credit union development association

SUBMISSION FROM

THE CREDIT UNION DEVELOPMENT ASSOCIATION

IN RESPONSE TO

The Central Bank of Ireland's Consultation on Potential Changes to the Investment Framework for Credit Unions CP109

June 2017

Introduction

CUDA (Credit Union Development Association) welcomes the opportunity to provide commentary in response to the Central Bank of Ireland's Consultation Paper on Potential Changes to the Investment Framework for Credit Unions. This organisation and its Owner Member Credit Unions acknowledge the comprehensive research and time that was assigned to the development of this Consultation Paper.

What is CUDA?

CUDA is a progressive representative and development association working on behalf of member-owned, member-directed and professionally managed Credit Unions in Ireland.

CUDA acts as a catalyst for the growth, development and expansion of its owner member Credit Unions. In summary, CUDA supports its owners achieve their strategic objectives.

Our Purpose

The main purpose of CUDA is to support Credit Unions, who are members of CUDA, in delivering their promise to their members; that promise is to be the most reliable, trustworthy financial partner who will deliver value to their members.

Our Principles

1. CUDA is an incorporated entity. Working with its members and acting in their best interests. CUDA has clearly defined democratic governance, a bottom up approach that reflects *we're all in this together*.

2. CUDA is financially strong achieved through providing value for money to its members. We are conscious of the need to be commercial, with two levels of membership based on rules reflecting the segmented audience, however, we will not allow commercial considerations to undermine our purpose.

3. CUDA is ethical and acts with integrity and honesty. We encourage our owner member Credit Unions to be a model of ethical compliance.

4. CUDA supports the further growth and development of the co-operative Credit Union model and forward-looking Credit Unions. We lead by example with clear direction, and take direction from Credit Unions' strategic objectives, delivering best practice standards, continually seeking to innovate,

stretch and develop ourselves and member Credit Unions.

5. CUDA is accessible and responsive. Striving for constant strong two way communication with its members and other stakeholders.

Our Success

CUDA's growth is ongoing, with 13 owner member Credit Unions and a wider membership of over 40 strong Credit Unions who collectively manage assets of almost €6 billion. Each owner member Credit Union is represented on CUDA's National Council, who meet every month to determine and make policy decisions. CUDA's Management Committee is comprised of directors and CEO's. The Management Committee is responsible for strategic development within CUDA.

CUDA's success and growth is driven by the vision of forward–looking Credit Unions who see their Credit Union as recognised by the community as the main source of personal financial services. This business model will lead to Credit Unions broadening and deepening their commercial relationship and touch points with their members and communities. The broadening means that Credit Unions will attract new members by providing high performance, attractively priced and comprehensive range of financial offerings/products and services.

In effect the ultimate objective is to have locally owned and managed Credit Unions who will be able to provide almost the full range of banking and bancassurance services to their local community.

In preparation for this Submission we have consulted with many Credit Unions and other stakeholders, including professional investment advisors. We have received investment portfolios from our owner member Credit Unions for the purposes of completing an impact analysis. The responses from Credit Unions were in the most part consistent. Whilst we appreciate the challenges faced by the Central Bank of Ireland in regulating for an investment framework in the current economic climate, we fear a missed opportunity where the real issue of falling and negligible yields faced by the Credit Union sector is not addressed.

Our observations are set out in two parts. We provide general commentary in Part 1, in particular addressing Sections 43 and 84 requirements, highlighting key issues such as liquidity and reclassification of bank bonds.

Part 2 sets out our replies to the questions put forward in the Consultation Paper. In answering the questions posed, we elaborate on the key concern of low yields and missed opportunities for the sector by the failure to provide a sustainable investment framework that would allow for prudent growth in returns.

Part 1: General Commentary

In our Submission we highlight our concerns with the current proposal. Whilst we appreciate the economic environment for investments is producing low, even negative yields, we are concerned that some of the proposals would give rise to a back trend. This is because diversification alone will not produce better yields.

