Managing Financial Stability in Ireland

Comments by John Hurley, Governor of the Central Bank and Financial Services Authority of Ireland, at the Banque Centrale du Luxembourg on the occasion of the publication of its Financial Stability Review

Monday, 28 April 2008

It is a great pleasure to be here today at the launch of the Financial Stability Review and on the occasion of the 10th Anniversary this year of the creation of the Banque Centrale du Luxembourg. I would like to thank Governor Mersch for the invitation to speak about arrangements for managing financial stability in Ireland.

As you may be aware, for the last five years, the Central Bank and an autonomous Financial Regulator have operated together in Ireland within the one organisation – the Central Bank and Financial Services Authority of Ireland. There were various reasons behind this choice of structure. A key consideration was the sharing of responsibility for financial stability, realising the synergies that existed between the central banking and financial regulation functions. Other advantages included optimising the use of technical skills, benefiting from economies of scale in the provision of shared services and promoting communication between both areas.

A key consideration was the sharing of responsibility between the Central Bank and the Financial Regulator for financial stability.

The new organisation was notable for two reasons. First, it established a single financial services regulator. The second notable aspect of the new organisation was the location of the Financial Regulator within the broader Central Bank and Financial Services Authority of Ireland. This reflected the fact that, prior to the re-organisation, the Central Bank had been the main locus of expertise in these supervision activities in Ireland.

The end result is an organisation that consists of two constituent parts, each with their own responsibilities. Both sides are bound together, however, by integrated membership of the Central Banks' board of directors and the Financial Regulator's corresponding Regulatory Authority.

Although both parties have their own responsibilities, there is a shared high-level objective of contributing to financial stability. The Central Bank has an explicit legal mandate, in both domestic legislation and under the Maastricht treaty, to contribute to financial stability both in Ireland and across the euro area. The Financial Regulator contributes to the work of the Central Bank in discharging its responsibility in relation to the maintenance of overall financial stability.

It makes this contribution in two broad ways. First, it maintains confidence in the solvency and safety of individual institutions. Second, it protects and informs consumers. Although the Central Bank's and Financial Regulator's roles in contributing to financial stability are different, they are complementary and combine to deliver a comprehensive approach to stability issues.

There are various joint initiatives between the Central Bank and Financial Regulator, where our technical expertise is pooled. Examples of this co-operation include our regular macro-economic stress-testing exercises and publication of the Financial Stability Report; a regular programme of joint meetings of Central Bank and Financial Regulator management with the senior executives of our major banks; and, finally, the parties cooperate fully in their participation in international fora on financial stability issues. There is also a memorandum of understanding between the Central Bank and Financial Regulator on financial stability issues. Under this agreement, the Central Bank contributes to stability through the formulation of monetary policy, oversight of the financial system infrastructure, surveillance of the financial system, and undertaking any official financial operations that might be required in exceptional circumstances. For its part, the Financial Regulator makes its contribution through its prudential and consumer roles.

In addition, a separate joint management committee was established to deal solely with the stability issues. The Financial Stability Committee is the main forum where senior management from both the Central Bank and Financial Regulator meet formally to consider financial stability issues. However, in practice, staff at all levels of the organisation come together regularly in an informal way to discuss these matters and to undertake joint work.

Publication of the Financial Stability Report is one of the ways in which our organisation contributes to financial stability on an on-going basis. A key element of the Report is that it represents the joint views of both the Regulator and the Bank. It is our hope that the wide-ranging analyses in these Reports encourages dialogue among the wider public on financial stability issues and conveys the importance of a stable financial system. In addition, the Central Bank and the Financial Regulator jointly hold round-table meetings with senior executives of the main domestic credit institutions as early as possible after publication. The aim of these meetings is to focus attention on the key risks outlined in the Report.

A key area where co-operation between the Central Bank and Financial Regulator has proved most useful is in respect to financial crisis management. The organisation is constantly developing its procedures to deal with potentially disruptive events and this is very much a joint effort between both parties. The Central Bank and Financial Regulator have held joint crisis simulation exercises and, more recently, these have involved the participation of officials from the Irish treasury. This is in addition to the normal Domestic Standing Group arrangments

This co-operation between both the Central Bank, Financial Regulator and Treasury Department leaves us well placed to meet the objectives set out in the international memoranda on crisis management issues – where the sharing of information and expertise at national level would be important to the handling of any cross-border financial crisis.

In summary, financial stability considerations were key in the design of the organisation. This choice of organisational structure reflected the shared high-level objective of contributing to financial stability for both the Central Bank and Financial Regulator. The end result is an organisation with a cohesive and comprehensive approach to financial stability issues.

Many thanks for your attention today.

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