WESTPORT CREDIT UNION
RESPONSE TO CP109

Please find below our response to CP109. We strongly disagree with the removal of senior bank bonds from our Investment options. This change will have a significant impact on our Investment income in the coming years in the absence of any material recovery in sovereign bond yields, covered bond yields and deposit rates. We currently hold 46% of our portfolio in Cash deposits and 54% in Bank bonds. Illustrated below is the potential impact on our investment income with the removal of senior bank bonds as an option. This illustration is based on our average income return from 2003 to 2017.

	Westport
Deposits	46%
Bank Bonds	54%
EEA State Securities	0%
Other	0%
	100%

Investments	72,871,054
Deposits	600,418
Bank Bonds	1,132,226
EEA State Securities	0
Other	0
Total	**1,732,645**
Income to Credit Union	1,732,645
Return %	2.38%
Income ex-bonds	600,418
Return ex-bonds %	0.82%
Reinvested in Deposits	517,019
Net Cost to CU at current %	615,207
% of Income (cost)	**36%**

Feedback as per section 4 of CP109

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.

We feel that the current investment framework is too concentrated and our only real option has been to invest in cash deposits and bank bonds. We have 54% of our portfolio in Bank Bonds and 46% in cash deposits. This is reflective of the current environment, where banks are actively discouraging us from placing funds with them.

We feel that that there is an inference in CP109 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.

While return is not a key driver in assessing the appropriateness of a reinvestment, to pretend it has no impact is disingenuous. We balance the return with the risk associated with the class of investments in making the decision to place an investment. We feel the proposals in CP109 will create reinvestment risks given that we will no longer be liable to invest in senior bank bonds.

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?

We have no issue with the introduction of supranational and corporate bonds, but feel the concentration limits should be linked to asset size rather than linked to regulatory reserves. These additional classes of Investments offer a potentially low yield and do little to address the significant challenge of generating adequate return on member's savings.

We find it confusing that we are restricted from investing in senior non-preference bank bonds within a highly regulated sector, but will now be permitted to invest in 25 year investments which provide no liquidity.

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 strongly agree with the ILCU submission that Credit unions should have the scope and autonomy to select and approve appropriate asset classes and to decide whether individual investments are consistent with the investment objectives and risk appetite of the Credit union. We also feel that at a certain asset size or complexity, Credit Unions should be allowed to invest in senior bank bonds.

We also think there could be an approved Department of Finance list of semi-state companies that would be allowable for credit unions. Credit unions could invest in specific semi-state entities and provide funding up to 10 years as appropriate. The RCU could cap this for certain size of Credit unions.

As regards the social housing proposal it would allow Irish members funds to be invested in the state in support of local enterprise and developments which is what the Credit union ethos supports.

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 backed by more than one European Sovereign; this usually implies very high credit ratings. They yields on these bonds is very low and will not provide any additional opportunities to enhance return. European Sovereign bonds are already available to credit unions under existing rules. 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.

We agree with the proposed maturity limit of 10 years to be applied in respect of supranational bonds.

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 disagree with the proposal to limit concentration limits to regulatory reserves and the proposed concentration limits are just too low to be in any way meaningful in terms of return.

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 the proposal to include corporate bonds within a proposed minimum credit rating and maturity limit.

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.

We strongly disagree with the proposal to limit concentration limits to regulatory reserves and feel that the concentration limits should be incorporated into the current 70% asset class limit of bonds.

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 as it is in line with the ethos of the Credit Union. The specifics of the investment risk however are unclear from such a proposal. There must be an appropriate mechanism put in place to make investment in AHB's meaningful and affordable to Credit unions.

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

We feel that a special purpose vehicle would be the most appropriate structure for investments in AHB's.

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?

There will be a number of risks associated with this type of investment namely liquidity risk, capital risk, financial risk and business model risk.

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

Presumably the funds would be unavailable for the duration of the investment. This will certainly have an impact on the duration of investment portfolios. The SPV will have to be designed to ensure a mix of projects and durations.

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 feel as with the current investment framework, concentration limits should be based on a proportion of investments with an acceptable limit being between 5 and 15%.

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 agree with a 25 year maturity limit and investment in tier 3 AHB's as proposed.

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 strongly disagree with the proposal to reduce counterparty limits for Credit Union investments as it is an ongoing challenge currently to identify counterparties that provide a reasonable yield within the regulatory framework. The proposed diversification in CP109 is not adequate to reduce counterparty limits at this time.

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. Notwithstanding this, the proposed transitional arrangement of 12 months post commencement of the amended regulations is insufficient. Investments with fixed maturity dates should be held to maturity which would be in line with the 2016 transitional arrangements. This is critical given the significant reinvestment risk in this low interest rate environment.

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

We feel that the counterparty diversification is a clear benefit. The definition of a collective investment scheme should be expanded to incorporate investments in supranational bonds, corporate bonds, AHB's, state sponsored projects and equities.

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

The low yield on these schemes is the key barrier to availing of them.

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 to be introduced as soon as possible. As set out above we do not support the revised definition of bank bonds described in CP109.