Our key concerns are summarised below:

1. **Credit Unions severely restricted by amendments to definition of bank bonds**
   Action: **reverse proposal**

2. **Short term liquidity requirements not addressed in CP109**
   Action: **allow additional unencumbered assets to be considered as qualifying**

3. **New asset classes do not go far enough**
   Action: **further investigation by the Central Bank as to how equities could fit within the Central Bank's tolerance under Sections 43 and 84**

4. **Concentration limits in investment class for AHBs needs to be extended given the limitations of classes, even with the additional new classes**

5. **Additional pressure on Credit Unions by decreasing counterparty limits from 25% to 20%**
   Action: **reserve proposal**

The 'Financial Conditions of Credit Unions: 2011 - 2016' published by the Central Bank of Ireland, Issue 1, Feb 2017, stated that the Loan to Asset Ratio for the Irish Credit Union movement currently stands at 27%. The apportionment of assets under management is weighted heavily towards investment products which are restricted by the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 to six specific classes of investments, of which the investment profile of Credit Unions is focused almost exclusively toward three, namely:

1. Irish and EEA State Securities

2. Accounts in credit institutions
3. Bank bonds

This is captured most appropriately by Chart 2 in the Paper's Regulatory Impact Analysis (RIA).

It is well publicised that the return on Credit Union investments has declined dramatically, and likely to continue at depressed levels in the medium term. In the Macro-Financial Review H1 2016, the Central Bank of Ireland observes that

> "*In sovereign bond markets, yields on Ireland's debt have been close to historical low values in recent months, a feature common to a number of EA Member States*".

Rates achievable by Credit Unions through bank deposits and bank bonds are also at record lows driven by European Central Bank base rates. The classification of Credit Unions under Basel III is further depressing deposit rates available to them.

Whilst CUDA appreciates the aims in the Paper towards further diversification, we believe that the Paper is not addressing the key issue – a combination of investment opportunity and diversification which will allow for a reasonable return on Credit Union investment. We welcome many of the initiatives in the Paper, however, we would urge a greater degree of balance between the protection of member savings and the sustainability of the sector thus allowing for real investment opportunity whilst addressing diversification risk. Section 43 also places the onus on Credit Unions to ensure there is no undue risk to member's savings. Stepping into this role through regulation, the Central Bank has removed the responsibility from the Boards. Allowing diversification in instruments that have equally low or negligible return provides no incentive to diversify and forces the status quo. Classes which have the opportunity for a return (i.e. AHB class) are couched in concentration limits that prove such schemes are not worthwhile due to the cost in establishing the required vehicles to deliver and administer the schemes.

Section 84A and Section 43(5) requires that regulation is proportionate and effective taking into account nature, scale and complexity of the Credit Union. We would ask the Central Bank in its role to strike the balance between undue risk to member's savings, the maintenance of the financial stability and well-being of Credit Unions generally through proportionate regulation.

Credit Unions have managed investment portfolios well over the last decade including in the most recent challenging years, and this is not being factored into the risk profile.

CUDA and owner member Credit Unions agree the predominant focus of the business model evolution in Credit Unions must be on improving the trend of the

Loans to Asset Ratio. We are pleased to see that through our work in the Solution Centre we are assisting Credit Unions implement new methods of engaging with members, and enhancing the loan product range of options, and these initiatives are already experiencing notable growth in the loan portfolio. These have generally focused on short term personal loans, medium term home improvement loans and longer term home loans. However investments have always been part of the Credit Union landscape. Current regulatory requirements governing lending limits and investment classes leaves Credit Unions with little choice other than investment in short term products at negligible yields. Whilst appreciating the need for oversight and regulation to offset risk, it is our view that in this fragile environment for Credit Union investment growth doors remain open to potential growth areas and income generation. In this regard, CUDA would recommend that a similar provision is contained in the regulation as was in the Investment Guidance Notes of 2006. The Guidance Notes issued by the Registry of Credit Unions, provided that the “limits contained in this guidance note shall not apply to those Credit Unions that can demonstrate to the Registrar of Credit Unions that they possess the skills and systems necessary to manage a more complex investment portfolio.” CUDA would like to see the Registrar reintroduce this flexibility.

Liquidity

CUDA was disappointed that this was not addressed in the Paper, however following correspondence between the Central Bank and CUDA and subsequent discussions, we agreed to address the issue through our CP109 Response for further consideration by the Central Bank.

As the Central Bank is aware, there is a growing concern within our owner member Credit Unions regarding the impact of compliance with the regulatory requirement relating to short term liquidity, i.e. the requirement to have a sum equivalent to 5% of unattached shares in liquid assets that are available within eight working days. Under present regulations the only mechanism available to meet this requirement is bank deposits.

