

MINISTER'S BRIEF

SUPPLEMENTARY ITEMS

JUNE 2017



An Roinn Airgeadais
Department of Finance

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1 Latest Developments in the Housing Market

Overview

- While housing supply is recovering, it remains well below the level of projected demand, resulting in continuing pressure on house prices and rents.

House Price Developments

- In the 12 months to April 2017, house prices rose by 10.5 per cent nationally, the highest rate since May 2015. This compares with price growth of 5.8 per cent over the same period in 2016.
- In Dublin, the annual rate of residential property price inflation was 8.2 per cent in April 2017. However, prices remain 31 per cent below peak levels, having recovered some 68 per cent since their trough.
- Outside of Dublin, residential property prices increased by a sharper 13.4 per cent in 12 months to April 2017, but remain 35 per cent below their peak, having regained some 49 per cent since their trough.

Rental Market Developments

- According to the RTB, national rents increased by 7.4 per cent on an annual basis in Q1 2017 (when the standardised average national monthly rent was €987). The pace of annual rental growth outside of Dublin (7.6 per cent) has begun to exceed the pace of annual rental growth in Dublin (7.4 per cent). Rents in Dublin are now 8 per cent above their previous peak in Q4 2007 but remain below peak levels outside of Dublin.

Housing Starts and Completions

- From a supply perspective, the general picture is one of improving market conditions. Commencement notices – a measure of housing starts - increased by 37.6 per cent in the 12 months to March 2017 compared to the same period in 2016. ESB connections (15,684), a proxy (albeit imperfect) for house completions increased by 19 per cent in the 12 months to March 2017.
- However, the growth in both starts and completions continues to emanate from a very low base. Housing supply continues to lag significantly behind demographic demand which is estimated to be in the region of 30,000-35,000 units per annum.

Mortgage Market Developments

- Mortgage approvals for house purchases continue to strengthen having increased by 30 per cent in volume and by 42 per cent in value terms in the 12 months to April 2017.
- The number of mortgage drawdowns for house purchases increased by 12.6 per cent in the year to Q1 2017.

2 Budget Plans

Budget 2018

- The objective of Budget 2018 is to achieve the medium term budgetary objective (MTO) of - 0.5 per cent of GDP in 2018. This has been the anchor of fiscal policy since the preventive arm of the SGP began to apply in 2016.
- Budget 2018 is tentatively 'pencilled-in' for Tuesday October 10th with a formal decision to be taken by Government in due course. In line with the 'two-pack' requirements, the Draft Budgetary Plan (DBP) must be submitted to the EU authorities by October 15th.
- Budget 2017 projected €1.2 billion in available fiscal space for new 2018 expenditure & taxation measures. In nominal terms this would represent approximately €1.5 bn nominal spending package because of the impact of capital smoothing. Fiscal space calculations will be updated in the forthcoming Summer Economic Statement (SES).
- A headline general government deficit (GGD) of 0.1 per cent of GDP is currently projected for 2018. The debt-to-GDP ratio is expected to decline to 71¼ per cent by end 2017, which means we are on track to meet the 60 per cent debt-to-GDP ratio as mandated by the SGP early in the next decade.
- Budget 2018 will update the fiscal position for developments including *inter alia* Irish Water; potential sale of part of AIB and other relevant transactions including revised revenues forecasts & emerging spending developments.

2017 Developments

- For 2017 the central expectation in the Stability Programme Update (SPU) 2017 is that the deficit will decline to 0.4 per cent of GDP. The GGD was 0.6 per cent of GDP in 2016.
- SPU 2017 estimates the general government debt-to-GDP ratio fell to 75½ per cent by end-2016 and will ease further to 73 per cent in 2017. This has fallen from a peak of c. 120 per cent in 2012 and is comfortably below the estimated forecast for the euro area of 90.4 per cent for 2017.
- Tax revenues for the month of May closed the month 1.5 per cent or €76 million above target. As a result, the cumulative tax revenue shortfall has been reduced to 1.4 per cent or €268 million against profile, which represents a year-on-year increase of 2.9 per cent or €551 million.
- Total gross voted expenditure of €22,387 million to end-May was €274 million (1.2%) below profile.

Compliance with EU fiscal rules

- A structural budget balance of -1.2 per cent is projected for 2017, which represents a 0.3 pp improvement, (down from 0.8pp at Budget time).
- In 2017, the fiscal forecast indicates a small deviation under the expenditure benchmark, however the structural balance is now showing an improvement of just 0.3 pp, down from 0.8 pp at Budget time. This level of volatility is precisely why the European Commission has stated that the expenditure benchmark is more relevant for Ireland.
- Neither of these represent a significant deviation which would require corrective action. A significant deviation under either rule is defined as greater than -0.5 per cent either in a single year or cumulatively over two years.

