Killarney
Credit Union
LIMITED
WHERE MEMBERS MATTER MOST

Head Office
Beech Road, Killarney,
Co. Kerry, Ireland.
V93 XR5V
Tel: + 353 (0) 64 663 1344
Fax: + 353 (0) 64 663 5440

Branch Office
Park Road,
Killarney, Co. Kerry.
V93 CVF9
Tel: 064 663 7800
Fax: 064 663 7818

Branch Office
Killarney Road,
Kenmare, Co. Kerry
V93 NN73
Tel: 064 664 2111
Fax: 064 664 2121

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

28th June 2017

Dear Sirs,

***Re: Consultation on Potential Changes to the Investment Framework for Credit Unions (Consultation Paper CP109)***

## SECTION 1: INTRODUCTION

Killarney Credit Union welcomes the opportunity to respond to the Consultation on Potential Changes to the Investment Framework for Credit Unions (CP109) and to address significant issues which arise from the proposed changes. We believe that the key issues facing credit unions from an investment perspective are as follows:

1. **Lack of investment choices and the challenge to generate income:** In the current investment environment, it has become increasingly difficult for credit unions to source appropriate and suitable investments.

2. **Counterparty pressures**: Given the shortage of counterparty options and banks' lack of appetite for short-term funding, we anticipate that credit unions will find it very difficult to source a home for funds which will allow them to observe regulatory counterparty and liquidity limits without inflicting a capital loss on funds as a result of negative interest rates.

3. **Liquidity:** Credit unions are now entirely reliant on overnight deposits/demand accounts and accessible collective investment schemes to meet their short-term liquidity requirements. We contend that this represents capital risk which needs to be minimised as it is contrary to the underlying principle of not taking undue risk with members' savings.

## SECTION 2: GENERAL COMMENTARY

We do not want CP109 to represent a missed opportunity. Instead of repositioning the existing investment framework for credit unions in the context of the unprecedented low/negative yield environment, CP109 proposes to restrict investment in Bank Bonds for credit unions and puts forward as an alternative, low yield "A" rated Supranational and Corporate bonds at very limited concentration limits.

The investment framework being considered is wholly inconsistent. The Central Bank is proposing to apply credit ratings to Supranational Bonds and Corporate Bonds however, no credit rating has been applied in the 2016 Regulations to investments in Accounts in Authorised Credit Institutions, Irish and EEA State Securities or Bank Bonds. Moreover, it is suggested that concentration limits for investments in Supranational Bonds, Corporate Bonds and Approved Housing Bodies are to be based on a percentage of the regulatory reserve of the respective credit union while pre-existing investment asset classes concentration limits are generally based on a percentage of the investment portfolio. There is no rationale provided in CP 109 for these differing approaches.

CP 109 does not propose a framework of effective risk management and mitigation, instead the prime objective appears to be the elimination of investment returns for credit unions. The Investment Framework under the 2016 Regulations is already restrictive and we expect the proposals will further exacerbate the downward pressure on investment income. Investment losses have historically not represented a systemic risk for credit unions and the movement has not experienced significant investment losses. Annual investment losses from 2012 to 2016 have ranged from 0.01% to 0.12% of investments.

The Central Bank's own publication "Financial Conditions of Credit Unions 2011-2016" in February 2017 highlights the significant vulnerabilities of credit unions' return on assets to the current low interest rate investment environment given that investments represent the largest asset on the balance sheet. It illustrates that 50% of credit unions would report a negative return on assets by 2018 based on a scenario estimating future rates of return on investments and projected dividends similar to those that were proposed at the time for the 2015 year-end. The proposed changes in CP109 would potentially result in this scenario becoming a reality.

Section 84 of the Credit Union Act 1997 asserts that the function of the Central Bank is to administer the system of regulation and supervision of credit unions with a view to the maintenance, financial stability and well-being of credit unions. CP109 does not improve the well-being of the financial model of credit unions or address the issues identified in the Central Bank's own publication.