The issue that has arisen is twofold:-

1. the number of qualifying bank institutions providing this service is diminishing as more and more withdraw from the deposit market introducing the challenge of remaining within the 25% counterparty limit, and
2. the providers of short-term deposit facilities are now paying negative rates for such deposits. This appears to be due to a combination of Basel III rating of Credit Union deposits and competitive opportunism that sees them currently apply a negative rate of up to 75bps on these funds.

The Central Bank’s first edition of ‘Financial Conditions of Credit Unions: 2011 – 2016’, November ’16, highlighted the serious concerns in relation to significant decline in investment income and this latest development is adding further pressure to that situation.

There are limited variables involved in this requirement, namely:

1. 5% limit
2. Eight working days, and the
3. Definition of qualifying investment

Our proposal is in relation to category three above, and request that the regulations be enhanced to allow additional unencumbered assets to be considered as qualifying. An option here is to include Government Bonds.

CUDA appreciates the importance of short-term liquidity – one of the essential components highlighted by the Central Bank during our discussions on this issue. However, whilst we believe that sufficient cash required for normal business working capital should be maintained in cash balances, other qualifying measures for inclusion in the short term liquidity should include availability of a committed line of credit and inclusion of marketable bonds [with the value of any amount being utilised for this purpose accounted for on a fair value basis]. The latter will also serve to alleviate the counterparty concerns.

On viewing a number of bank statements, Credit Unions are being charged 40-80 basis points on funds. We appreciate that the situation may improve again, but for the foreseeable future Credit Unions' investments with negative deposit rates in not justified.

We will address the issue of the limited number of counterparties available to Credit Unions to invest funds further in this Paper, obviously, compounded by the exit of RABO & the reduction in activity by KBC Bank Ireland from the Irish market.

Bank Bonds

We note the Paper is not directly seeking feedback on the reclassification of bank bonds, however due to the catastrophic impact it could have on Credit Union Investment Portfolios we deemed it essential to respond to this development. The analysis across CUDA Credit Unions shows an impact on an average Credit Union's income of a retraction of 23% should senior non-preferred bonds no longer be permitted. Whilst there is a significant concern with regard to the low yield of covered bonds a more fundamental concern relates to the possible eradication of this class altogether as an option for Credit Unions. As banks become pressurised to meet minimum requirements for own funds and Eligible Liabilities (MREL) a retraction is expected in the market of suitable bonds for Credit Union investment. The option, whilst not proposed in the Paper, but is assumed, is that Credit Unions are expected to diversify out of banks bonds entirely to other new classes. The RIA does not provide us with a review of how this landscape would look and the impact it would have on Credit Union Investment Portfolios. Analysis show an improvement from the negative impact above of 23%, however even by allowing for the introduction of supranational & corporate bonds added to the investment portfolio the negative impact is on average 19%. This is a worrying trend considering Section 43(1) requires a Credit Union to assess the potential impact on the Credit Union, including the impact on the financial position of the Credit Union when making investment decisions. We would request that the current classification remains, permitting Credit Unions to invest in bonds which are subordinated to any senior bonds.

Furthermore, as banks will be issuing bonds through holding companies, which under the proposal such bonds will not be permitted for Credit Unions, the RIA makes the assumption that banks will continue to issue some bonds directly. There is no evidence in the RIA to suggest that this will actually occur.

Whilst we appreciate the concerns of the Central Bank we would ask that undue risk is addressed through alternative measures such as:

i. The requirement for an investment advisor
ii. The requirement for appropriate risk management and controls
iii. Clearly defined Policy setting out risk appetite of the Board
iv. Restrictions based on investment grade credit ratings such as minimum Baa3 with Moody's credit rating and the equivalent with other credit rating agencies.

We hope that the Central Bank has not already made a determination on this and will take account of commentary on this issue which we believe due to the gravity of the proposal will be addressed in the majority of submissions received by the Central Bank.

Part 2: Responses to Questions

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.

Part 5 of S.I. No. 1 of 2016 set out permitted classes of investments together with concentration and maturity limitations. The provisions excluded equities as a class which was previously permitted prior to the 2016 Regulations.

The return on assets, as demonstrated in Chart 3 of the RIA, confirms the challenges faced by Credit Unions is realising a yield from investments portfolios.

The high percentage of investments in accounts in authorised credit institutions (Chart 2) further encapsulates the lack of real diversification available to Credit Unions; this is compounded by the negative yield of short term deposits.

