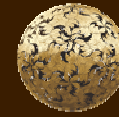


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CENTRAL BANK &
FINANCIAL SERVICES
AUTHORITY OF IRELAND

Arrangements for Managing Financial Stability: The Irish Case

Governor John Hurley



Brief History of Central Bank and Financial Services Authority of Ireland

- 1927 – Currency Commission established
- 1943 – Central Bank of Ireland replaced Commission
- 1971 – Responsible for licensing and supervision of banks
- 1979 – Entry into European Monetary System and long-standing link with sterling broken
- 1999 – Member of the Eurosystem
- 2003 – Central Bank and Financial Services Authority of Ireland Established



A Single Financial Regulator (2003)

Pre-2003 Many Regulatory Agencies

- Central Bank
 - Banks/credit institutions (1971)
 - Money brokers, IFSC firms (1989)
 - Unit trusts (1990)
 - Investment firms (1991)
 - Investment intermediaries (1992)
 - Stock Exchange & member firms (1996)
 - Bureau de change (1997)
 - Insurance intermediaries (2001)
- Government Department
 - Insurance companies
- Registrar of Friendly Societies
 - Credit unions (cooperatives)
- Office of Director of Consumer Affairs
 - Mortgage intermediaries
 - Money lenders
 - Consumer issues

*2003 Onwards –
Single Financial
Regulator*

Slide 2

A Single Regulatory Authority with Autonomous Powers, Located within the Central Bank

- Two constituent parts, each with own responsibilities
- Joint representation of directors on both the CBFSAI Board and Regulatory Authority
- Central Bank Responsibilities:
 - Maintenance of price stability
 - Monetary policy operations
 - Contributing to financial stability
 - Oversight of payments systems
 - Printing and issuance of notes and coins
 - Management of assets
- Financial Regulator Responsibilities:
 - Prudential regulation and inspection
 - Consumer protection and information



Shared Responsibility for Financial Stability

- Both CB and FR have own responsibilities, but share a goal of contributing to a stable financial system
- Central Bank:
 - Domestic legal mandate to contribute to financial stability
 - As part of Eurosystem, a mandate to contribute to financial stability across the euro area
- Financial Regulator:
 - Maintain confidence in the solvency and safety of individual institutions
 - Consumer protection and information



How the CBFSAI contributes to Financial Stability

- Central Bank Role
 - Formulation of monetary policy
 - Monetary policy implementation & liquidity issues
 - monitoring liquidity flows of banks, monitoring banks' holdings of eligible collateral, provision of liquidity
 - Oversight of payments and settlements systems

- Regulatory Initiatives
 - Capital and liquidity requirements
 - Inspections of regulated firms
 - Consumer protection codes and information

- Joint Initiatives
 - Macro-economic stress-testing exercises
 - Publication of Financial Stability Report
 - High-level dialogue with financial sector
 - Joint representation at international committees
 - Crisis management initiatives