The investment yield for ROI ILCU affiliated credit unions has declined from 3.6% in 2012 to only 1.4% in the six month period to March 2017. The ILCU have performed a portfolio impact analysis of the proposed changes in CP109 on affiliated credit unions and they estimate that the current 1.4% annualised yield from credit unions investments would decline to as low as 0.3% in the coming financial years, particularly as current fixed investments mature from higher rates and reinvestment options offer relatively lower rates. How can credit unions have a sustainable future business model in the context of these future projected investment yields?

Unlike the banks, credit unions do not have the opportunity to create vehicles for investment products to generate income. As a result of European Central Bank Quantitative Easing coupled with deposit takers pursuit of depressing the cost of funding, Credit Unions have borne the brunt of the implications of these policies in terms of ever declining rates of returns and under the existing and proposed investment framework there is little scope to obtain any reasonable investment return going forward. This interest rate environment has come at the worst possible time, as Credit Unions experience a substantial growth in the size of their investment portfolios.

Section 43 (5) of the Credit Union Act, 1997 states that the Central Bank shall have regard to the need to ensure that that the requirements imposed by the regulations made by it are effective and proportionate having regard to the nature, scale and complexity of credit unions, or the category or categories of credit unions, to which the regulations will apply. The Central Bank has continued to ignore this obligation and instead CP 109 continues the "one size fits all" approach and does not allow latitude for those credit unions that possess the skills and systems necessary to manage a more complex investment portfolio.

The "Guidance Note on Investments by Credit Unions" October 2006 and the "Application for Exemption" dated July 2007 issued by the Financial Regulator stated that credit unions could be granted an exemption from the investment limits if they could demonstrate that they possessed the skills and systems necessary to manage a more complex investment portfolio. We ask the Central Bank to reconsider the reintroduction of this concept.

## SECTION 3: FEEDBACK ON ADDITIONAL ISSUES NOT INCORPORATED INTO THE CENTRAL BANK'S QUESTIONS

1. **Nature, scale, complexity and risk profiles of credit unions:**
   The Central Bank appears to have neglected to take account of the nature, scale, complexity and risk profiles of credit unions.

2. **Risk versus return:**
   The Central Bank has focused purely on risk and assessed the potential impact of the proposed changes on asset allocation. By consequence, the regulatory impact analysis (RIA) requires further analysis.

3. **Credit versus duration risk:**
   We are concerned that duration risk is not addressed in CP109 and credit unions may look to "move out the curve" in order to secure valuable yield in the government, corporate or bank bond universe. In our view, this is potentially the worst point in the interest rate cycle for credit unions to be securing long-term investments.

4. **Bank bonds – Implications for credit unions as a result of the Central Bank's proposal to amend the definition of bank bonds:**
   Bank Bonds are a significant investment asset class credit unions. CP 109 states that the Central Bank is proposing to amend the existing definition of Bank Bonds so that Bank Bonds that are subordinated to any Senior Bonds issued by a credit institution will no longer be eligible investments for credit unions. Traditional senior Bank Bonds may no longer be available while CP109 proposes that new types of bond issues (senior non-preferred) will be prohibited.

   The Central Bank is not seeking views on this proposed amendment to the definition of Bank Bonds in the feedback section 7 of CP109. We urge the Central Bank to constructively engage with the credit union movement on this very important matter.

We understand that banks are under pressure to meet Minimum Requirement for own funds and Eligible Liabilities ("MREL") and consequently, their issuance focus in the future will be on MREL eligible bonds. As a result of CP109's proposal to rule out such bonds and as existing bonds mature, the universe of authorised Bank Bonds may be severely curtailed. It is unlikely that Banks will issue any significant Senior Unsecured Bonds in the future given that they would not be MREL. We expect that credit unions will be broadly limited to investing in covered bonds which represents a far smaller population of bonds with a much lower yield than the existing Senior Unsecured Bonds.

Bank bonds are a key source of investment yield for credit unions. If the Central Bank's proposal is implemented, the measures will effectively close off an authorised investment class which historically has represented an important investment option for credit unions. Credit unions are likely to face additional pressure on income as traditional senior unsecured bonds mature in their portfolios and they seek out new bond opportunities. Credit unions are highly unlikely to maintain their investment portfolios in bank bonds as supposed by the Regulatory Impact Analysis (RIA) – it is more likely to be materially lower.