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Section 29 of
the FOI Act
2014

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4 Summer Economic Statement

- The Summer Economic Statement (SES) sets out the Government's economic and fiscal strategy over the short and medium term. The analysis contained in the document is based on the macroeconomic assumptions that were set out in the SPU, submitted to the European Commission on 2nd May.
- The SES forms a key element of the reformed budgetary process by providing a policy background for the discussions in the Dáil and subsequently at the National Economic Dialogue on 28 and 29 June. It also includes a medium-term economic strategy and narrative.
- The SES provides an updated assessment of the fiscal space for subsequent discussion on budgetary priorities, and sets out a scenario for the application of that fiscal space which will ensure that our Medium Term Budgetary Objective (MTO) is achieved as planned in 2018. The statement complements the 2017 SPU, published earlier this year.
- The initial indications were that the SES would be published in mid-June, and this was noted in a PQ reply to Deputy Michael McGrath in early June. However, in view of the change in the composition of the government, this timetable is now under review, and a later publication date, in July, is now envisaged.

5 Irish Water

Current Budgetary Assumptions

- The current assumption re Irish Water domestic revenues for 2017 is based on the prevailing legal position as set out in the *Water Services (Amendment) Act 2016*.
- This suspended domestic charges to July 2017.
- Based on this an assumption c.€130 million (c 0.1% of GDP) Irish Water domestic revenues are included in the budgetary arithmetic for this year, and growing gradually thereafter.

Abolition of Charges

- The abolition, would reduce general government revenue by this amount and worsen the headline deficit by almost 0.1% of GDP for this year and 0.1% for subsequent years. This in turn would feed through to the structural balance. However, this could be partially offset by income from yet-to-be identified excessive use charges.

	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
Irish Water revenue €m	133	244	286	293	300
GG Deficit impact	0.05%	0.1%	0.1%	0.1%	0.1%

Fiscal Space

- In terms of fiscal space impact, a negative discretionary revenue measure of -€69 million was booked in 2016. This is differential arising from the fall in 2015 Irish Water domestic revenues of €123 million to an estimated €54 million in 2016.
- The impact on fiscal space in 2017 of the abolition of charges is -€54 million. For fiscal space the 'step change' between years is what counts, so the complete abolition of water charges would represent a negative DRM of -€54 million this year.
- However, there would be no impact upon the fiscal space from 2018 onwards as the 'step change' will have been booked.

Water Charge Refund

- A potential refund of the water charges would cost of the order of €170 million. In terms of treatment under the fiscal rules, we will make the case to the Commission that this should be treated as 'one off' under the expenditure benchmark and for the calculation of the structural balance.

6 Irish Economy

Macroeconomic outturn for 2016

- The preliminary estimate for full-year GDP growth in 2016 is 5.2 per cent (GNP increased by 9.0 per cent).
- Domestic demand made a strong positive contribution to growth in 2016 with consumer spending increasing by 3.0 per cent and investment by 45.5 per cent (however the latter was due mostly to the onshoring of intellectual property assets).
- On an underlying basis i.e. excluding contract manufacturing, both goods and service exports recorded very strong growth despite the weakness in sterling.
- Whilst the 2016 outturn is based on preliminary quarterly data which is highly volatile and prone to revision, the numbers provide clear evidence of continued momentum in the economy and are consistent with robust tax receipts and strong employment growth.

Economic Outlook: April Stability Programme Update 2017

- The Department of Finance published its most recent macroeconomic forecasts with the 2017 Stability Programme Update. GDP is forecast to expand by 4.3 per cent this year and by 3.7 per cent in 2018.
- Both net exports and underlying domestic demand – that is excluding the volatile components of investment spending – should contribute positively this year.
- The labour market should benefit accordingly, with further gains in employment and a reduction in the unemployment rate to 6.4 per cent for the year as a whole projected.
- The medium-term outlook has been adjusted to reflect a more adverse Brexit impact, in view of the latest available information about the UK's intentions in this respect.

Labour market developments

- Employment grew by 3.5 per cent (+68,600) over the year to Q1 2017, marking the 18th successive quarter of annual growth. The seasonally-adjusted monthly unemployment rate for May was 6.4 per cent, unchanged from April.

Risks to the outlook

- The balance of risk is firmly tilted to the downside, with the main risks on the external front. Principal among these are the UK's exit from the European Union and the uncertainty associated with the policy stance in the US.
- Regarding Brexit, the depreciation of Sterling has led to a loss of competitiveness (especially in 'traditional' sectors). Over the medium-term, research indicates that the decision could lower Irish GDP by 2.3 to 3.8 per cent below the counterfactual no-Brexit scenario.
- Domestically, the main risks relate to a potential loss of competitiveness, housing supply pressures and our concentrated industrial base, which leaves us exposed to firm and sector specific shocks.

7 Personal Tax Policy (income tax, USC, PRSI)

Tax Revenues:

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. In addition to these exchequer receipts, PRSI receipts to the Social Insurance Fund in 2016 amounted to €9 billion.

Tax Base:

Income tax revenues have taken on a more significant proportion of tax revenue raising since the financial crisis and property market collapse.

Up to Budget 2008, Government policy with regard to income tax was to increase tax credits and bands to the point where 40% of income earners were exempt from income tax, and only 20% of earners were liable to the higher rate of income tax. This progressive narrowing of the income tax base in the years leading up to the crash, followed by falls in income and rising unemployment as a result of the financial crisis, resulted in over 45% of income earners being exempt from income tax in 2010 and just over 13% being liable to the higher rate of income tax.

