CENTRAL BANK OF IRELAND **Circulated to Commission Members**

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FOR INFORMATION

BREXIT TASK FORCE: SEPTEMBER 2018 UPDATE

Brexit Task Force

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Executive Summary

- Following the European Council meeting on 28-29 June, the EU27 Leaders expressed their concern that substantial progress had yet to be achieved on agreeing a backstop solution for Ireland/Northern Ireland. The Council also stressed that work had to be accelerated with a view to preparing a political declaration on the framework for the future relationship and called for clarity and "realistic and workable" proposals from the UK, while also calling upon Member States and EU institutions to step up their work on preparedness.
- Official negotiations resumed on 16 August following the summer recess. On the pace and process of negotiations, Mr Barnier noted on 21 August that these would now move to a situation of continuous negotiations. On 11 September, speaking in Slovenia, Mr Barnier noted that a deal on the first stage of the negotiations, the Brexit Treaty, might be achievable within 6-8 weeks.
- On 5-6 July, the UK Cabinet convened at Chequers to discuss Brexit and the publication of a UK White Paper. This meeting and the subsequent publishing of the UK White Paper on 'the Future Relationship between the UK and EU' (12 July) led to the resignations of Foreign Secretary Boris Johnson and Secretary of State for Exiting the EU David Davis among others. These were replaced by Jeremy Hunt and Dominic Raab respectively.
- The current political dynamic in the UK appears challenging as shown in a number of Parliamentary votes regarding amendments to Brexit-related legislation. It is widely speculated that any progress in the negotiations is dependent on the UK political situation, with limited further progress foreseen until after the Party Conference season in early October.
- Projections for UK economic growth produced by the Bank of England in its August 2018 inflation report are broadly unchanged compared to the previous quarter. At its meeting on 1 August 2018, the Bank of England MPC voted to increase the Bank Rate by 25 basis points to 0.75 per cent. CPI Inflation was at 2.4 per cent in June 2018 and 2.6 per cent in July, above the inflation target of 2 per cent. The central expectation in UK financial markets is for the Bank of England to raise its policy rate once more by end-2019.
- The London commercial real estate market has continued to perform strongly, with strong capital and rental growth recorded. However, survey evidence indicates that a significant majority of market participants are of the opinion that the market is now in a downturn. House prices have been broadly stable on a UK-wide basis over the past 18 months or so while mortgage activity has been broadly flat.

- Since the June report, sterling has weakened by over three per cent on a trade-weighted basis, driven mainly by increased Brexit uncertainty. Against the euro, having reached a peak of just under €1.16 earlier in the year, sterling has fallen back to €1.1065, not far off the August 2017 tough when UK economic data was weaker.
- For the Irish economy, the Bank's recently released forecasts assume no disruptions arising from Brexit negotiations over the period to end 2019. Alternative outcomes involving a sudden or disruptive UK departure is a clear downside risk particularly for indigenous sectors. To date the main Brexit impact has been felt via a weaker sterling exchange rate and the pass through to consumer prices.
- The latest trade and output data show some weakness of food production and food exports to the UK, particularly in volume terms.
- Population and migration estimates show tentative signs of Brexit effects. Since the referendum, outward flows to the UK from Ireland have slowed significantly while flows from the UK to Ireland have continued to increase.
- According to the latest EY Brexit tracker, Dublin has become the most popular post-Brexit location for UK firms. It remains to be seen what the ultimate magnitude of job migration from London will be in a post-Brexit scenario. Analysis of the office space in Dublin currently under construction and due to come on stream over the next three years suggests that a lack of quality office capacity will not be a constraint on UK firms locating here.
- The impact of Brexit on the Irish banks remains benign at present, with no material impact reported on funding/liquidity or credit quality.
- Banking Supervision is finalising a deeper assessment of Brexit-related risks across Significant Institutions ('SIs') and Less Significant Institutions ('LSIs'). This assessment […]. It will inform engagement with banks and other stakeholders over the coming months. This assessment is complemented by on-going assessment and targeted analysis within the Single Supervisory Mechanism ('SSM').
- Banking Authorisations is currently processing […] Brexit-related applications, including […] banking licence applications and […] applications relating to the expansion of activities of existing credit institutions licensed in Ireland.
- Engagement is on-going between the Irish authorities (Department of Finance (DoF), NTMA and the Bank) on the long term solution for the settlement of Irish corporate securities.
- [Omitted due to confidentiality]
- [Omitted due to confidentiality]

- The Insurance Directorate has categorised Brexit plans into standard and non-standard approaches. Through the Brexit platform, bilateral engagement with UK & Gibraltar regulators the Central Bank becomes informed of the progress and implementation of UK and Gibraltar undertakings Brexit plans.
- A high level overview of the Brexit-related authorisations pipeline across all financial sectors is provided in Section 5.
- An update of Central Bank engagement on Brexit issues at European level is provided in Section 6. In cooperation with competent authorities, the EBA has been monitoring the level of contingency planning undertaken by financial institutions with respect to Brexit. It is of the view that this planning should advance more rapidly in a number of areas and published an Opinion on preparations for Brexit on 25th June 2018. [.....] the Central Bank issued a statement on 31st July welcoming its publication as well as the communications issued by the other ESAs.
- EIOPA published an Opinion on 28 June on the obligations of insurance undertakings and insurance intermediaries to inform customers about the impact of the withdrawal of the UK from the EU. The aim of the Opinion is to remind NSAs about the duty of insurance undertakings and intermediaries to inform customers about the possible impact of the withdrawal of the UK from the EU on insurance contracts and of the relevant contingency measures taken by insurance undertakings and about the continuity of their contracts.
- In July ESMA issued a public statement in order to raise awareness among market participants of the importance of preparing for the possibility of no agreement. [Omitted due to confidentiality].
- The Special Topic provides an overview of different types of customs union arrangements between the EU and the UK based on current proposals, and maps them into the negotiators' red lines. Each proposal gravitates around the definition of a customs union and crosses some red lines imposed by a party in the negotiations.

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1. Introduction[1]

Following the Brexit referendum, the Central Bank's Financial Stability Committee (FSC) requested that a Task Force on Brexit implications be established on a permanent basis to monitor and assess developments in this area. The Brexit Task Force (BTF) provides updated information regarding political, economic and financial market developments, risks arising for firms supervised by the central Bank and issues arising for the Central Bank itself, in particular with respect to authorisations. Furthermore, each report selects a number of issues or policy questions related to Brexit and provides an in-depth examination of these areas.

This ninth BTF Report follows the seventh meeting of the Task Force on 27 August. The layout of the Report is as follows. Section two provides an update on political developments, the performance of the UK economy and property market and financial market movements over the past three months. Section three discusses the changes to the outlook for the Irish economy and property market in the context of Brexit. Section four provides an overview of latest developments in relation to banks, insurance and asset management firms, payments institutions and market infrastructures. Section five contains information relating to queries received by the Central Bank in relation to potential applications for authorisations. In section six an overview of the work conducted by the various European Supervisory Authorities, the ECB and the SSM in relation to Brexit, including an overview of the participation of Central Bank staff in this work is presented. The special topic provides in-depth analysis on alternative customs union arrangements.

2. Political and Market Developments

2.1. Political Developments[2]

2.1.1. Article 50 Negotiations State of Play

On 28-29 June, the Heads of State and Government of the EU 27 held discussions on Brexit as part of the June European Council (EUCO).

[1] The following Divisions and Directorates are represented on the Brexit Task Force: AMSD, AMAI, BSAD, CPSU, FMD, FRG, MFD, GSD, IEA, IR, LEG, SMSD, INSA, MPD, ORD, Risk, SRD, PSSD, RES, RCU. The Chair is the Director of Economics and Statistics, the Vice Chair is the Head of the Macro-Financial Division (MFD) and the Secretariat is provided by MFD (Shane Byrne and Sofia Velasco) and STSD (Andrew Hopkins).

[2] Our thanks to the Department of Finance for providing the background information on the latest political developments.

The Council welcomed the further progress made on parts of the legal text of the Withdrawal Agreement, however the EU27 Leaders expressed their concern that substantial progress had yet to be achieved on agreeing a backstop solution for Ireland/Northern Ireland. The Leaders also noted that other important aspects still need to be agreed, incl. Governance, Geographical Indicators and the territorial application of the Withdrawal Agreement, notably as regards Gibraltar.

The Council also stressed that work had to be accelerated with a view to preparing a political declaration on the framework for the future relationship and called for clarity and 'realistic and workable' proposals from the UK, while also calling upon Member States and EU institutions to step up their work on preparedness.

On 5-6 July, the UK Cabinet convened at Chequers to discuss Brexit and the publication of a UK White Paper. This meeting and the subsequent publishing of the UK White Paper on 'the Future Relationship between the UK and EU' (12 July) led to the resignations of Foreign Secretary Boris Johnson and Secretary of State for Exiting the EU David Davis among others. These were replaced by Jeremy Hunt and Dominic Raab respectively.

On 27 July, Barnier and Raab held their first joint press conference, during which Barnier described the negotiations as constructive, but outlined that there were two main challenges to be overcome in the coming months. First, that there needs to be agreement on the outstanding Withdrawal Agreement issues, including the Ireland/Northern Ireland protocol 'the backstop'. Second, that there must be agreement on a political declaration for the Future Relationship.

On 2 August, Barnier reiterated these points as part of an Op–Ed piece published in a number of EU newspapers and on the Commission Taskforce website.

Barnier wrote that first, there is a need to make sure that the UK's exit is orderly and the need to agree on outstanding elements of the Withdrawal Agreement, such as the protection of 'geographical indications' and that 'the biggest risk caused by Brexit is on the island of Ireland. He wrote that since we will not know what the future relationship will bring by Autumn 2018, we need to have a "backstop" solution in the Withdrawal Agreement.

Barnier then commented that there is a need to agree on the terms of our future relationship. Commenting on the UK White paper he commented 'that some UK proposals would undermine our Single Market which is one of the EU's biggest achievements. The UK wants to keep free movement of goods, but not of people and services. It proposes to apply EU customs rules without being part of the EU's legal order. Thus, the UK wants to take back sovereignty and control of its own laws, which we respect, but it cannot ask the EU to lose control of its borders and laws'.

Barnier outlined that ‘the EU has offered a Free Trade Agreement with zero tariffs and no quantitative restrictions for goods. It proposed close customs and regulatory cooperation and access to public procurement markets, to name but a few examples.

On 16 August, negotiations resumed at official level, following the summer recess. The state of play remained as outlined above, and was confirmed during the press conference which followed on 21 August with both Barnier and Raab making short press statements. On Ireland, Barnier again underlined the need for a legally operative backstop in the Withdrawal Agreement and to find pragmatic solutions in line with the commitments made by PM May in December 2017 ‘Joint Report’ and March 2018 ‘Draft Withdrawal Agreement’. He also pointed to the need to “de-dramatize” the issue and to spell out which controls are needed and where and how these should be carried out. More broadly, Barnier stated that more progress is also needed on agreeing to a framework for the future economic relationship. On the pace and process of negotiations, also noteworthy, was the fact that Barnier suggested that these would now move to a situation of “continuous negotiations”.

SoS Raab commented that the UK had reaffirmed its commitments to the undertakings set out in the Joint Report but noted that “we must come up with solutions that are deliverable for the communities affected”. He agreed that there are “still significant obstacles to overcome on Northern Ireland”.

On 31 August, following a further round of negotiations. Barnier and Raab again held a joint press conference. In his press statement, Barnier noted that this round had discussed Withdrawal Agreement and Future Relationship issues including geographical indicators, data protection, security cooperation (internal and external) and the Galileo Satellite navigation system. Barnier said that Euratom, Union procedures and Governance will be the subject of discussions over the coming weeks. Barnier again noted that progress must be achieved on the Northern Ireland backstop stating that “it is urgent to work on the text of an operation backstop” and that he has requested that the UK provide necessary data for technical work on the “nature, location, and modality of the controls that will be necessary”. Barnier reiterated that the backstop is critical to conclude the negotiations.

2.1.2.UK Developments

[Omitted due to confidentiality.]

2.1.3.Irish Developments

[Omitted due to confidentiality.]

1.1.1. Next Steps

[Omitted due to confidentiality.]

1.2. UK economic and property market developments

1.2.1. Macroeconomy

At its meeting on 1 August 2018, the MPC voted to increase the Bank Rate by 25 basis points to 0.75%.

