Lucan District
CREDIT UNION
building a better community

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

1st March 2014

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

Dear Sir/Madam

We have reviewed Consultation Paper CP 76 and have included our views on each section below:

Section 4: Overview of the Proposed Tiered Regulatory Approach for Credit Unions

Lucan District Credit Union (LDCU) agrees in principal with the proposal to introduce the tiered system of regulation on the basis that the current approach does not differentiate credit unions on the level of business size and the risk and complexity of that business.

However, we feel that splitting credit unions into categories and types based on asset size alone may expose some members to unnecessary risk. For example, where the credit union may fall into Type 1 with assets of less than €10m it would, under the proposed tiered approach, theoretically need less stringent regulation because of the restrictions imposed. This type 1 credit union may not be fully compliant with regulations and/or management may lack the necessary skills to effectively run the credit union and this may pose more risk to individual members than the type 3 credit unions.

Although the scale and complexity of the business must be a consideration it may be a more workable approach to categorise credit unions into levels of regulation based on the last round of PRISM visits and the outcomes, restrictions and risk mitigation plans given to each credit union. The credit unions that must make substantial changes and are far from fully compliant will continue to require enhanced regulation and oversight whether they fall into the <€10m category or the >€100m category. Those credit unions who are fully compliant, performing well with strong governance and a strong balance sheet would require less restrictions, regulation and oversight.

On that basis the levels of regulation could be set at:

Level Approach	Outline of regulation required
1	Credit union requires ongoing and continuing reviews by the regulator to monitor compliance, progress and performance in all areas identified in the PRISM visit and risk mitigation plan provided. Additional reporting requirements. Restrictions on lending, savings and investments in place pending satisfactory improvement.

Main Office 3 The Mall, Lucan, Co. Dublin | p (01) 628 1642 / (01) 628 1779 f (01) 628 1898
Sub Office Unit 1, Finnstown Shopping Centre, Newcastle Road, Lucan, Co. Dublin | p (01) 621 3506 / (01) 621 3508 f (01) 621 3942
e info@lucancu.ie w www.lucancu.ie

2	Credit union is making good progress towards full compliance and has demonstrated improved performance. Continued monitoring of credit union required with continued additional reporting. Restrictions on lending, savings and investments can be partially lifted.
3	Credit union is fully compliant and performing well. Strong balance sheet with above minimum reserves. Demonstrated ability to manage the business well with strong risk management processes, excellent loan underwriting and credit control procedures and strategic plan/direction in place. Requirement for additional reporting can be dropped. Restrictions on lending, savings and investments are fully lifted. Credit union will continue to be monitored by PRISM.

In this way as a credit union improves its performance and moves towards full compliance the focus of the regulator can move from enhanced oversight to on-going monitoring. A credit union at level 1 would have the incentive to work towards achieving level 3 categorisation. There would be no requirement for a credit union to apply to change category as they would automatically progress between categories as they improve their performance to the satisfaction of the regulator.

Further, only credit unions who have achieved a level 3 rating would be permitted to undertake a wider range of activities and services on the basis that they have demonstrated that they are managing their business in a prudent and efficient manner. Therefore, the asset size of the credit union should not matter.

Section 5: Overview of Categories

(i) **Lending**. Following on from our submission above lending restrictions will apply to credit unions at level 1 or 2. Level 3 credit unions should only have restrictions applied with regard to commercial lending as this is not the core business of a credit union.
Investments. As above restrictions may be placed on level 1 and 2 credit unions. Credit unions who have achieved level 3 should be allowed to operate fully within regulator guidelines.
Restricting credit union investments at any level to a maximum duration of 5 years would severely hamper a credit unions ability to maintain a reasonable rate of return for the members. As long as credit unions are operating strictly within the investment guidelines and monitoring their liquidity levels this restriction should not be imposed.
Savings. Restricting savings to €100,000 would hamper the services the credit union can offer to a limited number of members with this level of funds, particularly for older members who may have sold a property. We propose a cap of €150,000.
Borrowings. This is not applicable to LDCU at present.
Additional Services. As above, only credit unions who have achieved a level 3 rating may be permitted to offer certain additional services.
Governance and Fitness & Probity. We agree generally with the proposals in this section. We would express a concern about some of the requirements with regard to conducting enhanced due diligence on board members, particularly the chairman, and the suggestion that there should be external review of the board every three years.

It can be quite an onerous process for people who are essentially volunteering to govern their credit union. The completion of the IQ questionnaire and awaiting approval could be off-putting to many members who would otherwise make an excellent chairperson or director. We believe that if there is a properly qualified, competent management team in place who have gone through the Fitness & Probity due diligence process then this should be more than sufficient. Volunteers should not need to be vetted to the same level as paid directors of other financial institutions. We feel that this would further hamper our ability to attract volunteers to the roles.

Liquidity. The current minimum requirements on liquidity should be maintained with perhaps a higher minimum liquidity requirement for level 1 credit unions. Level 3 credit unions, per the above table, should be required to stress test liquidity and monitor the matching of maturities.

Reserves. Statutory minimum reserve to be maintained at 10%. Operational risk reserve to be at 2% of total assets. This would maintain all statutory reserves at a minimum of 12% of total assets with a timetable for achieving this level.

(ii) The trend is for credit unions to move more towards the banking model offering full banking services and ATMs. This level of service should be restricted to credit unions who have demonstrated that they can manage the business well.

Section 6: Provisioning

LDCU agrees with the proposed provisioning framework. This essentially sets out what the current practice is with regard to bad debt provisioning in line with accounting standards and section 35 regulatory requirements.

With regard to the objective of 'adding disclosures to support members' understanding of the performance of the loan book and the credit union's credit risk management practices', we would need to understand what exactly is proposed to be disclosed in the accounts to promote this understanding. Experience has shown that members who are not accountants find it difficult to understand some accounting concepts, like bad debt provisioning. While we appreciate that the objective of the regulator is to promote more transparency for the members we would be concerned that this could create more confusion for the members who read the accounts.

It is, we feel, sufficient that the board are kept fully apprised of the performance of the loan book and receive regular risk review reports. In addition, there is now internal and external audit reviews of the loan book and risk management reviews and, of course, the quarterly prudential returns.

Section 7: Timelines for the Introduction of the Tiered Regulatory Approach.

(i) LDCU agrees that there should be a tiered regulatory approach but we would question whether categorising credit unions by asset size is the most appropriate way of deciding the level of regulatory oversight and the restrictions to be placed on credit unions, per our submission in section 4 above.

(ii) We suggest that the timelines as proposed are very tight now given the extension of the initial consultation period. We believe that more time should be given to considering the basis for categorising credit unions as some are more compliant and are performing better than others. A more realistic timeframe would be a two year timeframe with new regulations coming into force in early 2016.

Yours faithfully

Paula Maguire
CEO