There is an evident lack of a RIA in respect of the impact of excluding investments in Bank Bonds that are subordinated to Senior Unsecured debt. A RIA is required "to identify any possible side effects or hidden costs associated with regulation and to quantify the likely cost of compliance on the individual citizens or the business". However, CP109 contains no analysis of the serious side effects in respect of reduced investment yield that credit unions will suffer as a result of the proposed change.

The proposed changes represent a fundamental misunderstanding of the impact of the Bank Resolution & Recovery Directive ("BRRD") on credit risk. The credit risk no longer resides solely in the actual instrument. Instead, the credit risk of the issuer of the financial instrument is also very relevant.

In order to reflect this change the eligibility for investment in Bank Bonds should be linked to the credit rating of the specific Bank Bonds (that have a defined maturity date or are not perpetual in nature) which will reflect not only the credit assessment of the issuer financial institution but also the degree of subordination of the financial instrument.

There is an obvious inconsistency in excluding many Bank Bonds which would have a far higher credit rating and would be considered far more secure than some compliant Bank Bonds. For example, a BNP Paribas senior unsecured non-preferred bond (BNP 1.125% 10.10.2023) which would not be permitted under the proposed regulations has a Baa2 credit rating with Moody's, an A+ credit rating with Fitch and an A- credit rating with S&P, whilst the senior unsecured debt issued by the Italian Bank Unicredit SPA (Unicredit SPA 4.35% 25.08.2022) which has Baa1 credit ratings with Moody's, BBB credit rating with Fitch and BBB- with S&P will still be permitted.

If security of investments is the primary concern, the best way to measure and apply this on a consistent basis is to set a minimum credit rating on all Bank Bonds. We recommend that this minimum credit rating should be Investment Grade and should be applied to Bank Bonds with a fixed maturity date i.e. Moody's Baa3, S&P/Fitch BBB-. We consider that a rating of Investment Grade is reasonable in the context of the highly regulated environment which the financial sector now operates in including the increased level of supervision and monitoring since the financial crisis.

It is also our view that credit unions should be permitted to invest in bonds issued from holding companies which is the structure that was announced by Bank of Ireland and AIB in February 2017 subject to the application of the Investment Grade rating noted above.

5. **Liquidity:**

We are disappointed CP109 does not factor in the liquidity pressures facing credit unions from an investment perspective and that the Central Bank has not put forward any proposals in respect of the revision of liquidity requirements for credit unions in the context of the negative interest rate environment. The minimum liquidity ratio which requires credit unions to maintain liquid assets of at least 20% of unattached savings and the minimum short term liquidity ratio which requires short term liquid assets of at least 5% of unattached savings are resulting in credit unions experiencing negative yields on these related short term investments.

The Central Bank has referred to the legislative requirement in section 43 of the 1997 Credit Union Act of no undue risk to members savings however, it must be highlighted that banks appear to have no appetite for short term deposits from credit unions and this is reflected in punitive negative deposit rates or short term deposit offerings being withdrawn from the market. We anticipate that these pressures will intensify as reflected by Rabobank's scheduled exit of the market at the end of June 2017. Consequently, the negative interest rates now being applied by financial institutions will continue to erode the capital of credit unions.

The current definition of liquid assets is restricted to the inclusion of cash, investments with a maturity of less than 3 months and investments with a maturity of 3 months or more, where a written guarantee exists to the effect that funds are available to the credit union in less than 3 months.

This in many cases seems to indicate that liquid assets are confined to Accounts in Authorised Credit Institutions. This implied restriction is inconsistent with the liquidity methodologies applied in a European perspective by the Basel Committee on Banking Supervision and also from a UK view by the Prudential Regulation Authority ("PRA").

Credit unions have historically adopted a prudent approach to liquidity and annual cash flow requirements are predictable due to the stability of retention of members' savings.

We believe that the liquidity requirements for credit unions should be amended so that they are consistent with the approach used by the Basel Committee on Banking Supervision and the PRA whereby longer term investments such as Government Bonds, Bank Bonds, Corporate Bonds and Supranational Bonds are explicitly included in the definition of liquid assets. These bonds are in essence more liquid than deposits given that they are quoted on public markets and they can be converted into cash at their market value.

