’s quarterly list of tax defaulters and possible prosecution. Revenue is committed to making full and effective use of the large volumes of data that it will receive, under international arrangements for the automatic exchange of information, to identify and pursue anybody who attempts to evade his or her tax obligations by using offshore accounts, assets or structures.

3.1.4 EU & International Division

DESCRIPTION

This Division deals with the development and implementation of strategies at EU/Euro area level and internationally in relation to economic, fiscal and financial policy formulation and the cross-Departmental coordination of EU policy. It manages the EU budgetary process and EU economic governance 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.

Assistant Secretary: Nicholas O'Brien

The current focus of EU Policy priorities

• EU/UK: Ensuring that our interests are fully protected in advance of the UK's exit from the EU.

• GOVERNANCE: Ensuring that the outcome of the debate on the future of the EMU, based on the White Paper on the Future of Europe and associated Reflection Papers, is aligned with protecting Ireland's interests.

• TAXATION: Protecting our corporate tax regime, focussing on rate, reputation and regime.

• FINANCIAL SERVICES/BANKING: Completing Banking Union, progressing the Capital Markets Union and European Fund for Strategic Investments

Key Committees/High level EU groups

ECOFIN (Council of Finance Ministers) – attended by Minister

Eurogroup (Finance Ministers of the Euro zone) – attended by Minister

Economic and Finance Committee (EFC)* – attended by Nicholas O'Brien (Assistant Secretary)

Euro Working Group (EWG)* – attended by Nicholas O'Brien (Assistant Secretary)

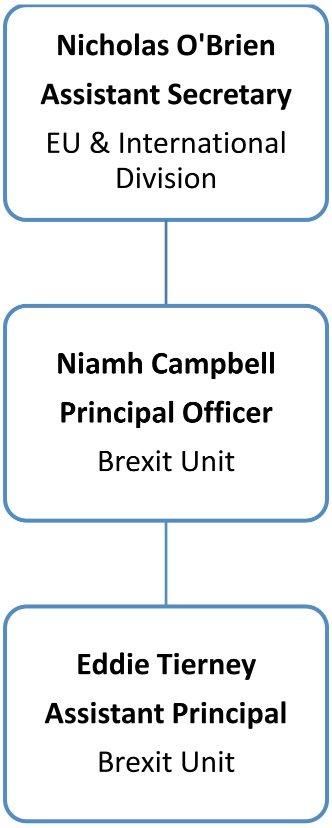
Economic and Financial Committee – Alternates – attended by John McCarthy (Chief Economist)

Economic Policy Committee (EPC) – attended by Pat Casey (Principal Officer)

** both of these groups prepare issues for Ministerial consideration at Eurogroup and ECOFIN*

3.1.4.1 Brexit Unit

Principal Officer: Niamh Campbell



Nicholas O'Brien
Assistant Secretary
EU & International Division

Niamh Campbell
Principal Officer
Brexit Unit

Eddie Tierney
Assistant Principal
Brexit Unit

KEY POINTS:

Brexit

One of the most important EU level issues is Brexit. The Brexit Unit, established following the UK referendum, manages this issue in the Department and is the key contact point for the Departments of Taoiseach and Foreign Affairs. The role includes coordination of the Department’s contribution to the overall Government response including preparation of Ministerial brief for the Brexit Cabinet Committee, participation in interdepartmental fora and sectoral workgroups and input to the EU level negotiations. The Brexit Unit manages two interdivisional fora which discuss Brexit policy issues – monthly EU Strategy Committee and weekly Principal Officer Group.

EU Strategy Committee

This is an inter-divisional sub-Committee of the Executive Board. The Committee meets monthly and is chaired at Assistant Secretary level. The committee provides a forum for exchanging information and holding substantive discussions on all EU policy matters. The Committee is now a key forum for cross divisional discussion of Brexit issues, and plays an important role in developing and devising the Department’s policy response. The EU Strategy Committee is managed by the Brexit Unit which also provides the secretariat.

DETAIL:

Brexit Unit

Following the referendum outcome and in line with the intensification of work across whole of Government level, a new Brexit Unit within the EU and International Division was established in July 2016 to oversee and coordinate Brexit work and to act as a key liaison point with the Departments of Taoiseach and Foreign Affairs, in particular.

There are currently four staff in this unit which is led at Principal level. In addition, the Department of Finance staff complement in the Irish Permanent Representation to the EU in Brussels has been strengthened, specifically to deal with Brexit.

The Brexit unit has responsibility for coordinating the development of policy advice to the Minister and Government on economic/financial issues relating to Brexit. The unit is also responsible for coordinating and managing the Department's participation and input into the interdepartmental EU-UK Senior Officials Group, the Minister's brief for the Brexit Cabinet Committee, the Departments engagement with the Brexit Sectoral Working Groups, and the Departments engagements with the negotiation process.

Brexit issues are being dealt with on a cross department basis and are managed through the EU Strategy Committee and a cross-divisional Working Group at Principal Officer Level. Brexit issues are mainstreamed into the Department's work in all areas including economic analysis, financial services and taxation and are reflected in business planning. Brexit is also a standing item on the Department's weekly Executive Board agenda.

EU Strategy Committee

The EU Strategy Committee is an inter-divisional sub-Committee of the Executive Board, it provides a forum for exchanging information and holding substantive discussions on EU policy matters. Brexit issues are discussed as a standing item.

The Committee meets monthly and is chaired at Assistant Secretary level. It brings together a number of Divisions across the Department to develop, coordinate and guide the overall Departmental policy response on EU issues of a strategic nature. These Divisions are Economic Division, Taxation Division, EU and International Division, Banking and Financial Services Divisions which are also represented on the committee at Assistant Secretary level.

The committee actively examines and monitors EU-UK developments and through the Executive Board and Secretary General, provides advice to the Minister for input to Government strategy.

Inter-divisional Principal Officer Group

Given the expected intensification of work in early 2017, the EU strategy committee agreed to establish an Interdivisional Principal Officer Group for interaction and information exchange between Principal Officer's from relevant divisions on a weekly basis from Q1 2017.

Inter-departmental Senior Officials Group on EU-UK Relations

In order to deepen analysis at whole of Government level the Senior Officials Group on EU-UK Relations, which prepares the Brexit Cabinet Committee, has established 6 Sectoral Workgroups to progress issues [redacted]

Redacted under Sections 29(1)a, 30(1)c, 33(1)c of the FOI Act 2014

[redacted]

[redacted] Workgroup issues papers have been prepared and are updated and reviewed on an ongoing basis.

Redacted under Sections 29(1)a, 30(1)c, 33(1)c of the FOI Act 2014

Inter-departmental Senior Officials Group on EU Affairs

The Department of Finance participates at the EU affairs Senior Officials Group which is chaired by Department of Foreign Affairs and Trade. This group has been being tasked, inter alia, with taking forward future alliance building work, including the Brexit impact on EU dossiers.

Department of Finance Key Brexit Issues

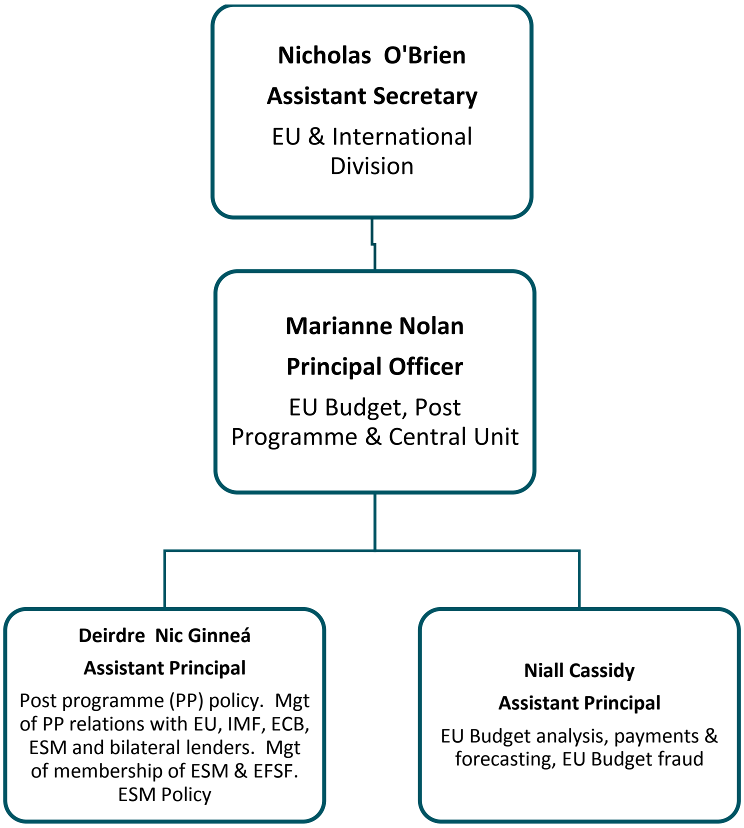
The Governments four headline priorities for Ireland are: minimising impact on trade and the economy; protecting the Northern Ireland peace Process; maintaining the Common travel Area; and influencing the future of the European Union.

Departmental policy areas impacted by Brexit include - Macroeconomic impacts; Financial Stability; EU financial services policy; Irish financial services sector; EU Budget; Taxation, including Customs; and EIB issues. The Department is also managing Ireland’s bid for the European Banking Authority. Internally the Brexit Unit maintains a rolling analysis of the key policy issues arising for the Department.

Budget 2017- As part of Budget 2017, the Department published the Economic and Fiscal outlook which presented a full macroeconomic projection taking into account the impacts of Brexit. These forecasts were updated in April 2017 as part of the Stability Programme Update. Budget 2017 also containing a range of policies targeted to support exposed sectors. The Department has also published detailed analysis of sectoral exposure to Brexit across the economy and has worked with the ESRI to examine the potential medium to long term macroeconomic impacts of Brexit.

3.1.4.2 EU-IMF Post Programme Monitoring & Surveillance/ EU Lending instruments & Programme Loans/ European Stability Mechanism Policy, and EU Budget

Principal Officer: Marianne Nolan



Nicholas O'Brien
Assistant Secretary
EU & International Division

Marianne Nolan
Principal Officer
EU Budget, Post Programme & Central Unit

Deirdre Nic Ginneá
Assistant Principal
Post programme (PP) policy. Mgt of PP relations with EU, IMF, ECB, ESM and bilateral lenders. Mgt of membership of ESM & EFSF. ESM Policy

Niall Cassidy
Assistant Principal
EU Budget analysis, payments & forecasting, EU Budget fraud

KEY POINTS:

This Unit manages our relationship with the IMF, ECB and European Commission in the context of our EU/IMF programme, and also the EU budget.

Current Issues:

EU Funding Mechanisms and Policy/ Programme Loans

[The European stability Mechanism (ESM) is the EU's €700 billion bail-out fund, of which the Minister is the Irish Governor.]

- Ongoing management of EU Funding Mechanisms & Programme Loan conditions.
- Participation on the Task Force for coordinated Action (TFCA) working on the development of a permanent backstop to the Single Resolution Fund (meetings every 2-3 weeks)
- Greek debt relief measures: Assessing proposed debt measures for Greece to ensure that there is no cost implication for Ireland in terms of the cost of our EFSF programme loans. Ongoing management of Greek Loan Facility.

EU Budget

- Forecasting and payment of Ireland’s EU budget contribution.
- Brexit impact on EU budget.
- Multiannual Financial Framework (MFF) Post-2020.
- High Level Group on Own Resources (HLGOR).

DETAIL:

Post Programme Surveillance/Monitoring (PPS/M):

Following exit from the EU-IMF Programme of Financial Support in December 2013, Ireland is now subject to Post Programme Surveillance/Monitoring (PPS/M). Post-programme surveillance (PPS) is conducted by the European Commission and the ECB whereas the Post-programme monitoring (PPM) is conducted by the IMF. PPS/M review missions are held twice a year and normally take place in April/May and again in November/December.

The next (8th) PPS review by the European Commission ECB and the IMF is scheduled to take place in late November/ early December. The objective of Post-Programme Monitoring/Surveillance (PPM/PPS) is to assess Ireland's economic, fiscal and financial situation following the completion of the EU-IMF financial assistance programme. The focus of the assessment is on Ireland’s ability to repay. The discussions cover the key areas of macroeconomic outlook, financial sector developments, the budgetary outlook and structural reform measures.

Duration: Based on current maturities post programme surveillance will continue until 2021 for the IMF and 2032 for the EU. The early repayment of the IMF loans will not affect the duration of the post programme monitoring.

EU Funding Mechanisms/ Programme Loans:

Ireland’s EU/IMF Programme Loans:

With the final disbursement from the EFSM in March 2014, Ireland had drawn down the full €67.5 billion in external funding available under the *EU/IMF Programme*.

In late 2014 and early 2015, just over €18 billion (SDR[2] 15.7 billion) or 81% of the original IMF loan facility was repaid early and replaced with cheaper, market based funding. The interest savings resulting from these early repayments were estimated at over €1.5 billion over the remaining lifetime of the loans. The Programme loan amounts outstanding as of end-April 2017 are as follows:

Lender	Total Amount Outstanding

[2] IMF loans are denominated in Special Drawing Rights (SDR), an international reserve asset created by the IMF.

IMF	€4.4 billion* (SDR3.8 billion)
EFSF	€18.4 billion
EFSM	€22.5 billion
UK	€4.0 billion* (£3.2 billion)
Sweden	€0.6 billion
Denmark	€0.4 billion
Total	**€50.3 billion**

Source: NTMA

** Euro equivalent figures take account of the effect of currency hedging transactions.*

EU Funding Mechanisms: The Unit supports the Minister as a Governor of the ESM fund and the Assistant Secretary as a Director of the ESM. It manages policy aspects of EU-IMF Programme loans, in conjunction with NTMA; it also ensures that loan facility conditions continue to be observed. It implements the General Government Secured Borrowings Order (S67 CIS Act 2010) which requires ministerial consent from time to time. It also manages the Greek Loan Facility, under which Ireland made €347 million available to Greece.

EU Budget

Article 314 of the Treaty of the European Union (TEU) provides for a European Union budget to finance the various activities which underpin the Union's policies. These include agriculture (CAP), structural & 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, since 2014 Ireland has been a net contributor to the budget, a trend which is forecast to become even more pronounced in the coming years.

The core work of the EU Budget Section involves:

- Forecasting IE contributions to the EU budget,
- Making bimonthly payments to the EU,
- Ensuring the outcome of budget negotiations 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.

- The section also has a national coordination role in relation to aspects of EU budget fraud.

Contributions & Receipts

As referenced above, Ireland has been a significant net beneficiary from the EU Budget since accession in 1973, attracting c.€70bn more receipts while contributing c.€ 30bn. However, 2014 represented the first time Ireland was a net contributor. In 2015, the last year for which complete data is available, Ireland contributed c. €1,952 million towards the financing of the EU budget and received €1,771 million. Contributions in 2016 amounted to €2,023 million.

The vast majority of Irish receipts (c. €1,216 million in 2015) are direct payments to Irish farmers, with a further €364 million in the rural development fund.

In addition, the recently enacted Own Resources Decisions (ORD) and the revisions to the National Income and Expenditure Accounts (NIE) 2015, both had the effect of increasing our share of contributions to the EU budget. Therefore, it is worth noting that Irish contributions to the EU were already forecast to become even more pronounced in the coming years, even before Brexit, which is likely to exacerbate the above further.

The impact of the above factors is that Ireland is now clearly a net contributor to the EU budget, with the result that any additional spending proposals (under the vast majority of budget lines), are likely to have a negative impact on Ireland's overall net position (contributions less receipts).

Contributions to the EU Budget comprise customs duties, a VAT related payment and a GDP related payment, which is the largest element.

Post-2020 Multiannual Financial Framework (MFF)

The Multiannual Financial Framework (MFF) agreed by unanimity lays down the maximum annual amounts which the EU may spend in different political fields. The current MFF covers seven years from 2014 to 2020. A mid-term review (MTR) of the MFF was published by the Commission in September 2016; while endorsed by the Council members in March 2017, it has yet to be fully ratified at Council level due to the purdah in advance of the UK general election. It sets the scene for the next MFF, outlining priority areas such as migration, terrorism and economic competitiveness. According to Article 25 of the Council Regulation laying down the MFF 2014-20, "before the 1 January 2018, the Commission shall present a proposal for a new multiannual financial framework". It remains to be seen how this timeline will be impacted by Brexit negotiations.

According to Article 25 of the Council Regulation laying down the MFF 2014-20, "before the 1 January 2018, the Commission shall present a proposal for a new multiannual financial framework". It remains to be seen how this timeline will be impacted by Brexit negotiations.

Brexit impact on EU budget

Until it formally withdraws from the European Union, the UK remains a full EU Member, with all of its existing rights and obligations including in relation to the EU Budget. Brexit will involve complex discussions on the MFF, particularly as the UK is an important net contributor to the EU Budget, in the region of €10 billion a year. Therefore, Brexit will have a significant impact on EU Budget funding and expenditure and may need to be mitigated by either increased contributions from other Member States, reductions in EU funding programmes, or a combination of both.

While the Department has undertaken broad modelling work to estimate the potential impact of Brexit on our EU budget calculations, this analysis will be refined when the parameters of the budget negotiations are better defined. In particular, a key point will be getting agreement amongst the EU27 on a common approach to the future of the EU Budget.

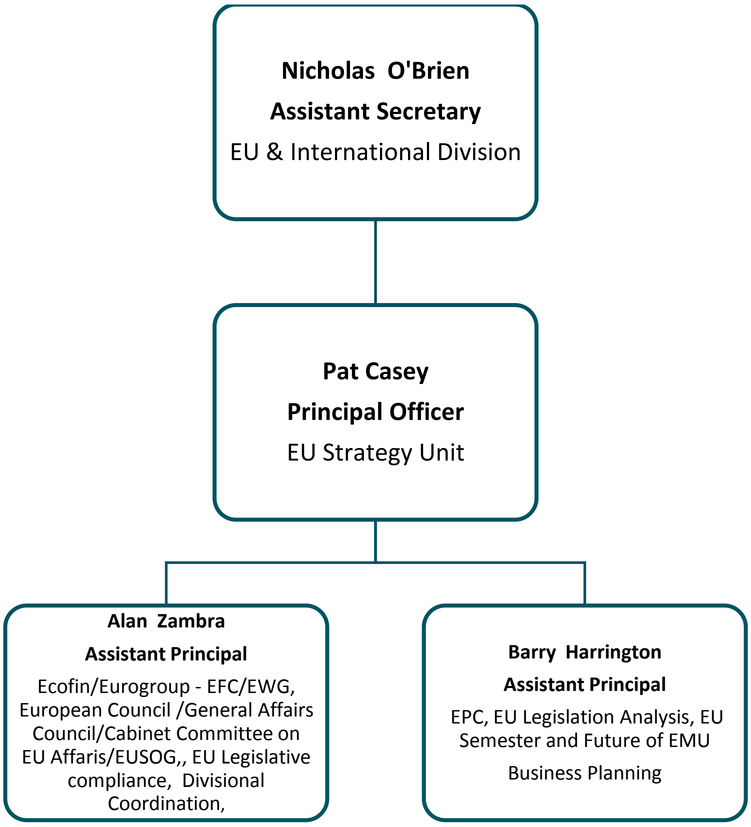
High Level Group on Own Resources (HLGOR)

As part of the agreement reached with the European Parliament on the new MFF, the establishment of a High Level Group on Own Resources (revenue streams for the EU budget) was agreed. The purpose of this group is to undertake a general review of the EU Own Resource (OR) system, guided by the overall objectives of "simplicity, transparency, equity and democratic accountability". The Group is chaired by former Italian PM Mario Monti and includes representatives from the Council, Commission and Parliament.

The report was published in January 2017. The report makes recommendations in relation to a reformed VAT-own resource (replacing the existing one), corporate income tax-based own resource, financial transaction tax or other financial activities' tax, and also climate related taxes. To-date Member States (MS) have not been supportive of radical change to the current OR system and any proposals for change of the Own Resources system will be subject to unanimity.

3.1.4.3 EU policy coherence and co-ordination

Principal: Pat Casey – EU Strategy Unit



Nicholas O'Brien
Assistant Secretary
EU & International Division

Pat Casey
Principal Officer
EU Strategy Unit

Alan Zambra
Assistant Principal
Ecofin/Eurogroup - EFC/EWG, European Council /General Affairs Council/Cabinet Committee on EU Affaris/EUSOG,, EU Legislative compliance, Divisional Coordination,

Barry Harrington
Assistant Principal
EPC, EU Legislation Analysis, EU Semester and Future of EMU
Business Planning

KEY POINTS:

This Unit manages the Department's engagement at high level EU fora including ECOFIN, Eurogroup, Economic and Financial Committee (EFC), Eurogroup Working Group (EWG), EFC-Alternates (and in Euro Area formation), Economic Policy Committee (and in Euro Area Format) and the European Council.

The Unit acts as a focal point both internally and externally on EU Developments within the Department and supports the Minister's quarterly appearance in front of the Joint Committee on Finance and Public Expenditure and Reform to discuss matters pertaining to the ECOFIN agenda.

Malta currently holds the EU Presidency to be followed in the second half of the year by Estonia and then Bulgaria in January 2018.

EU semester process, EU economic governance issues and EU strategy

The Economic Governance section is responsible for two main areas of work:

This includes the 1) EU Semester and 2) the Future of Europe including proposals to deepen the Economic and Monetary Union.

1) EU Semester

Following the economic and financial crisis, the EU and Euro Area introduced a wide range of economic governance reforms. The Semester process is a multi-stage process and the 2017 EU Semester began with the publication by the European Commission of the Annual Growth Survey, the Alert Mechanism Report and the Recommendations for the Euro Area on the 16 November 2016. The last stage in the process was the publication by the European Commission of its Country Specific Recommendations for all EU Member States, that are not in an economic assistance programme, on 22 May 2017. Ireland received three Country Specific recommendations from the Commission. These recommendations are similar to last year's recommendations and relate to fiscal policy, targeting government expenditure and non-performing loans.

Following the publication of the CSRs on 22 May, the recommendations will be discussed in the preparatory committees of the ECOFIN Council before being agreed at the 16 June ECOFIN and submitted to the Heads of State or Government for endorsement at the 22-23 June European Council.

2) Future of Europe, including deepening Economic and Monetary Union

The current focus at EU level is on proposals to explore, develop and deepen EU27 cooperation in the post Brexit environment. From the Department's perspective the most important element of this is the moves towards deepening the Economic and Monetary Union as outlined in the European Commission's White Paper on the Future of Europe, published on 1 March 2017 and in the European Commission's Reflection paper on the Future of the Economic and Monetary Union.

DETAIL:

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

Eurogroup and ECOFIN meet every month, except August, usually on a Monday and Tuesday bar the two informal meetings which take place on a Friday and Saturday. At ECOFIN level there are nine formal Councils (seven 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). The Eurogroup meets formally on eleven occasions during the calendar year. There are also special meetings called, as needed, to deal with specific issues such as the consideration of the Draft Budgetary Plans of Eurozone Members (usually in October/November) and specific country issues (the situation in Greece has featured).

Presently, Malta hold the role of EU President (to be followed by Estonia for the second half of the year). Economic growth and jobs is be the overarching priority during the Maltese Presidency who have listed their economics and finance priorities as being in the areas of:

- Financial Services
- Taxation
- Economic Governance
- EU Budget
- Investment

At Eurogroup the focus is on issues affecting specific countries, structural reforms and the economic situation within the Eurozone with a particular focus on the budgetary plans of the nineteen Members. The President of Eurogroup is Mr Jeroen Dijsselbloem, the current Netherland's Finance Minister. His term of office ends in January 2018 but his position remains unclear owing to the outcome of the recent Dutch Elections which appear to make it unlikely that he will continue as Finance Minister following the formation of their new Government.

On behalf of the Minister, briefing on the formal nine monthly ECOFIN Councils agenda items is provided to the Joint Committee on Finance and Public Expenditure and Reform. In addition, the Minister makes himself available to attend the Committee on a quarterly basis, should it be requested, to discuss matters pertaining to the ECOFIN agenda.

Reports are submitted to the Minister with an update on progress on all EU legislative initiatives. Information Notes on EU proposals are submitted by the Unit on behalf of the Minister to the Oireachtas for consideration, especially where issues of subsidiarity might arise. The Unit produces 'Six Monthly Reports on EU Developments' which are submitted to the Oireachtas on behalf of the Minister and formally published on the Oireachtas and Departmental website.

The Unit also prepares material for the Minister for engagement with the Cabinet Sub-Committee on EU Affairs and attends the fortnightly EU Senior Officials Group, hosted by the Department of Foreign Affairs and Trade, where cross departmental EU related issues are discussed.

The Unit also acts as first point of contact for EU Enlargement Matters and Trade Agreements where departmental issues may arise and also sources briefing material on behalf on foreign missions located and other parties such as Oireachtas Committees and Government Departments on relevant EU issues.

EU semester process, EU economic governance issues and EU strategy

Economic Governance and European Semester

It is a strategic priority for the Department to ensure that the new EU fiscal rules established post financial crisis are effectively and proportionately operated by the Commission taking full account of country specific conditions.

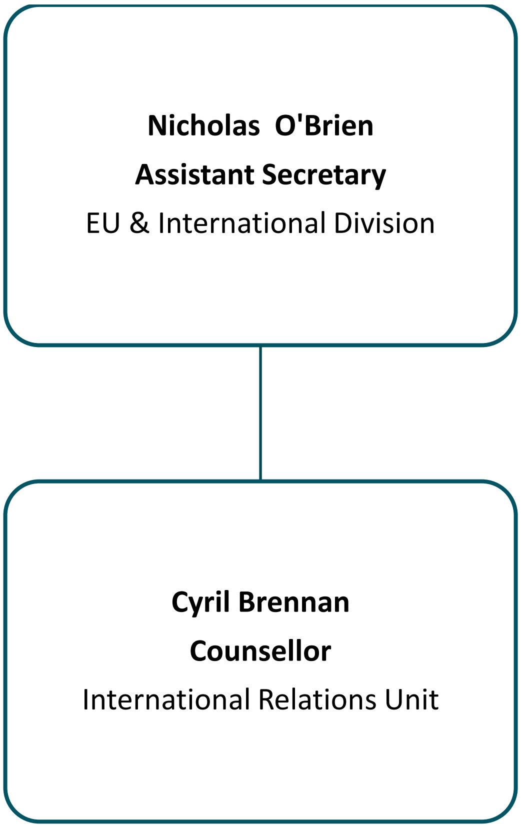
At national level, the Governance section is responsible for managing the Department's engagement in the EU semester process, the new process of economic policy coordination for EU Member States, which is overseen by the Department of the Taoiseach. Following Ireland's successful Programme exit, Ireland participated in the Semester cycle for the first time in 2014, under which we received a range of Country Specific Recommendations (CSRs) covering public finances, financial sector issues and structural reforms. The 2015, 2016 and 2017 CSRs also addressed these policy areas.

At EU level, the Governance section is responsible for managing the Department's engagement on the Future of Economic and Monetary Union file. This work follows on from the 'Five Presidents' Report' (of the Commission, ECB, Eurogroup, Parliament and Euro Area Summit) presented to the June 2015 European Council. This identified two stages in further economic, fiscal and financial integration of the Euro Area: short-term proposals which focus on reforms within the existing Treaties until 2017, and more far-reaching reforms in the medium term which may necessitate Treaty amendment.

On 1 March 2017, the European Commission published a White Paper on the Future of Europe. It contains five scenarios of where the EU could be in 2025. The White Paper will be supplemented with five reflection papers. The third reflection paper, published on 31 May, focuses on Deepening the Economic and Monetary Union. The paper builds upon the 'Five Presidents' Report' and proposes two stages for proposals and reforms, i.e. short term actions which are prior to the European Parliamentary Elections in 2019 and more medium term actions by 2025.

3.1.4.4 International Relations Unit

Counsellor: Cyril Brennan (on secondment from the Department of Foreign Affairs and Trade)



Nicholas O'Brien
Assistant Secretary
EU & International Division

Cyril Brennan
Counsellor
International Relations Unit

KEY POINTS:

The main objectives of the work of the International Relations Unit are to manage all Ministerial visits and relevant senior officials' visits abroad, as well as incoming visits and to act as a senior policy level liaison between the Department and the Department of Foreign Affairs and Trade and Ireland's network of Embassies and Missions abroad. It collates reports from our Embassy network so that the Minister is fully informed of EU and international developments.

The Unit also has a role in enhancing dialogue, at a bilateral level, with partners in Finance Ministries across the EU in order to foster closer ties and advance our interests at EU level and to develop and deepen dialogue with Finance Ministries outside the EU and with other relevant economic partners.

The Unit is also centrally involved in the organisation of the National Economic Dialogue which is part of the annual budgetary framework.

DETAIL:

The Unit implements a structured programme of inward and outward visits, at both Ministerial and official level, with the objective of deepening alliances in order to advance our national interests. At Ministerial level, this can include bilateral meetings with EU and international partners. At official level, it includes management of annual bilateral consultations with the UK Treasury, consultations with incoming EU Presidencies, and participation in annual consultations with the senior management of the Treasuries of Canada, UK, Australia and New Zealand.

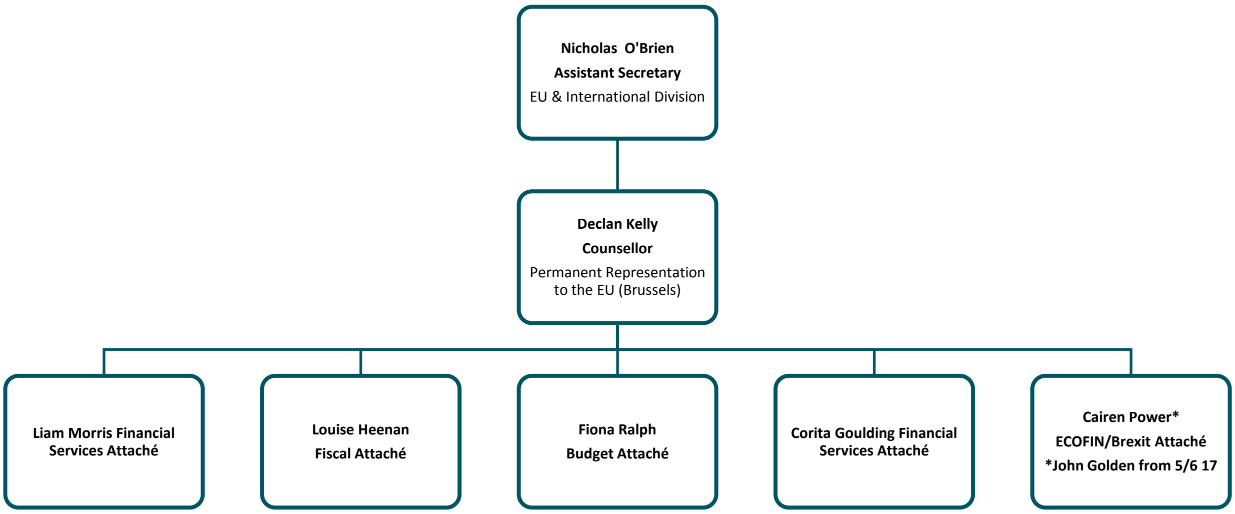
Ahead of each ECOFIN meeting, the Unit puts together a "scene setter", based on information from Missions in EU capitals, outlining issues on the minds of Finance Ministers across EU Member States. Brexit, the global economic and financial situation, and G20 and G7 developments are also the subject of ongoing briefing.

Providing briefing and advice on international economic and political developments is an important part of the Unit's work. Reports and analysis from Ireland's network of Missions abroad is used to brief and advise on such developments. Current issues include the implications of Brexit, the situation in Greece, international tax issues (including potential US tax reform, and Brazil's inclusion of Ireland on their tax black list), international reaction to the European Commission's ruling on the Apple State Aid case, international trade issues (such as the US Presidential Executive Order on Significant Trade Deficits) and political and banking sector developments in countries of interest.

The Unit is also centrally involved in the organisation of the National Economic Dialogue which is part of the annual budgetary framework.

3.1.4.5 Permanent Representation of Ireland to the EU

Financial Counsellor - Declan Kelly


Nicholas O'Brien
Assistant Secretary
EU & International Division
Declan Kelly
Counsellor
Permanent Representation to the EU (Brussels)
Liam Morris Financial Services Attaché
Louise Heenan
Fiscal Attaché
Fiona Ralph
Budget Attaché
Corita Goulding Financial Services Attaché
Cairen Power*
ECOFIN/Brexit Attaché
*John Golden from 5/6 17

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.

An Attaché from Department of Public Expenditure and Reform also work as part of the team. Talks are ongoing with the Central Bank about the assignment of a Bank official to the Finance team in Brussels.

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. The Assistant Secretary from this Department also attends to advise on economic and financial matters.

The Council of the European Union ('the Council') meets 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 the Minister. Member States whose currency is the Euro meet in advance of ECOFIN, in the formation known as Eurogroup. The current president of Eurogroup is Mr. Jeroen Dijsselbloem, Finance Minister of the Netherlands, his term is due to end by the end of 2017 if not earlier due to recent elections in the Netherlands.

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 build alliances to influence EU policy.

The Department of Finance has a team of five seconded to the Permanent Representation. The team consists of a Financial Counsellor, two financial services attachés, one EU budget attaché and a fiscal (tax) attaché. This team is supported by an attaché from the Department of Public Expenditure and Reform and talks are ongoing about assigning an official from the Central Bank.

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 the 27 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. The relevant line Divisions in the Department have responsibility for proposing policy choices with respect to the above policy priorities, to the Minister. The team in the Permanent Representation provide 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 four areas:

- EU/UK: Defending Ireland’s interests during the Article 50 withdrawal process by the UK from the EU and working to ensure a close future relationship between the EU and UK. With a particular focus on economy and trade related issues.

- GOVERNANCE: Ensuring that the outcome of the debate on the future of the EMU, based on the Five Presidents’ Report and the Commission Reflection Paper on the Future of EMU, is aligned with protecting Ireland’s interests.

- TAXATION: Protecting our corporate tax regime, focussing on rate, reputation and regime.

- FINANCIAL SERVICES/BANKING: Completing Banking Union, progressing the Capital Markets Union and European Fund for Strategic Investments

3.2 Finance and Banking Directorate

DESCRIPTION:

The Finance and Banking Directorate is made up of a number of Divisions/Units. The day-to-day management of these Divisions/Units falls under the Second Secretary General.

The Finance and Banking Directorate comprises of:

Banking Division	Gary Tobin	Assistant Secretary
Funds, Insurance Markets & Pension Division	Aidan Carrigan	Assistant Secretary
Shareholding and Financial Advisory Division	Des Carville	Assistant Secretary
International Finance Division	Paul Ryan	Director
Legal Unit	Aidan Carrigan	Assistant Secretary
Finance Unit	John Hogan	Assistant Secretary

3.2.1 Banking Division

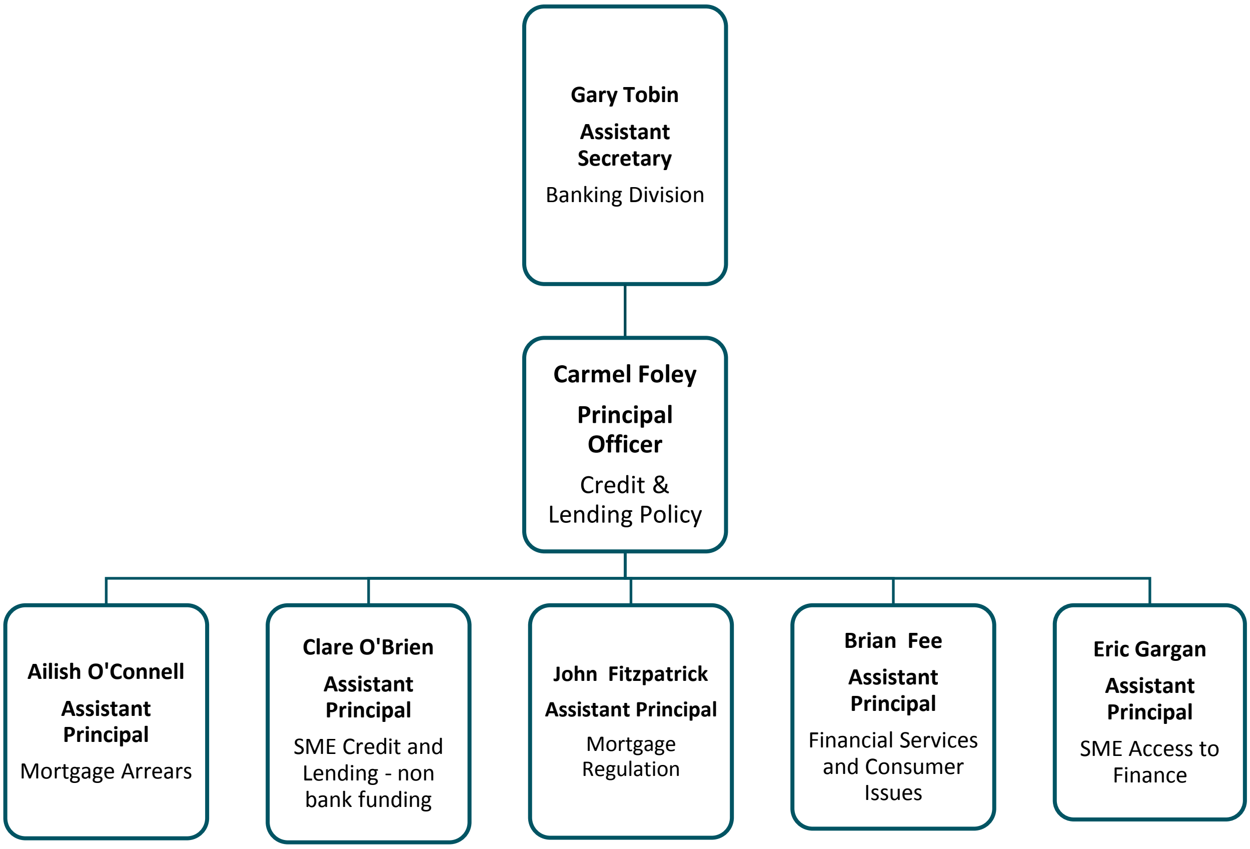
DESCRIPTION:

This Division deals with strategies for the banking and payment sectors, policies relating to the provision of credit in the economy, credit and payments regulation, consumer protection, addressing distressed mortgages and difficulties with personal and small/medium business debt. 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 or the ISIF).

