Dungarvan Credit Union Ltd.
Registered Number 63CU.

Submission re Consultation paper CP76
(Introduction of a Tiered regulatory approach for Credit Unions).

4.8. Tiered regulatory approach.
We agree that a tiered regulatory approach is appropriate. However, given the divergence in size from the smallest Credit Union to the largest Credit Union, we believe that a two tier system would be inadequate and inappropriate. It is difficult to understand that the same regulatory approach should be applied to a Credit Union with assets of €5,000,000 and a Credit Union with assets of €99,000,000. It is essential that the regulation of Credit Unions is proportionate to nature, scale and complexity. Our understanding is that, at present, there are only 30 Credit Unions in Ireland with assets in excess of €100 million. Given that this indicates that the majority of Credit Unions fall into category 1, consideration should be given to a detailed analysis of Credit Unions by asset size, nature of business and complexity of operation prior to suggesting possible tiered categories. It is our opinion that the approach recommended by the Commission would better serve the movement going forward until such time as a comprehensive analysis of the movement is conducted.

5.1. Category 1 Credit Unions.

Lending.

As a category 1 Credit Union, we believe that any restriction in lending should be based on an assessment of an individual Credit Union through defined parameters and not applied globally. Restricting lending in the fashion proposed will lead to further diminution of loan books and income at a time when Credit Unions are seeking to enhance member services.
In relation to the proposal to link concentration limits to the Regulatory Reserve, it would be helpful if the rationale for same was made available. It would appear to be a rather blunt way of forcing Credit Unions to increase reserves.

Investments.

The proposals for investments, if implemented, would have a devastating effect on our income and our ability to pay a dividend and increase reserves.
An initial analysis of the impact of the proposals outlined indicates that approx €5.2 million of our portfolio is in instruments that will not be permitted. In addition, we would have to re-allocate approx €20.4 million to avoid a counterparty breach. Introducing additional counterparties, while spreading risk, will inevitably result in lower yields.
It is our opinion that the existing framework for investments as outlined in section 43 of the 1997 Act together with the various guidance notes issued by the Central Bank is adequate and proportionate and

should be maintained without further restriction. We believe, encouraging Credit Unions to avail of financial expertise in the area of investments, would be more beneficial than attempting to restrict investment options.

Savings.

Restricting the level of savings a member can hold to a maximum of €100,000 would result in an outflow of funds from our Credit Union of approx €1,000,000. At present, the savings from our members are our only source of funding. Restricting same will only serve to restrict growth and opportunities. The proposal will place Credit Unions at a distinct disadvantage to other regulated entities and will limit our ability to attract capital. We cannot see the rationale behind this proposal and could only support its introduction if it were to be applied to all financial institutions within the jurisdiction.

Liquidity.

Despite the financial meltdown of 2008, the bailout of our pillar banks and the overnight liquidation of IBRC, there has been little or no necessity to increase liquidity levels in Credit Unions. The effect of any increase will be a reduction in investment income and a Credit Union's ability to generate surplus. No basis, as far as we can determine, has ever been offered for the current liquidity requirement of 20% of unattached shares. No change to existing liquidity levels should be proposed until it can be clearly demonstrated that existing levels are inadequate.

5.2.4. Restricted Person Limits.

The proposal in respect of loans to restricted persons seeks to disadvantage the very people we expect to manage the Credit Union movement. It is the opinion of the Board that the implementation of such a proposal would lead to extreme difficulty in attracting quality personnel to the Board and Management Team .

The fitness and probity regime is already beginning to impact on the Credit Union's ability to replace retiring Directors. This proposal adds insult to injury and can only impact negatively on the movement as a whole. It is imperative that the best available people are encouraged to participate at Board and Management level. Such people will not be attracted should this proposal become reality.

END.