The Basel III Liquidity Coverage Ratio provides for the inclusion of these Bonds in the definition of highly liquid assets subject to credit ratings, haircuts being applied to market value and concentration limits. We would be happy to see similar appropriate measures being applied for the explicit inclusion of Bonds in the liquidity definitions for ROI credit unions.

The explicit inclusion of these further investment asset classes as liquid assets would provide some relief for credit unions from punitive negative interest rates, promote investment diversification and ultimately assist in protecting members' savings.

## SECTION 4: IMPACT OF THE PROPOSALS ON KILLARNEY CREDIT UNION

On behalf of Killarney Credit Union, our Investment Advisors Davy's have prepared a report to assist us in establishing the impact of the proposals contained within CP109.

A summary of the findings is outlined as follows:

1. **Asset Allocation**
   - When converted to a percentage of the investment portfolio, 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.

2. **Counterparty Exposure**
   - In the event that the counterparty limit is amended to 20% as proposed by the Central Bank, Killarney Credit Union will need to reallocate 2.3% of the investment portfolio or €1.8m to alternative counterparties. 9.3% of the portfolio or €7.3m must also be reallocated from Rabobank when these existing investments mature.
   - We believe that there is no rationale to implement limits by reference to regulatory reserves and now is the wrong time to be placing unnecessary pressure on credit unions from a counterparty perspective.

3. **Income**

   Based on analysis conducted by Davy within an income impact model outlined in the submission from Davy, Killarney Credit Union's income is likely to be impacted by the proposals contained within CP109. The current weighted average return on our investment portfolio is 1.16%.

   The following is an extract from the Davy report:

   - If the Central Bank proceeds with the proposed changes to bank bonds, Davy' project that the average credit union's investment will decline by c. 23%. Applying this projection to your credit union's weighted average investment income, your income is expected to decline to c. 0.90%.
   - 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 project that the average credit union's investment income may decline by up to 19%. Applying this projection to credit union's weighted average investment income, your income is projected to decline to c. 0.94%. It should be noted however that the yields on the additional asset classes of supranational and

corporate bonds are at extremely low levels and are likely to normalise in the future; in addition they may contribute diversification benefits to the portfolio.
- If senior non-preferred bonds are authorised, we project that the average credit union's investment income will be positively affected and may rise by up to 9%. Applying this to your credit union's weighted average investment income, your income is projected to increase to 1.27%. It should be noted however that this allocation will introduce additional credit risk into an investment portfolio which will require ongoing assessment by credit unions and investment adviser to monitor that it is in line with your investment policy.
- We project that income may fall by up to 2% for the average credit union in the event that senior non-preferred bonds are added and a credit union allocates to supranational and corporate bonds. This would reduce your weighted average income to 1.14%. Based on current pricing, the allocation to supranational and corporate bonds is likely to reduce average income in the portfolio due to the exceptionally low yields on these bonds at this time.
- In the event that certain bonds may be treated as liquid in line with proposals outlined in the Davy submission, certain credit unions may be able to reduce the proportion of funds placed in short term deposits which may be attracting negative yields and this may result in an improvement of investment income by up to c. 13% for the average credit union. Applying this forecast to your credit union would increase your weighted average income to 1.32%.

## SECTION 5: RESPONES TO THE CENTRAL BANK'S QUESTIONS

**1. Do you have any comments on the current level if 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.**

We agree with the Central Bank that credit union investment portfolios are too concentrated. At present, credit unions have little choice other than to consider cash deposits. We have identified above that the current liquidity ratio requirements effectively restrict investment in Government and Bank Bonds. We would suggest expanding the definition of liquid assets would assist credit unions to diversify further and promote investment in Bonds.

As discussed above, the proposed restriction of the Bank Bonds definition will further compress the investment options for credit unions.

**2. Do you have any comments on the potential introduction of addition investment classes for credit unions and the appropriateness of the classes being considered by the Central Bank?**

We agree with the proposal to introduce the additional investment classes for credit unions which will increase the current level of investment diversification. However, Supranational Bonds and Corporate Bonds will only have a very negligible impact on investment income, at a time when credit union investment income is falling. The proposed concentration limits by reference to a percentage of regulatory reserves is almost non-material and we propose to switch any change to concentration limits to asset level.

