Draft MPCC response to CP76 for 31032014

1. In looking for the Commission's rationale for the original proposal for a three tiered approach as contained in the Interim Report of the Commission on Credit Unions, it would appear that the inspiration may have come from the international classifications of the Credit Union Movement into Nascent, Transitional & Mature, as also shown in Appendix A attached. It not only clearly sets out the comparative attributes typical of credit unions in belonging to each classification, but also describes how an individual credit union in each country because of its specific history, circumstances and stage of development can range over and between the three.
2. The Central Bank has not supplied a rationale for its CP 76 proposal to adopt a two tiered approach. However, there have been only two instances internationally, i.e. Ottawa in Canada and Britain (from over 100 countries with Credit Unions) that have adopted a tiered approach, and two (2) has been the number of tiers in both previous cases. As Ottawa is a province, Britain is the only other country with a tiered approach to regulation. Britain has only one third of Ireland's Credit Union membership, 1.25% population penetration and one twentieth of Ireland's Credit Union assets. The history there since tiered regulation was introduced in 2002 makes bleak reading from the perspective of the Credit Union movement. See **2.3 (Credit Unions Worldwide) of Interim Report of the Commission on Credit Unions**
3. Assuming the Central Bank has an as yet undisclosed rationale for adopting a tiered approach, a three tiered approach would appear more sensible to most credit unions.
4. Appendix A attached shows that if the Central Bank adopts its tiered regulatory proposal, then picking a second limit of under/over **€50.0M** would be most likely to hit a 20/80 Upper/Lower Pareto Efficiency split on Credit Union numbers and an accompanying 60/40 Upper/Lower limit on Total Assets. This would appear to make far more logical sense than picking a single Upper Tier 1 cut off of €100.0M, which would stymie, limit and preclude and threaten the ongoing sustainability and viability of over 90% of existing Credit Unions and 65% of total assets from most future developments.
5. Existing credit unions who are satisfying current regulatory requirements and who do not wish to materially alter the current range or scale of their business should be afforded some form of opt out or derogation from any new regulations that further threatens their on-going viability as a going concern.
6. British Credit Unions are not subject to cash-based thresholds for moving between tiers. What is the rationale for proposing it in the Republic of Ireland?

7. Section 5 of CP76:

- 5.2 Lending
  - If this proposal was introduced does that mean that existing restrictions will be removed?
- 5.2.2 Concentration Limits
  - The gap between the 25% proposed limit for tier 1 and 100% for tier 2 is too wide.
- 5.2.4 Restricted Persons Limits
  - We would have concerns around the legal and operationally enforceability of the provision as well as concerns around data protection implications.

- 5.2.5 Large Exposure Limits
    - What is the reason for changing the existing limit of 1.5% of total assets to 10% of regulatory reserves?
- 5.3.2 Investments Category 1
    - Removes access to long term Irish Gilts.
    - At a time of reduced appetite for borrowing and a reduced number of financial institutions in Ireland the introduction of this proposal would cause a flight of capital abroad.
- 5.4.1 Savings Category 1
    - The use of a cash limit takes no account of the time value of money or the size of the individual institution, a percentage is a more meaningful and workable measure.
- 5.9.2 Operational Risk Reserve
    - Insufficient information provided for us to offer a comment or opinion.

8 Questions From S7 CP76:

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.

A. See Above

(ii) 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.

A. See Above

(iii) Are there any areas where credit unions could provide new additional products or 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.

A. Yes. The changing face, range and number of High St banks operating in Ireland provide new opportunities in the space for service provision to personal and commercial customers, e.g. e-commerce & SMEs.

(iv) 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.

A. Section 6.2 does not give sufficient detail to comment.

(v) 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.

A. No and cannot understand why it is being proposed at this time when so much other changes are being implemented.

(vi) 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.

A. See (v) above.

Appendix A

From 3.1 of Interim Report of the Commission on Credit Unions, March 2012

Table 2 – Credit Unions by Asset Size – June 2011

	No. of Credit Unions	% Credit Unions	Total Assets €m	% Total Assets
Sector				
Greater than €100m	30	7.4%	4,747.20	33.6%
€60m to €100m	31	7.6%	2,370.45	16.8%
€40m to €60m	48	11.8%	2,378.87	16.8%
€20m to €40m	83	20.3%	2,503.33	17.7%
Less than €20m	216	52.9%	2,137.74	15.1%
Total	408	100.0%	14,137.58	100.0%
Summary:				
Over €60m	61	15.0%	7,117.65	50.4%
Up to €60m	347	85.0%	7,019.94	49.6%
Recommended Tier Split:				
Over €50m	80	20.0%	8,482.55	60.4%
Up to €50m	328	80.0%	7,019.94	40.6%