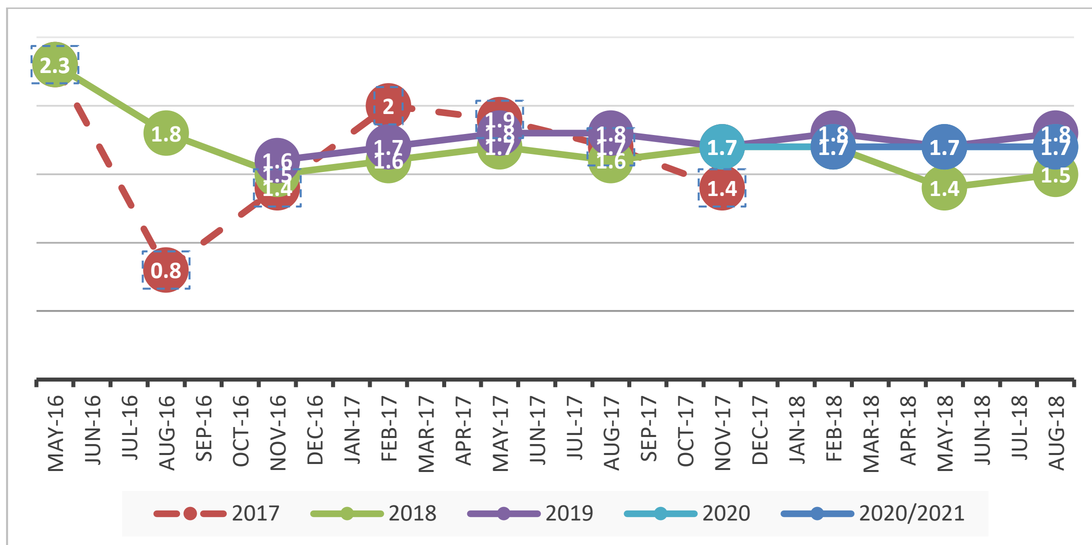
CPI Inflation was at 2.4% in June 2018 and 2.6% in July, above the inflation target of 2%. Domestic factors are forecast to be the main contributors to CPI inflation in the coming year, with external pressures like the depreciation of the sterling and higher energy prices easing in the future (Chart 2.2.2).

UK growth in the second quarter of 2018 was broadly in line with the forecasts provided by the Bank of England. Real GDP grew by 0.4% quarter-on-quarter in 2018 Q2; this seems to confirm that the slowdown in the previous quarter was due to adverse weather conditions, as stated in the May *Inflation Report*. Global growth and the depreciation of the sterling exchange rate kept supporting the economy, at the cost of a slow-growing consumption.

The contribution of net trade to GDP growth in 2018 is expected to be negative in Q2 and to recover in the second half of the year. Growth in business investment in still weaker than in previous recoveries and business surveys are again citing Brexit as the main source of risk in the economy. Consumption continued to expand slowly at a rate of 0.2% quarter on quarter. Yet, households have been decreasing their savings rate with consumption growth slowing down less than real income growth. An increase in nominal pay is expected to support consumption in the future (Chart 2.3.3).

Chart 2.2.1 shows the GDP growth forecasts for each year from 2017 to 2021, as they changed over time in each issue of the *Inflation Reports*, starting with the May 2016 report (quarter of issue of the report in the horizontal axis). Projections for 2018-2019 in the August 2018 *Inflation Report* have been revised slightly upward compared to the previous *Inflation Report* in May 2018, while the forecast for 2020 has been left unchanged. It is worth underlying that forecasts for the years from 2019 on were all produced after the vote on the Brexit referendum, and hence incorporated information over the result.

Chart 2.2.1: Bank of England GDP growth forecasts (%) over time by Inflation Report

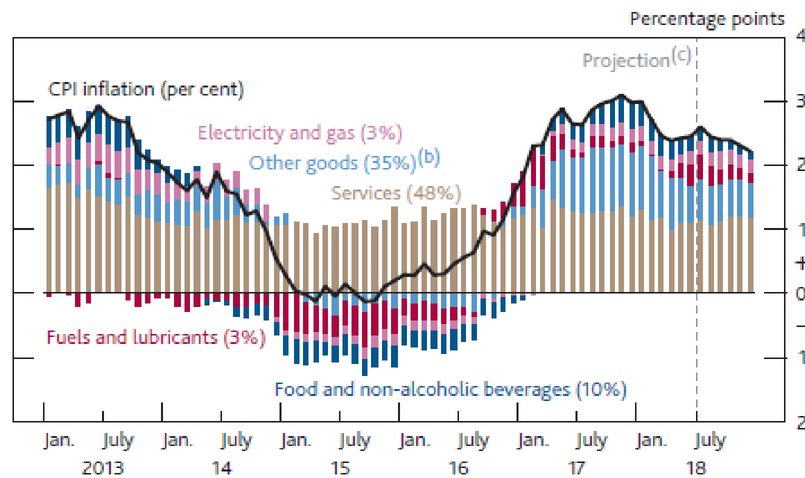


Source: Bank of England Inflation Report (May 2016-August 2018), author's calculations. The lines report the evolution of the forecast for GDP growth, according to each vintage of the Inflation Report.

On the supply side, productivity growth continues to be low and to dampen wage growth. Meanwhile, there still seem to be little slack in the economy. Net migration is continuing on a decreasing trajectory, despite the bounce back in inward migration from outside of the EU.

The current account deficit has narrowed to 3.4% of GDP in Q1 2018, due to a reduction in both the trade deficit and the primary income balance. A methodological change in the estimate of services exports has resulted in a reduction of the trade deficit of 0.4% of GDP on average over the period 2008-2017.

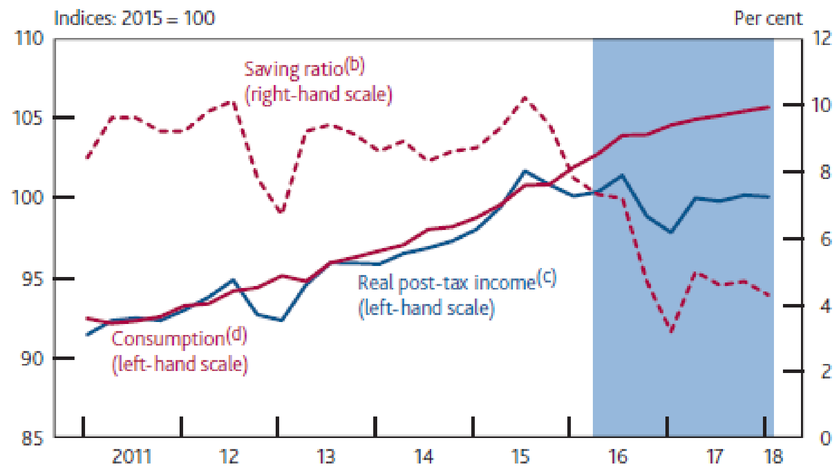
Chart 2.2.2: Contributions to CPI inflation



Sources: Bloomberg Finance L.P., Department for Business, Energy and Industrial Strategy, ONS and Bank of England calculations

(a) Contributions to annual CPI inflation. Figures in parentheses are CPI basket weights in 2018 and may not sum to 100 due to rounding.
(b) Difference between CPI inflation and the other contributions identified in the chart.
(c) Bank staff's projection. Fuels and lubricants estimates use Department for Business, Energy and Industrial Strategy petrol price data for July 2018 and are then based on the August 2018 Inflation Report sterling oil futures curve, shown in Chart 4.3.

Chart 2.2.3: Consumption, real post-tax income and household saving



Source: ONS and Bank of England calculations.

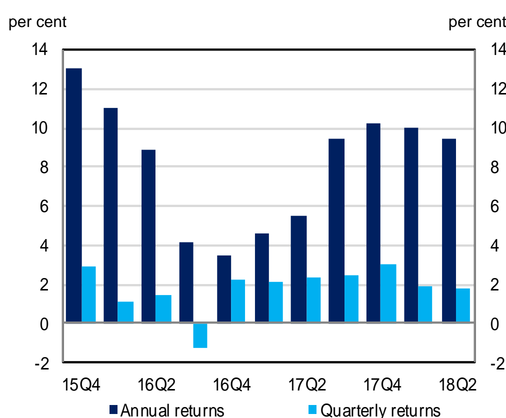
(a) Shaded area denotes the period following the EU referendum. All series include NPISH.
(b) Saving as a percentage of household post-tax income.
(c) Nominal post-tax income divided by the consumption deflator.
(d) Chained-volume measure.

1.2.2. Property market

Commercial property market values

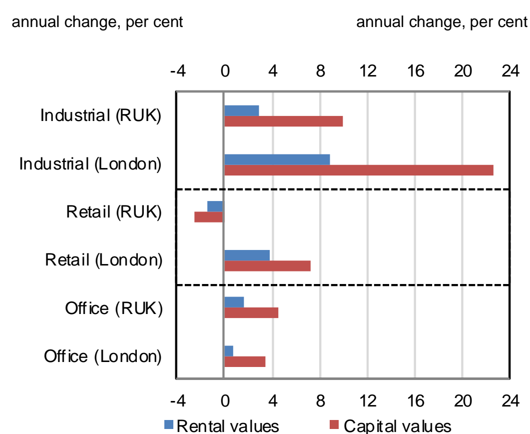
UK commercial property returns were a little lower in the second quarter of 2018. Investors realised total returns of 1.7 per cent in 2018Q2, down from 1.9 per cent in the opening quarter of the year and from 2.3 per cent, in the corresponding quarter of 2017 (Chart 2.2.4). Nevertheless, at just under 10 per cent, annual returns remain relatively healthy and well above the 5.5 per cent recorded at the end of 2017Q2. Appreciating capital values have been a key driver of returns of late. Commercial property capital values in the UK, posted an increase of 0.6 per cent in the quarter, leaving them 4.5 per cent higher for the year and 5.1 per cent above the level recorded in the immediate aftermath of the Brexit referendum (2016Q2). The commercial property rental index is 3.6 per cent higher than its June 2016 mark, following a quarterly rise of 0.2 per cent in 2017Q4.[3]

Chart 2.2.4: Total returns on UK commercial property



Source: MSCI/IPD and Central Bank of Ireland calculations

Chart 2.2.5: UK CRE capital and rental value growth by sector and location



Source: MSCI/IPD and Central Bank of Ireland calculations

As has been observed previously, aggregate figures for the entire CRE market mask a divergence in performance across sectors and locations. Some market segments continue to recorded significant gains, while others are experiencing low and in some cases negative rates of growth. A buoyant London market, where annual industrial CRE capital and rental value growth reached 23 per cent and 9 per cent respectively in 2018Q2, has helped maintain the industrial/logistical property sector's status as the strongest performer (Chart 2.2.5).[4] Across the rest of the UK (RUK), annual capital and

[3] Annual rental values increased by 1.7 per cent in 2018Q2.

[4] The entire UK industrial property market registered annual capital growth of 15.3 per cent and annual rental value growth of 5.4 per cent in 2018Q2

rental value growth were also quite solid for industrial properties, at 10 per cent and 2.9 per cent respectively. Conditions in the broader UK office market are a little more subdued. Annual capital values in this market increased by 3.4 cent during 2018Q2, while rental values were up 1.1 per cent year-on-year.[5] The retail sector has maintained its status as the poorest performing of the UK's main CRE sectors, on the back of weak investor appetite. Retail rents are more or less flat, managing just 0.2 per cent growth over the past year, while capital growth turned negative (down 0.5 per cent annually) at the end of June 2018. Again, the performance of the London market was much more robust than that seen across other parts of the UK (Chart 2.2.5).

Commercial property market outlook

According to the 2018Q2 edition of the RICS UK Commercial Property Market Survey 2018Q2, the downturn across the retail sector is set to continue over the coming 12 months, with tenant demand and investment enquiries expected to fall sharply. Elsewhere, industrials remain solid albeit the pace of rental and capital value growth is projected to ease slightly. There are mixed views regarding the current stage of the property cycle in the UK. Outside of London, a quarter of respondents believe the market may be in the early stages of a downturn, up from 14 per cent in the previous survey. In London, a substantial majority of contributors (71 per cent) are of the opinion that the market is in a downturn (up from 52 per cent last time out).

