



Teachers' Union of Ireland Credit Union

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Registry of Credit Unions

Central Bank of Ireland

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28th June 2017

Dear Sir or Madam,

Teachers' Union of Ireland Credit Union (TUI Credit Union) welcomes the opportunity to reply to the Consultation on Potential Changes to the Investment Framework for Credit Unions (CP 109).

Credit Unions have seen a significant decrease in investment returns over the last number of years to the extent that negative interest rates have become the norm. At all times Credit Unions are mindful of our responsibility to protect member resources, however the current investment environment has placed significant challenges for Credit Unions to generate sufficient income to remain viable.

While the proposal to introduce new investment classes is greeted, CP 109 proposes to restrict investment in Bank Bonds putting forward as an alternative, low yield "A" rated Supranational and Corporate bonds while curtailing the amounts allowed invested with limited concentration limits.

CP 109 does not propose any amendments to the existing liquidity requirements that Credit Unions find themselves operating under when compared with requirements within other sectors.

TUI Credit Union wish to make the following responses;

- **Bank Bonds**

The proposal by the Central Bank to redefine/amend the definition of Bank Bonds should be reassessed. Bank Bonds are a key source of investment yield for TUI Credit Union. Investment in Bank Bonds (that have a defined maturity or are not perpetual in their nature) should be linked to the credit rating of the specific Bank Bonds. It could be the case that a senior unsecured non-preferred bond would carry a higher credit rating than Irish and EEA State Securities.

- **Liquidity**

We would recommend that a review of the liquidity requirements for Credit Unions be undertaken especially given the current negative interest rate environment. We would request the recognition for the inclusion of Bank Bonds, Sovereign Bonds, Supranational Bonds and Corporate Bonds within the definition of liquid assets. When considering the deposit rates within the three mainstream Irish Banks it clearly shows the uncompetitive nature of these requirements in creating additional challenges for Credit Unions to generate sufficient income levels to remain viable.

Bank	Call	1 Month	2 Months	3 Months
Bank of Ireland	-0.40%	-0.80%	-0.80%	-0.80%
A.I.B	-0.40%			-0.33%
Permanent TSB	0.00%	0.00%	0.00%	0.01%

Deposit rates as at 28th June 2017.

- **Investment in Approved Housing Bodies (AHB's)**

The inclusion of Approved Housing Bodies (AHB's) as an additional investment class is welcomed. As these investments are for a period of 25 years with no liquidity, Credit Union liquidity calculations should be revised in line with the proposal. We await further details on the proposed appropriate concentration limits.

- **Corporate Bonds**

The inclusion of Corporate Bonds as an additional investment class is welcomed however, the proposal allows for limited concentration limits (25% Regulatory Reserve - €900,000) for TUI Credit Union to invest in Corporate Bonds and will have very limited impact on the Credit Union's overall investment yield. TUI Credit Union would encourage the Central Bank to apply a total bond holding (i.e. Irish and EEA State Securities, Bank Bonds, Supranational Bonds and Corporate Bonds) concentration limit of 70% of the total credit union investment portfolio consistent with the 2016 Regulations.

- **Supranational Bonds**

The inclusion of Supranational Bonds as an additional investment class is welcomed. In line with our point raised regarding the concentration limits for Corporate Bonds we would recommend increasing the concentration level to 70% of the overall investment portfolio for universe bond holding. Potentially replacing investment grade Bank Bonds with low yield longer term Supranational Bonds will significantly reduce Credit Unions investment yields. The inclusion of Supranational Bonds as part of a balanced portfolio should be emphasised but the proposed concentration limits will be restrictive to achieving this.

- **Counterparty exposure**

TUI Credit Union would not support the proposal to amend the existing counterparty limit for Credit Union investments. The proposed reduction in the counterparty limit would place additional counterparty strain on TUI Credit Union's investment portfolio especially when the number of financial institutions available is decreasing.

Yours sincerely,

Paul Roche

Chief Executive Officer

Teachers' Union of Ireland Credit Union Limited