The income tax base was broadened significantly in the crisis through the curtailment of reliefs and the introduction of the broad-based USC. However increases to the USC entry threshold in Budgets 2012, 2015 and 2016 have narrowed the base. At present it is estimated that c.30% of income earners are exempt from USC, up from 25% in 2013. Approximately 37% of earners are exempt from Income Tax.

8 US Tax Reform

- 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).
- While a lower US tax rate may alter the competitive balance between the US and Ireland, it is unlikely to get near 12.5% and Ireland would remain competitive.
- 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.
- A border adjustment tax would be a much bigger concern for Ireland and the rest of the world as it would go against OECD principles. However it seems clear that this has very limited support from business and the Trump administration.
- The exact impact of any changes would depend on the nature of changes ultimately agreed and the Department is carrying out analysis of the potential impact of the various proposals.
- It is likely to be September at the earliest before any detailed proposal is released.

Q & A on US tax reform proposals announced by the Trump Administration – 26 April 2017

What have the Trump administration proposed in relation to corporate tax?

The announcements to date by the Trump administration have been light on detail but set out their core principles. These are:

- A reduction in the US corporate tax rate to 15% from 35%
- A one-off 'repatriation tax' on existing overseas profits of US multinationals. The proposed rate for this one-off tax was not announced. Trump's manifesto had proposed to set this at 10%.
- A move from a worldwide tax system which taxes US companies on their global activities to a territorial system which would only tax US companies on their activities that take place in the US.
- Eliminate tax breaks for 'special interests'. No details have been given for what tax breaks the administration has in mind to eliminate.

The measures announced also include changes in how domestic US businesses and individuals are taxed. In announcing the package, Secretary of the Treasury Steven Mnuchin said that the Trump plan is a massive tax cut combined with massive reform and simplification.

What is the one off repatriation tax?

Currently US companies are taxed on activities that they carry out abroad. However, the US tax due on their overseas income is only paid when the money is brought back to the US. It is widely recognised that US companies have kept significant amount of profits offshore to avoid paying this US tax.

The proposed one-off repatriation tax would treat these offshore profits as if they had been brought back to the US and tax them at a lower rate of 10%. It is only relevant for profits already earned and would not affect future profits. ***This tax would only relate to US tax due on overseas earning and would not reduce the amount of Irish tax paid by any US company operating in Ireland.***

Will US tax changes be damaging for Ireland?

The exact implications of US tax reform for Ireland, and the rest of the world, will depend on the exact nature of any changes which are ultimately agreed.

At this stage, we have yet to see the substantive detail of the overall package proposed by the Trump Administration. Agreement between the House of Representatives, the U.S. Senate and President Trump will be needed before any changes can be introduced. It also remains to be seen whether any reduction in the US corporate tax rate would be permanent or temporary in nature.

If the changes proposed by the Trump Administration were enacted, there would likely be a change in the relative competitive position of the US in attracting future investment. However, Ireland will remain a highly competitive location to invest in and do business from. US business will also still want to locate substantial operations within the European Union to benefit from access to the EU Single Market.

Will US multinationals leave Ireland as a result?

Even if the proposed changes were fully enacted by Congress, there is no reason to believe US business would relocate existing Irish activities back to the US where the tax rate would still be higher than the Irish tax rate.

For future investments, where Ireland is competing with the US as a potential location, significant tax cuts could change the relative competitive position of the US in attracting this future investment. However, Ireland will remain a highly competitive location to invest in and do business from. US business will also still want to locate substantial operations within the European Union to benefit from access to the EU Single Market.

In any event, if any reform proposals are introduced, they may ultimately differ substantially from those announced by the Trump Administration.

9 Brazil including Ireland on their Tax Blacklist

- Ireland remains on the Brazilian tax blacklist. Efforts continue to seek Ireland's removal from the list.
- Brazil has made clear to us that, while Ireland has been included on the Brazilian list of countries with favoured tax regimes, Ireland is not considered a tax haven by Brazil. Ireland has been included on this list on the basis that the 12.5% corporation tax rate is below 17%, the threshold set by Brazilian law.
- Our Ambassador in Brazil submitted a formal written request to the Brazilian Revenue in September 2016 for the listing to be suspended to allow discussions to take place between officials from both countries. This request was accompanied by a detailed explanation of the Irish corporate tax system outlining why Ireland should not be included on the list. Unfortunately, the Brazilian Revenue declined to suspend the listing but agreed to receive a delegation from Ireland to discuss this issue further.
- A technical delegation from the Department of Finance and Revenue met with Brazilian officials in March 2017 to seek a resolution to this issue. The issue was not resolved at this meeting and we remain on the list. Ireland's appeal remains under consideration pending a final decision from the Brazilian Revenue Secretary.

Review in Progress

During the debates in the Oireachtas on the Finance Bill 2016, the Minister for Finance agreed to commission an independent impact assessment on the effects of the HTB incentive on the supply of new homes, house prices and the residential property market generally. In April 2017, following a competitive tender process, Indecon Economic Consultants were commissioned to undertake the assessment. The review is due to be completed by 31 August and it is intended to share the report with the Oireachtas.