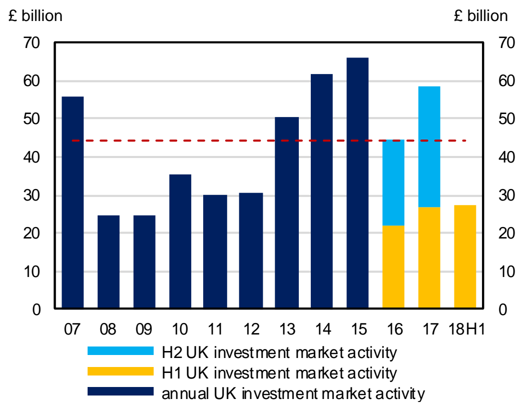
Commercial property market investment

Investment volumes in the UK commercial property market have remained largely stable in the opening half of 2018, despite the political and economic uncertainty surrounding the impact of Brexit. A little over £27 billion worth of CRE transactions occurred in 2018H1, a larger January-to-June total than that recorded in either 2017 (£26.6 billion) or 2016 (£21.7 billion) (Chart 2.2.6)[6]. Consequently, investment in the UK commercial property market for the 12 months ending June 2018 reached £59 billion, a 20 per cent increase on the equivalent figure at June 2017.

[5] In contrast to the industrial/logistics market RUK offices outperformed their London counterparts in RUK, with capital and rental growth of 4.5 and 1.7 per cent respectively in the former, versus capital and rental growth of 3.5 and 0.7 per cent respectively in the latter. The current weakness of the London office rental market has given rise to an increase in investor incentives, such as shorter lease terms and leases break clauses.

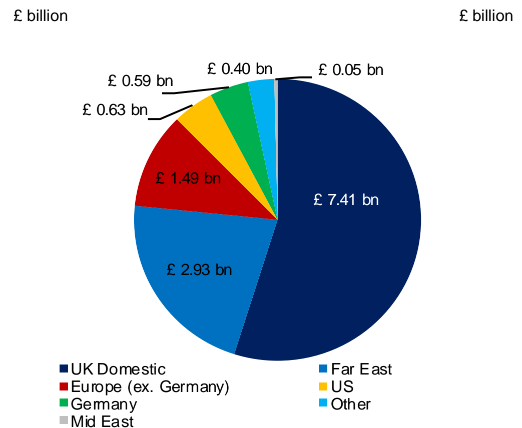
[6] See Lambert Smith Hampton, UK Investment Transactions Bulletin Q2 2018.

Chart 2.2.6: Annual value of UK CRE transactions



Source: Lambert Smith Hampton – UK Investment Transactions Bulletin
Note: Yellow bars represent transaction values for opening half of each year.

Chart 2.2.7: Breakdown of UK investment flows



Source: Lambert Smith Hampton – UK Investment Transactions Bulletin
Note: Data refer to 218Q2

UK purchasers are still the principle source of investment into the UK commercial property market in 2018Q2 (Chart 2.2.7). While domestic British investors have in general been reducing their CRE exposures in the aftermath of the Brexit referendum, there were some signs of stability in the second quarter of 2018, with UK institutions being the largest net buyers of UK real estate, a situation last seen in 2014Q2. Demand from foreign investors has held up quite well and averaged over £6.5 billion per quarter over the past year[7]. Asian buyers have been particularly active during this period, accounting for almost half of all overseas investment (£2.9 billion) in 2018Q2, and over 41 per cent of the total during the past 12 months. While a greater involvement of international capital can serve to broaden a country's commercial property investor base and help increase market liquidity, it can also leave the sector more exposed to changes in investor perceptions and/or to changes in external financing conditions.

UK House Prices

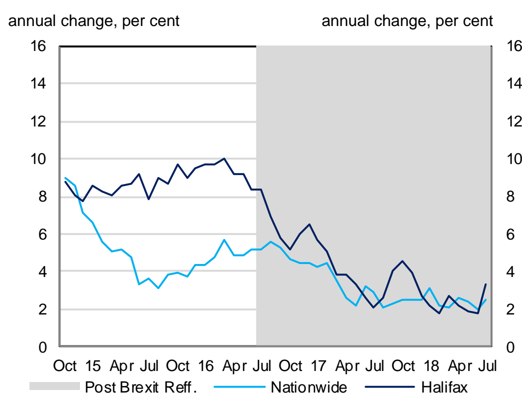
The pace of UK residential property price growth edged up slightly in July, according to both of the main indices (Chart 2.2.8). The Halifax and Nationwide house price indices rose 3.3 per cent and 2.5 per cent year-on-year respectively, up from 1.8 per cent and 2 per cent respectively at the end of June. While house prices have been relatively stable on a UK-wide basis over the past 18 months or so, findings from the latest RICS residential survey suggest stronger house price growth in some regional

[7] Overseas investment in UK CRE of £6.1 billion occurred in 2018Q2.

housing markets including NI, Scotland, the north of England, the Midlands and Wales, with London and other parts of southern England performing less well.

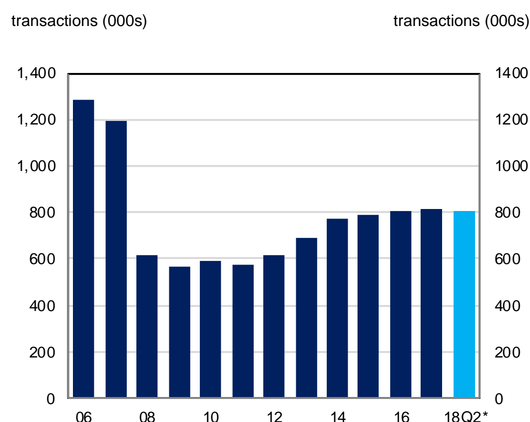
Meanwhile, based on the most recent data from Finance UK, mortgage market activity remains broadly flat, with a slight slowdown (-0.7 per cent) in the rolling annual total of mortgage drawdowns (approximately 800,000) between the end of 2017 and 2018Q2 (Chart 2.2.9). There were also 2,600 fewer mortgages drawn down between April and June of 2018 than during the equivalent period of 2017, as speculation surrounding a Bank of England base rate rise served to subdue borrower activity throughout the quarter.

Chart 2.2.8: Annual growth in UK house prices



Source: Halifax and Nationwide HPIs (via datastream)

Chart 2.2.9: UK residential mortgage drawdowns



Source: UK Finance

1.3. Financial market developments

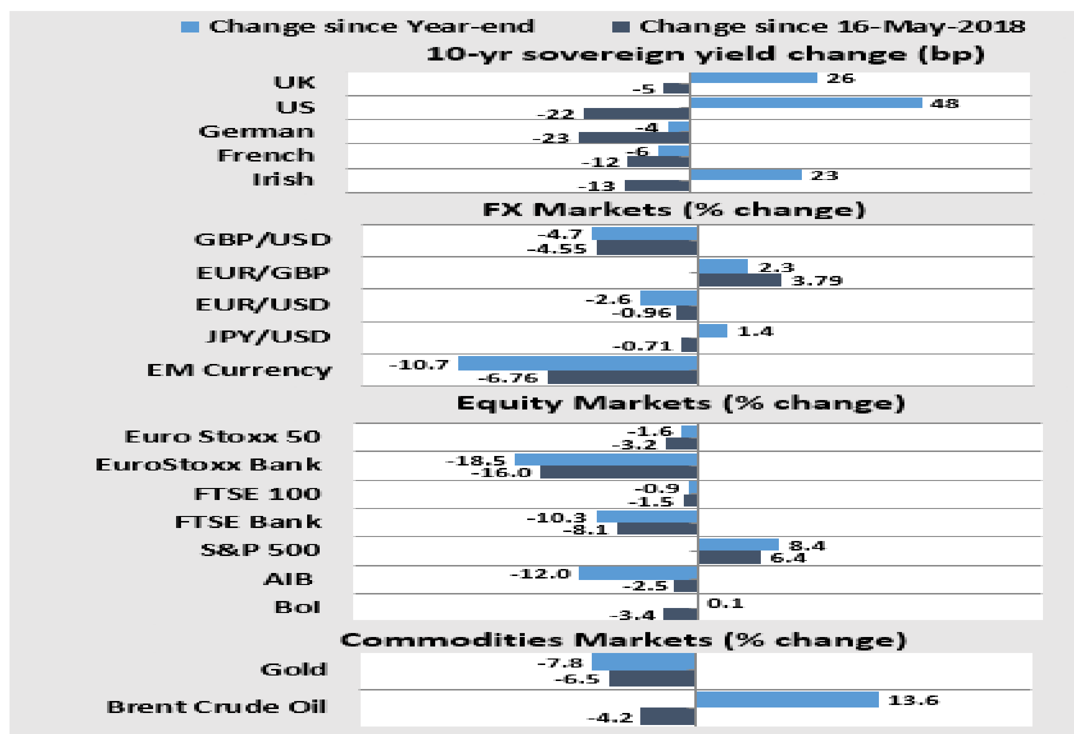
The following section provides an update on the main financial market developments, spanning the period since the last update to the Financial Stability Committee (FSC) from 16 May to 28 August. Section 2.3.1 provides an update on broader market themes over this period, and section 2.3.2 discusses specific UK market developments.

In summary, market activity has generally been characterised by cautious behaviour in thin summer trade since the May meeting. Event risk emanating from Turkey and US/Chinese trade tensions have overshadowed economic fundamentals, leading to a flight to quality bid for highly rated global sovereign bonds and a sell-off across most global equity markets. The formation of a populist coalition government in Italy has also contributed to investor risk aversion.

Regarding the FX markets, the Japanese yen and the US dollar have been the primary beneficiaries of safe-haven buying. Sterling has weakened by over three per cent on a trade weighted basis, driven mainly by increased Brexit uncertainty. Chart 2.3.1 below summarises the main market moves from 16 May to 28 August.

1.3.1. Key market themes

Chart 2.3.1: Main market moves (Year-end and 16 May 2018 to 28 August 2018)



The key markets themes, as presented in Chart 2.3.1, included:

The euro declined to its lowest level versus the dollar since July 2017 at $1.13 amid fiscal policy fears relating to the new populist coalition government in Italy and fears of contagion from Turkey. In recent weeks, the euro has recovered (currently $1.165) amid positive economic data.[8] An easing in trade tensions between the US and Europe, following a meeting between US President Trump and European Commission President Juncker in July, has also supported the euro.

Core euro area government bond yields have declined since the last FSC meeting in May, which has been most evident for longer-dated yields. The 2 and 10-year German bond yields fell by 1bps and 23bps respectively to -0.59 per cent and 0.37 per cent. There was a subdued market reaction to the

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[8] Recent data suggests that the euro area economic recovery remains solid; economic growth for the region is projected to grow by 2.1 per cent in 2018, while inflation is projected to move towards the ECB target level of 2 per cent by 2020.

ECB's Governing Council meeting in July. The Governing Council confirmed that it expects its key interest rates to remain at their present levels through the summer of 2019. President Draghi stressed that the euro-area growth outlook remains "broadly balanced" while acknowledging the continued threat of increased trade protectionism. Markets are currently pricing in an ECB rate hike from September 2019.

The 10-year Italian bond spread to Germany has widened from 125bps at the beginning of June to a current level of 275bps since the formation of a new coalition government between the far-right League party and the anti-establishment 5-Star Movement. Financial markets have been unsettled by the potential cost of the new government's economic programme[9]. The new coalition partners are pressing for looser EU fiscal rules in order to deliver these promises. Italy experienced capital outflows of €76bn in May-June with Italian banks reportedly stepping in as buyers while foreign investors sold Italian government bonds.

US bond yields have declined since the last FSC meeting on safe haven flows; the 2-year Treasury yield increased by 8bps to 2.65 per cent and the 10-year yield is lower by 25bps (at 2.87 per cent). The US yield curve (in terms of the 10-year/2-year yield differential) flattened to 22bps, its lowest level since July 2007, as the FOMC has lifted the federal funds target range to 1.75 to 2 per cent, while the US Treasury has focussed its increased debt issuance towards on shorter to medium-term maturities. US money markets are pricing in the likelihood of two further US rate hikes in 2018; a 94 per cent chance of a US rate hike in September and a 67 per cent probability of a further rise to a target range of 2.25-2.5 per cent by December 2018. FOMC participants remain divided on the appropriate level for the long-term (neutral) federal funds rate, as reflected in the wide range of estimates from 2.25 to 3.5 per cent.[10]

Global equity markets have generally posted losses since the last FSC meeting, with the US being the exception. The S&P 500 and NASDAQ strengthened by over 6 percent and 9 per cent respectively driven by better than expected Q2 2018 earnings estimates (five out of every six companies surpassed analysts' forecasts) and the continuing effect of the Trump fiscal stimulus on economic growth.

