

Consultation Paper 76 Submission – Kilmallock Credit Union Limited

4.8 The Central Bank is seeking views on the following:

(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.

We agree with a tiered regulatory approach. We feel the approach chosen to implement a tiered approach is not in line with what was recommended by the review commission who recommended 3 tiers we believe there should be at least five tiers. We also believe it is not a very fair approach especially when Credit Unions with assets of €10,000,001 can be grouped together with Credit Unions with assets of €100,000,000. We also think that the regulation should be risk based as well as asset size based. We feel it is not a very comparable approach a €10M Credit Union is a very different entity to a €100M Credit Union. The tiered regulation is not the general approach in other jurisdictions why are we being regulated in such a fashion? The two tier approach is only in the UK and Canada, there are ninety countries with Credit Union movements.

If tiered regulation is the way forward could there be an alternative system put in place for example:

| | |
|---------------------------------|-----------------------------|
| Tier 1 Total Asset Size | < €10M |
| Tier 2 Total Asset Size | > €10M < €30M |
| Tier 3 Total Asset Size | > €30M < €65M |
| Tier 4 Total Asset Size | > €65M < €100M |
| Tier 5 Total Assets Size | over €100M |

5.12 The Central Bank is seeking views on the following:

(i) 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.

Commercial Loans.

€875,861 is the maximum our Credit Union can lend to all businesses, including our self employed small businesses and sole traders under this proposal. Self employed and sole traders should not be classified in the same lending category as larger limited companies. Credit Unions are set up to take in savings in the Community and then lend back out to the community, our very ethos is being affected here. The same lending limit applies to us for Community Loans. We have a very vibrant community and we are a community based Credit Union and this is restricting us lending to our community. Is it possible that the Central Bank is seeking to channel this type of lending into the high street banks?

Restricted Persons Limits.

We have conducted a survey and it appears we have in excess of 600 people who would be affected by this proposal. This is an average of 43 people per Board Member and Management Team Member. This proposal will effectively render all these people lesser members. We believe this to be grossly unfair, discriminatory and potentially unconstitutional.

Savings limit.

The proposal will mean our members will have to move their money elsewhere, once again is the Central Bank trying to channel money into the high street Banks?

Investment Restrictions.

We feel our Credit Union will be extremely restricted and oppressed by the proposals. Investment restrictions ensure that we will struggle to earn any sort of viable income from our investments. We as a proposed category 1 credit union would be immediately effected as follows; our counterparty exposure limit reduces from 25% per counterparty circa €6M to 100% of our Regulatory Reserve circa €3.5M. There are not enough Irish institutions to accommodate us which will mean we have to send money off shore, which we feel in the current economic climate, is very unpatriotic, but we are being forced into this situation. We are being forced

to move 67% of our portfolio elsewhere. This will result in a fall in investment income of circa €150,000 per annum for our credit union.
See table below.

| Investments which are not authorised under the proposals | | |
|---|--|------------------------------------|
| Description | Current Allocation | % Portfolio |
| Government bonds (maturity > 5yrs) | n/a | |
| Collective Investment Schemes ¹ (not authorised) | €3,296,593 | 15% |
| Bank bonds (not authorised) | €3,720,000 | 17% |
| Total | €7.02M would need to be allocated elsewhere | 32% |
| Breaches of proposed Counterparty limit of 100% regulatory reserves (KCU €3.5m which is c.15.6% of the investment portfolio) | | |
| Description | Current Allocation | % Portfolio |
| BOI | €6,907,545 | 197% regulatory reserves |
| PTSB | €6,558,065 | 187% regulatory reserves |
| Ulster Bank | €4,814,112 | 137% regulatory reserves |
| Total | €7.8m will need to be allocated to alternative counterparties | 35% of investment portfolio |

(ii) Are there any areas where credit unions could provide new additional 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.

New services.

Any new services should be available to all Credit Unions that have the ability to provide these services, anything otherwise would be discriminatory to members countrywide, and lead to stunted growth within the Credit Union movement.

6.3 The Central Bank is seeking views on the following:

(i) 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.

Provisioning.

We reserve our right to comment on this when we see the actual proposals but we would welcome anything that would replace the Central Banks roll rate methodology.

7.2 The Central Bank is seeking views on the following:

(i) 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.

Introduction time.

No we do not agree with introducing tiered regulatory approach at this point in time, we have the new Credit Union Act & Fitness & Probity regulation to implement with all the changes that they entail. We think it would be better to let all this bed in for a period of at least two years before any tiered regulation is imposed.

Conclusion.

The concept of Restricted Persons is nothing short of an attempt to frighten off volunteers so their relations will not be victimised by their been on the board of their credit union.

The lending restrictions and the investment restrictions if implemented will have such a detrimental effect on our credit union that its very survival will be threatened. A full and complete Regulatory Impact Analysis will show this to be fact.

The Governor of the Central Bank said on the 2nd of December last, the credit union sector is too fragmented and his vision is, by the end of this decade we will have a couple of dozen *Community Banks* serving the individuals and small business.

This consultation paper appears to support that agenda.

Chairperson

Con O' Brien