

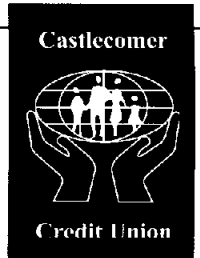
# Castlecomer Credit Union Limited

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Registry of Credit Unions,  
Central Bank of Ireland,  
PO Box 559,  
Dame Street,  
Dublin 2.

20th March 2014

## Re: Consultation Paper CP76 – Consultation on the introduction of a tiered regulatory approach for Credit Unions

Dear Sirs,

We refer to the above consultation paper and would make the following comments on it:

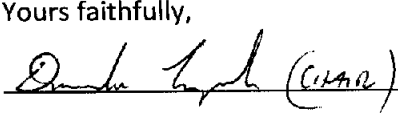
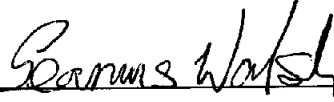
1. Tiered approach – under the proposals, every Credit Union would start out as Category 1. We understand that there will be an application process to become a Category 2 Credit Union. The Consultation Paper does not provide any details on this application process so this makes it impossible to assess the proposal. For example, could a Credit Union with assets of €35m be accepted as a Category 2 or would we need to be close to assets of €100m?
2. Lending to restricted persons – there is a proposal to restrict the aggregate lending to members of the board and their families, the management team and their families and businesses connected to board members and members of the management team. Loan applications for all members of Castlecomer Credit Union are assessed on a fair and equal basis. Our primary concern is the ability of the member to repay the loan and not who they are related to. This proposal will alter how we assess loan applications and in fact, it will lead to directors and their families and management and their families becoming second class members of our Credit Union. The total number of directors, board oversight committee members, volunteers and staff for Castlecomer Credit Union is 27. If each person had 5 members of their families who are members of the Credit Union, this would give us 135 restricted persons, who could only borrow an average of €1,500 from us. This restricted loan level of €1,500 compares to an average loan level in 2013 of €3,600. We believe that this proposal will be a disincentive for members from becoming involved as volunteers in the Credit Union and we see no justification for this proposal.
3. Current investments which will not be allowed under CP76 – Castlecomer Credit Union currently has €5.2m of investments which would not be allowed under the proposals. These are bank bonds (€0.2m), Collective Investment Schemes (€3.8m) and Structured Investments (bank bonds)(1.2m). Castlecomer Credit Union has a low risk investment strategy and we believe that these products are in line with this strategy. We anticipate that the proposed changes will lead to lower investment income for us. If collective investment schemes are no longer an authorised investment class, we will need to increase exposure to call deposits where the return is considerably lower. We anticipate a reduction in investment income under CP76 without any reduction in risk and we see no justification for this.

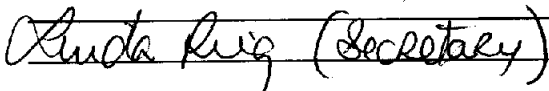
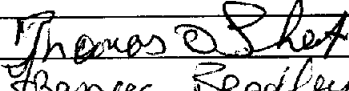
Affiliated to  
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Credit Unions

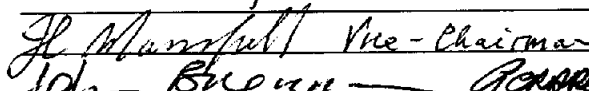
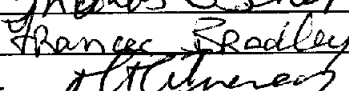
4. Restriction on 10 year Government Bonds – while we do not hold any 10 year government bonds at present, we have the option to hold them in future under our investment strategy. Currently, the differential between the rates earned on 10 year and 5 year bonds is about 1.25% which is a significant amount. We do not believe that 10 year Government Bonds are more risky than 5 year Government Bonds so again, we cannot understand this proposal.
5. Effect on our Investment Portfolio of proposed counterparty limit of 100% regulatory reserves – to meet the proposals of CP76, we would have €8.9m of funds to be allocated to alternative counterparties (28% of our total investment portfolio). This requires us to find 2 or 3 new counterparties and it is likely to include counterparties who are offering much lower cash deposit rates, for example Danske Bank and BNP. While we understand that diversification spreads risk, this proposal will further reduce our investment income and we cannot afford for this to happen.
6. Savings restricted to the lower of €100,000 or 1% of total assets – this restriction is unfair as banks are not subject to the same restriction. This proposal gives the banks a competitive advantage over Credit Unions and this is unacceptable. Furthermore, we believe that this restriction may be a barrier to growth in the future when the ratio of savings to loans alters.
7. Savings – aggregate liabilities in respect of deposits can be up to a maximum of 50% of aggregate liabilities in respect of shares issued to members – we do not understand the logic of this proposal – perhaps you could clarify it for us.
8. Reserves – we believe that the current regulatory reserve requirement of not less than 10% is more than adequate. This level is higher than other banking institutions and this is inequitable. The proposals do not address this imbalance.
9. Liquidity – currently 25% of Castlecomer Credit Union's liquidity is sourced from access accounts but these are not likely to be available as investment options on full implementation by the banks of the Basel III liquidity ratios. We expect to have to substantially increase funds in lower yielding call deposits in order to meet the short term liquidity proposals. Again, this reduced our investment income.
10. Provisioning – we can neither agree nor disagree with section 6.2 of the consultation paper as it provides no clarity on provisioning at all. What we would say is that the Resolution 49 provisioning mechanism has worked effectively for us especially during the recession and that we would agree with maintaining that system of provisioning. Please indicate if you will be giving Credit Unions the opportunity to comment on your provisioning proposals when you formulate them.
11. Timelines – our volunteers are currently coping with a huge workload arising from implementation of the new Act, the Fitness and Probity regime and Rebo considerations. In light of this, the timelines are too aggressive for a voluntary organisation and we recommend an extension to at least late 2016.

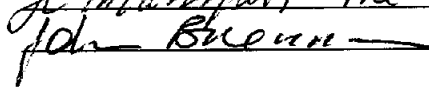
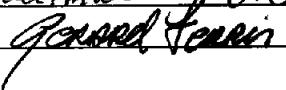
Thank you for giving us the opportunity to contribute to the consultation process.

Yours faithfully,

 Denis Lynch (Chair)
  Gerard Walsh

 Linda King (Secretary)
  Thomas Sheehy

 J. Mansfield Vice-Chairman
  Francis Bradley

 John Brennan
  Gerard Ferris