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[9] This programme includes a lowering of the retirement age, a large cut to income tax and a basic income for the unemployed and pensioners of €780 per month.

[10] The FOMC statement and minutes were perceived as mildly dovish; with respect to economic risks, the Committee discussed both those to the upside (fiscal policy, labor market) as well as to the downside (faster-than-expected fade of fiscal stimulus, trade, housing, jump in oil prices, severe slowdown in emerging markets). Most of the Fed commentary focused on the Fed's confidence in reaching and sustaining its core inflation target of two per cent rather than highlighting fears of an overheating economy.

The CSI 300, the Chinese equity benchmark, has been acutely impacted by trade tensions, declining by over 13 per cent since the last FSC meeting, reflecting increasing headwinds from trade tensions between the US and China. So far, the PBoC has largely taken a passive approach to currency weakness (with no new capital controls and stable FX reserves at $3.1tn) although the PBoC has now stepped up support for the currency with the resumption of the counter-cyclical factor in the daily onshore renminbi fixing mechanism to manage the currency.[11]

Economic uncertainty in Turkey has impacted other emerging markets and banking stocks reported as having exposure to Turkey. The Turkish lira has declined by 37 per cent this year against the dollar, owing to elevated inflation (of nearly 16 per cent), a deepening current account deficit and Turkish policy makers' reluctance to raise interest rates.

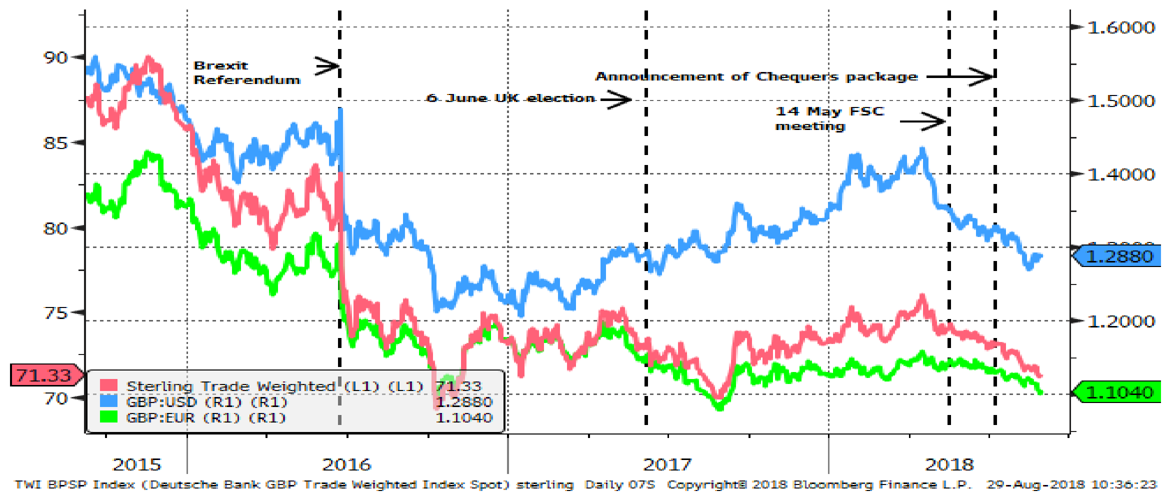
Increasing US trade protectionism has also weighed on export-based emerging market equities. The MCSI emerging market equity index has fallen by over 7.5 per cent since May. Other equity markets have proven more resilient; the Nikkei 225 was up by 0.5 per cent while the Euro STOXX 600 and the FTSE 100 both fell by under 2 per cent. Banks perceived as having a large exposure to Turkey experienced declining share prices, including BBVA (-18 per cent), Unicredit (-29 per cent), BNP Paribas (-17 per cent) and ING Group (-10 per cent).

1.3.2. Update on Brexit process and related market moves

Regarding Brexit, market commentary has centred on the risks of a "no deal" by 29 March 2019. Sterling has been the most sensitive market variable to Brexit uncertainty, which is now pricing the likelihood of a "hard Brexit" with greater conviction. Since late May, it has been the weakest performer amongst the major global currencies. Having reached a peak of just under €1.16 against the euro earlier in the year, sterling has fallen back to €1.1065, not far off the August 2017 trough when UK economic data was weaker (Chart 2.3.2 below).

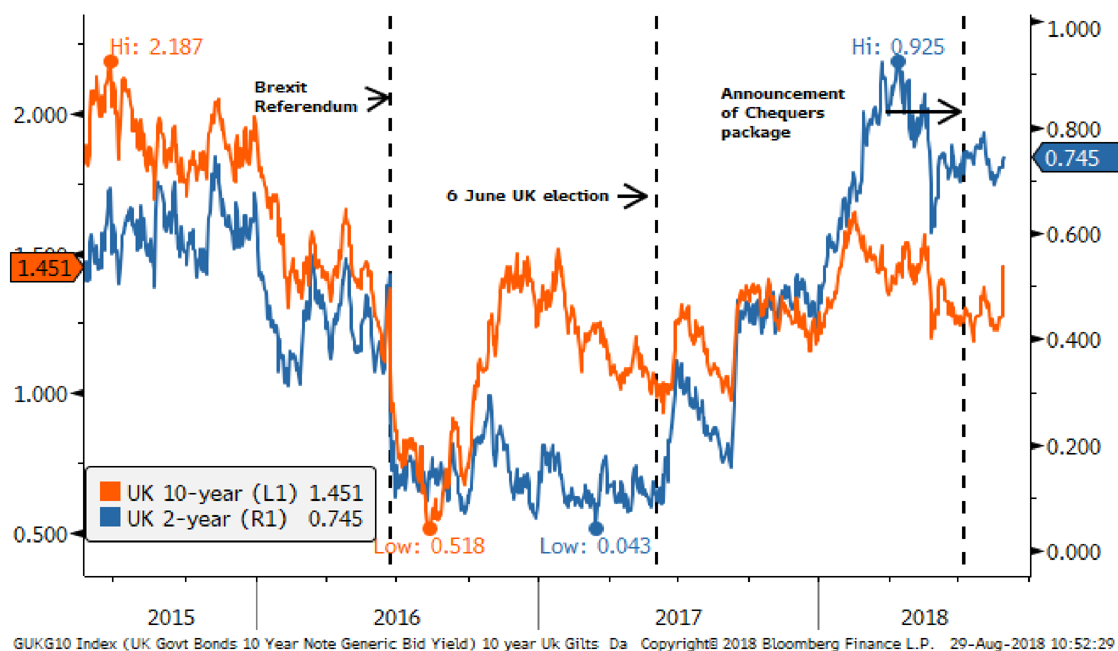
[11] The counter-cyclical factor is an exchange rate management tool that was employed in May 2017 at a time when the CNY was under intense depreciation and capital outflow pressures. While the details of its calculation have not been publicly disclosed, it is thought to have a counter-acting effect to market forces.

Chart 2.3.2: Selected sterling exchange *rates*



The 10-year UK Gilt yield fell by 5bps to 1.45 per cent over this period, driven by global developments (as outlined above) as much as Brexit uncertainty (Chart 2.3.3 below).

Chart 2.3.3: 2 and 10-year UK gilt yields



1.3.3. Bank of England (BoE) monetary policy

At the time of the May FSC meeting, the prospect of a BoE rate hike was evenly balanced between Q3 and Q4 2018. However, mounting inflation risks saw UK money markets price in a rate hike in the run-up to the August MPC meeting. As a result, the BoE announcement of an increase in the base rate from 0.5 to 0.75 per cent was largely expected (the rate hike was priced in with a 91 per cent probability prior to the announcement). The BoE observed that the "slowdown in Q1 had been

temporary" and that the UK economy had "recovered momentum in Q2". The BoE highlighted that the UK labour market continues to tighten and referenced rising labour unit costs. The BoE forecasts that UK inflation will surpass its two per cent target in 2018 and 2019 due to rising energy costs and sterling weakness, before it normalises in 2020.

Market reaction to the August BoE meeting was tempered by Governor Carney's comments that while inflationary pressure poses an upside risk, Brexit could eventually lead to a downward adjustment to rates. In terms of the monetary policy outlook, UK money markets are pricing in a probability of five per cent for a further rate hike in 2018. The central expectation is for BoE to raise its policy rate once by the end of 2019.

1.3.4. Market expectations on the Brexit process

The central scenario remains that the UK and the EU will establish a final withdrawal agreement for March 2019, which will leave a 21-month transition period buffer to broker the finer details. It is anticipated that the withdrawal agreement will deal with the narrower constitutional and financial mechanics of exiting the EU.

Regarding near term scenarios, **Nat West Markets (NWM)** predict a **70 per cent probability of a deal with a transition period** (even if the agreement is vague on future arrangements) and believe that it would provide a modest boost for sterling (+5 per cent), a small increase in 10 year UK bond yields (20bp) and a steeper yield curve. The analysts ascribe only a **20 per cent probability to a no deal outcome** (with borders and tariffs taking immediate effect) and a subsequent arrangement under WTO rules. They envisage this outcome would induce early BoE policy easing and a resumption of QE that would result in a sizeable fall in 10-year Gilt yields and a marked sterling depreciation.

NWM only assigns a 10 per cent probability to a "No Brexit" outcome. Under this scenario, the UK Parliament would vote down the withdrawal agreement in Q4 2018/Q1 2019 leading to a second referendum in Q1 2019. The analysts consider that this outcome would prompt the government to formally request the EU27 to stop the Article 50 process, which would in turn provoke the most extreme market reaction leading, to much higher BoE rates and a spike in 10 year Gilt yields.

2. Impact on Irish economy

2.1. Latest economic developments

The outlook for growth in the economy remains strong. In the July Quarterly Bulletin, GDP growth of 4.7% is anticipated this year and 4.2% in 2019. Since the *Bulletin*, the main source of data has been on the labour market front. The Q2 Labour Force Survey (LFS) pointed to continued robust growth in employment (+3.1% year-on-year in the first half of 2018) with numbers at work reaching a new peak of 2.26 million persons. Labour force growth has picked up in recent quarters in part reflecting a large increase in net inward migration (see below). As a result there was only a modest fall in the unemployment rate in Q2 to 5.8% (from 5.9%). New earnings data for Q2 also point to a further rise in wage inflation with hourly earnings up 3.0% in the first half of the year.

The Bank's forecasts continue to assume no disruptions arising from Brexit negotiations over the period to end-2019. Alternative arrangements involving a sudden or disruptive UK departure is a clear downside risk particularly for indigenous sectors. To date, the main Brexit impact has been felt via a weaker sterling exchange rate and the pass through to consumer prices. The latter remain weak – averaging 0.5% in the first seven months of the year.

In August the CSO published new population and migration estimates covering the period to 2018. These data were notable for the sharp uptick in net inward migration to Ireland from 19,800 persons in 2017 to 34,000 persons this year (Table 3.1). Furthermore, there are signs of Brexit effects as net inflows from the UK were positive for a third successive year. Looking at the period since the Brexit referendum, outward flows to the UK from Ireland have slowed significantly. In contrast, flows from the UK to Ireland have continued to increase.

Table 3.1: Recent Migration Movements, Ireland and the UK

Thousand Persons	2014	2015	2016	2017	2018
Net Migration					
UK	-3.0	-0.2	3.8	6.6	8.6
All	-8.5	5.9	16.2	19.8	34.0
Emigrants					
UK	16.4	16.6	14.4	12.1	11.4
All	75.0	70.0	66.2	64.8	56.3
Immigrants					
UK	13.5	16.4	18.2	18.7	20.1
All	66.5	75.9	82.3	84.6	90.3

Regarding Higher frequency indicators signs are mixed. Aside from the LFS data, which is very strong there are mixed signs from activity levels in indigenous sectors.

