

Submission from Cathedral Credit Union Ltd on Consultation Paper CP109

We wish to make some observations and suggestions regarding the following potential change to the Investment Framework for Credit Unions, as outlined in your consultation paper CP109 dated May 2017 :

Overall Counterparty Limit

We are concerned that consideration is being given to a reduction in the overall counterparty limit from 25% to 20% of a credit union's total investments that may be exposed to an individual counterparty.

The reduction in the number of Republic of Ireland based financial institutions in recent times has greatly curtailed the deposit and investment options for credit unions. These options will be further reduced at the end of June 2017 following the exit of Rabo Direct from the credit union deposit market. The potential change in the overall counterparty limit could not be contemplated at a more inopportune time for credit unions, particularly with the increasing absence of choice in Irish based financial institutions. Like many other credit unions, we have always pursued a conservative policy in the placing of Members funds with other financial institutions. This policy has stood many credit unions in good stead during the meltdown in the financial sector over the past ten years, when no loss was incurred on credit union deposits and investments. If the limit is reduced to 20%, it will severely restrict credit unions in making appropriate investment decisions in line with their investment risk appetite in the best interests of their Members.

The justification put forward by the Central Bank in CP109, for the potential reduction in the overall counterparty limit, is an over concentration in existing credit union portfolios and the tendency for credit unions not to use all existing available investment options. We would contend that the existence of a particular investment option doesn't mean that it is right for an individual credit union to avail of it. We would argue that it should remain the prerogative of the board of directors to decide what investment options are best suited to the investment risk appetite of their individual credit union. It is after all Members Savings that are being invested by credit unions and the primary objectives of a board of directors is to protect Members Savings and maintain the financial stability of their credit union.

We would, therefore, earnestly request that the existing overall counterparty limit would remain at 25% of a credit union's total investment portfolio. We would be concerned that if individual credit unions are "forced" into placing Members funds into investment options just because they are available, that it will undermine the authority and independence of individual boards of directors, dilute the effectiveness of their investment risk appetite and potentially increase the risk to the security of Members savings and the financial stability of credit unions.