Goodbody Stockbrokers

Response to the proposals in CP109

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin 1

18th June 2017

Dear Sir or Madam,

Goodbody Stockbrokers is committed to providing high quality investment advice to our clients while always adhering to prudent investments and the strict interpretation of all applicable legislative and regulatory rules.

As the largest advisor to the sector we welcome the opportunity to contribute to the Central Bank of Ireland (CBI) Consultation Paper CP 109.

Investment income currently provides an essential contribution to the operating income of credit unions and is currently materially assisting in the viability of the sector at a time when lending volumes have yet to recover from the recent banking crisis.

According to the January 2016 report (Viability and Irish Credit Unions) prepared by the Credit Union Advisory Committee *"Credit Union viability can be viewed from different perspectives. A relatively narrow view of viability is whether the credit union is in a position to generate sufficient surplus to meet its regulatory capital requirements. A somewhat broader definition, focusing more on an assessment of financial sustainability, is whether the credit union can generate sufficient surplus to both meet its regulatory capital requirements and support its growth ambitions, while maintaining existing service levels."* The report highlights four specific areas of surplus generation; 1) Interest on loans, 2) Bank deposit and investment income, 3) insurance and other commissions and 4) budget account fees and charges and related items.

The changing definition of bank bonds in CP109 is the most impactful and curtailing change in the consultation paper. Currently credit unions can invest 70% of investments in senior Bank bonds. The proposed additions discussed below will add a maximum of 20.8% of investments and will not make any meaningful contribution to sector income relative to the loss of income attributable to the loss of bank bond income. The suggested changes undermine the viability of the sector. This change detailed in CP109 has not been subject to any regulatory impact analysis. The Regulator has decided that this is not a 'new regulation' as per the requirements specified in the 2012 consultation protocol for credit unions, but an amendment to the existing definition. It has thus deemed it unnecessary to consider the impact of narrowing the scope of allowable bank bonds.

This change will have more impact on the viability of credit unions than any of the additions proposed. The cost to the sector given the current mix and at long term returns, would be c. €50m[1] out of c. €230m of total sector income as measured like for like. This income will not be replaced to any material extent from the proposed additions. The changes will also impact the larger credit unions disproportionally as the analysis in Appendix 1 confirms.

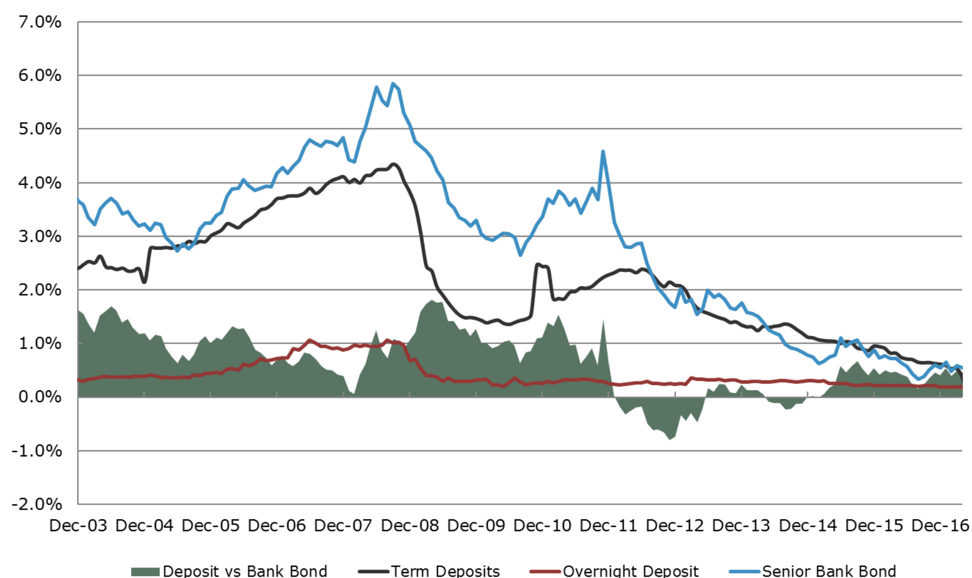
[1] Appendix 1 Goodbody Analysis

The rationale for applying investment restrictions based on regulatory capital as opposed to the usual percentage of investments remains unexplained in CP109. We do not agree with the introduction of a new limit methodology based on regulatory reserves. The quantum of new investments as suggested will generate immaterial income on a weighted contribution as to make the complexity of the additions of marginal benefit when considering the potential aggregate benefit to income and diversification. We would argue that if there is to be the introduction of new investment classes it should be meaningful as opposed to symbolic. The proposed new asset classes represent an immaterial revenue opportunity to assist in the required viability of the sector.