Output and Trade - the monthly industrial production data were weak through the first half of 2018. For the indigenous sector, output was down 3.0% (in real terms) year-on-year. Within this, output in the food sector fell by close to 10%. These data are volatile and perhaps reflect adverse weather in the early part of 2018. Merchandise trade figures also point to more difficult trading conditions with exports to the UK down 6.0% in the first half of the year. At a sectoral level, overall food exports were down 1.9% in the first half of 2018. More detailed data from Eurostat in respect of Irish exports to the UK show that food exports were up 3.4% in value terms but down in volume terms by 4.6% reflecting strong (higher) price movements. The other key export sectors – chemicals and machinery & equipment recorded large falls in trade with the UK (in values and volumes) UK in the first half of 2018 by 18.9% and 16.3% (in values), respectively.

Consumption – remains strong. Retail sales data show that core sales (i.e. sales excluding motor trades) grew by 3.7% in the first seven months of the year with overall sales up 3.5%. Cross border exchange rate effects appear to be continuing to affect new car sales with new private car vehicle registrations down 4.5% over the same period. Consumer sentiment in Ireland recovered strongly in July according to the KBC Bank Ireland/ESRI index. This was in contrast to its UK equivalent which fell to its lowest level since February 2016 reflecting concerns on the UK economic outlook.

2.2. Economic research

In June two of the Bank's economists wrote a piece on the impact of non-tariff barriers (NTBs) on EU goods trade after Brexit for Vox. This piece drew from work published under the Banks's Research Technical Paper Series.[12] The article drew attention to NTBs and how time-sensitive goods were most at risk from any increases in border waiting times and documentary compliance. Based on current trade composition within the EU they found that Latvia, Ireland, and Denmark are the trading partners that are likely to be most affected in the EU.

In July, two papers from the ESRI examined Brexit related issues. The first paper explored Irish-UK services trade and Brexit[13], examining the likely boost to trade arising from EU membership finding a gain of 26%. The paper estimated that Irish services imports from the UK could decline by 33% and exports by almost 50%. This is likely to be driven mainly by reductions in insurance and telecommunications sectors. As regards overall services trade, this is equivalent to a 3.5% fall in imports and a 9% reduction in exports. A second report explored intermediate goods inputs and the UK content of Irish goods exports.[14] This noted that over 20% of imports of Irish-owned firms were either completely or very highly reliant on imports from the UK. Furthermore, over half of total imports used by Irish-owned firms were also sourced in the UK.

2.3. Property sector

2.3.1.Market Irish Property Market: Commercial property

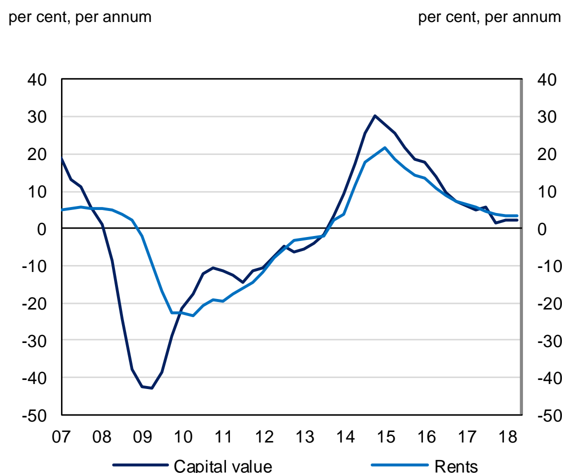
Total returns, capital values and rental growth

Returns on Irish CRE appear to have stabilized somewhat in the opening 6 months of 2018. Total annual commercial property returns posted another slight increase in 2018Q2, to reach 7 per cent at the end of June from 6.8 per cent in March and 6.4 per cent at the end of last year. Similarly, the moderation of growth in CRE capital values has reversed in recent quarters (Chart 3.3.1). Commercial property capital values rose 2.2 per cent year-on-year in the second quarter of the year, up from 2.1 per cent in Q1 and 1.6 per cent at the end of 2017. Meanwhile, annual commercial property rents slowed a little further to 3.3 per cent by June 2018, down from 3.5 per cent in March and 3.9 per cent last December.

[12] Byrne, S and J Rice (2018), "Non-tariff barriers and goods", Central Bank of Ireland, Research Technical Papers 2018.
[13] Lawless, M (2018), "Irish-UK Services and Brexit", ESRI Working Paper No. 595, July
[14] Lawless, M (2018), "Intermediate Goods Inputs and the UK Content of Irish Goods Exports", ESRI, July.

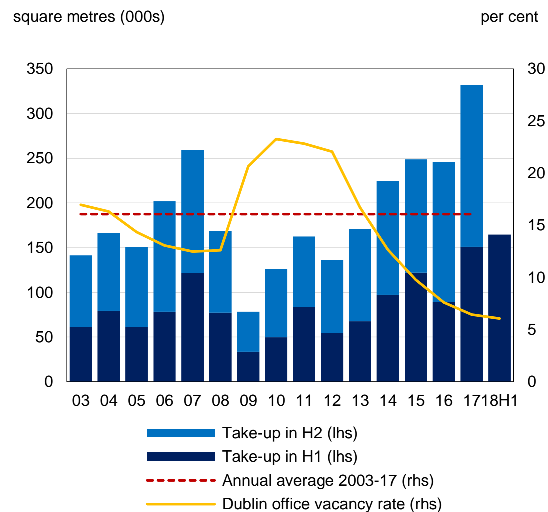
The limited availability of quality industrial/logistical stock is having a negative impact on take-up in that sector, which was down about one fifth on the same quarter in 2017.[15] The annual growth rate of industrial rents continues to outpace that of the other main commercial property markets (office and retail), though it too has slowed notably from 9.8 per cent to 4.8 percent, over the past 12 months. Industrial property capital values rose 1.7 per cent year-on-year in 2018Q2, down from 7.3 per cent at the end of last June.

Chart 3.3.1: Annual growth in commercial property capital values and rents



Source: MSCI/IPD

Chart 3.3.2: Dublin office market activity



Source: CBRE, JLL and Central Bank of Ireland calculations
Note: Dublin office vacancy refers to the average of the available end-quarter data from the year in which they relate.

Despite a rise in consumer spending[16] throughout the summer, the performance of the retail CRE sector for all, but prime locations, has been relatively subdued of late. Average annual capital values on retail commercial property fell 0.2 per cent during the second quarter of 2018, compared to a 5.5 per cent increase in 2017Q2. In contrast, retail rents increased 3 per cent year-on-year, though they too have been slowing over the same period down from 4.8 per cent at the end of the equivalent quarter last year. Market intelligence from private sector sources such as CBRE suggest that there is a reluctance from those involved in the industrial/logistics/retail commercial property sectors to expand or roll out new stores until there is more clarity on the outcome of Brexit negotiations.[17]

[15] See JLL Dublin Industrial Market Report Q2 2018.
[16] See Visa Irish consumer spending index – July 2018.
[17] See "*Brexit & the Irish Commercial Property Sector*", comments made by Marie Hunt (CBRE) at the British Irish Chamber of Commerce Brexit Subcommittee, (July 2018).

The performance of the office sector, much of which is located in Dublin, has been a key driver of the recovery in overall commercial property capital values and rents since 2013. Year-on-year growth in office capital values rose from 2 per cent at the end of 2017, to 2.6 per cent at the end of 2018Q1 and again to 2.8 per cent at the end of 2018Q2. As with the industrial and retail sectors, the annual growth rate for office rents was a little lower at 3 per cent in June 2018.

The Dublin office market: take-up, vacancy rates and development pipeline

According to CBRE estimates, the Dublin office market consists of more than 3.7 million square metres of space, 60 per cent of which is located in the city centre[18]. Each year the majority of office leasing activity, about 70 per cent, occurs in the city centre region. Economic recovery and foreign direct investment have contributed to steady demand for Dublin office space in recent years. Over 330,000 square metres of Dublin office space, across c. 230 transactions, were leased in 2017, the busiest year on record (Chart 3.3.2). The brisk pace of activity has continued into 2018, with more than 160,000 square metres of office space leased during the first six months of 2018, one of the strongest opening halves on record and a 9 per cent increase on the equivalent period in 2017. The high volume of office leasing which has occurred in the capital over recent years has seen the office vacancy rate in Dublin drop to approximately 6 per cent, below the average vacancy rate across a number of major European cities. This has prompted questions about the city's ability to cope with a potential increase in demand for office space from British firms looking to relocate operations within the EU, following the UK's departure from the bloc.

It remains to be seen what the ultimate magnitude of job migration from London will be in a post-Brexit scenario. Initial estimates had predicted a flight of anywhere from 3,000-4,000[19] to 83,000-232,000[20] financial services sector and related roles, from the UK (predominantly London), to cities throughout the EU including Dublin, Frankfurt, Paris and Amsterdam. While some estimates[21] released

[18] See "Dublin will have enough offices to meet Brexit demand", CBRE (March 2017).
[19] Under a softer Brexit scenario, where UK firms retained full equivalence and passporting rights across the full scope of single market directives. See "The Impact of the UK's Exit from the EU on the UK-Based Financial Services Sector", Oliver Wyman (October 2016).
[20] Under a worst case scenario where the UK loses access to the EU single-market for euro denominated clearing. See "Losing euro-denominated clearing would cost London 83,000 jobs", FT (November 14 2016), which refers to an unpublished EY report on the matter commissioned by the London Stock Exchange.
[21] See "5,000 UK finance jobs may be moved by Brexit, half earlier forecast" – which relays details of a Reuters survey based on 119 firms in March 2018. The survey followed up on results of a survey published in September 2017, which found that participating firms planned to move or create 10,000 jobs in the rest of the EU by the end of March 2019.

earlier in this year, forecast that fewer jobs may move from the UK, initially at least, it appears that Dublin is attracting its share of the relocations announced to date.

According to the latest EY Brexit tracker[22], Dublin has become the most popular post-Brexit location for UK firms (by number of company moves announced rather than overall number of relocating staff), over European peers such as Frankfurt, Luxembourg and Paris. Based on these findings, Goodbody[23] have identified 23 firms, which have confirmed they will shift some or all of their operations to Dublin, placing the Irish capital ahead of Frankfurt, with 12 firms, Luxembourg with 11 and Paris with 8 firms. In terms of sectors from which these companies originate, Goodbody analysis shows that almost 60 per cent are from the financial sector, over one quarter are legal firms and the remainder a mixture of insurance, fintech and service providers. Goodbody estimate that these announcements could result in the creation of approximately 1,500 new roles. In addition, Goodbody have compiled a list of a further 17 firms who have stated their intention to increase their presence within Ireland due to Brexit, adding at least 1,000 employees to their Irish operations, 500 of which are set for Dublin, 400 to Limerick and 100 for Cork. Again, financial firms are to the fore of these announcements. Based on these projections of an extra 2,000 employees for Dublin and using standard space requirements by occupier type, Goodbody forecast that the total office space requirement for this level of additional demand would be in the region of 41,000 square metres.

How would the Dublin office market cope with the migration of these types of numbers in the immediate aftermath of Brexit? According to the CBRE data at 2018Q1, a cumulative 450,000 square metres of office space is currently under construction and due to come on-stream between now and 2021 (Chart 4.3.3). In addition, planning permission has been granted for 400,000 square metres, much of which is to be delivered in the years 2020-2022. A further 70,000 square metres is at an earlier stage of the planning process and may also be called on if required over the medium-term. Based on these figures, approximately 500,000 square metres of new office space is set to be delivered by 2020. Taking into account adjustments for obsolescence and open areas, (a conservative 20 per cent) would result in the delivery of c. 400,000 net new office space being delivered by 2020. This would accommodate close to 39,000 employees, (based on an assumption of 10.3 metres of space per worker used by Goodbody in previous analysis), well above any of the current projections for immediate relocations. It is probably safe to conclude therefore, that a lack of quality office capacity will not be a constraint on UK firms relocating here.

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[22] The EY Brexit Tracker surveys 222 banks, asset managers, private equity, insurance and fintech firms, monitoring public statements relating to key issues such as staffing and domicile. See EY/DKM Brexit Watch (issue 30), which alludes to the latest release.

[23] See "Dublin is a top destination for UK firms after Brexit", Dublin office market note (June 27th, 2018).

