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Registry of Credit Unions
Central Bank of Ireland
P.O. Box 559
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Dublin 2

**Submitted by email to: rcuconsultation@centralbank.ie**

31st March 2014

Dear Sir / Madam

**The Institute of Chartered Secretaries and Administrators – Republic of Ireland Region ("ICSA Chartered Secretaries Ireland")**
**Response to the CBI Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions**

The Institute of Chartered Secretaries and Administrators (ICSA) represents approximately 32,000 Chartered Secretaries internationally and over the last number of years, the Institute has played a leading role in the development of corporate governance standards. The Republic of Ireland Region represents the interests of ICSA's approximately 600 Irish based members. We are an international body and many of our members are company secretaries in the financial services sector with a professional concern for the regulation and governance of such entities.

We are pleased to take the opportunity to respond to the consultation document issued by the Central Bank and we would be grateful if you could include the ICSA Regulatory Committee on any calls for submissions issued by the Central Bank. Correspondence in respect of all future submissions can be sent to president@icsacharteredsecretaries.ie.

Yours faithfully

**Ruairí Cosgrove**
**Chairman, Regulatory Sub-committee**
**Tel: 01-792 6070**

## Question (i)

**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.**

*Comment:*
We agree and support the proposed 'tiered' approach, based on the recommendation in the Report of the Commission on Credit Unions (2012), comprising three 'types' of organisation structure, based on size and business model complexity. Although the definition of 'Types' appears somewhat arbitrary when defined by asset size[1] (e.g. what should the Governance and Risk Management / Fitness and Probity requirements for a CU with an asset value of €9M look like?), the Fitness & Probity regime required for Type 1 CU's will be considered in the 2nd Phase of Implementation of the Fitness and Probity Regime for CU's. In addition, there will be a mechanism to enable Category 1 CU's[2] to undertake a wider range of activities by applying to the CBI for Category 2 status.

Further, the mixed model approach of using an 'asset based' standard, coupled with a 'risk sensitive' approach based on business complexity, may mitigate against the disadvantages of a single method approach; (i) the 'asset based' approach being too arbitrary as a single measure, as previously discussed and (ii) the 'risk sensitive' approach which, although may lower systemic risk, may do so at the expense of poor risk sharing and lower liquidity,[3] leading to concerns that such an approach may amplify business cycle fluctuations[4].

## Question (ii)

**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.**

We would be in favour of this approach. The introduction of a two-category approach in other jurisdictions, such as the UK and Ontario, has helped to promote the viability of the sector by (i) facilitating the development of larger, more sustainable entities run by appropriately qualified people which are attractive to all members of the community and which allow CU's to compete on the basis of their

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[1] Type 1< €10M asset size; Type 2>€10M and <€100M asset size; Type 3>€100M asset size
[2] Comprising 'Type 1' and 'Type 2' Credit Unions
[3] Danielsson, J. & Zigrand, J.P. (2007) 'Equilibrium asset pricing with systemic risk' *Springer-Verlag 2007 [online]*
[4] Rafael Repullo, R, Saurina, J. & Trucharte, C. (2010) 'Mitigating the pro-cyclicality of Basel II' *Economic Policy October 2010 pp. 659–702 [online]*

non-profit status, and (ii) creating mechanisms for stabilisation support to assist the development of less viable entities and reduce the impact of mergers on local communities and markets where economies of scale favour larger entities.[5]

It is worth noting that studies of the two-category approach support the hypothesis that CU's which successfully mobilise financial resources from more affluent communities, also perform better in terms of combating financial exclusion,[6] consistent with the self-help principles of the movement.

## Question (iii)

**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.**

*Comment:*
We would favour proposals to allow Category 1 and Category 2 CU's to continue to offer additional services as standard, such as provided for under the 1997 Act,[7] and the removal of existing conditions for both Categories, depending on proposals and level of business complexity, which inhibit the introduction of new services - allowing CU's to be more responsive to members' needs.

In addition, we would favour an extension of the current maturity limits, for Category 2 entities only, to facilitate regulated mortgage lending under the criteria proposed by the CBI, which include prudent LTV ratios. With trend surveys in the US identifying the traditional market niche for CU's as being the least dynamic,[8] an extension of existing services would facilitate growth of the 'micro-finance' sector and also support further activity at 'micro-enterprise' level.

## *Question (iv)*

**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.**

*Comment:*
We would agree that a provisioning framework should be developed for CU's, proportionate to size and scope of lending activities, requiring a set of minimum standards for loan classification grounded in sound risk management practice, which

[5] Wheelock & Wilson (2009), cited on p167 of The Report of the Commission on Credit Unions (2012)
[6] McKillop, D. & Ward, A.M. (2005) 'An Investigation into the link between UK Credit Union Characteristics, Location and their Success' *Annals of Public and Cooperative Economics 76:3 2005 pp. 461–489 [online]*
[7] The Credit Union Act, 1997 which established a Registrar of Credit Unions
[8] The Report of the Commission on Credit Unions (2012) p18

contribute to appropriate levels of solvency – this, in our view, would imply a more stringent regime for Category 2 entities.

The components of a *'prudential regulatory system'* for CU's[9] should also include a Deposit Guarantee Scheme to safeguard deposits up to a statutory maximum and appropriate stabilisation and liquidity supports to enable otherwise viable entities to meet their short term liquidity needs.

## Question (v)

**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.**

*Comment:*
We agree that the tiered regulatory approach should be introduced at this time.

## Question (vi)

**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.**

*Comment:*
While we agree that the tiered regulatory approach should be introduced at this time, a level of expertise must be secured as set out in 11.3.25 of the Report of the Commission on Credit Unions (2012):

> *"each member of the board, and the board collectively, shall have relevant financial services expertise, qualifications and background, or be required to undertake relevant and timely comprehensive training, to a sufficient extent that they can comprehend at a minimum each of the following:*
>
> *i. the nature of the credit union's business, operating principles, activities and related risks*
> *ii. their individual direct and indirect responsibilities and the board's collective responsibilities*
> *iii. the credit union's financial statements*

We are therefore of the view that the proposed six month transitional period from publication of the new Regulations in October 2014, to the commencement of the

[9] The Report of the Commission on Credit Unions (2012) p97

Regulations in April 2015 may not allow appropriate time for this level of expertise to be secured, either through recruitment or training of volunteers.

Our preference would be to see a 'Transitional Timetable' published prior to the holding of Information Seminars in the transitional period, outlining specifically how this might be achieved within the six month timeframe. This would include how CU's might access the necessary supports and implement policies around induction, training, role definition and responsibilities, terms of reference for sub-committees, annual board review and succession planning.