Registry of Credit Unions
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin1

Wednesday, 28 June 2017

Re: Consultation on Potential Changes to the Investment Framework for Credit Unions

Dear Sirs,

The Board of Kilrush Credit Union appreciates the opportunity to make a submission on the Central Bank consultation paper CP109.

We are making this submission in terms of our interpretation of CP109 from a strategic point of view and we refer and attach the submission prepared by our Investment Advisors, Goodbody Stockbrokers – with which we agree – to balance the submission from a technical point of view.

We also agree with the majority of the submission made by the ILCU, though we would not necessarily partake in some of the investment products suggested within the document. However, we would support the right of credit unions to make the appropriate decisions in view of their individual size and complexity, skillset, and tolerance and appetite for risk.

At the outset we would like to refer to the two main purposes of credit unions as set out in CP109, i.e. saving and lending (CP109:p10). These two items come from the 1997 Act, Section 6:

> *(2) The objects referred to in subsection (1)(a) are—*
>
> > *(a) the promotion of thrift among its members by the accumulation of their savings;*
> >
> > *(b) the creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest;*

A third element which was not referred to, is section 6(2),(*c*)

> *"the use and control of members' savings for their mutual Benefit".*

CP109 implies that because savings and loans to members are the core function of credit unions, the range of investments that would be considered appropriate is somehow narrowed. This appears to suggest the Central Bank's view that there is a lack of knowledge within credit unions to support making investment decisions, as the Central Bank focuses on the "*lower end of the risk spectrum…"* for investments "*that will help to ensure appropriate levels of risk for credit unions"* (CP109:p10) *.*

Despite the very small investment losses made within the sector over the past years: *"2012 to 2016 – ranged from 0.01% to 0.12%"* (June 2017:p3)[1], there is no rationale included in CP109 for the change in perceived suitable investment vehicles.

[1] ILCU (16th June 2017), *ILCU Response to CP109*, Dublin.

One of the founding principles of co-operatives (and therefore credit unions) is that they are member owned, member designed and member controlled. Dr Donal McKillop said at the World Council of Credit Unions (WOCCU) conference in Belfast in 2016, that one of the effects of ownership/control is that there is a reduced risk to members' funds.
Another principle of co-operatives is that they should be autonomous and independent. We feel there appears to be very little recognition of either the concepts or the resulting reduced risk within CP109 as it stands.

While we welcome that CP109 is a draft document and that we have a chance to comment on its contents, any suggestion we might have needs to be supported by a rationale. Our difficulty with the main thrust of the consultation paper is that the aspect of the consultation paper which is likely to have the largest effect on credit unions is that of bank bonds. Again, without any obvious rationale included in CP109, a re-definition of "bank bonds" that was included in the 2016 Regulation is being proposed. Due to a lack of rationale, it is then very difficult to agree or disagree with much of the CP109 proposals as the possibility of the changes to the core legislation and regulation remains very much alive. This effectively means that what might be agreed now as a "supernational bond" may well change in the future and have implications for investment strategies implemented after CP109 is approved.

An additional point we would like to highlight is that we feel the corporate bonds that are proposed as allowable might be more risky than the bank bonds that are currently allowed under the 2016 Regulation. In our opinion, corporate bonds are unlikely to be as strictly regulated as those of national banking institutions, as the latter are often of systemic importance to the issuing home country.

Having said that, we appreciate the inclusion of additional investment vehicles – for the purposes of diversification – but those items introduced for that purpose are replacing the vehicles already in place, thereby reducing diversification again.
We recognise and appreciate the proposed inclusion of social housing and corporate bond /CIS options for investment, but the overall change to limits being based on Regulatory Reserve instead of total investment portfolio, combined with the re-definition and therefore exclusion of bank bonds will have a devastating effect on the sector income. Our investment advisors (Goodbody) estimate this at €50 million lost income out of the total sector income of €230 million. Again this is presented in CP109 without an RIA or rationale.

Our opinions regarding liquidity (the inclusion of instruments at market value), credit ratings to be used for investment (we consider Investment grade as more appropriate) and concentration levels (we support 25% counterparty risk) are in line with our Investment Advisors (Goodbody Stockbrokers) whose submission we attach for clarity.

Thank you again for the opportunity to make this submission and we look forward to further dialogue before the conclusion of CP109.

Yours faithfully

____

The Board of Kilrush Credit Union.