Assistant Secretary – Gary Tobin

3.2.1.1 Policies on mortgage arrears, mortgage regulation, consumer issues SME credit & lending, the Strategic Banking Corporation of Ireland and the Credit Review Office

Principal Officer: Carmel Foley


Gary Tobin
Assistant Secretary
Banking Division
Carmel Foley
Principal Officer
Credit & Lending Policy
Ailish O'Connell
Assistant Principal
Mortgage Arrears
Clare O'Brien
Assistant Principal
SME Credit and Lending - non bank funding
John Fitzpatrick
Assistant Principal
Mortgage Regulation
Brian Fee
Assistant Principal
Financial Services and Consumer Issues
Eric Gargan
Assistant Principal
SME Access to Finance

KEY POINTS:

Ensuring that the appropriate structures and protections for consumers are in place is an ongoing challenge. A number of issues related to consumer protection have been high profile over the last twelve months – in particular SVR rates.

Opposition Private Members' legislation on possible enhancements to the regulation of SVR rates and credit servicing firms have been published and our appropriate response is under active consideration.

An examination of the need for financial redress relating to tracker mortgage issues is currently being undertaken by the Central Bank.

Funds are available (from AIB and PTSB as part of their restructuring agreements) to fund a public awareness campaign on switching – the first phase of the campaign has been delivered following a tender competition and consideration of how to deliver the next phase of the campaign is underway.

SME access to finance from bank and non-bank sources remains a Government priority. The key objectives for 2017 in relation to SME Credit and Lending/Finance for Growth are to:

Put in place appropriate supports for Brexit-affected SMEs;

Ensure that viable SMEs continue to access appropriate finance at a reasonable cost from both bank and non-bank sources;

Continue to roll out, monitor and evaluate State supports for SMEs, while facilitating the development of alternative sources of finance;

Enhance awareness amongst SMEs and entrepreneurs of State business supports, both financial and soft, in order to raise their financial capacity in either starting a business, or in growing and expanding an established business;

Engage with International Funding Institutions to optimise returns for Ireland.

DETAIL:

This area is largely focused on ensuring that the consumer's interests are protected in the financial services industry. This issue has increasingly come to the fore as stability has returned to the industry.

The main issues arising in this area is as follows:

1. Consumer Protection

- The focus is on promoting consumer protection in financial services at domestic and EU level.
- The Department maintains close links with the Financial Services Ombudsman and the Central Bank – both of these bodies have a role in consumer protection and are under the aegis of the Department of Finance. In addition, the Competition and Consumer Protection Commission (CCPC) has a broad mandate with statutory responsibility for the enforcement of competition and consumer protection law (their remit is wider than financial services). The CCPC is a body under the aegis of the Department of Jobs, Enterprise and Innovation. As the area of financial services becomes more complex, it may be appropriate to consider if the right structures and protections are in place to ensure that consumers of financial services are adequately protected.
- Over the course of 2015, the issue of mortgage standard rate variable rates attracted considerable attention. Following Ministerial meetings with the main banks, changes were made to rates and the range of offerings available to customers was increased. The CCPC is running a campaign to encourage mortgage holders to shop around for a better deal. The Central Bank held a consultation on "increased protections for Variable Rate Mortgage Holders". This consultation focused on the provision of better information to borrowers and it is expected that the Central Bank will now consider proposed changes to the Consumer Protection Code.
- In 2015 the Consumer Protection (**Regulation of Credit Servicing Firms**) Act was introduced. This was introduced to protect consumers where loans are sold by the original lender to an unregulated firm. The 2015 Act introduces a regulatory regime for a new entity, a 'credit servicing firm'. An opposition Private Members' Bill now seeks to regulate loan owners. In conjunction with the Central Bank, the Department is considering the appropriate response.
- As part of the EU Restructuring plans for AIB and PTSB, these banks were required to provide funding for a public awareness campaign (facilitated through an appropriate state body) to raise awareness and promote customer switching. The total fund available is €1.8 million and approximately €700,000 has been spent on an initial media campaign. We are considering our options in relation to the balance of the funds.

Residential mortgage and some other issues

Variable mortgage interest rates

- There has been a heightened focus on the level of variable mortgage interest rates in recent years. In that context a number of developments have been undertaken or are in progress viz:-
  - in February 2017 Central Bank changes to the Consumer Protection Code (CPC) requiring lenders to explain to borrowers how their variable interest rates have been set (including in the event of an interest rate increase) and also to notify borrowers of alternative mortgage options which could provide savings to them (both on an annual basis and also when notifying borrowers of an increase in the variable interest rate) came into effect;
  - also, in line with Programme for Partnership Government commitments, the Central Bank recently (April 2017) published research on mortgage switching (following on from this it will later this year publish a consultation paper on possible additional regulatory measures to encourage greater switching) and also the Competition and Consumer Protection Commission (CCPC) will shortly (expected in June) publish a review of the level of competition in the mortgage market and with a view to outlining options on how Ireland can develop a better-functioning, more sustainable mortgage market.
- Also the Private Member's Central Bank (Variable Rate Mortgages) Bill 2016 (initiated by Deputy McGrath) passed second stage in Dáil Éireann in May 2016. The objective of the Bill is to give the Central Bank the power to regulate the level of variable interest (excluding tracker) rates charged by lenders on primary home mortgages. While the Government, the Central Bank, the ECB and the CCPC have all raised concerns about the Bill, the Joint Oireachtas Finance Committee has, in its pre-legislative scrutiny report as published last March, indicated that it wishes to advance the Bill to committee stage. However, in view of the fact that the previous Minister consulted the Attorney General on the Bill and the Committee's report, the Joint Committee has agreed to delay proceeding to committee stage in the short term.

Macro prudential policy

- In February 2015, the Central Bank introduced macro-prudential rules which provided for loan-to-value (LTV) and loan-to-income (LTI) limits on residential mortgages provided by regulated financial service providers. These measures were reviewed in 2016 and certain adjustments were made to the regulations effective 1 January 2017 which, in the main, applied to first-time buyers (FTBs).
- For first-time buyers, a 90% LTV now applies to the entire value of a property (previously the 90% LTV applied only to the first €220,000 in value of the property and an 80% LTV limit applied to any value above that threshold).

- There was also some adjustment to the amount of new mortgage lending creditors could make in excess of the LTV thresholds. For FTBs, the 90% LTV threshold could be exceeded for up to 5 per cent of new lending to FTBs and in respect of second and subsequent home buyers (SSBs), lenders can now provide up to 20 per cent of new lending above the 80% LTV limit which applies to SSBs.

- However, it should be noted that certain key elements of the 2015 rules remained unchanged. In particular, the loan to income (LTI) limit of 3.5 times income for primary dwellings remains unchanged.

- The Central Bank has indicated that the macro-prudential lending rules are intended to be a permanent feature and that they will be reviewed on an on-going basis. Should it be required, the calibration of these rules can be tightened, loosened or left unchanged.

Tracker mortgage examination

- The Central Bank launched a systems-wide Examination of Tracker Mortgage related issues in 2015. The Tracker Examination is the largest, most complex and significant supervisory review that the Central Bank has undertaken to date in respect of its consumer protection mandate. It has involved an initial review of the total mortgage book by lenders in the relevant period which amounted to more than two million mortgage accounts. The Central Bank provided its latest update report on the Tracker Examination on 23 March 2017. In that update it indicated that, as at the end of February 2015, around 9,900 impacted accounts were identified as part of the systems wide Examination. This is in addition to the further 7,100 impacted tracker accounts which were identified prior to the commencement of the system wide Examination.

  The Central Bank has also indicated that approximately €78 million has now been provided in redress and compensation to circa 2,600 impacted customers. The Examination is ongoing and the Central Bank expects all relevant lenders to have identified and commenced engagement with all impacted customers by the end of September 2017. The Central Bank has advised they will provide a further update on the Examination in autumn 2017.

New mortgage lending

- Following the crash, new residential mortgage lending declined considerably and (based on BPFI data) reached a low of €2.5 billion in 2011. This compared to mortgage lending of almost €40 billion in 2006. Since 2014, there has been a steady increase in the level of new lending to €4.9 billion in 2015 and €5.7 billion in 2016. The level of new lending in the first quarter of 2017 and the upward rise in the level of mortgage approvals over the past number of months would suggest that the level of new lending will increase further in 2017.

Central Credit Register

- The Credit Reporting Act 2013 provided for the establishment of a Central Credit Register (CCR) by the Central Bank. The operational implementation of the CCR is a complex process and the Central Bank intends to take a phased approach. Credit Information Providers (excluding local authorities and moneylenders) will initially be required to supply personal and credit data on consumers; this information must be provided, commencing from July next, by 31 December 2017. Subject to data quality, lenders will be required to access the CCR when considering new applications for credit from consumers after 31 December 2017. Individuals will also be in a position to obtain information in respect of their own credit record. The second phase of the CCR, which will relate to non-consumer loans, is currently projected to come on stream from 2018.

- However, a drafting issue has recently come to light in relation to the Credit Reporting Act which, inadvertently, excluded hire purchase and similar types of credit agreement from the scope of the CCR. This matter is now been pursued with the Attorney General's Office and the Central Bank.

Mortgage Arrears

- Tackling Mortgage Arrears remains challenging, particularly those in long term arrears. Abhaile – the new national Mortgage Arrears Resolution Service - was launched jointly by the Ministers for Justice & Equality and Social Protection on 3 October 2016. The launch highlighted the Aid and Advice Scheme in order to promote engagement. Up to 12th May 6,679 vouchers for financial and legal advice were issued, of which some 5,000 were redeemed for financial advice / consultation with a personal insolvency practitioner. It is too early to say whether this activity will result in greater take-up of personal insolvency arrangements to resolve unsustainable debt including the principal residence.

- As a consequence of the financial crisis, mortgage arrears increased significantly between 2009 and 2013. However since late 2013 the trend has been downwards. Data published by the Central Bank for end 2016 showed that the number of Principal Dwelling Houses (PDH) mortgage accounts in arrears over 90 days was 54,269 (7.4% of the total). Almost 34,500 of these accounts have arrears of over 720 days, with a total outstanding balance of just over €7.5bn, equivalent to 11 per cent of the total value of PDH mortgage loans. Almost 121,000 PDH mortgage accounts have been restructured. On Buy-to-Lets (BTL), 20,499 mortgage accounts were in arrears of more than 90 days at end Q4 (15.7% of total).

- Non-bank entities now hold 48,562 mortgage accounts for PDH and BTL combined, of which almost 63 per cent are held by regulated retail credit firms, with the remainder held by unregulated loan owners. 41 per cent (5,054 accounts) of PDH accounts held by unregulated loan owners are in arrears of over 720 days.

- To date a cross-Departmental approach, led by the Department of the Taoiseach, has been adopted to address the problem of mortgage arrears. The mortgage arrears strategy has been built around the following pillars:
  - Central Bank Oversight of lenders' performance in addressing mortgage arrears, including the implementation of consumer protections contained in the Code of Conduct on Mortgage Arrears (CCMA) and the Consumer Protection Code.
  - Personal Insolvency Reform (under the responsibility of Department of Justice & Equality)
  - The provision of Advice and Guidance to mortgage holders in arrears (under the responsibility of Department of Social Protection and Department of Justice & Equality). The Money Advice and Budgeting Service (MABS) has been developed as a gateway for information and guidance to borrowers.
  - A Mortgage to Rent Scheme (under the responsibility of Department of the Environment)
- In 2013, when mortgage arrears were trending upwards, the Department commenced publishing data from the six main banks[3] on mortgage arrears on a monthly basis. This data has helped provide a timely view on mortgage arrears. However, the data published by the Central Bank on a quarterly basis covers the full mortgage market and is more informative and comprehensive. It was decided in 2016 to cease publication of the Department's monthly bulletin on mortgage arrears. A more limited subset of data is collected from the six main banks and circulated internally within the Department for information only.
- In response to a Programme for Government commitment in respect of putting the Code of Conduct on Mortgage Arrears on a statutory footing, the Minister wrote to the Governor of the Central Bank in June 2016 to request that an assessment be undertaken of the range of available sustainable restructure solutions offered by banks and non-bank entities. The Central Bank completed its assessment in October and their report is published on the Department of Finance website. The assessment finds a comprehensive range of available restructuring solutions being offered and delivered by both bank and non-bank entities and notes considerable progress in addressing mortgage arrears since the peak. The Central Bank notes further that there is strong evidence that both banks and non-banks look to exhaust available restructure options before moving to the legal process. In addition, the Central Bank considers the range of restructures offered by banks to be broadly appropriate in balancing consumer protection imperatives, and maintaining a mortgage market for all borrowers, and a functioning banking system.
- The private member's **Keeping People in their Homes Bill 2017** was published last February by Deputy Kevin "Boxer" Moran. This Bill seeks to facilitate the courts in

[3] (Allied Irish Bank, Bank of Ireland, ACC Loan Management Ltd, Ulster Bank, Permanent TSB, KBC Ltd)

effectively examining the "proportionality" of granting, adjourning, varying, postponing, suspending or executing possession orders. The Bill seeks to achieve this by amending the Land and Conveyancing Law Reform Act 2009 so as to specify the factors which a court should have regard to when considering an application in relation to an order for possession in respect of a home in which the mortgagor lives. This "proportionality" assessment forms the core of this legislative proposal. **This private member's Bill is primarily a matter for D/Justice & Equality in the first instance.** The Department of Justice has written to the Attorney General and is also consulting with D/Finance. Under the terms of the formation of Government negotiations last year, it was agreed that Deputy Moran would become a Junior Minister for the Office of Public Works and Flood Relief after the first year, replacing Deputy Seán Canney. We have been informally made aware by Department of Justice & Equality that, notwithstanding their own significant reservations regarding the Bill and following a recent meeting between the Tánaiste and Deputy Moran's advisory team, they expect Deputy Moran to move quickly to progress the Bill in advance of his appointment as a Junior Minister, which is due to happen in June. The Central Bank do not at this stage have a formal policy view on this Bill but agree that were this bill to proceed, it would form part of the general legislative framework that would impact on credit in Ireland and were this Bill to be enacted as it is currently drafted, it would have a negative impact on the availability of credit, with possible knock-on effects such as higher interest rates.

2. SME Access to finance

Monitoring of bank lending to SMEs

The Department collates and examines, on a monthly basis, granular data on the funding of the activities of SMEs from both AIB and Bank of Ireland. The banks submit annual SME lending plans in the first quarter. In addition, the banks meet Departmental officials on a quarterly basis to keep them abreast of issues pertaining to the SME sector. Permanent TSB (PTSB) formally launched its lending products for SMEs on 21 December 2015, having completed recruitment, training, development and pilot work. PTSB has agreed to become part of the monitoring process and will be meeting with officials in the coming weeks. The Department is also in discussions with Ulster Bank to do the same. The collection of SME credit data facilitates the Department and the Credit Review Office in monitoring progress against the lending plans and ensuring that new lending to SMEs continues to increase as a percentage of total sanctioned lending.

Credit Review Office

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. In relation to applications in respect of AIB, BOI, Ulster Bank and PTSB. The latter two banks participate on a voluntary basis whereas AIB and BOI do so on a statutory basis.

The Credit Reviewer, a Government appointee, provides biannual reports to the Minister containing commentary on the SME credit and lending environment. He also attends relevant meetings with Departmental officials e.g. with banks and small business representative bodies. Since its inception in April 2010, the CRO has overturned over €46.7m of bank refusals (representing over 55% of cases that have been appealed to the office) and protecting or creating over 3,175 jobs.

Action Plan for Jobs & SME State Bodies Group

Since 2012, the SME State Bodies Group has been responsible for developing and implementing the integrated set of actions on Access to Finance / Finance for Growth as set out in the various Action Plans for Jobs. The Group, comprising of officials from Government Departments and Agencies with a policy interest in the SME sector, has also been prepared to develop new initiatives, over and above what is in the initial Action Plan in response to new challenges or policy opportunities that may emerge during the course of the year. The establishment of the SBCI is a clear example of a more comprehensive and ambitious delivery over the initial Action Plan for Jobs commitment. Furthermore there is also an increased emphasis on exploring how different initiatives can be combined to enhance the potential benefits to the end user, the SMEs. Therefore while maintaining a strong output focus is paramount, it is important that this flexibility and innovation to deploy resources and develop more effective actions to support SMEs is encouraged and recognised in terms of the monitoring of the Group's overall work and final output.

Biannual Department of Finance SME Credit Demand Survey

Since 2012 the Department has commissioned biannual SME credit demand surveys. The scope of this exercise is to establish a regular, independent measure of the demand for credit (encompassing all lending institutions) from the perspective of the SME. This information informs Government as to the experience of SMEs in accessing credit from both bank and non-bank sources.

In this context, the survey ascertains:

- The demand for credit from SMEs
- The failure of SMEs to seek credit
- The reasons given for refusal of credit and
- Their level of knowledge on their rights in relation to credit.

Strategic Banking Corporation of Ireland (SBCI)

The Strategic Banking Corporation of Ireland ("SBCI") was established by the Strategic Banking Corporation of Ireland Act 2014. The SBCI began lending in March 2015. Its purpose is to make sustainable, flexible and appropriately priced finance available to viable Irish SMEs and support investment in them that encourages growth and facilitates employment across the whole country.

The SBCI uses an on-lending model; this means it does not lend directly to SMEs, rather it rather it channels low cost financing from funders, including the European Investment Bank (EIB) and KfW, though lending partners, known as on-lenders. The SBCI currently has eight on-lending partners, three bank and five non-bank.

The SBCI began lending in March 2015. The SBCI has made significant progress since its launch. To the end of December 2016, it has lent €544 million to 12,593 SMEs supporting 67,150 jobs. The SMEs who received SBCI finance are from a variety of business and economic sectors and are spread across every region of the country. 84% of loans are for investment purposes and the average loan size is €43,200. There is a broad geographical spread of the SMEs supported with approximately 85% of them based outside Dublin.

The SBCI is currently seeking to broaden its distribution capability and market coverage by adding new on-lenders and working to develop innovative products, thereby serving to drive competition in the SME finance market.

Brexit Supports

The Department of Finance is working with the Department of Jobs, Enterprise and Innovation, the Department of Agriculture, Food and the Marine, the Strategic Banking Corporation of Ireland and Enterprise Ireland to develop supports for SMEs facing difficulties as a result of Brexit. A working group is currently in place to develop a short-term working capital scheme for Brexit-affected SMEs. It is expected that an initial policy paper on the working capital scheme will be agreed by the working group by mid-June. It is anticipated that a longer-term loan scheme will be developed subsequent to the working capital scheme. The longer-term loan scheme will offer loans for investment purposes to SMEs affected by Brexit. In addition, the SME State Bodies Group are examining the development of a Business Advisory Hub.

Other non-bank finance initiatives

- Crowdfunding

The IFS 2020 2017 Action Plan commits the Government to conducting a public consultation on the potential regulation of crowdfunding. The Department launched a public consultation on the 21st April 2017 running for a period of six weeks, until 2nd June 2017. The purpose of the consultation is to understand how to best facilitate the development of the crowdfunding industry in Ireland, for the benefit of the economy, while also ensuring adequate protection for small investors and consumers. The outcome of the public consultation will help inform future policy position on whether or not a regulatory regime for crowdfunding would be appropriate and if a bespoke regime should be implemented in Ireland.

- Equity Finance

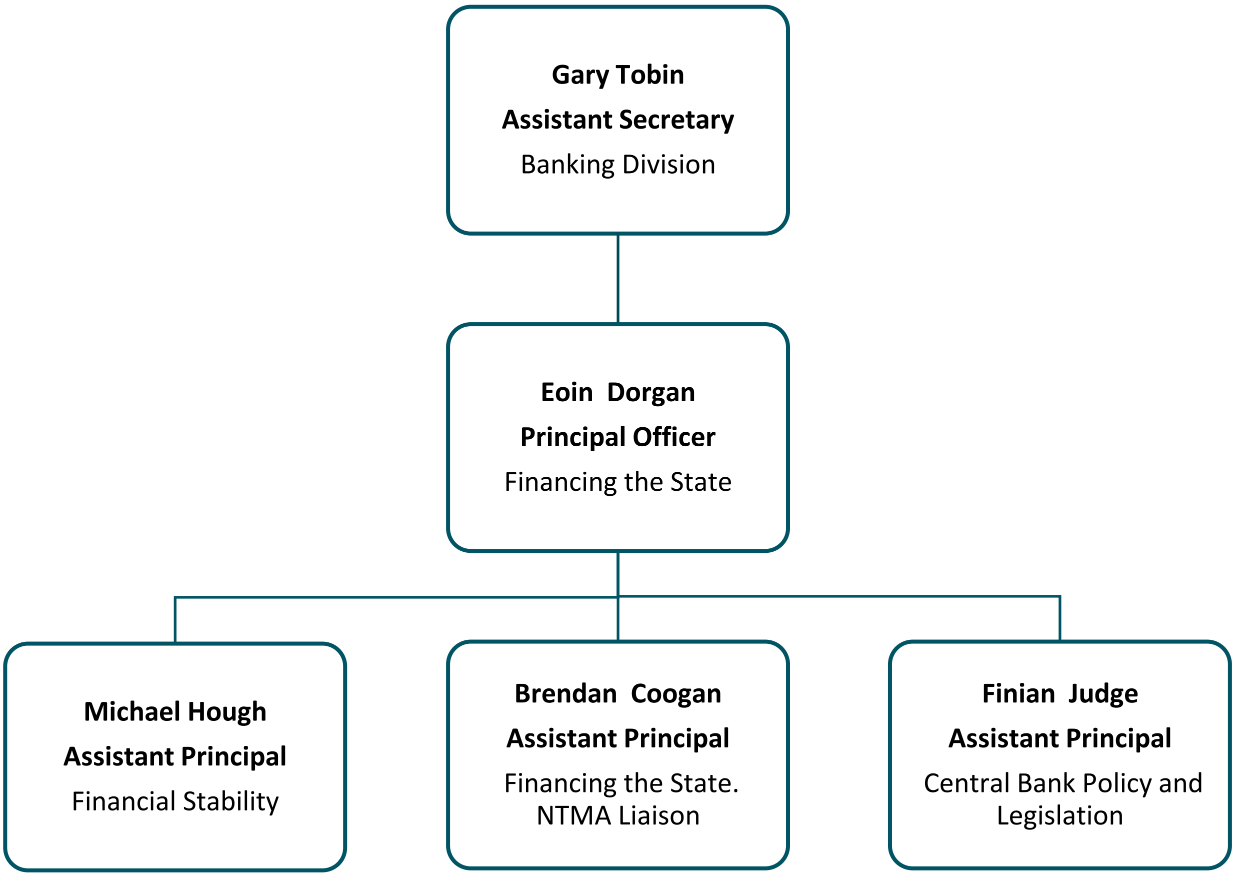
The IFS20 2017 Action Plan tasks the Department of Finance with conducting a mapping exercise of access to equity finance, with a focus on access by SMEs and issues relating to investor interest. In order to complete this task, the Banking Division circulated a questionnaire on access to equity finance to relevant bodies and organisations, both private and public sector. Over 20 responses have been received to the questionnaire.

- Local Public Banking

The Programme for Government contains a commitment to thoroughly investigate the Sparkassen model of local public banks that operate within well-defined regions. The Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs is the lead Department in respect of this commitment. The Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs, with the assistance of the Department of Finance, undertook a consultation process, engaging with stakeholders and interested parties that finished on 29th of March of this year. Officials from both Departments are working to prepare a report for the Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs and the Minister for Finance. It is anticipated that this report will be completed by the end of the first half of this year. This report will set out the findings and conclusions of the investigation of the Sparkassen model of local public banking.

3.2.1.2 Financial Stability, Central Bank, and NTMA policy section

Principal Officer: Eoin Dorgan


Gary Tobin
Assistant Secretary
Banking Division
Eoin Dorgan
Principal Officer
Financing the State
Michael Hough
Assistant Principal
Financial Stability
Brendan Coogan
Assistant Principal
Financing the State. NTMA Liaison
Finian Judge
Assistant Principal
Central Bank Policy and Legislation

KEY POINTS:

Monitoring and analysing risks to financial stability, including providing secretariat to the Financial Stability Group,

Financial stability crisis management preparation.

Central Bank interaction, particularly in the context of post-Brexit applications.

Follow up to the Banking Inquiry Report

National Debt management policy

Ministerial consents/guarantees for State borrowing

High level review of the Irish Strategic Investment Fund objectives

DETAIL:

Financial Stability

Role in Financial Stability

This Department is primarily responsible for monitoring and analysing risks to financial stability and assisting in the development of mitigants and policies to address potential financial stability risks. It provides briefing and advice on financial stability issues, both at a national and EU level. As part of its role, it serves as Secretariat to the Financial Stability Group, implements crisis simulation exercises impacting financial stability/the financial system, [redacted]

Redacted under Sections 29(1)(a), 29(1)(b), 33(1)(d), 33(2)(b)(ii), 40(1)(a), 40(1)(b), 40(1)(c), 40(2)(a), 40(2)(c), 40(2)(d), 40(2)(f) of the FOI Act 2014

Financial Stability Group

The Financial Stability Group (FSG) replaced the previous group known as the Principals Group. Membership of the FSG is as follows:

- Department of Finance - Secretary General, and Second Secretary General
- Central Bank of Ireland – Governor, Deputy Governor Central Banking and Deputy Governor Financial Regulation
- NTMA - CEO and Director, Funding and Debt Management

The Chair and Secretariat of the Group are provided by the Department of Finance.

The role of the Group, who meet on a monthly basis, reflects the need for coordination, sharing of information and joined-up thinking among member organisations to manage policies and risks that could potentially impact on the financial stability of the State. The Financial Stability Group's terms of reference focus on monitoring economic and financial stability issues and overseeing financial crisis management arrangements, both of which reflect key conclusions of the Banking Inquiry report.

[redacted]

As above

Crisis Simulation

This section is currently working with the Central Bank of Ireland and the NTMA on a crisis simulation exercise. The purpose of the simulation exercise is to test the governance, decision-making, communication and co-ordination arrangements in place between FSG members to manage a crisis in the Irish financial system, in particular to test the draft Crisis Management Co-ordination Framework.

[redacted]

As above

The simulation, which we are aiming to conduct before the end of 2017, will be based on a crisis affecting the Irish financial system and will build on the internal simulation exercise planned to be undertaken by the Central Bank. This section is helping design the crisis simulation as well as draw up the Framework that will govern how the agencies operate in a crisis.

Central Bank Policy

Central Bank Policy

The Department is responsible for the Central Bank powers and functions as set out in the Central Bank Acts. In practice this means preparing Ministerial submissions on consents, approvals and consultative functions as set out under the Central Bank Acts. 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, an independence the Central Bank frequently cites. [redacted]

Redacted under Section 30(1)(b) and 30(1)(c) of the FOI Act 2014

Irish Banking Sector

The section works with other sections to monitor the performance of the Irish Banking sector and the challenges facing the sector. Currently, Irish banks' balance sheets are reducing (€271bn at end 2016) as households and corporates continue to deleverage. However, new lending is increasing y-on-y by over €1.3bn, concentrated on mortgages and SME and Corporate. Positively, Irish banks' profitability is now attributable to underlying profits, rather than impairment writebacks, which were relatively low. All banks are well above the regulatory capital minima on a transitional and fully loaded basis, however, pension deficits and regulatory issues are risks to the Irish banks.

Central Bank and Brexit

The Bank is resourced to meet the current level of demand and enquiries that are being presented by Brexit. At the end of February 2017, there had been approximately 150 Brexit-related enquiries since the referendum. The Bank has the ability to effectively re-prioritise in the short-term where necessary to meet any increased level of demand and complexity. The Central Bank Commission approved an additional complement of 170 staff for 2017 to bring total staffing to 1,800 full-time equivalents, including an additional 28 staff to address specific Brexit-related new business needs.

The Central Bank has continually committed to a fair and transparent authorisation process for all post-Brexit applicants. There is a need for some lobby groups to recognise that a key component of a successful jurisdiction for financial services activities is a strong and independent regulator, and as such, the Central Bank does not have a promotional mandate and this is a key lesson from the financial crisis.

[redacted]

Redacted under Section 30(1)(c) of the FOI Act 2014

[redacted]

Industry funding of the costs of financial regulation

Up to now, the Central Bank has raised approximately 50% of the funds necessary for its financial regulation activities through levies on financial services firms, with the remainder coming from the Central Bank's profits (which would otherwise go to the Exchequer).[5] The total cost of financial regulation in 2016 was approximately €150 million; industry levies were €79m and subvention was €70 million. The Central Bank's stated aim has been to move towards 100% industry funding of financial regulation, in line with many other jurisdictions and regulatory bodies. A public consultation was undertaken jointly by this Department and the Central Bank in mid-2015 on this possibility.

[redacted]

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

[redacted]

Bank levy review

In Budget 2016, the Minister for Finance committed to extending the bank levy (a form of stamp duty paid by financial institutions) until 2021, subject to a review of the calculation methodology. This took place during 2016, including a public consultation. It was decided to retain the existing DIRT-based calculation methodology, but to update the base year and corresponding levy rate, in order to protect the €150 million annual yield. The current rate is 59% of the amount paid in DIRT by accounts within each institution in 2015. Minister Noonan committed to the introduction of a rolling two-year series of base years which will introduce a new base year of 2017 for calculating the levy in 2019 and 2020, and a new base year of 2019 for calculating the levy in 2021. The levy rate may require updating when the base year changes to protect the €150 million annual yield.

[5] There are certain exceptions to this 50% rule: institutions covered by the Eligible Liabilities Guarantee (ELG) Scheme contribute 100% of the costs of their supervision, while credit unions' contributions are capped at 0.01% of their total assets.

Progress Report on Banking Inquiry Recommendations

The Report of the Joint Committee of Inquiry into the Banking Crisis was published in February 2016. The Department, under the instruction of Minister of State Murphy, has almost completed drafting a progress report on the findings and recommendations contained within the Report, which will be shortly sent for your approval to bring to Government. The progress report sets out the Government and Central Bank response to the Oireachtas Report and also the Government's responses to specific recommendations. [redacted]

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

Financing the State

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) 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.

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 over €200 billion. This is over four times the 2007 level and is also high relative to our EU peers. While noting the progress made in reducing our debt-GDP ratio, this has arisen primarily from sustained improvements in economic growth rather than significant reductions in the absolute debt level. This leaves no room for complacency with the Government remaining committed to its target of a debt-to-GDP ratio of 45 per cent by the mid-2020s or thereafter depending on economic growth. This target takes account of the particular risks faced by Ireland as a small and very open economy and the fact that GDP is a less than perfect measure for Ireland.

[redacted]

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

Borrowing, guarantees and shareholding functions

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

The section is also responsible for overseeing your responsibilities as a shareholding Minister in a number of State companies, in particular Irish Water. The Minister for Finance has consent functions on borrowings by Irish Water and at present, can also makes capital available following Government decisions. [redacted]

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

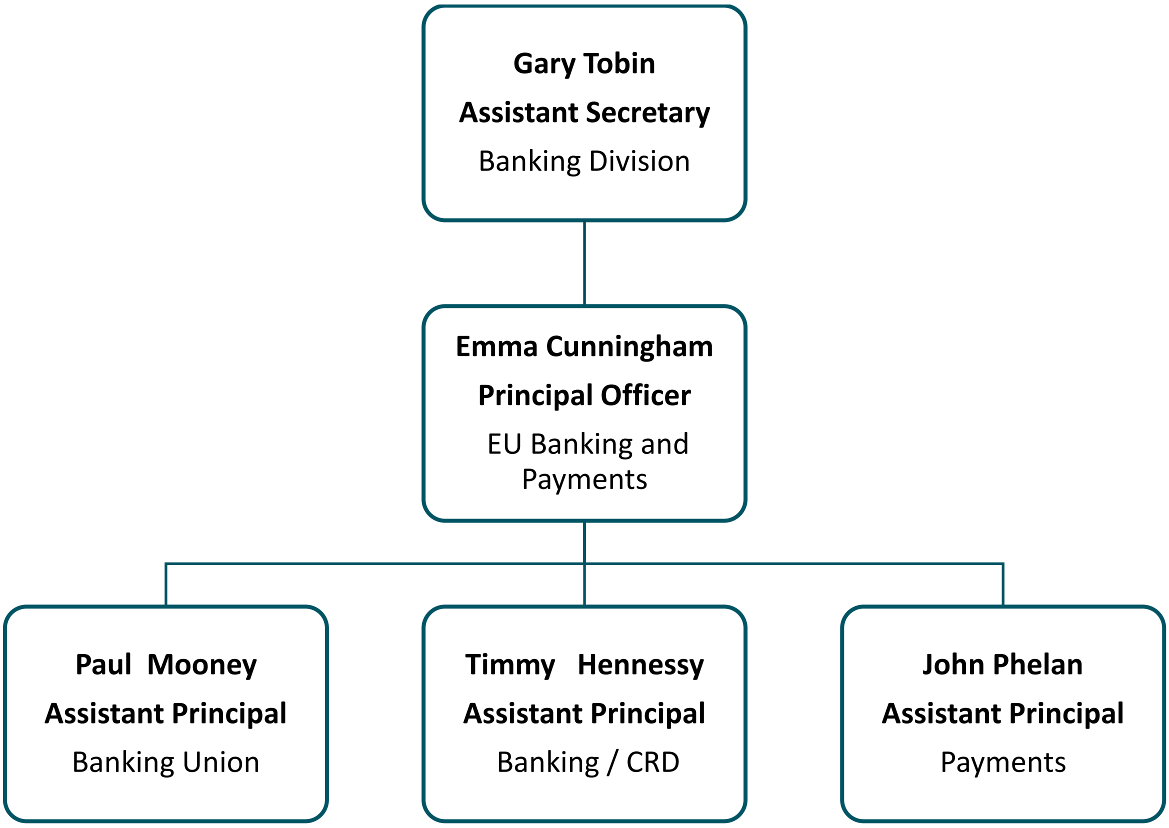
Following the Joint Oireachtas Committee report the Department of Housing is overseeing discussions on the future funding model for Irish Water prior to proposing legislative changes on the basis of the recommendations contained in the report. The Department of Finance is feeding into those discussions from an EU fiscal rules and a state financing perspective.

[redacted]

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

3.2.1.3 Policies on EU Banking and Payments

Principal Officer: Emma Cunningham



Gary Tobin
Assistant Secretary
Banking Division

Emma Cunningham
Principal Officer
EU Banking and Payments

Paul Mooney
Assistant Principal
Banking Union

Timmy Hennessy
Assistant Principal
Banking / CRD

John Phelan
Assistant Principal
Payments

KEY POINTS:

In the payments policy area, a significant EU Directive must be transposed during 2017. The revised Payment Services Directive (PSD2) brings new services under regulation. The payments industry is a growing area it may be opportune to consider developments in payments policy more generally, particularly once PSD2 is transposed in January 2018.

The Commission Proposal to amend European Banking legislation, - Capital Requirements Directive IV/CR Regulation and BRRD – collectively termed 'Risk Reduction Measures - will continue to be negotiated throughout 2017 before being transposed into Irish law.

DETAIL:

Payments Policy

Payments Policy

The Department is primarily responsible for the legislation governing payments. As the EU continues to create a single market for payments, this includes negotiating and transposing EU Directives and Regulations on payments.

The payments section also ensures that the role of the Minister is acquitted in respect of commemorative and collector coin policy.