The reclassification of bank bonds with no real alternative being proposed in the Paper is a further concern. Whilst we address the reality of collective investment schemes further on in this Paper, in short, they offer no diversification as they are limited in their range to the instruments specified in Regulation 25(1)(a), (b) and (c) namely, Irish and EEA State Securities, Accounts in Authorised Credit Institutions and Bank Bonds.

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?

Additional classes are welcome and will help diversify risk. However, we would have concerns that the introduction of such classes could have little impact on returns, thus compounding the viability risk. Without the proposed instruments being of a nature that is likely to attract a yield, Credit Unions are not likely to undertake diversification without an improvement to the return and the well-being of the Credit Union as required under Section 43, coupled with the necessity to understand the additional risks associated with investing in new classes.

We are also concerned that the new classes are being introduced as a trade-off for a restricted definition of bank bonds; the overall impact being further decline in investment return as we have seen from the representative example above.

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 classes are considered appropriate.

We would also welcome further investigation into the reintroduction of equities, for example, euro denominated equities or exchange traded funds (ETFs). The current restrictions exclude Credit Unions from investing in what is well considered as appropriate instruments under a collective investment scheme. Funds that track stock indices and trade on a regulated market within the EU should be included. Controls would ensure the fund has a minimum market capitalisation. To further minimise risk we would have no difficulty with a meaningful concentration limit. Taking into account nature scale and complexity as well as appropriate risk management in place we would propose 5%-10% of a Credit Union's investment portfolio. Furthermore, typically, Credit Unions that invest in equities do so guided by professional investment advisors.

We are also at a loss as to the restriction on Credit Unions to euro dominated investments. We would ask the Central Bank to consider alternative currencies when investing in Bank and/or Government bonds with "A" credit rating. Clearly we would expect reasonable controls to be in place to manage such investment.

Bonds issued by Supranational Entities

4. 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

5. 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?

Additional classes are welcome. However the proposal does not go far enough. It addresses risk concentration but the new classes provide no strategic benefit for Credit Unions. It is important to note concentration risk was not due to the limited number of bond issuers as Credit Unions are already free to invest in bonds in "A" rated EEA countries. Investment portfolios, however, suggest that Credit Unions are not taking up these options due to the poor returns.

CUDA's concerns are twofold:-

1. not enough entities provide euro-denominated bonds
2. those that do, in order to meet the minimum credit rating, return would be low or negligible

Strong credit rating reflects low returns. The Paper does not adequately address that existing, and now proposed new classes, continue to provide a low return. Interpreting Section 43 as "undue risk" equals low or zero return instruments is a worrying development.

We have no strong view on the concentration limit proposed in the Paper (50% of regulatory reserve) as we do not believe the introduction of supranational entities to be a realistic alternative for Credit Unions in meeting their own mandate to members. The Paper does not however explain the basis of the regulatory reserve when applying concentration limits.

We would however, welcome a relaxation of the credit rating as set out in the proposals – this would be reflective of the current position relating the Irish and EEA State Securities as set out in Regulation 25.

However, the Central Bank should be satisfied that Credit Unions have the appropriate risk management and controls in place to take on additional risk in the investment portfolio. We would have no difficulty for risk concerns to be addressed through mandatory training for the Investment Committee, senior staff and Board. We are happy to provide training material to the Central Bank for approval on this.

We would welcome a more sophisticated approach to managing the risk introduced through proportionate regulation i.e. a sliding scale relating to concentration risk being made available for credit rating other than "A" rating.

Corporate Bonds

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?

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

Allowing corporate bonds has the potential to open up a very wide range of new investments, as there are many A-rated companies who issue euro-denominated bonds. Again, the main potential benefit would be in terms of diversification and largely ignores any prospect of additional income. It is unlikely that the yield on an A-rated corporate bond would be significantly different from the yield on a bank bond with a similar credit rating and maturity.

Unfortunately, what the trend in the new proposals set out in the Paper is to ensure that there is no risk attributed back to the Central Bank; the proposals do not assist the Board in their dilemma of making a return. Credit Unions would have to be permitted to invest in BBB rating to realise a better return. We would propose this approach, with risk controls in place such as the requirement for an investment advisor.