Restricting counterparties will have an impact on Credit Unions at a time when the available choices continue to contract. We are not of the opinion that reducing maximum limits from 25% to 20% at this time will have any material impact on reducing systemic risks associated with credit union deposits in Irish institutions, but will unnecessarily complicate the challenge of planning short term deposits for credit unions.

We would also observe that under the proposal the CBI is inconsistent and selective when applying its interpretation of Section 43 of the Credit Union Act, 1997. The rule requires for investment not to " involve undue risk to members' savings and for that purpose, before making an investment a credit union shall assess the potential impact on the credit union, including the impact on the liquidity and the financial position of the credit union." The regulators view of what this defines is changing without consultation and we note that no views of these changes are sought in CP109. Credit unions can currently access institutional returns that reflects their status as regulated entities and the benefits of diversification, liquidity and income attributing to the credit union members from being able to responsibly invest in senior MREL eligible bank bonds via credit unions.

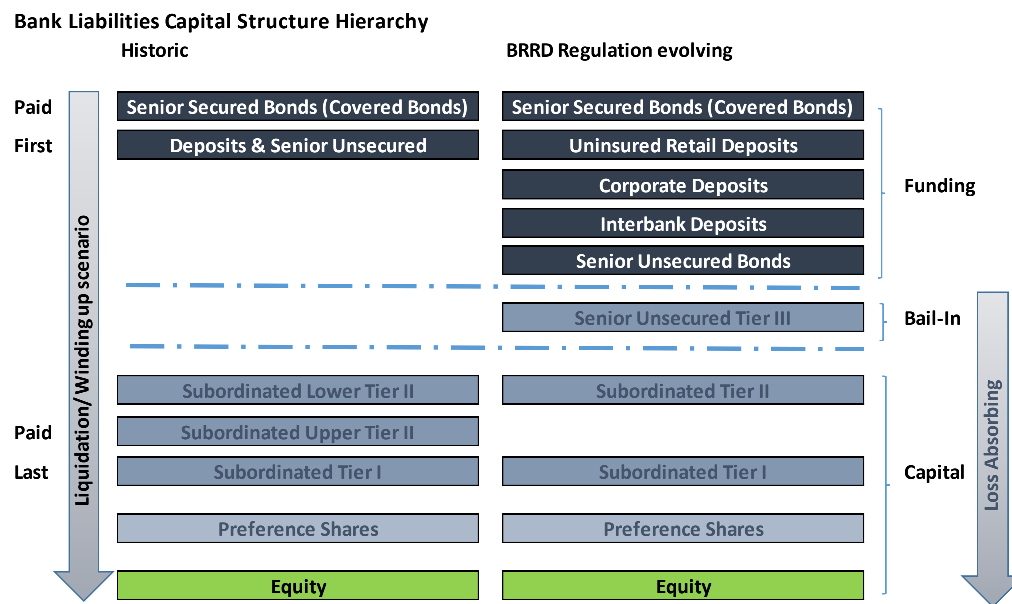
Deposit Rates Continue to Fall MREL Eligible Senior Bank Bonds Provide some Relief



Source: CBI Data; Bloomberg BofAML; Goodbody Research

The Bank Recovery Resolution Directive (BRRD) regulations have been under consideration for several years. We have communicated our views on the ever evolving credit risks in our investment advices over the last number of years. We have been of the view that senior bank bonds in the new BRRD environment were never going to be the same credit risk as they were pre the new environment. We still believe that MREL-eligible non-preference senior bonds are a suitable credit risk for credit union

investments. Historically deposits and senior unsecured bonds as illustrated below ranked equally. In the new BRRD environment senior unsecured liabilities were always likely to be required to participate in the recapitalisation of a "failed entity". The risk therefore has moved from the instrument to the entity. The historic implied government support in Europe can now explicitly not be relied upon in the new bail-out mechanism. This is to prevent the socialisation of any future banking crisis. It is for this very reason that current regulatory focus should now prioritise the entity over the instrument.
We disagree with the interpretation that non-preference MREL eligible senior unsecured bonds do not remain suitable investments for credit unions. Particularly for those credit unions that are informed and equipped to manage the associated risk. Highly regulated banking institutions are now themselves subject to much higher capital requirements and ongoing stress tests than was ever previously the case. The banks are now systemically less risky than they were pre-crisis.



