Credit Union Plus Ltd.

RESPONSES TO THE CENTRAL BANK'S QUESTIONS ON CP109

1. **Do you have any comments on the current level of diversification in credit union investment portfolios? Are there any barriers to the use of existing diversification options within the current investment framework? If so, please provide details and any suggestions to address these.**

   a. The present level of concentration in credit unions' portfolios is a reflection of the investment environment whereby credit union funds are no longer an attractive proposition for deposit institutions, leading to ultra-low or indeed negative investment returns. There are limited diversification opportunities for credit unions.

   b. Classes of Investments – *A credit union may only invest in euro denominated investments*. Section 43 (3) suggests that "...the Bank may prescribe investments in which a credit union may invest its funds.....including any of the following ...(e) the currency of a class of investments (f) limits for investment, whether by reference to maturity, currency, counterparty, sector, instrument or otherwise". It would seem that investment in currency other than €uro is possible under the regulations. Investment in currency other than €uro within EEA, given appropriate foreign currency hedging (e.g. guaranteed forward contracts) would allow credit union portfolio diversification and access to greater investment opportunities (also as proposed in our CP88 submission).

2. **Do you have any comments on the potential introduction of additional investment classes for credit unions and the appropriateness of the classes being considered by the Central Bank?**

   The concept of introducing additional investment classes is welcomed. We believe that referencing the concentration limits to a percentage of regulatory reserves will not be any major advantage. While we consider the investment classes to be appropriate each has particular attaching risks which when mitigated may nullify any diversification advantage.

3. **Taking account of the appropriate risk profile for credit union investments, are there any additional investment classes that the Central Bank should consider? If so, please outline the investment classes and why such investment classes are considered appropriate for credit unions.**

   The traditional investment opportunity of Bank Bonds to include senior non-preferred bond issues should be reconsidered to allow some credit unions maintain their investment returns on existing bond maturities.

4. **Do you have any comments on the potential to include supranational bonds in the list of authorised classes of investments set out in credit union investment regulations with a minimum credit rating requirement and maturity limit?**

   This inclusion is welcomed. However we do not believe that this will lead to further significant diversification due to the underlying sovereign backing.

5. **Do you have any comments on the suggested concentration limit for credit union investments in supranational bonds? If you have suggestions, please provide them along with supporting rationale.**

   We believe that tying the concentration limit to regulatory reserves will be difficult to manage and will disproportionately add to the level of administration and costs.

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6. **Do you have any comments on the potential to include corporate bonds in the list of authorised classes of investments set out in credit union investment regulations with a minimum credit rating requirement and maturity limit?**

   While the proposal is welcome there is a likelihood that investments will be channeled towards higher yielding bonds thereby jeopardizing any diversification advantage.

7. **Do you have any comments on the suggested concentration limit for credit union investments in corporate bonds? If you have suggestions, please provide them along with supporting rationale.**

   We believe that tying the concentration limit to regulatory reserves will be difficult to manage and will disproportionately add to the level of administration and costs.

8. **Do you think it is appropriate for credit unions to undertake investments in AHBs? If so, please provide a rationale.**

   One of the objects of the credit union as described in the Credit Union Act 1997 is "the improvement of the well-being and spirit of the members' community". Social Housing is complementary to the ethos of the credit union and investment in AHB's would seem to be an appropriate channel. However we believe that the conduit for this initiative should embrace prudent and viable mechanisms which would be of mutual benefit to the credit union members and the social housing clientele.

   We would support and endorse the Credit Union Development Association's view on this issue.

9. **What would the most appropriate structure for investments in AHBs be e.g. investment vehicle?**

   Our belief is that a special fund in the form of a Collective Investment Scheme or a Special Purpose Vehicle would be the most suitable structure given that not all credit unions have AHB's in their common bond. However the ethical and community fit is a good one and all credit unions should have opportunity for investment to fulfill their corporate social responsibility.

10. **What do you consider to be the risks associated with this type of investment and what mitigants do you feel are available to manage these risks?**

    Generally the risks associated with investing in this sector could be identified as Operational Risks, Strategic Risks (social, economic and political risks) and Compliance Risks (legal, regulatory and control risks).

    The primary mitigants would be the initial and ongoing due diligence on the Tier 3 Approved Housing Bodies to include regular value in use assessments and governance confirmations, guarantees surrounding the CIS's or SPV's and a regulated environment for the investment vehicle.

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**11. How can the ALM issues associated with such investments be addressed by credit unions?**

If the investment is provided via a central fund or vehicle the Asset and Liability Management can be accommodated as can the common bond related issues.

**12. Given the existing mismatch between the maturity profile of the sector's funding and assets and the likely maturity profile of such investments, the Central Bank is of the view that the concentration limit would need to be set at a level that reflects this. Do you have any views on what an appropriate concentration limit would be for such an investment? What liquidity and ALM requirements could be introduced to mitigate these risks and potentially facilitate a larger concentration limit?**

As it is unlikely that an early exit strategy would be available for such investments and that initially there would not be sufficient volume to create a marketable product it is suggested that a low percentage of investment portfolio (say 7.5%) would be acceptable. However if the ALM mix improves, necessitating a requirement for more appropriate matching, then a step up factor could be introduced requiring further liquidity based on the quantum in this investment category.

Further ALM balancing could be achieved by the introduction of longer term credit union deposits to capitalize on the historical "stickiness" of members' unattached shares.

**13. Do you have any comments on the proposal to include investments in Tier 3 AHBs in the list of authorised classes of investments set out in credit union investment regulations with a 25-year maturity limit?**

We believe that a 25 year maturity term is necessary for a viable social housing scheme and hence the investment should mirror this term

**14. Do you have any comments on the proposal to amend the existing counterparty limit for credit union investments? If you have suggestions, please provide them along with supporting rationale.**

We do not believe that the diversification proposals outlined in CP109 are adequate to justify the dilution of the current Counterparty limits.

**15. Do you have any comments on the proposed transitional arrangement to reduce the counterparty limit to 20% of total investments?**

As per 14 above.

**16. Do you have any comments on the use of collective investment schemes for credit union investments?**

While we agree that Collective Investment Schemes are beneficial for diversification purposes we recognize that in the current investment environment these mechanisms come at a prohibitive cost.

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**17. Are there any barriers to credit unions using collective investment schemes in the existing investment regulatory framework?**

We do not believe that the existing investment regulatory framework contributes to barriers rather the lack of return, the accounting treatment and the costs.

**18. Do you agree with the proposed timelines for the introduction of potential changes to the investment framework set out in this consultation paper? If you have other suggestions please provide them, along with the supporting rationale.**

The proposed timelines are suitable.

As stated above we do not agree with:

a. tying concentration limits to Statutory Reserves
b. reducing the counterparty limits to 20%

John Grogan
Chief Executive Officer

on behalf of

Credit Union Plus Ltd.