Furthermore, we would like to see a more proportionate approach to regulation depending on the nature scale and complexity of the Credit Union. Corporate bonds were a feature of CP76 with total investments in corporate bonds being permitted up to 50% of a Credit Union's Regulatory Reserve. This was the proposal for the proposed Type 2 Credit Union. We are happy to see the class reintroduced in CP109. However it is with frustration that the one size fits all approach continues - CP76 allowed for 50% of the RR in corporate bonds for Type 2 Credit Unions. CP109 settles for middle ground taking into account all

Credit Unions equally, and ignoring nature, scale and complexity. In doing so it proposes a permitted level of 25% of RR. Whilst diversification is welcome, the diversification potential of corporate bonds will be severely restricted by the proposed limit of 25% of a Credit Union's regulatory reserve. According to the Central Bank's figures, on average this would equate to 4.2% of a Credit Union's Investment Portfolio. We would propose allowing larger Credit Unions (assets 100m) an option to extend their percentage to 50% based on the recommendation of an investment advisor and applied consistently with Board approved investment policy and risk appetite.

Approved Housing Bodies

8. Do you think it is appropriate for credit unions to undertake investments in AHBs? If so, please provide a rationale.
9. What would the most appropriate structure for investments in AHBs be e.g investment vehicle?
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?
11. How can the ALM issues associated with such investments be addressed and what mitigants do you feel are available to manage these risks?
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?
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?

The Central Bank already have detailed proposals from CUDA in relation to investing in AHBs for housing purposes resting with our latest correspondence the Central Bank of the 28th April 2017 to help inform CP109. This additional class of investment is welcomed.

CUDA has for some time advocated an investment option for Credit Unions for the purpose of social, affordable and rental housing, provisions of student accommodation, provisions of housing for the elderly, all in the Irish market, and for the purposes of financing State and/or semi-State investment in infrastructural projects. There needs to be a much more fluid definition of social housing to incorporate affordable or any scheme in which there is a large social/affordable component. We strongly recommend that this class of investment for Credit

Unions should be aligned with Governments 'Housing and Homelessness – rebuilding Ireland' action plan.

Whilst the new class may seem to some to be far-reaching, it is not new, and is a diluted version of an initiative that CUDA has been advocating since 2015 both as investment and lending options.

We appreciate the ALM management is key to the process as investments are permitted up to 25 years.

We are in agreement with the Paper that AHBs are limited to Tier 3 bodies, however, we would have welcomed, and hereby propose, an option to also invest via a collective of the Tier 3 bodies and also to Local Authorities. It is also critical that other forms of social projects be permitted, as set out above, which would allow Credit Unions meet both their financial and social objectives. Credit Unions are financial institutions grounded in the community, serving the local and real economy, and more significant class of investment would enable the evolution of the new business model to meet both needs.

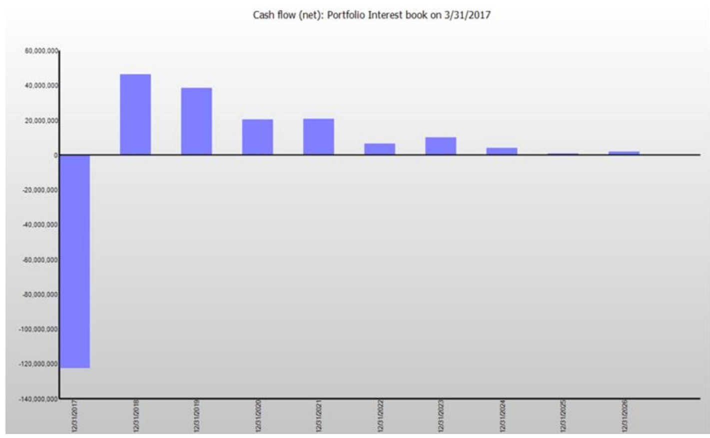
The difficulty with the approach proposed in the Paper, is that restricted and narrow concentration limits act contrary to the possibility of establishing a collective investment vehicle (ICAV). Credit Unions will require a 70% - 100% regulatory reserve requirement in order to make this class a real and alternative option.

The Central Bank is aware, through CUDA's work, the lengthy and costly process of developing the appropriate vehicle in which it administers such a fund and would require investment from investor Credit Unions in excess of the 50% proposal option put forward in the Paper. There is no clarity provided on how the funds from the Credit Union will be invested, and we recommend that there needs to be scope for the investment to be routed via a regulated fund structure. To date such a development has been stalled as Credit Unions await permission to utilise member funds for these purposes.