The restriction of MREL eligible senior bank bonds at this time , with negative deposit rates from banks and negative sovereign bond yields, effectively deprives the credit union institutions from being able to invest in a way that reflects their own highly regulated institutional status. At a minimum individual credit unions should have a mechanism available to them whereby they could demonstrate their ability and suitable sophistication to continue to invest in bank bonds to current levels of concentration and quantum.

The removal of non-preference MREL eligible bank bonds at this time also effectively removes a key pillar to the sectors current viability. Using the numbers included by the CBI in CP109 we have modelled the impact of the credit union sector. We estimate that the removal of MREL eligible bank bonds in the event of a point-of-non-viability action from the Single Resolution Board will cost the sector €50.39m[2] in annual investment income from the total €229m in investment income. This is the effective removal of 22.2% of investment income. In our view, of the three potential additions to current investment options, supranational bonds add no new income alternative as they reflect currently available sovereign bond yields; the proposed investment in Approved Housing Bodies will provide no income in the short term and potentially no income in the long term depending on the details which are as yet unclear. Corporate bonds will provide comparable income to a maximum quantum of 5.2%[3] of investments. Corporate bonds

[2] Appendix 1 Goodbody Analysis
[3] As per CP109 RIA

are unregulated and can be highly risky, we would consider these instruments to behave more like the equivalent capital instruments of highly regulated financial institutions.

When assessing below the default rates associated with corporate bonds and the obvious selection bias that credit unions will face, the suggested default rates will underestimate the likely concentration risk and potential default rates (as detailed under the response to Q6 below) associated with direct bond holdings.

As credit unions seek to maintain central bank viability requirements and seek to replace lost income in an environment of falling deposit rates, and considering all members funds are covered by the explicit government guarantee scheme, we will not be surprised when the market evolves unexpectedly to facilitate the conflicting requirements of income and prudence.

Some likely unintended consequences of this change in the definition of bank bond investments may include the following:

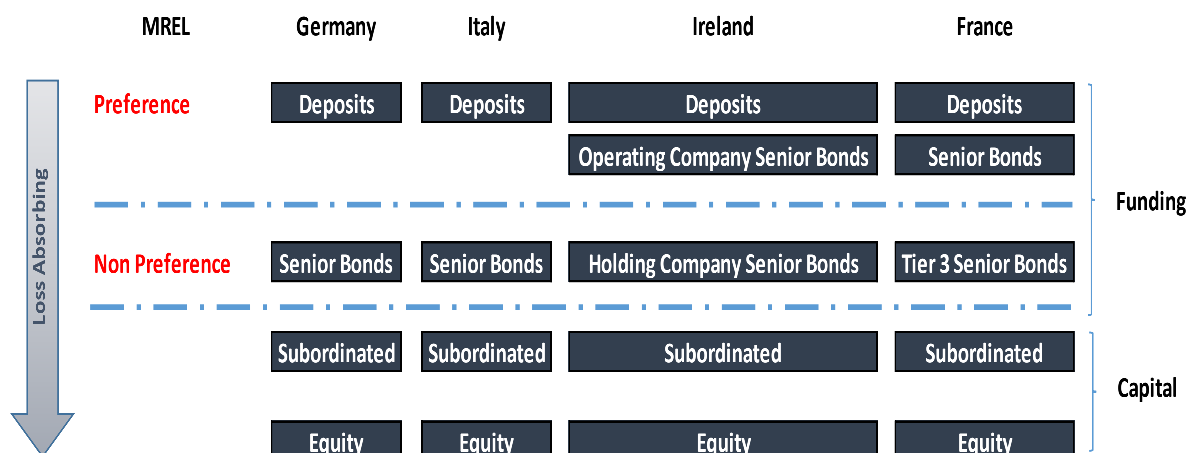
> (a) To ensure viability and to keep people employed, credit unions will be under ever increasing pressure to lend. We believe a practice could emerge where consideration could be given to lower quality lending in an effort to grow loan books, the result of which could see increasing default rates on their loan book.
>
> (b) Credit Unions will inevitably end up investing in the highest yielding qualifying corporate bond in an effort to secure income for their members. What may not be evident is that the very reason the particular "A" rated corporate bond is the highest yielding qualifying corporate bond, reflects the fact that it carries the highest risk and is most likely to be downgraded, thus making the credit union a forced seller at the worst possible moment.

