Monaghan Credit Union Limited
Comhar Creidmheasa Mhuineacháin

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

27th June 2017

Dear Sirs

Further to consideration of the content of CP109 Consultation on Potential Changes to the Investment Framework for Credit Unions, the responding submission from the Board of Directors of Monaghan Credit Union Limited is documented below.

The proposed amendment to the definition of Bank Bonds gives rise to grave concern within the Credit Union. At the 31st March 2017 Investment Income represented 35% of the Credit Union's Total Income. **AN IMPACT ANALYSIS INDICATES A REDUCTION IN INVESTMENT INCOME BY 27% SHOULD THE CHANGE PROCEED.** Undoubtedly this would significantly hinder the Credit Union's ability to generate satisfactory surpluses in the challenging environment in which we operate.

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 in credit union investment portfolios reflects optimal investment choices made in consideration of all relevant factors including returns available.

The current environment and the net returns available, as opposed to the current framework, represent barriers to the use of existing diversification options.

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?**

The introduction of additional investment classes for credit unions will increase the potential to diversify the investment portfolio. However each additional investment class will bring its own considerations and risks.

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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.**

Investment in approved public/state projects should be considered. This would facilitate credit union support of local enterprise and development. Parameters would be required as regards investment duration and percentage of overall investment portfolio. A suggested maximum investment duration would be 10 years.

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?**

While the introduction of supranational bonds potentially represent an additional investment class, European Sovereign Bonds are already available to credit unions under existing regulations. Hence we would argue that there is no additional diversification options in consideration of underlying counterparties. In addition yields on such bonds are low.

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.**

The concentration limits proposed in CP109 are too low to allow any meaningful investment in supranational bonds. Consistency with existing regulations applying to bonds should be maintained. Taking into account the yields available on existing supranational bonds, investment options are limited to investing for the longest duration which will add further to the 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?**

In recognition of the risks attaching to investment in corporate bonds, investment in the latter should be considered as part of a Collective Investment Scheme which would allow for diversification of counterparty, liquidity and duration risk. In consideration of default rates, the minimum credit rating that should apply is AA.

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.**

In consideration of the unregulated status of corporate bonds, strict concentration limits are necessary. Restrictions should be correlated to the size of the investment portfolio with further consideration given to limits on exposure to any specific corporate bond within a scheme.

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

Investment in AHBs is in line with the social ethos of the credit union. However consideration of specific proposals is a necessity in terms of understanding risk and getting clarity on duration and return. It is reasonable to expect that such an investment would be long term in nature with no access to capital invested until maturity. In terms of potential return, and in view of the low interest rate environment, the credit union questions whether a decision to commit funds for the long term at a low rate of return, would be in the bests interests of the credit union?

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

No comment

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?

The overall risk is the ability of the AHBs to repay the money borrowed. However in the absence of specific details we cannot comment further on the usual investment risks of duration, capital, liquidity and counterparty.

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

The credit union assumes that any funds invested in AHBs would be inaccessible for the duration of the investment. Hence liquidity requirements would be satisfied from the remainder of the credit unions investment portfolio.

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?

The concentration limit should be based on a proportion of investments.

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?

The credit union is comfortable with the introduction of the investment class and the 25 year maturity limit. However as previously referred to, specific detail is a prerequisite to properly assess any investment option. In addition credit unions must consider the prudence of committing funds for 25 years when rates are at the bottom of the interest rate cycle.

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.

The credit union is strongly of the view that the current counterparty limit of 25% should be retained. Appropriate counterparty options are limited. Rabobank is leaving the market and the domestic banks are following their European counterparts in applying negative interest rates.

Reducing the counterparty limit would further compound the challenges credit unions face in attempting to secure reasonable investment returns.

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

Notwithstanding our view specified under 14 above, a transitional period of 12 months post commencement of any amended investment regulations is unsatisfactory. Taking account of the low interest rate environment and the significant re-investment risk arising, investments with fixed maturity dates should be held to maturity.

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

See response under 17 below.

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

The barrier is the return available from collective investment schemes. Credit Unions can secure higher returns holding bank deposits or bank bonds directly.

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.

No comment.

In concluding we welcome the opportunity to respond as above and await publication of the feedback statement.

Yours sincerely

Tom Britton
Secretary