Interchange Fee Regulation

The EU Interchange Fees Regulation was given effect over 2015 and 2016. This Regulation caps the level of fees which pass from the bank of a merchant accepting a card payment to the bank that issued the card. The Commission decided to cap the maximum level at 0.3% for credit cards and 0.2% for debit cards. Ireland opted to lower the level of interchange fees to 0.1% on domestic debit card transactions until 9 December 2020 in order to promote greater card usage by consumers and businesses and greater acceptance by merchants.

Payment Accounts Directive

The EU Payment Accounts Directive was transposed in September 2016. It facilitates comparison of fees on payment accounts and payment account switching. It also introduced payment accounts with basic features for consumers. These accounts are aimed at anyone who does not already have a payment account in the State and are free of charge for everyday banking for the first year. They remain free of charge on a year-by-year basis for up to 5 years where lodgements to the account do not exceed the minimum wage rate for a full time worker.

Payment Services Directive

The revised EU Payment Services Directive (PSD2) has to be transposed by 13 January 2018. PSD2 updates existing provisions by opening the EU payment market for companies offering consumer or business-oriented payment services based on access to payment accounts. Two new categories of payment services come under regulation; payment initiation services and account information services.

PSD2 also enhances consumers' rights by refining standards for service provision, complaints handling, and provision of information on payments.

Payment service providers will be obliged to apply strong customer authentication when a payer initiates an electronic payment transaction. Strong customer authentication under PSD2 would require the customer to go through two-factor authentication. The European Banking Authority (EBA) is tasked under PSD2 with drawing up these standards for strong customer authentication and secure communication. The standards are complex and controversial. On strong customer authentication, industry has expressed concerns that the draft standards place too much emphasis on security at the cost of customer convenience. On secure communication and how customer accounts are to be accessed, the interests of the banks and the FinTech companies do not always align.

The EU Commission is currently considering amendments to the final draft standards produced by the EBA and we will monitor what changes are proposed.

National Payments Policy

With the pace of development of the payments industry and the increased use of electronic payments, it may be opportune to soon consider the payments agenda and how best to position payments policy, particularly post the transposition of PSD2. The previous National Payments Plan concluded in 2015.

Coin Policy

The Minister approves the issue of commemorative and collector coins and holds copyright on the national side of Irish coins.

EU Banking Policy

Currently the main area of work in the EU Banking Policy Unit is the ongoing review of the European Banking legislation, which have been collectively termed ‘Risk Reduction Measures’. These measures include proposals to amend the Capital Requirements Directive IV and Capital Requirements Regulation as well as the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation.

Risk Reduction Measures

The Risk Reduction Measures banking reform package aims to complete the reforms that the EU implemented in the wake of the financial crisis, which made the financial system more stable and resilient. These proposals tackle remaining weaknesses and implement some outstanding elements that are essential to ensure institutions' resilience. These risk reduction measures aim to further strengthen the resilience of the European banking system and increase market confidence, but will also allow further progress in completing the Banking Union.

The Risk Reduction Measures package is divided into two parts: the prudential side of the package which seeks to amend the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR), and the resolution side of the package which proposes to amend the Bank Recovery and Resolution Directive & Single Resolution Mechanism Regulation.

Capital Requirements Directive IV and the Capital Requirements Regulation

The Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) represented the European introduction of an internationally agreed regulatory framework (Basel III), which introduced new reforms and requirements in areas such as capital and liquidity to ensure more resilient banks and banking systems.

While these reforms rendered the financial system more stable and resilient against many types of possible future shocks and crises, they did not comprehensively address all identified risks. In order to complete the reform agenda and address outstanding deficiencies in the regulatory environment, in late 2016 the EU Commission has proposed a series of amendments both CRD IV and the CRR. These amendments aim to tackle remaining weaknesses in the financial system by implementing some outstanding elements of the reform agenda as well as refining and improving the existing rules. In order to counteract potential negative effects of such requirements on lending, the Commission proposals also include aspects that seek to promote Bank financing of the real economy (e.g. SME supporting factor and measures to support lending for infrastructure projects.).

The proposals are currently being negotiated at European Council Working Parties, with Department of Finance officials attending supported by colleagues from the Central Bank of Ireland. The Department has been broadly supportive of these measures.

Bank Recovery and Resolution Directive & Single Resolution Mechanism Regulation

The EU Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR), adopted in 2014, provides resolution authorities with more comprehensive and effective arrangements to deal with failing banks at national level, as well as cooperation arrangements to tackle cross-border banking failures. Resolution occurs at the point when the authorities determine that a bank is failing or likely to fail, that there is no other private sector intervention that can restore the institution back to viability within a short timeframe and that normal insolvency proceedings would cause financial instability.

The EU resolution framework, consisting of BRRD and SRMR, requires banks to comply with the Minimum Requirement for Eligible Liabilities, or “MREL”. This is achieved by the bank holding instruments that can be written down or “bailed in” if the bank is in difficultly and is placed into resolution. The bailing in of liabilities is intended to ensure that losses are absorbed by the creditors to the bank and in doing so recapitalises the bank allowing it to operate normally post resolution. The commission has proposed an amendment which ensures that MREL complies with international standards in this area to prevent any unwarranted legal complexity and compliance costs due to a potentially parallel application of these rules.

There is a proposed amendment to the BRRD which seeks to ease compliance costs of banks where their liabilities are governed by the laws of third countries. A further amendment to the BRRD seeks to harmonise the powers of resolution authorities to suspend the executions of bank commitments towards third parties, known as the moratorium tool.

There is also a proposal for an EU harmonised approach on bank creditors' insolvency ranking. The harmonised approach would enable banks to issue debt in a new statutory category of unsecured debt available in all EU Member States which would rank just below the most senior debt and other senior liabilities for the purposes of resolution. The introduction of clear, harmonised rules on the position of bond holders in the bank creditors' hierarchy in insolvency and resolution will facilitate the way bail-in of liabilities is applied, by providing greater legal certainty and therefore reducing the risk of legal challenges.

Overall, the Department of Finance has been broadly supportive of the proposals.

It is expected that at the June Ecofin, the Maltese Presidency will present a progress report on work conducted during their Presidency on the Risk Reduction Measures and will seek to reach agreement on some select issues. At this stage in the negotiations, it is anticipated that Ireland will be able to support this approach. Further briefing will be supplied in the context or preparations for Ecofin.

European Deposit Insurance Scheme

The European Deposit Insurance Scheme is the ‘third pillar’ of the Banking Union and is an essential component. EU legislation already ensures that all deposits up to €100 000 are protected, through their national deposit guarantee scheme (DGS), in case of a bank failure. However, national DGS can be vulnerable to large local shocks. EDIS provides a stronger and more uniform degree of insurance cover for all retail depositors in the Banking Union, ensuring that the level of depositor confidence in a bank would not depend on the bank's location. It is our view that EDIS should be in place as quickly as possible and we believe political discussions should begin once progress is made on the Risk Reduction Measures. In the meantime, we support the continued technical work being undertaken by the Maltese Presidency.

Common Backstop

In December 2013 the Eurogroup/ECOFIN Ministers agreed the need for a ‘common backstop’ to the Single Resolution Fund in order to establish its credibility and hence the capacity of the Single Resolution Board (SRB) to resolve banks effectively. Such common backstop should either provide or enable the borrowing of necessary funds expeditiously and in sufficient volume to ensure the Banking Union's stability in a credible manner. Further Council statements reinforced the desire at Ministerial level to have a common backstop in place by the end of the ‘transitional phase’ of the SRF when it has become fully mutualised, 31 December 2023.

On 24 October 2016, the Economic and Financial Committee (EFC) mandated a Task Force on Coordinated Action (TFCA) to start technical work on the ‘common backstop’, the TFCA meets in Brussels approximately every three weeks. Further to this the Ecofin Council concluded that as all participating Member States had effectively transposed the Bank Recovery and Resolution Directive (BRRD) the technical work on the common backstop could begin, it was also agreed that the TFCA would report back to the EFC on a quarterly basis.

Covered Bonds

Covered Bonds are debt securities which are collateralised against or "backed" by a pool of assets (called a cover pool) such as residential mortgages, commercial mortgages or public sector loans. Covered Bonds are generally referred to in Ireland as Asset Covered Securities (ACS), and are legislated for by the *Asset Covered Securities Act 2001* and the *Asset Covered Securities (Amendment) Act 2007*.

As part of the Capital Markets Union Action Plan, it is understood that the European Commission will soon propose introducing legislation to harmonise the EU Covered Bonds market in Q1 2018. Officials from the EU Banking Policy Unit provide input to the Expert Group on Banking Payments and Insurance (whose work will feed into the Commission's proposal) and will subsequently attend the Working Party which will negotiate the proposal in 2018.

The Unit also liaises with the Central Bank and the Banking and Payments Federation of Ireland (BPFI) on this issue as well as other Covered Bond related issues, such as the amendments that the BPFI have proposed to the current Irish legislation for Covered Bonds (the Asset Covered Securities Act 2001).

3.2.2 Funds, Insurance Markets & Pensions Division

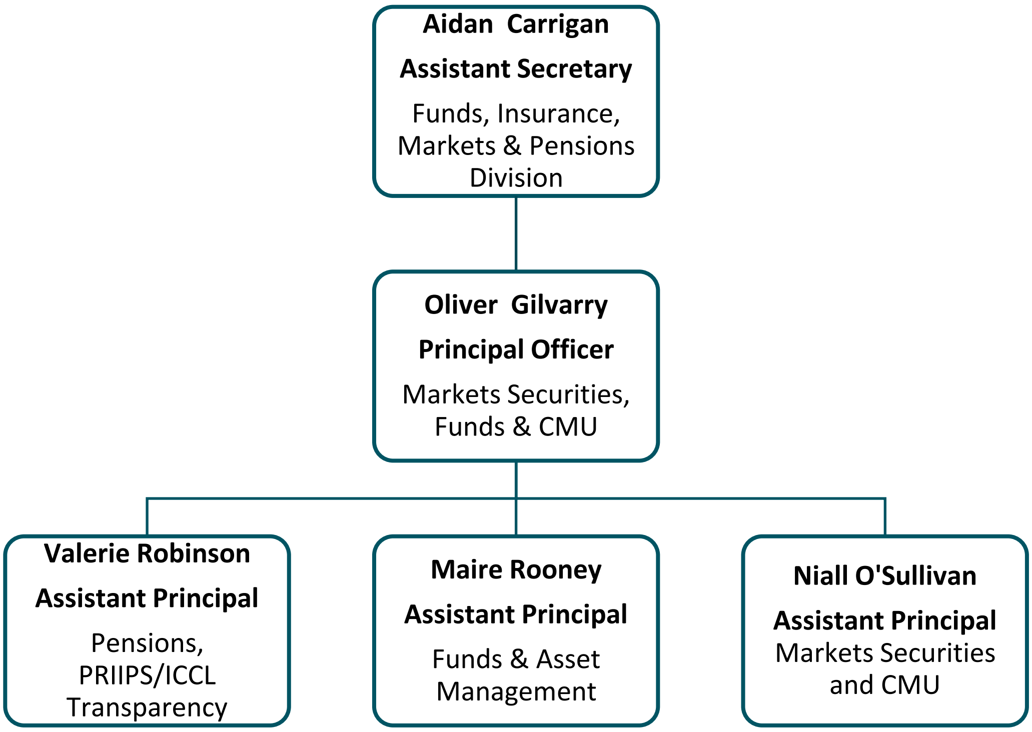
DESCRIPTION:

This Division is responsible for the development of domestic and EU/International policy and legislation in relation to the financial services sector, with the exception of the banking sector and manages the transposition of EU directives. Within Funds, Insurance, Markets & Pensions Division (FIMPD) the primary functions relate to insurance and pensions, funds, financial markets and anti-money laundering policy.

Assistant Secretary - Aidan Carrigan, Head of FIMPD is also the vice-chairman of the European Council's Financial Services Committee, which sets the strategic direction for financial services policy in Europe.

3.2.2.1 EU and national policy on Financial Markets, Funds Securities and Capital markets union.

Principal Officer: Oliver Gilvarry



Aidan Carrigan
Assistant Secretary
Funds, Insurance, Markets & Pensions Division

Oliver Gilvarry
Principal Officer
Markets Securities, Funds & CMU

Valerie Robinson
Assistant Principal
Pensions, PRIIPS/ICCL Transparency

Maire Rooney
Assistant Principal
Funds & Asset Management

Niall O'Sullivan
Assistant Principal
Markets Securities and CMU

KEY POINTS:

MiFID/MiFIR:

MiFID 2 (Markets in Financial Instruments Directive / Regulation) aims to build upon MiFID 1 (2004/39/EC) by strengthening investor protection rules and making financial markets more efficient, resilient and transparent. The new framework regulating investment firms, stock exchanges and related activities will also increase the supervisory powers of regulators and provide clear operating rules for all trading activities including new industry innovations such as algorithmic and high frequency trading.

There is a large transposition of markets regulation (MIFID II) to be completed in July 2017.

Post trade **market infrastructure** comprises all clearing and settlement activities following the execution of a financial trade (e.g. on a stock exchange). There is currently EU negotiations on two market infrastructure files – the Regulation on Central Counterparty Recovery & Resolution and the Regulation on Market Infrastructure ("EMIR"). [redacted]

Redacted under Sections 29(1), 30(1) and 40(1) of the FOI Act 2014

The **Capital Markets Union** action plan is a major initiative by the European Commission to provide a better balance in the EU between bank based funding and market based funding for individuals and businesses. It comprises of 33 measures and is set to run until 2019. The Department is actively involved in trying to influence the implementation of the plan, which involves non-legislative as well as legislative measures.

[redacted]

Redacted under Section 29 of the FOI Act 2014

[redacted]

[redacted]

[redacted]

Securities

The EU Securities Financing Transactions Regulation is in the process of being transposed. This Regulation lays down rules on the transparency of securities financing transactions (SFTs) and of reuse. The reuse concerns financial instruments provided under a collateral arrangement by a counterparty established in the Union or a branch in the Union of a counterparty established in a third country. Parts of the Regulation must be transposed into Irish law by July.

Ireland's bid to host the European Banking Authority

Government on the 21st of October approved a public declaration of interest in relocating the EBA to Ireland. The timelines for a decision on the re-location of the European Medicines Board and the EBA have recently shortened. At the European Council meeting in April, it was guided that a procedure for deciding the location for the EBA and the European Medicines Board will be agreed in June, with the potential for a decision on their new locations in Autumn.

Approval is currently being sought from Government to publish a promotional document to highlight the attractiveness of Dublin as a location for the EBA. The intention is for this document to be published on the Department's website, with a number of copies to be printed and circulated to our European embassies and other interested parties.

DETAIL:

Markets & Securities

Simple Transparent Securities Regulation: This regulation is in response to the financial crisis where important lessons were that (i) securitisation structures themselves can represent a source of risk due to the complexity of the structures and may make it difficult for some investors to understand the cash flow-generating mechanism and where disruptions may arise in the future; (ii) simple and transparent securitisations could perform poorly if the underlying assets were subject to weak underwriting and poor governance. Trilogues have been ongoing over the past few months with a view to having European agreement shortly.

Securities Financing Transactions Regulation: Securities financing transactions (SFTs) allow market participants to access secured funding, by using assets, such as the shares or bonds they own, to secure financing for their activities. This Regulation will increase transparency in securities financing markets and aims to allow market participants to use SFTs for financing the economy, while making it easier to monitor and assess the risks involved. This is currently being transposed.

Transparency Directive – Transposition of Article 6: In 2015, the Transparency Directive) Regulations 2015, were signed into law, transposing all of the provisions of the Transparency Directive into national legislation, with the exception of Article 6.

Article 6 was not transposed as it relies upon Chapter 10 of the Accounting Directive. Responsibility for transposition of that Directive was under the remit of the Department of Jobs, Enterprise and Innovation (DJEI).

DJEI have recently completed the transposition of the Accounting Directive into national law through the Companies (Accounting) Act 2017, which was signed into law on 17th May 2017. This paves the way for the completion of the transposition of Article 6 of the Transparency Directive. The intention is to complete the S.I. in the coming two weeks and then submit it to the Minister for signature.

Funds

[redacted]

Redacted under Section 29 of the FOI Act 2014

[redacted]

[redacted]

The draft **EU Venture Capital (EuVeCa) and Social Enterprise Funds (EuSEF)** are collective investment schemes that have been harmonised at European Union (EU) level since 2011. In its 2016 review, the Commission noted that these funds remain small and concentrated in a few Member States and that, while the take-up of EuVECA could be considered successful, the EuSEF results have been disappointing. Work on addressing the obstacles has been underway for some time with a view to making these funds more popular to investors. It is anticipated that trilogues will be completed in the coming weeks and issues related to capital requirements, which was of significant interest to Ireland, have moved in our favour during the Trilogue process.

Packaged Retail Investment Products Regulation (PRIPS) aims to provide simplified information to investors in retail investment products that come in 'packaged' form, where the products intercede between the investor and the markets through a process of "packaging", wrapping or bundling together assets so as to create different exposures, provide different product features, or achieve different cost structures, as compared with a direct holding. This Regulation is due to be transposed by 31 December 2017 and a draft S.I. has been submitted to OPC.

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.

Article 11 of the Investor Compensation Schemes Directive is currently being transposed via a statutory instrument. Article 11 requires each Member State to check whether branches established by an investment firm which has its head office outside of the EU have investor compensation coverage equivalent to that prescribed by the Directive. Failing such cover, Article 11 provides that a Member State may require such branches to join the investor compensation scheme in operation within its territory.

Under Section 18(4) of the Investor Compensation Act, 1998, the Minister for Finance may **appoint persons as Directors of the ICCL** who appear to the Minister to represent the interests of the clients of investment firms. One such **Consumer Interest Director** vacancy arises commencing on 1 August 2017, and the Department has initiated an expressions of interest campaign to shortlist appropriate candidates for the Minister's selection. A submission will be made to the Minister in mid-June for an SI to be passed in July, which will prescribe the Director for a three-year term from 1st August 2017.

Ireland's bid to host the European Banking Authority

With the UK's exit from the EU, decisions have to be made with regard to the relocation of the two EU agencies, the European Banking Authority (EBA) and the European Medicines Agency currently residing in the UK. Government on the 21st of October 2016 approved a public declaration of interest in relocating the EBA to Ireland. Government was updated on the 4th of April on the Department's progress in relation to Ireland's bid to re-locate the EBA.

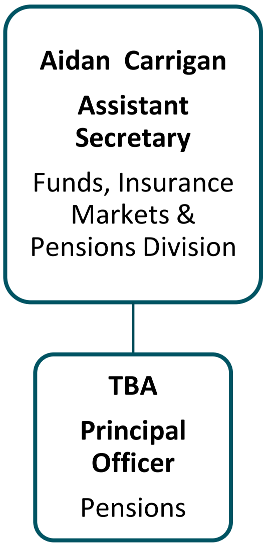
The timelines for a decision on the re-location of the European Medicines Agency and the EBA have shortened. At the European Council meeting in April, it was guided that a procedure for deciding the location for the EBA and the European Medicines Agency will be agreed in June, with the potential for a decision on their new locations in Autumn.

Approval is currently being sought from Government to publish a promotional document to highlight the attractiveness of Dublin as a location for the EBA. The intention is for this document to be published on the Department's website, with a number of copies to be printed and circulated to our European embassies and other interested parties.

The publication of the document will help highlight the positive aspects Dublin can offer as a location for the EBA including the infrastructure available, quality of life, presence of a large and growing financial services sector and the fact that Dublin will be the least disruptive location for the Authority.

3.2.2.2 Policy and legislation in relation to Pensions.

Principal Officer: TBA



KEY POINTS:

The Division has recently established a Pensions Policy unit for the purposes of co-ordinating a Department position and contributing to policy in relation to the reform of pensions in Ireland.

The key work streams currently underway include a paper for the Department's Policy Group on the **simplification and rationalisation of supplementary pension provision**, analysis of cost implications of an automatic enrolment retirement savings scheme, and measures to further support Defined Benefit (DB) schemes.

The Department of Social Protection (DSP) is in the process of preparing a *Draft Action Plan for Pensions Reform 2017-2021,* which is expected to be brought to Government in the coming months. If approved, the Action Plan will provide the framework for relevant government departments for the reform process during that period. The Plan proposes to reform supplementary pension provision and to introduce **Automatic Enrolment** for workers to a universal retirement savings scheme.

The Unit also analyses proposals that aim to improve the **sustainability of DB schemes**. DSP recently published a *Social Welfare and Pensions Bill 2017,* which includes proposals to deal with some of the issues that have arisen in the area of DB schemes in recent years, and ultimately introduces the imposition of debt on employers as a last resort.

DETAIL:

Redacted under Section 29 of the FOI Act 2014

[redacted]

[redacted]

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[redacted]

[redacted]

[redacted]

Redacted under Section 29 of the FOI Act 2014

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[redacted]

[redacted]

[redacted]

Defined Benefit schemes have a faced a significant number of challenges in recent years along with a significant decline in numbers and members. Since 1996 the number of funded DB schemes has reduced from 2,220 to 622 and more than half of existing schemes are not meeting the required funding standard. The vast majority of DB schemes not meeting the funding standard have agreed a funding proposal with the Pensions Authority (PA). However, there have been cases whereby schemes have been wound up without prior consultation with the Pensions Authority or members of the scheme, or have ceased contributions contrary to an agreed funding proposal.

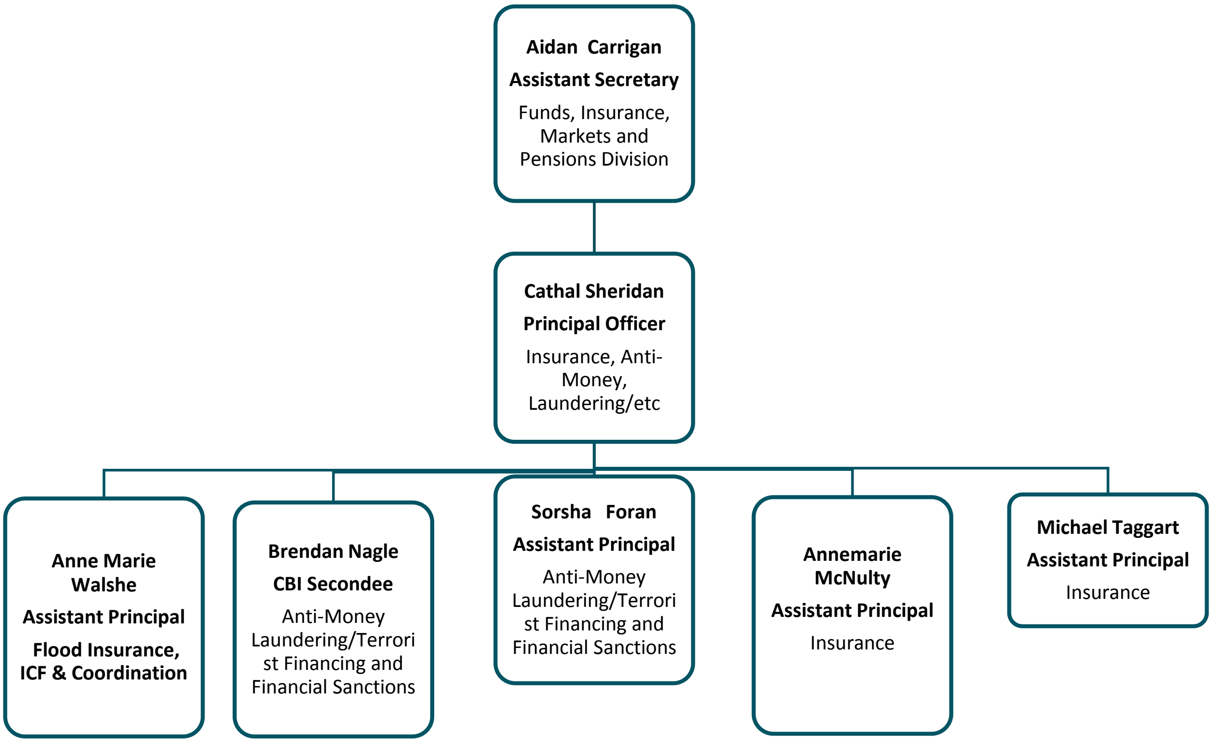
Attempts are now being made to reduce the likelihood of employers winding up DB schemes having failed to engage in a funding process to protect the interest of scheme members. DSP recently published the ***Social Welfare and Pensions Bill 2017*** that aims to deal with some of the issues that have arisen in the area of DB schemes in recent years, and ultimately introduces the imposition of debt on employers as a last resort.

[redacted]

Redacted under Section 29 of the FOI Act 2014

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

Principal Officer: Cathal Sheridan



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KEY POINTS:

1. Insurance

Cost of Insurance Working Group

Setanta Insurance Liquidation

Flood Insurance

Insurance is a topical issue at the moment due primarily to the way insurance premiums have increased over the last 2 years. CSO data (December 2016) shows that insurance prices have increased 47% since January 2011, while motor insurance prices have increased by 51% over the same period. This resulted in the establishment of the Cost of Insurance Working Group in July 2016, the outputs of which are discussed in more detail below.

Another major insurance issue over the last couple of years has been the legal dispute as to which body is liable for meeting the Setanta 3rd party claims, i.e. the Insurance Compensation Fund (ICF) or the Motor Insurance Bureau of Ireland (MIBI). The Supreme Court ruled on this matter on 25 May 2017 and has determined that the ICF is liable. Details of this case and its implications including priority legislation to amend the ICF legislation are outlined below.

The third insurance of significance is the availability of flood cover for all households. This is a very sensitive issue because of the impact that flooding can have on households. The Government's position for a number of years has been to prioritise investments in flood defence works to prevent flooding arising in the first place. In addition, there has been a focus on improving communication between the OPW and the Insurance industry in relation to completed flood defences in order to increase the flood cover in such areas. It should be noted that FF have a Private Member's Bill which has passed second stage on this issue. More details are provided below.

2. Anti-money Laundering

FATF Review of Ireland's AML/CFT Framework

Transposition of 4th Anti-Money Laundering Directive (4AMLD)

Trilogue negotiations of 5th Anti-Money Laundering Directive (5AMLD)

Ireland is currently undergoing a mutual evaluation assessment by the Financial Action Task Force (FATF) on its Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) framework. As Head of Delegation, this Department is leading and managing this process. The draft report on Ireland will be finalised at the FATF Plenary in June. More details on this review are provided below.

4AMLD will in the most part be transposed by the Department of Justice and Equality as it forms part of criminal justice legislation. This Department is responsible for transposing the beneficial ownership provisions. The transposition of 4AMLD has been somewhat complicated by a proposal to amend 4AMLD which was initiated in response to the terrorist attacks in the EU and the Panama Papers revelations. The trialogue negotiations for 5AMLD between the Council, Parliament and the Commission are currently ongoing. The transparency measures proposed to widen the access to the beneficial ownership information is the most significant and sensitive issue arising. Further detail is provided below.

DETAIL:

Cost of Insurance Working Group – The Cost of Motor Insurance

In 2016 the Department of Finance undertook a review of policy in the insurance sector in consultation with the Central Bank and other Departments and Agencies. The objective of the review was to recommend measures to improve the functioning and regulation of the insurance sector.

As part of that review, the Minister for Finance established the Cost of Insurance Working Group, chaired by Minister of State Eoghan Murphy T.D. This Working Group is examining the factors contributing to the increasing cost of insurance and identifying what short-term, medium-term and long-term measures can be introduced to help reduce the cost of insurance for consumers and businesses. The initial focus of the Working Group was the issue of rising motor insurance premiums and a broad range of issues affecting the cost of motor insurance were examined.

The Working Group's considerations culminated in the publication on 10 January 2017 of the Report on the Cost of Motor Insurance (which is available on the Department of Finance website). The Report makes 33 recommendations with 71 associated actions to be carried out in agreed timeframes, set out in a detailed Action Plan within the Report.

The recommendations cover six main themes:

- Protecting the consumer
- Improving data availability
- Improving the personal injuries claims environment
- Reducing the costs in the claims process
- Reducing insurance fraud and uninsured driving
- Promoting road safety and reducing collisions

The Action Plan identifies the responsible bodies and the timelines for delivery and the Government is driving the implementation of the Report's recommendations by ensuring that actions which are the responsibility of each Department are being prioritised by the relevant Minister.

Implementation of the Cost of Insurance Group Motor Action Plan

National Claims Information Database - The Department of Finance and the Central Bank of Ireland are leading on the improvement of data availability with a view to agreeing feasible and credible key insurance metrics, which will be published towards the end of the second quarter. The purpose of such metrics is to provide for greater transparency around issues such (i) understanding the relationship between the price paid by a customer for motor insurance and the cost to insurance undertakings and (ii) to identify any significant divergences over time between both, and the underlying reasons These key metrics are a stepping stone to the establishment of the National Claims Information Database next year which will formalise this whole area by providing a legislative basis for obtaining the collection of this information. The first set of key metrics are due to be received by the Department at the end of May with the first publication of these metrics by the end of June.

Work is also underway to develop the legislation that is required to give the Central Bank of Ireland the mandate to design, establish and maintain the database. It is expected that the draft general scheme of the legislation will be finalised over the summer/early autumn period for approval by Government to draft the relevant Bill. It is hoped that the Bill can be progressed in the autumn session of the Oireachtas.

Other DOF Measures under way: The Department of Finance is also in the process of implementing the Review of the Motor Insurance Compensation Framework recommendations and transposing the EU Insurance Distribution Directive (as outlined in other parts of the brief). Completion of these tasks are envisaged to result in, respectively, speedier payments and a simplification of the claims procedure in the event of any future insurance provider's insolvency, and the facilitation of cross-border market integration by enhancing retail insurance regulation and increasing the level of policyholder protection. As part of these exercises, there is considerable ongoing consultation with relevant stakeholders.

Additionally, the Central Bank will begin consultations this year on requiring insurers to provide additional information on the breakdown of premiums and extending the renewal notification timeframe by five working days.

Personal Injuries Commission / PIAB and BOQ Review – A key recommendation of the Cost of Insurance Working Group's motor report is the establishment of the Personal Injuries Commission (PIC). In January, the Minister for Jobs, Enterprise and Innovation established the PIC, chaired by former President of the High Court, Mr Justice Nicholas Kearns. The Commission will investigate innovative options to augment the current system in relation to personal injuries. Her Department, in conjunction with the Personal Injuries Assessment Board (PIAB) and the Department of Justice, will also continue to oversee a range of improvements to the PIAB process and the Book of Quantum, including improving cooperation with the PIAB process and introducing more granularity into the Book of Quantum, teamed with its more frequent publication.

Fraud Database / Review of Legal Fees - The Department of Justice and Equality is leading on the establishment of a fully functioning integrated insurance fraud database for industry to detect patterns of fraud and a sub-group is overseeing this process. In addition, a range of reviews has commenced into important issues such as the effects of legal and other fees on personal injury awards and the impact of the court jurisdictional limits as they evolve.

Uninsured Driver Database - The Department of Transport, Tourism and Sport (DTTS), meanwhile, is working to establish a database to identify uninsured drivers. It is expected that the first phase of this project will be operational in Quarter 3 and there has been engagement over the last number of months between the Motor Insurers' Bureau of Ireland (MIBI) and the DTTS on this matter. It is also taking on the project of improving the collection of a number of pieces of data, such as the driving licence number and the NCT certificate in order to improve the insurance underwriting process. By the end of next year, the Master Licence Record – expedited under the Report – should be in place. This will enable the linking of data between the driver and the car, thus giving stakeholders more complete information which should help to reduce fraud, uninsured driving and vehicle theft as well as facilitating the awarding of penalty points.

Overview of implementation

The Working Group is continuing to meet on a regular basis in order to monitor the implementation of the recommendations by the relevant Government Departments and Agencies and it is expected that the Report's 71 action points will be implemented by the end of 2018, with 45 due for completion by the end of this year. The ongoing progress of the Working Group can be followed through the quarterly updates, the first of which was published on the Department of Finance website at the start of May. The next publication will take place in July.

Cost of Insurance Working Group – Phase 2: The Cost of Public Liability and Employer Liability Insurance to Businesses

In parallel with implementing the motor insurance recommendations, the Working Group in its second phase is examining the Employer Liability and Public Liability Insurance sectors. The Working Group is building upon the previous work done in the motor phase in order to determine how it can be applied in the employer liability and public liability insurance claims areas particularly in relation to:

- Personal Injury data and information
- Effects of legal costs and litigation processes on insurance costs
- Current claims compensation arrangements and cost of claims
- Impact of unlawful activity on insurance sector

The Working Group is also considering the impact of the cost of insurance on the competitiveness of particular business sectors, the impact of health and safety issues on the cost of insurance and other market issues.

The Working Group is continuing to meet on a regular basis to examine issues related to Employer Liability and Public Liability insurance. It has held extensive consultations with a range of stakeholders including the Hotels Federation of Ireland, IBEC, ISME, the Vintners' Federation of Ireland (VFI), the Licensed Vintners' Association (LVA), the Retail Grocery Dairy & Allied Trades Association (RGDATA), Chambers Ireland and the Health and Safety Authority, the Construction Industry Federation (CIF) and the Law Society of Ireland.

It is envisaged that the final report, in the form of an addendum to the existing report, will be ready in September. Minister of State Murphy had stated in the Oireachtas on 17 May that he hopeful that he could provide clarity around the potential new measures in July. This would be published and he would appear before the Oireachtas committee to explain the CIWG's thinking.

Setanta Liquidation

Setanta was placed into liquidation by the Malta Financial Services Authority on 30 April 2014. Setanta is a Maltese incorporated company and therefore, the Setanta liquidation is being carried out under Maltese law.

Progress in the liquidation of Setanta was delayed while the outcome of the *Law Society of Ireland v the Motor Insurers' Bureau of Ireland* (MIBI) was awaited. The focus of the court action was to determine whether it is the Insurance Compensation Fund (ICF) or the MIBI which is responsible for the payment of third party claims. The Supreme Court delivered its judgment on 25 May 2017 finding that the ICF is liable. As a result, the payments due to policyholders are subject to a limit of 65% of the amount due or €825,000, whichever is the lesser.

Status of liquidation:
The most recent figures received by the Department of Finance from the Liquidator for Setanta is that the number of open claims is 1,639.

The Liquidator for Setanta has indicated that:

- Claims provision required stands at between €87.7 million and €95.2 million.
- Setanta policies were cancelled in May 2014. The 2 years allowable under the statute of limitation to lodge claims has expired so the claims figures will not increase further.
- It is likely that in respect of third party claimants a proportion of the balance, of 35%, of a claim will be met from the proceeds of the distribution of assets on completion of the liquidation process.

A number of issues emerge from this judgement which you should be aware of:

(i) Unlike the position if the MIBI ruling had been upheld, policyholders will not be compensated in full.
(ii) There will be pressure to pay the claimants as quickly as possible. In this regard the Accountant of the High Court and the State Claims Agency are working closely to push this along. However, the 2011 ICF legislation only allows claims to be brought for approval to the High Court once in every 6 months. This means that there will be a 6 month delay before the next and hopefully final batch can be paid.
(iii) Legislation will be required to ensure going forward that 3rd party motor insurance claimants are paid 100% compensation – see immediately below for more details.

Review of Insurance Compensation

The Report of the Review of the Framework for Motor Insurance Compensation in Ireland was published on 22 July 2016. This review was carried out jointly by the Department of Finance and the Department of Transport, Tourism and Sport and was approved by Government on 19 July 2016. The Report sets out an assessment of the current framework and makes recommendations to provide certainty regarding the future regime. The key recommendation is that the level of cover for third party motor insurance claims should be increased from 65% to 100% and that while the ICF will pay out the amount due in full, it will receive from industry a contribution to cover the additional 35%.

Since the publication of the report, work has commenced on the development of draft heads of a Bill. The necessary consultations with various stakeholders, including industry are almost concluded. It is expected that a legislative proposal will be brought to Government by the end of Q 2 (commitment in the Cost of Motor Insurance Report).

Insurance and Flooding

Flood events over the last number of years including the winter of 2015/2016 have raised issues in relation to flood insurance. In 2016 the Department carried out a review of the options to improve the availability of flood insurance which was included in the report of the Interdepartmental Flood Policy Coordination Group which was published in November.

The report inter alia recommends the current strategy to improving the availability of flood insurance cover be continued, i.e.:

- prioritising spending on flood relief measures by OPW and relevant local authorities, and improving communication between OPW and the insurance industry;
- complemented as necessary by targeted State emergency humanitarian assistance after flood events.

This strategy is complemented by a Memorandum of Understanding between the OPW and Insurance Ireland, the representative body for insurance companies in Ireland, which provides for the exchange of data in relation to completed flood defence schemes which should provide a basis for the increased provision of flood insurance in areas where works have been completed.

