

Central Bank of Ireland
PO Box No. 559
Dame Street
Dublin 2

31st March 2014

Dear Sir/Madam,

Consultation Paper CP 76 (Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions)

The Board of Directors of Kanturk Credit Union Limited have discussed the contents of Consultation Paper CP 76 (Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions) issued in December 2013. We agree with the majority of the Central Bank's proposals but would like to make the following observations in relation to a number of the proposals contained in the paper.

5.2.2 Concentration Limits

We feel that the concentration limits being proposed for Category 1 Credit Unions to undertake commercial lending is too low at the proposed level of 25% of Regulatory Reserves and does not take account of a possible increase in commercial activity within our Common Bond in future years.

5.2.4 Restricted Person Limits

While we feel that this proposal would not be restrictive in terms of our ability to lend, we feel that it would be impossible to enforce and ensure compliance with in terms of the wide definition of a member of the family of a member of the Board of Directors or the management team of a Credit Union.

The exposure limit in itself is an unfair and unworkable proposal that undermines the ethos of Credit Unions. A member's ability to repay should be the primary consideration in deciding whether to lend to a person, and for how much, not whether they are related to

any particular individual volunteering or working in the Credit Union. Under current legislation, loans to an officer of a Credit Union are required to be approved by a special committee. Compliance with this should be sufficient; there is no logic in penalising family members.

We would consider that this proposal is also flawed, from a legal perspective, in terms of a member being refused credit by virtue of their relationship to an officer of the Credit Union.

5.2.6 Lending Practices and Policies

We would be concerned about the additional requirements being proposed to be put in place in relation to lending practices and reporting arrangements for lending to restricted persons for the reasons outlined above and the impact that these requirements will have on the ability of the Credit Union to attract and recruit volunteers.

5.3.1 Investment Classes and Limits

The proposed limits for Category 1 Credit Unions are over restrictive and will have a serious negative impact on a Credit Union's capacity to generate returns. The limits contained in the "Guidance Note on Investments by Credit Unions" in October 2006 were prudent and allowed Credit Unions to invest an appropriate amount of surplus funds in longer term investments.

We strongly believe that the proposed single counterparty limits are counterproductive in that there is no link between the credit rating of the counterparty and the amounts that can be invested. This will result in Credit Unions being forced to invest surplus member funds in financial institutions, both in Ireland and outside of Ireland, merely for compliance purposes.

5.10.1 Liquidity Requirements

Again, we strongly feel that the proposed additional liquidity requirements are excessively restrictive and will severely impact on a Credit Union's ability to generate investment income. This will ultimately result in decreased returns earned by Credit Union members on their savings and this is before we feel the full effects of Basel III and the lower interest rates offered to Credit Unions by the various deposit takers.

Section 8: Summary of Areas where the Central Bank is Seeking Views

(i) We do not agree with the Central Bank's proposed tiered regulatory approach for Credit Unions and consider that the tiered regulatory approach put forward by the Commission on Credit Unions was a more suitable model for Irish Credit Unions. However, we believe that the following asset size bands would be more reflective of the inherent risk associated within Credit Unions and a more appropriate 'fit' for the Irish Credit Union movement.

- Type 1: Less than €20m asset size;

- Type 2: €20m to €100m asset size; and
- Type 3: Greater than €100m asset size.

We believe that smaller Credit Unions (less than €20m asset size) with simpler business models should be subject to a simpler regulatory regime provided that key performance measures and regulatory limits are maintained on a continuous basis. This would help to ensure that rural Credit Unions would remain viable and able to serve their members' needs into the future.

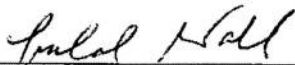
(ii) See observations detailed above.

(iv) We do not agree that a provisioning framework should be developed for Credit Unions as proposed in section 6.2 of the Consultation Paper. We believe that the provisioning standards adopted by Credit Unions to date were appropriate and helped to position Credit Unions well against increased loan arrears and write offs over the last few years. We feel that this intervention would amount to the micro-management of the Credit Union movement by the Central Bank.

(v)/(vi) We consider that any changes to the regulatory approach should not be introduced at this time. Numerous changes have been introduced for Credit Unions over recent months, i.e. fitness and probity standards, internal audit, risk management and compliance. We believe that Credit Unions should be allowed the time to get these new functions embedded and working effectively and that any further regulatory changes should not be enforced until April 2016. Also, it is unclear from the paper as to what the transitional arrangements would be for some of the proposed changes, i.e. limits on investments, outstanding exposure to restricted persons etc.

We would urge that the Central Bank consider our submission carefully and use the feedback received from Credit Unions in response to Consultation Paper 76 to positively shape the future regulation of Credit Unions in Ireland.

Yours sincerely,



Michael Walsh
Chairman