Reply to Consultation Paper CP109

Paragraph 3.3.2: Impact of the BRRD for Credit Union Investments

It is noted that the Central Bank is proposing to amend the definition of bank bonds in the 2016 Regulations to clarify that bonds that are subordinated to any senior bonds issued by a credit institution do not fall within the definition of "bank bonds" set out in the regulations.

While we accept that there is now a greater risk for a credit union to invest in bonds that are subordinated to any senior bond issued by a credit institution, we do not feel that credit unions should be completely excluded from investing in these bonds.

Section 43 of the 1997 Act requires that credit unions have investments that do not involve undue risk to members' savings. There are circumstances where a limited amount invested in subordinated bonds would not put members' savings at risk.

We would ask that the Central Bank reconsider their proposal that subordinated bonds do not fall within the definition of "bank bonds" and set out parameters whereby credit unions may invest in these bonds.

Section 4: Potential Additional Investment Classes

<u>Q1: Comments on the current level of diversification in credit union investment portfolios. Any barriers to the use of existing diversification?</u>

We feel the current level of diversification in credit union investment portfolios is too restrictive and limited due to the number of options available to credit unions.

<u>Q2: Comments on the potential introduction of additional investment classes for credit unions and the appropriateness of the classes being considered by the Central Bank</u>

We welcome the introduction of the additional investment classes and consider these to be appropriate for investments by credit unions.

Q3: Any additional investment classes that the Central Bank should consider?

None at this stage, but depending on the success or otherwise of the investment in Tier 3 Approved Housing Bodies, the Central Bank may consider allowing credit unions invest in any Special Purpose Vehicle or Public Private Partnership at a later stage.

Section 4.1: Bonds issued by Supranational Entities

Q4: 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

We welcome the inclusion of supranational bonds in the list of authorised classes of investments set out in credit union regulations with minimum credit rating requirement and maturity limit.

Q5: Comments on the suggested concentration limit for credit union investments in supranational bonds

We agree with the Central Bank that investment in supranational bonds should not exceed 50% of the credit union's regulatory reserve.

Section 4.2: Corporate Bonds

Q6: 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

We welcome the inclusion of corporate bonds in the list of authorised classes of investments set out in credit union regulations with minimum credit rating requirement and maturity limit.

Q7: Comments on the suggested concentration limit for credit union investments in corporate bonds

We agree with the Central Bank that investment in corporate bonds should not exceed 25% of the credit union's regulatory reserve.

Section 4.3: Investments in Approved Housing Bodies

Q8: Do you think it appropriate for credit unions to undertake investments in AHBs

Yes.

<u>Q9: What would be the most appropriate structure for investments in AHBs</u>

Investment vehicle.

<u>Q10: 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</u>

The main risk associated with this type of investment is that funds invested will be made long term but the source of these funds is the members' shares which are available on demand.

It is utmost importance that the credit union meets the needs of the members who wish to withdraw shares in order to manage any risk associated with this type of investment. In our credit union shares have increased year on year for a number of years and we anticipate that this trend will continue.

This is due mainly to the credit union offering a competitive dividend to members and that members have full confidence in the governance and operation of their credit union. If these two features are maintained the credit union will be in a position to manage the risks involved with this type of investment.

<u>Q11: How can ALM issues associated with such investments be addressed by credit unions</u>

There are two main ALM issues associated with this type of investment (a) Funding risk and (b) Interest rate risk.

The funding risk may be addressed by maintaining the confidence of members to retain or increase their shares in the credit union.

The interest earned by this type of investment would be much lower that than earned from normal lending by credit unions to their members. In the current financial environment this risk is addressed as the current loan to share ratio is such that credit unions have surplus funds for other investment options.

While it would be anticipated that the current loan to share ratio should improve as the economy improves, it is unlikely that it will improve to the extent that credit unions will not have sufficient funds for this type of investment.

Q12: Views on what an appropriate concentration limit and what liquidity and ALM requirements could be introduced to mitigate these risks

We would accept the view of the Central Bank that a relatively low concentration limit is appropriate for this class of investment. However based on the Regulatory Impact Analysis within CP109 we would be of the view that a concentration limit of 25% of Regulatory Reserve would be appropriate.

We would not introduce any additional liquidity or ALM requirements.

Q13: 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 agree that a specific maturity limit for investments in AHBs of 25 years would be potentially appropriate.

Section 4.4: Other Considerations

Q14: Comments on the proposal to amend the existing counterparty limit for credit union investments

We do not agree with the proposal to amend the existing counterparty limit for credit union investments. There are so few players in the market at this stage that a reduction in the counterparty limit would force credit unions to invest in options that they may not wish to do.

Q15: Transitional arrangement to reduce counterparty limit to 20% of total investments

Should the counterparty limit be reduced to 20% of total investments then we would suggest a transitional arrangement of 24 months post commencement of the amended investment regulations to facilitate credit unions in becoming compliant with this reduced counterparty exposure limit.

Q16: Comments on the use of collective investment schemes for credit union investments

Collective investment schemes should be available for credit unions should they chose to use them however the movements experience of them in the past has not been good.

Q17: Barriers to credit unions using collective investments schemes in the existing investment regulatory framework

None that we are aware of.