Related to the above, FF introduced a Private Members Bill titled "***The Flood Insurance Bill 2016"*** on 13 January 2016.Its purpose as stated in the Bill is *"to provide for fairness in the market for property insurance, and to provide for related matters".* The Bill, although opposed by Government at Second Stage, was referred to the Select Committee on 30 November 2016 for pre-legislative scrutiny. The Bill proposes, in effect, the compulsory provision of flood insurance to certain property owners and introduces the concept of compulsion in terms of the pricing of such insurance. [redacted]

Redacted under Section 31 of the FOI Act 2014

Other Insurance issues

Private Members Bill: **The Consumer Insurance Contacts Bill 2016** was introduced by Deputy Pearse Doherty (SF) on 19 January 2017, entitled "An Act to reform the law of consumer insurance contracts and to provide for related matters". The Law Reform Commission published a report in 2015 on Consumer Insurance Contracts, and included a draft bill in the Report. This draft bill forms the basis of the Private Members Bill.

The Bill was supported in principle by Government at Second Stage, but it was emphasised that the Bill is legally complex and cuts across a number of fundamental and well established legal principles. Pre-legislative scrutiny on the Bill has not taken been scheduled yet.

The Department is engaging with the Law Reform Commission and will consult with relevant stakeholders including the Central Bank of Ireland, the Department of Jobs, Enterprise and Innovation and the Department of Justice in preparing for the next stage of the legislation.

Insurance Distribution Directive

The Insurance Distribution Directive was published in the Official Journal of the European Union in February 2016 and must be transposed into Irish law by February 2018. It will replace the Insurance Mediation Directive which was adopted in 2002 to regulate point of sale insurance products and create a single market for the sale of insurance products. The Insurance Distribution Directive aims to further enhance consumer protection and ensure a level playing field by extending the scope of the directive to include all sales of insurance products. It will also seek to identify and mitigate conflicts of interest in particular in the area of commissions, and strengthen administrative sanctions.

Work has commenced on the transposition process including a public consultation on the national discretions in the Directive which ran during April.

Periodic Payment Orders/Discount Rate

The Government approved the introduction of PPOs for both State and Non-State defendants on 26th May 2015. The General Scheme of the Bill (the Civil Liability (Amendment) Bill 2017) has been published by the Department of Justice and Equality, and is currently proceeding through the Houses of the Oireachtas.

Pursuant to a recommendation of the Report on the Cost of Motor Insurance, the Department of Justice and Equality has set up a working group to commence an examination of the discount rate issue. This working group includes the Department of Finance and the State Claims Agency. A key outcome of this review process will be whether regulations should be brought forward to set the discount rate and if so at what rate should they be set.

Finally on this issue, it should be noted that when the Civil Liability (Amendment) Bill 2017 is enacted, the Courts will have the option of awarding for catastrophic injuries either a periodic payment award under this legislation, or a lump sum using a discount rate.

Anti-Money Laundering/ Countering the Financing of Terrorism

Financial Action Task Force (FATF)

Ireland is a member of the FATF which is an inter-governmental body established in 1989 by the Ministers of its member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is body which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse. The FATF's decision making body, the FATF Plenary, meets three times per year.

Ireland is currently undergoing a mutual evaluation assessment by the FATF on its Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) framework which will be concluded at the FATF Plenary in June 2017. This Department, in its capacity as chair of the Anti-Money Laundering Steering Committee (AMLSC) and head of the Irish delegation to the FATF, is leading and managing the peer review process which requires extensive cross-governmental engagement.

The draft report on Ireland will be finalised at the FATF Plenary in June. In overall terms, the draft report is a reasonably good outcome for Ireland. The report will include a series of recommended actions which Ireland will be expected to implement over the next number of years. The Department will, in conjunction with the AMLSC, prepare an action plan to implement the various recommended actions. Ireland will be subject to a full follow-up assessment by the FATF in five years and in the interim will be required to submit three reports outlining the progress made to implement the recommended actions. It should be noted that because of ongoing terrorist activities across the world, the issue of terrorist financing in particular is going to remain a very significant one.

Anti-Money Laundering Directive

The 4th Anti-Money Laundering (AML) Directive was published in June 2015 and it will, in the most part, be transposed by the Department of Justice and Equality as it forms part of criminal justice legislation. The transposition date is 26 June 2017. This Department is responsible for transposing the beneficial ownership provisions which require the establishment of centralised beneficial ownership register for companies and for trusts.

The transposition of 4AMLD has been somewhat complicated by a proposal to amend 4AMLD which was initiated in response to the terrorist attacks in the EU and the Panama Papers revelations. Trialogue negotiations between the Council, Parliament and the Commission are currently ongoing. The major focus of this proposal (known as 5AMLD) is further measures against terrorist financing and widening access to the beneficial ownership information with the latter being the most significant and sensitive.

On the beneficial ownership provisions, there is a serious divergence of opinion between the respective sides, with the Parliament in particular pressing for full public access to all registers. It is unclear at this stage if agreement will be reached on this matter during the Maltese Presidency.

Work is progressing on the transposition agenda, however, considering the uncertainty at EU level with the ongoing negotiations of 5AMLD, we have adopted to date a prudent and phased approach to the establishment of the beneficial ownership registers and the level of access to these registers

In relation to the creation of a centralised beneficial ownership register to which this individual company beneficial ownership information will be transmitted, the Department is currently working with the Department of Jobs, Enterprise and Innovation and the Companies Registration

Office in relation to the establishment of such a register. It is anticipated that the register will be operational in Q3 2017.

It should be noted that the Department is also working closely with the Revenue Commissioners in relation to beneficial ownership register for trusts.

Aside from the beneficial ownership provisions, the remainder of 4AMLD will be transposed through primary legislation with amendments to the Criminal Justice Act. The Department of Justice has indicated that the current objective is to publish the Bill before the summer recess with enactment of the legislation later this year.

5AMLD introduces a new proposal for a centralised bank and payments accounts register, the objective of which is to assist the Gardaí and Competent Authorities (AML supervisors) in fighting money laundering and countering the financing of terrorism. As Ireland does not have such a register in place, it will be a significant task to establish this register.

International Sanctions concerning repressive regimes/terrorism

Ireland is regularly required to make Statutory Instruments (SIs) to provide penalties for breaches of EU sanctions. The SIs should be made as soon as possible after the EU sanction Regulation has been made. New SIs are made on a regular basis to reflect the constantly changing nature of the sanctions area.

3.2.3 Shareholding and Financial Advisory Division

DESCRIPTION:

The Shareholding and Financial Advisory Division (SFAD) manages the State's investments the banking sector (Allied Irish Banks, Bank of Ireland and Permanent TSB). It also manages 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. SFAD also 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.

Assistant Secretary - Des Carville

KEY POINTS:

AIB – State has invested €20.8bn into AIB and our strategy is to recover this investment in a manner which maximises the return to taxpayers over time. The SFAD's analysis and that of our advisors is that a capital markets IPO is the optimal strategy to recouping the full amount of this investment over time. The valuation achieved at IPO will be dependent on a combination of the investor story (including Government policy for the banking sector), prevailing market conditions, quantum being sold and timing. The bank returned to profit in 2014 and has a stable senior management team; it is a well-capitalised "national champion" capable of delivering an attractive return on equity and should prove attractive to investors. The bank recommenced dividend payments earlier this year on the back of its 2016 annual results with €250m being returned to the State.

An 'Intention to Float' (ITF) statement was issued on Wednesday May 31st and a Price Range Prospectus was issued on Monday 12th June. The book-building process has begun with pricing and allocation to be decided on Thursday 22nd June with trading to commence the following day. Clearly the decision to issue a price range and prospectus was a critical decision in this regard and, absent any significant event, investors are expecting the transaction to proceed as set out in that document. We intend to consult fully with the new Minister as the process evolves and bookbuilding nears completion. Important decisions around price guidance and final pricing will be required at short notice over this period (likely Wednesday 21st – Friday 23rd).

BoI – our objective is to sell remaining 14% investment without compromising the value of our other banking investments. The bank returned to profit in 2014 and is well capitalised. It is expected to commence modest dividends in H1 2018 (c 25% of profits) and this is expected to rise in future years (to c 50% of profits).

PTSB – we executed a successful re-IPO of PTSB in May 2015 which provides us with good optionality around a disposal of the State's remaining 75% investment. Whilst the bank recorded an underlying profit in the two most recent financial years, reported profit has been impacted by losses arising from deleveraging of non-core loan portfolios to meet its EU approved Restructuring Plan commitments. These commitments were completed in 2016 and a reported profit would be expected in 2017. The main challenge for the bank at present is to reduce further its significant stock of NPLs and the board and management team continue to develop and implement plans to address this. [redacted]

Redacted under Section 36 of the FOI Act 2014

NAMA - NAMA has made significant progress towards achieving its mandate over the past years and is currently performing two years ahead of schedule. To date NAMA's deleveraging activity have allowed it to redeem €29.7bn (98%) of the original €30.2bn guaranteed senior bonds, reducing the State's contingent liability to just €500m. NAMA anticipates repaying the remaining €500m of Government guaranteed senior debt by the end of 2017, eliminating any NAMA-related contingent liability for the State in its entirety. NAMA also anticipates repaying its €1.6bn of subordinated debt in full by March 2020 and, subject to continuing favourable market conditions, returning a surplus of up to €3bn to the Exchequer once its work is completed. NAMA expects that its deleveraging work will be mostly completed by 2018. The remaining deleveraging will be a relatively slow process involving fewer portfolio sales and greater loan by loan workout activity. Until 2020, NAMA will continue to focus on completing its Dublin Docklands SDZ and residential delivery programmes. It is expected that political scrutiny of NAMA's work will continue as NAMA's moves closer to achieving its mandate. A Commission of Investigation has been established to investigate NAMA's sale of its Northern Ireland loan portfolio. The Department will cooperate fully with the Commission.

IBRC – IBRC was placed in Special Liquidation in February 2013. It is too early at this stage to advise on the likely timeframe for conclusion of the liquidation of IBRC as it can only be concluded once all assets are realised, all creditor claims have been resolved (including those subject to litigation) and all surplus funds have been distributed to creditors. The Special Liquidators commenced the payment of an interim dividend of 25% to all admitted unsecured creditors of the liquidation in December 2016 which resulted in €280m being received by the State for Department of Finance related claims. The State, as a creditor, could ultimately receive in excess of €1bn from the liquidation.

A fourth report on the progress of the Special Liquidation of IBRC was received from the Special Liquidators in May 2017.

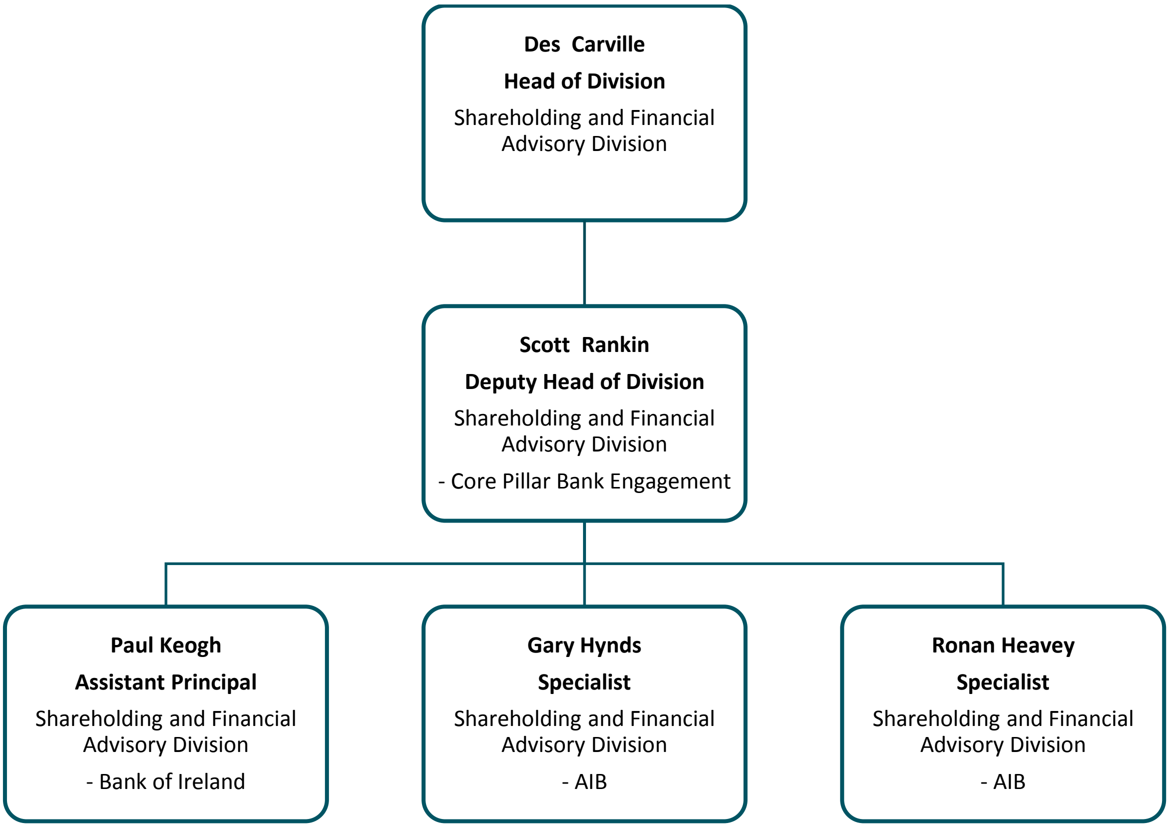
Separately a Commission of Investigation into IBRC was established in 2015 to investigate certain matters of significant public concern regarding certain decisions, transactions and activities entered into by IBRC (pre-liquidation) between the period 21 January 2009 and 7 February 2013. The Department has and continues to fully cooperate with the Commission.

Credit Unions - as at 31 December 2015, there were 349 registered credit unions with assets of approximately €15.1 billion and membership of around 3.1 million. Credit unions are very liquid with an average liquidity ratio of 40.56%. Average arrears are now 12.82%. As with most financial institutions in the current climate, credit unions need to increase lending having an average loan to asset ratio of 27.14%. We work with the Registrar of Credit Unions (Central Bank) and the Representative bodies, REBO, CUAC and other stakeholders to help ensure that the sector develops appropriately and is viable.

Legal – we manage existing litigation and litigation risk concerning the above work streams through SFAD's senior legal adviser and the Department's legal department and external advisers.

3.2.3.1 State’s Banking Investments Overview

Deputy Head of Unit - Scott Rankin


Des Carville
Head of Division
Shareholding and Financial Advisory Division
Scott Rankin
Deputy Head of Division
Shareholding and Financial Advisory Division
- Core Pillar Bank Engagement
Paul Keogh
Assistant Principal
Shareholding and Financial Advisory Division
- Bank of Ireland
Gary Hynds
Specialist
Shareholding and Financial Advisory Division
- AIB
Ronan Heavey
Specialist
Shareholding and Financial Advisory Division
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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 option available to the State in order to maximise the return from these investments over time using both financial and non-financial criteria.

It has been Government policy to reduce our investments in the banks in a manner that maximises the recovery of funds for the taxpayer. A total of €64bn was invested in six banks of which €35bn went into Anglo/INBS and cannot be recovered. The remaining €29bn went into AIB/EBS, BOI and PTSB, and SFAD has indicated that the full amount of this investment can be recovered over a sufficient time horizon. Other benefits to the State of unwinding its exposure to the banks include reducing the national debt and the residual risk associated with the State’s shareholding.

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. Although the comparison shows a current net deficit of €0.9bn, we are confident that through careful management of the monetising of our remaining investments, we will recoup the full amount over time. Monetising these investments will require implementation of a multi-year strategy that will likely traverse at least one if not two equity market cycles.

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/redemption of investments	3.7	3.6	1.9	9.2
- Coupons on investments and other	2.9	2.3	0.8	6.0
	6.6	5.9	2.7	15.2
Net cash position - In/(out)	**(14.1)**	**1.2**	**(1.3)**	**(14.2)**
Valuation of remaining investments - May 2017*	11.3	1.1	0.9	13.3
Net position - May 2017	**(2.8)**	**2.3**	**(0.4)**	**(0.9)**

** BOI and PTSB as per ISE close, 19th May. AIB as per ISIF draft valuation, 31 December 2016.*

Due to rounding, some of the numbers on the face of Table 1 may not total within €0.1bn.

AIB is by far our largest remaining investment with a net cash position of €14.1bn compared to a value of our equity investment of €11.3bn as valued by the ISIF at year-end 2016[6].

AIB dominates our strategy, and there are a number of conditions precedent to exit

Given the size of our AIB exposure our strategy prioritises the return of this value, with disposal strategies for BOI and PTSB facilitating, or at a minimum not hindering, this objective. SFAD would contend that there are 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 bank itself 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 e.g. in the case of AIB, is the value achieved at sale consistent with us recovering our €20.75bn?

[6] Independent outside in valuation based on public information

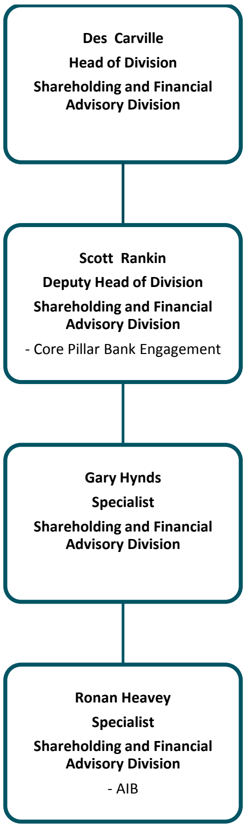
In table 2 we simplistically set out our views on these pre-conditions with respect to the three banks.

Table 2: Exit pre-conditions

Condition	AIB	BOI	PTSB
1/ Stable sector?	Yes	Yes	Yes
2/ Bank ready?	Yes	Yes	Yes
3/ Market ready?	Yes	Yes	Yes (at a discount to current share price valuations)
4/ Value for money?	Yes	Case by case call	Case by case call

3.2.3.2 State's shareholding in Allied Irish Banks

Specialist – Gary Hynds



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KEY POINTS:

- The State invested €20.8bn in AIB between 2009 and 2011, and now owns 99.9% of its ordinary shares. It is believed that all of this investment could be recoupable over a c.6-10 year period through collection of dividends and gradual sell-down of Ordinary Equity depending on market conditions.
- AIB returned to profitability in 2014 and has demonstrated a strong performance trajectory with capital growth, new lending growth and significant restructuring of impaired loans. Following the capital reorganisation facilitated by the State at year end 2015, the bank has a strong balance sheet with regulatory compliant and market acceptable capital ratios. Indeed AIB is holding excess capital in acknowledgement of its elevated levels of Non-performing loans. [redacted]
- The relationship between the State and AIB is managed through a Relationship Framework Agreement which will be revised in advance of any exit event. SFAD monitors performance and significant issues on an ongoing basis.

Redacted under Section 36 of the FOI Act 2014

- An 'Intention to Float' (ITF) statement was issued on Wednesday May 31st and a Price Range Prospectus was issued on Monday 12th June. The book-building process has now commenced, with price setting and allocation scheduled to take place on Thursday June 22nd and trading to commence on Friday 23rd. Final settlement will occur two working days later on June 27th (except for an over-allotment option which would settle 30 days later).
- Now that an ITF has issued investors are expecting a transaction and the Department would be exposed to considerable reputational risk if we are perceived to 'fail' to execute in the absence of a significant market deterioration.

DETAIL:

AIB Investment Overview

Between 2009 and 2011 the State invested €20.8bn in AIB as part of the sector-wide recapitalisation and resolution process following the 2009 financial crisis. These investments took a number of forms including Preference Shares, Ordinary Shares, Contingent Capital Notes ('CoCos') and Promissory Notes. As part of a sector-wide recapitalisation and consolidation AIB was required to incorporate EBS Mortgage Bank as a subsidiary. In the intervening years and on an ongoing basis, SFAD have been managing the State's shareholding; which has included working towards the stabilisation and normalisation of the bank's activities, close monitoring of performance and engagement with the bank's executive management team.

To date, the State has recouped c. €3.9bn from these AIB investments through dividends, the disposal of Preference Shares and the maturation of the Contingent Capital Note (CoCo) in July 2016. The State has recouped a further c. €2.8bn through transaction fees and CIFS/ELG fees charged for State guarantees. Therefore the remaining net investment in AIB will be c. €14.1bn. The SFAD is confident that the State will be able to recoup the full value of its investments over the course of time through the strategic disposal of its shareholding and the IPO currently underway is a critical part of that journey. Returning AIB to equity capital markets will not only return significant sums to the State but it will also create liquidity and make it far easier for the State to sell further shares into the future.

Financial Position and capital reorganisation

AIB released its Full-Year 2016 results on March 2nd 2017, posting a profit before tax of €1.7bn and an average Net Interest Margin of 2.25% (y/e exit NIM at 242%). The bank also announced the payment of a €250m dividend – the first since 2008. As part of a Q1 market update AIB disclosed a fully loaded CET1 capital ratio of 16.0% at 31 March 2017 up 70bps from 15.3% at December 2016 demonstrating considerable capital generation and well in excess of the bank's medium term CET1 target of 13%. The balance of NPLs at year-end 2016 was €9.1bn, which represents a reduction of €19.8bn since December 2013. Impaired loans thus represent c. 14% of the gross loans. While this is down from 29% at peak it is still very high relative to the European average which is nearer 5%. New lending is growing quarterly with €8.7bn new lending in 2016. After a period of deleveraging across all sections of the Irish economy (where redemptions outstripped new lending) AIB may now be in a position to begin growing its loan book.

Governance

The relationship between the bank and the Department of Finance is governed by a Relationship Framework Agreement (RFA), agreed in 2012. The RFA sets out the required consultation and information shared by AIB with SFAD, including access to the Board's decision making materials and meeting minutes. SFAD has negotiated and the Minister has specified a revised RFA that will be put in place after an IPO. This reflects the more market standard shareholder arrangement that would need to exist between the State and the bank to meet main market listing requirements. The revised RFA has also been drafted with reference to the Bank of Ireland and PTSB agreements already in place.

Under the revised RFA, the Minister has the right up to two directors to the Board. The bank will be obliged to consult with the Minister on issues such as large disposals, acquisitions, certain remuneration types and other material issues. The SFAD will continue to have access to the Board's decision making materials and meeting minutes, and will continue to hold Monthly Management Meetings with the CEO and/or CFO and other senior executives.

AIB has been advised by the Single Resolution Board that the preferred resolution strategy for AIB is the implementation of a holding company into its group structure. This will be subject to obtaining the Minister's consent and will involve the Minister's shares in AIB being exchanged for shares in the holding company. Assuming the IPO proceeds in H1, AIB intend to implement the holding company in H2.

IPO and related workstreams

SFAD, in conjunction with our previous advisors Goldman Sachs and now our Independent Financial Advisor, Rothschild, have considered all available options in relation to maximising the value of our investment in AIB with a view to full recovery of the amounts invested. SFAD have prepared a number of detailed memos for the Minister which will provide our views on the optimal strategy to achieve this, which we conclude is best served via a c.25% IPO (excluding "over allotment" option) and further sales over time.

In December 2016, following a competitive procurement process, SFAD appointed Davy, Deutsche Bank and Bank of America Merrill Lynch to act as joint global co-ordinators to lead a selling syndicate. On the 23rd of March this year we further announced the addition of five joint bookrunners (Citi, UBS, JP Morgan, Goldman Sachs, Goodbody's) and a co-lead manager (Investec) to the syndicate. The syndicate are appointed to plan, structure and execute an IPO on behalf of the State. The three global coordinators lead the transaction, performing most of the work, while the bookrunners and co-lead manager will help to ensure coverage of the broadest possible range of relevant investors both by type and geography when it comes to the marketing and sales effort.

All IPO workstreams are well progressed at this time. The IPO is open to both institutional and retail investors under the same conditions; at present we expect the bulk of demand and therefore the demand that drives ultimate pricing and allocation from institutional investors – however the exact ratio of institutional to retail allocation of shares will be determined by the book-building process with the aim of achieving the highest price with the right quality of investor register to ensure positive post-transaction performance. Members of the public in Ireland and the United Kingdom will be able to apply for Ordinary Shares via an Intermediaries Offering through a participating intermediary subject to a minimum subscription of €10,000. The Minister for Finance will receive the gross proceeds from the Offer (the company does not receive any proceeds). There will be a customary 180 day lock-up arrangements following admission.

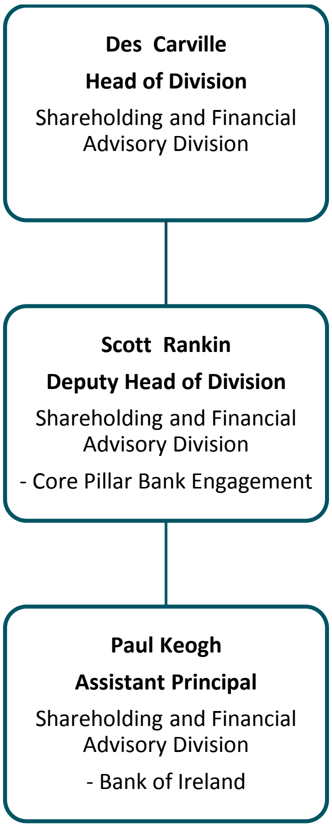
Decision to Launch IPO Process

As you will be aware a decision to ITF was taken by the previous Minister on 31st May on foot of advice provided by SFAD and its advisors. SFAD advised that the precedent conditions, outlined in section 3.2.3.1 above, had been met, i.e. stability conditions were met, AIB was prepared for IPO and sufficient Investor interest and market conditions were adequate to achieve our value for money expectations allowing a decision to be taken to proceed.

The book-building process would has begun with pricing and allocation to be decided on Thursday 22nd June and trading to commence the following day. Clearly the decision to issue a price range and prospectus was a critical decision in this regard and, absent any significant event, investors are expecting the transaction to proceed as set out in that document. We intend to consult fully with the new Minister as the process evolves and book-building nears completion. Important decisions around price guidance and final pricing will be required at short notice over this period (likely Wednesday 21st – Friday 23rd).

3.2.3.3 State’s shareholding in Bank of Ireland

Specialist – Scott Rankin



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KEY POINTS:

•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 is its 14% equity stake with a current value of c. €1.1bn.

•BOI has been profitable since 2014 and the capital build has been impressive since then. Other key financial highlights are much increased new lending volumes and the significant reduction in non-performing loans.

•The relationship between the Department of Finance and BOI is managed through a Relationship Framework which is less prescriptive than the AIB Relationship Framework reflecting the State’s relative shareholdings in the two banks.

•The State’s options in relation to a future sell down are by way of a large volume block sale, an orderly trading plan (a so-called “dribble out”), or a combination of both.

•Apart from favourable market conditions, the key consideration in the timing of any decision to sell down our BOI stake is that it must not clash with an AIB disposal as the investor pool will be similar. Decisions in relation to AIB must take priority given the much larger size of our investment.

● In March 2017, the Minister consented to the implementation of a holding company structure in BOI. The Minister's shares in BOI will be cancelled and replaced with shares in the new holding company. The holding company structure was a requirement of the Single Resolution Board as the preferred resolution strategy for BOI. The holding company is due to be implemented in H1.

Detail:

BOI Investment Overview

Between 2009 to 2011 the State invested €4.7bn in Bank of Ireland by way of equity, Preference Shares and Contingent Capital Notes (CoCos). During 2013, the State disposed of the Preference Shares and the CoCos generating total proceeds of €3.1bn. To date, the State has recouped total cash of €5.9bn comprising the 2013 disposals, investment income and CIFS/ELG fees charged by the State for liability guarantees. Accordingly, the net cash position is €1.2bn positive for the State. In addition, the State's remaining investment in the bank is its 14% equity stake which, at 19th May 2017, had a market value of c. €1.1bn.

Financial Position

Bank of Ireland had a strong return to profitability in 2014 and has remained profitable since. On the back of this, the capital build has been impressive with fully loaded CET1 increasing to 12.3% in December 2016 from 6.3% in December 2013. Other key financial highlights in 2016 were the significant fall in NPLs to €7.9bn from €15.8bn in December 2014 (a reduction of 50% over the two-year period), and growth in lending to €13.0bn (an increase of c. 30% on 2014).

Governance

The relationship between the Department of Finance and Bank of Ireland is managed through the Relationship Framework (RF) of March 2012. The RF provides that where the consent of/consultation with the Minister is necessary in any matter, the bank will comply with this provision. The RF is less prescriptive than the AIB RF which reflects the State's relative investment in the two banks.

Exit Options

The State has three options to sell down its stake in the bank:

1. Accelerated book build

The typical strategy adopted by Governments to date in disposing of their bank (and other) investments has been by way of large block sell-downs known as Accelerated Book Builds (ABBs). The key advantage of an ABB is that it allows for the monetisation of a significant portion/all of an investment which is particularly attractive when markets are favourable. The main disadvantage is that, because of the large volume typically disposed of the sale is almost always completed at a discount to the previous closing price. This could cause unfavourable political and media commentary even in a situation where, after discount, we have achieved what we believe to be full value.

2. Trading plan (or dribble-out)

In a few instances Governments have adopted an alternative sales strategy commonly referred to as a trading plan (or dribble-out). This type of strategy generally involves the Government mandating a third party firm to sell-down an equity stake on a measured daily basis subject to achieving a minimum price and within a maximum volume cap linked to total average sales. For instance, in December 2014, the UKFI announced it was commencing a trading plan sales process in relation to the UK Government's remaining holding of Lloyds Banking Group (Lloyds) equity. The performance of the trading plan, which was extended on a number of occasions, was very successful and contributed significantly to the UK Government's monetisation of its entire stake in the bank. Prior to the commencement of the trading plan, the UKFI had previously executed two large ABB sell-downs in September 2013 and March 2014.

3. A combination of an ABB and a trading plan.

Key considerations in determining the timing of executing a sell down include

- Market conditions.
- Avoidance of a clash with an AIB disposal as the investor pool will be similar. Decisions in relation to AIB must take priority given the much larger size of our investment.
- Whether or not the Department is in possession of price sensitive information.

Holding Company

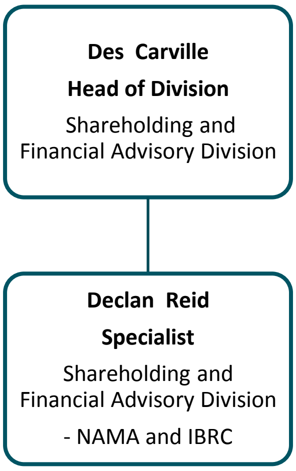
In March 2017, the Minister consented to the implementation of a holding company structure in BOI. The Minister's shares in BOI will be cancelled and replaced with shares in the new holding company. The holding company structure was a requirement of the Single Resolution Board as the preferred resolution strategy for BOI. The holding company is due to be implemented in H1.

[redacted]. BOI will continue to be the operating entity and licensed bank and the Minister's existing rights as regards BOI continue. The holding company will have a mirror board and act as a holding company only with no employees and will not trade.

Redacted under Section 36 of the FOI Act 2014

3.2.3.4 NAMA

Specialist - Declan Reid



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Declan Reid
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Shareholding and Financial Advisory Division
- NAMA and IBRC

KEY POINTS:

- NAMA was established in late 2009 to remove impaired land and development loans from participating banks. NAMA is a statutorily independent fully accountable commercial State organisation, operating under an independent Board of Directors, and apart from the Government guarantee of its senior debt, is full self-funding.
- The Minister for Finance does not have a role in NAMA's commercial decisions, nor its day to day operations but retains the power of direction, exercisable only to further the Purposes of the NAMA Act.
- NAMA funded its loan purchases predominantly through the issuance of €30.2bn Government Guaranteed Senior NAMA bonds to the banks.
- There was no doubt that the repayment of this debt would be extremely challenging and vitally important to improving the creditworthiness of the State, enabling Ireland to re-access the debt markets and stabilise and reduce the State's cost of debt.
- To date, NAMA has redeemed €29.7bn (88%) of its guaranteed senior bonds, effectively eliminating the State's contingent liability.
- NAMA anticipates repaying its remaining €500m senior debt by end-2017, repaying its €1.6bn subordinated debt in March 2020 and, subject to continuing favourable market conditions, and ultimately returning a surplus of c. €3bn to the Exchequer.
- NAMA's cash generation will continue to slow in line with its reducing loan portfolio.
- Having completed the majority of its large loan and assets sales, remaining deleveraging activity will be more granular and more challenging.
- To 2020, NAMA will focus on completing its Dublin Docklands SDZ and residential delivery programmes on a commercial basis in line with the purposes of the Act.
- NAMA's residential funding programme is currently the subject of a State Aid complaint by a number of prominent Irish developers.

- Following published reports by the C&AG and the PAC, the Taoiseach agreed to and the Oireachtas has recently approved the establishment of a Commission of Investigation into NAMA's Project Eagle sale.
- The Minister for Finance appoints all external Board members, including the Chairman, and two external members of the Audit Committee.
- There are currently two vacancies on the NAMA Board and one vacancy on the Audit Committee [redacted]

Redacted under Section 29(1)(a) and 20(2)(b) of the FOI Act 2014

DETAIL:

Progress since Inception & Current Position

NAMA Progress	At Inception	To YE 2016
Outstanding Principal Balance	€74.4bn	€28.4bn
Carrying Value of Acquired Loans	€31.8bn[1]	€3.9bn
Debtor Connections	778	256[2]
Total Cash Generated		€38.1bn
Senior Debt Outstanding	€30.2bn	€500m[3]
Equity		€3bn[4]
Anticipated Surplus		€3bn

1. *The market value of the acquired loans was €26.2bn. By paying €31.8bn NAMA delivered €5.6bn in State Aid to the ailing banks.*
2. *As per March 2017, 158 connections were in consensual strategies and 98 were subject to enforcement.*
3. *Senior debt redemptions of €29.7bn to date.*
4. *Excluding €1.6bn of subordinated debt.*

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 ailing 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 98% of its senior debt, reducing the State's contingent liability from the original €30.2bn to just €500m today. We must remember that the full repayment of NAMA's debt, let alone a surplus to the State, was almost unthinkable at NAMA's inception.

NAMA is confident that it will achieve its financial targets to:

1. Redeem 100% (€30.2bn) senior bonds by end 2017 (3 yrs ahead of original target);
2. Redeem €1.6bn subordinated bonds in March 2020; and

3. Maximise the surplus to be returned to the State when it work is complete, currently expected to be c.€3bn subject to market conditions remaining favourable.

To 2020, NAMA will focus on completing its Dublin Docklands SDZ and residential delivery programmes on a commercial basis in line with the purposes of the Act.

Remaining Portfolio

The carrying value of NAMA's was €3.9 billion and approximately 60% of this relates to the residential delivery and Dublin Docklands SDZ programmes. The other 40% of the loan portfolio is secured for the most part by a large volume of low-value assets, many of which will require meticulous workout as NAMA maximises their value. NAMA's cash generation will continue to slow in line with its reducing loan portfolio and funding activities.

SDZ Funding Programme

In May 2014, the Dublin Docklands SDZ planning scheme was approved by An Bord Pleanála, dividing the Docklands into 20 development blocks. NAMA originally held an interest in 15 of the 20 blocks and developed detailed strategies for each of the 15 blocks.

The scheme includes development plans for Boland's Mill, the Exo Building and Capital Dock. The extent of NAMA's involvement varies from site to site as NAMA has actively sought to de-risk its exposure through entering into partnership arrangements and/or selling its interests. As a result, mostf the development work being carried out in the SDZ is being funded through private capital without taxpayers' money being placed at risk. By end-2016, 82% of NAMA's original interests in the original Dublin Docklands SDZ was under construction, had received planning permission or had been sold with the benefit of planning permission.

Residential Funding Programme

NAMA is working with debtors and receivers to identify commercially feasible opportunities within its existing portfolio to bring forward new residential development. NAMA aims to facilitate the construction of up to 20,000 new residential units in Ireland by 2020, subject to its overriding commercial mandate. Since 2014, NAMA has funded the construction of 4,840 new residential units in Ireland on residential development land securing its loan portfolio. As at end-March 2017 an additional 2,064 units were under construction by NAMA-funded developers and receivers. NAMA's Residential funding programme is the subject of a State Aid Complaint to the European Commission, lodged by a number of prominent Irish developers (including former NAMA debtors). NAMA is confident the funding programme is commercially sound and does not constitute state aid.

Social Initiatives

Subject to the primacy of its Section 10 commercial mandate but often complementing it, NAMA seeks to make a positive social and economic contribution across the broad range of its activities. NAMA has an established policy 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. NAMA has also invested or committed over €107m to remediate and complete properties for housing and invested over €200m to purchase units through its special vehicle for acquiring social housing, NARPS. The NARPS leasing model has been a significant source of residential unit delivery for many of the larger Approved Housing Bodies (AHBs) in recent years and has itself provided a template for future such initiatives. NARPS has almost reached its full potential within NAMA and will ultimately be brought to the market by NAMA. In the private sector, with additional private capital, NARPS has the potential to make a meaningful contribution to social housing delivery in the State.