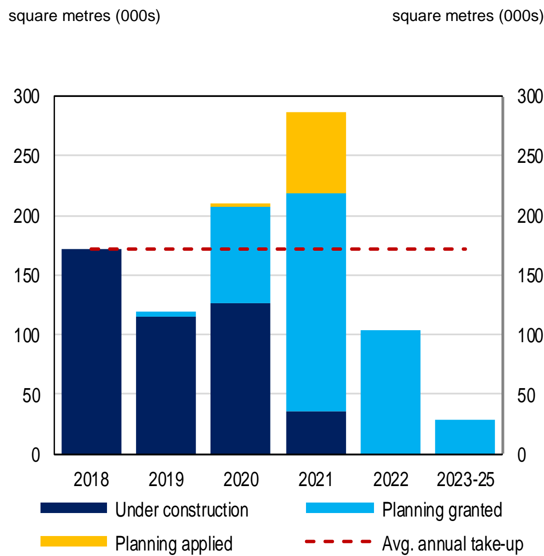
Goodbody observe that based on these relatively modest employee relocation figures, it is unlikely that Brexit will play a significant role in driving office rental growth in Dublin. Instead, the current strength of demand from technology firms in particular, is expected to be the key driver. In any event, Dublin appears to have sufficient office space capacity and developments in the pipeline to deal with any unforeseen increase in demand from UK-based businesses. In addition, such relocation activity is to be welcomed as it serves to diversify the occupier base of the Dublin office market away from tech firms, and adds to an already strong domestic and international demand base.

Commercial property investment

The demand for Irish commercial property assets remained strong in the second quarter of 2018, with the level of CRE investment (€955 million) more than three times the level of 2017Q2, owing in part to eight transactions of greater than €100 million each (Chart 3.3.4).[24] By the end of June 2018, investment in Irish CRE assets accounted for over 80 per cent of the 2017 total. In terms of buyer profile, more than a quarter of the investment that occurred in the second quarter originated from overseas. CBRE observe that the type of overseas investor into the Irish market has remained consistent, predominantly European institutional buyers, with some activity from UK firms and Asian based investors of late. The office sector attracted the largest share of sales volumes (40 per cent) in 2018Q2. There has also been a notable increase in investment into alternatives such as the private rented sector, residential build-to-rent projects and student accommodation in recent quarters.

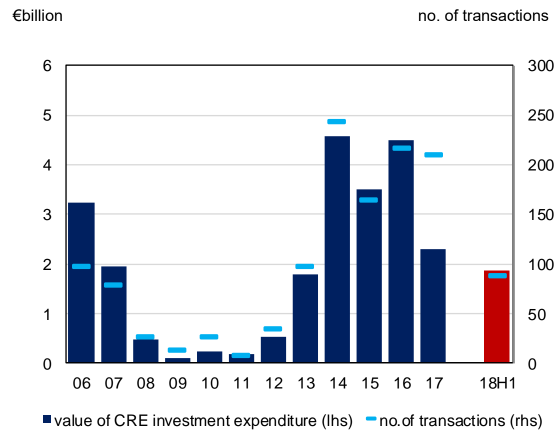
[24] See "Ireland Investment Market Report – Q2 2018", JLL and "Ireland Bi-Monthly Research Report", September 2018", CBRE.

Chart 3.3.3: Expected Dublin office supply pipeline



Source: CBRE, JLL and Central Bank of Ireland calculations
Notes: Data as at 2018Q1 are a projection based on the assumption that every scheme in the planning process materialises. A number of these schemes may not materialise or may not proceed at the pace envisaged at present. Figures do not include space available to let in Dublin at present.

Chart 3.3.4: Irish commercial property investment expenditure



Source: CBRE research
Note: Data refer to transactions of at least €1 million.

Residential property

In terms of the Irish housing market, the main issues relating to Brexit concerns supply and the ability of the market here to cope with a surge in demand for accommodation should there be a widespread relocation of UK based firms/workers here. Aside from the strain this would place on existing infrastructure, it is likely that residential property prices and rents (currently growing at 12 per cent and 6.1 per cent – June '18, respectively), would also come under further upward pressure, at a time when there is a severe shortage of units for sale or rent. To this end, CSO data show that housing supply is currently increasing by approximately 25 per cent on an annual basis, with forward-looking indicators of new construction pointing towards increases of a similar magnitude for the near to medium term. Supply, however is still regarded as being below the level of annual demand, currently projected to be in the region of 30-35,000 units per annum.

4. Sectoral developments

4.1. Banking

Brexit's current impacts on the Irish banks (both those with domestic focus and those with large direct exposures to the UK) remains benign, at present, with no material impact reported on funding/liquidity or credit quality, and macroeconomic financial market conditions remain broadly supportive. Supervision teams are continuing to monitor developments as Irish banks seek to ensure business continuity post Brexit.

Banking supervision is in the closing stages of a thorough assessment of Brexit-related risks across Significant Institutions ('SIs') and Less Significant Institutions ('LSIs'). This assessment […] will inform areas of focus and engagement with banks and other stakeholders over the coming months. This assessment is complemented by on-going assessment and targeted analysis within the Single Supervisory Mechanism ('SSM').

To date, banks have provided information on their assessment of Brexit related risks and related contingency plans and timelines. This information has been assessed by supervisors. In the majority of cases, planning is considered adequate. In some cases, progress is slower than expected, as banks assume a legal binding transitional arrangement between the EU and the UK and/or the transitional period measures (regardless of an agreement) set out by the UK authorities. The SSM and Central Bank continue to engage on these and other issues to address any remaining deficiencies in planning and to ensure continued progress on Brexit related issues.

The SSM and Central Bank have engaged with the retail SIs to make sure that they have adequately considered Brexit downside risks in their internal capital adequacy assessment process ('ICAAP') through stress testing. This aims to ensure that banks will have sufficient capital in a plausible downside scenario.

A significant portion of the retail SI bank's UK business activity is conducted through subsidiaries in the UK, so there are limited structural changes needed as a result of Brexit. The main Brexit related risk to their UK business, therefore, stem from macro-economic risks rather than cliff-edge effects, however, it is worth noting that these subsidiaries are well capitalised at present. Where relevant,

banks have considered the limited activities conducted on a passport basis[25] in the UK and are taking appropriate action where necessary (i.e. third-country branch applications with the UK authorities, with SSM/Central Bank approval). The most immediate risk stems from market disruption around a hard Brexit, including that relating to derivatives exposures with UK counterparties and central counterparties ('CCPs').

The LSI banks in Ireland are internationally-focused, and generally have a limited interaction with the domestic economy. [Omitted due to confidentiality].

4.2. Insurance

4.2.1. Authorisations

[Omitted due to confidentiality]

4.3. Asset management

[25] With the UK as part of the EU, other EU27 banks can operate in that market on a freedom of services/passport basis, usually through the creation of a branch, to provide financial services in the UK. When the UK exits the EU single market, and with no mechanism to enable passporting for a third country under the Capital Requirements Directive, banks may not be able to continue to provide certain financial services in the UK without establishing a third-country-branch or some other form of legal entity.

4.3.1. Authorisations[26]

[Omitted due to confidentiality.

4.3.2. ESMA engagement

The ESMA Supervisory Co-ordination Network (the 'SCN') continues to meet regularly to discuss cases of authorisation requests and issues of supervision/enforcement arising from investment firms, asset managers and trading venues seeking to relocate from the UK. The Director of Asset Management Supervision, Michael Hodson, represents the Central Bank at the SCN. Key issues for ESMA include, *inter alia*, the risk of letter-box entities, substance in the EU, governance, significant outsourcing or delegation that lead to a substantial part of the activities being carried out outside the EU and the risk of significantly different treatment between entities across the EU.

4.4. Securities and Markets Directorate (SMSD)

SMSD have been liaising closely with Banking and Asset Management Supervision in relation to the Brexit Authorisations Pipeline in assessing applications from credit institutions, MiFID firms and venues seeking authorisation and expansion of business licences. These applications are being assessed from a wholesale conduct perspective as well as from a MiFIR transaction reporting and market abuse perspective.

There was a senior management meeting held recently to discuss Brexit Cliff effects on the Funds Industry. A number of concerns were raised, the main ones being: the possible loss of the ability of Irish funds to delegate portfolio management to UK parties; the loss of the passport for UK entities to act for Irish funds and the loss of the marketing passport of Irish funds into the UK. A further meeting is to be scheduled.

4.5. Market infrastructure

Engagement is on-going between the Irish authorities (Department of Finance (DoF), NTMA and the Bank) on the long term solution for the settlement of Irish corporate securities. [Omitted due to confidentiality].

[26] As at 29th August 2018

4.6. Payment Institutions, Electronic Money Institutions and Retail Intermediaries

In the context of Brexit-related activity, the Consumer Protection Directorate (CPD) is responsible for the authorisation and supervision of Payment Institutions (PIs), Electronic Money Institutions (EMIs) and Retail (insurance and mortgage credit) Intermediaries (RIs). As of 5 September 2018, […] formal applications for PI or EMI authorisation have been received that are directly related to Brexit. Since the June 2016 UK referendum, CPD has received […] specific enquiries in respect of the PI/EMI sectors with […] of these leading to pre-application meetings. While the vast majority of these meetings have been with existing UK authorised PIs/EMIs, CPD has also received a few enquiries from firms who are not yet authorised in Europe and are now considering alternatives to the UK. The volume of PI/EMI applications for authorisation continues to grow and is now many multiples of normal levels. In addition to the […] applications referred to above, there is a pipeline of a further […] firms who have indicated their intention to seek authorisation in Ireland and we anticipate that this pipeline will grow further as the UK withdrawal date draws closer. The transposition of PSD2 in January 2018 has significantly increased the level of work required to assess every application. In relation to Retail (insurance and mortgage credit) Intermediaries (RI), while […] Brexit-related applications have been received to date, the volume of Brexit-related enquiries regarding RI authorisation in Ireland continues to grow as the UK withdrawal date draws closer. CPD held […] pre-application meetings with firms over the last three months, while […] insurance intermediary firms currently passporting into Ireland from the UK have now informed the Central Bank that they intend to seek authorisation. Noting that the pipeline of Brexit-related applications continues to grow, CPD is closely monitoring authorisation activity levels to determine what, if any, additional steps or actions are required to maintain adherence to published service standards.

5. Authorisations activity

5.1. Overview

[Omitted due to confidentiality]

5.2. Asset Management

[Omitted due to confidentiality]

5.3. Banking

[Omitted due to confidentiality]

5.4. Consumer Protection – Electronic Money Institutions / Payment Institutions

[Omitted due to confidentiality]

5.5. Insurance

[Omitted due to confidentiality]

6. Central Bank engagement on Brexit issues at a European level

6.1. European Banking Authority (EBA)

In cooperation with competent authorities, the EBA has been monitoring the level of contingency planning undertaken by financial institutions with respect to Brexit. The EBA is of the view that this planning should advance more rapidly in a number of areas and, consequently, it published an Opinion on preparations for Brexit on 25th June 2018. The Opinion, addressed to competent authorities, aims to ensure that financial institutions consider the risks associated with the potential departure of the UK from the EU without a ratified withdrawal agreement, and that appropriate plans are put in place to mitigate such risks in a timely fashion. [Omitted due to confidentiality].

[…], the Central Bank issued a statement on 31st July, welcoming the publication the EBA's Opinion, as well as the communications issued by the other ESAs. The EBA will continue to monitor developments and will assess the extent to which this Opinion is effective in its aims. It will issue further communications as and when required.

[Omitted due to confidentiality].

6.2. European Insurance and Occupational Pensions Authority (EIOPA)

On 18 May, EIOPA published an "Opinion on the solvency position of insurance and reinsurance undertakings in light of the withdrawal of the United Kingdom from the European Union". The Opinion sets out 14 areas where the determination of the solvency position of insurers may be impacted as a result of Brexit. The areas include the risk-mitigating impact of derivatives, the recognition of ratings from UK rating agencies and the regulatory treatment of credit risk exposures situated in the UK. Not all of the changes may affect each insurance company. The Opinion calls upon NSAs to ensure that the risks for the solvency position of undertakings arising from the UK becoming a third country are properly identified, measured, monitored, managed and reported.

EIOPA published a further Opinion on 28 June, on the obligations of insurance undertakings and insurance intermediaries to inform customers about the impact of the withdrawal of the UK from the EU. The aim of the opinion is to remind NSAs about the duty of insurance undertakings and insurance intermediaries to inform customers about the possible impact of the withdrawal of the UK from the EU on insurance contracts and of the relevant contingency measures taken by insurance undertakings and about the continuity of their contracts.

