R.N.

Wexford
CREDIT UNION
at the heart of the community

Wexford Credit Union Limited.
Luke Wadding House,
Anne Street,
Wexford.

Tel: 053 912 3909
Fax: 053 915 5078
Email: info@wexfordcreditunion.ie
www.wexfordcreditunion.ie

28th June 2017

CREDIT UNION REGULATION
03 JUL 2017
RECEIVED

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

Re: Submission in respect of CP109

Dear Sir/Madam,

The Board of Directors of Wexford Credit Union Limited wish to make the following submission in respect of the above consultation document.

The Board has addressed each of the individual questions as follows;

Potential Additional Investment Classes

1. Do you have any comments on the current level of diversification in credit union investment portfolios?

Diversification in Wexford Credit Union's (WCU) investment portfolio, has taken place to the extent permitted by regulation, and the investment experience of the credit union investment committee.

In the recent past WCU could not invest heavily in sovereign debt or bank bond issuances, whilst the host sovereign was under an EU bailout program and banks were being supported by major interventions by EU states. The investment in deposits was a rational investment approach given the prevailing regulations.

The permitted CIS's are limited to investment in securities, which credit unions can invest in directly. Looking through the CIS portfolio to identify the maturity concentration and counterparty, adds further compliance burden/risk.

Are there any barriers to the use of existing diversification options within the current investment framework? Yes

If so, please provide details and any suggestions to address these.

Shares and deposits with other credit unions – given the €100,000 cap/limit this is an impractical option.

Shares of a provident society – the ability of a credit union to invest in the shares of provident society, is impractical. If the Registrar intended that shared services companies would be registered under this regime it would be beneficial to state this explicitly. It would clarify how credit unions could adequately invest in their own future.

Irish and EEA state securities, Accounts with other Credit Unions and Bank Bonds – should not be limited to a geographic area, euro denominated securities of any sovereign, of a mature market should be considered. This would provide additional geographic and counterparty exposure.

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?

WCU, welcome the potential additional investment classes, and the opportunity for diversification, although the risks associated with AHB's are unquantified. From the detail within CP109, on AHB's, it is clear, that the Central Bank's view on this is unclear/incomplete.

Supranational entities bonds and corporate bonds are appropriate.

WCU would welcome a more regular consultation / review of investment classes, suggesting every 3 to 5 years.

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.

WCU does not consider any other investment classes appropriate at this time.

Bonds issued by Supranational Entities:

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?

WCU welcomes the addition of supranational bonds, to the list of potential authorised investment classes. The potential low yield is however noted.

The maturity limit is an arbitrary limit and does not take account of the reality of credit union liabilities.

Regarding the minimum credit rating, this leaves the investment class open to the same issues that arose with Irish banks/bonds during the bailout. Suggest that 'investment grade' only be specified.

Also, regarding the requirement, for two credit ratings to be obtained, the current EU CRA regulatory environment is significantly robust, (the latest legislative package on CRAs consists of a regulation (Regulation No 462/2013) and a directive (Directive 2013/14/EU)), that a single agency rating should be sufficient.

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.

As an asset class with superior strengths and fundamentals, it is incongruous that the basis for concentration is 25% of regulatory reserves. A CU with a €100m investment portfolio can put 20% in any counterparty, while a CU with €20m reserves can only put in €5m in a supranational bond. WCU is certain the supranational bodies would consider themselves more credit worthy than a typical bank, but the Central Banks view in CP109 seems to suggest otherwise, given the proposed concentration limit.

WCU believes that concentration limits, should be a percentage of reserves or a percentage of portfolio, and not a combination of both.

Corporate Bonds:
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?

WCU welcomes the addition of corporate bonds, to the list of potential authorised investment classes. This will assist in diversifying counterparty risk away from financials.

The maturity limit is an arbitrary limit and does not take account of the reality of credit union liabilities.

Regarding the minimum credit rating, this leaves the investment class open to the same issues that arose with Irish banks/bonds during the bailout. Suggest that 'investment grade' only be specified.