Appropriate corporate bonds would provide welcome diversification benefits to credit unions however the investment risks are considerably higher as demonstrated below.

We would expect that, without credit rating restrictions, less well known European banking institutions of varying capital strengths and varying levels of MREL eligible senior liabilities will be competing for credit union deposits. There is an assumption in CP109 that any bail-in will stop at the MREL eligible senior liabilities. This is not the case as per the European Commission[4] . The Equity has to absorb losses in full before any debt claim is subject to write-down. After shares and other similar instruments, it will first, if necessary, impose losses evenly on holders of subordinated debt and then evenly on senior debt holders.

The degree of burden sharing would depend on the bank in question and the jurisdiction. Significantly a bail in would a priori apply to any liability which is not excluded. The bail-in could be discontinued upon reaching 8% of total liabilities. We believe that the Central Bank will not be mitigating the investment risk of credit unions by exporting preference MREL eligible senior liabilities to less well capitalised and less well funded institutions. Under current rules, these institutions will be required to be on the CBI "Credit Institutions Register", and a qualified deposit taker. The Regulator might specify that this remains the case and that entities would not qualify as deposit takers in this jurisdiction through passporting arrangements, without being contained on the list maintained by the CBI.

[4] Loss absorbing capacity in the Banking Union: TLAC implementation and MREL review



It appears one of the outcomes sought via CP109 and the narrowing of the definitions around eligible bank bonds is the intention to reduce systemic risk in the Irish Banking system in the form of a feedback loop from retail, guaranteed deposits in credit unions investing in bank bonds that are invested in Irish banking institutions that may need to be bailed out at some point in the future. If the rules are to be consistent from a counterparty credit risk perspective then minimum credit ratings for deposits should also be introduced to protect individual credit union investments. This may further limit the options available to credit unions but would reflect a consistency of approach.

The introduction of these rules, as suggested, will accelerate the consolidation in the sector. Credit unions currently face a dilemma between the requirement for viability and the necessity for prudence. The measures suggested at this time will reduce the number of credit unions in the sector, and will have the effect of introducing riskier investments to investment portfolios. The reintroduction of corporate bonds and a reduction in counterparty limits at a time when fewer counterparties are available in Ireland, will introduce riskier investments to the investment portfolios in the form of corporate bonds vis a vis bank bonds and new risks in the form of duration and liquidity risks in the form of the AHB investments.

We would ask that the CBI reconsiders the exclusion of non-preference senior unsecured MREL bank bonds, or at a minimum introduce a means for a credit union to demonstrate a qualifying competence for investment in these instruments.

The Central Bank is seeking views on the following:

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.

The current level of diversification reflects rational allocation of investments given the returns available. The CBI in CP109 makes no reference to returns other than the fact that the level of return is not a consideration when deciding on the appropriateness of an investment. If returns are inconsequential then why invest at all? There is a requirement to consider returns to ensure the credit union remains viable as per regulatory and member requirements. It is inconsistent to suggest that returns can be ignored in the context of considering investments and at the same time suggest the inclusion of 25 year investments and risker corporate bonds.

The level of concentration in existing credit union portfolios by both asset class and counterparty is reflective of the environment and the fact that deposit institutions are actively discouraging credit unions from placing funds with them at present.

There seems to be a lack of appreciation running through the CP109 proposal that the focus of the BRRD is to shift the regulatory emphasis from the instruments to the institution. There is an inference that MREL eligible senior liabilities are a bad risk and preference MREL senior liabilities are safe. We would argue it is the entity that is the key issue. As such if the CBI wants to protect members funds the most effective method is to reintroduce a consistent and appropriate minimum credit rating for all investments.