Cost

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

- As of 16 June, a total of 2,252 claims for HTB were lodged, of which, 1,679 have been approved at a cost of €24.5 million.
- It was estimated on Budget day that the cost of the incentive in 2017 would be approximately €50 million. This estimate takes account of qualifying homes that were purchased or built in 2016 also.
- The Revenue Commissioners publish regular updates on the uptake of the incentive on their website at <http://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/htb.aspx>
- The scheme is demand led and the cost will therefore vary with demand. Rumour or suspicion that the incentive is to be abolished could bring forward some purchasing decisions, subject to availability of qualifying properties.

Impact

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.

Progress to Date

- In its first year, TAC have published its annual report which was laid before the Houses of the Oireachtas, and it has submitted its Appropriation Account. TAC have advised the Department that it has been working on structures and systems and that it has recently published their governance arrangements on their website.
- During 2017, a number of actions have been taken to build the capacity in the agency. A Temporary Appeals Commissioner, Mr Conor Kennedy, commenced employment with the TAC on June 6th, with his primary role being to reduce the backlog of legacy cases. A post at Assistant Principal Officer level was filled which should facilitate process improvement and oversight. The Department has also seconded a Principal Officer to the post of Head of Administration. The Department will continue to engage with TAC with regard to resourcing requirements at TAC.
- In addition to these internal governance and administrative arrangements, the Department continues to strengthen its oversight, aligned with the Code of Practice for the Governance of State Bodies. In this regard, the Department has established a Liaison Group to facilitate engagement and provide a forum to engage with the TAC on its performance and administrative arrangements. The first of these meetings took place in April 2017 with the second meeting due to take place on June 22nd. As part of the Department's governance oversight role, an update on the progress of the work of the Tax Appeals Commission will be sought at this meeting. The TAC have highlighted an administrative issue for which they have sought legal advice. The Department has sought an update on this matter and will follow up at the next liaison group meeting tomorrow. The number of determinations published in 2017 appears lower than expected and an update on this matter will also be requested. In addition, a Memorandum of Understanding has been drafted and has been sent to the TAC for their consideration and input and the Department will also seek to advance this matter.
- Finally, there is a large backlog of appeals cases which have been transferred from Revenue. Recently, through the Public Appointments Service, who organised an open competition, we sought to recruit a number of Temporary Commissioners to assist with the arrears. One Commissioner was appointed from this process. You may wish to consider other options with regard to the selection of additional Temporary Commissioners to address the arrears and suggestions can be provided in this regard.

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Redacted under Sections 29, 30 & 33 of the FOI Act 2014

- Work on these areas cannot proceed beyond preparatory scoping until more information is available on the form and timing of UK exit. There are currently a number of arrangements with “3rd countries”- in relation to the tariffs and restrictions that apply to trade in goods. **The EU has no agreement with any country that allows goods to be imported without a customs declaration.** Only membership of the EU is regarded as sufficient assurance to allow customs formalities to be dispensed with.

- The best known arrangements are those with the EFTA countries (Norway, Iceland, Liechtenstein and Switzerland) and the arrangement with Turkey. The EFTA/EU border requires customs declarations and payment of VAT on imports, but most goods are free of customs tariffs and restrictions. EFTA countries also have access to the “single market” which includes services, and enables EFTA goods and services to be traded freely within the EU. In return, EFTA countries agree to be bound by relevant laws made by EU and pay a contribution to the EU budget.

- Turkey is part of a Customs Union with the EU. This has the effect that most industrial goods are tariff and restriction free once they pass through customs, pay the required VAT and show proof of origin. Turkey is bound to adhere to the EU customs law and is prevented from making bilateral trade deals. Turkey has no access to the single market for agricultural products and services.

- While Union goods may circulate freely, there are many situations where goods are destined for a member state other than the point of entry (e.g. goods arriving in Rotterdam destined for Ireland). Goods may also cross a non-EU state en route to another member state. A transit system, underpinned by guarantee, allows such goods to move with tax and duty suspended, to be paid on arrival at the destination state’s border.

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Redacted under Sections 29, 30 & 33 of the FOI Act 2014

13 Apple State Aid

Latest of **Recovery** of Apple State Aid

- Notwithstanding the appeal in the Apple State Aid case and the difference in view between Ireland and the Commission on the issue, the Government is committed to complying with the binding legal obligations the Commission's Final Decision places on Ireland.
- 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 on the recovery of State Aid.
- 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. Given the scale and bespoke nature of such a fund, the precise terms are still being negotiated and are subject to confidential and commercially sensitive deliberations.
- The Government is fully committed to ensuring that recovery takes place without delay and have committed significant resources to this matter. This work is being led by my Department but also involves officials from a range of State organisations including the Revenue Commissioners, the National Treasury Management Agency and the Attorney General's Office as well as external expertise.
- Irish officials are continuing this intensive work to ensure that the State complies with all our recovery obligations as soon as possible, and remain in regular contact with the Commission and Apple.
- Although the formal deadline has now passed, it is not unusual or uncommon for Member States to require more time for recovery and the Commission have acknowledged the complexity involved in our case.

