NENAGH
CREDIT UNION

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

28th June, 2017

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

Dear Sir/Madam,

I refer to the recent Consultation Paper CP109 May 2017.

Please find attached Nenagh Credit Union's response to the various questions raised within this consultation paper.

Yours sincerely,

Sarah O' Callaghan
Secretary
Nenagh Credit Union

Serving You ...
Serving Your Community

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Consultation on Potential Changes to the Investment Framework for Credit Unions

From: Nenagh Credit Union Submission

Date: 28th June, 2017

NOTE

Please refer to pages 21 and 22 of the Consultation Paper (Section 7: Summary of areas where the Central bank is seeking views) for the specific questions relating to the replies outline below.

Potential Additional Investment Classes

Question 1 Reply:

NCU would agree that their investment portfolio is very concentrated with the majority of our investments invested in cash deposits and some bonds. One can be restricted in how much one can invest in Bonds as they provide little in terms of liquidity and one has also to factor in Duration risk. It would be beneficial if some bonds could be considered as liquid and especially so in terms of the short term liquidity requirement, where currently we are experiencing negative rates to meet this requirement.

Question 2 Reply:

In a climate where we are experiencing negative interest rates any introduction of additional investment classes is very welcome and especially so in terms of portfolio diversification. However we would feel the level of proposed concentration limits as a % of regulatory reserves to be very restrictive and therefore in terms of income generation would do little to assist us in our current challenges to generate an adequate return on member's savings.

Question 3 Reply:

NCU would be of the view that CP109 focuses massively on risk and little on the huge challenges that we currently face in terms of generating an adequate level of income. Over the last number of years credit unions have become much more educated and experienced in terms of investments, their own investment appetite and risk management. Consequently they are now better placed to make investment decisions and so there may be cases where investing in higher yielding growth assets may be justified. For example, NCU being a community based organisation would like to see the option of credit unions getting involved in investment in public/state infrastructure projects from which their local community could benefit greatly. This in turn would assist in the continued economic recovery of their locality and country and any increased economic activity would hopefully translate to jobs.

can help to mitigate this risk. We would also have a concern regarding the criteria to use in order to satisfy ourselves that any AHBs that we are contemplating providing credit to are appropriately managed. In this respect we would welcome the government's housing strategy commitment to introduce statutory based regulation for AHBs. Liquidity is also a risk as such a category of lending is very much long term. We would consider that credit unions in general now have a high level of liquidity and also have good procedures and policies in place for managing same.

Question 11 Reply:

The fact that credit unions currently have a very high level of liquidity does in our opinion provide the opportunity to consider significantly longer term investments.

Question 12 Reply:

NCU would be of the view that 10% to 15% concentration limit based on a proportion of investments would be practical.

Question 13 Reply:

We would firstly agree with limiting investment in AHBs to the Tier 3 AHBs only due to the higher level of oversight that they are subject to. Following on from this we would also agree with a 25 year maturity limit.

Counterparty Exposure

Question 14 Reply:

We would be of the view that now is not the time to reduce counterparty. At the current level of 25% it is a challenge to meet this requirement without being overly subject to negative rates. A counterparty level of 20% would mean that funds would have to be invested in institutions outside the state. Given that credit unions are community based organisations we would much prefer to see the funds remain within the state where it can hopefully be used to further the economic recovery of this country. Reviewing our own portfolio it would mean having to reallocate 5.6% of the portfolio (€3m) with €1.73m of this having to be relocated from Irish Banks. In conclusion we believe the current 25% limit to be adequate.

Question 15 Reply:

As already outlined we do not believe that now is the time to consider a reduction in counterparty exposure and in any case we would feel that the proposed 12 month transitional period is insufficient.

Collective Investment Schemes

Question 16 Reply:

We currently have a collective investment scheme within our portfolio and therefore would wish to continue to have the option to consider such an investment instrument in to the future.

Question 17 Reply:

The return on collective investment schemes are currently very low.