[Omitted due to confidentiality].

EIOPA’s Brexit platform continues to discuss progress and updates of insurers’ contingency plans.

6.3. European Securities and Markets Authority (ESMA)

ESMA continues to progress its on-going Brexit workstreams including: ESMA’s Brexit-related Risk Analysis; the supervisory coordination network; impact of Brexit on ESMA’s direct supervision work; and the operational impact on ESMA.

In July, ESMA issued a Public Statement in order to raise awareness among market participants of the importance of preparing for the possibility of no agreement. In particular, for entities wishing to relocate, the Statement emphasised the importance of submitting requests to NCAs/ESMA in time for authorisation. The Statement added that on 30 March 2019, firms must have a fully authorised legal entity located in the EU27 to continue providing services in the EU27.

[Omitted due to confidentiality].

The ESMA Supervisory Co-ordination Network continues to meet regularly to discuss cases of authorisation requests and issues of supervision/enforcement arising from investment firms, asset managers and trading venues seeking to relocate from the UK. The Central Bank continues to present live cases to the Network for discussion at the monthly meetings.

6.4. ECB: Single Supervisory Mechanism (SSM)

In January 2018, the ECB held technical workshops (attended by the Central Bank) with banks in order to discuss the SSM’s expectations in relation to booking models, and to give banks the opportunity to provide feedback. Based on this feedback, the ECB has updated the presentation which was used at the workshops, and has published it on its website. [Omitted due to confidentiality].

[Omitted due to confidentiality].

6.5. ECB: International Relations Committee (IRC)

[Omitted due to confidentiality].

7. Special Topic: Brexit – An analysis of different customs unions[27]

Brexit discussions have recently focused on the EU Customs Union and on a set of 'customs arrangements' aimed at governing the trade in goods between the European Union and the United Kingdom once the UK has left the EU.

A customs union is a trading arrangement that allows two or more countries to remove tariffs or quotas within the area and to apply the same tariffs to goods imported from third countries (GATT, art. XXIV, par. 8). It consequently implies that the participating countries cannot have their own independent trade policies. A customs union is a necessary condition in achieving borderless trade, but it is not sufficient.

This note addresses these issues, going into the details of the current proposals and mapping them into the negotiators' redlines (see Table 7.4.1). The analysis suggests that these redlines would still need to be significantly altered to allow for frictionless trade, especially around the Irish Border.

7.1. Introduction

The UK is set to leave the EU on 30 March 2019. If by then, the parties have converged on the pending issues of the draft withdrawal agreement, a transition period will commence, lasting – based on the current draft – until December 2020. According to the agreement reached by negotiators last March, the four freedoms and the EU acquis will continue to apply during the transition period.[28]

7.2. Framework for the future UK-EU trade relationship

Maintaining strong trade relations is a key objective of the future agreement between the UK and the EU. Both parties have also agreed to avoid a hard border between Northern Ireland and the Republic

[27] Prepared by Silvia Calò (IR). This note describes different types of customs union arrangements. Trade in services and mobility of people and capital are only mentioned in relation to the customs union, since a customs union only addresses trade in goods. The governance of any agreement between the EU and the UK, the role of the CJEU, and the level playing field also have a major role in the trade deal, but are beyond the scope of this note. The political process in the UK, including the role of national and devolved parliaments, also plays a role in the process. For the sake of brevity, these are not considered here.

[28] Yet, the legal arrangement between the EU and the UK will change. For instance, the jurisdiction of the Court of Justice of the European Union (CJEU), will be complemented with the possibility of levying fines on the UK, in case a court ruling were expected to arrive after the end of the transition; the UK will also cease to have EU decision making powers and will leave the European System of Central Banks. Importantly, from a supply chain perspective, there is uncertainty as to how third countries will consider products with UK input, i.e. if they will be treated as originating in the EU or solely in the UK.

of Ireland in order to comply with the Good Friday Agreement. However, the UK is keen to regain national competencies in making trade deals with the rest of the world.

The future agreement between the UK and the EU can take different forms. It can resemble the status quo, be a customs union, a Free Trade Agreement (FTA) or fall back to WTO rules.

Currently, frictionless trade in goods within the EU is achieved through the interaction of the four freedoms (freedom of movement for goods, services, capital, and people). All EU member states apply the same common external tariffs, and the EU negotiates FTAs covering the entire bloc. This is the EU Customs Union. The EU Customs Union is then augmented and supported by the Single Market in services (covering among other services, those necessary for exports, like transports), the freedom of movement (used, for instance, by those providing export-supporting services), and by the common regulatory standards and legal framework (e.g. health and safety, level playing field). The customs union between the EU and Turkey is an example of *a* customs union, covering only a selected number of goods.

For services, the General Agreement on Trade in Services (GATS) applies if not agreed otherwise. The exclusion of services from a customs union is deeply linked to the lack of provision for freedom of movement, since cross-border services are often supplied by the presence of natural persons under different 'modes'.[29] With the surge in Global Value Chains (GCVs) goods and services are often bundled together (this type of cross-border supply of services is the co-called 'Mode 5' or 'service in a box') and this constitutes a growing share of exports within the EU. This bundling has complicated the functioning of customs unions, since the share of services supplied under Mode 5 included in the product is not exempt of tariffs.[30] A third of EU merchandised exports is estimated to be Mode 5.[31]

A customs union reduces the cost of trading but does not eliminate border controls. A customs union for goods relieves producers within the customs union from having to declare the source of their products at the border. Yet, in case some goods are not part of the agreement, a customs union does require checks at the border to avoid smuggling, as well as sanitary and conformity checks. The

[29] Under the GATS, services are supplied under four different modes: Mode 1 is the cross-border supply of a service (e.g. the blueprint of a new building is sent abroad); Mode 2 consists in consumption abroad (e.g. an individual crosses the border as a tourist); Mode 3 is when there is a commercial presence of a third-country supplier (e.g. a telecom company sets up commercial presence abroad); Mode 4 is when a worker crosses the border temporarily to provide a service (e.g. a business consultant).
[30] For instance, a piece of software does not incur a tariff if traded under Modes 1 to 4, but it is subject to the same tariffs of the good that incorporates it (e.g. a car, a smart lightbulb), when traded under Mode 5.
[31] Cernat, Lucian, and Zornitsa Kutlina-Dimitrova. "Thinking in a box: A 'mode 5'approach to service trade." *Journal of World Trade* 48.6 (2014): 1109-1126.

increase in Mode-5 trade also renders checks more important to avoid illegal movement of services, especially if different regulation in the third country compromises the level playing field in the importing area.

The absence of a border between Northern Ireland (NI) and the Republic of Ireland (RoI) is seen as a necessary condition to the perpetuation of the peace process in Northern Ireland as stated in the Good Friday Agreement. Currently, the internal market and the customs union, together with the four freedoms and the common travel area[32] guarantee a border without physical infrastructure. Moreover, EU funds from the Border Regions Fund provide resources for diminishing the frictions arising from the existence of a border, as intangible as it may be.[33] The border itself extends over 500 kilometres (comparable in length to the border between France and Spain, yet on flat land), with 208 official crossing points and many unofficial ones. With its geography and history, it is a politically sensitive area (Garry et al., 2018). At the same time, the amount of cross border commuting and crossings is significant. 2.3 million people live around the border, three quarter of these are located in Northern Ireland. Circa 23,000 people cross it every day for work or study. To put these numbers into perspective, the overall population on the island of Ireland is only 6.5 million people, while the number of commuters between NI and the RoI is comparable to cross-country commuting between Norway and Sweden. With Norway in the Single Market but not in the customs union, businesses operating across the EEA-EU border lament long queues at the border.

7.3. Customs arrangements proposed by the UK and the EU

In August 2017, the UK government presented a document 'Future Customs Arrangement – A future partnership paper'. It included two proposals for future dealings with the EU, under the name of a '***Customs Partnership***' and the '***Maximum Facilitation***' or '***Max Fac***'. **In July 2018 followed a further white paper: 'The Future Relationship between the United Kingdom and the European Union'**.[34] In this paper, the UK government presented a more detailed proposal for a *free trade area for goods***,** augmented with a '*Facilitated Customs Arrangement'*. The EU on its part, through its negotiator, has presented the '***Norway +***' option as the "*only frictionless model of trade between the EU and the UK*

[32] Ireland and the UK are not part of Schengen Area, but have a separate agreement for free circulation of people: the Common Travel Area

[33] Even within the EU, businesses operating between NI and the RoI face problems in having to comply with two different VAT registration systems, and face issues on access to public procurement due to different industry accreditations across the two countries.

[34] https://www.gov.uk/government/publications/the-future-relationship-between-the-united-kingdom-and-the-european-union

post Brexit".[35] This note will discuss these as well as the so-called '***Jersey Option***', which has been mentioned as a solution for the Irish border.[36]

7.3.1. The UK proposals

In the document 'Future Customs Arrangements – A future partnership paper', the UK Government illustrates the Brexit goals. The UK aims to leave the EU, establish its own trade policy, while continuing to trade freely with the EU27. The last two objectives cannot be achieved within the boundaries of a traditional customs union: while trade in goods would not be restricted by quotas and tariffs, an independent trade policy would imply the possibility of arbitrage between tariffs. The UK government has thus suggested two types of alternatives for a new customs system[37]: the 'Customs Partnership' and the 'Maximum Facilitation' scenario.

The *Customs Partnership,* while not being a proper customs union, would allow the UK to act as an external frontier for the EU by collecting tariffs and carrying out checks on imports. Being a custom *partnership* rather than a *union*, the UK would however retain an independent trade policy. This would require tracking goods entering the UK in order to determine their final destination - something viewed as a technical challenge that would take years to tackle. The EU would have to implement the same type of controls for goods directed to the UK and transiting through the EU, causing a financial burden to the EU. This would force businesses, especially the ones participating in GVCs, to assess the UK-originating share in their products and the product category under which those goods fall, a process that would take time and money.

While the *Customs Partnership* would partially address the issues raised by goods from third countries entering the EU through the UK (and vice-versa) in the absence of a common external tariff, it would still introduce mandatory crossing points over the Irish border. There would be the need for a harder border since it would not address – among other things – trade in services and regulatory compliance. If checks at the border were suppressed, the conformity of goods to EU regulation and customs duty would have to take place farther away from the point of crossing, increasing the probability of smuggling and tariff arbitrage. This remote monitoring would be financially more burdensome than standard customs since it would require the deployment of customs officers around the EU. Additionally, some types of goods like perishables need to be checked

[35] M. Barnier, Euranet Plus Summit, 22 May 2018

[36] Other possible scenarios, such as the 'two channels model' (here and here) – leaked from a UK document and based on a proposal by Northern Ireland civil servants – are beyond the scope of this analysis.

[37] 'Future Customs Arrangements – A future partnership paper', Executive summary.

while stored in specific warehouses, requiring further infrastructures. Currently, phytosanitary checks are carried out before goods enter the island of Ireland: there is a border at sea between Ireland and the UK/EU.[38]

In the other proposed solution, *Maximum Facilitation*, the UK would stay outside of the customs union, but help agents manage the administration of external trade. Through a series of pre-clearances, self-declarations, and waivers trade between the UK and the EU would be facilitated. Trade would take place based on the future long-term arrangement (or WTO rules), with the 'trusted trader' system reducing the cost of non-tariffs barriers. Most analyses however suggests that even this configuration would be onerous for small businesses. They would have to invest time and resources in obtaining the waiver, understanding the exact customs classification of their goods, conforming to the 'favourite dealer' standard or completing rule-of-origin forms, and dealing with different VAT systems, just to mention a few difficulties. And, ultimately, this proposal would still impose a physical border between Ireland and Northern Ireland**.**

Physical infrastructure at the border is politically sensitive. The recent study by Garry at al. (2018) on the attitude of people living in the border regions has highlighted the lack of support for North-South border checks. The study found a strong opposition to cameras, data sharing, and drones monitoring the border ranging from 15% to 30% of the respondents (20% to 40% among Catholics). Moreover, 55% and 70% of respondents would find it 'almost impossible to accept' biometric checks and advance applications. These types of infrastructures have at some stage been mentioned in the framework for making the Maximum Facilitation model work. Remote checks would incur the same problems highlighted for the Customs Partnership model*,* namely smuggling and quality assurance.