Latest on **Appeal** in the Apple State Aid case

- The Government profoundly disagrees with the Commission’s analysis in the Apple State Aid case.
- An appeal is therefore being brought before the European Courts. Such an appeal takes the form of an application to the General Court of the European Union, asking it to annul the Decision of the Commission.
- The Attorney General prepared the legal grounds in support of the annulment proceedings and the application has been lodged in the General Court of the European Union.
- As is normal practice, a summary of these have been published in the Official Journal of the European Union. They were also published on the Department of Finance’s website in December 2016.
- As this topic is the subject of open legal proceedings, it will not be possible to comment further, in particular on any of the individual elements of the State’s legal case in defence of our position.
- This is important to ensure that we do not prejudice our own legal case.

Additional Point on Interventions (if raised)

- All Member States have legal standing to intervene in proceedings that go before the European Courts. I understand that Luxembourg (in support of Ireland) and Poland (in support of the Commission) have sought leave from the court to intervene in our case.
- Apple have also initiated their own distinct annulment proceedings in the court. As this is Apple’s own legal case, it is not appropriate to comment on any proposed interventions in their case but I can confirm that Ireland has intervened in that case to ensure that the best possible case for Ireland is presented to the court on all matters relating to the Apple State Aid Decision.

Apple State Aid Decision - **Government Five point Reaction**

1. The Government **profoundly disagrees** with the Commission’s analysis and had no choice but to take an **appeal** to the European Courts to annul the **whole Decision**.
2. Over 70% of the Dáil voted to support the Government decision to appeal in September 2016.
3. Ireland did not give favourable tax treatment to Apple. Ireland **does not do deals** with taxpayers.
4. **No fine or penalty** has been levied against the Irish State.
5. The European Commission has explicitly stated that “this decision does not call into question Ireland's general tax system or its corporate tax rate”. No other companies are subject to this Decision by the European Commission.

Brexit – EU Level

- The EU/UK negotiations started on 19 June.
- Michel Barnier is Chief Negotiator for EU27 and is operating on the basis of EU27 agreed negotiating guidelines and directives. He reports back to the European Council, Coreper and an ad hoc article 50 working group which meets twice weekly to prepare the Council's position.
- The negotiating guidelines include a paragraph outlining the 'unique circumstances on the island of Ireland', the need to support the peace process and the need to identify flexible and imaginative solutions with the aim of avoiding a hard border. There is further text in the directives on Ireland's 'unique geographic situation' including transit of goods issues.
- The guidelines foresee a first phase of the negotiations focusing on 'the disentanglement of the UK from the Union' – the Exit, and that the second phase would 'as soon as' the European Council decides that sufficient progress has been made in the first phase seek to identify 'an overall understanding on the framework for the future relationship'.
- The guidelines outline that in light of the progress made, the negotiations may also seek to determine transitional arrangements to bridge towards the future framework.
- At the meeting on 19 June, the EU and the UK agreed terms of reference for the negotiations: In the first 'Exit' phase, the items to be negotiated are citizen's rights, the financial settlement, and 'other Separation issues. In addition, a dialogue on Ireland / Northern Ireland has been launched under the authority of the Deputy Chief Negotiator, Sabine Weyand (EU) and Ollie Robbin (UK).
- In terms of the negotiation cycle, it was agreed that negotiation rounds will be organised once every 4 weeks. These will consist of plenary sessions and negotiating group meetings, with preparations, exchange of papers and reporting taking place in the 3 other weeks. There will be five negotiation rounds before the European Council in October.

Brexit – Department Actions

The Brexit Unit of the Department of Finance coordinates the Department's input on Brexit issues through the structures established by D/Taoiseach and through the Finance Counsellor in the Permanent Representation in Brussels. In particular in the first phase, the Department is involved in providing advice and analysis on issues relating to the Financial Settlement and is liaising closely with the Revenue Commissioners on customs issues.

At domestic level the Department continues to

- Frame budgetary policy advice in the context of an uncertain external environment.
- Participate in the whole of Government approach to Brexit including in the D/Taoiseach chaired Economy and Trade Workgroup, and the D/EI chaired Trade and Investment subgroup.

- Prepare policy advice for financial services priorities for a future framework with the UK, and to monitor developments and scrutinise current EU proposals to prevent changes which would negatively impact our financial services sector.
- Support the Irish Financial Services Sector through the IFS2020 strategy.
- Engage closely in discussions on potential financial stability risks. [E.g. reliance on UK market infrastructure]
- To examine additional SME/enterprise supports in conjunction with the D/EI and the SBCI e.g. Working Capital Guarantee Scheme; a Medium term Development Loan Scheme Fund; and a Financial Advisory Hub for SMEs.
- To support the bid for the relocation of the EU Banking Authority (EBA). On 13 June Minister Noonan published a brochure promoting Dublin as a new location for the EBA.
- Participate in the Revenue Commission chaired Customs and Excise workgroup examining policy responses in relation to Brexit.
- Deepen analysis on the financial impact of Brexit on the EU budget and UK contingent liability.
- Monitor relations with International Financial Institutions, including with regard to the EIB.