The NAMA Board

Under the NAMA Act 2009, the NAMA Board is to consist of nine members - the NAMA Chairman, the CEO of NAMA (ex-officio), the CEO of the NTMA (ex-officio), and six ordinary members. The Minister appoints all members of the NAMA Board, including the Chairman. There are currently two vacancies on the NAMA Board and one vacancy on the Audit Committee. [redacted]

Redacted under Sections 29(1)(a) and 30(2)(b) of the FOI Act 2014

Commission of Investigation

Following published reports by the C&AG and the PAC, the Taoiseach agreed to and the Oireachtas has recently approved the establishment of a Commission of Investigation ("CoI") into NAMA's Project Eagle sale. Justice John Cooke will be appointed to lead the CoI and shall avail of commercial expertise from outside the State. The terms of reference concern the price, process, and corporate governance arrangements of the Project Eagle transaction. The Minister for Finance and the Department's role in the sales process, particularly regarding meetings with bidders, also forms part of the terms of reference. The Department of the Taoiseach will have responsibility for running the CoI. The Department will cooperate fully with the CoI which is required to publish an interim report 3 months from establishment.

Forward Looking

It is not expected to be necessary to extend the life of NAMA beyond 2020 for the achievement of the purposes of the NAMA Act. However, the redemption of both the Senior and Subordinated Bonds provides a level of flexibility in how NAMA's surplus is realised and transferred to the State.

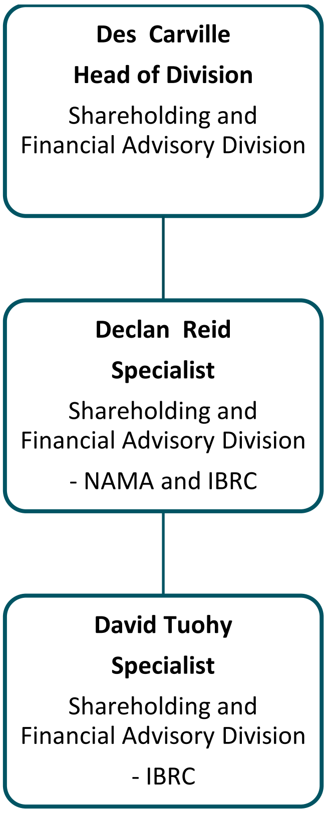
The final phase of NAMA's deleveraging will be a relatively slow process, with few major sales. However, NAMA expects this to be completed by 2018 and the focus to 2020 will be on the Dublin Docklands SDZ and residential delivery programmes. The value of NAMA's assets and further investment in these initiatives is expected to comprise the bulk of the surplus to be returned to the State.

NAMA continues to de-risk its positions so that by 2020, the real estate and financial assets supported by NAMA funding will comprise a relatively small portfolio of liquid commercial and residential exposures.

Active consideration is underway regarding NAMA's end of life strategy and the maximisation of the return of the surplus to the State. Ongoing oversight of NAMA's progress, as well as market analysis, will be key to informing these decisions.

3.2.3.5 IBRC (in special liquidation)

Specialist - Declan Reid



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David Tuohy
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KEY POINTS:

In February 2013 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.

Significant progress has been made to date in winding up the affairs of IBRC but further work remains.

While it is too early at this stage to advise on the likely timeframe for conclusion of the liquidation of IBRC, the liquidation of IBRC can only be concluded once all assets are realised, all creditor claims have been resolved (including those subject to litigation) and all surplus funds have been distributed to creditors. This process is ongoing.

As part of the liquidation process, the Special Liquidators (“SLs”) published advertisements and wrote to all known creditors in order to finalise their claims in the special liquidation. UK and Irish creditors had until 31 March 2015 and US creditors had until 31 May 2015 to submit their claims. The SLs continue to adjudicate on claims by each creditor class.

Proceeds from the liquidation will be paid to creditors in line with their priority according to the creditor hierarchy set out in the Companies Act, namely: costs and expenses of the liquidation; preferred creditors; senior unsecured creditors; and subordinated creditors, in that order.

IBRC in SL currently holds a cash balance of c. €1.9bn which will be available for distribution to creditors.

In December 2016 the SLs paid an interim distribution to creditors totalling €290m, constituting 25% of all admitted unsecured creditor claims. As part of this distribution the State, as the largest creditor to the liquidation, received €280m of its €1.12bn of admitted claims.

The SLs currently expect that cumulative unsecured creditor distributions will be in the range of 75% - 100% of all eligible claims. This eventual distribution range is subject to change depending on future events which are outside the control of the Special Liquidators.

It will be some time before the SLs will be able to confirm the likelihood and timing of distributions from the liquidation given the ongoing adjudication process of creditor classes, including preferred creditors; other contingent creditor claims which may crystallise from litigation and the level of future receipts from the sale of the remaining assets.

A fourth report on the progress of the Special Liquidation of IBRC was published in May 2017.

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 January 2009 and 7 February 2013. We continue to engage with the Commission.

DETAIL:

IBRC Background

On 15 January 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 decision was taken after consultation with the Central Bank and the Financial Regulator. The Anglo Irish Bank Corporation Act 2009 was passed and transferred the ownership of Anglo Irish Bank to the Minister for Finance. The State invested €4bn in ordinary shares in Anglo Irish Bank in June 2009 and a further capital injection of €100m in Irish Nationwide Building Society ("INBS") was made in 2010 in the form of special investment shares.

Additional capital injections into Anglo Irish Bank and INBS were by way of promissory notes. By 31 December 2010 Anglo Irish Bank and INBS held promissory notes totalling €30.6 billion. In total the State had invested €34.7bn in Anglo and INBS. 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 Corporate ("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 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. The replacement of the promissory notes with long dated Irish government bonds has significantly smoothed Ireland's debt profile and reduced near-term borrowing requirements.

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 Special Liquidation

Overview

A special liquidation progress update report was published in May 2017 providing a comprehensive overview of the work completed to date and is available on the Department of Finance website (http://www.finance.gov.ie/news-centre/press-releases/progress-report-update-highlights-going-success-special-liquidation-ibr-0). This report provides a comprehensive overview of the breadth of work performed in conducting what is the most complex and challenging liquidations in Irish corporate history.

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.

Loan Sales

Since February 2013, loans with a par value of €21.7bn have been prepared, brought to the market and sold. The success of the loan sales processes eliminated the need to transfer any assets to NAMA as part of this process; removed any residual risk of further calls on the exchequer and illustrated the strong confidence of investors in the Irish economy and its future prospects with 355 parties across 13 countries interested in the various portfolios.

Among other assets, loans with a par value of €3.7bn remain which the SLs continue to manage. These are loan assets which were not included in the original sales processes as they are connected to ongoing litigation.

Financial Position

IBRC in SL currently holds a cash balance of c. €1.9bn which will be available for distribution to creditors.

Creditors

UK and Irish creditors had until 31 March 2015 and US creditors had until 31 May 2015 to submit their claims. The SLs have completed the adjudication process on the majority of claims submitted. However, they continue to work with creditors on a small number of claims in order to finalise this process.

Interim Dividend

In December 2016 the SLs paid an interim distribution to creditors totalling €290m, constituting 25% of all admitted unsecured creditor claims. As part of this distribution the State, as the largest creditor to the liquidation, received €280m of its €1.12bn of admitted claims.

The SLs currently expect that cumulative unsecured creditor distributions will be in the range of 75% - 100% of all eligible claims. This eventual distribution range is subject to change depending on future events which are outside the control of the Special Liquidators.

It will be some time before the SLs will be able to confirm the likelihood and timing of distributions from the liquidation given the ongoing adjudication process of creditor classes, including preferred creditors; other contingent creditor claims which may crystallise from litigation and the level of future receipts from the sale of the remaining assets.

Tasks Remaining

There remain a number of key tasks in the liquidation of IBRC including:

- the on-going management of c.175 legal cases (350 in May 2016, 700 in March 2015) to which IBRC in SL remains party;
- the realisation of all remaining assets;
- the resolution of all creditor claims;
- the distribution of liquidation proceeds to creditors; and
- the completion of the ongoing interest overcharge remediation project and tracker mortgage examination.

Cost of Liquidation

The cost of the liquidation to YE2016 stood at c. €214.5m after securing a negotiated discount of €8m. These costs equate to 1.25% of the total €17.13bn of cash generated from the liquidation to date. These costs can be further broken down into c. €146m which are directly associated with the sale of €21.7bn of loan assets (0.67% of the total value) and a further €68.5m which are directly related to the management of the liquidation.

Employees

All IBRC offices are now closed with the exception of an office in Smithfield under a short-term lease. There are currently only 3 remaining IBRC employees, who are working on the tracker redress project and the interest overcharging project. These remaining staff are due to leave IBRC in H2 2017.

Commission of Investigation

While this is not expected to prolong the liquidation, a Commission of Investigation has been established to investigate certain matters of significant public concern regarding certain decisions, transactions and activities entered into by IBRC (pre-liquidation) between the period 21 January 2009 and 7 February 2013. The Department has complied with all directions received thus far from the Commission. The Department will continue to fully cooperate with the Commission.

Fourth Progress Update Report

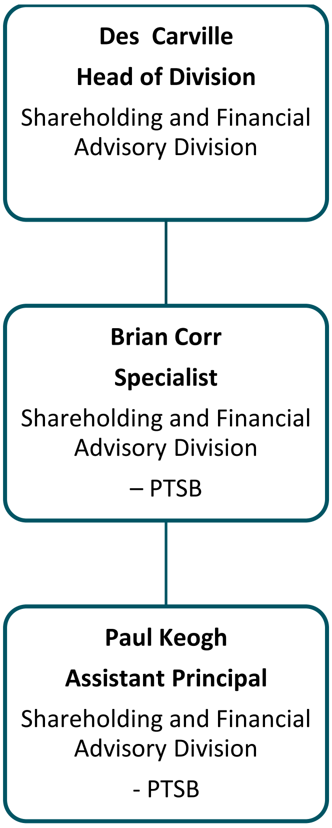
A fourth update report on the progress of the Special Liquidation of IBRC following the 4 year anniversary in February 2017 was received from the SLs in May 2017 and is available on the Department of Finance website. Included in this update report is the work the SLs have undertaken in relation to the IBRC Commission of Investigation including details of the costs incurred to date by IBRC in SL in undertaking work for the Commission.

Forward Looking

The SLs hope to make a further interim dividend payment to all admitted unsecured creditors in Q4 2017. However this has not been confirmed to date. It is the balance between the liquidation proceeds generated and level of valid claims that will ultimately determine the level of distribution to which each creditor may be entitled. The SLs continue to work with various unsecured creditors, including a number of local authorities, who have submitted claims but whose claims have not yet been admitted as valid claims.

3.2.3.6 State’s shareholding in PTSB

Specialist - Brian Corr



Des Carville

Head of Division

Shareholding and Financial Advisory Division

Brian Corr

Specialist

Shareholding and Financial Advisory Division

– PTSB

Paul Keogh

Assistant Principal

Shareholding and Financial Advisory Division

- PTSB

KEY POINTS:

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 75% equity stake in the bank was c. €0.9bn at 19 May 2017.

Whilst PTSB has reported an underlying profit in the two most recent financial years, reported profit has been impacted by losses arising from the deleveraging of non-core loan portfolios to meet its EU approved Restructuring Plan commitments. These commitments were completed in 2016 and a reported profit would be expected in 2017. The bank’s 2017 Q1 trading update was positive in this regard which highlighted that the bank was profitable and capital generative in the period.

The main challenge for the bank at present is to reduce further its significant stock of NPLs and the board and management team continue to develop and implement plans to address this.

The States’ relationship with PTSB is governed by the Relationship Framework which is dated March 29 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:

Investment Overview

- In total, the State invested €4bn in PTSB to address the recapitalisation needs of the bank identified as part of the PCAR/PLAR stress test performed by the Central Bank in 2011. This investment comprised €2.3bn in ordinary shares, €0.4bn in contingent capital notes, and €1.3bn in Irish Life (the life assurance subsidiary of the bank at the time). Following the investment, the State owned 99.2% of PTSB.
- In July 2013 the State sold Irish Life to Great-West Lifeco for €1.3bn. Prior to the close of the sale the State had received a dividend of €40m.
- Following the Comprehensive Assessment of the ECB/SSM in 2014 PTSB was required to raise c €855m of capital by June 2015. It completed this through various actions and a capital raise of €525m. The capital raise included new equity of €400m, priced at €4.50 per share, and €125m of AT1 (a debt instrument).
- As part of the transaction €400m of Contingent Capital Notes invested in July 2011 were repaid at a small profit. Following the transaction the State held 75% of the equity of PTSB with institutional investors owning the majority of the balance.
- To date, the State has recouped €2.7bn from disposal of investments, investment income and fees from liability guarantee fees. The State's remaining 75% equity stake is valued at c. €0.9bn.
- In April 2015 the State and PTSB agreed a Restructuring Plan for PTSB which included a variety of commitments including deleveraging of certain non-core portfolios. In October 2016 the bank completed these deleveraging commitments with the sale of the final tranche of its UK-based mortgage loan portfolio.

Key Objective for PTSB

Consistent with Government Policy, SFAD's key objective is to ultimately return the bank fully to private ownership in a manner which maximises value for taxpayers. The Minister for Finance has high level oversight over the direction of the bank, but under the Relationship Framework between the State and the bank, day to day management decisions are a matter for the board and management of the organisation.

Financial position

PTSB is primarily a mortgage bank operating in Ireland with a market share of 10-15% in key products. The bank has c. €21 billion of customer loans of which c. €6 billion (28%) are deemed to be non-performing loans.

Although the bank returned to underlying profitability in 2015, reported profit was impacted by losses arising from the sale of non-core loan portfolios to meet its EU approved Restructuring Plan Commitments. These commitments were completed in 2016 and a reported profit is expected in 2017. The bank's 2017 Q1 trading update was positive in this regard which highlighted that the bank was profitable and capital generative with new lending up 64% year-on-year and further good momentum in increasing net interest margin. This progress in trading performance is particularly encouraging given the large low yielding tracker book the bank continues to hold.

Notwithstanding the good progress on the trading front, the bank still faces a significant challenge in reducing its large stock of NPLs which was €6bn at end-December 2016 (28% of gross customer loans). The board and bank management continue to develop and implement plans to address this.

Governance

The relationship between the Department of Finance and PTSB is governed by a Relationship Framework (RF). The RF includes provides for certain matters which require the bank to consult with, or seek the consent of, the Minister. The original RF of March 2011 was revised at the time of the re-IPO of the bank in May 2015 with some lessening of the banks commitments to reflect the reduction in the State’s equity stake.

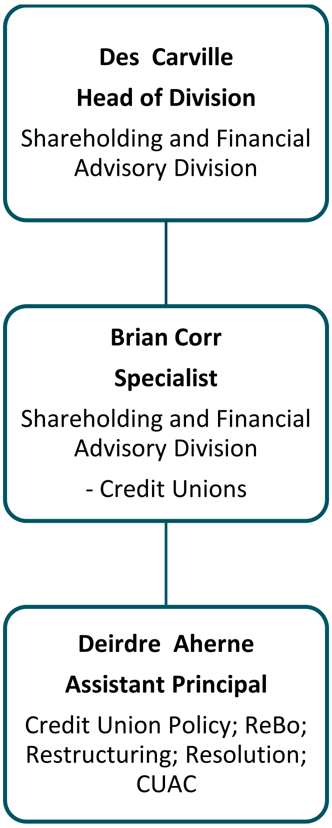
3.2.3.7 Credit Union Reform and Strategy

Credit Unions - as at 31 March 2017, there were 280 registered credit unions (excludes 25 inactive credit unions awaiting deregistration) with assets of approximately €16.2 billion and membership of around 3.1 million.

Credit unions have in aggregate a large quantum of members savings and are liquid and well capitalised. However the sector is struggling to generate profitability due to low loan-to-asset ratios (average 27%) and the low returns available from investments.

We work with the Registrar of Credit Unions (Central Bank) and the Representative bodies (ILCU, CUDA, CUMA), REBO, CUAC and other stakeholders to help ensure that the sector develops appropriately and is viable. We chair the Implementation Group for recommendations arising from the CUAC report published in July 2016.

Specialist - Brian Corr



Des Carville
Head of Division
Shareholding and Financial Advisory Division

Brian Corr
Specialist
Shareholding and Financial Advisory Division
- Credit Unions

Deirdre Aherne
Assistant Principal
Credit Union Policy; ReBo; Restructuring; Resolution; CUAC

KEY POINTS:

- Credit Unions are mutual independent not-for-profit organisations that provide savings-and-loan services to their members.
- Credit unions are established and regulated in accordance with the Credit Union Act 1997 and the Credit Union and Co-operation with Overseas Regulators Act 2012.
- Responsibility for their statutory supervision lies with the Registrar of Credit Unions within the Central Bank of Ireland.

- As at 31 March 2017, there were 280 registered credit unions (excludes 25 inactive credit unions awaiting deregistration) with assets of approximately €16.2 billion and membership of around 3.1 million.
- Credit unions are looking to develop their business model to provide additional sources of income.
- The Commission on Credit Unions was established on 31 May 2011 to review the future of the credit union movement and make recommendations.
- Commission recommendations provided the basis for the first change in credit union legislation in 15 years in the Credit Union and Co-operation with Overseas Regulators Act 2012. (Over 60 of those recommendations are contained in the 2012 Act)
- The Credit Union Fund provided funding for credit unions engaging in the restructuring process. The Government made €250 million available for this purpose. However, the Credit Union Restructuring Board (ReBo) now estimates that a net figure of only €20 million of the fund would be required.
- During ReBo's lifetime, 82 restructuring projects involving 156 credit unions with total assets of circa €6bn were completed. ReBo also assisted a further 54 credit unions to progress restructuring projects past the high level business case stage. Some of these projects will complete post ReBo. ReBo has now completed its work and options for its wind-down and eventual dissolution are being progressed.
- As recommended by the Commission on Credit unions, the powers granted to the Central Bank under the Central Bank and Credit Institutions (Resolution) Act 2011 were extended to those credit unions that meet the intervention conditions or grounds as set out in that Act. The Government has provided €250 million in the Resolution Fund for this purpose.
- The Credit Union Advisory Committee (CUAC) advises the Minister on credit union matters and meets monthly.

DETAIL:

Background

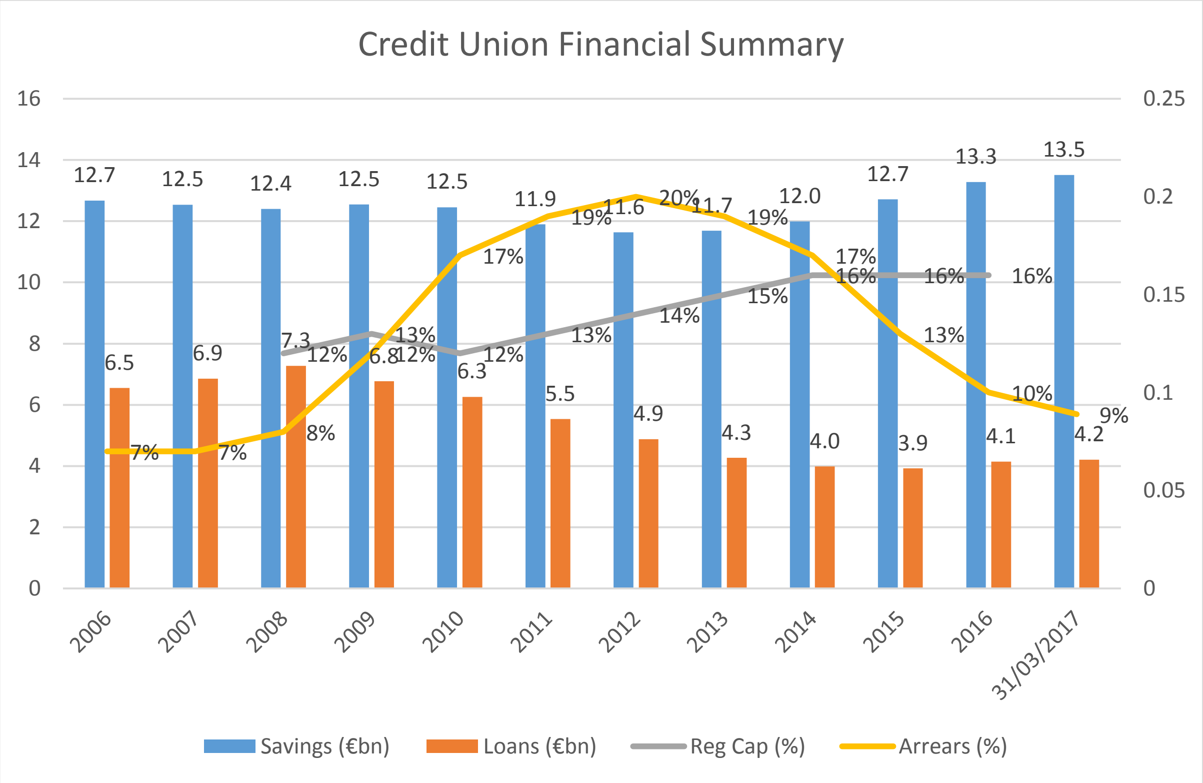
Credit Unions are mutual independent not-for-profit organisations that provide savings-and-loan services to their members. Members must be linked by a 'common bond', based on place of residence, place of employment, occupation or other common purpose.

Credit unions are established and regulated in accordance with the Credit Union Act 1997 and the Credit Union and Co-operation with Overseas Regulators Act 2012. Responsibility for their statutory supervision lies with the Registrar of Credit Unions within the Central Bank of Ireland. The current Registrar of Credit Unions is Ms Anne Marie McKiernan.

The Government has a clear policy to support the strategic growth and development of credit unions in Ireland as set out in the Commission on Credit Unions Report and recommendations. The safety of members' savings and the security of the credit union sector as a whole are priorities for Government.

Financial Position

As at 31 March 2017, there were 280 registered credit unions (excludes 25 inactive credit unions awaiting deregistration) with assets of approximately €16.2 billion and membership of around 3.1 million. 52 credit unions have assets greater than €100m and collectively account for 54% of the assets of the sector. Credit unions are very liquid with an average liquidity ratio of 37% and have an average regulatory reserve of 16%. Average arrears are now 8.9%. As with most financial institutions in the current low interest rate environment, credit unions need to increase lending having an average loan to asset ratio of 26.86%.



Representative Bodies

There are a range of representative bodies for the sector:

- Irish League of Credit Unions (ILCU) – an all island body it represents the majority of credit unions by number in Ireland. ILCU has a large fund (Savings Protection Scheme) with c €90m of assets which has been used in recent years to assist in restructuring projects. The current president is Charles Murphy.
- Credit Union Development Association (CUDA) – represents c 20 credit unions which are generally larger. The current CEO is Kevin Johnson.
- Credit Union Managers Association (CUMA) – is a primary resource organisation for professional Credit Union Managers, which works to enhance management and provides training for members. The current Chair is Tim Molan.
- National Supervisors Forum (NSF) - The National Supervisors Forum is the recognised representative body for all credit union supervisory committees for Ireland north and south.

Business Model Development

The credit union sector is considering various proposals to increase its income and develop its business model. The Department of Finance has received a number of submissions from both the Irish League of Credit Unions (ILCU) and the Credit Union Development Association (CUDA).

Social Housing funding

Proposals from both representative bodies, in relation to the funding of social housing, are at various stages of development. While the Department of Housing, Planning, Community and Local Government is the Department primarily responsible for the formulation and implementation of policy and for the preparation of legislation in relation to housing, any such proposal would require approval of the Registrar of Credit Unions at the Central Bank before it could be implemented. A Central Bank consultation is currently underway on changes to the Investment Regulations which would allow investment in Approved Housing Bodies.

SME Lending

Credit unions are permitted to provide commercial loans to their members. Commercial loans are subject to concentration, maturity and large exposure limits as outlined in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016. In addition, where a credit union is considering granting a commercial loan, a comprehensive business plan and detailed financial projections (supported by evidence based assumptions), appropriate for the scale and complexity of the loan, should be provided and in place before such a loan is granted. This should enable the credit union to ensure that it is satisfied that the borrowing business has the capacity to generate sufficient income to repay the commercial loan. SME lending is a specialist form of lending that requires specific skills and expertise. In general, this type of lending is viewed as high risk which may not be appropriate for all credit unions.

Mortgages

Currently credit unions can and some do provide mortgages to members. Long term lending is subject to certain maturity limits contained in the 2016 Regulations. The 2016 Regulations set out the percentage of a credit union's loan book that can be outstanding for periods exceeding both five years and ten years, as well as limits on the maximum outstanding liability to an individual member. Under the 2016 Regulations credit unions continue to be allowed to lend up to 30% of their loan book over five years and up to 10% of their loan book over 10 years, subject to a maximum maturity of 25 years. In addition, credit unions can apply to the Central Bank for an extension to their longer term lending limits (up to 40% of their loan book over 5 years and up to 15% of their loan book over 10 years). Approval is subject to conditions set by the Central Bank. There are currently 12 credit unions approved to avail of increased longer term lending limits. Longer-term lending is a key part of the Implementation Group work which is underway and chaired by this Department.

Debit Cards

Debit card provision (and the necessary underlying payment account service) is an additional service and as such requires Central Bank approval. The Member Personal Current Account Services (MPCAS) which provides for a current account and a range of services including payment instruments such as debit cards, has been available to eligible credit unions since October 2016. A number of credit unions have already been approved for this service which is granted under additional services provisions (sections 48 to 52) within the Credit Union Act 1997 (as amended). It is expected that once MPCAS is fully established and embedded, it is likely to be available to smaller credit unions with necessary risk understanding. Details of MPCAS and the approval process, along with the application requirements and related guidance are on the Central Bank's website.

Personal Micro Credit Scheme

The Department of Social Protection established a Personal Micro Credit scheme involving the cooperation of ILCU and credit unions generally. The scheme is aimed at moving people away from the use of high cost moneylenders and providing an alternative, legitimate and low cost personal loan scheme had long been mooted by community and voluntary groups across the country. There are now over 100 credit unions at almost 220 locations offering 'It Makes Sense' loans, at reasonable rates, to people struggling to get credit elsewhere.

Consultation on potential changes to the investment framework for Credit Unions

Investment regulations made specific reference to section 43 of the Credit Union Act 1997 and to further classes of investments in which a credit union may invest its funds. The 2016 regulations provide that investments in projects of a public nature include, but are not limited to, investments in social housing projects. The Central Bank is currently considering a number of potential changes to the investment framework for credit unions and published a consultation paper CP109 on 11 May 2017 – Consultation on Potential Changes to the Investment Framework for Credit Unions. This consultation paper sets out potential additional investment classes that credit unions may be permitted to invest in as follows:

- Bonds issued by Supranational Entities;
- Corporate Bonds; and
- Investments in Tier 3 approved housing bodies (AHBs)

The Central Bank welcomes views on the appropriateness of these potential investment classes for credit unions and whether there may be additional investment classes which would fit within the appropriate risk profile for credit union investments. The consultation will close on 28 June 2017.

Commission on Credit Unions

The Commission on Credit Unions was established on 31 May 2011 to review the future of the credit union movement and make recommendations regarding the strengthening of the regulatory framework, including more effective governance and regulatory requirements. It presented its final Report on the credit union sector to the Minister for Finance on 31 March 2012. This Report was agreed by all stakeholders including credit union representative bodies. Commission recommendations provided the basis for the first change in credit union legislation in 15 years in the Credit Union and Co-operation with Overseas Regulators Act 2012. Recommendations were made around governance measures, prudential measures, restructuring, stabilisation and a number of miscellaneous areas.

Credit Union and Co-operation with Overseas Regulators Act 2012

Over 60 of the Commission recommendations are contained in the Credit Union and Co-operation with Overseas Regulators Act 2012. The 2012 Act has been fully implemented with the final sections having commenced on 1 January 2016 in tandem with the introduction of new regulatory provisions for credit unions by the Central Bank. These sections replaced, amended or supplemented existing sections of the 1997 Act, mainly in relation to Savings, Borrowing, Lending, Investments, Reserves and Liquidity. Prior to commencement, credit unions launched a campaign in relation to a number of those measures, with the main issues being around the cap of €100,000 on members savings. A number of small changes were made to the €100,000 limit following discussions with the Minister and the Representative Bodies.

Credit Union Fund

The Credit Union Fund provides funding for credit unions engaging in the restructuring process. The Government made €250 million available for this purpose. However, the Credit Union Restructuring Board (ReBo) estimates that only circa €20 million of the fund will be required due to the fact that credit unions are funding restructuring themselves, mainly through the ILCU Savings Protection Scheme (SPS).

A Stabilisation Fund is held separately within the Credit Union Fund and is expected to build up to €30 million over 10 years. Stabilisation support will be fully sector funded and will assist those credit unions that have a reserve ratio of less than 10% but more than 7.5% and are considered by the Central Bank to be viable.

ReBo

The Credit Union Restructuring Board – ReBo, was established under Part 3 of the 2012 Act on 1 January 2013 to oversee and facilitate a restructuring programme in a voluntary, incentivised and time-bound manner. Under the restructuring process, credit unions approved by ReBo for restructuring - by way of amalgamations or transfers - were provided with funding, where required, which was subject to specific conditions, to ensure they had adequate capital and to upgrade systems. The Commission was cognisant that restructuring would not be for all credit unions as some credit unions will continue to operate successfully on a stand-alone basis should they so choose, provided that they have a viable business model capable of meeting regulatory requirements. 31 March 2016 was the final date for acceptance by ReBo of any further restructuring proposals from credit unions. ReBo has facilitated and overseen credit union restructuring on a voluntary, incentivsed and time bound basis and completed the performance of its restructuring functions by 31 March 2017.

A final section 43 review of ReBo's work has been prepared demonstrating that ReBo has completed the performance of its functions under Part 3 of the 2012 Act. The Minister has agreed to dissolve ReBo. It was intended that ReBo would be dissolved by Order as set out in s43 of the 2012 Act. However, following legal discussions with the Attorney General's Office we were advised that the most effective way to dissolve ReBo is by way of primary legislation to ensure continuation of certain sections within Part 3 of the 2012 Act. Heads of the Bill have been drafted but it is not possible at this time to determine a final dissolution date. On 1 April 2017 2 staff members (CEO, Head of Finance) and the Board remained in place. [redacted]

Redacted under Section 37 of the FOI Act 2014

The ReBo wind down plan has been devised to include the seamless migration of all data from ReBo to the Department, implementation and collection of the 2017 ReBo Levy, C&AG Audit, Staff annual pension statement provision, and other ancillary measures.

While ReBo has completed its restructuring functions, any outstanding projects have been transferred to the Central Bank. In addition to those projects, 13 new restructuring projects have gone directly to the Central Bank, demonstrating that restructuring of the credit union sector is continuing post-ReBo.

Credit Union Advisory Committee

The Credit Union Advisory Committee – CUAC, is established under section 180 of the Credit Union Act 1997. CUAC advises the Minister on credit union matters and meets monthly. The current CUAC was established in September 2014 for three years. Its members who are experts in credit union matters are: Professor Donal McKillop, Queens University, Belfast; Ms Denise O'Connell, Partner Grant Thornton; Mr Joe O'Toole, former Senator.

At the Minister's request, CUAC carried out a review of the Implementation of the Recommendations in the Commission on Credit Unions Report. CUAC's Review made a number of recommendations in relation to Tiered Regulation, Section 35, Consultation & Engagement with the Central Bank, Governance, Restructuring and Business Model Development. CUAC also recommended the establishment of an Implementation Group for a specified period to oversee and monitor implementation of its recommendations in a methodical manner and to update the Minister for Finance on progress.

CUAC Report Implementation Group

Publication of CUAC's Report in July 2016 was the beginning of a process. From September 2016 onwards CUAC continued working with the Department to enable a coherent implementation plan be devised.

The Implementation Group consists of a member from ILCU, CUDA, CUMA, NSF, CUAC, the Central Bank and is headed by the Department. Four meetings were held from February to May 2017. It is intended that each CUAC recommendation will be addressed separately with a view to implementation at the appropriate time. Meetings will continue to take place on a monthly basis with the next meeting scheduled for late June 2017. The term of the Implementation Group is for one year which may be extended at the discretion of the Minister for Finance.

Deposit Guarantee Scheme (DGS)

Credit union savers are covered by the Deposit Guarantee Scheme for up to €100,000 per saver per credit union. Credit unions currently contribute 0.2% of deposits to the Deposit Protection Account.

European Deposit Insurance Scheme (EDIS)

EDIS is being devised at European level to provide a stronger and more uniform degree of insurance cover in the euro area. EDIS is the third pillar of the banking union and would reduce the vulnerability of national DGS to large local shocks, ensuring that the level of depositor confidence in a bank would not depend on the bank's location and weakening the link between banks and their national sovereigns. The inclusion of credit unions in EDIS is not guaranteed as they are not regulated under the Capital Requirements Directive and will be kept under review by the Banking Policy team.

State aid Schemes

We are currently approved by DG Comp for two State aid schemes. The Restructuring and Stabilisation Schemes (1 May 2017 – 31 October 2017) and the Credit Union Resolution Scheme (1 January 2017 – 30 June 2017). Application for prolongation of these schemes is made every 6 months.

- **Restructuring Scheme**

The Restructuring Scheme was put in place to enable ReBo provide an incentive to credit unions undertaking a restructuring project under ReBo. This was to ensure that those credit unions remained stable and independently viable into the future and to provide support to upgrade systems and controls. The Government put €250m in the Credit Union Fund.

However, ReBo has provided financial assistance to credit unions under ‘de minimis’ aid. Credit unions have paid a ReBo Levy annually since 2014.

- **Stabilisation Scheme**

The Stabilisation Scheme was established to assist those credit unions with assets below 10% but above 7.5% that are considered by the Central Bank to be viable. Stabilisation support is fully sector funded and credit unions pay a Stabilisation Levy to the Credit Union Fund for this purpose. No stabilisation support has been provided to date due to the ILCU using its own Savings Protection Scheme to support member credit unions. A review of Stabilisation Scheme is to be carried out in 2017.

- **Resolution Scheme**

As recommended by the Commission on Credit unions, the powers granted to the Central Bank under the Central Bank and Credit Institutions (Resolution) Act 2011 have been extended to those credit unions that meet the intervention conditions or grounds as set out in the 2011 Act. The Government has provided €250 million in the Resolution Fund for this purpose.

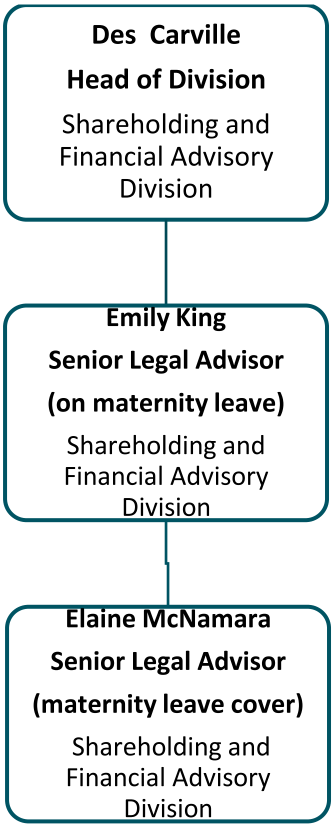
To date, the resources of the Resolution Fund have been utilised to fund the resolution of five credit unions. In the case of three of those credit unions, the resolution action taken was a directed transfer under the 2011 Act, and the Resolution Fund provided a financial incentive for the transferee. The two remaining cases were liquidation cases, where no incentive was paid from the Resolution Fund in respect of those resolutions.

In each of these cases the Minister agreed the financial incentive and amount paid or payable to date from the Resolution Fund in relation to resolution cases is circa €31.3 million. This was for incentives paid in each of the three Central Bank directed transfer resolution cases as follows:

Credit Union	€m
Newbridge Credit Union Limited	c.€27
Howth Sutton Credit Union Limited	€2.15
Killorglin Credit Union Limited	€2.15
Total	c €31.3

3.2.3.8 Management of all legal matters concerning the Shareholding and Financial Advisory Division

Specialist - Emily King



Des Carville

Head of Division

Shareholding and Financial Advisory Division

Emily King

Senior Legal Advisor

(on maternity leave)

Shareholding and Financial Advisory Division

Elaine McNamara

Senior Legal Advisor

(maternity leave cover)

Shareholding and Financial Advisory Division

KEY POINTS:

The Senior Legal Advisor within SFAD provides advice on all legal matters pertaining to:

- the State's investments 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; 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.

A panel of legal advisors was put in place in April 2014 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 (the Commission of Investigation into certain transactions at IBRC, and advising the Minister on the disposal of part of the State's shareholding in AIB – see 3.2.3.6 above).

DETAIL:

Commission of Investigation into certain transactions at IBRC

The Department has complied with all directions of the Commission of Investigation into certain transactions at IBRC and provided all information and documentation which was requested by the Commission (this process ended in January 2016). The Department will continue to engage constructively and comprehensively with any further directions of the Commission. A similar approach will be taken upon the establishment of the Commission of Investigation into NAMA's Project Eagle.

