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SUBMISSION BY

C.U.M.A.

The Credit Union Managers Association

to the

Central Bank of Ireland

on the proposed

Fitness & Probity regime for credit unions

01 March 2013

The Credit Union Managers Association (CUMA) is the professional representative association for Managers of credit unions in Ireland.

CUMA provides professional development training and assistance to its members and engages with a wide range of stakeholders and industry bodies in its pursuit of excellence in professional standards in credit union management.

CUMA welcomes the introduction of an appropriate Fitness & Probity regime for credit unions and shares the view of the Registrar of Credit Unions, that such a regime will improve governance standards at board and management level.

CUMA recognises that an appropriate Fitness & Probity regime should ensure that individuals who exercise significant influence and control in a credit union are capable, competent and financially sound individuals with the appropriate skills, experience, knowledge and integrity to manage and govern the credit union.

CUMA appreciates the opportunity to respond to this consultation process and believes that credit unions will positively embrace the introduction of an appropriate regime that will benefit credit union members, by ensuring sound business practice and duty of care.

In its consultation paper the Central Bank seeks comment on the following:

- (i) **Do you agree with the tailored approach to the designation of CFs and PCFs for credit unions in the draft Regulations? Do you think that any additional CFs or PCFs should be designated? If you have other suggestions please provide them along with the supporting rationale. It should be noted that the Act is prescriptive in setting the relevant criteria applying to functions and positions which may constitute CFs and PCFs.**

“It is proposed that the Fitness and Probity regime for credit unions will initially prescribe 2 CFs and 2 PCFs for credit unions as follows:

CFs (i) A function that exercises significant influence on the conduct of the affairs of the credit union (CUCF-1); and

(ii) A function related to ensuring, controlling or monitoring compliance by a credit union with its relevant obligations (CUCF-2)”.

CUMA notes the Central Bank ‘s comments “*While it is a matter for credit unions to determine the roles that fall within CUCF-1 and CUCF-2, it is anticipated that at a minimum these CFs would include the board of directors, the supervisory committee, the risk management officer, the compliance officer, the money laundering reporting officer and the internal audit function*”.

CUMA contends the designation of CFs and PCFs is a matter of regulation and that it is therefore not a matter for credit unions to determine the roles that fall within CUCF-1 and CUCF-2. It is important that the Central Bank clearly states what roles are required to have CUCF-1 and CUCF-2 status and that these

designations are in no way allowed to become arbitrary appointments in credit unions.

CUMA concurs with the proposed list of CFs as a minimum requirement.

(iii) *PCFs (i) Chairman of the board of the credit union (CUPCF-1)*

(iv) *and (ii) Manager of the credit union (CUPCF-2)*

CUMA concurs with the proposed designations for CUPCF-1 and CUPCF-2

Post Implementation Review

CUMA further notes that the Central Bank has committed to carrying out a post implementation review (following implementation of the first two phases of the regime). This review will take into account the impact of the new regulatory framework and credit union restructuring.

While CUMA supports this initiative, we request that the Central Bank engage with credit unions at the end of an 18 month period following the introduction of the Fitness & Probity Regime.

The purpose of an early initial review would be to ensure that credit unions have transitioned appropriately and successfully into the new Fitness & Probity Regime, and that any problems are identified and resolved, before consideration is given to broadening the designations of CFs and PCFs.

Phased Implementation of a Fitness and Probity regime for credit unions

(ii) Do you agree with the phased approach for the implementation of the Fitness and Probity regime for credit unions? If you have other suggestions please provide them along with the supporting rationale.

“The first phase of the regime is planned to begin on 1 July 2013 and will introduce fitness and probity requirements for those credit unions with total assets of greater than €10 million.”

CUMA agrees that a phased approach in implementing Fitness & Probity is appropriate. CUMA does not agree, however, that credit unions with assets of less than €10 million should be left outside of the regime for a period of two years.

CUMA contends that all credit union members are entitled to the same high standard of good governance and best practice, regardless of the size of the credit union. It is not unreasonable to require that the Fitness & Probity Regime, as proposed, be applicable to all credit unions regardless of size.

CUMA does not believe that there is any rational in waiting for two years before introducing Fitness & Probity for all credit unions including those with assets of less than €10 million and argues that, since credit union members in general do not discern on the basis of asset size where to place their savings, it is

incumbent on the Central Bank to ensure all credit union savers are afforded the same level of protection.

CUMA does not believe that duty of care should be based on asset size. CUMA contends that it is neither too onerous nor too costly for any credit union, regardless of size, to appoint Controlled Functions and Pre-Approved Controlled Functions on a phased basis, as set out in the consultation paper.

Standards of Fitness and Probity for Credit Unions

(v) Do you think the draft Standards cover all relevant matters for credit unions? If you have other suggestions, please provide them along with the supporting rationale.

While CUMA concurs with the draft Standards as proposed, we would like further clarity regarding what is actually required under Competency, Capability, Honesty, Ethics and Financial Soundness.

We also require clarification as to whether it is the Central Bank or the credit union that assesses competency?

Guidance on Fitness and Probity for credit unions

(iv) Do you think that the Central Bank should issue guidance on the Fitness and Probity regime for credit unions?

CUMA agrees that the Central Bank should issue guidance on the Fitness & Probity regime for credit unions. It is important that all credit unions interpret the regime in a consistent and cohesive manner. Comprehensive guidance will ensure that a standard of compliance is introduced across the sector and will assist credit unions in implementing the regime appropriately.

CUMA requests that such guidance is issued in a timely manner, allowing credit unions scope to seek clarifications, if required, on any particular aspect of the guidance. CUMA would be happy to engage with the Central Bank in drawing up such guidance notes.

(vi) Are there any additional areas of the Fitness and Probity regime for credit unions which the guidance should cover? If you have other suggestions please provide details along with the supporting rationale.

CUMA is satisfied that the Central Bank has comprehensively covered all aspects of the Fitness and Probity regime as it applies to credit unions in the proposed guidance.

(vii) Do you agree with the implementation timeframe for the application of the existing Fitness and Probity regime to those credit unions also authorised as retail intermediaries? If you have other suggestions please provide them along with supporting rationale.

CUMA agrees with the implementation framework for the application of the existing Fitness and Probity regime to credit unions authorised as retail intermediaries.

CUMA seeks clarification as to whether Fitness and Probity, upon implementation, will apply to member-facing staff who will not directly deal with insurance products although the credit union itself sells those products. Will such staff be required to be CF's?

Yours faithfully



John Hickey
Chairman
CUMA