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.**

    I. Equities
    We believe the need for investments in equities possibly via Collective Investment Schemes should be permitted. We believe that Credit Unions that can demonstrate robust controls and risk processes as well as clear understanding of allocation surplus funds to this asset class should be permitted to do so. We would recommend that the Central Bank should introduce the eligibility of 5% of the credit union's investment portfolio being allocated to equities as was originally published in October 2006. We also suggest the definition of Collective Investment Schemes should be refined to include investment in equities subject to the 5% concentration limit.

    II. Senior Bank Bonds
    Certain credit unions should be allowed to invest in senior bank bonds, both senior preferred and senior non-preferred. Credit unions should be allowed to assess bonds (within prescribed classes authorised by the Central Bank) and decide if they are suitable based on their own investment objectives.

4. **Do you have any comments on the potential to include supranational bonds in the list of authorised classes of investments set out in the credit union investment regulations with a minimum credit rating requirement and maturity limit?**

    We welcome the potential addition of this investment asset class as it could provide credit unions with additional opportunities to diversify counterparty exposure. However, we understand that the yields on these bonds are very low and are effectively similar to Government Bonds. We also understand that the counterparty risk of Supranational Bonds and Government Bonds is similar and consequently, it is not clear why the Central Bank is proposing a minimum credit limit of "A" with at least two recognised rating agencies.

    We agree with the proposed maturity limit of 10 years.

5. **Do you have any comments on the suggested concentration limit for credit unions investments in supranational bonds? If you have suggestions, please provide them along with supporting rationale.**

    We do not believe that it is appropriate for the Central Bank to engage in the blanket application of investment concentration limits to every credit union irrespective of size or capacity to manage risk nor do we believe that the Central Bank has adequately explained its rationale for proposing to do so. Credit union boards and management are best placed to consider and agree on concentration limits (relative to factors in their own credit unions) as part of their overall Investment Policy.

No rationale for the use of the regulatory reserve as basis of the concentration limit for Supranational Bonds is provided in CP 109. The RIA highlights that the proposed limit of Supranational Bonds of 50% of regulatory reserves results in an average limit of 5.6% of total assets and 8.3% of total investments. The proposed concentration limits are simply too low for credit unions to have any meaningful investment in Supranational Bonds.

If the Central Bank is insistent on applying concentration limits then investment in the total bond universe (i.e. Irish and EEA State Securities, Bank Bonds, Supranational Bonds and Corporate Bonds) should be limited to 70% of the total credit union investments which is consistent with the 2016 Regulations.

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?**

   We agree with this proposal, together with the proposed minimum credit rating and maturity limit.

   However, we would ask the Central Bank to consider a minimum credit rating of Investment Grade being applied for Corporate Bonds invested in a Collective Investment Scheme overseen by an experienced investment manager which would contain a diversified population of such Bonds.

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.**

   Please see our response to question 5 above as our comments in respect of the use of blanket concentration limits and the regulatory reserve are equally applicable to question 7.

   The proposed concentration limits for Corporate Bonds are even lower than those proposed for Supranational Bonds. The RIA estimates that the proposed limit of Corporate Bonds of 25% of regulatory reserves results in an average limit of 2.8% of total assets and 4.2% of total investments. Although, in theory it is proposed that credit unions can invest in Supranational Bonds and Corporate Bonds any meaningful investment by credit unions is restricted by the extremely low proposed concentration limits and the "A" credit ratings.
   We again recommend that a concentration limit of 70% of total credit union investments should be applied to the total bond universe (i.e. Irish and EEA State Securities, Bank Bonds, Supranational Bonds and Corporate Bonds).

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

We believe that credit unions are a natural investor in social housing. Appropriate vehicles must be put in place to make credit unions' investment in social housing meaningful, affordable to credit unions and affordable by housing applicants.

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

We feel that special purpose vehicles (SPVs) or collective investment schemes are potentially the most appropriate structures for investments in AHBs. We recommend that the Central Bank opens an application process that accepts proposals with assessments conducted on a case by case basis.