Credit Unions as at September 2016 had 70% of assets in investments and of this 72% (€8.2bn) in deposits. This was due to the distressed nature of Irish banks balance sheets during the recent crisis and the rates available vis a vis other better capitalised, better funded alternatives. This would also apply to Sovereign bond exposures. The Credit Union sector has only a 7% exposure to Sovereign bonds as Irish sovereign bonds maturing in 5 years currently have a negative yield to maturity of 0.16%, German Sovereign bonds have a negative yield of 0.37%. A rational investment policy is not to lock in lower returns for similar duration and qualifying credit risk.

There are unprecedented reinvestment risks in the sector given falling deposit rates and the proposals in CP109 will exasperate these risks, as credit unions seek returns to secure individual viability. Credit unions will potentially become more vulnerable though these proposals, to increasingly risky counterparties in an effort to secure minimum required returns in the current environment.

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?

While we welcome the addition of alternatives to the current investment options available to credit unions, the addition of the suggested investment classes adds little to the Credit Unions reinvestment challenge, given the suggested restrictions in the maximum percentage of investments that will be available for consideration.

The inclusion of these new asset classes introduce some new risks to the sector that would need to be considered carefully in the context of each investment portfolio. The new categories also reflect an inconsistent approach regarding risk. On one hand there is the removal of senior non-preference bank bonds within a highly regulated sector, and on the other the introduction of 25 year investments which provide no liquidity. Risks are further compounded with the inclusion of unregulated corporate bonds with demonstrable higher default rates. Both of these categories arguably introduce specific and varied investment and liquidity risks to investment portfolios particularly when compared to highly regulated short duration senior non-preference bank bonds.

Does the definition of regulatory reserves referred to in CP109 refer to the 10% minimum reserve requirement or will a credit union have the ability to include any excess reserves above the minimum when calculating the maximum exposure for a particular asset class as per the limits suggested in CP109? Will all available reserves count for consideration?

Regarding Corporate bonds will "A" rated holding company bank bonds qualify as corporate bonds under the proposed CBI definition of corporate bonds?

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 investment classes are considered appropriate for credit unions.

We would suggest an approved Department of Finance list of semi-state companies that would be allowable for credit unions. This would be a list where there is no specific contractual guarantee to protect capital invested. But credit unions could invest in specific semi-state entities and provide funding up to 10 years as appropriate. Potentially capped to 25% of investments.

This would allow the CBI to maintain this list of approved entities. Similarly, to the social housing proposal it would allow Irish members funds to be invested in the state in support of local enterprise and developments. As mentioned to the CBI at a recent meeting these investments would not have any explicit Irish Government guarantee. Some of these may be unrated from a credit rating perspective and as such it is the implicit government support and oversight that would make these investments possible, without burdening the national accounts.

We would welcome the recognition of existing bond holdings for liquidity calculations on a mark to market basis subject to an appropriate haircut.

4. 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?

Supranational bonds are by definition, backed by more than one European Sovereign, this usually implies very high credit ratings. European Sovereign bonds are already available to credit unions under existing rules. To limit this asset class to a maximum of 50% of regulatory reserves, would equate to a maximum exposure of 8.3% of investments as per the CBI analysis. While we would welcome the inclusion of additional counterparties, the inclusion of supranational bonds does not diversify the underlying counterparties available as the eligible instruments are likely to be

backed by European sovereigns and the quantum suggested will add little by the way of diversification.

5. 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.

We would recommend increasing the quantity to a percentage of investments as opposed to a percentage of regulatory reserves. This would be consistent with the existing methodology employed by the central bank for the purposes of prudential returns.

Issuer	Rating (S&P)	5 Year	7 Year	10 Year
EIB	AAA (Fitch)	-0.14%	0.14%	0.46%
EFSF	AA	-0.11%	0.22%	0.66%
EU	AA	-0.21%	0.02%	0.57%

Source: Bloomberg

Given the ratings of existing Supranational bonds in issuance and the yields available, any investments are likely to be of the longest available duration locking in low yields and adding to the mentioned imbalance between assets and liabilities.

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?

If Credit Unions begin investing in Corporate Bonds it will in practice be to search for yield and not for any theoretical diversification of risk. Capping the maximum to 25% of regulatory reserves limits any contribution or scale available in the asset class. The cap will promote concentration risk in the least desirable A rated corporate bonds with the highest yield. It is a likely outcome that some credit unions will unwittingly place 25% or their regulatory capital at undue risk.

