Response to Consultation on Potential Changes to the Investment Framework for Credit Unions (Consultation Paper 109 ("CP109"))

Caherdavin & District Credit Union Limited ("CDCU") is based in Limerick city and operates 3 full time offices and 2 sub offices. It has a membership of over 26,000. As at 30th September 2016 the total assets were in excess of €110 million, including an investment portfolio of €84 million.

CDCU welcomes the opportunity to make a submission on CP109. We set out below our key concerns and observations in relation to CP 109.

Liquidity:	Our view is that CP109 does not address liquidity. We believe it is difficult to consider the Investment Framework without taking liquidity into account. We believe that any discussion on the Investment Framework should be broadened to include a discussion on liquidity. In particular, presently given the low levels of investment returns and the liquidity requirements for credit unions, there is a capital risk as a result of negative interest rates. We are also of the view that certain bonds should be included in the definition for liquidity. We would welcome more clarity about the liquidity position of government bonds and consider that they should be included in the definition for liquidity.
Counterparty:	Our view is that the reduction in Counterparty limit from 25% to 20% will increase the challenge on credit unions placing short term deposits. Presently, there is shortage of counterparty options and given banks lack of appetite for short term funding, it is becoming increasing difficult to place funds and observe counterparty and liquidity limits without a capital losses on funds as a result of negative interest rates. We do not believe that this will have any impact on reducing risk in placing deposits with Irish Banking Institutes.
Type of Investment:	In the current investment environment, it is difficult for credit unions to source appropriate and suitable investments. At present we can place up to 70% of our investments in senior bank bond and they provide the credit union with the most risk averse income available in the current climate.

The proposed amendments to authorised Bank Bonds is a huge concern, given likely issuance of bonds in the future. CP109 proposes that the new types of bond issues (senior non-preferred) will be prohibited. As existing traditional unsecured bonds mature, it will place greater pressure on income.

We consider that some of the larger credit unions have the skills and expertise necessary to invest in more complex investments, including senior bank bonds and would favour a tiered regulatory approach to such investments.

Risk / Return: We consider CP 109 to unduly focus on risk, and not on return, i.e. looking at one side of the investment equation. IT ignores the fact that reduced return on your investments (which are approx. 70% of most credit unions total assets) create a serious risk to viability. We would add that the proposals contained in CP109 will create a capital risk to credit unions as they are investing in a negative interest rate environment. A return on the investment is vital to ensure viability of the Credit Union.

Income: At a time when credit union income in under severe pressure, the proposals contained in CP109 will increase the pressure and question the viability of the sector to generate a surplus to sustain its regulatory capital requirements. The cost of running our credit union including all the costs of governance has increased considerably over the last number of years. By restricting the ability of credit unions to invest in senior bank bonds this could have the effect of credit unions trying to increase their loan books and being less prudent regarding the quality of their lending.

We have modelled below the scale of the impact on our own credit union. We have used the average returns between 2003 and 2017 to model the impact. This is a sufficiently long period to contextualise the impact over the longer term.

	Caherdavin CU
Deposits	48%
Bank Bonds	52%
EEA State Securities	0%
Other	0%
	100%

Investments	**85,034,517**
Deposits	731,101
Bank Bonds	1,272,281
EEA State Securities	0
Other	0
Total	**2,003,382**
Income to Credit Union	2,003,382
Return %	2.36%
Income ex-bonds	731,101
Return ex-bonds %	0.86%
Reinvested in Deposits	580,974
Net Cost to CU at current %	691,307
% of Income (cost)	**35%**

	EURIBOR (3M)	Irish 10 yr Generic	Senior Bank Bond	Overnight Deposit	Term Deposits
Average (2003-2017)	1.56%	4.12%	2.88%	0.41%	2.22%
Current	-0.37%	0.78%	0.52%	0.00%	0.00%
Difference	1.93%	3.34%	2.36%	0.41%	2.22%

Investment Classes: While we welcome the opportunity to invest in Corporate Bonds, as we believe this will diversify the investment portfolio and lessen the weighting towards financial/bank investments. We cannot ignore the increased risk to the credit union as corporate bonds are unregulated. This would have the effect of adding riskier investments to our portfolio.

AHB: We consider that there is not sufficient information to determine the suitability and viability of investing in AHBs. How would we determine the return over a period of 25 years. The risks regarding default would also need to be clearly understood.

Thank you for taking the time to review this submission

Yours sincerely

On Behalf of Caherdavin & District Credit Union Limited