Submission to the Central Bank of Ireland

Re: CP167 Consultation on the methodology for calculating contributions to the DGS

17th April 2026

credit union development association

Introduction
CUDA (Credit Union Development Association) welcomes the opportunity on behalf of its Owner Member credit unions to make a submission in response to the Central Bank of Ireland's Consultation Paper CP167 - which sets out a new methodology when calculating DGS contributions. To help provide an informed response, we have consulted with our Owner Member credit unions in formulating our response to the Paper, including surveying credit unions, analysing data and conducting workshops.

CUDA is a representative body and development association for many of Ireland's largest and most progressive credit unions. We are focused on influencing and enabling the sustainable development of our Owner Member credit unions and the wider sector. Part of a well-functioning financial services sector is ensuring depositors are confident that their savings are protected, and that member institutions know what to expect from the DGS, are fully informed and operate within a transparent scheme.

In this regard, CUDA responded to the consultation by the EBA in 2022 on methods for calculating contributions to deposit guarantee schemes and revisions to EBA Guidelines[1]. We welcomed evolution of guidance on a positive alternative to the current flow-based approach as set out in the EBA 2023 Revised Guidelines, and the Central Bank of Ireland's work over the last number of month's in considering the introduction of a stock-based approach.

CUDA also welcomes the engagement with the Central Bank during this consultation process.

Stock-based Approach
CUDA welcomes the move to a new calculation methodology on the basis that:

- It is a more equitable means of determining contributions as they closely reflect changes in a member institution's risk profile and movement in its covered deposits;
- Whilst, short term historic funding shortfalls will have to be resolved, in the longer term this transition should better insulate credit unions from changes to deposit and risk positions elsewhere in the system;
- By considering a member institution's cumulative past contributions when deciding on further contributions, this assists credit unions undergoing ToEs as a transferor's contributions will be included in the transferee's stock of contributions, and
- Over time, the new approach will provide greater transparency and financial planning will become more predictable.

That said, we have some reservations with the approach being proposed by the Central Bank in operationalising a stock-based methodology. In this regard, as set out below, we advocate for:

1. a refund mechanism in certain circumstances and
2. the introduction of a smoothening mechanism - which we believe is paramount to protect credit unions from volatility in market conditions.

[1] Draft Guidelines (revised) on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10

We also provide commentary on timing of the move to a new approach, coupled with a request for further transparency.

As noted above, we have conducted our own analysis of credit union financial data and are happy to elaborate on our findings.

Refund Mechanism

We note and appreciate the intention of the Central Bank is not to introduce a refund mechanism in the event of a member institutions over-funding the DGS. The Paper does not elaborate on the reasons why the Central Bank has adopted this approach.

In order to balance the new stock-based approach with over-funding, CUDA is in favour of the Central Bank applying a mechanism to allow for refunding in some instances.

We believe that a refund mechanism is warranted in circumstances where over-funding by a member institution reaches a prescribed threshold. We do not envisage the issuing of refunds in conjunction with each contribution cycle, however where member institutions have contributed more than the amount required to meet the target level and contributions exceed an over-funding ceiling, for example if a Historic to Expected Ratio exceeds a threshold of 120% for two consecutive contribution cycles, a refund mechanism should be triggered for funds contributed in excess of the threshold.

We note that the EBA Revised Guidelines is not prescriptive with respect to the application of a refund mechanism, favouring optionality for a DGS to provide refunds in instances where institutions have diminishing risk or decreasing deposits[2]. A significant change in market conditions, or where a member institution alters their strategy or business model resulting in their risk weighting, or size of covered deposits reducing could trigger a significant over-funding. A refund mechanism would prevent member funds being tied up indefinitely, and prevent interest being generated on the over-funded amount unfairly benefitting the DGS.

Smoothening Mechanism

We note that the Central Bank does not propose to introduce additional smoothing and we appreciate the rationale set out in the Consultation Paper. However, CUDA strongly believes that the introduction of a stock-based methodology materially changes the impact of movements in risk metrics, and that additional smoothing is therefore necessary to ensure stability in outcomes.

Under the existing framework, there is a degree of smoothing through the use of multi-year averages in the calculation of risk indicators. However, this smoothing operates at the input level only and is limited in scope. In practice, four of the five credit union indicators are averaged over only two years. This approach was calibrated for a flow-based methodology, where contributions are determined annually and are not influenced by cumulative funding levels. In that context, the financial impact of changes in ARW is limited to the contribution in a given period.

[2] Section 2.2.1 Para 15

Under a stock-based approach, this dynamic changes fundamentally. Movements in ARW directly change the required funding stock, with the result that even temporary or short-term changes in underlying risk metrics can lead to step changes in required contributions. In our view, input-level averaging of this nature is not sufficient to mitigate this effect, particularly where averaging periods are short.

This is supported by analysis of data from CUDA Owner Member credit unions, which indicates material volatility in ARW, including:

- average annual movements of up to 8%, and
- absolute movements of up to 16%.

