Registry of Credit Unions
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin 1

26th June 2017

rcuconsultation@centralbank.ie

Dear Sirs.

Enniscorthy Credit Union Limited (EYCU) is pleased to have the opportunity to comment on the consultation on potential changes to the investment framework for credit unions CP109 and responds as below.

The selected responses below are listed as per the numbered list taken form Section 7, Summary of areas where the Central Bank is seeking views. These responses will attempt to answer the questions raised and highlight other areas of concern for the credit union.

**The Central Bank is seeking views on the following:**

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.

   The current level of diversification reflects rational allocation of investments given the returns available. CP109 makes no reference to returns other than the fact that the level of return is not a consideration when deciding on the appropriateness of an investment. There is a requirement to consider returns to ensure the credit union remains viable as per regulatory and member requirements.

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?

   EYCU welcomes the addition of alternatives to the current investment options available. However, with the introduction of a suggested change whereby the maximum percentage of investment allowable will be based on a percentage of the regulatory reserve as opposed to a percentage of the investment portfolio, will offer very little chance for credit unions to enhance their returns to maintain viability.

   There also seems to be a conflict in terms of risk with the proposed new categories of investment. For example the removal of senior non-preference bank bonds which are suggested as being riskier in this paper and the introduction of 25 year investments which no doubt will cause risk issues in relation to liquidity would appear to be in conflict.

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?

   EYCU welcomes the proposal to increase the counterparty options, however the intention to restrict the allowable limit invested in this category to a maximum of 50% of regulatory reserves would add little diversity to the overall portfolio.

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.

   EYCU would recommend increasing the quantity to a percentage of investments as opposed to a percentage of regulatory reserves. This would be consistent with the existing methodology employed by the central bank for the purposes of prudential returns.

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

   In keeping with the credit union ethos and the need to satisfy our social responsibility EYCU welcomes the proposed opportunity for credit unions to invest in Approved Housing Bodies. In the absence of detail and more specifics however it is hard to articulate what appetite the credit union may have for this investment vehicle.

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

   In the absence of details on the returns it is hard to be specific on the vehicle. The credit union has an appetite to provide funding to social housing and community oriented investments. The appetite is generally for these investments to make an impact locally.

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

    More detail on the specifics being considered. Term risk, capital risk, liquidity risk, counterparty risk are all important considerations.

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

    Assuming that the funds would be unavailable for the duration of the investment it would certainly have an impact on the duration of credit unions portfolio. The limit to 50% of regulatory reserves limits this to approximately 9% of total investments which is a relatively high percentage to lock out for 25 years.

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 would not support an amendment to the current limits at this time. European banking institutions are currently exiting the domestic Irish banking market. Irish domestic banks are currently pricing away non-bank financial intermediary deposits and in the current environment credit unions are already struggling to preserve capital with negative interest rates being applied by many domestic and most European deposit providers.

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

    We are not of the view that the introduction of this measure is appropriate at this time.

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.

    We welcome the additional categories such as supranational bonds, corporate bonds and AHBs introduced as soon as possible. As outlined above, we believe that any reduction of counterparty exposure limits in the absence of more domestically available deposit providers should not be considered at this time.