March 2014

Central Bank of Ireland's Consultation
on the Introduction of a Tiered Regulatory Approach
for Credit Unions

Response to Consultation Paper CP76 - Naomh Padraig Credit Union Limited (NPCU)

On behalf of Naomh Padraig Credit Union Ltd we are pleased to have the opportunity to respond to CP76 and will attempt to answer the questions, while also raising other areas of concern to the Credit Union.

Section 4: Overview of the Proposed Tiered Regulatory Approach for Credit Unions
Q4.8: our response is not while in its current format and would refer to the Commission Report.

Section 5: Overview of Categories
Q5.12.i: our response is not while in its current format as there needs to be a category for the smaller sized Credit Union.
Q5.12.ii: our response is yes and should be available and/or an option to all Credit Unions who wish to avail of them.

Section 6**:** Provisioning
Q6.3.i: our response is yes, however, not in its current format and with input from all the stakeholders.

Section 7: Timelines for the Introduction of the Tiered Regulatory Approach
Q7.2.i: our response is not while in its current format.
Q7.2.ii: our response is the proposed timelines are tight.

- The approach from the Consultation Paper appears flawed as it does not appear to be about tiered regulation but is instead about micro-managing Credit Unions.

- The current proposals attempt to "restrict the life" out of Credit Unions at a time when revenue is decreasing, costs rising and will directly affect the service to our Members, dividends and interest rebates, while also attempting to restrict the supply of future volunteers with increased regulation and fitness and probity standards.

- The introduction of a tiered regulatory approach is viewed as a means for the Central Bank to implement further restrictions on Credit Unions.

- The proposals do not appear to address the smaller Credit Union with a simpler business model. The aim of the Commission and the view of Stakeholders and the Department of Finance was that tiered regulation should be positive and smaller simpler Credit Unions would have simpler less intrusive regulation.

- Section 35 still appears to be causing issues and is difficult to get changed so we ask if the proposals contained within the Consultation Paper do not work, will it be possible to change them?

- The differences between Category 1 and Category 2 status impact Credit Unions with the need for dedicated Internal Audit, Risk and Compliance functions and Board Reviews. Also impacting on additional services, commercial lending, longer term mortgage type lending, etc while Credit Unions in the main do not partake in these.

- Our focus needs to be on the long term viability of the Credit Union Movement and the Consultation Paper appears to be aimed at shrinking the movement e.g. the proposed savings limit will have the impact of shrinking Credit Unions.

- The proposals on lending and the concentration limits for commercial and community lending are unnecessary and unworkable. The definition of commercial lending needs to cater for the small business/sole trader versus large scale commercial lending.

- The proposals of new lending limits as part of the introduction of a tiered regulatory regime will mean lending restrictions on most if not all Credit Unions.

- The proposals around the creation of restricted persons limits under lending is strongly opposed by our Credit Union which will hugely affect Boards, Staff and Family Members. "Why should good Members be penalised for no good reason?" while making it more difficult to attract Volunteers for the Board of Directors. The proposed definition of family is so broad as to make the proposal completely unworkable especially for smaller Credit Unions.

- Policies and controls already exist to deal with the proposal for a "2nd class" of Membership.

- The proposals in relation to investments are of a huge concern and is felt they will have a significant effect/impact on our future returns and might in some cases threaten the viability of the Credit Union.

- The proposal to link the amount held in any counterparty to Regulatory Reserves would mean that Credit Unions would have to hold investments with six or more counterparties as opposed to the current number of four. We feel this will force investment of funds outside of Ireland, which we would not wish to do and will potentially have a negative impact on our return on investments.

- Credit unions should be permitted to invest in collective investment schemes, particularly as this would facilitate investment in State projects as envisaged by the Commission.

- The proposed limits for Category 1 credit unions are a concern, in particular those relating to the reduction in the maximum investment term from 10 years down to 5 years and the proposed requirement to have half the total investments under 3 years.

- The proposals to increase the liquidity requirements will impact negatively on our Credit Union's investment income.

- The proposed savings limit of €100,000 per Member would be very restrictive and affect a lot of Members.

- We are not in favour of the proposed restrictions on deposits for Members.

- The proposed requirement to have and maintain an additional reserve is a concern, especially as Credit Unions are well reserved and it is felt this would result in Credit Unions being unable to pay a dividend if all surpluses have to go to reserves.

- The proposed implementation timeline is too short given all of the other changes that Credit Unions are having to deal with following the implementation of the Credit Union and Co-operation with Overseas Regulators Act.

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