- A number of firms have announced their intention to establish operations in Ireland or expand existing operations
- Some firms have indicated to officials they will not be in a position to publically announce Brexit relocation activity due to political concerns

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Redacted under Sections 40(1) and 40(2) of the FOI Act 2014

- [Redacted]

• Officials continue to meet firms in respect of their contingency planning for Brexit.

- [Redacted]
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Redacted under Sections 40(1) and 40(2) of the FOI Act 2014

• We are aware that not all firms looking to relocate from London will move to Ireland. The decision on where to relocate operations is a matter for the boards of each firms. We are however confident Ireland will secure a number of these jobs.

- [Redacted]

Redacted under Sections 40(1) and 40(2) of the FOI Act 2014

However, it has to be recognised that while some decisions have and will go our way, others will not and we have to recognise this possibility. In effect, there will be an ebb and flow to this both for Ireland and other countries. Ireland has already received a large number of queries from businesses across the international financial services, including insurance, seeking to re-locate from the UK and we continue to work closely with companies to firm-up their plans and this includes authorisation as insurance or reinsurance undertakings.

The Government has made public declarations of its wish to host both the European Banking Authority and European Medicines Agency. The process proposed by the Commission in deciding the location for both entities is for Member States to submit their offers to host one or both by 31 July 2017. As only one of the Agencies (EMA or EBA) will be relocated to any one country, Ireland can only be successful in obtaining one.

On 13 June, the Government approved the publication of a document promoting Dublin as the new location of the EBA. The Department is now preparing the formal offer to host the EBA based on the criteria put forward by the Commission and this will be presented to the Minister and then Government for approval by mid-July. We are engaging with the Department of Health with regard their bid for the EMA to ensure consistency in both submissions and we will continue over the coming months to put forward the benefits of locating the EBA to Dublin to key stakeholders.

17 Future of the Economic Monetary Union

Reflection Paper on the Deepening of the Economic and Monetary Union published 31 May 2017

- The Commission's "*The Reflection Paper on the Deepening of Economic and Monetary Union (EMU)*" was published on 31 May 2017. It is likely that this paper will be discussed in more detail at Eurogroup in July and the informal Ecofin in September. The Paper sets out guiding principles for deepening the Economic and Monetary Union namely shorter term actions (pre the 2019 European Parliamentary Elections) and longer term potential measures (2019-2025).

Short term actions (Pre the 2019 European Parliamentary Elections)

- These actions include completing the Banking Union and delivering Capital Markets Union. The proposals to achieve these actions, are currently the subject of negotiations at Council Working party formations in Brussels. These proposals include significant risk reduction measures, a potential European Strategy for non-performing loans; a Common fiscal backstop for the Single Resolution Fund; a European Deposit Insurance Scheme and Delivering the Capital Markets Union actions.

Longer term measures 2019-2025

- The paper discusses a number of potential longer term issues for a more integrated Economic and Monetary Union and the future architecture of the EMU.

Potential measures for a more integrated Economic and Monetary Union

- These potential measures include the establishment of a Macro-economic stabilisation fund which could act as an automatic stabiliser in the area of unemployment assistance or investment infrastructure; the potential development of sovereign bond-backed securities/Eurobond; Changing the regulatory treatment of sovereign bonds; Strengthening the coordination of economic policy; the establishment of a Capital markets regulator and reinforcing links between national reforms and existing EU funding.

Potential measures for strengthening the EMU architecture

- The paper suggests a number of potential items for strengthening the EMU architecture such as further political integration such as a Eurozone Finance Minister, a Eurozone Budgetary capacity; unified external representation of the Euro Area; and reinforcing democratic accountability.

A policy paper with further details on these issues is being prepared for Ministerial consideration.

- **Sale of loans to “Vulture Funds”** – in 2015 the Consumer Protection (Regulation of Credit Servicing Firms) Act was introduced to protect customers whose loans are sold. The Act introduced a new regulated entity – a credit servicing firm – and ensures that borrowers retain the same level of consumer protection as they had prior to sale. Recently Sinn Fein introduced a Private Members Bill which seeks to regulate loan owners. In conjunction with the Central Bank, the Department is now considering the proposal.
- The SSM continues to pressure banks to sell non-performing loans.

19 Tracker Mortgage Examination

- 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 aim of the systems Examination is to ensure that all relevant lenders conduct a comprehensive and robust review of their tracker mortgage book to assess compliance with both contractual and regulatory requirements relating to tracker mortgages from the period they commenced providing tracker mortgage products until 31 December 2015.
- The Central Bank provided its latest update report on the tracker examination on 23 March last. In that update it indicated that, as at the end of February 2017, around 9,900 impacted accounts were identified as part of the systems wide Examination. This is additional to the further 7,100 impacted tracker accounts which were identified and resolved prior to the commencement of the system wide Examination.
- According to the recent Central Bank update, approximately €78 million has now been provided in redress and compensation to circa 2,600 impacted customers.
- The Central Bank has a wide range of supervisory and enforcement powers available to it, including the power to impose administrative sanctions. The Bank has advised that it will take appropriate supervisory action, including enforcement action against lenders and persons concerned in the management of those lenders where relevant, to ensure that fair outcomes are achieved for consumers where applicable regulatory standards are not met.
- The Central Bank has indicated that a further update on the Tracker Mortgage Examination will be published in autumn 2017 and that a final report will also be published after the conclusion of the Examination.

