



# Derg Credit Union Ltd.

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The Board and management team of Derg Credit Union Ltd. have studied in detail the proposals outlined in CP 109. We have held consultation and discussion with our investment advisor and other stakeholders in the credit union sector regarding the potential impact of such changes.

Derg Credit Union (DCU) has an asset mix similar to other credit unions in the sector, with an investment to asset ratio of circa 70%. While the CBI states that the level of return is not a consideration when deciding the appropriateness of an investment, the reality is that return of income has to be a factor in order for the credit union to remain viable and to meet our member requirements.

We express our comments hereunder to the various questions raised in the consultation paper.

- 1) DCU would welcome any diversification in investment portfolio. The credit union have grave concerns on the proposed change of definition of current senior Bank Bonds. Currently, credit unions can invest up to 70% of investments in senior Bank Bonds. If the CBI deem that credit unions cannot invest maturing funds in such products going forward, this will have a major impact on future return, which will not be compensated in any meaningful way by the introduction of the proposed new products.  
We calculate potential loss of earnings to DCU.

## EURIBOR: Irish10yr Generic: Senior Bank Bond: Overnight Dep:

### Av. return

(2003-17)	1.56%	4.12%	2.88%	0.41%
Current:	-0.37%	0.78%	0.52%	0.00%
Difference	1.93%	3.34%	2.36%	0.41%

DCU Total investments €21,996,711: Deposits 47%, Bank Bonds 50%, Other 3%.

Average return: Deposits	€185,181.
Bank Bonds	€316,455.
Other	€ 27,173.
<b>Total</b>	<b>€528,809</b>

Income to credit union:	€528,809	Return ex bonds	0.97%
Return %	2.40%	Reinvested in Deposits	€144,516
Income ex-bonds	€212,354	Net Cost to cu at current %	€171,949
		<b>% of Income (cost)</b>	<b>33%</b>

2) The introduction of Supranational and Corporate Bonds as additional classes is welcomed. However, linking concentration limits to regulatory reserves is deemed too restrictive. In the case of DCU, such proposal would limit any investment to €1.6million in Supranational Bonds and 800k in Corporate Bonds. This maximum limit would currently equate to 10.9% of overall portfolio. We feel that any limit should be based on asset level, or percentage of overall investment portfolio.

3) DCU are of the opinion that investing in certain semi-state bodies would broaden the type on investment class, provided government support was forthcoming. This type of investment could be structured under a collective investment scheme.

4& 5) DCU would be supportive of the proposal subject to a broadening of concentration levels. We propose that limits should be linked to a percentage of overall investments.

6&7) CP 109 acknowledges that investing in such a product would require a degree of expertise, which may place a reliance on external advisors. DCU are of the opinion that due to the low concentration limits proposed, 25% of Regulatory Reserve and the potential risk of a bond falling below the required A rating, the credit union would currently have reservations about investing in such a product.

8&9) DCU would support the concept of investing in AHBs. Credit unions would provide a suitable vehicle to channel funding to social housing networks. We would propose that any such scheme be operated as a collective scheme.

The working detail of the proposal, as outlined CP 109, is not clear. Clarity on potential exposure risk and timing of returns need to be defined.

10) Investing in such a product would carry liquidity, investment, capital and possible regulatory risk.

11) DCU believes that potential AML issues could only be monitored effectively through a collective investment scheme open to all credit unions.

12) It is difficult to assess a concentration limit for individual credit unions, given the absence of detail contained in the proposal. Given a possible duration of up to 25 years, we would suggest that concentration limit should be no higher than 5%. Credit unions would individually have to monitor liquidity requirements.

13) As previously outlined, DCU support the concept of investing in Tier 3 AHBs but a duration period of up to 25 years may be difficult to address. Credit union boards and members will require clear understanding of such an investment product from a risk and potential return perspective. This proposed investment type is a major departure from traditional products. Scale of return or risk management is not defined in such a proposal.

14&15) DCU totally oppose any proposed reduction in counterparty limits. Banking institutions have withdrawn investment facilities to credit unions and European banks are exiting the Irish market. Domestic banks are refusing funds and applying negative interest rates. Credit unions are currently in a difficult position trying to comply with the 25% regulatory limit. Any proposed reduction would make this impossible. DCU do not understand the rationale behind such a proposal.

16) DCU sees little benefit in the use of collective investment schemes for current investment products. Credit unions have the expertise and capability to manage such products directly. In many cases such collective schemes incur substantial costs and as such would erode any existing return earned by the credit union.

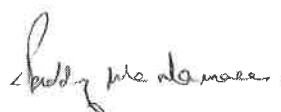
17) DCU is not aware of any additional investment products which could be included under a collective investment scheme and would comply with the requirements of the credit union regulation.

18) DCU has no issues with the proposed timeframe on the new products.

Signed:



Chairperson



Manager