The ***Free Trade Area for Goods*** proposed in the July 2018 UK white paper contains several features of the Customs Partnership and Max Fac proposals. It is based on the proposition of having **tariff-free trade for all goods – including agriculture, food and fisheries – between the UK and the EU** yet allowing the UK to impose *its own* external tariffs through the mirroring of the EU tariffs in a *Facilitated Customs Arrangement*, as per the Customs Partnership model. To avoid checks at the border, the UK would selectively apply EU regulation ('rulebook') for manufactured goods – excluding all the regulation that could be checked remotely, and it would expedite declarations relying on technology, *à la* Max Fac. Services would be excluded from the agreement, and the UK would purse FTAs with other countries.

[38] Technically, the island is a single epidemiological unit with common rules for animal health and welfare.

Compared to previous proposals, the *Facilitated Customs Arrangement* provides some information over the functioning of the system, referring to the redistribution of customs duties through a 'revenue formula'. The *Free Trade Area* for goods, supported by the *Facilitated Customs Arrangement*, is presented as a solution to also avoid a border on the island of Ireland.

The limitations of this latest proposal are the same mentioned for the *Customs Partnership* and the *Max Fac*. The lack of checks at the border leaves the door open to smuggling and arbitrage, when tariffs do not coincide. Costs for firms and customs authorities would arise regardless of technological solutions. Moreover, there is no guarantee that the UK would continue implementing the EU rulebook, nor is it clear which parts of said rulebook would be deemed necessary for avoiding border checks, and hence voluntarily adopted and incorporated into British law.

As stated by Michel Barnier,[39] the UK confirmed in negotiations that they would not align with EU agri-food regulation, for instance on pesticides and GMOs, since their use is not checked at the border. This poses serious concerns regarding the compatibility of the proposed model with EU commitments to consumer protection. Moreover, the aforementioned trade in services under Mode 5 would pose a threat to the level playing field. Ultimately, in case of regulatory divergence or exclusion of some goods, a hard border would likely be necessary. Moreover the proposal implies that the EU delegates its customs policy to a non-member, which, according to M. Barnier, is unacceptable.[40]

7.3.2. The EU position

In order to preserve the Good Friday Agreement and to avoid a hard border between Northern Ireland and the Republic, the EU is willing to cross some of its redlines. The EU has accepted that on the island the four freedoms might be separated, in order to avoid a hard border, but this backstop cannot be applied to the whole of the UK.[41]

While some observers have flagged the *'Jersey Option'* as a possible compromise,[42] it is subject to multiple challenges. The '*Jersey Option',* is named after the Crown Dependency of the Bailiwick of Jersey. In simple terms, the Island is treated as part of the EU for the purposes of free trade in goods,

[39] M. Barnier, Press Conference after General Affairs Council (Art.50) – July 2018 (Brussels, 20 July 2018)
[40] M. Barnier, Press Conference following his meeting with D. Raab, UK Brexit Secretary (Brussels, 26 July 2018).
[41] "To avoid any confusion between the EU backstop & the UK customs paper: I reiterate that our backstop cannot apply to the whole UK. 4 freedoms are indivisible. This is not a rejection of the UK customs paper on which the discussions continue. #Brexit" Twitter account @MichelBarnier, 08/06/2018, 14:21.
[42] http://blogs.lse.ac.uk/europpblog/2018/02/14/britains-best-brexit-bet-is-the-jersey-option/

but otherwise is not a part of the EU.[43] Also, Jersey and Guernsey voluntarily adopt EU legislation and standards (this is often referenced as Jersey being in the single market for goods).[44] However, there is no generalised freedom of movement between the EU and Jersey.[45] It is a **complete customs union with full regulatory alignment.** In this, the Jersey Option is not too dissimilar from the July 2018 proposal of the UK government, yet the scale of the adoption of EU regulation is clearer and probably wider in the case of Jersey.

The adoption of the '*Jersey Option'* in Northern Ireland would probably impose a border in the Irish sea, crossing a redline for the UK government. Extending the' *Jersey Option'* to the whole of the UK would, in turn, overcome the latter, but create new challenges. It would maintain the UK inside the Single Market for goods but outside of it regarding services and allow restrictions to the movement of people,[46] crossing the EU redline on the indivisibility of the four freedoms. Also, it is worth stressing that the overall population of Jersey is roughly 100,000 people, and the Crown Dependency lists among its most important sectors financial services, agriculture and tourism. The scalability of such a model for a larger area, with a larger population, integrated in the GVCs has yet to be assessed. The role of the CJEU in maintaining a level playing field would also have to be clearly defined.

The model known as *Norway +* would solve the Irish border issue, not impose a border between Northern Ireland and the rest of the UK, and maintain the integrity of the four freedoms. The Norway+ option has been described by Michel Barnier as the only frictionless scenario for future EU-UK relations. As Norway, the UK would then be a member of the EEA, which allows free movement of people, contrary to the customs union with Turkey. The 'plus' would most likely consist of the UK also being in a customs union with the EU. In such a scenario, goods and services would be able to move freely across the UK and the EU, without the need for a physical border between NI and the RoI.

This model would however not offer the possibility for the UK to remain autonomous with regard to regulation and standards, and it would not allow for an independent trade policy. Moreover, the role of the CJEU in governing the EEA/EFTA could present an obstacle to UK policymakers. It would thus require the UK to soften many of its redlines.

[43] The formal relationship is set out in Protocol 3 of the UK's 1972 Accession Treaty. It was confirmed in Article 355 (5) (c) of the EU Treaties.

[44] https://www.gov.je/Government/Departments/JerseyWorld/pages/brexitandjersey.aspx

[45] States of Jersey ' Brexit report: the government of Jersey before notification by the government of the United Kingdom under Article 50 of the UK's intention to withdraw from the EU' 2017

[46] "What should Theresa May have said this week?" Prof. Alasdair Smith – UK trade policy observatory blog (Sussex U.)

7.4. Conclusions

This note has described six of the most proposed models for the future relation on trade in goods between the EU and the UK. All these proposals gravitate around the definition of a customs union and cross some redlines imposed by a party in the negotiations. In the '*Maximum Facilitation'* and '*Customs Partnership'*, the UK would factually remain outside of a customs union. These models would be expensive to operate and they would require the implementation of technological solutions that might be years down the line. The customs union option would take the parties into better-known territory, since a Customs Union already exists with Turkey. Without the addition of a '*Jersey Option'* for Northern Ireland, the UK proposals and the CU would not avoid a hard border on the island of Ireland, and would trigger the EU's backstop, in order to avoid it. The model proposed in the July 2018 UK White Paper would cover more goods than the customs union with Turkey, but it would be costly and it might require a border depending on the interpretation of the unilateral adoption of the EU rulebook by the UK, requiring a backstop. The '*Jersey Option'*, while a feasible way of avoiding a hard border if applied to Northern Ireland, appears difficult to extend to the whole UK without breaking the integrity of the four freedoms. The only option that preserves the integrity of the four freedoms and does not imply a border anywhere around the island of Ireland is the '*Norway +'* model. This model would however cross the UK redline of an independent trade policy for both goods and services.

Table 7.4: Likely outcomes of different customs union models

Model	Border NI/IE?	Border UK/NI?	Border EU/UK?	Four freedoms guaranteed?	Independent UK trade policy?
Customs Union*	Yes	No	Yes	No – goods only, some restrictions might apply	No (for goods), incorporated services controversial
Customs Partnership*	Yes	No	Yes	No	Yes
Maximum Facilitation*	Yes	No	Yes	No	Yes
July 2018 White Paper*	Yes	No	Yes	Unclear – if some services included to facilitate trade	Yes
Jersey Option (for NI)	No	Yes	Yes	Not Applicable	Not Applicable
Norway +	No	No	No	Yes	No, EU Common External Tariffs apply

* A border might be avoided between Northern Ireland and the Republic of Ireland if any of these scenarios were augmented with the 'Jersey Option' for NI. This could require a border between NI and the UK.

Glossary

AIFM Alternative Investment Fund Manager

AMS Asset Management Supervision Directorate

AUM Assets Under Management

BoE Bank of England

BoS Board of Supervisors

BTF Brexit Task Force

BSSD Banking Supervision Supervision Division

BSAD Banking Supervision Analytics Division

CA Competent Authority

CBI Central Bank of Ireland

CCP Central Counterparty Clearing House

Central counterparty clearing, also referred to as a central counterparty (CCP), is a financial institution that takes on counterparty credit risk between parties to a transaction and provides clearing and settlement services for trades in foreign exchange, securities, options and derivative contracts.

COSMO Core Structural Model of the Irish Economy

CPD Consumer Protection Directorate

CRE Commercial Real Estate

CPD Consumer Protection Directorate

CPI Consumer Price Index

CSD Central Securities Depository

CSDR Central Securities Depositories Regulation

CSO Central Statistics Office

DoF Department of Finance

EBA European Banking Authority

ECB European Central Bank

EEA European Economic Area

EIOPA European Insurance and Occupational Pensions Authority

EMI Electronic Money Institutions

EMIR European Market Infrastructure Regulation

The European Market Infrastructure Regulation is a body of European legislation for the regulation of over-the-counter derivatives.

ESMA European Securities and Markets Authority

ESA European Supervisory Authority

ESRI Economic and Social Research Institute

EUCO European Council

EURATOM European Atomic Energy Community

EY Ernst & Young

FCA Financial Conduct Authority

FCA Framework Cooperation Agreement

FMD Financial Markets Division

FOMC Federal Open Market Committee

FSC Financial Stability Committee

FSD Financial Stability Division

FTA Free Trade Agreement

GDP Gross Domestic Product

GWP Gross Written Premiums

HPI House Price Index

ICAAP Internal Capital Adequacy Assessment Process

IEA Irish Economic Analysis

INSA Insurance - Actuarial, Analytics & Advisory Services

IR International Relations

IPD Investment Property Databank

IRC International Relations Committee

The International Relations Committee of the ECB. The IRC is responsible for forming policy views and advising the ECB Governing Council or General Council on external issues to the EU (including the IMF). It meets in 28 NCB format.

IRC BTF International Relations Committee – Brexit Task Force

KFD Key Facts Document

LSF Labour Force Survey

The Labour Force Survey is a large-scale, nationwide survey of households in Ireland. It is designed to produce quarterly labour force estimates that include the official measure of employment and unemployment. The LFS replaced the Quarterly National Household Survey (QNHS) in January 2017.

LSI Less significant institution

MiFID Markets in Financial Instruments Directive

The markets in financial instruments directive (MiFID) aims to increase the transparency across the European Union's financial markets and standardise the regulatory disclosures required for particular markets. MiFID implemented new measures, such as pre- and post-trade transparency requirements, and set out the conduct standards for financial firms. The directive has been in force across the European Union (EU) since 2008. MiFID has a defined scope that primarily focuses on over the counter (OTC) transactions.

MiFIR Markets in Financial Instruments Regulation

MoU Memorandum of Understanding

MMoU Multilateral Memorandum of Understanding

MoUPG Memorandum of Understanding Project Group

MPC Monetary Policy Committee

MPD Markets Policy Division

MS Member State

MSCI Morgan Stanley Capital International

MTF Multilateral Trading Facility

NSA National Supervisory Authority

NTB Non-Tariff Barrier

NTMA National Treasury Management Agency

ORD Organisational Risk Division

OTF Overnight Trading Facility

PRA Prudential Regulatory Authority

The Prudential Regulation Authority is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.

PSD2 Directive 2015/2366/EU on payment services

PSSD Payment and Securities Settlement Division

RCU Registry of Credit Unions

RES Resolution Division

RI Retail Intermediary

RICS Royal Institute of Chartered Surveyors

RRE Residential Real Estate

RUK Rest of United Kingdom

SI Significant Institution

SMSD Securities Markets Supervision Division

SCN Supervision Co-ordination Network

SRD Supervisory Risk Division

SSM Single Supervisory Mechanism

TC-CCP Third-Country Central Counterparty Clearing House

TARGET Trans-European Automated Real-time Gross settlement Express Transfer system

TARGET2 is the real-time gross settlement (RTGS) system owned and operated by the Eurosystem.

UCITS Undertakings for Collective Investment in Transferable Securities

UCITS are open-ended investment funds and may be established as unit trusts, common contractual funds, variable or fixed capital companies or Irish Collective Asset-management Vehicles (ICAV).

WTO World Trade Organization