- The Joint Oireachtas FinPer Committee have now concluded their pre legislative consideration of the Bill and have produced a scrutiny report on the Bill. The Committee have agreed to temporarily hold off on referring the Bill to select committee stage while the Minister for Finance seeks the advice of the Attorney General on the Bill. Consultations between the Department and the Attorney General are ongoing.
- The Bill proposes to give the Central Bank certain powers in relation to variable interest rates charged by lenders on mortgages provided for the primary purpose of purchasing a principal dwelling home (PDH).
- The Bill would require the Central Bank to carry out assessments of competition in the PDH mortgage market at least quarterly. The Central Bank is then required to form a conclusion as to whether or not “market failure” exists. Where the Central Bank decides that market failure exists, the Bank may then issue directions to a specific lender or lenders in relation to variable interest rates that may be charged.
- The Bill also provides that a lender may not discriminate between existing and new borrowers but that defraying legal costs or stamp duty for new borrowers are not considered discrimination.
- The Minister understood and agreed with the intention behind the Bill to try to deliver lower mortgage rates; however, he raised concerns about the possible legal and constitutional implications of the Bill and that these would need to be considered as the legislative process progresses.
- The Minister also expressed concerns that the Bill may have unintended consequences in that it could reduce competition in the market and restrict the provision of mortgage credit to the most credit worthy borrowers. The Government remains of the view that competition represents the most favourable method of driving down interest rates in a sustainable way without giving rise to possible unintended consequences.

- **Mortgage Arrears** – The number of mortgage accounts for principal dwelling houses (PDH) in arrears has fallen for the last 15 consecutive quarters. The Government has implemented a suite of measures to support borrowers in mortgage arrears, including the introduction of the Code of Conduct on Mortgage Arrears, establishment of the Personal Insolvency Service, refinement of the Mortgage-to-Rent Scheme, the recent launch of the Abhaile Mortgage Arrears Resolution (Aid and Advice) Service and enactment of the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015. Last December, the Central Bank noted in its Report on Mortgage Arrears that there is a broad range of available restructures offered and delivered by both bank and non-bank entities depending on the individual circumstances of the borrower. They also noted that there is strong evidence that the banks and non-banks are looking to exhaust available options before moving into the legal process.

- **Banking news in the UK**
 - Serious Fraud Office has charged Barclays, its former chief executive and three other ex-senior executives with fraud related to the emergency cash injections that saved the bank from a government bailout at the height of the 2008 financial crisis.
 - The case stems from £322 million in fees Barclays paid Qatari investors for a loan as part of a wider £12 billion fundraising during the 2008 financial crisis to avoid a state bailout and a \$3 billion loan facility made available to the State of Qatar. The SFO has investigated whether these transactions were intended as undisclosed incentives for the Qataris to invest and whether the loan was secretly reinvested in the bank. The defendants will appear at Westminster Magistrates Court on 3rd July 2017

1. Cost of Motor Insurance – implementation of Actions and Cost of Motor Insurance stabilising

The Cost of Insurance Working Group's Report contains concrete recommendations which are supported by specific actions to help achieve implementation. The Government is confident that the report's 71 recommendations should be implemented by the end of 2018, with 45 due for completion by the end of this year.

Official data from the CSO over the last number of months suggests that the cost of motor insurance is stabilising. Indeed, May saw a decrease of 8.5% from last year's data. The belief is that the implementation of the Cost of Insurance motor report will make a difference to the pricing of insurance premiums over the next 18 months. We also believe that the Setanta judgment, by finding that MIBI is not liable to meet third party claims, removes a major uncertainty from industry, which it is expected would be reflected in pricing in the short to medium term.

2. Insurance (Amendment) Bill 2017

The failure of Setanta Insurance and the uncertainty that followed over the compensation arrangements for claimants has highlighted weaknesses with the current insurance compensation framework.

Arising from the Supreme Court decision on Setanta, the Department of Finance intends to bring certainty to the structure of the compensation framework in the future, particularly in the event of a liquidation of an insurer that is providing motor insurance in Ireland. Draft Heads of a Bill for amendments to the relevant Insurance Acts are being prepared for Government approval in the coming weeks.

When implemented this legislation will reflect the recommendations of the Review and will ensure 100% of third-party motor insurance claims will be covered in future, as well as providing greater efficiencies and oversight of the process, particularly with the involvement of the State Claims Agency.

3. Insurance (Amendment) Bill 2017

The purpose of the proposed Insurance (Amendment) Bill 2017 is to repeal and replace certain provisions of the Insurance Acts, to clarify the role of the Insurance Compensation Fund (ICF) in the wake of the Setanta ruling and to implement the recommendations of the Review of the Framework for Motor Insurance Compensation in Ireland which was endorsed by Government in July 2016. A draft Memo to Government plus Heads of a Bill are being prepared for Ministerial approval with a view to seeking Government approval in early July. When implemented this legislation will reflect the recommendations of the Review and will ensure 100% of third-party motor insurance claims will be covered in future as well as providing greater efficiencies and oversight of the process.

