



Main Street
Dundrum
Dublin 14

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

25 March 2014

**Introduction of a Tiered Regulatory Approach for Credit Unions
Response by Dundrum Credit Union to Consultation Paper CP 76**

We welcome and support the establishment of a tiered regulatory approach for credit unions which we believe will strengthen the movement going forward and reinforce the restructuring of the movement. However, we are firmly convinced that the best approach is a three tier system as recommended by the Credit Union Commission.

We believe the proposals in the consultation paper for a two tiered approach are significantly at odds with the aspirations of the Commission on Credit Unions, being overly prescriptive and unduly restrictive.

We are disappointed at the overly restrictive approach being taken and we believe this runs counter to what was envisaged by the various stakeholders who participated in the Commission on Credit Unions.

We would prefer to see an approach that allows the top category credit unions to apply to the Central Bank to provide a full range of personal financial services to members and that the systems and controls required to offer such services would be proportionate to the nature, scale and complexity of the services being proposed and not imposed on the basis of the category or size of the credit union alone.

We believe the proposals should be subject to a rigorous impact analysis in consultation with the Credit Union representative bodies. We also urge that new proposals are not introduced until the new governance and regulatory framework that was introduced under the Credit Union Act 2012 is firmly established and the effects and benefits are apparent.

4.8

Do you agree with the proposed tiered regulatory approach for credit unions?

We agree with the idea of a tiered regulatory approach for credit unions, but we believe the three tier model proposed by the Commission is more suitable than the two tier model being proposed in the consultation paper.

The Commission on Credit Unions recommended that some credit unions would be able to offer a simpler business model and, in return, would be subject to a simpler regulatory regime. It appears that the proposed regulatory framework for those credit unions wishing to operate a simpler business model remains onerous and actually includes some additional restrictions, without any additional products or services being offered.

We note the statement in 4.2.1 that 'where a credit union operates a more limited business model (e.g. the business model proposed for Type 1 credit unions in the report of the Commission on Credit Unions), these requirements will automatically apply in a proportionate manner'. This statement needs to be clarified, which may help assuage some concerns in this area.

We do not believe that the extra costs/arrangements for credit unions in the proposed Category 2, as outlined in the consultation paper, would be justified for those credit unions wishing to provide a wider range of services, particularly where the introduction of such products and services were being introduced on a gradual basis.

We believe that the current regulatory framework, including PRISM, contains sufficient scope to allow the Central Bank to effectively regulate the higher Category credit unions and that additional regulatory measures should only be required where the credit union proposes to offer a product/service that is of a materially higher risk and any additional regulatory measures should be related to the proposed product/service and be proportionate to the specific additional risk.

We have also considered the ongoing restructuring of the movement. We recognise that this will have a serious impact on the position (even existence) of many credit unions. The three tiered approach will reduce the extremes of regulatory engagement and will allow for a diversity in the nature, scale and complexity of the product offerings with an appropriate and balanced regulatory approach.

5.12

(i) Do you agree with the proposals for the operation of the two category approach set out in sections 5.1 – 5.11?

Under the 2012 Act the majority of credit unions will be stronger and able to meet any new regulatory requirements. The existing tools available to the Central Bank, in particular, PRISM, will facilitate effective regulation for credit unions with differing levels of scale and complexity. As a consequence, we consider the proposals are much too prescriptive and would amount to micro managing credit unions.

We do not agree with the new proposed limits on lending, investments, savings and governance and we note that very little rationale is included in the consultation paper as to why the Central Bank believe further restrictions in these areas are required. Although we could expand on why we disagree with the proposed limits, it would be more helpful if we knew why the Central Bank is proposing the limits e.g. savings capped at €100,000. If we knew the rationale behind the proposals, we could then give our feedback in context and would welcome an opportunity to do so.

With regard to the consideration being given as to whether category 2 credit unions should be permitted to provide a specific class of home loan, we believe the proposed limits amount to micro management of credit unions and would unnecessarily restrict credit unions in meeting the needs of their members in this area.

With regard to liquidity, clarification is needed as to what further liquidity requirements may be required for Category 2 credit unions.

With regard to reserves, we understand the rationale for a separate operational risk reserve, but clarification is required as to how this would be applied. We would also be concerned that any requirement for an additional operational risk reserve should reflect international standards in terms of total reserve requirements and not just be an additional requirement for Irish credit unions without reference to overall reserve requirements.

We believe the requirement for an external review of the board every three years is not necessary and the Central Bank has sufficient regulatory powers under PRISM and the Fitness and Probity regime to ensure proper credit union governance.

With regard to Restricted Person Limits, we can only assume that the proposal to extend the definition of officer loans to the families of directors and management has not been completely thought through. We expect that the management of such a proposal would be unworkable and therefore unjustifiable.

In terms of Lending Practices and Policies, further clarification is required as to what additional requirements are proposed and it is hoped that any such proposed requirements would be proportionate to the size of the loan and the risk to the overall loan portfolio.

With regard to the proposed requirement that a category 2 credit union will have a dedicated risk management officer, a dedicated compliance officer and a dedicated internal audit function, we believe this is unnecessarily restrictive, would be very difficult to apply and could actually be counter-productive.

At the moment, many credit unions have outsourced their internal audit function and this has been shown to have some advantages, particularly in terms of having a team of professionals to carry out this service. We see no reason why this practice should not be allowed to continue, regardless of the category of the credit union.

Likewise, it would be hard to justify the appointment of full time risk management officers and compliance officers in every category 2 credit union. It is highly unlikely that there are sufficient numbers of part time qualified and competent risk management officers and compliance officers available to fill the positions required if we have to appoint dedicated risk management officers and compliance officers.

We believe it would actually be advantageous and good practice to have shared risk management and compliance officers and to allow risk management officers and compliance officers to carry out other suitable, non-conflicting functions in the credit union.

(ii) Are there any areas where credit unions could provide new additional services to their members?

With the enhanced regulatory framework that is now in place for credit unions, we believe that credit unions should be permitted to offer the full range of personal financial services to members, including pensions, life assurance, lines of credit, mortgages, hire purchase, credit cards etc. Any regulatory requirements for providing a service should be based on the risk and complexity of the proposed service.

6.3

(i) Do you agree that a provisioning framework should be developed for credit unions as proposed in 6.2?

We agree that a provisioning framework should be based on a collective assessment of the loan book and on an individual assessment of significant exposures. However, we do not agree that a top up loan should automatically be included as a significant exposure and can see no justification for such an automatic inclusion.

We agree that an assessment of the loan book should assess incurred but not reported exposures as outlined.

The guidance on assessing the appropriate loan loss provisions needs to be clarified before the consultation process is completed.

Any proposal to require credit unions to provide in full for a loan that has been delinquent for a specified period also needs to be clarified before the consultation process is completed.

The provisioning requirements should apply to all similar consumer loans so that credit unions are not overly burdened and put at a commercial disadvantage.

7.2

(i) Do you agree that the tiered regulatory approach should be introduced at this time?

We agree that credit unions would benefit from the introduction of a tiered regulatory approach, provided credit unions are given the opportunity to extend and develop their range of products and services at the same time.

(ii) 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 publication and commencement of the regulations?

The current restructuring process is a disruptive influence on credit unions, as are the major governance changes that were recently introduced. Consequently, many Credit Unions would prefer a longer transitional period in order to give them time to consider and prepare for the tiered regulatory approach and in order to gauge the effects of the changes that have recently been introduced.

We would hope that the timeline proposed would also be re-considered in light of the gravity of the issues evident in the responses to this consultation paper.