Under a stock-based framework, such movements translate directly into changes in the required funding stock and can therefore give rise to significant and immediate contribution requirements.

Risk of temporary, strong fluctuations in ARW are explicitly recognised by the European Banking Authority[3], who highlight the need for mechanisms, such as averaging ARW over a few periods, to mitigate the impact of significant increases in contributions arising from movements in ARW or covered deposits, noting the potential for unduly burdensome and destabilising outcomes.

This risk is uniquely amplified for credit unions, who are subject to a limited set of five risk indicators, being a far less diversified base than other sectors participating in the DGS. This creates a concentration risk within the ARW calculation, whereby a single adverse event can have a disproportionately large impact on the overall risk score. For example, a significant investment impairment could simultaneously affect 80% of the indicators used in a credit union's ARW calculation.

As a result, CUDA considers that credit unions are particularly exposed to sharp, one-off movements in ARW. Our analysis indicates that, in such stress scenarios, temporary ARW movements of up to 38% are plausible. Under a stock-based methodology, this would translate directly into a material step-change in the required funding stock within a single contribution cycle.

Accordingly, CUDA submits that the introduction of a targeted and transparent smoothing mechanism, such as the application of a rolling average to ARW over a period of at least 3 years, is necessary to ensure that contribution outcomes avoid destabilising shock and remain manageable, while preserving the underlying risk sensitivity of the framework.

Timing of Stock Based Approach and Contribution Cycle

All of the credit unions as part of our survey agreed that, as invoices are expected at the time when credit unions are finalising accounts, the sooner invoices are issued the better. One credit union noted, "we never had any advance warning of what the bill might be - our accrual was often badly wrong, usually much too low". As part of this contribution cycle, some credit unions could face significant contributions as historic funding shortfalls are resolved. We are aware from the information that the Central Bank shared with us that broadly across the sector there is a funding deficit. The Central Bank confirmed that:

[3] See EBA/GL/2023/02 Section 2.2.1 Para 20

- 106 credit unions have a HtE Ratio below 95%
- 49 credit unions have a HtE Ratio between 95% and 105%
- 28 credit unions have a HtE Ratio above 105%

We note the Paper proposes that the move to the stock-based approach will take effect from Q3, 2026. We also appreciate that there was a zero DGS levy for the previous contribution cycle. However, given that credit unions financial year runs from October to September, we would advocate and request that the Central Bank provide, well in advance of annual budgeting cycle the following to each credit union:

- ✓ Its HtE Ratio
- ✓ Its ranking relative to the HtE ratios of other credit unions so as to better anticipate where they would fall in a funding call
- ✓ Its current ARW and contributing IR Scores

Transparency and Predictability

As you will be aware credit unions have raised concerns previously (both via Representative Bodies and as individual entities) regarding the transparency of individual credit union scores and more broadly the process of calculating contributions at a sector level. One credit union noted "it was impossible to get clarity on the calculation and so figures were accepted on trust" and another noting "the DGS bill was always unpredictable". We believe that the move to a stock-based approach will assist credit unions predict contributions more easily.

However, we also advocate for greater transparency in the data provided to credit unions by the Central Bank. In the interest of clarity, could the Central Bank please provide credit unions with:

- ✓ Annual breakdown for each CU of their Individual Risk Scores for each metric/ risk indicator
- ✓ Annual confirmation of total covered deposits used in calculation (or alternatively, the publication of quarterly figures for covered deposits)
- ✓ Annual confirmation of adjustment coefficient

Additionally, we believe that this ask is in keeping with the EBA Guidelines which provides that the DGS should disclose the results of the risk classification and its components for a particular member institution to that member institution".[4]

Risk Indicators / ARWs

Whilst we acknowledge the Paper is not about redefining or resetting core indicators or ARWs, it is a missed opportunity with respect to the credit union sector. Risk scoring has been an area of consistent tension within the sector. As many of the core indicators do not apply to credit unions there is a significant focus on 2 of the 5 risk indicators - reserves and liquidity. We support the appropriateness of flexibility for national authorities in deciding how best to calibrate these indicators for their member institutions. However, this should ensure greater recognition of the nature scale and complexity within the diverse range of institutions covered by the DGS. The impacts as set our above under the section on Smoothening Mechanisms highlights this.

[4] Section 4.10 Para 93

There is a considerable amount of work underway within the sector on asset and liability management (ALM). Initiatives such as the establishment of an ALM CUSO is a hugely positive development in supporting stronger asset and liability management across the sector. As a result of this work, it is an opportunity for further engagement by the Central Bank with credit unions to consider a more diversified range of key risk indicators for credit unions.

We again thank the Central Bank for the opportunity to part-take in the consultation process and as always, CUDA is happy to discuss any of the points raised in this Response.

CUDA
credit union development association

High Street, Dublin 24

Tel: +353(0)1 4693715

Website: www.cuda.ie