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To - Registrar of Credit Unions, Central Bank of Ireland

Re - "Consultation on potential changes to the investment framework for credit unions"

Sent by email to rcuconsultation@centralbank.ie on 26 June 2017

CP109 – Consultation on Investments - Drogheda Credit Union's submission to the CBI

Drogheda Credit Union greatly welcomes the opportunity to make a submission on CP109 and would like to thank the Central Bank of Ireland for the opportunity to do so. Our Investment Committee have along with our Board of Directors reviewed the consultation paper, and we would like to make the following submission.

Our Investment Committee meets with Davy on a monthly basis, and our committee consulted with Davy in our preparation of this submission. Some specific impact assessments on Drogheda credit union are noted below.

Drogheda credit union, along with the majority of credit unions in Ireland, face a lack of investment choices given the current low investment rate environment and the reduced number of counterparties.

We would like to submit the following points for consideration under CP109.

Liquidity

In the current investment environment, and with negative interest rates, there is increased liquidity pressures facing all credit unions and Drogheda credit union believes that CP109 does not deal with the liquidity pressures. Drogheda credit union is reliant on overnight deposits/demand accounts to meet our short-term liquidity requirement.

We also believe that certain bonds should be classified as liquid along those prescribed in other regulatory jurisdictions, as is the case in Northern Ireland and the UK. These bonds include Irish and EEA securities, supranational bonds and corporate bonds.

Duration risk is not addressed in CP109 and to secure higher yields our credit union have to look at bank bonds, corporate bonds or government bonds.

Bank bonds

With Irish and European banks issuance plans and funding requirements, Drogheda credit union is concerned about the CP109 proposed changes to authorised bank bonds. Further

restricting the definition of bank bonds will adversely impact on our credit union. Excluding bonds that may dominate senior bank bond issuance will add serious investment pressure to Drogheda credit union. As our senior bonds mature, our usual replacement investment options will be closed off as we look for new bank bond investment options.

Diversification

Introducing corporate bonds and supranational bonds will help in diversifying counterparty risk away from financials, but we believe that the diversification benefits are limited and are being eroded given the proposed concentration limits being based on regulatory reserves.

Concentration of our investment portfolio

Drogheda credit union agrees with the Central Bank that there is too much concentration of our credit union investment portfolios, and we have to place our investments in cash deposits or bank bonds, with very limited other investment options.

Including supranational bonds and corporate bonds is welcome by Drogheda credit union. In order to make a meaningful difference, we believe that the concentration limits should be linked to asset level rather than a percentage of regulatory reserves. In terms of concentration limits of corporate bonds, we would like to see this limit incorporated into the current 70% asset class limit of bank bonds.

In the event that the Central Bank proceeds with the proposed changes to bank bonds and a credit union allocates to the proposed additional asset classes of supranational and corporate bonds, we have projected our credit union's investment income may decline by up to 19%.

Our Drogheda credit union Investment committee, with board approval, should be in a position to invest in senior bank bonds, as long as they are within the prescribed classes authorised by the central bank, and as long as they comply with our investment policy.

Given the cost/income ratio pressure impacting on credit unions in the recent past and projected over the next 3 years, Drogheda credit union believes these proposed investment changes would adversely impact on our credit union and our members.

Social housing

As a community based credit union, Drogheda credit union is in a great position both financially and operationally to invest in social housing, and we would welcome an appropriate structure being put in place to ensure that we can invest in social housing in Drogheda, Bettystown and Trim. As a credit union, we would enquire to the Central Bank as to the progress being made to establish an approved housing scheme, as our credit union would like to invest in such an approved scheme. Our credit union is actively prepared to engage locally with appropriate housing bodies in this regard.

Drogheda credit union would also like an assessment of other housing models in other jurisdictions to determine the suitability of same to Irish credit unions.

Counterparty limits

Our credit union does not agree with reducing the counterparty limit for credit union investments, as the diversification proposals in CP109 are insufficient to warrant any contraction in current limits. The limit should remain at 25%.

With regard to collective investment schemes, and in particular under FRS 102, collective investment schemes must be valued at fair value. Absorbing the mark to market volatility of these schemes is not something that credit unions would be comfortable with, as many credit unions prefer to value investments on an amortised cost basis.

Setting up an appropriate structure for collective investment schemes and ensuring the cost and authorisation process are dealt with appropriately needs to be assessed.

Effects of CP109 on Drogheda CU's investment portfolio-

Drogheda Credit Union's investment portfolio is impacted in 4 main ways if CP109 is implemented:

- **Asset Allocation** -the proposed concentration limits on the additional asset classes are extremely low and are unlikely to make a material difference to the portfolio. The introduction of concentration limits linked to regulatory reserves will introduce additional complexity and may be cumbersome from an investment management perspective.
- **Counterparty Exposure**- the impact of the reduction from 25% to 20% on our current portfolio. Drogheda Credit Union will have to reallocate 0.7% of the investment portfolio or €1.4m to alternative counterparties. 6.0% of the portfolio or €11.8m must also be reallocated from [REDACTED] to an alternative counterparty by the end of June 2017.

We believe that there is no rationale to implement limits by reference to regulatory reserves *and*, in the current investment environment, it is the wrong time to be placing unnecessary pressure on our credit union from a counterparty perspective.

[illegible]

Total			100.0%		9.6%
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- Income – the impact of CP109 proposals on our credit union's investment income is shown in the table below

	Projected impact on our credit union's investment income	Projected weighted average return of your credit union
Current weighted average return		1.05%
Impact of senior non-preferred not being authorised	-23%	0.81%
Impact of senior non-preferred bonds not being authorised and supranational & corporate bonds added to the portfolio	-19%	0.85%
Impact of investments in social housing (AHB's)	No schemes currently available to assess the potential income so this has not been included	

- Liquidity – Our Investment advisor Davy has proposed that certain bonds should be treated as liquid for the purposes of regulatory liquidity ratios, and Drogheda credit union supports this recommendation.

In the event, that this recommendation is implemented, we have the following holdings which may be treated as liquid:

Table: Additional sources of liquidity in the event that certain bonds as liquid is implemented.

	Value 31/5/17	Potential contribution to liquidity based on a 5% haircut	Potential contribution	Potential contribution to regulatory liquidity
Government bonds €	4,002,156	3,802,048	4,363,860	3,802,048
% unattached shares			2.50%	2.18%

On behalf of Drogheda credit union, I would like you to consider the above points as our submission in respect of CP109.

Yours sincerely

Paul Brassil

Chairman Drogheda Credit union

Paul Brassil 26/6/2017

Tom Kiely

CEO Drogheda Credit Union

T. Kiely 26/6/2017