Central Bank of Ireland's Consultation Paper on the Introduction of a Tiered Regulatory Approach for Credit Unions:

Consultation Paper CP 76

Submission

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Q1. Do you agree with the proposed tiered regulatory approach for Credit Unions?

Having considered the Consultation Paper on Tiered Regulation, it is the opinion of Blessington & District Credit Union Limited that a tiered regulatory framework is in the interest of the credit union sector. However, we feel the timing is not right to introduce the scale of changes proposed in this document. If implemented as outlined, the viability of the credit union sector may be compromised. We therefore suggest that the status quo be maintained and that consideration be given to an extended consultation period of perhaps two years to allow for further stress testing of the model.

Rationale:

- The credit union movement has gone through significant transformation over the past 12 months; credit unions are undergoing momentous change as they adapt to increased governance requirements and a robust fitness and probity regime. This has placed substantial additional responsibilities on credit unions' management and their respective boards. Risk management and compliance systems programmes have had to be put in place and officers appointed specifically to deal with these tasks.
- Credit unions should be given the opportunity to develop and incorporate these new functions. They need the time to review and strengthen policies around investments, liquidity and asset liability management. They need to be in a position to build on the opportunities that are likely to emerge as the domestic and global economies recover. This will ensure that the sector is operating within an appropriate framework which reflects the revised regulatory backdrop.
- Until such time as these changes are fully embedded it is our view that it is not necessary to implement a new regulatory framework.

Q2. Do you agree with the proposals for the operation of the two category approach for credit unions set out in sections 5.1 – 5.11?

Blessington & District Credit Union Limited is in favour of tiered approach as outlined in the Credit Union Commission Report rather than the two tier approach now being put forward in CP76. While we recognise that there are certain merits in proposing the two tier structure in terms of a simplified model and potentially greater ease of implementation, we believe that three tiers is preferable for the credit union movement.

Rationale:

In rationalising the three tiers to two - some of the Commission's recommendations may have been inadvertently lost in the process and the structure does not serve small or medium to larger sized credit unions particularly well.

- **Category 1**: Small Credit Unions would be better served and allow them to operate a simpler business model under a more simplified regulatory regime and reduce the possibility of having to merge with a larger credit union to provide a service to their community.
- **Category 2**: This category comprises the vast majority of credit unions and should be the focus on any new proposals. We would recommend that the status quo remains in particular to lending and investments.
- **Category 3**: Larger credit unions could provide a wider range of lending and investment activities. These credit unions are likely to have more sophisticated risk management structures in place and are capable of operating a wider range of products and services. It should not, however, be restricted to credit unions of €100m or over.

We agree with the Commission's recommendation that the tiered approach should be based on the nature, scale and complexity of the organisation.

Q3. Are there any areas where credit unions could provide new additional services to their member?

We believe that all categories of credit unions would be in a position to provide the normal services mentioned in the consultation paper with the exception of providing mortgages.

General

While we have only addressed some of the specific questions asked in the Consultation paper we are also concerned about the following proposals and wish to make the following comments:

Investments

- We believe that counterparty limits should be represented as a percentage of the total Investment portfolio rather than a percentage of the Regulatory Reserves which is separate and unrelated. In our opinion this would be an unusual step.
- It is clear that the proposed approach is likely to have a serious impact on investments and investment income, and it regrettably being put forward at

a time when income is already under significant pressure due to record low interest rates, the effects of Basel 111 and when loan demand is at historically low.

- We are very concerned that the proposals, if implemented, may act to further affect the sustainability of a number of credit unions and we struggle to understand the rationale for introducing the proposed measures at this time.

Reserves

We feel that the proposed requirement to maintain additional reserves is unnecessary and will affect the payment of dividends to members thereby pushing them to other financial institutions in order to get a return on their savings. The movement is already extremely well reserved.

Lending

Restricted Person Limits if introduced in its present format is regarded as unfair by this Credit Union and we strongly recommend it be reviewed in order that credit unions can attract volunteers into the future. It will become very difficult to encourage members to come forward knowing that their whole family's borrowing will be affected by this proposal. No other financial institution is subject to this restriction.

Summary

Blessington & District Credit Union Limited was of the opinion that the new proposals for Tiered Regulation was meant to be a positive experience for the movement. We already have PRISM to deal with and we are doing everything we can to meet these regulations and the work involved is onerous and time-consuming. Another layer of regulation at this point in time would most certainly have a negative impact on us all – not least the voluntary boards and committees who give of their time so generously and are so committed to the credit union movement.

In trying to create a Safe, Sound, Secure movement, the Central Bank may run the risk of restricting the life out of credit unions and thereby depriving the communities of Ireland of their own financial organisation that gives them the financial independence that we all deserve and work for in our communities.

Signed John Glennon

John Glennon. Chairman.

Date: 31st March 2014.