Legal Proceedings

The Minister is a defendant/respondent to a number of legal proceedings which are managed from the Chief State Solicitor's Office. The Senior Legal Advisor liaises with the CSSO and Attorney General's Office regarding the input of SFAD where required in these cases. Where the subject matter of the proceedings relates principally to the work of the Shareholding and Financial Advisory Division, the Senior Legal Advisor's role is to manage the proceedings with the assistance of the CSSO, AGO and on occasion outside counsel.

The Minister is a respondent in a number of linked cases regarding direction orders made by the High Court in respect of Irish Life & Permanent on the application of the Minister for Finance under the Credit Institutions (Stabilisation) Act 2010 to recapitalise that bank. The cases are brought by a number of lay litigants, with Mr Skoczylas spearheading the challenge. The most recent action initiated in April 2017 involves 49 lay litigants. There are thirteen cases before the domestic courts relating to this matter. One of these cases the High Court referred a question of interpretation of EU law to the Court of Justice of the European Union for a preliminary ruling which ruled in favour of the Department's arguments. Following the ECJ decision, the case was remitted to the High Court and a 3 day hearing occurred in March 2017 and we are awaiting the written judgment. The Minister and the bank have successfully defended the litigation in these cases thus far, and continue to ensure that all proceedings and filings are dealt with expeditiously and comprehensively. The Minister and the bank are now taking the steps necessary to obtain costs orders against the plaintiffs and intend on enforcing any such costs orders against the lay litigants. [redacted]

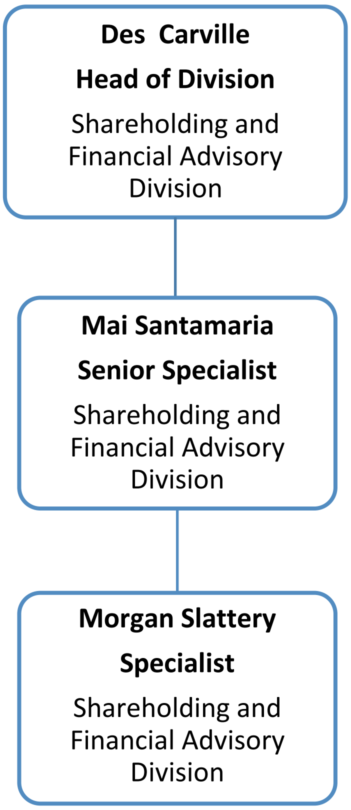
Redacted under Sections 35 & 36 of the FOI Act 2014

Another case brought against the Minister in which SFAD and Legal Unit have been involved is the challenge brought by Joan Collins against the Minister arguing that the Promissory Notices given in favour of Anglo, INBS and EBS were unconstitutional. Deputy Collins lost her case in both the Court of Appeal and the Supreme Court. She was awarded 75% of her costs in the High Court and 50% of her costs in the Supreme Court.

The most recent litigation in which SFAD has been involved in is a High Court case brought by a Vincent O'Donoghue wherein he is seeking to injunct the Minister from disposing of his shares in AIB. Both the Department and AIB have brought motions to dismiss the proceedings for lack of cause of action and their frivolous and vexatious nature. A hearing date of 26 May 2017 has been set.

3.2.3.9 Financial Advisory Services

Specialist – Mai Santamaria



Des Carville

Head of Division

Shareholding and Financial Advisory Division

Mai Santamaria

Senior Specialist

Shareholding and Financial Advisory Division

Morgan Slattery

Specialist

Shareholding and Financial Advisory Division

KEY POINTS:

- The financial advisory specialists research, prepare findings and provide an opinion on a wide breadth of financial topics affecting the Irish economy and its financial stability.

- The team's main objective is to position the Department at the forefront of potential financial issues by being proactive in its research and identification of risks or challenges.

- Research is carried at different levels of depth, depending on the assessment of a topic's likelihood, possibility and magnitude.

- Feedback, expertise knowledge and support is provided to other Department divisions as and when required

DETAIL:

The financial advisory specialists joined the Department as recently as late 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 table below is an extract of the proposed working list to date:

Theme	Description	Sources, collaborations, requests for information	Output
Dashboard for Financial Stability	Be able to take a timely pulse of country's financial health. Examples: % of workforce employed in property; house/rent per sqm; % of SME funding and arrears; household loan to savings ratio; # of new credit cards issued and average bal o/s etc.	- DoF - Financial Stability Group - ESRI - CBI - Economics dpt - Risk	Monthly dashboard to ExCo - by Q2 2017
ISIF	Independent cost benefit analysis of ISIF investments over a short/medium/long term appraisal period - focus on expert financial review	- SFAD - Banking policy & FS - NTMA	Value rating of investments by Q22017
Crowdfunding	Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people. Crowdfunding is a form of crowdsourcing and of alternative finance. In 2015, it was estimated that worldwide over US$34 billion was raised this way. Should crowdfunding be legislated / regulated in Ireland? What's the potential economic benefit to Ireland?	- Banking policy - crowdfunding consultation paper released April 2017 - CBI	Feedback on consultation paper
DoF conference	A yearly Financial/Economic stability conference with speakers from the department, presenting research and policies to an open audience - theme to be decided Presentation of ESRI research	- DoF - ESRI - CBI et alia	H1 2018

The team liaises with other departments (mainly Banking policy 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)

3.2.5 International Finance Division

DESCRIPTION

The Division is responsible for managing Ireland's relationship with International Financial Institutions (IFIs) and for its role in Climate Change and Climate Finance. The IFIs include: the IMF, World Bank Group (WBG), European Investment Bank (EIB), Asian Infrastructure Investment Bank (AIIB) and other IFIs such as the European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), the Council of Europe Development Bank (CEB) the Green Climate Fund (GCF) and the Asian Infrastructure Investment Bank (AIIB), which has recently accepted Ireland's application for membership. Consideration is currently been given to membership of the African Development Bank (AfDB).

The Division supports the Minister and the Minister for State in relation to International Financial Services (IFS), specifically the development and implementation of the IFS2020 Strategy which is led by the Minister for State in his role over Financial Services. This 'whole-of-Government approach, jointly developed and implemented between the public sector and industry, aims to drive the growth and development of the international financial services sector in Ireland to make it the global location of choice for these specialist activities.

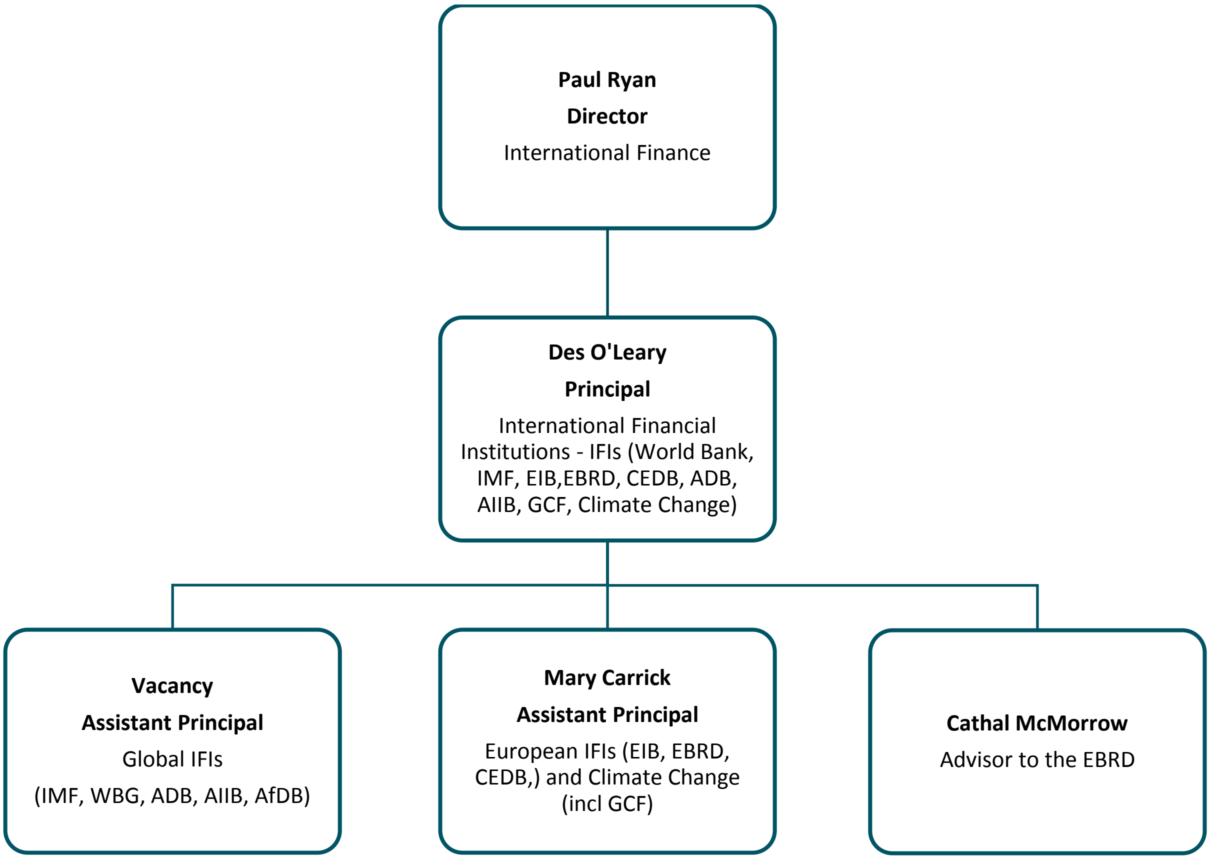
The Division is also responsible for the Department's Risk Management function in line with its governance structure. The Division, where appropriate, aligns and co-ordinates with the Government's National Risk Assessment structure and other Government Departments/ Agencies in identifying, managing and monitoring relevant Risk and Compliance Frameworks and ensuring that they are embedded across the Department in terms of governance, management and operations. The Compliance Unit provides assurance to the Executive Board, and ultimately the Secretary General, that the Department is adhering to legal, regulatory and governance obligations applying to the Department and bodies under its aegis.

Finally, the Division is charged with the passage of legislation, '*Financial Services and Pensions Ombudsman Bill 2017*', through the Houses of the Oireachtas to provide for the amalgamation of the Financial Services Ombudsman (FSO) and Pensions Ombudsman (PO) into a single Office (Financial Services and Pensions Ombudsman) while also consolidating and updating the legislation underpinning the functions of the new Office.

Director/Head of Division and Executive Board Member - Paul Ryan

3.2.5.1 Management of Ireland’s relationship with, and shareholding in, International Financial Institutions and Climate Change

Principal Officer: Des O’Leary


Paul Ryan
Director
International Finance
Des O'Leary
Principal
International Financial Institutions - IFIs (World Bank, IMF, EIB,EBRD, CEDB, ADB, AIIB, GCF, Climate Change)
Vacancy
Assistant Principal
Global IFIs
(IMF, WBG, ADB, AIIB, AfDB)
Mary Carrick
Assistant Principal
European IFIs (EIB, EBRD, CEDB,) and Climate Change (incl GCF)
Cathal McMorrow
Advisor to the EBRD

* Staff seconded to a number of IFIs (IMF, World Bank, EBRD, ADB and EIB report into the Department and the Minister through the Division but they have direct management relationships within the IFI they are located (see text below for details)

GENERAL

Ireland’s primary objective for our membership of International Financial Institutions (IFIs) is to influence individual IFI strategies and polices in order to reflect and promote Ireland’s economic and policy objectives and interests. This involves gaining support and acceptance from the IFIs and other countries of Ireland’s positions on IFI-related and G20/climate change issues. Secondly, policy in this area aims to ensure coherence, effectiveness and value-for-money across our IFI membership. Thirdly, we have been increasingly targeting more tangible benefits such as increasing investment funding for Ireland, procurement opportunities for business and securing placements for Irish people in these Institutions. Securing optimum levels of funding for public and private sector investment needs is a specific goal for our membership of the EIB and CEDB – other IFIs cannot invest in Ireland.

Ireland’s membership of each IFI is provided for in Acts of the Oireachtas, with membership entailing voting rights based on shareholding which is represented by our capital subscription to the particular IFI. This is normally divided between: paid-in capital, which is the capital that an IFI member country must pay up-front in respect of its membership; and callable capital, which represents the capital which a member would be liable for if the institution encountered acute financial distress. In addition to IFI shareholdings, Ireland also contributes to various Funds established under the IFIs for specific objectives. These include contributions to Funds managed by the World Bank/ADB to provide grants and loans to the world's poorest nations – the International Development Association (IDA) and the Asian Development Fund (ADF).

International Monetary Fund (IMF): (1) 2017 Article IV Mission took place from 2-12 May 2017 and the Article IV Report is due to be considered by the IMF Board in mid-June when it will be subsequently published. (2) Visit to Dublin, including a meeting with the Minister, by the Canadian Executive Director of our IMF Constituency, Nancy Horsman, on 8-9 June in a joint visit with the WB Executive Director. (3) Review of shareholding at the IMF (the 15th General Review of Quotas) has commenced. (4) Change of representation (Alternate Executive Director) at our IMF Constituency in Washington in September when a Central Bank official replaces a Department official for a three-year term.

World Bank: (1) In December 2016, Ireland pledged €90m to IDA (the World Bank's fund for the poorest countries). This contribution is payable over a 9 year period and counts as Official Development Assistance (ODA). (2) Discussions are ongoing about the possibility of a capital increase at the World Bank in order to meet the scaled up ambitions of the Sustainable Development Goals (SDGs). (3) Visit to Dublin, including a meeting with the Minister, by the Canadian Executive Director of our WB Constituency, Christine Hogan, on 8-9 June in a joint visit with the IMF Executive Director.

IMF/World Bank Spring and Annual Meetings: The Spring Meetings, took place in Washington from 21-23 April, are normally attended by the Minister. Annual Meetings scheduled from 13-15 October this year in Washington. Not normally attended by the Minister due to proximity to Budget Day.

European Investment Bank (EIB): (1) Annual meeting of Board of Governors (Ministers for Finance) in Brussels each May – specific informal EU27 meeting of the Governors on 15 June on the margins of a Luxembourg Ecofin on Brexit. (2) EIB-Ireland Financing Groups, chaired by the Department, bring Irish and EIB stakeholders together to source necessary EIB funding – there was a recent meeting in Luxembourg of the Group with subsequent follow-ups over the coming months. (3) Last September, Ireland appointed Andrew McDowell as EIB Vice-President, who will hold office for 4 years. (4) The Bank recently (December 2016) opened a Dublin Office, headed by a Country Manager, this works with the Department on the EIB-Ireland Financing Group and related financing proposals. (5) Ireland's current Director (non-resident, only attends monthly meetings), John Moran is a former Secretary General of the Department, whose term in office is due to end in May of 2018 when the terms of all Directors cease and there is an election for a new five-year term.

European Bank for Reconstruction and Development (EBRD): (1) Annual Meeting of the Board of Governors, usually attended at official level rather than by the Minister, took place in Cyprus in early-May. (2) Ireland shares a Constituency with Denmark, Lithuania and Kosovo in the EBRD. The next Constituency rotation occurs on May 1st 2018 when Ireland is scheduled to take over the Director (residential post based in London) position from Denmark. Ireland currently holds the Advisor position (also residential). This is due to pass to Lithuania in May of 2018.

Asian Development Bank (ADB): (1) President of the Asian Development Bank, Takehiko Nakao, scheduled to visit Dublin on 14-15 June 2017, and due to meet both the Minister for Finance and Minister of State for Development. (2) In December 2016, Ireland agreed to contribute €13.6m to the latest replenishment of the Asian Development Fund (concessional lending fund of the Bank), payable over ten years. (3) Ireland is due to second an official (our first ever) from the Dept of Foreign Affairs and Trade to the Bank's Headquarters in Manila in September for two years.

Asian Infrastructure Investment Bank (AIIB): (1) Ireland's Membership application was accepted in March of 2017 and enabling primary legislation is currently moving through the Houses of the Oireachtas. (2) Second Annual Meeting of the Bank is scheduled for mid-June in Korea: Board of Directors and Advisors are non-residential.

African Development Bank (AfDB): Ireland's membership of the AfDB is under consideration - a submission will be sent to you in the near future seeking approval to proceed with the application and underpinning legislation.

Climate Change: Negotiations (led by the Department of Communications, Climate Action and Environment) on national greenhouse gas emissions reductions targets within the EU for 2030 are ongoing. Ireland has a headline target of -30% which can be reduced to -20.4% with flexibilities, although these will come at a cost. A National Mitigation Plan is due to be published by mid-June.

Climate Finance – Green Climate Fund (GCF): Ireland commenced contributions to the UNFCCC's Green Climate Fund (GCF) in 2016. Currently in negotiations with other Countries at the GCF to join a Constituency to increase our influence and secure procurement/placement opportunities.

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. The Fund also provides loans and helps countries design policy programs. Current IMF membership stands at a near-global 189 countries.

The IMF's stated objectives are to:

- provide a forum for cooperation on international monetary problems;
- facilitate the growth of international trade, thus promoting job creation, economic growth, and poverty reduction;
- promote exchange rate stability and an open system of international payments; and
- lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help them address balance of payments problems.

Representation

The Minister for Finance is Ireland's Governor at the World Bank Group and the Central Bank of Ireland Governor Philip Lane is the Alternate Governor. Ireland is permanently represented at the IMF in Washington by two officials, both nominated by the Minister for Finance. The two Irish posts are currently held by Department staff: Michael McGrath (Alternate Executive Director) and Niall Feerick (Advisor), based in a shared Constituency Office (with Canada and ten Caribbean States). Mr. McGrath's term of office ends this coming September, when, as part of a longstanding arrangement, he will be replaced by a Central Bank official under a rotation agreement between the two organisations.

Shareholding

An IMF member's shareholding at the Fund is referred to as its quota. Ireland's quota stands at SDR 3,449.9 million (€4,301 million). The SDR (Special Drawing Rights) is an international reserve currency used by the IMF in which all of its members' quotas are denominated. Ireland's voting share at the IMF currently stands at 0.723 per cent. Ireland's quota recently increased (from 0.528 per cent) as a result of implementation of the Fourteenth review of Quota, more commonly referred to as the 2010 IMF Quota and Governance Reforms. These reforms increase Ireland's voting power and influence at the IMF.

IMF Quota Review

The next regular review of Quota, the Fifteenth Review, has commenced and is intended to increase the member representativeness of the IMF in line with the changing global economy, while ensuring the Fund remains adequately resourced. It was originally scheduled to be completed by October of 2017, but given significant divergence of views among the membership on how to reflect changing economic influence at the IMF (including a fuller representation of emerging economies), a deadline of 2019 has now been set to reach consensus. This will include a review of the variables that make up the Quota Formula (mainly GDP and openness in the current formula) which is used to calculate a member's Quota. Officials will actively participate in these discussions, in particular through the EFC Sub-Committee on IMF issues (SCIMF), to ensure an appropriate level of representation for Ireland at the IMF is maintained.

IMF (and World Bank) Spring and Annual Meetings

As the two component parts of the Bretton Woods Institutions, the IMF and World Bank Group (see below) hold joint Spring and Annual Meetings. The Spring Meetings of the IMF and World Bank Group took place in Washington during 21-23 April, 2017. The Minister attended as Ireland's Governor at both institutions.

The Minister was accompanied by officials, led by Second Secretary General, Ann Nolan. Representatives from the Central Bank (led by Governor Lane) and from the Department of Foreign Affairs and Trade were also in attendance. There were wide-ranging meetings with senior officials from the IMF and World Bank to: (i) exchange views and information; and (ii) to discuss a number of current issues of relevance to Ireland. There were also discussions and engagements with private sector representatives and groups, the Irish Ambassador in Washington, our Canadian colleagues with whom we share country Constituencies in both Institutions and with a number of other relevant contacts.

The Annual Meetings of the IMF and World Bank Group will take place in Washington during 13-15 October 2017 (every three years they are held outside of Washington). Due to the proximity of the Annual Meetings to Budget Day, the Minister generally does not attend. Most other EU Finance Ministers do not normally attend either. The Spring Meetings tend instead to be used by Ministers as an opportunity to meet with senior management of the IMF and World Bank Group, as well as with counterparts from other non-EU Countries.

Updates and reports

The IMF Board meets three times a week and there are also frequent meetings of Board Committees – reports and updates from these engagements are provided by our seconded staff to the International Finance Division and circulated to relevant areas of the Department and the Minister if and when required; this also includes the Central Bank. Frequent updates are provided on developments relating to the EU, individual EU Member States (e.g. Greece) and specific themes such as banking and economic forecasts, etc. A similar process has been put in place to deal with periodic Reports on these matters.

IMF Article IV 2017

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). The process is a 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. The 2017 Article IV Mission took place during 2-12 May and involved a small team of IMF officials travelling to Dublin for meetings with officials, private sector groups and a range of other stakeholders. There were also meetings with the Ministers for Finance and Public Expenditure and Reform. The IMF team are now writing their report which is expected to be presented to the IMF Executive Board in late-June, and which will subsequently be published.

Minister's role as Governor

As Governor for Ireland of the Institution, the Minister is periodically required to consider and decide upon matters proposed by management for votes by Governors which usually relate to governance or shareholding issues. The Minister may be required to meet with visiting high-level delegations at Managing Director (Ms Christine Lagarde) and Deputy Managing Director Levels.

Canadian Executive Director Visit to Dublin in June

The Canadian Executive Director of our IMF Constituency, Nancy Horsman, visited Dublin on 8-9 June in a joint visit with the WB Executive Director – a meeting was held with the Minister and meetings were also be held with Central Bank Governor Lane and officials from the Department and the Bank. A senior Civil Servant, Ms Horsman was appointed by the Canadian Government last October for a three year term.

World Bank Group (WBG)

Overview

The World Bank Group comprises five institutions, the principal ones being the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC). The 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. IDA provides concessional financial assistance to the poorest of the developing countries and is the world's largest source of concessional financial assistance to the developing world. IDA is funded largely by contributions from the governments of its richer member countries including Ireland.

At the heart of the strategy of the World Bank Group is the achievement of the twin goals of:

- Ending extreme poverty by 2030 (i.e. reduce to 3% the number of people living on $1.90 or less a day) and,
- Boosting Shared Prosperity (promoting the income growth of the bottom 40%).

Representation

The Minister for Finance is Ireland's representative on the Board of Governors at the World Bank Group and this mirrors the position of Ministers from other countries represented at the World Bank. Secretary General Derek Moran is Ireland's Alternate Governor.

Ireland is permanently represented at the World Bank in Washington by two officials, both nominated by the Minister for Finance and shared between this Department and the Central Bank. Mary O'Dea (Senior Advisor) and Mr Alex Lalor (Advisor) are our current staff in the Constituency Office which we share with Canada and eleven Caribbean States. Ms O'Dea's term of office ends in September 2017 when her post will be taken over by Aidan Carrigan from the Department.

Shareholding

Ireland holds 7,787 shares in the World Bank Group's primary institution, the International Bank for Reconstruction and Development. This represents a share of 0.35% of the IBRD's total shareholding. Ireland's total monetary subscription to the IBRD is approximately €838 million (approximately $940 million), of which approximately €50 million (approximately $56 million) has been paid-in. Ireland recently took up an additional 407 shares in the IBRD which were allocated to it under the 2010 Selective Capital Increase.

Minister's role as Governor

As Governor for Ireland of the Institution, the Minister is periodically required to consider and decide upon matters proposed by management for votes by Governors which usually relate to governance or shareholding issues. The Minister may be required to meet with visiting high-level delegations at Presidential (Mr Jim Kim - USA) and Vice President Levels.

Updates and reports

The IMF Board meets twice a week and there are also frequent meetings of Board Committees – reports and updates from these engagements are provided by our seconded staff to the International Finance Division and circulated to relevant areas of the Department and the Minister if and when required; this also includes the Central Bank and the Department of Foreign Affairs and Trade. Frequent updates are provided on developments relating to the EU, individual EU Member States (e.g. Greece) and specific themes such as banking and economic forecasts, etc. A similar process has been put in place to deal with periodic Reports on these matters.

Doing Business Report

The Bank's *Doing Business Report* is a flagship publication of the World Bank which is published on an annual basis. The Report assesses regulations and the ease of doing business in its 189 member economies. Ireland performed strongly in *Doing Business 2016* (published in October 2016), Overall, Ireland's 'Ease of Doing Business Score' improved from last year's report, increasing from 79.25 to 79.53. Despite this improvement, large increases in the rankings of a few countries impacted upon Ireland's ranking and our overall placing fell slightly in comparison to the 2016 Report. Ireland ranked 18th out of 190 economies for ease of doing business. The Department of Finance engages closely with the Doing Business Team, as well as with the relevant stakeholders in Ireland, in order to highlight reforms to the business environment in Ireland and will continue to do so in preparation for *Doing Business 2018*.

IDA (International Development Association)

As mentioned above, Ireland pledged €90 million to IDA 18, the latest replenishment of IDA, the World Bank's fund for the poorest countries. This was in line with our contribution to the IDA17 replenishment. The total value of the replenishment was $75billion, which combines donor resources with funds raised on the capital markets. The total replenishment represents a nearly 50 per cent increase on the previous IDA17 replenishment but did not require any increase in aggregate donor funding (approx. $26billion) due to planned leveraging from the capital markets. This increased funding will enable IDA to tackle poverty in the world's poorest countries, with a particular focus on the special themes of gender inequality, conflict, fragility and violence, climate change, governance and institution building, and jobs and economic transformation. The replenishment will cover the period from July 1, 2017 to June 30, 2020. Ireland's contribution to IDA counts toward our ODA and will be paid over 9 years from 2018.

Ireland's support for the IDA18 replenishment signals Ireland's commitment to implementation of the 2030 development agenda. IDA18 is the first IDA replenishment to take place after the agreement of a set of ambitious global development goals in 2015, including COP21 and the Sustainable Development Goals (SDGs), which Ireland played a central role in negotiating. These heightened global ambitions will require large volumes of international public finance (as well as private and domestic finance) and a strong IDA18 will make an important first step towards delivery. The focus of IDA18 is also closely aligned with Ireland's own development priorities, which have a particular emphasis on Africa and the provision of aid to the Least Developed Countries.

Potential Capital Increase for World Bank

The World Bank has been reviewing its role in the international financial architecture and development agenda, which culminated in the 'Forward Look' report, which sets out a long-term view for the Bank's future. This report coincides with a review of shareholding of World Bank members and discussions on a possible capital increase for the IBRD and IFC. This Department will be reviewing how Ireland's shareholding and influence can be optimised as part of this process.

Canadian Executive Director Visit to Dublin in June

The Canadian Executive Director of our WB Constituency, Christine Hogan, visited Dublin on 8-9 June in a joint visit with the IMF Executive Director – a meeting was held with the Minister and officials. Meetings were also arranged with the Minister for State in the Department of Foreign Affairs & Trade officials from that Department. A senior Civil Servant, Ms Hogan was appointed by the Canadian Government last October for a three year term.

Annual Report on Ireland's Participation in the IMF and World Bank Group

In accordance with Section 10 of the Bretton Woods Agreements Act, 1999, the Minister is required to lay an Annual Report on Ireland's participation in the IMF and World Bank before the Oireachtas each year. This report is currently being finalised for 2016 and summarises the major developments at the IMF and World Bank for that year and sets out details of Ireland's participation, including financial contributions, as a member of each institution.

European Investment Bank (EIB)

Overview

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 high 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 to South Africa under the Investment Facility Committee (IFC). There are significant amounts of loans to both Russia and Turkey.

Shareholding

Ireland's shareholding at the EIB is 0.565% which amounts to subscribed capital of €1,375,262,000. Ireland's current amount of called-in capital stands at €122,663,250.

Representation

As the EIB is an EU institution established under the Treaties, Ireland is a member of the EIB by virtue of our EU membership. The Minister for Finance is Ireland's representative on the EIB Board of Governors which meets annually. As is the usual practice, this year it met in Brussels on 23 May on the margins of Ecofin.

Ireland is represented on the EIB Board of Directors (non-residential, which meets approximately 10 times per year at Bank Headquarters in Luxembourg, by John Moran, (former Secretary General of the Department of Finance) until mid-2018 when the term of the entire Board ceases with an election for a new five-year term. The Minister for Finance nominates the Irish Director of the EIB Board of Directors. Ireland and Greece are the only member States represented on the Board of Directors who are not serving officials from a Ministry of Finance. Ireland is part of an EIB Constituency with Denmark, Greece and Romania, within which the posts of Alternate Director (x 2), Audit Committee member and Vice- President are shared under a Constituency Agreement. A review of that Agreement is currently being finalised.

Following his nomination by Ireland, Andrew McDowell was appointed to the full-time position of EIB Vice-President and Member of the Management Committee for four years commencing in September of 2016. This post is the only residential position at the EIB for a Member State, all other posts involve attendance at meetings held in Luxembourg.

Minister's role as Governor

As Governor for Ireland of the Institution, the Minister is frequently required to consider and decide upon matters proposed by management for votes by Governors which usually relate to governance, shareholding or Board representation issues. The Minister may be required to meet with visiting high-level delegations at Presidential (Mr Werner Hoyer - German) and Vice President Levels.

Updates and reports

The EIB Board meets once a month and there are also frequent meetings of Board Committees – a briefing for our Director for the Directors' meeting is provided by the International Finance Division. Frequent updates are provided on developments relating to the EU, individual EU Member States (e.g. Greece) and specific themes such as banking and economic forecasts, etc. A similar process has been put in place to deal with periodic reports on these matters.

EIB Dublin Office

In line with its practice across EU member states, the EIB opened an Office in Dublin in December of 2016. This Office is headed by Cormac Murphy, an Irish national who works in the Bank.

EIB-Ireland Financing Group

An "*EIB-Ireland Financing Group*", chaired by the Department, has been established bringing together relevant stakeholders, to explore the potential for enhanced EIB funding of projects in Ireland.in line with the terms of reference of the Financing Group. Ireland is a significant recipient of EIB funding. Total net signatures and approvals of EIB projects in Ireland in 2016 was **€825m**. In addition, the European investment Fund in 2016, agreed funding worth up to **€100m** allowing SBCI to support loans to small and medium-sized enterprises (SMEs) in Ireland over the next three years.

A meeting of the Group, attended by Ministers Noonan and Donohoe, EIB President Hoyer and staff from EIB and the two Departments, took place in Luxembourg on 23-24 May. Progress on the identification of potential EIB projects and initiatives was reviewed. It was noted that the specification of individual projects would depend on the outcome of the current Review of the Capital Plan by the Department of Public Expenditure and Reform, which is expected to be published at Budget time. However it was agreed that technical discussions could continue between EIB and relevant Irish stakeholders. Meetings at official level will continue, particularly in relation to new project models being developed by the EIB which may have application to, among other issues, mitigation of Brexit consequences.

EIB Funding to Ireland

EIB loans cover both public and private sector projects. These loans have been made to a broad range of sectors, including Broadband, Energy, Transport, Water, Education, SMEs, Social Housing and Roads PPPs, with a broad geographic spread.

Following the most recent capital increase of €10bn in 2013, Ireland's share in the Bank's subscribed capital stands at €1.375bn. Ireland's contribution to the 2013 capital increase was €56.737m, paid in three instalments over 2013-2015. The portion of Ireland's paid-in capital increased as result from 5% to 8.92% per cent of total subscribed capital.

Impact of Brexit on EIB business

Brexit will a major impact on the capital structure and future business model of the EIB. The shareholding structure will change, with the current UK shareholding at 16.1%. The UK's share capital has been €39,195,022,000 since 1 July 2013. The EIB total is €243,284,154,500. The total UK amount of paid in capital is €3.5 billion and €7.2 billion in reserves which equals €10.2 (which could rise to €12 billion due to surpluses by 2019). This is the amount the UK could potentially request to be paid back by the Bank in a financial settlement.

However, there is no provision, in the EIB statute, for a shareholder (country) to withdraw from the Bank. Therefore, the EIB has no rules for reimbursing capital so, in theory, the capital can stay in place until the Bank is liquidated. Thus there is no indication of what will happen with the current paid-in UK share capital. [redacted]

Redacted under Section 33(c)(ii) of the FOI Act 2014

Nonetheless, the EIB current loan book in the UK amounts to between €40 - €50 bn. Whilst this involves a mixture of Public and Private lending, it should be noted that the protections given to the EIB as part of the contracts with these loans could be lost. The UK, as part of the EU, was subject to the Privileges and Immunities Protocol. This meant all EIB lending in the EU (including the UK), comes with protections, including giving the EIB Preferential Creditor Status and that the European Court of Justice was the final arbiter in any disputes.

When the UK leaves the EU, the EIB, may no longer have these protections. Thus, continued EIB lending to the UK could potentially been seen to have more risk attached. This could lead to conditions being attached to UK loans, whilst the UK remains in the EU, to ensure continued lending is possible. [redacted]

Redacted under Section 33(3)(c)(ii) of the FOI Act 2014

There will be a specific informal EU27 meeting of the Governors on 15 June on the margins of Ecofin in Luxembourg to discuss Brexit.

Meetings

Apart from the Annual Meeting, held each May on the margins of Ecofin, there are no meetings involving the Minister unless a one is called for a specific matter such as Brexit (see above). Apart from the Board of Directors, which meets ten times a year and involves our Director John Moran, officials attend period meetings of various EIB Committees and Working Groups which are used as an opportunity to build relationships with Bank management and secure additional investment funding for Ireland. Ireland currently has a seconded IDA Ireland official based at the Bank.

European Bank for Reconstruction and Development (EBRD)

Overview

The EBRD, headquartered in London, was established in 1991 to provide finance to help build market economies in Central and Eastern Europe and in the former Soviet Bloc countries. The EBRD has since progressively significantly extended its geographical scope of operations to include the countries of Southern and Eastern Europe, as well as Turkey, Egypt, Jordan, Morocco and Tunisia. The EBRD 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, the restructuring of state-owned firms and the improvement of infrastructure.

Shareholding

Ireland joined the EBRD in 1991 on its establishment. Following a capital increase in 2012, Ireland's shareholding in the EBRD's capital stands at €90.04m or 0.3% of the total, with €18.780m of this being paid-in.

Representation

The Minister for Finance is the Governor for Ireland at the EBRD. A residential Board of Directors is responsible for management of the day-to-day operations of the Bank. Directors represent single or multi-country Constituencies at the EBRD and Ireland is in a Constituency with Denmark, Lithuania and Kosovo. Mr Cathal McMorrow (on secondment from the Department) is currently an advisor to our Constituency for a period of two years to 2018, after which Ireland will hold the Director post. Our Advisor post will pass to Lithuania under a Constituency rotation agreement. The Director is nominated by the Minister for Finance.

Minister's role as Governor

As Governor for Ireland of the Institution, the Minister is periodically required to consider and decide upon matters proposed by management for votes by Governors which usually relate to governance, shareholding or Board representation issues. The Minister may be required to meet with visiting high-level delegations at Presidential (Sir Suma Chakrabarti - UK) and Vice President Levels.

Updates and reports

The EBRD Board meets once a month and there are also frequent meetings of Board Committees – reports and updates from these engagements are provided by our seconded staff to the International Finance Division and circulated to relevant areas of the Department and the Minister if and when required; this also includes the Department of Foreign Affairs and Trade. Frequent updates are provided on developments relating to the EU, individual EU Member States (e.g. Greece) and specific themes such as banking and economic forecasts, etc. A similar process has been put in place to deal with periodic reports on these matters.

Reporting to the Oireachtas

Unlike the two Bretton Woods Institutions of the IMF and World Bank, there is no legal or any other requirement to provide an Annual Report or any other form of reporting to the Oireachtas on our engagement with this Institution.

Meetings

Apart from an Annual Meeting (held very three years in London and in a Member State in the other two years), there are very few meetings of the Bank involving officials travelling from the Department. EU Ministers do not attend Annual Meetings and, instead, representation is at official level only.

Asian Development Bank (ADB)

Overview

Established in 1966 and headquartered in Manila, the ADB finances development in the Asia and Pacific region with the aim of reducing poverty with a focus on five core areas of operations: infrastructure, the environment/climate change, regional cooperation and integration, finance sector development, and education.

Shareholding

Ireland joined the ADB in 2006. Ireland has €480.6m (US$525.3m) in capital subscription with paid-in capital representing €15.9m (US$21.8m).

Representation

At the Board of the ADB, Ireland is represented through a Constituency Office which Ireland shares with Canada, Norway, Sweden, Finland, Denmark and the Netherlands. As is generally the case with member country representation at other IFIs, the Minister for Finance is the Governor for the ADB. Ireland is due to second an official (our first ever) from the Dept of Foreign Affairs and Trade to the Bank's Headquarters in Manila in September for two years.

Minister's role as Governor

As Governor for Ireland of the Institution, the Minister is periodically required to consider and decide upon matters proposed by management for votes by Governors which usually relate to governance or shareholding representation issues. The Minister may be required to meet with visiting high-level delegations at Presidential (Mr Takehiko Nakao) and Vice President Levels.

