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Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
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31 March 2014

Dear Registrar

Consultation on the introduction of a tiered regulatory approach for credit unions

Chartered Accountants Ireland ('the Institute') is pleased to respond to the above consultation. Please find detail attached our comments on the initial consultation period on the Tiered Regulatory Approach for Credit Unions.

A working party comprising members in practice has considered the consultation paper. Between them they are involved in advisory and audit work for a large number of credit unions, both large and small.

We hope you find the attached comments useful. If you would like to discuss further any of the matters raised, please contact me at Chartered Accountants Ireland.

We look forward to involvement in any further consultations.

Yours sincerely

Anne Sykes

Anne Sykes
Manager, Technical Policy
Chartered Accountants Ireland
Sent by email to: rcuconsultation@centralbank.ie

Please find detail below our comments on the Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions.

SECTION 8 QUESTION RESPONSES

1. **Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with the supporting rationale.**

Proposed tiered regulatory approach – The tiered regulatory approach as proposed by the "Commission" was used as a tool for differentiating between the 400+ credit unions from an overall risk point of view. A concern raised was the disparity in operational structures between credit unions with for example €10 million in assets versus one with €99 million, and the fact that they would both have come under the second tier. This concern appears to have been alleviated somewhat by the category 1 and 2 approach put forward in this Consultation Paper which allow "small" well managed and governed credit unions to move from category 1 to category 2 and operate in a similar framework to much larger entities. The use of the amount of €100 million as the defined cut-off point, as detailed in the table on page 15 of the document which links category 1 to tiers 1 and 2 combined, still appears to be an arbitrary number but the use of some asset level appears inevitable. It is of key importance that the application process which allows a credit union, which wishes to apply to move from category 1 to category 2, as per paragraph 4.5 on page 16, is clarified to provide a transparent and timely process. These would include defining the meaning of "adequate financial and other resources" and "appropriate governance arrangements".

We do have some concerns with the proposals for the operation of the two category approach for credit unions.
One of the main concerns centres on the new lending framework as outlined in section 5.2.1 - Classes of Lending and Section 5.2.4 - Restricted Persons Limits.
Our concerns are as follows:
5.2.1 - Classes of Lending. The Central bank would need to issue detailed guidance on what constitutes a personal loan, a commercial loan and a community loan. EG would a farmer taking out a loan for a tractor constitute a commercial loan or a personal loan.
5.2.4 - Restricted Persons Limits - definition of a restricted person in the proposed framework significantly extends the number of people for which the Credit Union would be required to implement lending limits and requirements. The compliance with these requirements could potentially be very difficult to audit from a number of perspectives e.g. identification of every single restricted person which would be constantly changing and also having the cap as 5% of the Regulatory Reserves of the credit union as this figure would be changing constantly.

2. **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? If you have other suggestions, please provide them along with the supporting rationale. It should be noted that tiering is possible where regulation making powers are available to the Central Bank. Where requirements are set out in the 1997 Act they apply to all credit unions and cannot be tiered.**

The two category approach – this proposal is welcomed with a number of reservations, as outlined in point 1 above

3. **Are there any areas where credit unions could provide new additional products or services to their members? Should these be available to category 1 and category 2 credit unions or only category 2 credit unions? If you have suggestions please provide them along with the supporting rationale and the associated additional requirements.**

   We do agree that there are areas where credit unions could provide new additional products but the Central Bank would need to issue specific guidance on any additional services along with a specific framework for the provision of the service.

   Other areas that Credit unions could get involved in for members:

   Insurance premium funding – household – motor – for personal or for self-employed business owners
   Accounting fee funding – self employed
   Legal fees funding – personal or self employed
   Motor vehicle finance leasing/hire purchase – personal or self-employed - SME
   Small ticket Equipment leasing for self employed
   Funding Professional subscriptions – personal
   Funding sports club annual subscriptions - personal

4. **Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.**

   Requirements relating to provisioning are addressed in Financial Reporting Standards (FRS) published by the Financial Reporting Council and which are commonly known as Generally Accepted Accounting Principles (‘GAAP’). Such Standards apply in Ireland to the preparation of financial statements required to give a ‘true & fair view’.

   We are unclear on what is meant by the term ‘provisioning framework’. If the Consultation means ‘framework’ in the context of internal processes and procedures, we have no particular issue with this.

   Any requirements relating to provisioning should therefore remain consistent with GAAP. Indeed, this approach has been maintained in other publications from the Central Bank addressing provisioning in other contexts.

5. **Do you agree that the tiered regulatory approach should be introduced at this time? If you consider that alternative timing is more appropriate, please provide suggestions, along with the supporting rationale.**

   We do not envisage any difficulties with the introduction of the tiered regulatory approach subject to the Central Bank issuing the necessary detailed guidelines to ensure correct interpretation and application of the framework.

   If the Central Bank does develop a provisioning framework for credit unions we feel that it is imperative that the Central Bank develop a thorough and specific programme on the application of the loan provisioning requirements to ensure there are no inconsistencies in approach, application and interpretation of this provisioning framework.

6. **If it is considered that the tiered regulatory approach should be introduced at this time, do you agree with the proposed timelines for the introduction of the tiered regulatory approach set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.**

   We feel that it is appropriate that the Central Bank expects credit unions to devise their own corporate governance structures and systems that are appropriate to their operations and it's not just a 'one size fits all' approach. We believe the Central Bank needs to guide Credit Unions towards pragmatic solutions rather than push boards of directors towards those producing voluminous reports and strategy documents that may have more application to very large entities.

   The Central Bank should encourage boards of directors to establishing close ongoing relationships with advisers who understand the strengths and weaknesses of the boards and who can guide them in identifying their business and compliance needs through undertaking risk and regulatory based approaches to gap analyses and in guiding them continuously towards narrowing these gaps on a priority basis.