Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Brexit – Preparedness & Transitional Arrangement for Investments

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Brexit Risk – Preparedness in Credit Unions

Overall Brexit Context:

- There remains considerable uncertainty around Brexit & the potential impact on the Irish economy:
  - ‘No deal’ Brexit related-risk to credit unions remains environmental in nature, stemming from macro-economic factors.
  - Individual credit unions may have specific vulnerabilities dependent on location, business model activities & characteristics of the local economy.
- ***Vital that credit unions ensure that they are adequately prepared for Brexit*** including the risks of disruptive frictions in the future EU-UK relationship.

Credit unions should continue to identify, monitor and action potential Brexit-associated risks and regularly review and monitor those risks already identified and recorded on their risk registers, ensuring that in all instances appropriate risk mitigants are identified and implemented.

Brexit related risk – Key considerations & supervisory expectations

Credit Risk: Assessment of loan provisioning adequacy & potential lending concentration risks to those sectors most affected by Brexit.

Prudent Reserve Management: Credit unions must be cognisant of the significant risks posed by a potential disruptive Brexit – maintaining & building adequate levels of reserves is key to ensuring credit union financial stability & resilience.

Operational Risks: Credit unions should also be mindful of compliance with broader requirements such as GDPR & Payments Regulation (EU) 2015/847 (the Wire Transfer Regulation) if applicable & wider operational risks, including IT/cyber risk considerations in the current uncertain environment.

Investments: See next Slide.

Amendments to Regulations - Brexit Transitional Arrangement

- Under Central Bank Credit Union Regulations, credit unions are permitted to invest in accounts in credit institutions or bank bonds issued by credit institutions. For this purpose, a credit institution is defined in the regulations as a person authorised as same pursuant to Directive 2013/36/EU (CRD).

- At the end of the 12 month transition period (31 December 2020), based on the current definition in Central Bank Credit Union Regulations, credit union investments with UK credit institutions that do not have an EU authorisation would no longer fall within the definition of a credit institution under the regulations – such investments would become non-compliant with the Investment Regulations.

- Amendments to regulations will provide a transitional arrangement permitting retention of existing investments in UK credit institutions, that would become non-compliant post Brexit as follows; (i) until maturity for fixed term investments; and (ii) for up to two years for other investments.

Additional Amendments

- **Definition of "relevant liquid assets"** – balances in the minimum reserve account in excess of the ECB minimum reserve requirement will be included in the definition of liquid assets.
  - following the ECB's introduction of a two-tier system for remunerating excess liquidity holdings, credit unions may choose to place additional liquid funds in their reserve deposit account at the Central Bank.
  - where these funds are in excess of their minimum reserve requirement, these excess funds are withdrawable.
- **Maturity limits** – extend marginally the maturity limit for investments in Irish & EEA State Securities & supranational bonds to ensure that credit unions are not precluded from participating in primary issuances of these bonds.
- Statutory consultation with Minister, CUAC & credit union bodies is underway – regulations should commence before the end of the year.