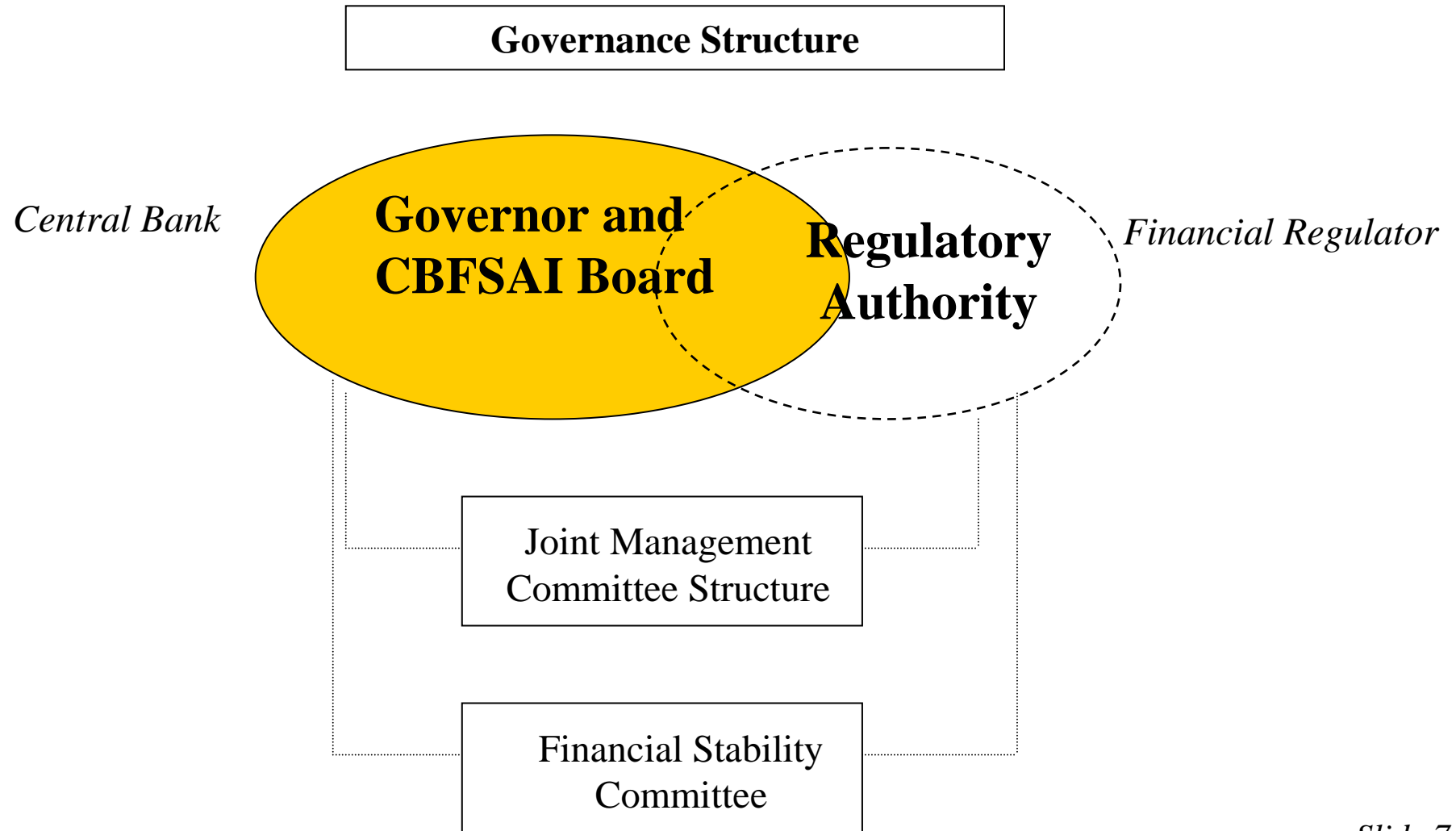


Explicit Legislative Link on Financial Stability Issues

- Explicit recognition in domestic legislation of link between Governor and Financial Regulator on financial stability issues
- Legislation contains the following provisions:
 - Financial Regulator must consult with the Governor on matters relating to the stability of the financial system (including the issue, revocation & suspension of banking licences)
 - The Regulator may act on these matters only with the agreement of the Governor
 - The Governor can issue guidelines to the Financial Regulator on its policies and principles



How does the CBFSAI work in practice?



How does the CBFSAI work in practice?

- Governor
 - Responsible for Eurosystem functions
 - Chairman of CBFSAI board of directors
- CBFSAI Board
 - 12 members - 6 of whom are also members of the Regulatory Authority
 - Both the CBFSAI Board and the Regulatory Authority meet together on financial stability matters
 - Regular monthly briefing on regulatory issues
- “Matters of Joint Interest”
 - Joint management committee structure to deal with these
- Financial Stability Issues
 - Memorandum of Understanding on financial stability issues
 - Financial Stability committee



Internal Memorandum of Understanding on Financial Stability Issues (2003)

- Principles of cooperation between the Central Bank and the Financial Regulator on financial stability matters
- Clarifies responsibilities of the parties in contributing to financial stability
- 3 Guiding Principles govern cooperation
 - i) clear accountability and transparency
 - ii) no duplication
 - iii) data and information exchange



Financial Stability Committee

- Established separate joint management committee to consider financial stability issues
- Comprises senior executive board members of the Bank and Financial Regulator
- This committee is chaired by the Director General of the Central Bank



Financial Stability Report

- Report reflects the joint views of both the Central Bank and the Financial Regulator
- Product of extensive cooperation between the Central Bank and the Financial Regulator
- Message agreed by joint meeting of CBFSAI Board and Financial Regulatory Authority
- Press conference
 - Report launched by Governor
- Annual round-table meeting with credit institutions to discuss key issues raised in the Report



Financial Crisis Management

- Procedures to deal with potentially disruptive events agreed between Central Bank and Financial Regulator
- CBFSAI represented jointly in Domestic Standing Group, comprised of Central Bank, Financial Regulator and Treasury Department
- Joint crisis simulation exercises
- ECOFIN Memoranda of Understanding (2003, 2005, 2008)



Summary

- Central Bank and a single Financial Services Authority located within one organisation
- A unified approach to regulation by the Financial Regulator, within the CBFSAI
- Financial stability considerations were key in the design of the organisation
- Both parties have a shared goal of contributing to financial stability
- Legislative requirement for Financial Regulator to consult and to obtain the agreement of the Governor on financial stability issues
- Result is a joint approach to financial stability issues



Thank you

