

Financial Stability Group Meeting No. 20

Financial Stability Group Meeting No. 20 14th November 2019 Department of Finance

Attendance:

Department of Finance

Derek Moran
Michael McGrath
Eoin Dorgan (Sec)

For Item 7:
Emma Cunningham

Central Bank

Sharon Donnery
Ed Sibley
Robert Kelly

For Items 2:
Kitty Moloney
Neill Killeen

NTMA

Conor O'Kelly
Frank O'Connor

1. Account of previous Financial Stability Group meeting and matters arising

The account of the previous Financial Stability group meeting was agreed.

2. Mapping Market-Based Finance in Ireland

The Central Bank presented a paper on market-based finance in Ireland, which set out:

- The sector has experienced rapid growth due to Ireland being a hub for these structures, which has led to the sector being large relative to the economy and globally significant;
- The sector's links to the domestic economy are increasing with funds now accounting for around one third of the estimated stock of investable commercial real estate;
- Key areas of risk focus that the Central Bank monitors include pockets of high leverage, the potential of liquidity mismatches, and the increasing issuances of collateralised loan obligations (CLOs).
- Further Central Bank publications on this sector will be forthcoming.

The FSG welcomed the Central Bank's work in this area and noted:

- That the developments in the sector warrant close monitoring by the agencies and should be discussed at the FSG at a periodic basis.
- The growth in the sector – while entailing benefits in terms of diversification of sources of financing – could also be a source of financial vulnerability, with relatively limited macroprudential tools available. However, a review is underway at EU level to consider potential tools; and
- Consideration must be given as to how this sector interacts with the wider EU Capital Markets Union agenda.

3. Financial Stability Review

The Central Bank presented an outline on the forthcoming Financial Stability Review (FSR), which is in preparation. The format will be broadly similar to the last publication, setting out the risks to financial stability, the resilience of the financial system, and the policy actions the Central Bank has taken to enhance that resilience.

The Central Bank set out some of the key elements of the FSR, including:

- In terms of the risks:



- The main risks to financial stability are primarily external in nature – including from the continuing risk of a disorderly Brexit and developments in global financial markets Domestically, an economy close to capacity and continued lending growth point to a continued gradual build-up of cyclical risk;
- The fall in global interest rates has mitigated short term debt sustainability risks but could lead to a build-up of medium term vulnerabilities; and
- In terms of resilience:
 - The resilience of the banking system is stronger than five years ago but profitability challenges are more acute;
 - Households and firms continue to improve resilience but are benefitting from low interest rates;
 - Sovereign resilience has strengthened but vulnerabilities remain; and
 - The resilience of non-bank finance in its current form has not yet been tested in a period of stress.
- In terms of policy actions taken, the FSR will include:
 - The outcome of the annual review of the macro-prudential measures;
 - Decisions on capital-based instruments, including the counter-cyclical capital buffer and the annual review of capital buffers for systematically important institutions.
-

The Central Bank set out that the target publication date is 4th December.

4. Brexit Update

The FSG recorded its thanks to officials in all three organisations who have worked extensively on Brexit preparations. The FSG noted that:

- The invocation of the FSG Crisis Co-ordination Framework had worked well and there were no suggested changes to the approach adopted;
- Brexit remains a live issue although both the Government's Brexit response framework and the Central Bank's internal structures have been stood down for the moment;
- The outcome of the UK election is awaited in determining next steps; and
- Government preparations are ongoing on the future relationship between the UK and EU, which will be the next stage of Brexit.

5. Central Securities Depositories (CSD) Update

D/Finance updated on the CSD project and set out:

- A draft of the CSD amendment Bill will be brought to Government next week and it is intended to complete passage through the Oireachtas by end year or end-January;
- D/Finance has and will continue to engage with the EU Commission to keep it up to date on progress.

Separately, the Central Bank noted that Euroclear Bank ICSD has announced its intention to join the Target2 System (T2S) platform.

6. Payments Failure Alert System

D/Finance presented an outline of a draft Retail Payments Failure Alert System.

7. Any Other Business

The key current risks and specific policy issues were covered under the Financial Stability Review agenda item and other agenda items respectively.

The FSG noted that the Minister will be visiting the Central Bank and NTMA in the coming weeks.