

**Ireland**  
**Memorandum of Understanding**  
**On**  
**Specific Economic Policy Conditionality**  
**(Eighth Update)**  
**XX April 2013**

1. With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this eighth update of the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) details the general economic policy conditions as embedded in Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland.
2. The quarterly disbursement of financial assistance from the EFSM<sup>1</sup> will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure (EDP), and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.
3. For the duration of the EU/IMF financial assistance programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, while protecting the most vulnerable. In particular, they commit to:
  - Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. Any additional unplanned revenues must be allocated to

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<sup>1</sup> On 28 November 2010 Eurogroup and ECOFIN Ministers issued a statement clarifying that euro-area and EU financial support will be provided on the basis of the programme which has been negotiated with the Irish authorities by the Commission and the IMF, in liaison with the ECB. Further to the Union support from the EFSM, loans from the EU and its Member States will include contributions from the European Financial Stability Facility (EFSF) and bilateral lending support from the United Kingdom, Sweden, and Denmark. The Loan Facility Agreements on these financing contributions will specify that the disbursements there under are subject to the compliance with the conditions of this Memorandum.

debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continue to strengthen the fiscal framework and reporting in line with EU requirements.
- Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.
- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible and on a sustainable basis.
- Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on *Pathways to Work* (the government's strategy for institutional reform of the activation system).
- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.
- Ensure that NAMA: (i) maintains the highest standards of governance with appropriate accountability and transparency arrangements; (ii) reduces the costs of its operations; and (iii) constructively contributes to the restoration of the Irish property market in the course of meeting the asset disposal targets established and monitored by the NAMA Board, including redemption of €7.5 billion worth of senior bonds by end 2013.
- Ensure that the restructuring of credit unions, via the Credit Union Restructuring Board, will underpin the financial stability and long term sustainability of the sector. The restructuring will be completed in as short a timeframe as possible under a clear plan identifying credit unions appropriate for restructuring, subject to Central Bank regulatory approval. As regards funding, the first call should be on the credit unions concerned or the sector as a whole; any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and will engage its resolution powers as needed, drawing on Resolution Fund resources if required.

- The authorities will report quarterly on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it with the staff of the European Commission, the IMF, and the ECB.
  - Ensure continued compliance with the minimum Core Tier 1 Capital ratio of 10.5% for all PCAR banks (AIB, BOI, and PTSB).
  - Consult ex-ante with the European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.
4. To facilitate programme monitoring, the authorities will provide the European Commission, the ECB and the IMF with:
- All information required to monitor progress during programme implementation and to track the economic and financial situation.
  - A compliance report on the fulfilment of the conditionality prior to the release of the instalments.
  - Reliable and regular availability of budgetary and other data as detailed in Annex 1.

## **1. Actions for the tenth review (actions to be completed by end Q1-2013)**

### **Financial sector reforms**

#### **5. Capital Assessment**

The authorities will provide the staff of the European Commission, the ECB and the IMF a review of developments in the PCAR banks relative to PCAR 2011. Overall results of this work will be published by end February 2013. The authorities will agree with the staff of the European Commission, the ECB and the IMF on the specific details of the review.

#### *Deleveraging*

6. The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

#### *Funding and liquidity monitoring*

7. The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

### *Asset quality*

8. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.
9. The authorities will publish banks' reported data on loan modifications, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.
10. The authorities will establish by end-March a public target requiring the principal mortgage banks to offer durable restructuring arrangements for a substantial share of problem mortgage loans during 2013.
11. Having secured adequate protections for debtors' principal private residence through the enactment of the Personal Insolvency Bill, the authorities will introduce legislation remedying the issues identified by case law in the 2009 Land and Conveyancing Law Reform Act, so as to remove unintended constraints on banks to realise the value of loan collateral under certain circumstances.

### *Financial supervision*

12. The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it with the staff of the European Commission, the IMF, and the ECB.
13. The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.
14. The authorities will engage with each bank to ensure appropriately prudent provisioning including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications.
15. Following completion of annual model performance reviews assessing banks' risk-weighted asset calculations forecasting and stress testing in advance of PCAR 2013, the authorities will report to the staff of the European Commission, the IMF and the ECB on progress with implementation of the findings from the credit regulatory capital review process and with the specific mitigating actions communicated to the banks.

## **Structural reforms**

### *Health sector*

16. The authorities will conduct a study to compare the cost of drugs, prescription practices and the usage of generics in Ireland with comparable EU jurisdictions.

## **2. Actions for the eleventh review (actions to be completed by end Q2-2013)**

### **Financial sector reforms**

#### *Capital assessment*

17. The authorities will report by end of May 2013 on the evolution of regulatory capital within the PCAR banks up to the end of December 2012, and will present and discuss their findings with the staff of the European Commission, the IMF, and the ECB.
18. The authorities will agree with the staff of the European Commission, the ECB and IMF on the specific features of the methodology for the PCAR 2013 stress test exercise.

