Killarney Credit Union
IRELAND
LIMITED

BEECH ROAD,
KILLARNEY, CO. KERRY
TEL. 064-6631344
FAX. 064-6635440
info@killarneycu.ie
www.killarneycu.ie

Sub Office:
PARK ROAD,
KILLARNEY,
CO. KERRY
TEL. 064-6637800
FAX. 064-6637818

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

29th March 2014

Dear Sirs,

Re: ***Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions***

On behalf of the Board of Directors of Killarney Credit Union, please find our submission in response to the Consultation paper on the Introduction of a Tiered Regulatory Approach for Credit Unions.

<u>Question: 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.</u>

I do agree with proposed tiered regulatory approach for credit unions as it would appear to me that the Consultation Paper is not about tiered regulation but is instead attempting to micro-manage credit unions. The aim of the Commission on Credit Unions and the view of the stakeholders and the Department of Finance were that tiered regulation should be positive, and that smaller simpler credit unions would have simpler less intrusive regulation. Credit unions are already highly regulated as it is and the tiered regulatory approach would seem to be adding more regulations for all credit unions regardless of size, scale and complexity. The Commission envisaged that small credit unions with simpler business models would be subject to simpler regulation but that is clearly not the case under these proposals.

The introduction of a tiered regulatory approach would appear to be used as by the Central Bank as a method of implementing further lending, savings, liquidity and investment restrictions on the credit union movement at a time with revenue is decreasing, costs rising and it will directly impact the service to members, dividends and interest rebates.

The Consultation Paper seems to be aimed at shrinking the movement instead of focussing on the long term viability and attempting to grow the credit union movement. (E.g. proposed savings limit will have the impact of shrinking credit unions).

The proposed approach allows credit unions to apply for category 2 status however, there does not seem to be any significant benefit to members to do so. The small allowances obtained for commercial lending, longer term mortgage lending and investment choices would be outweighed by the cost of dedicated internal audit, risk and compliance and the additional regulatory burden that it would involve.

Question: 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.

Section 5.2 Lending:

The paper does not mention the ad-hoc lending restrictions that are placed on credit unions. I would expect that any new lending requirements that come into effect as part of the introduction of a tiered regulatory regime will mean an end to the ad-hoc imposition of lending restrictions which can prove very difficult to get lifted.

I feel that the concentration limits on lending are unnecessary and unworkable and will prove very difficult to monitor on a daily basis. It would appear that the Central Bank is looking to implement movement wide lending restrictions and is trying to micro-manage the credit union loan portfolio. The purpose of the loan book provisions and capital reserves is to provide protections to the members and the Central Bank should focus on these areas instead of micro-managing the credit union loan portfolios.

The definition of commercial lending should be split to define commercial (e.g. Small sole trader versus large scale commercial lending) and the requirements tailored accordingly (e.g. Small sole trader versus large scale commercial lending). Under the current proposals, a small sole trader obtaining a loan for a second hand commercial vehicle, would be required to prepare "a credible business plan and robust financial projections" Clearly, this situation is not practical for the credit union or the member. (Section 5.2.6)

Under 5.2.3, I would query why the paper outlines a specific loan to value rate of 80% and maximum maturity of 25 for home loans. Again, I would see this as an attempt to micro-manage the loan book. Are other home loan providers restricted to the same terms?

I also object to the proposals around the creation of restricted person's limits as it would have huge consequences for the individuals and their families. As credit union officers, we choose to be involved in the credit union – our families do not choose to be involved and they should not be affected/restricted as a result of our involvement in a credit union.

The definition of family is so broad as to make the proposal completely unworkable and it will make it more difficult to attract volunteers to the movement. Additional controls and reporting requirements are currently in place concerning officers loans there should be no requirement to include family members in this proposal.

