CP76 - Introduction of a Tiered Regulatory Approach for Credit Unions

The Central Bank has made several proposals, based on the recommendations of the Review Commission. The Board of Ballyconnell Credit Union welcomes the proposed introduction of a tiered regulatory approach by the Central Bank relative to the nature, scale and complexity of the entity, in its supervision of Credit Unions. However, whilst the Board views some of the proposals as positives for this credit union and for the movement as a whole, there are some areas of concern which we would like to raise and have addressed.

In attaching specific percentages and limits to the proposals, the Central Bank has no doubt considered the wider impact of such limits on the credit union sector and also on the financial sector as a whole. It would seem to make sense that this piece of work would have been done at the outset and that the rationale behind the specifics of the proposals as well as an analysis of the impact they are likely to have would be available to form part of the initial proposal document.

Each individual credit union can assess to an extent the impact on their particular credit union. But what is the likely impact of these proposals on the credit union sector overall, on rural credit unions versus urban or industrial credit unions? In the absence of this information, we can only make initial comments and query the rationale behind the following proposals, some of which would undoubtedly have a direct impact on a number of credit unions' ability to grow and in some cases on the actual viability of credit unions.

2.3 Tiering: A three tiered approach was recommended by the Review Commission. On completion of 'analysis' by the Central Bank, what was the rationale in opting for a two tiered approach?

Is it envisaged that the two tiered approach, as proposed, will help drive forward an agenda for mergers/transfer of engagements? If not, has consideration been given to a three or four tiered approach and what was the conclusion?

5.2 Lending:
Lending limits related to regulatory reserves.
Reserves are and should be set by Credit Unions relative to the risk profile of the entity and therefore reserve levels should inter alia be relative to lending and not the other way around.

5.2.1 - Limits on Commercial Lending for category 1 CUs . Some flexibility is required with regard to the definition of 'commercial' lending. Does commercial lending include small loans to small business/sole trader or farmer? E.g. €3,000 to a farmer for fencing or to a plumber for tools? If so, limits are very restrictive for rural credit unions whose membership may be mainly composed of farmers and small traders and the proposed lending practice requirements i.e. 'credible business plan and robust financial projections' as well as the usual financial checks, for what may be very small loans, are overly burdensome. Has the Central Bank considered the likely impact on the rural CUs and the economic and social impact on the rural communities served by these Credit Unions?

5.2.4 Restricted Person Limits, a member of the family as defined would be impractical if not impossible to police. Would Board and management team be asked to provide a list of all their relations to ensure compliance? Is the very idea not discriminatory/unconstitutional?

5.3 Investments:
5.3.2 Changes to counterparty limits for categories 1&2 will mean that credit unions under current guidelines holding 25% of investments per counterparty will have to either
- Increase the number of counterparties they invest with and accept a reduced investment income as well as is probably the case in most instances, move funds out of Irish banks, or
- Increase regulatory reserve to a quarter of total investment amount, which again will directly affect income and payment of any dividends.

Taking into account this limit as well as those outlined concerning classes of instruments, maturity terms and liquidity requirements, what is the likely impact on credit unions that have low loan to share ratio and a high reliance on investment income?

5.4 Savings:
5.4.1 Although recognising the connection with deposit guarantee limits, the limit on savings of €100k going forward appears to be very restrictive. With all other controls and limits in place designed to protect the members' savings, why does the Central Bank feel the need to limit Credit Unions through legislation (categories both 1&2) to this amount? As is the case at present, the Central Bank can engage with individual credit unions and impose restrictions on savings where deemed necessary.

5.7 & 5.8 Governance
Requirements in these areas would appear to be beneficial for credit unions and their members

5.9 Reserves:
5.9.1 & 5.9.2 Reserves: We note that existing reserve requirements will apply. However, is the proposal for an additional operational risk reserve together with the proposals for investments & lending being linked to reserves, a 'catch all' method of increasing regulatory reserves across the sector?

6. Provisioning
6.2 Would welcome the clarity and consistency that a provision framework could provide. We look forward to details of proposal.

7. Timelines
A high degree of concern regarding the proposed timelines and timing of the introduction of Tiered Regulatory Approach. Appears to be designed to maintain or accelerate momentum for the restructure of the sector in tandem with CUCORA and REBO, and will place further burdens

on individual credit unions that are already weighed down at this time with regulatory and legislative changes and are striving to maintain their position as one of very few remaining cornerstones of the community. Is there a reason why this process cannot commence when CUCORA requirements have been settled in?

We would earnestly request that you give re-consideration to the areas of concern raised and we look forward to receiving your revised proposals and in particular your regulatory impact analysis.