#### *Deleveraging*

19. The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

#### *Funding and liquidity monitoring*

20. The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

#### *Asset quality*

21. In consultation with staff of the EC, ECB, and IMF, the authorities will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines setting out clear definitions and principles underpinning banks' provisioning models. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks
22. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.
23. The authorities will publish banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.

24. The authorities will propose a public target requiring the principal mortgage banks to complete durable restructuring arrangements on a substantial share of problem mortgage loans during 2013.
25. The authorities will establish individual bank targets requiring them to complete a substantial share of durable restructuring arrangements for SME loans in arrears in 2013.
26. The authorities will undertake a review of progress in addressing mortgage arrears.
27. While ensuring that balanced incentives and debtors' sustainability are maintained, the authorities will complete a review of the Code of Conduct on Mortgage Arrears (CCMA). The review will, among other things, explore: (i) reforming and streamlining the restrictions on contacts; (ii) amending the definition of a non-cooperative borrower; and (iii) permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long-term.

#### *Financial supervision*

28. The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the IMF, and the ECB.
29. The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.
30. The authorities will review the implementation of the 2011 CBI Provisioning and Disclosure guidelines by the covered banks with reference to the end-2012 published financial statements.
31. Upon publication of the EU directive establishing a framework for the recovery and resolution of credit institutions and investment firms, the authorities will review the Resolution fund levy regulation.

### **Structural reforms**

#### *State assets*

32. The authorities will report to the staff of the European Commission, the IMF, and the ECB on the quantum of the proceeds of any realised asset sales to date. For assets yet to be disposed, the authorities will report on progress made and remaining steps.

#### *Labour market reform*

33. The authorities will report to the staff of the European Commission, the IMF, and the ECB on the impact on the labour market of reforms to sectoral wage-setting mechanisms undertaken under the programme.

34. The authorities will prepare an action plan aimed at increasing the effectiveness of training and activation supports, building on the recommendations of the DSP Review of Employment Support Schemes and the evaluation of JobBridge by end-April 2013. The authorities will also review the progress in the rolling out of *Intreo* offices and define measures to address potential shortcomings. The authorities will communicate a timetable for the process of procuring activation services for the long-term unemployed from private providers.
35. The authorities will continue to redeploy and train staff from within the Department of Social Protection in order to significantly increase the number of *Intreo* case managers, substantially increase the number and proportion of group and one-to-one engagements with the long-term unemployed and provide them with adequate activation services. The authorities will report on progress in achieving the DSP objective of doubling of case managers by end-2013. They will also assess the skills adequacy of case managers and report on training needs and plans.

#### *Water services reform*

36. The Commission for Energy Regulation (CER) will carry out consultations to determine the framework for household water charges with a view to start charging by the end of the EU-IMF programme period. The CER will also conduct consultations in due course to determine the pricing methodology for the non-domestic sector.
37. The Government will publish the General Scheme of a Water Services Bill with the aim of defining the regulatory framework for the water sector under a national public utility setting and providing for the establishment of Irish Water in its final form. There will be prior engagement with the European Commission as appropriate, in developing the legislative arrangements.

#### *Health sector*

38. The authorities will develop an eHealth Strategy in conjunction with the HSE by end Q2 2013. This will serve as a time-bound action plan for the implementation of eHealth systems, including a comprehensive system of ePrescription which uses a unique patient identifier, such as the PPSN – to support and enable the delivery of integrated patient care under the reform agenda.

### **3. Actions for the twelfth review (actions to be completed by end Q3-2013)**

#### **Financial sector reforms**

##### *Capital assessment*

39. The authorities will complete the PCAR 2013. Building on the outcomes from PCAR 2011 and the FMP 2012, the authorities will conduct another rigorous stress test and this will continue to be based on robust loan-loss forecasts and a high level of transparency. This stress test will draw on an assessment of the banks' calculation of

risk weighted assets, loan loss forecasting, and capital modelling. Before publication, the results of the PCAR 2013 will be discussed with the staff of European Commission, the IMF, and the ECB and will be aligned with the timing of the next EBA exercise. The results and methodology will be published in full and on a bank-by-bank basis, and the authorities will accordingly ensure that banks are adequately capitalised.

40. The authorities will report on the evolution of regulatory capital up to the end of June 2013 within the banks covered by the PCAR and will present and discuss their findings with the staff of the European Commission, the IMF, and the ECB.

#### *Deleveraging*

41. The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

#### *Funding and liquidity monitoring*

42. The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

#### *Asset quality*

43. The authorities will keep under review the effectiveness of statutory repossession arrangements in Ireland based on ongoing experience with repossession actions. Issues such as length, predictability and cost of proceedings, systems for dealing with non-cooperative borrowers and investment property debts will be included in this review. Where necessary appropriate measures will be brought forward quickly to deal with any problems arising
44. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.
45. The authorities will publish banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.
46. Following consultation with the staff of the European Commission, the ECB and the IMF the authorities will establish a public target requiring the principal mortgage banks to complete durable restructuring arrangements on a substantial share of problem mortgage loans during 2013. A public target will also be set for the share of concluded arrangements for which the terms are being met to ensure the quality and durability of such arrangements.