Section 5.3 Investments and Section 5.10 Liquidity

I am not in favour of the proposals on investments as it will have the effect of concentrating risk as opposed to diversifying it. The investment advice that we receive is that we should be putting our funds in a wide range of banks, corporate bonds, government bonds and collective investment schemes, and that a much greater portion of our investments should be in higher rated investments to reflect the fact that we want to take the least possible risk with our members' money. The consultation paper would appear to remove this option for Category 1 credit unions.

I welcome the inclusion of corporate bonds in terms of enabling category 2 credit unions to have greater diversification within their portfolios. As the credit union movement's investment portfolio would appear to be heavily concentrated in the banking section, I would argue that credit unions in category 1 should also be permitted to invest in this sector to achieve greater diversification

The proposals are unclear as to whether it is proposed to continue to include collective investment schemes. It is my view that collective investment schemes can be an efficient means of bringing diversification and liquidity to an investment portfolio, and it would be unfortunate if they were excluded.

The introduction of shorter term limits and new liquidity requirements could have significant negative effects on the returns that credit unions will be able to generate on their investments which in some cases could threaten the viability of the credit unions. It is my opinion that all credit unions should be permitted to make investments up to 7-10 years subject to existing liquidity requirements.

Section 5.4 Savings
I do not agree with the proposal that savings should be restricted to €100,000 per member as this would be very restrictive and negatively impact a lot of members. Is should be a matter for individuals where they choose to lodge their own money and it should be a matter for individual credit unions to introduce a savings cap. It would appear that the Central Bank is of the opinion that credit unions will fail and it wants to reduce members exposure to the Deposit Guarantee Scheme amount This Central Bank implied failure could have disastrous consequences on the credit union movement.

I am not in favour of the proposed restrictions on deposits for members. The Central Bank would appear to be trying to introduce more stringent liquidity requirements while at the same time introducing deposit restrictions, which could be used to counteract the high level of unattached savings currently held by credit unions.

5.9 Reserves
I do not agree with the proposed requirement that each credit union will have to maintain an additional reserve that it has assessed is required for operation risk having regard to the nature, scale and complexity of the credit union. Credit unions are already well reserved and in most cases better that other financial institutions. I note that the paper does not give any details as to how this additional reserve or risk weighted asset approach for category 2 credit unions will be calculated. If a credit union is required to hold an additional operational risk reserve, will this be taken from the annual surplus or can the credit union transfer this amount from their existing statutory reserves where the reserves are in excess of 10%.

<u>Question: 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.</u>

The consultation paper does not contain any specific details as to exactly how the provisions would be calculated so I do not agree that the Central Bank should develop a provisioning framework for all credit unions. If a new model for bad debt provisioning is required, then this model should be driven by the representative bodies/stakeholders and not solely by the Central Bank.

Section 6.1 refers to Section 35 provision requirements that were brought in some time ago. It should be noted that these requirements are still causing issues within the movement and it is proving difficult to get these changed. If the Central Bank introduced a new provisioning framework which did not work, will the Central Bank then change the framework or will it be possible to change it?

Question: 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.

I do not agree that a tiered regulatory approach should be introduced at this time. Credit unions are having to deal with an unprecedented number of challenges at present from the economic climate (falling loan book, arrears, falling investment income) and from the Regulatory environment (Fitness and Probity, CUCORA, internal audit, compliance etc.). A suitable period of time should be allowed for credit unions to fully implement and bed in these changes before having to understand and prepare for a tiered regulatory system.

It should also be noted that the restructuring process currently being undertaken by ReBo is due to be finalised by the end of 2015. I would argue that no new approach should be introduced until this is completed when all stakeholders would be in a better position to analyse the layout of the movement at that stage.

Question 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.

As noted above, I do not agree that a tiered regulatory approach should be introduced at this time. A more logical approach is to start the consultation process in early 2016 when the ReBo process will be completed and credit unions will have had time to adjust to the CUCORA requirements.

Should you have any queries, please do not hesitate to contact me.

Yours sincerely,

Mark Murphy

Mark Murphy
CEO
Killarney Credit Union Ltd