Financial Stability Group Meeting No. 70
5 September 2024
Location: Central Bank of Ireland

Attendance:

Department of Finance	Central Bank	NTMA
John Hogan (chair)	Gabriel Makhlouf	Frank O'Connor
Oliver Gilvarry	Sharon Donnery	Dave McEvoy
Michael McGrath	Vasileios Madouros	
Des Carville	Mark Cassidy	
Fiona Ralph (Sec)	Patrick Haran	
Niall O'Sullivan (item 4)	Conor O'Shea	
Karen Cullen (item 4)	Mary-Elizabeth McMunn (item 3)	
Brian Corr (item 4)	Emmet O'Sullivan (item 3)	
Gillian Naughton Murphy (item 5)	Cian Murphy (item 4)	
	Yvonne McCarthy (item 5)	
	Phillip Brennan (item 5)	

1 Account of previous Financial Stability Group meeting

The minutes of FSG on 29 May 2024 were approved.

2 Tour de table

CBI

- ECB monetary policy meeting to take place next week.
- CBI quarterly bulletin will be published in two weeks, which will include focus on housing issues.
- Further events towards year-end include the Financial Stability Review, annual meetings, IMF Article IV visit.
- Note Ireland and other EU Member States' budgets will be announced in coming weeks in first year of new economic governance framework
- Noted August market volatility.
- Noted global IT outage in June, which demonstrated resilience in IE systems
- CBI organising seminar with industry on flood protection gaps

NTMA

- Irish sovereign bond issuance of EUR 5bn to date, at average 2.75 yield and 12-year maturity. Next auction planned for next week
- Green bond allocation and impact report will be published in coming weeks
- Continue to work with DFIN on budget 2025.
- Positive outlooks/upgrades from ratings agencies in recent weeks.
- Investor relations – roadshows scheduled for Paris, Nordics, Dublin, Toronto, Ottawa, virtual in Asia
- NTMA hosting Global Borrowers Forum in June 2025
- NAMA wind-down work ongoing
- Future Ireland Funds – interim investment strategy approved for the two funds. Work ongoing to establish an investment committee to oversee the funds, and to

expand the NTMA board by two members. Monies in the National Reserve Fund to be transferred to the two new funds and dissolved.

DFIN

- Budget under development
- Exchequer figures just published, showing tax and spending increases
- Funds review – Minister considering report and recommendations, aiming to publish in October
- Motor insurance directive transposition passed Dail, due to go to Seanad in late-Sept/early Oct
- Credit unions – regular interaction between sector and Minister of State and Minister for Finance. Lending limits raised frequently.
- AIB shareholding further reduced last week, down to 22%. Examining options to further reduce in line with govt policy
- IBRC/NAMA wind-down.
- Mortgage Arrears Group report published this week.

3 Crypto-asset developments

Overview from CBI

- Note that there are data challenges associated with monitoring the crypto sector
- Market is volatile but showing strong growth, with the main players bitcoin, ethereum, and stablecoins
- Important to keep eye on developments in US and potential different directions
- Low crypto adoption in Ireland, 8%, concentrated in males 18-34.
- Currently VASP regime limited to AML/CTF. Expect many of these to apply to register as CASPs under MiCAR regime, allowing them to access wider EU from IE (or vice versa).
- CBI working closely with European peers.
- CBI's risk appetite has been communicated to sector, noting caution around profitability driven by speculation.
- Potential for spillover into mainstream financial sector ((Multifunction Crypto-asset Intermediaries (MCIs), stablecoins)).
- Conclusion: limited crypto-asset use in Ireland. Most likely risks for financial stability come from MCIs, stablecoins. MiCAR allows some mitigation but not full. Global efforts needed for regulation to address financial stability risks, however risks remain limited at present.

Discussion covered:

- Consumer protection and education
- Nature and activities of firms seeking registration
- MiCAR impacts
- Location of registration and passporting, regulatory arbitrage/supervisory convergence
- Actions of European supervisors to date

4 Funds sector developments

Overview from CBI:

- Systemic risk in funds continues to be considered in international and European bodies

- European Commission consultation on adequacy of macro-prudential rules for NBFIs, Bank to provide input
- Took domestic action in relation to leverage & liquidity mismatch in property funds and also vulnerabilities amongst GBP-denominated liability driven investment (LDI) strategies. Impacts to be analysed over time.
- Feedback statement to discussion paper on macroprudential rules in NBFIs published.

Discussion covered:

- Hedge funds – challenges to define hedge funds and evolution of their activities/strategies
- International regulatory efforts on NBFI sectors, different views among jurisdictions and supervisory bodies (distinction between macroprudential and investor protection perspectives)
- Need for precision in language in public fora
- The existing supervisory powers over this sector
- Commission consultation and IE authorities responses
- How macroprudential policies for NBFIs could be supportive of the broader CMU agenda

5 Climate including FSAP recommendations

CBI presentation

- Financial stability issues arising related to climate change
- Physical and transition risks
- Physical – flooding a particular risk for Ireland. Ireland's financial system is exposed to flooding of seas and rivers. IMF 2022 climate stress test found non-trivial depletion of bank capital in a severe flooding event.
- Transition – costs of getting to net zero depend how smooth that transition is
- Projections from NGFS on impacts of reaching and not reaching net zero by 2050
- Increasing data on household exposure to climate and impact on banks
- Looking at Irish exposure to transition risk – relatively high compared to EU counterparts
- FSAP recommendations and efforts to address them, including through DFIN-CBI engagement [at Climate Economy Group]

Discussion covered

- Supervisory approach on climate, how climate is captured compared to other risk elements
- Data used, international financial services sector and where risk is allocated
- Government efforts on physical and transition risks

6 AOB