### *Financial Supervision*

47. The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the IMF, and the ECB.
48. The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.

### **Structural reforms**

#### *Access to SME credit*

49. Based on experience of the operation of the Insolvency Service in the personal insolvency reform, the authorities will consider the appropriateness of further enhancements to the company law framework to facilitate restructuring, especially in multi-creditor cases, reduce costs and achieve efficiency gains, including the potential for an administrative body to facilitate SME restructuring.

#### *Water services reform*

50. The Government will publish, as early as possible in Q3 2013, a Water Services Bill with the aim of defining the regulatory framework for the water sector under a national public utility setting and providing for the establishment of Irish Water in its final form. There will be prior engagement with the European Commission as appropriate, in developing the legislative arrangements.
51. The Government's budgetary perspective will be based on Irish Water becoming substantially self-funded over time.

#### *Further education and training*

52. The authorities will conduct by September 2013 a strategic review of the training and education provision offered by Education and Training Boards (ETBs) to guide the strategic work of SOLAS and the FET provision by ETBs. The review will evaluate the FET provision in terms of its relevance for labour activation purposes, i.e. whether it is suited to the needs and abilities of the large pool of unemployed, in particular the long-term unemployed, and to the prospective skills needs of the economy. The review will provide an assessment of the existing provision as well as recommendations to enhance their relevance for activation purposes.

### *Health*

53. The authorities will set high level annual targets for increasing the share of generic drug usage in the medium-term. Enabling measures – such as compulsory prescription by International non-proprietary name (INN) by end 2013, where appropriate – required for the achievement of these targets will be put in place and kept under further review.

#### **4. Actions for the thirteenth review (actions to be completed by end Q4-2013)**

##### **Financial sector reforms**

###### *Deleveraging*

54. The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and run-off targets in nominal value terms will be discussed with the staff of the European Commission, the IMF, and the ECB.
55. The authorities will produce a final report on progress towards compliance with Basel III liquidity and funding requirements by the relevant dates.

###### *Asset quality*

56. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.
57. The authorities will publish banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.

###### *Financial Supervision*

58. The authorities will present a final comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the European Commission, the IMF, and the ECB.
59. The authorities will provide a final report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.
60. The authorities will ensure, subject to the enactment of the Credit Reporting Bill and the completion of project due diligence, that the Central Credit Register is at an advanced stage of development. The authorities will also present a final comprehensive report on progress in implementing the Central Credit Register and discuss it together with the European Commission, the IMF, and the ECB.

## **Structural reforms**

### *Labour market reform*

61. The authorities will report on compliance with the action plan to double the number and ensure adequate training of Intreo case managers.

### *Water services reform*

62. The CER will establish the framework to assess water charges for households, including those without meters. Irish Water, in association with the authorities and the CER, will inform the public on the level of water charges and launch a communication campaign building on the one initiated in February 2013.

## Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the staff of the European Commission, the IMF, and the ECB by the Irish authorities on a regular basis. The External Programme Compliance Unit (EPCU) of the Department of Finance will coordinate and collect data and information and forward to the staff of the European Commission, the IMF, and the ECB.

<b>To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate</b>		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 105 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly, 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly, 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation)	Quarterly, 30 working days after the end of each quarter
F.10	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
F.11	Report on implementation of budgetary measures in the health sector, covering inter alia assessment of timeliness and effects vis-à-vis 2013 Budget plans and explanation for any delay/shortfall, as well as update on status of any remaining actions required for effective implementation.	Monthly, 30 working days after the end of each month.
F.12	Report comparing, against the monthly targets: (i) health expenditure by mains service areas, (ii) pay and non-pay element	Monthly, 7 working days after the end of

	of current expenditure, (iii) capital expenditure and (iv) income collected.	each month.
F.13	Report on pharmaceutical prescriptions and expenditure, including information on value and volume of drugs and the extent of the use of generics and off-patent drugs.	Quarterly, 30 working days after the end of each quarter.
<b>To be provided by the NTMA</b>		
N.1	Monthly information on the central Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt.	Monthly, 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months	Monthly, 30 working days after the end of each month
<b>To be provided by the Central Bank of Ireland</b>		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month.	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts including LDR, NSFR and LCR outturns and forecasts.	Quarterly, 40 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes from the banks and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month
C.7	Deleveraging reports including (i) progress achieved towards deleveraging in line with the 2011 Financial Measures Programme; and (ii) actual and planned asset disposals.	Quarterly, 40 working days after the end of the reference period.