The only relatively risk adjusted application of the inclusion of corporate bonds would be through a Collective Investment Scheme with specific concentration limits in the fund. This would allow for the diversification of counterparty, liquidity and duration risk. Would the CBI allow some of these funds to be considered for liquidity subject to a suitable haircut and mark to market?

Multi-year default rates are more relevant than annual default rates for measuring trends in aggregate credit quality, specifically for investors with longer investment horizons. If we assume that the Credit Unions would hold Corporate "A" rated bonds for 5 years; then recent history suggests a 1.76%[5] default in "A" rated corporates. This compares to near zero for historic senior bank bonds.

[5] Moody's European Corporate Default and Recovery Rates, 1985-2015 H1

European and global issuer-weighted cumulative default rates, 1985-2015H1

Europe										
Rating\Year	1	2	3	4	5	6	7	8	9	10
Aaa	0.00%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Aa	0.03%	0.09%	0.14%	0.22%	0.34%	0.49%	0.68%	0.85%	0.96%	1.08%
A	0.15%	0.36%	0.75%	1.18%	1.76%	2.39%	3.02%	3.66%	4.43%	5.26%

Source: Moody's

This reflects an inconsistent application of what constitutes an appropriate risk, as per section 43 regarding investments and the use of members funds. If the historic data is to be a guide then Corporate bonds should be limited to AA rated and Bank bonds should be included and limited to A rated to reflect their highly regulated status and to be consistent and reflect a similar risk.

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.

Direct holdings in Corporate bonds should not be encouraged for the reasons outlined above. If an investment is prone to a risk of capital loss as a matter of course then it should not be deemed appropriate for credit unions investment portfolios. Credit unions looking for yield will have a natural selection bias towards the highest yielding qualifying corporate bond. In the unregulated space of corporate bonds this will magnify systemic cyclicality in investment risk correlated to the business and interest rate cycle.

We would suggest that the benefit of diversification is obvious and necessary when investing in corporate bonds and use of a collective investment scheme with strict concentration and maturity limits would be the best way to invest in these funds. Potentially increasing the asset class size to 20% of investments and limit any individual credit exposures to 1% of investments. These qualifications would allow for the scale necessary to create diversified portfolios of suitable corporate bonds. This would help mitigate default risk and the risk of selection bias towards the highest yielding qualifying bonds.

8. Do you think it is appropriate for credit unions to undertake investments in AHBs? If so, please provide a rationale.

We welcome the opportunity for credit unions to invest in Approved Housing Bodies. The specifics of the investment risk however are unclear from such a proposal. In general terms, without visibility on a specific proposal, it is hard to recommend investing in long term funds (up to 25 years), where there is no visibility on returns, no indication on the default risks in real and nominal terms and no clarity on the underlying exposure. Credit unions would need to be able to demonstrate an understanding of the default risks and the likely timing of returns to be compliant with Section 43 of the 1997 credit union act.

9. What would the most appropriate structure for investments in AHBs be e.g. investment vehicle?

In the absence of details on the returns it is hard to be specific on the vehicle. Credit unions have an appetite to provide funding to social housing and community oriented investments. The appetite is generally for these investments to make an impact locally. Housing these investments collectively may be more difficult for specific credit unions if the monies are invested away from the local communities which they serve without any direct input or visibility.

10. What do you consider to be the risks associated with this type of investment and what mitigates do you feel are available to manage these risks?

More detail on the specifics being considered. Term risk, capital risk, liquidity risk, counterparty risk are all important considerations.

11. How can the ALM issues associated with such investments be addressed by credit unions?

It would need to be assumed that the funds would be unavailable for the duration of the investment. This will certainly have an impact on the duration of credit union portfolios. The limit to 50% of regulatory reserves limits this to a maximum of 10.9% in the examples provided in the RIA. This seems a high percentage if all credit unions place to the maximum of 25 years. It would appear that the credit unions may be encouraged to lock funds out for 25 years at a time that one would hope is the bottom of the interest rate cycle, and into investments with no liquidity and no indication on returns. It may be attractive to some credit union boards from an altruistic perspective at a time when deposit rates are near zero and below. But this may not look like prudent use of members funds over the lifetime of the investment.

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?