Updates and reports

The ADB Board meets once a month and there are also frequent meetings of Board Committees – reports and updates from these engagements are provided by our seconded staff to the International Finance Division and circulated to relevant areas of the Department and the Minister if and when required; this also includes the Department of Foreign Affairs and Trade. Frequent updates are provided on developments relating to the EU, individual EU Member

States (e.g. Greece) and specific themes such as banking and economic forecasts, etc. A similar process has been put in place to deal with periodic reports on these matters.

Reporting to the Oireachtas

Unlike the two Bretton Woods Institutions of the IMF and World Bank, there is no legal or any other requirement to provide an Annual Report or any other form of reporting to the Oireachtas on our engagement with this Institution.

Asian Development Fund (ADF)

In addition to capital contributions, Ireland has contributed and committed the equivalent of $79.20 million to Special Funds since joining in 2006. The main fund is the Asian Development Fund (ADF) which was established in 1973 as a multilateral source of concessional assistance dedicated exclusively to the needs of the region – this is similar to the World Bank IDA. Donors contribute to the Fund by periodic 'replenishments'. Since joining, Ireland has contributed to the various replenishments of the ADF including €13.6m in respect of the most recent replenishment in 2016.

Meetings

Apart from an Annual Meeting (held very three years in Manila and in a Member State in each of the other two years), there are a number of the Bank involving officials travelling from the Department which mainly relate to the Bank's ADF. EU Ministers do not attend Annual Meetings and, instead, representation is at official level only.

ADB Presidential Visit, 14-15 June

President of the Asian Development Bank, Mr Takehiko Nakao, is scheduled to visit Dublin on 14-15 June 2017, during which he is due to meet both the Minister for Finance and Minister of State for Development. This is only the second time an ADB President has visited Ireland and it is important given our membership but also because the ADB President (who is always Japanese to reflect to fact that it is the largest shareholder) has tended to resign half-way through their second term of office to become the Governor of the Bank of Japan (Central Bank). Mr Nakao's second term commences in September.

Council of Europe Development Bank (CEDB)

Overview

Based in Paris and with 41 member countries, the CEDB was established by the Council of Europe 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).

Shareholding

Ireland joined the CEDB in 2004 with a shareholding in the Bank's capital of €48.31m, (0.883% of total subscribed capital) of which €5.362m is paid-in capital.

Representation

The Minister for Finance is the Government for Ireland of the Bank.

Minister's role as Governor

As Governor for Ireland of the Institution, the Minister is sometimes required to consider and decide upon matters proposed by management for votes by Governors which usually relate to governance or shareholding issues. The Minister may be required to meet with visiting high-level delegations at Governor (Mr Rolf Wenzel) and Vice Governor Levels.

Reporting to the Oireachtas

Unlike the two Bretton Woods Institutions of the IMF and World Bank, there is no legal or any other requirement to provide an Annual Report or any other form of reporting to the Oireachtas on our engagement with this Institution.

Migrant and Refugee Fund

Ireland contributed €250,000 to the CEDB's Migrant and Refugee Fund, established in 2015 as a short-term response to extremely high migrant and refugee flows into Europe in order to provide grant assistance to countries most affected.

CEDB Funding to Ireland

The CEDB has approved lending to Ireland of €516m across a range of projects over the period 2010-2016. It is currently in advanced discussions about the provision of loan funding [redacted]

Redacted under Section 33(3)(c)(ii) of the FOI Act 2014

Meetings

Apart from an Annual Meeting (held in a Member State), there are a number of period meetings of the Bank involving officials travelling from the Department. EU Ministers do not attend Annual Meetings and, instead, representation is at official level only.

Prospective IFI Membership

Asian Infrastructure Investment Bank (AIIB)

The AIIB is a new multilateral financial institution which came into operation in January of 2016 which aims to foster economic development and regional integration in Asia, primarily through investment in infrastructure. The Bank has 57 Founding Members and is based in Beijing, with China playing a leading role in its establishment. It has a non-residential Board of Directors. Ireland will join the Euro Constituency where it will share in a rotation of positions at the Bank – Germany currently holds the Directorship of this Constituency.

Ireland's application for membership of the Asian Infrastructure Investment Bank (AIIB) was accepted on 23 March last. As our membership of the AIIB will involve ratification of an international agreement, it is necessary for primary legislation to be approved by the Oireachtas before we can complete the process of joining the AIIB. The Asian Infrastructure Investment Bank Bill 2017 was published on 12th May last and it is currently being progressed through the Houses of the Oireachtas.

The rationale for Ireland's membership of the AIIB includes geopolitical and economic considerations, in particular trade relations with China and the wider Asian economy. In addition and as with other IFIs, we will be pursuing procurement opportunities for business and securing placements for Irish people in this Institution.

Ireland's membership of the AIIB would result in a capital subscription of approx. €25 million (depending on prevailing exchange rates), payable in annual instalments over 5 years. Ireland will have 1,313 shares in the AIIB.

As with the smaller IFIs, there will be an Annual Meeting (held very three years in Beijing and in a Member State in each of the other two years) there will be very few meetings of the Bank involving officials travelling from the Department. EU Ministers do not attend Annual Meetings and, instead, representation is at official level only.

African Development Bank (AfDB)

The objective of the African Development Bank (AfDB) is to encourage sustainable economic development and social progress in its member countries in Africa, thus contributing to poverty reduction. The Bank achieves this objective by mobilizing and allocating resources for investment in African countries and providing policy advice and technical assistance to support development efforts.

Ireland's membership of the African Development Bank is currently under consideration by the Department and by the Department of Foreign Affairs and Trade/Irish Aid based on the potential opportunity to both expand the geographic coverage of Ireland's development assistance to African counties as well as the deepening of the relationship with Irish Aid's existing Key Partner Countries.

In line with our indicative shareholding (0.402 percent of total shareholding, which is 1.006 percent of the non-regional bloc), Ireland's financial contribution would be €94.2m. As in the case of other IFIs, this would be broken down into two components; i) Paid-in capital of €18.7m over eight years (€2.33m annually) and ii) African Development Fund (AfDF) Contribution of €75.5m, payable over one, three, five or eight years. Conventionally, capital payments to IFIs are sourced from the Central Fund, while the Fund contribution could be met from Voted monies. The AfDF provides concessional lending to the least developed countries in Africa with the Fund's resources being replenished every three years.

As is the case with other IFIs and other countries who are members of the Bank, the Minister for Finance would become the Governor for Ireland at the AfDB if Ireland were to join this Bank. Ireland has been invited as an observer to attend various meetings of the Bank including Annual Meetings and replenishment meetings of the African Development Fund. A submission seeking your approval for membership will be made in the near future.

Climate Change and Climate Finance issues

Background

International Finance Division provides the policy input for the Department on matters relating to Climate Change, taking 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 Communications, Climate Action and Environment leads. The Division provides representation in EU and international fora where Climate Change/Climate Finance matters are discussed and/or negotiated. The Division also provides internal coordination on this matter and represents the Department in inter-Departmental fora where matters relating to climate change policy are considered and it coordinates preparations for Government meetings on climate change issues.

Gap to 2020 targets

The latest EPA projections indicate that, by 2020, Ireland's emissions are likely to be in the range of 4% - 6% below 2005 levels. This is well short of Ireland's target of a 20% reduction on 2005 levels, and a deteriorating position when compared to the previous set of EPA projections, published in 2016. Under the EPA's 'business as usual' scenario (no new measures after end-2015), Ireland is expected to exceed its obligations by the equivalent of 13.7 million tonnes of CO2 over the 2013-2020 period. This takes into account the flexibility to bank unused allowances from earlier in the period for compliance in later years.

The shortfall of 13.7 million tonnes will need to be addressed through either further emissions reductions or purchasing additional allowances for compliance. At this stage, it is not possible to accurately quantify the potential cost of such purchases as this will depend on both the volume of purchases ultimately required and the price of allowances to be purchased. In addition, in the absence of a market for the purchase of such allowances (any agreements are expected to be concluded bilaterally between EU Member States), there is no readily available price discovery mechanism.

It is however, possible to estimate a potential range of costs based on the currently estimated shortfall and using a combination of market forecast prices for ETS allowances (as a proxy), the modelled ETS price underpinning the latest EPA projections and specific assumptions about the availability for purchase of international credits for compliance purposes. This results in an estimate in the range of €30m – €126m. Such costs would arise over a number of years and would be contingent, inter alia, on the securing of agreements to purchase allowances from other Member States. These estimates are being kept under regular review in the light of updates to EPA projections and future carbon market developments.

Estimated mitigation required for 2030

In October of 2014, agreement was reached at European Council to cut the EU's greenhouse gas emissions by at least 40% overall by 2030 compared to 1990 levels. There is also a similar EU-wide, binding target that 27% of energy will come from renewable energy sources and that EU Member States will target an energy efficiency saving of at least 27%. Negotiations are ongoing on how the burden of emissions' cuts are to be shared among individual Member States. In July of last year, the European Commission set out its initial burden-sharing proposal "Effort Sharing Regulation (ESR)" envisaged under the new proposed Framework on Climate and Energy for the period 2021-2030. Under the proposed ESR for 2021-2030, which was published in July of 2016, Ireland will have a headline emissions reduction target of 39% below 2005 levels (i.e. Ireland would be required to reduce its emission levels by 39% in respect of our 2005 emission levels). The application of cost-effectiveness criteria in line with the October of 2014 European Council conclusions combined with a full utilisation of the flexibilities contained in the proposal, which will also entail a cost, will reduce Ireland's effective target to 20.4%.

In relation to 2030, the European Commission's July 2016 proposals to apportion the EU's overall target for non-emissions trading sectors amongst the Member States, suggests a 39% GHG reduction target for Ireland, based on GDP per capita, for the period 2021 to 2030. The Commission's proposal adjusts this target downward for cost effectiveness by 9 percentage points to give a headline target of 30%. In addition Ireland has been afforded a number of flexibility, which will also entail a cost, however the full utilisation will reduce Ireland's effective target to 20.4%. While this target is not yet agreed, it is clear that it will present an enormous challenge for Ireland, particularly in light of the likely outcome in relation to Ireland's 2020 targets.

Initial analyses of the impact of these proposals was presented to the Government at its meeting on 22 November 2016, including an analysis of the 'carbon budget' expected to be available to Ireland over the period. Initial estimates, prepared for that Government meeting, indicated an estimated cost to the Exchequer of up to €6bn over the period to 2030, including contingency.

An update to the analysis of the required mitigation capacity over the period, arising from the updated EPA projections, shows a requirement for an additional 16 Mt of mitigation in light of updated EPA 'business as usual' projections, bringing the total mitigation required to 89 Mt. An updated analysis of the cost implications of this revised mitigation requirement will need to be undertaken as a result.

National Mitigation Plan

In accordance with section 4 of the Climate Action and Low Carbon Development Act, 2015, the Minister for Communications, Climate Action and Environment must make and submit to Government a first National Mitigation Plan, not later than 18 months after the passing of that Act (10 June 2017).

The Department of Finance is participating in a whole-of-Government approach led by the Minister for Communications, Climate Action and Environment, in respect of the formulation of the National Mitigation Plan. Sectoral mitigation proposals have been put forward by Departments with sectoral responsibility, as follows:

1. Department of Communication, Climate Action and Environment
2. Department of Housing, Planning, Community and Local Government
3. Department of Transport, Tourism and Sport
4. Department of Agriculture, Food and the Marine

The Department of Finance has been involved in discussions relating to the preparation and fiscal implications of these measures at working group, senior official and Cabinet Committee level, but would not have had a responsibility under the terms of the Act for the submission of any specific sectoral measures for the Plan.

Climate Finance

Climate finance refers to local, national or transnational financing, which may be drawn from public, private and alternative sources of financing. Climate finance is critical to addressing climate change because large-scale investments are required to significantly reduce emissions, notably in sectors that emit large quantities of greenhouse gases. Climate finance is equally important for adaptation, for which significant financial resources will be similarly required to allow countries to adapt to the adverse effects and reduce the impacts of climate change. There is a UN target for an annual US$100bn contribution for international climate finance for developing and emerging economies which will be sourced from developed economies, public and private sectors, and International Financial Institutions.

Ireland has increased its support for developing countries tackling climate change. In 2015, Ireland provided €36 million in climate finance, an increase from €33.67m in 2014. 2016 figures will not be available until September, however, as a result of our contribution to the Green Climate Fund, it can be expected that this figure will increase. While there is not specific demand on Ireland, over the coming years, it is expected that Ireland's contribution towards this UN $100bn annual target will increase.

At present, measures are under consideration to help achieve this target through a combination of GCF and ODA contributions but also using private sector investments in developing and emerging economies either via IFIs (procurement opportunities and joint ventures) or directly with Government and the private sector in these countries. Similar challenges face other EU countries in relation to this issue.

Paris Agreement (Paris COP 21)

At the 2015 UNFCCC Climate Change Conference (COP 21) in Paris, the Taoiseach, in his National Statement on behalf of Ireland, said that Ireland was committed to scaling-up international climate finance and to this end would: i) commence contributions to the Green Climate Fund in 2016; ii) maintain its existing international climate contribution level through to 2020 and iii), also examine ways to mobilise private climate finance from Ireland to further contribute to the 2020 US$100bn climate finance goal.

The agreement reached at the Paris Conference confirmed that an existing US$100bn target for annual financial flows from developed to developing countries - to be reached by 2020 - remains unchanged through to 2025 with the proviso that a new figure – with the US$100bn figure as a 'floor' – will be agreed before that year. Contributors to the target continue, however, to be developed countries as defined so that climate finance from the likes of China, the second biggest economy in the world, is excluded from counting towards the $100bn sum.

A series of meeting will be held in Bonn during the year, concluding with the next Conference of Parties (COP 23) hosted by Fiji but held in Bonn for logistical reasons in November of 2017.

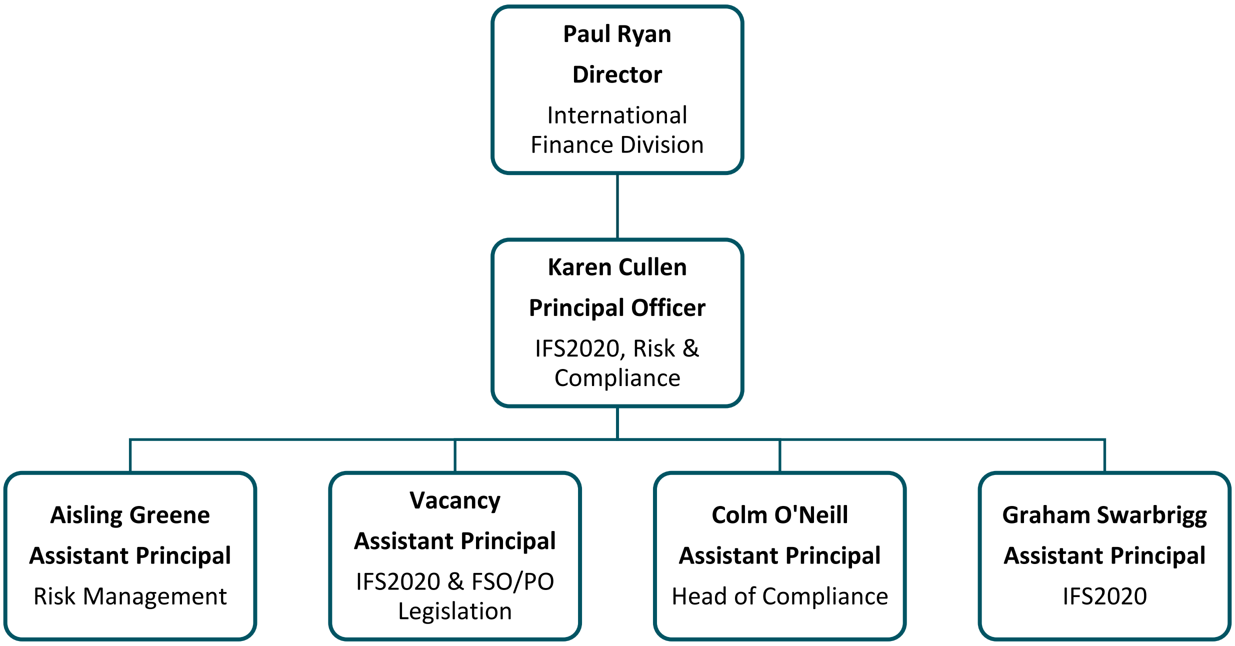
Green Climate Fund (GCF)

Ireland made an initial contribution of €2m to the Green Climate Fund (GCF), a conduit established under the auspices of the United Nations Framework Convention on Climate Change for channelling financing for climate change adaptation and mitigation to developing countries. As such, these contributions help Ireland meet its targets as part of the overall 2020 US$100bn climate finance goal.

In addition, preparatory work is to be undertaken in 2017 to investigate possibilities of encouraging private sector sources to contribute to international climate finance for developing countries using the GCF. In addition, officials are actively exploring placement opportunities for Irish people in this Institution.

3.2.5.2 International Financial Services IFS2020 Strategy, Departmental Risk Management and Compliance Functions – Legislation Amalgamating the Financial Services Ombudsman (FSO) and Pensions Ombudsman (PO)

Principal Officer: Karen Cullen.



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Graham Swarbrigg
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IFS2020

General

In overall terms, this area has three main responsibilities: International Financial Services (IFS) Strategy IFS2020, along with the Department's Risk Management and Compliance Functions. It is also responsible for the current passage of legislation through the Oireachtas which seeks to amalgamate the Financial Services Ombudsman (FSO) and Pensions Ombudsman (PO) into a single Office (Financial Services and Pensions Ombudsman) while also consolidating and updating the legislation underpinning the functions of this new Office. This work is progressing in tandem with a Sinn Féin Private Members Bill covering some of the same matters.

The primary responsibility of the Division relates to the provision of support to the Minister and the Minister for State in relation to International Financial Services, specifically the development and implementation of the IFS2020 Strategy which is led by the Minister for State in his role over Financial Services. Launched in 2015, this 'whole-of-Government approach', covering all relevant Departments and Agencies, has been jointly developed and implemented by the public sector and industry. The Strategy aims to drive the growth and development of the international financial services sector in Ireland to make it the global location of choice for these specialist activities and build on our existing achievements in this sector of the economy.

Finally, the Division is responsible for the Department's Risk Management function in line with its governance structure. In regard to this work, the Division, where appropriate, aligns and co-ordinates with the Government's National Risk Assessment structure (under the Department of the Taoiseach) and other Government Departments/Agencies in identifying, managing and monitoring relevant Risk Frameworks and ensuring that they are embedded across the Department in terms of governance, management and operations.
A related area, the Compliance Unit, seeks to provide assurance to the Executive Board, and ultimately to the Secretary General, that the Department is adhering to legal, regulatory and governance obligations as applies to the Department and Bodies under its aegis.

The Division is currently progressing legislation, '*Financial Services and Pensions Ombudsman Bill 2017*', through the Houses of the Oireachtas to provide for the amalgamation of the Financial Services Ombudsman (FSO) and Pensions Ombudsman (PO) into a single Office (Financial Services and Pensions Ombudsman) while consolidating and updating the legislation underpinning the functions of the new Office. This work is progressing in tandem with a Sinn Féin Private Members Bill ('*Central Bank and Financial Services Authority of Ireland (Amendment) Bill 2014*') which covers some of the same matters as the Government's Bill.

Key Points:

IFS2020 – Domestic and International Engagements: It is envisaged that there will be a continuation of the current level of extensive engagements, both domestically and internationally, to highlight the attraction of Ireland for international financial services businesses seeking to locate here from the UK and those who are currently based outside Europe, but seeking an EU location. [redacted]

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

Domestic engagements with businesses involve the Minister or (more frequently) the Minister for State. These include regional locations. The Minister/Minister of State is generally accompanied by Department officials responsible for IFS2020, and when required officials from various policy areas covering Funds Management, Insurance, Banking, etc. Sometimes the IDA/Enterprise Ireland attends, if and when required. In addition, there have been extensive engagements in regional locations to highlight their attraction for financial services and to increase their current approximately 33% share of this activity.

It can be expected that financial services industry organisations, representative bodies and some businesses will seek meetings with the new Minister in the context of the opportunities and challenges posed by Brexit and the ongoing work of the IFS2020 Strategy. In addition, there are frequent speaking engagements for the Minister and Minister for State on IFS2020.

Brexit Forum: The Department held an International Financial Services Brexit Forum in Dublin Castle on 12th April attended by Minister Noonan and Minister for State Murphy. Involving industry organisations, representative bodies and some businesses, the event mirrored similar events held by other Departments as part of the Government's Brexit contingency planning and consultation. A further event can be held in the future if required.

IFS2020 Meetings: Given that the Minister of State Chairs the IFS2020 High level Implementation Committee (HLIC) and officials Chair other groupings, there is no specific role for the Minster for Finance in these engagements. The next HLIC is scheduled for end-June.

IFS2020 Reporting Arrangements: The annual Action Plans underpinning the overall Strategy are submitted for the consideration and approval of the Government by the Minister for Finance. Similarly, Quarterly Reports on the ongoing progress of each Action Plan are submitted for the consideration and approval of the Government by the Minister.

Action Plan 2018: Department officials will soon commence consulting stakeholders for possible actions for the Action Plan for 2018 through the IFS2020 implementation framework. It is envisaged that a draft Plan will be submitted to the Minister for consideration and approval in the autumn to be launched at the 2018 European Financial Forum (EFF).

European Financial Forum: The third European Financial Forum (EFF) is scheduled to be held in Dublin Castle on 31st January of 2018. As in the previous two events, invitations to high level international and national keynote speakers will be jointly issued by the Minister and Minister for State. A series of side events arranged with the assistance of IDA Ireland, Enterprise Ireland, and industry will be held on the margins of the EFF as previously. Minister Noonan spoke at the 2017 EFF along with the Taoiseach and Minister of State.

Amalgamation of the Financial Services Ombudsman and Pensions Ombudsman:
(1) Published on 10th of May, the Second Stage of the Government's Bill Stage concluded at end-May and a date for the Committee Stage is awaited – this is likely to be by the end 0f June subject to Committee business. (2) The Sinn Féin PMB passed Report Stage and Final Stage in the Dáil on the 25th May and it is tentatively scheduled for the Seanad during the week commencing Monday 12th June. We have signalled that the Minister may table amendments in the Seanad to address a possible shortcoming in the PMB and a short consultation process will be done with key stakeholders (Central Bank and the Ombudsman, etc.) in advance if required.

DETAIL:

International Financial Services Strategy IFS2020

General

Launched in 2015, the key aim of IFS2020 is to increase the numbers employed in international financial services by around 30% or 10,000 net new jobs over the five years of the Strategy from 2015 to 2020. By end-2016, there has been a 13% increase in employment (over 4,600 net new jobs) with an associated rise in economic activity.

IFS2020 Architecture

In its role as the IFS2020 Secretariat, the Division is responsible for overseeing the development, implementation and monitoring of the annual Action Plans that underpin the overall Strategy. While IFS2020 is led by the Minister of State, implementation of the Strategy is driven by a *High* *level Implementation Committee (HLIC).* This HLIC consists of the Secretary Generals of the relevant Government Departments and the Chief Executive Officers of the IDA and Enterprise Ireland – given its independence, the Central bank of Ireland attends as an observer. In turn, the HLIC is advised by an *Industry Advisory Committee (IAC)*. This Committee consists of representatives of various sub-sectors of the Financial Services Industry and an overseas member.

The HLIC and the IAC meet quarterly under the Chairmanship of the Minister of State. In between these meetings representatives of the relevant Government Departments and State Agencies meet every fortnight. Since the UK Referendum, a *Public Service Communications Group* was established to ensure that the communications on Ireland's international financial services offering remains up-to-date and sufficiently flexible to counter any challenges and opportunities arising from Brexit, [redacted]

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

Annual Action Plans

Implementation of IFS 2020 Strategy is done by means of annual Action Plans. To date, all measures from the 2015 and 2016 Action Plans have successfully been completed with 2017 measures largely on track. The *Action Plan for 2017* has two parts. The first section is a contextual piece with a focus on Brexit along with other topics such as international education and the role of the Central Bank of Ireland. Section two outlines the 40 measures which will be actioned in 2017.

Promotion of IFS2020

The Division supports the Minister of State for Financial Services in promoting the Irish International Financial Services sector, both domestically and internationally, specifically in the context of Brexit. This work is carried out in conjunction with the IDA, Enterprise Ireland, industry representative, chambers of commerce, educational bodies and other stakeholders. Since the outcome of the UK Referendum on membership of the EU the level of engagement led by the Minister of State involving promotion of Ireland's International Financial Services offering has significantly increased. An IFS Ireland Banner Brand and associated website IFSIreland.com has been launched. This banner brand is particularly important in parts of the world where Ireland is not well known.

Over the past 12 months, the Minister for State has undertaken a series of extensive international engagements with IDA Ireland and Enterprise Ireland. Similar trips have been undertaken by other Members of the Government as part of the 2017 St Patrick's Day programme when the Taoiseach, Tánaiste and 27 Ministers took part in over 100 business events and high-level political meetings in 27 countries.

In this regard, the Department works very closely and successfully with IDA Ireland and the Central Bank of Ireland. It also works with our Embassy Network, the Department of Foreign

Affairs and Trade, and industry organisations and representative bodies as well as individual financial service businesses. Networks of Irish business-people based abroad which work in conjunction with our Embassies have been particularly helpful to our promotional activities.

Regional locations

At present approximately 33% of services are located outside of Dublin in regional towns and cities ranging from Cork, Limerick and Galway to places such as Kilkenny, Kerry and Donegal as well as the Dundalk-Drogheda corridor. Firms based in our regional locations report greater staff retention and lower operating costs as key reasons for locating outside Dublin and given the international accessibility we enjoy through Cork, Shannon and Dublin airports our regional centres have good access to the global financial centres such as London and New York. Action Plan 2017 aims to significantly promote IFS on a regional basis especially in the context of Brexit and IDA Ireland is working with the Department and local Chambers of Commerce plus Third Level Institutions on this objective. The Minister of State has undertaken an extensive programme of engagements to promote the regional locations for businesses seeking to relocate from the UK post-Brexit.

FSO/PO Amalgamation

The Division is currently progressing legislation, '*Financial Services and Pensions Ombudsman Bill 2017*', through the Houses of the Oireachtas to provide for the amalgamation of the Financial Services Ombudsman (FSO) and Pensions Ombudsman (PO) into a single Office (Financial Services and Pensions Ombudsman) while consolidating and updating the legislation underpinning the functions of the new Office.

The purpose of this work is to improve the operation and effectiveness of the service to consumers. This work is progressing in tandem with a Sinn Féin Private Members Bill (*'Central Bank and Financial Services Authority of Ireland (Amendment) Bill 2014*') by Deputy Pearse Doherty which deals with some of the same matters as the Government's Bill, namely: time limits for complaints to the Ombudsman in relation to the conduct of financial service providers, time limit for appeals to court and some other incidental matters concerning the Ombudsman.

The Government gave its approval in May of 2015 to the Outline Heads of Bill to amalgamate the Financial Services Ombudsman and the Pensions Ombudsman. After this development, both Offices have been physically merged in one location. Recent legislative changes**,** under the Social Welfare Pensions Act 2015 have enabled the appointment of the Financial Services Ombudsman as Pensions Ombudsman in May of 2016 – this position is currently held by Mr Ger Deering.

The detailed Heads of Bill underwent pre-legislative scrutiny on 27th October of 2016, along with the Sinn Fein's Private Member's Bill.

The Government's Bill was published on the 10th of May 2017. It is more comprehensive than the Sinn Fein PMB, and it provides for a number of improvements to the existing legislation. The Bill also consolidates and updates the legislation, including the extension of the time limits for complaints. The Bill commenced Second Stage in the Dáil on 25th of May, and after a very short twenty minute debate it has been adjourned to the following week commencing Monday 29th

May. Parallel to this, the Department of Finance engaged with Sinn Féin, to draft Report Stage amendments for their Report Stage on the 25th May.

We may have Seanad stage amendments to the Sinn Féin PMB which is tentatively scheduled to be heard in the Seanad in the week commencing Monday 12th June. Prior to this consideration by the Seanad, the Department may have to undertake a short consultation process with a number of key stakeholders on the amendments including the Central Bank of Ireland and the Financial Services and Pensions Ombudsman.

Once the Government's Bill has been approved by the Dáil and Seanad it will repeal and replace the Sinn Féin PMB.

Risk Management Function

The Division is responsible for the Department's Risk Management Function in line with its governance structure. This function has developed significantly over recent years to seek to ensure that a risk culture is fully embedded across the Department's in terms of governance, management and operations.

The Department of Finance Risk Management Framework consists of a Risk Committee, which is a subcommittee of the Executive Board. Representative of all Divisions across the Department, the Risk Committee provides leadership in promoting risk management, addressing key risks in the context of the Department's Statement of Strategy and determining the Department's risk appetite (deciding what risks the Department is prepared to accept or retain in the pursuit of its core priority objectives).

The Committee's role is to aid the Department in embedding risk management and overseeing its risk function, including risk identification, assessment of risks and their mitigation while also determining the parameters for escalation of risk/further examination. A formal governance structure supports the identification and oversight of all risks with reporting through the Risk Committee to the Executive Board and, eventually, the Minister. Daily Reports are circulated which highlight key market issues to Departmental staff. Risk assessment reports have been developed to examine specific 'top risks' in greater detail for the Risk Committee, Executive Board and Minister. The Risk Management Team monitors risks on an ongoing basis in conjunction with other Divisions across the Department.

The focus of the Risk Committee is on top risks and uncertainties as outlined in the Risk Register. Other risks are, of course, monitored and reported on at other levels within the organisation. However, the Risk Committee satisfies itself that appropriate risk management systems are in place for the management of these risks throughout the organisation. In regard to this work, the Division, where appropriate, aligns and co-ordinates with the Government's National Risk Assessment structure (under the Department of the Taoiseach) and other Government Departments/Agencies in identifying, managing and monitoring relevant Risk and Compliance Frameworks.

Compliance Unit

The Compliance Unit seeks to provide assurance to the Executive Board, and ultimately to the Secretary General, that the Department is adhering to legal, regulatory and governance obligations as applies to the Department and Bodies under its aegis.

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 Unit examines and monitors the Department's current systems and procedures to meet each of its obligations as set out in the Compliance Obligations Register.

The Compliance Unit has developed a comprehensive Compliance Framework to ensure that the Department has been the first to meet the commitment of the Civil Service Reform Agenda to undertake this action. This Framework covers the structures and procedures in place to manage and ensure that the Department meets all its legislative, regulatory and internal procedural compliance obligations.

In specific terms, Procurement, Data Protection, Ethics, Protected Disclosures are examples of areas which fall within the responsibilities of the Compliance Unit. In partnership with HR Division, the Compliance Unit is developing a training programme in a number of these areas which will be rolled out later in 2017 to appropriate staff members. This will ensure that these staff are aware of their roles and responsibilities in regard to compliance, the relevant requirements are embedded into their work, and they remain up-to-date in terms of ongoing developments.

The Compliance Unit is also responsible for coordinating the Department's preparation for the implementation of the General Data Protection Regulation which comes into effect in May 2018. In addition, the Unit is responsible for the development of the Irish Language Scheme for the Department. The Department's Scheme is currently being revised and a new Scheme will take effect from October 2017.

3.3 Corporate

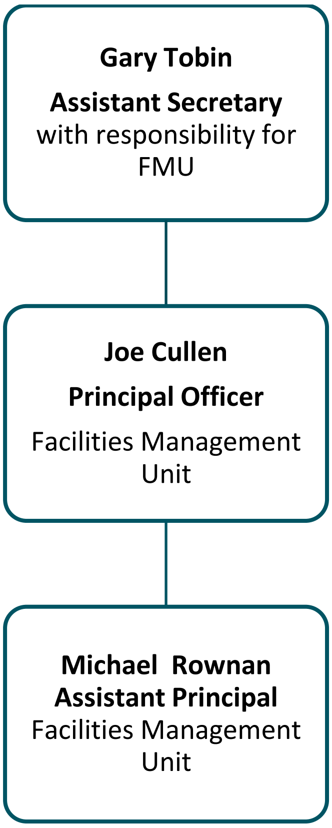
3.3.1 Facilities Management Unit

DESCRIPTION

This 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.

Assistant Secretary - Gary Tobin

Principal Officer: Joe Cullen


Gary Tobin
Assistant Secretary
with responsibility for FMU
Joe Cullen
Principal Officer
Facilities Management Unit
Michael Rownan
Assistant Principal
Facilities Management Unit

KEY POINTS:

The Facilities Management Unit (FMU) exercises a function which currently resides within the Banking Division in the Department of Finance. The Unit provides a broad range of facilities management services to the Department of Finance and to the Department of Public Expenditure and Reform (D/PER). Services to the latter are provided as part of an administrative arrangement in place since D/PER was established in 2011. The current facilities model is managed and delivered primarily by a dedicated in-house team supported by OPW and a number of external vendors and service providers across various soft and technical maintenance services. The FMU currently provide services to about 600 staff in both Finance and PER and it manages a property portfolio across 7 locations.

The planning and implementation of the Department's Safety Management System is a key function of the FMU. In addition, the FMU is responsible for the Registry and (physical) File Management functions for both Departments and for implementation of the formalised archiving procedures, including certification and hand-over to the National Archives.

Finally, the Unit carries out a miscellany of other support tasks including the processing of accounts for foreign travel by staff from Finance and PER and recoupment from the EU of certain travel costs associated with attendance at Council meetings.

DETAIL:

The main priorities for FMU for the remainder of the year are as follows:

- Manage the Roof Replacement and Windows Refurbishment Projects in Government Buildings South Block which are commencing in early autumn 2017. Also manage the South Block Main Entrance Security upgrade works and significant infrastructural and services revisions proposed for 7-9 Merrion Row;
- Dynamically manage the Departmental Safety Management System;
- Update and implement the Office Space and Maintenance Plan and further align it with business objectives, including arranging for location/relocation of groups of staff as required by works projects and/or better space management; and
- Implement a programme of change management and process improvement in the Unit.

Roof Replacement and Window Refurbishment Project

A major project to replace the wiring and electrical systems in South Block and to renovate the fabric of the building was completed over 2015 and 2016. Following on from this, for 2017, FMU and OPW are overseeing a roof replacement project in South Block. The work is expected to start in September, 2017. The roof has not been replaced since the building was completed over one hundred years ago. The roof had a number of asphalt coats over the years to extend its life; however it has come to the point where a full replacement is required.

OPW have commenced the tendering process for the works, which will take in the order of 6-8 months to complete when the contract is awarded. In conjunction with this project, the original sash windows in the building at the Third Floor level will be removed for conservation and replacement; this work will be undertaken by specialists in the OPW Joinery Section. The intention is to conserve all original sash windows in the building over the next two years. As there will be disruption at the third floor level with the roof works, and, as the windows on that level are accessible from the parapet, it was decided to commence the window project on that level.

Government Buildings South Block Reception Project

On the recommendations of An Garda Síochána, and in accordance with the requirements of the Inter-Departmental Committee on Security within the Government Buildings Complex, FMU and OPW's Conservation Architects Team are implementing revised security arrangements (physical and logical) in the Reception area. The revisions will be in full accordance with protocols, best practice and regulations pertaining to works undertaken on protected structures. It is anticipated that these works will be undertaken during August, 2017.

Infrastructural and internal services layout revisions, 7-9 Merrion Row

FMU in conjunction with OPW's Mechanical & Electrical Engineering Services and Architectural Design Teams are at preliminary stages of proposed works to enhance the layouts and further optimise the office accommodation utilisation of the building. In addition, it is proposed to fit out meeting rooms and a conference area to meet the current and future demands for collaborative workspaces and training/presentation areas.

The Health and Safety System – Safety Management System

The Safety Management System in the Department of Finance formalises the policies and procedures for the management and control of the workplace and ensures full compliance with statutory employer obligations. The Department's Facilities Management Unit supports the Health and Safety function in the Department of Public Expenditure and reform as and where appropriate.

Office Space and general Maintenance Plan

The Office Space strategy and the maintenance plan is being further aligned to the business strategy. It will use design techniques and energy saving measures optimise the use of the office space we occupy. It will also comprehend the Department's legal obligations and annual reporting requirements and identify operational risks. It will also include some process changes in the area of contract management and align with health and safety statutory requirements.

Foreign Travel, EU Recoupment and credit cards.

FMU manages the accounts for foreign travel by staff and recoups from the EU on behalf of both Departments certain travel costs associated with attendance at Council meetings. The work includes budget planning and management, processing payments and recoupments and assisting and supporting staff with their travel arrangements.

FMU has responsibility for credit cards in both Departments. This includes overseeing the adherence to the official credit card policies, bill payments and resolving related queries. The number of official credit cards is strictly controlled.

