



**MALAHIDE**  
CREDIT UNION

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

27<sup>th</sup> March 2014

Dear Sirs,

We acknowledge and appreciate the opportunity to consider the introduction of a tiered approach for credit unions and thank the Central bank for the process of consultation being undertaken. We wish to provide some feedback on Consultation paper CP 76 from the perspective of our Credit union and its members. We note that there are many serious implications of the approach discussed in the paper. We are aware that the Irish League of Credit Unions will be making a detailed submission regarding the paper and we wish to state our general agreement with their submission.

Our specific observations are as follows:

- The paper describes a two tier system of regulation. We believe that a system with at least three tiers is necessary to adequately reflect the range of size and complexity of credit unions in Ireland. Within this structure the level of regulation needs to be proportionate to the complexity of the credit unions in the tier and of the range of financial products which it manages. We would also suggest that the definition of a tier is based on the activities of a credit union rather than simply its balance sheet size. We note that the Commission on Credit Unions had suggested that for smaller credit unions a reduced governance and risk management regime could be applied. We agree with this concept and suggest that a reduced level of governance and risk management be considered for those credit unions with a simple business model and limited range of products.
- Section 5 of the paper sets out various values, terms, limits and ratios to be used within a regulated environment. In many cases we believe the measures and ratios being used are excessively restrictive and would prove damaging to the financial health of the credit union sector and possibly the Irish economy. In any event, we do not believe that the use of such measures is appropriate in the regulation of credit unions. The introduction of CUCORA has seen the development of an enhanced governance and risk management approach across all credit unions. This improved governance and risk approach is sufficient for credit unions to assess their own risk appetite and to define appropriate levels and limits for lending, investments, savings, liquidity etc. While some guidelines and best practise ratios are useful they should not be prescriptive or become a mandatory measure for all credit unions within a tier. We suggest that some guidelines ranges could be developed for each tier but that these would be used as indicative and not mandatory. Any such guidelines need to





recognise the nature of credit union activity, the community base of the majority of credit unions and the variety of business models applied across the credit union sector. Many of the measures set out in the paper do not meet these requirements.

- Section 6 refers to provisioning. Similar to the previous point we believe that the recent improvements in governance and risk management approach by credit unions is sufficient to ensure that adequate provisioning for bad and doubtful debts continues to be made by credit unions. While guidelines may be helpful they should not be mandatory. We also note that provisioning across the credit union sector has generally been good with minimal intervention required by the Central Bank.
- We believe that the introduction of tiered regulation should not take place for at least two years. Credit unions have undergone, and continue to address, substantial changes in their structure and operations arising from the economic challenges of recent years and the CUCORA legislation. These need time to be fully implemented and applied across at least two full annual cycles before further change takes place. Furthermore, as stated above, the changes introduced should have the intended impact of an improved governance and risk environment that may make some of the proposals in the paper unnecessary.

We believe in and support the concept of a regulated credit union sector. This gives each credit union and its members added assurance regarding their savings and investments. We believe that regulation should be effective, efficient and economical and, as such, needs to be tailored to the risk and complexity of the sector. We welcome the consultation paper and the opportunity to express our opinion of the future regulation of our sector. We strongly believe that the approach taken in the consultation paper has a number of fundamental weaknesses that need to be addressed before a tiered approach is introduced. We trust that the views we have expressed above, together with the more detailed submission being made by the Irish League of Credit Unions, are taken into account by the Central Bank and we hope that a greatly improved and more appropriate proposal is developed.

Yours faithfully,

John O'Halloran,  
Vice Chairman