Members could be asked to allocate funds directly to this asset class as distinct to members savings. To have these funds administered via the credit union on behalf of members. Thus these funds would no longer be available to the specific members or their estate. This would make the investment decision one for the individual member and not the credit union itself. The member would need to be aware that there will be no liquidity provided on the specific funds for the duration of the investment.

Credit unions are already subject to onerous liquidity requirements. 20% of unattached shares are required as a minimum to be less than 90 day maturities. As per the central banks own commentary "total members' savings in credit unions remained stable during the financial crisis." With the introduction of the €100k government guarantee per person per institution, it appears that the commentary in CP109 overstates the potential risk regarding operating liquidity requirements. The more relevant focus should be on the concentration of investment in specific demographic groups and the likely requirements for these funds in the medium term.

The average estimated investment portfolio duration weighted by maturity bucket having increased in recent years remains at just over 2 years. As per the figures provided in CP109 we do not consider a weighted average duration of 2.2years[6] as a material asset liability duration miss-match to the extent suggested. The duration has increased from roughly 1.16 years to the current 2.23 years over the last 5 years but is currently at an extreme point considering the loan to asset ratio. It is also the case with all financial institutions that lend out the yield curve, to borrow short and lend long. Credit unions already provide for significant excess liquidity under the current central bank rules vis a vis other regulated entities.

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?

While we agree with the introduction of the asset class. The extreme duration of the investment would mean that these investments should be scaled in over the medium term. There would need to be a demonstrated understanding that this moment may not be the opportune time in the interest rate cycle to potentially invest members funds for 25 years. This is such an extreme moment in global interest rates. A resolution at the next AGM of a credit union may be a prudent requirement to seek the buy in of members. AHB type investments are a departure from existing investment categories and are more akin to the addition of a new service. Investments of this nature and duration cannot be specifically critiqued as to the prudent use of members funds in the absence of any indication of the likely attributable returns.

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 would not support an amendment to the current limits at this time. European banking institutions are currently exiting the domestic Irish banking market. Irish domestic banks are currently pricing away non-bank financial intermediary deposits and in the current environment credit unions are already struggling to preserve capital with negative interest rates being applied by many domestic and most European deposit providers.

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

We are not of the view that the introduction of this measure is appropriate at this time.

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

If we take the example of deposits or bank bonds, the credit union can capture higher returns by placing or holding these investment instruments directly. The benefit of a collective investment scheme is the provision of diversification of counterparties and the ability to place funds with various maturities.

[6] Appendix 2

The counterparty diversification is a clear benefit but the costs and fees associated with the running of a collective investment scheme are prohibitive at this time. In terms of various maturities in a liquidity fund, again with interest rates at zero or below, a fund of this nature is not a workable alternative at this time. The funding of the liquidity cost would be included in the fund and exacerbate the already near or below zero returns currently for short term deposits.

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

The returns available in the types of investment that lend themselves to a collective investment scheme type structure are currently too small. The returns do not justify the costs associated with the establishment and running of such structures and the liquidity requirements associated with running these structures.

There are a significant number of capital preservation, short duration bond funds, that, even though they may be suitable from a risk perspective, would not meet the specific requirements of the credit union regulation.

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.

We welcome the additional categories such as supranational bonds, corporate bonds and AHBs introduced as soon as possible. As outlined above, we believe that any reduction of counterparty exposure limits in the absence of more domestically available deposit providers should not be considered at this time. As set out above we do not support the revised definition of bank bonds described in CP109.

Appendix 1: Credit Union Returns

	EURIBOR (3M)	Irish 10 yr Generic	Senior Bank Bond	Overnight Deposit	Term Deposits
Average (2003-2017)	1.56%	4.12%	2.88%	0.41%	2.22%
Current	-0.37%	0.78%	0.52%	0.00%	0.00%
Difference	1.93%	3.34%	2.36%	0.41%	2.22%

Current Mix	€150m	€50m	€24.5m
Deposits	71%	75%	84%
Bank Bonds	19%	18%	9%
EEA State Securities	7%	4%	1%
CIS	2%	2%	5%
Other	1%	1%	1%

	150,000,000	50,000,000	24,500,000
Deposits	1,907,615	671,696	368,626
Bank Bonds	820,029	258,957	63,444
EEA State Securities	432,362	82,355	10,088
CIS	12,269	4,090	5,010
Other	23,434	7,811	3,828
Total	**3,195,709**	**1,024,908**	**450,997**