**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?**

Risks associated with investing in this sector may be summarised as, counterparty risk, liquidity risk, investment risk, regulatory risk, financial risk and business model risk.

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

We believe that the only realistic way of dealing with the ALM issues arising from investments in AHBs is to provide the investment through a collective investment vehicle which is large and accessible to all credit unions

**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?**

We recommend a concentration limit of 5% initially to be reviewed for potential upward revision as the sector develops over the next few years. Creating an explicit ALM match for credit unions is problematic. We see the duration of AHB investments as remaining an outlier in ALM terms as it is not possible in our view to duration match AHB investments and the loan book of credit unions. Rather, investment in AHBs needs to be looked at on a portfolio basis and in this context, a 5% weighting will not pose a significant risk in ALM terms, as the overall investment portfolio duration remains relatively short.

**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?**

We concur with the 25 year maturity limit and the investment in Tier 3 AHBs as proposed in CP 109.

**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.**

In the current investment environment it is a significant challenge for credit unions to identify counterparties who can provide a reasonable investment yield. The proposed reduction in the counterparty limit would place additional counterparty strain on credit union investment portfolios. Diversification proposals in CP109 are insufficient to warrant any contraction in current limits.

Consequently, it is our strong view at this time that the counterparty limit should be retained at 25%. This is the limit that has been in place since 2006 and there have been no issues or risks arising from this counterparty limit even though we have had the biggest global financial crisis in the meanwhile.

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

We do not believe that the transitional period should not arise as we do not agree with the proposal to reduce the counterparty limit to 20% of total investments.

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

Collective Investment Schemes provide a mechanism for credit unions to invest in a range of asset classes, across a mix of maturities in a well regulated manner and with the advice of regulated investment advisors.

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

Low yield on the investment asset classes within the existing definition of Collective Investment Schemes are a key barrier to credit unions using these schemes We would propose expanding the definition of the investment asset classes included in these schemes will promote their use by credit unions and will assist with investment diversification.

**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.**

It will be necessary to see the Central Bank's responses to the significant issues raised in this submission (and those from all other contributors) before we can reasonably be expected to provide a view as to whether we agree with the proposed timelines.

In addition, we would argue that changes are required which are not set out in this consultation paper, particularly in respect of liquidity and Bank Bonds, and we would urge the Central Bank to give consideration to implementing these changes ahead of the proposed timeline.

## SECTION 6: CONCLUSION

We have highlighted in the sections above the significant issues which arise from the proposed changes to the investment framework as set out in CP 109. We ask the Central Bank to consider the following:

i. We believe that credit unions should be authorised to invest in senior Bank Bonds, both senior preferred and senior non-preferred. There should be active and constructive engagement with the credit union movement in respect of any proposed amendment to the definition of Bank Bonds. Consider using a minimum credit rating of investment grade as a benchmark as it is a more appropriate reflection of counterparty risk.

ii. We believe that certain bonds should be considered liquid for both the purposes of liquidity requirements. The Central Bank should review of liquidity requirements for credit unions in particular the explicit inclusion of additional investment asset classes within the definition of liquid assets subject to sensible credit ratings, haircuts being applied to market value and concentration limits.

iii. Consider the inclusion of additional investment classes such as equities

iv. Concentration limits for the bond investment universe (Supranational Bonds, Corporate Bonds, Bank Bonds and Irish and EEA State Securities) to be set at 70% of the entire credit union investment portfolio.

v. Minimum credit rating of Investment Grade to be applied to Supranational Bonds. In addition, we also recommend a minimum credit rating of Investment Grade for Corporate Bonds which are managed in a Collective Investment Scheme overseen by an experienced investment manager which would contain a diversified population of such Bonds.

vi. Counterparty limit should be maintained as it is has for the past 11 years at 25% in recognition of the very challenging investment environment and the difficulty in identifying counterparties who can provide a reasonable investment return.

vii. The definition of Collective Investment Schemes should be expanded to incorporate other investments within defined concentration limits.

Should you have any queries, please do not hesitate to contact me.

Yours sincerely,

Mark Murphy

Mark Murphy
**CEO**
**On Behalf of**
**Killarney Credit Union Ltd**