1. Reliance on UK Financial Market Infrastructure

Central Securities Depositories (CSDs) are specialist institutions used for the settlement of financial instruments. Ireland is currently the only Member State without a domestic CSD with entities such as the Central Bank and the NTMA using CSDs to settle various instruments in a number of other Member States. The Irish Stock Exchange however, uses a CSD (Euroclear UK & Ireland - EUI) in the UK to settle equities where it benefits from an economy of scale and similar laws & practises. When the UK leaves the EU, EUI will become subject to the Third Country regime in Central Securities Depositories Regulation (CSDR) which is the EU legislation governing CSDs and as such, will be reliant on an equivalence decision by the Commission. As it stands, if this equivalence is not granted before the negotiations end, or if no transitional period is put in effect, it would appear that EUI could not continue to service the Irish market as before under the requirements of the CSDR. This issue has been reported in the domestic press with the Irish times publishing an article on it in April. The Department are currently engaged with the Central Bank and the NTMA on this issue in order to ensure that there is a limited impact on Irish market participants from the uncertainty over the future relationship between the United Kingdom and the European Union.

2. Questions around payment of Setanta claims

The Office of the Accountant of the Courts of Justice and the State Claims Agency are working with the Liquidator to progress the making of payments. The Liquidator for Setanta has informed the Department that there are currently 324 claims ready for settlement and listed for inclusion in the next application for payment from the ICF, which will be subject to validation by the State Claims Agency. The State Claims Agency has assured the Department that it will act swiftly so that there will be no unnecessary delay caused by the validation process.

3. Questions about Sinn Fein Private Members Bill: The Consumer Insurance Contracts Bill 2016

This Bill 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.

24 AIB IPO (and use of funds)

Key Points

- The income from one-off revenue from divesting the State of its banking assets is treated as a financial transaction and is not counted as General Government revenue and therefore will not result in any beneficial impact on the General Government balance.
- This Governments policy has been consistent in that these proceeds should be directed towards debt reduction and to reduce the cost of debt servicing in future years. The strategy of reducing the national debt is consistent with Government policy of repaying borrowing previously undertaken to finance the bailout of the banking sector during the financial crisis

25 IBRC (in special liquidation)

Current Position:

- A fourth report on the progress of the Special Liquidation of IBRC was published in May 2017 and is available on the Department of Finance website
- 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.
- 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.
- 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 of Finance continues to engage with the Commission.

NAMA Performance

- NAMA has repaid €29.7bn (98%) of its original €30.2bn senior debt and fully expects to redeem the remaining €500m by the end of 2017, fully extinguishing the State's contingent liability three years ahead of schedule.
- NAMA also intends to redeem its subordinated debt in March 2020 and expects to return an estimated €3bn surplus to the State when it has completed its work.
- In the meantime, NAMA will continue to progress its three core areas of focus – deleveraging, residential funding programme and development of the Dublin Docklands SDZ.

NAMA Commission of Investigation

- On 13th June the Government agreed the order establishing the NAMA Commission of Investigation and selected Justice John Cooke to lead the Commission.
- The CoI is under the remit of the Department of Taoiseach and the former Minister for Finance and Department of Finance Officials are the subject of one of the terms of reference. Therefore, it is not appropriate to comment extensively.
- The terms of reference are available on the Merrion Street website and indicate an interim report will issue within 3 months of establishment.

- **Credit Unions** – the ReBo (Credit Union Restructuring Board) was established in 2012 and it completed its work in March of this year. It was involved in 82 restructuring projects involving 156 credit unions across 24 counties, with assets totalling circa €6bn (circa 38% of total credit union assets). The division will oversee the wind-down of ReBo over the coming months.
- **The Credit Union Advisory Committee (CUAC)** in its Review of Implementation of the Recommendations in the Commission on Credit Unions Report recommended the establishment of an Implementation Group (IG) for a specified period of time to oversee the discharge of its duties in a methodical manner. The IG was established a year ago. It meets on a monthly basis and is chaired by a senior official from the division.

- EIB/Ireland Financing Group, established as a joint initiative to increase EIB funding for infrastructure and enterprise projects, continues its work after a recent meeting in Luxembourg at end-May with a particular focus on measures to deal with the impact of Brexit on Ireland.

- Government “Financial Services and Pensions Ombudsman Bill 2017” due for Committee Stage on 29th June – this aims to amalgamate 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.
- 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 – scheduled for the Second Stage in the Seanad today Wednesday 21st June (a decision will be taken later on whether this will be simply the Second Stage or all Stages – update needed later today after Seanad votes on schedule for this evening)
- Asian Infrastructure Investment Bank Bill 2017 to give effect to Ireland’s membership of the Beijing-based multilateral development bank that aims to support the building of infrastructure in the Asia-Pacific region is scheduled for the Dáil Committee Stage on 4th July.