Such a Fund is a unique opportunity for Credit Unions to stabilise their income profile while fulfilling their social mandate. The Fund will offer Credit Unions the opportunity to deploy a portion of their members funds in the Irish residential property market by way of classes of investment, of a public nature, for the purpose of alleviating and expediting the provision of social, affordable or rental housing in the Irish market, whether by way of loan to local authorities or approved housing bodies or direct investment whether on its own behalf or by way of joint venture, public private partnership or other means in any project with such objectives. At the same time creating a long-term revenue stream generating a strong return on investment.

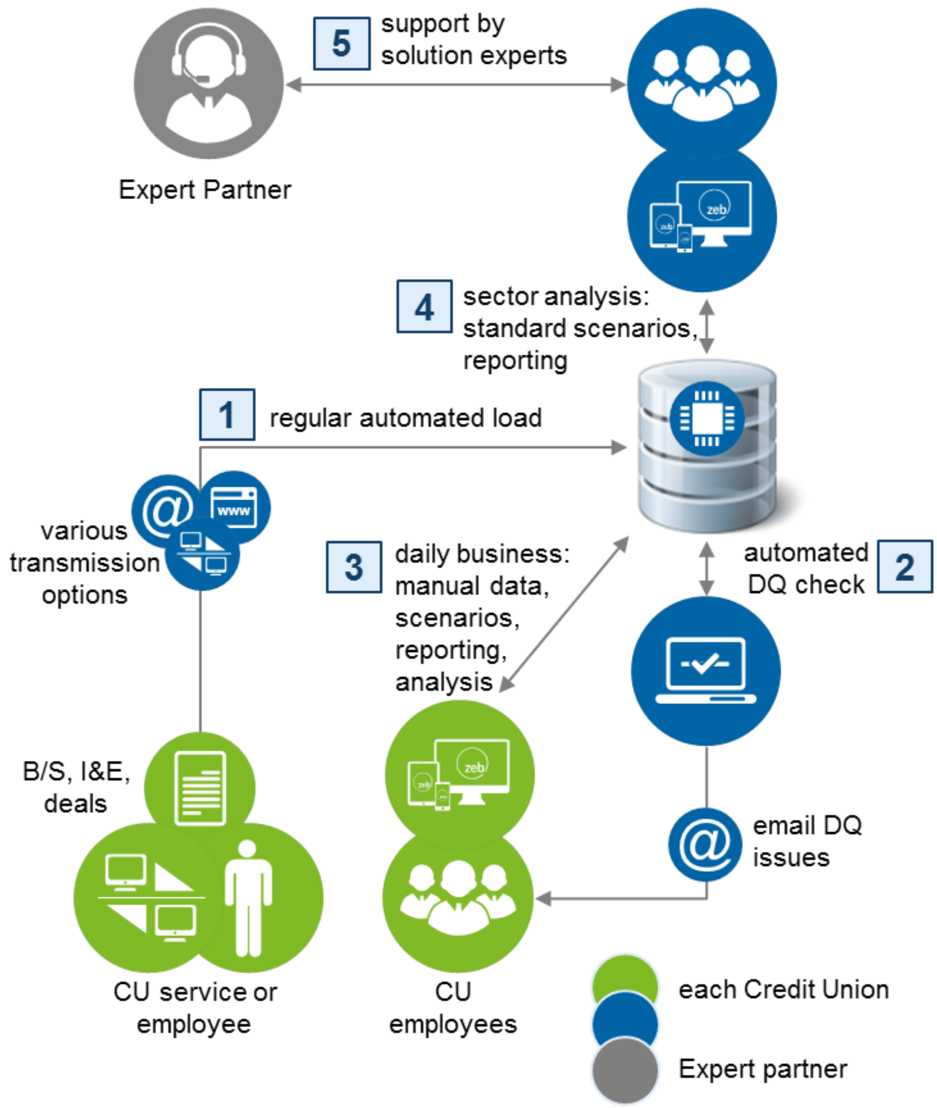
The Fund will focus on supporting AHBs achieve their vision by providing quality housing and services to enable people to create homes and thriving communities. The Fund investment strategy seeks to assist in addressing the gross shortage of supply of social and affordable housing in Ireland. The strategy is to contribute to the belief that everyone needs a home: a secure, comfortable place in a pleasant and sustainable community to meet their need and desires, be it for independent living, to rear a family, a study base, ease of commute, and to grow old in serenity.

As stated above, we appreciate that ALM management is key to the process as investments are permitted up to 25 years. When combined with other assets there appears to be a significant mis-match between longer term assets and short term liabilities [as depicted in the sample Credit Union balance sheet chart on the right].