File Management and Archiving

FMU manage and control all registered files for the Department of Finance and it provides a similar service to the Department of Public Expenditure and Reform. The files are located in Government Buildings and in a secure off-site storage facility within the Greater Dublin Region. FMU provide training and support to staff in both Departments on the official filing policy.   While an initiative has been implemented in recent years to store documents and files electronically (the system is knowns as “eDocs” and is managed as part of the wider ICT function by the Corporate Office), there is a need for coordination between the two systems and this is actively managed by FMU.

The Department must fulfil its obligations under the National Archives Act (1986) to transfer files that are more than 30 years old to the National Archives. A small team was established within FMU in 2015 have been working to process the relevant files in line with guidelines from the National Archives.   This work will continue and will take full account of the proposed amendment to reduce the 30 year rule for the release of State papers to 20 years. The proposed change will be implemented on a phased, Department-by-Department basis. At present the National Archives (Amendment) Bill 2017 is at Discussion Stage. This proposed legislation will provide the flexibility for certain Departments to transfer records to the National Archives for public release after 20 years rather than the current 30 years. British and Northern Irish Archives have moved to a 20 year rule for the transfer of records to the British Archives and the Public Records Office of Northern Ireland, PRONI. The Irish Government recognises the importance of synchronising the release of certain records between Ireland and the United Kingdom, particularly in regard to those records relating to Northern Ireland and Anglo-Irish issues.

3.3.2 Corporate Affairs

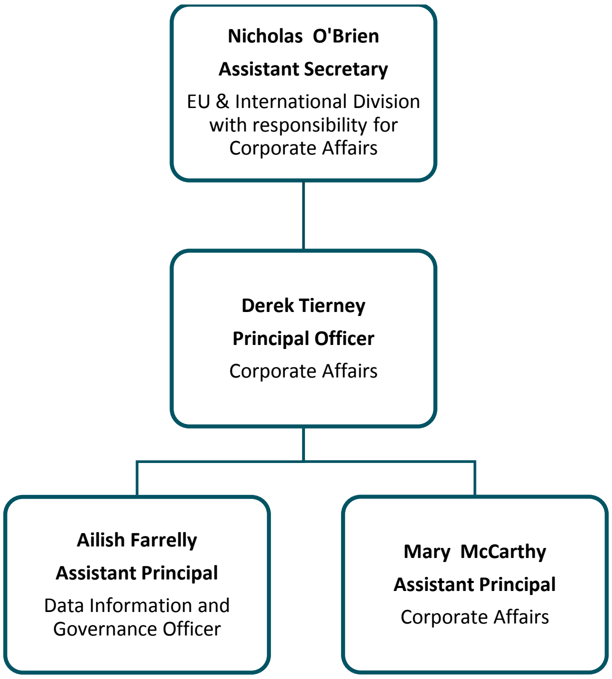
DESCRIPTION

Corporate Affairs is responsible for developing and overseeing the implementation of the Governance framework, the Integrated Business Planning framework, internal control framework of oversight for Bodies under the Aegis, Project Management Office and the coordination and monitoring of internal projects. 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 line management responsibility for the Access Officer - Information in accordance with Section 26 of the Disability Act 2005.

Assistant Secretary - Nicholas O'Brien

3.3.2.1 Management of Governance framework, Integrated Business Planning framework, Bodies under the Aegis, Corporate Communications, ICT and Business Continuity Management, Freedom of Information, Parliamentary Questions, Government Memos, Records Management and Print Room.

Principal Officer: Derek Tierney



Nicholas O'Brien
Assistant Secretary
EU & International Division with responsibility for Corporate Affairs

Derek Tierney
Principal Officer
Corporate Affairs

Ailish Farrelly
Assistant Principal
Data Information and Governance Officer

Mary McCarthy
Assistant Principal
Corporate Affairs

KEY POINTS:

This unit manages and maintains the codification a Governance Framework for the Department to provide a clear and comprehensive summary of the principal aspects of corporate governance within the Department of Finance.

This unit manages the development of the Statement of Strategy (new statement required for Q4 2017 under PSM Act 1994) and coordinates the underlying business planning process.

The Department has 18 bodies under its aegis. These require varying degrees of oversight in accordance with their governing legislation. A framework document has been developed to assist the responsible sections across the Department in the exercise of the Department's governance role.

Corporate Affairs manages 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.

Corporate Affairs manages a relationship framework for both the Audit Committee and Internal Audit Services on behalf of the 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.

As part of the Department L & D Programme, international and nationally certified Project Management Training and support services is provided by the Department.

A new electronic Records Management System (eDocs) was developed in 2015 to provide a centralised system of storing digital files incorporating the existing filing structure but migrating most newly created official documents to storage in digital format rather than physical paper files. This eDocs system will facilitate greater efficiencies in records management particularly in relation to the retrieval of documents and increased security and accountability for official files.

There have been changes to the process for managing FOI requests and more visibility of the process externally is planned via a publications scheme and the inclusion of additional FOI material on the Department's website.

The Print Room produces quality confidential printing work for the Department of Finance and also the Department of the Taoiseach, the Department of Public Expenditure and Reform, the shared services of PeoplePoint, Payroll, Financial Management and OGP and other Departments from time to time.

DETAIL:

Governance

In 2015 the Department codified a Governance Framework for the Department. 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. This heavily informed the development of a Corporate Governance Standard for the Civil Service (Action 3 of the Civil Service Renewal Plan), recently approved by Government, that was led by a Working Group consisting of three Secretaries General (Derek Moran/Mark Griffin and John Murphy). It was jointly project managed by the head of Corporate Affairs Mr Tierney and officials of the Department of Public Expenditure & Reform.

Strategic Planning, Decision Making & Performance Management

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 supported by Senior Management. Progress against business plans is monitored by the Executive Board on a weekly, monthly and quarterly basis that is coordinated by Corporate Affairs. A weekly memorandum, compiled by Corporate Affairs, is provided to the Minister who as part of the monitoring role, also meets twice yearly with each of the Directorates to set and review progress on objectives. The business planning framework is flexible to accommodate emerging priorities. The business planning system is underpinned by the implementation of the Performance Management and Development System (PMDS) within the Department. The Department uses an electronic submission recording system which supports formal processes and mechanisms for documenting decisions made within the Department. Note(s) made by the Minister on any submission received from officials is scanned and stored electronically. Divisions have been organised to report to individual members of the Executive Board, who in turn, report to the Secretary General and Second Secretary General who are responsible for the day-to-day running of the Department.

Bodies under the Aegis of the Department

The Minister/Department of Finance has 18 bodies under its aegis. These require varying degrees of oversight in accordance with their governing legislation and central regulation. A framework document has been developed to assist the responsible section in the Department in the exercise of the Department's governance role. It is important to note that the oversight and governance of the bodies under the Department's aegis are requirements which are integral to the Corporate Governance standard. The 18 bodies are:

List of the bodies that fall under the aegis of the Department	
Central Bank of Ireland	Irish Fiscal Advisory Council
Comptroller and Auditor General	National Asset Management Agency
Credit Union Advisory Committee	National Treasury Management Agency (including State Claims Agency, National Development Finance Agency, National Pensions Reserve Fund Commission New ERA and the Strategic Investment Fund).
Disabled Drivers Medical Board of Appeal	Tax Appeals Commissioner
Financial Services Ombudsman's Bureau	Office of the Revenue Commissioners
Financial Services Ombudsman's Council	Social Finance Foundation
Irish Bank Resolution Corporation	Strategic Banking Corporation of Ireland
Irish Financial Services Appeals Tribunal	The Credit Reviewer
The Credit Union Restructuring Board (ReBo)	The Investor Compensation Company Limited

Records Management

A new electronic Records Management System was developed in 2015 to provide a centralised system of storing digital files incorporating the existing filing structure but migrating most newly created official documents to storage in digital format rather than physical paper files. This eDocs system will facilitate greater efficiencies in records management particularly in relation to the retrieval of documents and increased security and accountability for official files.

ICT

Corporate Affairs manages the relationship with the Office of the Government Chief Information Officer (OGCIO - DPER) who provides ICT support, advice, infrastructure, service management and systems development expertise as a shared service. A significant component of the Department's workload relates to parliamentary support including processing large numbers of Parliamentary Questions, Freedom of Information requests, Government memos and Ministerial representations. With such volumes our approach to this work merited particular examination to ensure business processes, technology, information sources, training and other supports are as good as possible. In the recent past, the Department commenced efforts to strengthen the support functions that assist us in parliamentary day-to-day support activities beginning with the upgrading of our ICT infrastructure and systems to facilitate more modern, efficient work practices and enable the automation of certain processes. Improving ICT infrastructure and information systems also ensures better knowledge-sharing and information management in the wider Department. Corporate Affairs, with OGCIO, support the delivery of:

ePQ: An example of the efficiencies to be gained is illustrated by the Department's new ePQ system to process and manage Parliamentary Questions which allows for the electronic processing of parliamentary questions across the department with greater search and retrieval functions.

eSubmissions: The Department engaged with OGCIO to leverage technology to provide a fully online submissions process. This application adds value through the delivery of greater visibility throughout the process, provides a centralised location in which to store all eSubmissions and provides enhanced search and versioning to optimise user experience.

eCorrespondence: A similar system, in relation to correspondence/Ministerial representations is expected to be implemented in the Q2 2017.

eDocs: Our eDocs application aims to remove the current dependence on paper filing and improve the manner in which we manage our information. The project included the development of an application that adds value through providing the ability to file departmental records electronically, provide a consolidated location in which to manage both electronic and physical, improve access to information by enhancing search-ability and find-ability of both electronic files and the electronic records stored therein provide an ability to file emails directly, migrate existing electronic files on the network for consolidated storage and allow increased tracking of physical files and their location.

eDiscovery: In order to support its work, the Department has recently tendered for an eDiscovery platform solution to be put in place to aid in data and information retrieval which requires digital and electronic documents to be effectively and efficiently searched, identified, reviewed, collated and formatted.

Business Continuity Management Policy

Corporate Affairs has managing the development of a Business Continuity Management Policy as 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 Departments 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. This policy provides for 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 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: The Internal Audit Unit (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 approach to risk and internal controls. IAU services is provided by the Department of Public Expenditure and Reform and this relationship is managed by Corporate Affairs through a relationship framework, and regulated by a service level agreement which is revised annually. The existence of Internal Audit does not relieve line management of its responsibility for effective control of the activities for which it is responsible. The IAU functions professionally, adhering to the Internal Audit Standards (2012) of the Department of Public Expenditure and Reform. The work of the Unit takes account of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the International Standards of the IIA.

Project Management

As part of the Department L & D Programme, internationally and nationally certified Project Management Training and support services is provided by the Corporate Affairs in association with the Project Management Institute of Ireland. The Department is also playing a leading role in providing Project Management Training and expertise to the Civil Service wide AO Graduate Training Programme and has also led the development of a Project Management Handbook for the Civil Service under Action 17 of the Civil Service Plan.

Stakeholder Communications

Corporate Affairs manages the development of the Departments Stakeholder Communications Strategy. It has also developed a Customer Action Plan (CAP) for the period 2015 – 2017 that outlines the Department's commitment to the Principles of Quality Customer Service and our determination to continue to provide the highest quality of service to all our customers. The CAP also sets out our Customer Charter and our Customer Complaints Procedure. This area also coordinates heavily with the Ministers Office and Press Office.

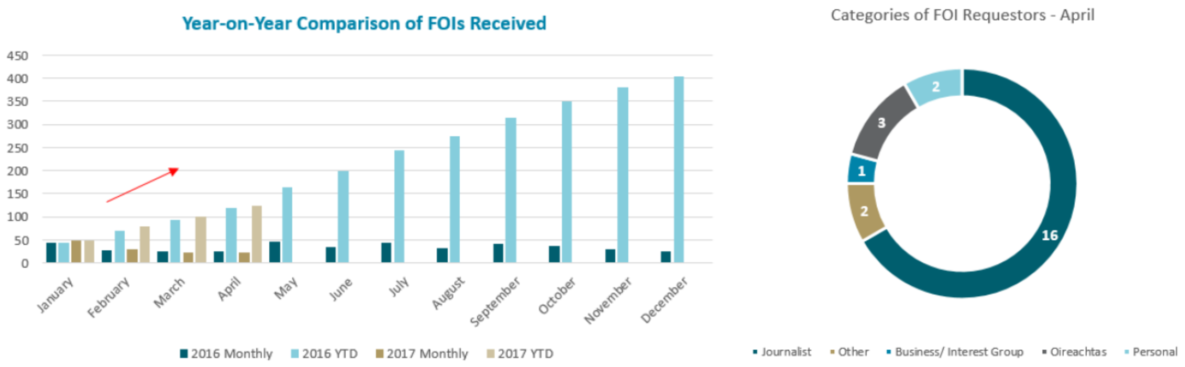
The Print Room

The Print Room produces quality confidential printing work for the Department of Finance and also the Department of the Taoiseach, the Department of Public Expenditure and Reform, the shared services of PeoplePoint, Payroll, Financial Management and OGP and other Departments from time to time.

Management of FoI and PQ processes

Freedom of Information

Under the terms of the Ministerial direction order, Freedom of Information (FoI) requests are processed by individual Assistant Principals or Principal Officers in each division within the Department. The FoI unit has the responsibility for processing receipt, allocation and information management processes around the operation of the FOI system. Changes were introduced in 2015 in the processing and information management around FOI requests which has improved the visibility of the process and the information available to management. The Department has engaged with a training programme for decision makers and all decision makers will have received FoI training by the end of 2017.



		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2016	Monthly	43	27	24	24	46	35	44	31	41	36	29	25
2016	YTD	43	70	94	118	164	199	243	274	315	351	380	405
2017	Monthly	48	30	23	22								
2017	YTD	48	78	101	123								

Number of FOIs - Monthly/YTD Breakdown

Figure 1: April and Year-to-Date FOI Request Statistics & Categories of Requestors

Parliamentary Questions and Memoranda for Government

The FOI Unit also has responsibility for distributing and allocating Parliamentary Questions across the Department via the ePQ system. Individual officers provide draft replies for the agreement of the Minister.

- PQs March - Total Number 291 (Answered – 256, Transfer Out – 31, Withdrawn – 1, Disallowed – 3) and PQs Year to Date - Total Number 1100 (Answered – 985, Transfer Out – 83, Withdrawn – 21, Disallowed – 11)

The Unit also distributes Memoranda for Government from other Departments for observations to be supplied by relevant officers within the Department.

- Govt Memo's Processed (Mar/YTD)– 50

3.3.3 Human Resources Division

DESCRIPTION

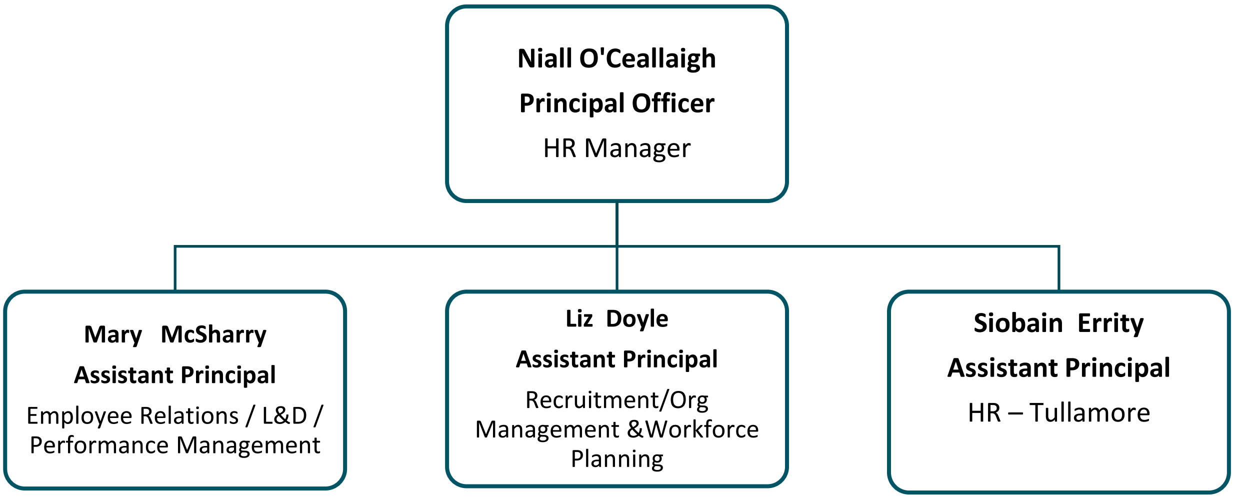
Human Resources is responsible for the development and delivery of the Department's HR strategy and the provision of a wide range of HR services to management and staff. The Department's HR Business Strategy 2016-2019 is focused on five key elements; **Leadership**, **Organisational Structure and Workforce Planning, Organisational Learning and Development, People Management and Employee Engagement.**

The Division'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. The HR Unit is working towards implementing actions arising from the Civil Service Renewal Plan. The HR Business Strategy 2016-2019 was revised and updated in line with Departmental Strategy in late 2016.

HR Manager - Niall O'Ceallaigh

3.3.3.1 Leading the Human Resources function in developing and implementing the HR Strategy

Principal Officer: Niall O'Ceallaigh



Niall O'Ceallaigh
Principal Officer
HR Manager
Mary McSharry
Assistant Principal
Employee Relations / L&D / Performance Management
Liz Doyle
Assistant Principal
Recruitment/Org Management &Workforce Planning
Siobain Errity
Assistant Principal
HR – Tullamore

KEY POINTS:

The Department at end March 2017 has a total workforce of 311 staff (w.t.e 301.53) based in Dublin and Tullamore. A number are based in Europe (in EU Institutions) and the USA (the World Bank and the IMF).

In 2017, todate, we filled 18 posts at the AO grade. This is largely in response to a number of the Department's staff recently achieving promotions in Civil Service wide competitions. We have start dates for another 4 AOs and have requested a further 5 AOs from the Public Appointments Service (PAS). We have also requested 10 Assistant Principals (Higher) from PAS.

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 increased productivity, low levels of absence (3.1% for 2016) and a staff attrition rate (i.e. resignation or retirement from Civil Service) of 6.4% (year on year April 16 – April 17). Our turnover rate for 2016 was 14.1% (this figure includes transfers within in the wider civil service, as well as secondments) in a large part due to the high performance of our staff in external competitions.

DETAIL:

1. Leadership

Aim: To enhance and develop the leadership skills and capability at all levels throughout the Department to allow us to perform both as individuals and in teams in order to meet the challenges facing the Department of Finance and be a world class organisation.

Effective leadership is a key and essential requirement to the Department's ability to innovate, problem-solve, respond quickly and adapt to the changing environment we operate in. Our leadership/management style is purposefully set out in our Governance Framework. The successful combination of leadership and management are essential to the success of the Department within the remit of each individual's role. Management is about *doing the things right* and leadership is about *doing the right things*. Leadership goes beyond the management structure where every staff member regardless of grade or position is a Leader within their individual role and area of responsibility.

2. Organisational Structure and Workforce Planning

Aim: To ensure that the structure and distribution of resources facilitates a collaborative and engaged working environment from which to fulfil Department objectives; and to resource and

maintain the Department at the required staff, budget and training levels ensuring that resources and their allocation enables the Department to fulfil its objectives and maximize its potential.

The organisational structure has been incorporated into the Workforce Planning element of the HR Business Strategy, whereas in the previous Strategy it was a separate element. This change reflects the progress and improvement that has been made with workforce planning and our ability to analyse and review 'resourcing' in a more systematic/process led way. We must have the necessary resources – at the right time – to meet current business needs as well as the ability and flexibility to respond and adapt to urgent and future business needs.

Improvements in areas such as more open recruitment and promotion processes at all levels and greater career and mobility opportunities have all helped in this regard. Improvements in IT platforms such as Sharepoint, eDocs, ePQs, ePMDS have also helped, allowing us to communicate better within and across divisions and to create cross functional teams more easily.

This is facilitating moving towards a network of teams' approach, with better communication and information flows helping us to capitalise on the benefits these bring. As we aim to both maximise our people's potential and development, and to have the right people in the right job and at the right time, doing the right things, it also gives the opportunity for staff to gain valuable experience of working in other areas and projects.

3. Organisational Learning and Development

Aim: Through organisational Learning and Development (L&D) strategies, continue to equip our staff with the necessary knowledge, skills, attributes and expertise, while also facilitating career opportunities and continuous personal development.

The Department understands the importance of learning and development, both for the organisation and its people, and promotes and invests in lifelong learning for staff at all levels. L&D aims to equip our staff with the necessary knowledge and expertise to do their jobs and develop their careers. L&D initiatives also play an important role in an individual's own self-development, increasing individual performance and engagement and helping all of our staff to realise their individual potential to be the best that they can be.

As a Learning Organisation we invest heavily in our staff's development, facilitating a range of learning from leadership, people management, coaching and mentoring, to training in both soft and technical skills as well as supporting academic and professional courses. This is reflected in our 70-20-10 L&D Model which gives us a combination of learning by doing, training to do the job we are in now and education to grow and prepare for future challenges, while fostering a culture of high performance. A key part of our HR Business Strategy is the L&D benefits expected to be delivered from the Civil Service wide L&D Initiative and the Shared Learning and Development service, particularly in areas such as generic training programmes, elearning initiatives and the development of a skills database.

The Department was awarded the Best Learning and Development Organisation for a medium sized organisation (101-500 employees) by the Irish Institute of Training and Development (IITD) for 2017. The Department had been shortlisted for the award for the previous two years also. This award is seen as an endorsement of the commitment of staff in the Department in the area of driving a learning culture, embracing change and focusing on leadership, people management skills and behaviours. The IITD judges commented that across the Department there is a clear ethos of continual improvement an openness to developing self-awareness and future strengths among managers in the Department and this represents a significant shift in thinking and culture.

The Department was also shortlisted by the CIPD in 2017 for its Employee Empowerment and Trust initiatives. This benchmarking represents a key measurement component in our drive to help the Department provide a world class service to the people of Ireland.

The L&D Strategy 2014-2016 targets a vast range of areas for training, from Leadership and Coaching for our senior management, to development courses aimed at specific grades, to report writing courses for all staff. A significant component of our L&D budget is also allocated to the Refund of Fees Scheme which supports staff undertaking 3rd Level and Post Graduate courses of benefit to the business of the Department.

Staff identify their learning and development needs as part of the Performance Management and Development System (PDMS) or via business cases submitted to HR for priority training. The Executive Board can decide that particular learning takes place, for example, FOI training for all Deciding Officers and 'Being an Engaged Leader' training on unconscious bias has been noted for staff in 2017.

4. People Management

Aim: To ensure that staff are managed effectively to achieve the highest combination of wellbeing, personal development and performance; this includes a day to day people management approach, ongoing coaching style feedback and effective compliance with the Performance Management and Development System (ePMDS). This will improve our staff, their capabilities and their engagement, to deliver the highest individual performance to contribute towards the delivery of Departmental priorities and objectives.

People Management centres around the belief that recognising and developing a talent that exists within the Department is central to the success of the Department. The starting point is that all staff have the potential to make a valued contribution and we aim to ensure this happens. Staff and managers have a role in this process and ongoing performance management/coaching type discussions are at its core.

'Talent' is about a person's behaviour, skills and motivation as well as their potential to grow. Awareness and openness to all potential at every level in the Department is critical to success. A key People Management issue for all managers that has been identified in successive Employee Engagement surveys is the commitment and actions demonstrated by senior management when someone is identified as being an underperformer.

We seek to ensure that our managers have the skills, training, attitude, support and encouragement to implement our Department's Leadership Style, as set out in the Governance Framework. Development of people's talent enhances performance for the individual and the teams they work in in their current position, as well as preparing readiness for transition to the next career opportunity whether at the same or a higher level.

5. Employee Engagement

Aim: Create a motivating work environment where all staff are fully engaged, where the Department values all staff members' contributions and commitment to the organisation and where staff members are proud and value the Department as an employer.

While culture describes 'the way things are done around here' Employee Engagement describes 'how people *feel* about the way things are done around here'. Together culture and engagement pervade and are intertwined in everything we do, and how we do it.

Indicators of employee engagement are seen in our KPI’s such as attrition rates, sick leave, wellness and attendance management statistics, feedback from exit interviews, and our Learning & Development statistics and feedback.

To improve engagement we need to empower people, have meaningful work, hands-on managers, a positive work environment, career opportunities, live our values through our behaviour and trust in leadership. In this way we can see that positive impacts for Employee Engagement are translated into the outputs from and outcomes of the implementation of our HR Business Strategy as a whole.

Employee Engagement initiatives have included the running of two Departmental Employee Engagement Surveys, a 76% participation rate in the Civil Service Employee Engagement Survey 2015 (compared to the civil service average of 39.2%) and recent Pulse Survey on Engagement. As part of the Civil Service Employee Engagement Survey 2015, the Department equalled or scored above the Civil Service average in the following areas of the Civil Service Employee Engagement Survey:

• Employee Engagement Score	71% Dept.	70% Civil Service Average
• Employee Commitment Score49%	48%	
• Employee Well Being Score	74%	75%
• Change Capability Score	69%	69%

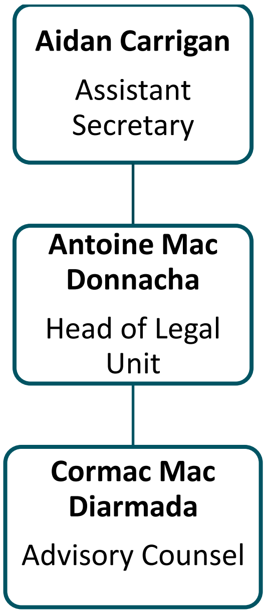
The next Civil Service Employee Engagement Survey will take place on 18th September 2017.

The Department also conducts detailed Exit Interviews based on Employee Engagement drivers with all staff leaving the Department. Listening to and engaging with all of this feedback has directly informed HR strategy and policies, allowing us to be continually people-focussed in everything we do.

3.3.4. 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


Aidan Carrigan
Assistant Secretary
Antoine Mac Donnacha
Head of Legal Unit
Cormac Mac Diarmada
Advisory Counsel

KEY POINTS:

The Legal unit supports and advises the various business units across the Department whenever the need arises.

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 AGO 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 support the relevant policy units in responding to them.

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. Currently the most important non-legislative issues the unit is dealing with would be the apple annulment application and recovery process and the litigation concerning consultant contracts.

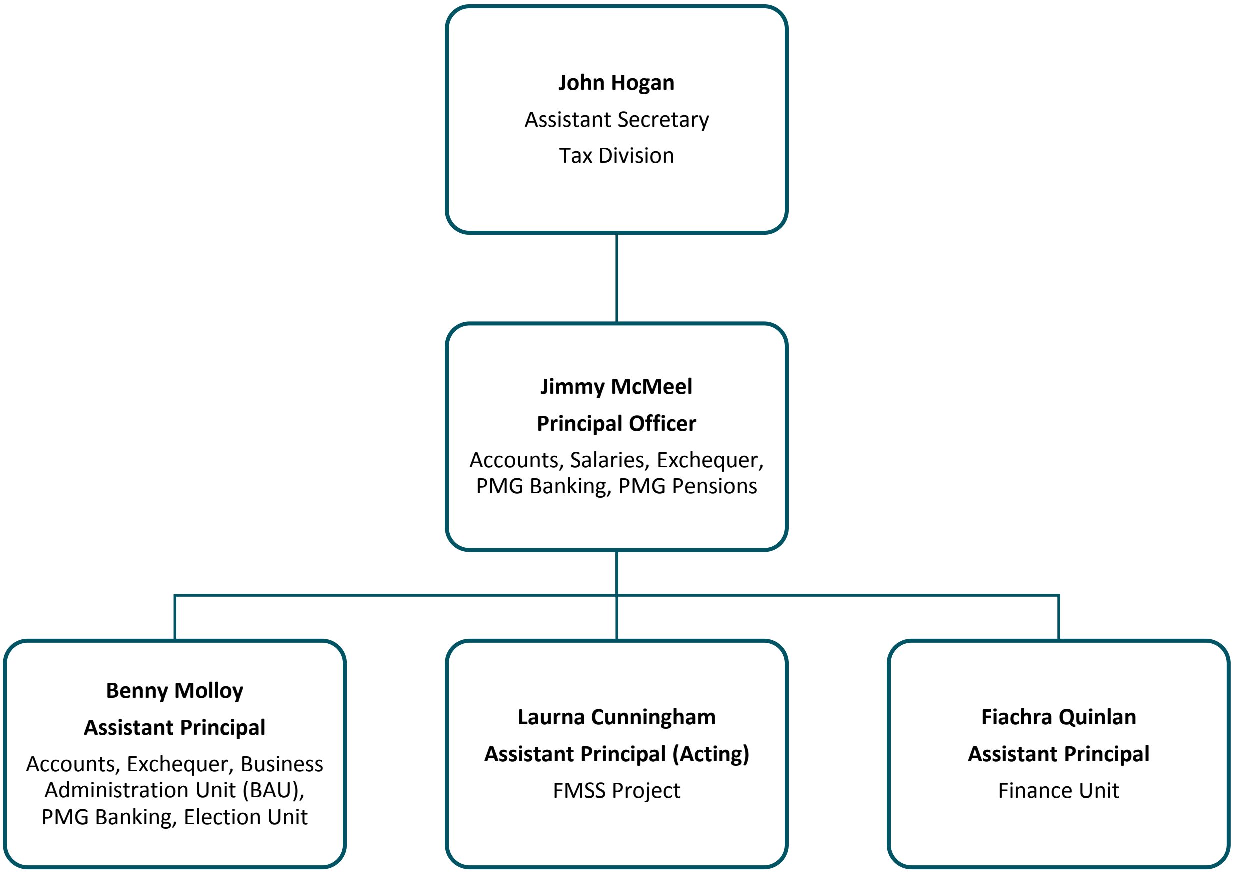
The head of the legal unit is seconded from the AGO as is Cormac Mac Diarmada. A further AGO secondee is expected to join the legal unit in the coming months to bring the total number of lawyers in the unit to 5.

3.3.5 Accountant’s Branch/Finance Unit

The Accountant’s Branch is responsible for transaction processing which is aggregated in the production of the Annual Finance Accounts and monthly Exchequer Statement and Annual Appropriation Accounts; the operation and management of the Exchequer Account and Paymaster General function. The Finance Unit deals with internal Financial Management for the Department’s Vote.

3.3.5.1 Management of the Accountant's Branch/Paymaster General's Office and internal finance and budget management activities

Principal Officer: Jimmy McMeel



John Hogan
Assistant Secretary
Tax Division

Jimmy McMeel
Principal Officer
Accounts, Salaries, Exchequer, PMG Banking, PMG Pensions

Benny Molloy
Assistant Principal
Accounts, Exchequer, Business Administration Unit (BAU), PMG Banking, Election Unit

Laurna Cunningham
Assistant Principal (Acting)
FMSS Project

Fiachra Quinlan
Assistant Principal
Finance Unit

KEY POINTS:

Most of the activity is based in Tullamore

The Accountant's Branch/Paymaster General's Office (PMG) processes accounting transactions and produces aggregated outputs (e.g. the monthly Exchequer Statement) for the Dept. of Finance; the Department of Public Expenditure & Reform (DPER) and some of its associated Votes (Superannuation, Office of Government Procurement (OGP), Shared Service Vote/National Shared Services Office (NSSO), Secret Service), the Vote for the President's Establishment; the Central Fund (Exchequer) and other funds/accounts outside the Exchequer/Voted system and it provides the PMG banking service.

The Branch is preparing for the move to the Financial Management Shared Service (FMSS), which is scheduled for second half of 2017.

In the light of the FMSS development, the residual Departmental operations in Tullamore need to be relocated. The Finance Unit has already been moved back to Dublin and the Exchequer area will follow when the FMSS starts operating, which is scheduled for June 2018. The plan is, in effect, to outsource the PMG banking function to a commercial bank and combine it with the commercial banks accounts of Departments in a Government Banking Service. The Department is working with the Office of Government procurement on that development.

The Finance Unit activities include the annual Budget Estimate for the Department's Vote, the Revised Estimate, expenditure profiling and reporting, budgetary management, and the annual Appropriation Account.

With DPER, it has to help progress the outstanding actions from the Fiscal Transparency Assessment viz accrual accounting for Departments, consolidation of public sector accounts.

DETAIL:

The Department's Accounts Branch looks after the accounting needs of the Department's Vote as well as those of DPER and some votes under DPER (namely superannuation, OGP, NSSO and the Secret Service vote) totalling some **€900 million**. (payments and receipts - based on 2017 Revised Estimates)

It also provides services to the President's Office and an accounting platform for the Ombudsman's Office.

It includes the Exchequer Section, which deals with the transactions on the Central Fund and produces the monthly Exchequer Statement and the annual Finance Accounts. In 2016, the volume of transactions processed by the Exchequer Section was **€111.4 billion**. That section interacts with the Office of the Comptroller and Auditor General in order to obtain the necessary credits for expenditure from the Central Fund. It also processes transactions on 14 other non-voted accounts and compiles annual accounts for most of them. The PMG banking function, in conjunction with the Central Bank, provides a banking service (essentially funding accounts in commercial banks) to all other Departments and Offices with Votes, except for the Office of Public Works.

The Accountant's Branch, the Office of the PMG and the Finance Unit were among the Department of Finance operations decentralised to Tullamore in 2006.

At that point there were over 70 staff (from total Department staffing of 120 approx. in Tullamore) in the operation.

Recently Department staff numbers in Tullamore have been reducing as functions (Payroll, Pension payments by the PMGs) have been transferred to the NSSO, which is under DPER. Headcount in the financial operation in Tullamore is now 29 (27 full time equivalents) and this will reduce by a further 2 shortly due to the transfer of certain work to DPER.

Finance Unit

In addition to the activities listed above, the Finance Unit is also responsible for audit liaison, attendance at Oireachtas Committees and preparing the associated briefings with respect to the Estimates (the Select Finance Committee) and the Appropriation Accounts (the Public Accounts Committee). It also engages with DPER in relation to Estimates allocations and various briefing requests and other Offices in the Finance Vote Group (Revenue, Appeal Commissioner, C&AG) in relation to briefing needs.

Future Developments

The vote accounting activity is scheduled to move to the NSSO's new FMSS in June 2018. This a substantial project management exercise for the Department on its own behalf and that of its clients. Arising from the FMSS inception, 12 staff will move directly from the Department to the NSSO. This would leave a very small residual operation for the Department in Tullamore which would not be viable and would carry risks having regard to the important functions performed such as the Exchequer and the PMGs.

The Exchequer function is the responsibility of the Department of Finance and cannot transfer to the FMSS. It will be relocated from Tullamore to Dublin and arrangements are being made for it to use the FMSS platform for its transactions and outputs such as the high-profile monthly Exchequer Statement.

The Minister for Finance is the Paymaster General by virtue of the Minister and Secretaries Act, 1924. The PMG activity is intertwined with the Exchequer.

Future of PMG Banking

Following a proposal from the Minister for Finance earlier this year, the Government decided to launch a procurement exercise to deal with the banking needs of all Departments on a combined basis, as well as the PMG need. This is now being progressed with the Office of Government Procurement. A Steering Group and a Sourcing Team – both representative of key Departments - have been formed to oversee the process and work out the detail.

Fiscal Transparency Assessment

In late 2012 the Department of Finance and DPER, mindful of the commitment to reform and to increased transparency regarding the financial affairs of the State, invited the IMF to conduct a review of Ireland's fiscal reporting, fiscal forecasting and budgeting and fiscal risk disclosure practices. The IMF review resulted in the presentation of a Fiscal Transparency Assessment (FTA) Report. The objective of the Report was to help ensure that Ireland's fiscal reporting is fit for purpose in terms of international standards and investor expectations. The exercise was entirely separate from - and additional to - the engagement with the IMF under the programme for assistance.

The report concluded that "Ireland is now approaching best practice in fiscal reporting and forecasting and meets the basic requirements for fiscal risk disclosure under the IMF's Fiscal Transparency Code."

The Report contained 10 recommendations leading to 34 actions which have been broken down to 105 steps to be carried out over 5 years. The Government established the Fiscal Transparency Project Steering Group to oversee the consideration of and, as appropriate, the implementation of these recommendations. The recommendations have been sub-divided and time-tabled into an action plan.

While progress has been made on a number of the recommendations surrounding budget coverage, statistical reports and accelerating the budget timelines, some of the more significant accounting changes are all interdependent on a number of other ongoing projects - the FMSS project, the European Commission's (EUROSTAT) European Public Sector Accounting Standards project and DPER's accrual accounting project. The FTA Steering Group is working in conjunction with these projects to ensure that when they are implemented they will be in keeping with the reforms envisaged by the report and will help Ireland reach best practice in fiscal reporting and forecasting. While this Department has a leadership role in respect of the FTA, at this juncture much of the onus for delivery is on DPER – notably accrual accounting. That Department has the legal responsibility, the associated powers and the relationships (with the Departments) in respect of public expenditure. Currently the Departments produce appropriation accounts, with accruals elements, for their Votes. While these conform to the required legal standard they are not fully in line with general accounting standards. Developments is this area are within the remit of DPER – not the Department of Finance.