	150,000,000	50,000,000	24,500,000
Weighted Return	2.13%	2.05%	1.84%
Weighted Return ex Bank Bonds	1.58%	1.53%	1.58%
Cost to the credit union sector	0.55%	0.52%	0.26%
CU Investments	11,421,100,000	11,421,100,001	11,421,100,002
Income per long term average	243,323,411	234,111,443	210,239,877
Income lost	62,437,556	59,151,369	29,575,684
Avergae Sector cost	50,388,203		

Assumptions in Model:

- Central Bank identified assets are 100% invested.
- Deposits based on 10% at EURIBOR 20% on overnight deposit rate and 70% on the term deposit rate.
- Investments are allocated across the sector in proportion to today's mix quoted in CP109 and at the average returns pre and post crisis shown below in the period 2003 to 2017

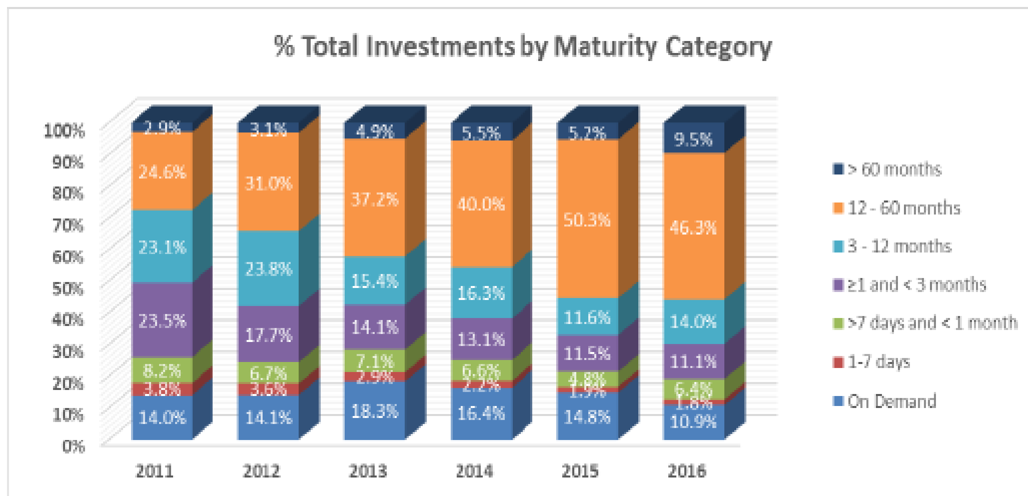
	EURIBOR (3M)	Irish 10 yr Generic	Senior Bank Bond	Overnight Deposit	Term Deposits
Average (2003-2017)	1.56%	4.12%	2.88%	0.41%	2.22%
Current	-0.37%	0.78%	0.52%	0.00%	0.00%
Difference	1.93%	3.34%	2.36%	0.41%	2.22%

Appendix 2: Duration of Credit Union Investments in Years

	2011	2012	2013	2014	2015	2016
> 60	3%	3%	5%	6%	5%	10%
12-60	25%	31%	37%	40%	50%	46%
3-12	23%	24%	15%	16%	12%	14%
0-3	49%	42%	43%	38%	33%	30%
90	2.6	2.8	4.4	5.0	4.7	8.6
36	8.9	11.2	13.4	14.4	18.1	16.7
7.5	1.7	1.8	1.2	1.2	0.9	1.1
1.5	0.7	0.6	0.6	0.6	0.5	0.5
Years	**1.16**	**1.36**	**1.63**	**1.76**	**2.01**	**2.23**

Note: As per the data in Chart 4 on page 5 of the regulatory impact analysis contained in CP109

Chart 4



Source: Prudential returns submitted by individual credit unions (December quarter returns)

Bibliography:

Title: Loss absorbing capacity in the Banking Union: TLAC implementation and MREL review

Authors: B. Mesnard, contact: egov@ep.europa.eu PE 574.408

Date: 7 July 2016

Title: Viability and Irish Credit Unions

Authors: Prepared by the Credit Union Advisory Committee

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Authors: Simon Ainsworth; Senior Vice President

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Authors: MEMO/14/297

Date: Brussels, 15 April 2014