At first glance this appears quite an insurmountable challenge; however, CUDA has expended significant time, through one of the many developmental projects in the *Solution Centre*, in addressing the challenge of defining an appropriate approach to Asset & Liability Management of the associated risks with such long term investments [and indeed longer term lending]. We believe the risks will be best managed through a shared Treasury Management service, which would assist participating Credit Unions develop and implement robust ALM policies and practices to support this business model development and future proofing. A common core treasury system will be utilised to identify, measure and report on key ALM risk factors – Interest rate risk, liquidity, term mismatch, liquid asset coverage, and reserve generation capability. The shared expertise will assist credit unions manage the key ALM levers that are available to them, such as understanding the real ‘stickiness’ of their retail funding, the use of attached shares, of long term deposits/liabilities, of liquid asset cover and also inter Credit Union lending/liquidity facility.

We have studied best practices in other retail financial institutions across Europe, and have designed a business process to run an ALM solution as demonstrated in the diagram below.



CUDA and the Solution Centre team will be happy to discuss this in more detail with the Central Bank

We have given consideration to a detailed list of risk factors. These are summarised at Appendix 1. We note the Central Bank has highlighted many of them in CP109. We are happy to share with the Central Bank how we propose satisfactorily addressing each of the risk factors.

Counterparty

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 caution against a reduction in counterparty limits to 20% as we don't believe the market conditions and current investment options provides enough diversification for Credit Unions. Whilst we appreciate an increase in the range of investments, timing is inappropriate for the introduction of a further counterparty limitation.

There are a number of impacts with the new proposals:

i. further eroding of the capital value could be expected with limited short term investment options;
ii. Credit Unions will be forced to consider alternative investments options such as corporate bonds and/or AHBs when they may not fall within their risk tolerance. As noted in the Paper (under Development Risk), Credit Unions must be able to fully understand the specific characteristics of an underlying investment, the investment vehicle and all associated risks.

CUDA recommends that the regulations do not impose absolute restrictions. We would welcome more innovative wording that would allow scope to Credit Unions as determined by their risk appetite and depicted in their investment policy. This would be in keeping with Section 43(5) which requires the Central Bank of Ireland, in prescribing regulations, to ensure that they are effective and proportionate having regard to the nature, scale and complexity of a Credit Union or a category of Credit Unions.

There is uncertainty in the current investment environment, and alongside the knowledge that many Credit Union business models must evolve, regulations that permit Credit Unions exceed the limits under prescribed conditions, such as on guidance of authorised investment advisors, would be welcome.

Transitional Arrangements

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

Credit Unions should be permitted to hold all investments until maturity and not be forced to cash in such polices possibly exasperating negative yields.

Collective Investment Schemes

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

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

The barrier currently rest in the Regulations, with Credit Unions limited to investment products (i.e. Regulation 25(1)(a), (b) and (c)). Assuming this changes once the new classes are made available will provide more opportunity in this regard. As stated above, we would also like to see the reintroduction of equities and certain ETFs permitted.

Timelines

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.

Yes. However as set out we would welcome further consideration on the areas that the Paper is not directly consulting on, including:-

1) Liquidity requirements
2) Introduction of equities and ETFs as a class of permitted instruments for CIS
3) No changes to the current classification of bank bonds

When the Central Bank has had an opportunity to consider the Responses and prior to compiling its feedback statement we would urge further dialogue with all stakeholders, including investment advisors.

We look forward to any additional queries the Central Bank may have in relation to our recommendations set out above. We are happy to provide any additional information that the Central Bank may require.

Finally, CUDA would like to thank the investment advisors who worked with us in the preparation of this Submission. It is clear from speaking with other stakeholders there is a clear consensus in relation to the potential negative impact on the Credit Union sector if the proposals as set out in the Paper are implemented.

Again, thank you for the opportunity to respond to the Consultation on Potential Changes to the Investment Framework for Credit Unions.

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Appendix 1:

Summary of Key Risks [not exhaustive]

Economic risk

Past Performance not indicative of Future Results

Risks of Potential Mandatory Repurchase

Risks relating to Legal and Political Requirements

Risks relating to Indemnification

Risks relating to Taxation

Risks relating to Market Value of Investments and Valuations

Risks relating to Substantial Shareholders in the Fund

Risks relating to General Counterparties

Risks relating to the Forecasting and Benchmarking of Costs

Risks relating to Economic Conditions

Cyber Security Risks