Also, regarding the requirement, for two credit ratings to be obtained, the current EU CRA regulatory environment is significantly robust, (the latest legislative package on CRAs consists of a regulation (Regulation No 462/2013) and a directive (Directive 2013/14/EU)), that a single agency rating should be sufficient.

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.

The basis as a percentage of reserves is not consistent with existing concentration limits which are based on a percentage of portfolio. A single basis makes sense and is less complex.
WCU believes that concentration limits should be a percentage of reserves or a percentage of portfolio, and not a combination of both.

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

In principle, WCU welcomes the addition of AHB's, to the list of potential authorised investment classes. Investment in AHB's are in line with credit union ethos.

Investment in property, would assist in diversifying counterparty risk, away from financials.

Statutory regulation would be a pre-requisite.

Perhaps a direct investment in the HFA or similar organization may be a better solution.

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

If the maturity limit of 25 years is to be applied, the investment vehicle would have to be inflation linked.

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?

Investment in AHB's, would appear to be high risk, with the risks largely being unquantified, but centering around regulation/certification/the 'unknown' etc.

The Central Bank, would need to conduct an authorisation process, on an entity by entity basis, with statutory regulation being a pre-requisite.

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

Credit union balance sheet regulation would need to be reformed to facilitate investments in AHB's. Demand share accounts are as 'sticky' as retail bank current accounts, but not considered so by the Regulator. The substance of a credit union savings account needs to be taken into account rather than just the form. Perhaps the MPCAS account would address this issue.

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?

Given that this would be a completely new area for credit unions, a very low initial concentration limit, would be suggested.

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?

WCU consider a 25 year maturity limit, to be too long, and inappropriate.
Depending on the investment vehicle, a shorter term should be considered.

Counterparty Exposure Limit:

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.

20% is too high to contain the collapse of any one counterparty. A credit union with a €100m investment portfolio could invest €20m in a single counterparty. Another Anglo Irish Bank scenario, without state support, and the credit union would collapse, with the bank. If available counterparties can be expanded to include those in other asset classes, then a 10% limit would be more appropriate.

This is also an area that should be based on realised reserves as this is where the collapse of a counterparty can have a real impact on reserves. Counterparty exposure limit should be expressed as a percentage of realised reserves. The higher the reserves the higher the amount that can be put in any counterparty and the higher the loss capable of being absorbed.

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

12 months is appropriate, subject to credit unions being allowed to run investments to maturity rather than simply sell investments within 12 months to satisfy a regulatory requirement.

Collective Investment Schemes:

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

Restricting permitted CIS investment classes to that of Irish and EEA state securities, credit unions, and bank bonds, does not provide any diversification benefits. It only adds a compliance burden, as looking through the CIS portfolio on maturity concentration and counterparty adds an additional time effort/cost, with no discernible benefit.

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

Yes. A true credit union wide CIS requires CU's to invest only through the CIS, and not have significant independently managed portfolios. The barrier to using CIS is the scale that would be required to make it viable. A centralised treasury CIS function across the movement would be beneficial in a number of ways. It may even be possible to have a number of funds with a centralised consolidation function to get the see through required.

Timelines:

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.

The proposed timelines, are acceptable, subject to point 15 above.

WCU would welcome additional consultation from the Regulator on AHB's, when their position, is fully formulated.

Additional Comments:

CP109 refers to investments being within the risk appetite of the credit union. The document then proceeds to outline the Central Banks view as to what credit unions should be able to invest in thus predefining the risk appetite. In no situation does the document seek to ask for an opinion on the basis for which the CBI sets down its views. This is a perceived flaw in the document as a basis of consultation.

The questions being asked do not fully address the totality of risks and opportunities facing the credit union movement asset base, only the policy unit's views after it has eliminated what it deems to be inappropriate.
Perhaps it would be more beneficial to seek opinion in relation to the basis for the CBI's views in advance of it taking a specific position on any matter as once this position has been taken consultation could be perceived to be rather futile.

Yours faithfully

Michael O'Reilly
Chair
For Wexford Credit Union Limited