Registrar of Credit Unions,
Central Bank of Ireland,
PO Box No 559,
Dame Street,
Dublin 2.

31st March 2014

Re: Consultation on the introduction of a Tiered Regulatory Approach for Credit Unions

Dear Sirs,

On behalf of Nenagh Credit Union Ltd I refer to the consultation paper on the introduction of a Tiered Regulatory Approach for Credit Unions which was issued on the 19th December 2013.

In summary and in light of the very challenging environment we are currently operating in, we would be extremely concerned that the proposals outlined in the consultation paper may seriously impact the viability of our credit union. We consider that the following information and criteria outlined in our replies to the questions posed by you clearly demonstrate our concerns.

Our observations on the questions you are seeking our views on are as follows;

Question 1 - Do you agree with the proposed tiered regulatory approach for credit unions? If you have any suggestions please provide them along with supporting rationale.

Firstly we are generally in favour of the three tiered regulatory approach similar to that outlined in the Credit Union Commission Report. We believe that in the context of the three categories the focus of revised proposals should be in Category 2 and that the status quo, with some modifications should be maintained. We are supportive of the Commission's recommendations that the new tiered approach to regulation should be based on the nature, scale and complexity of our credit union as we acknowledge that one size does not fit all. We believe that a three tiered approach similar to that outlined in the Commission report may be more accommodating of our expectations and plans to grow our credit union.

The Board of Nenagh Credit Union has however given the proposed two tiered approach document serious consideration and whereas we welcome the opportunity to participate in the consultation process, the Board would have serious concerns if the proposals outlined within are implemented. Specifically we would consider that the proposals in relation to Category 1, which would apply in our case, would have far reaching implications for our credit union in respect of investments, savings and loans, which in turn would be likely to have an adverse impact on our ability to generate sustainable income and we also feel that our endeavours and plans to grow our credit union may be greatly inhibited as a result. Please refer to our reply to question 2 for further analysis of the impact.

In conclusion we have serious reservations with regard to the Two Tiered Approach as outlined in the Consultation document and our preference would be for a three tiered approach similar to that outlined in the Commission report.

Question 2 – 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.

Our general view on the two category approach is outlined in our answer to question 1. However the following would be our specific concerns in relation to the proposals attached to the two category approach (We would be classified as category 1 credit union).

Investments

Firstly income from our investments is extremely important to our credit union and especially so at a time when income from our loan portfolio is under pressure. The investment income is under pressure presently due to falling deposit rates and Basel III will compound this problem further. The investment regime outlined for a category 1 credit union will only lead to a further reduction of this income. At September year end 2013 investment income accounted for in excess of 65% of our total income which gives an indication of its importance to our credit union.

Impact of restriction on investment class

- Under the two tiered regime our credit union would no longer be allowed to invest in Bank Bonds, Equities or Collective investment schemes. This would result in us having to redirect €5.3m to lower yielding cash deposits or shorter dated government bonds. Shorter dated government bonds are now returning a much lower yield than longer term government bonds which would lead to a further reduction of income.
- Given that our investment options would be greatly reduced we may be forced to divert funds to government bonds which may reintroduce volatility in to the portfolio. Shorter dated government bonds are now trading well above par. Our accounting policy on the purchase of such bonds would be to write them back to par at purchase which based on today's prices would result in investment write downs in our accounts. Again at a time when income is under pressure this is something we would obviously prefer to avoid.
- We currently have approx. €5m in a collective investment scheme which is yielding a 1% return and providing us with liquidity. Being excluded from this investment scheme will cause liquidity issues and will more than likely result in funds being redirected to non-Irish Banks yielding a return of .02%.
- We are puzzled as to why we have to be excluded from this type of investment when the collective scheme which we have invested in is professionally managed by Davy, our authorised investment advisors and who are regulated by the Central Bank of Ireland.
- Having to redirect funds from the Collective Investment scheme would further add to the counterparty issues to be raised as a result of the new two tiered approach and may also adversely impact our ability to manage liquidity. The collective investment scheme has in the past played a crucial role in managing our liquidity.

Impact of proposed counterparty exposure changes

- Changing counterparty limits to relate to regulatory reserves rather than a % of the investment portfolio would result in us having three breaches and would necessitate the redirection of approximately €4m in this respect to non-Irish banks. When you add the redirected funds from the no longer permitted investment classes, the figure to be redirected to non-Irish banks could be approximately €9m.
- Reducing the counterparty exposure would mean redirecting funds from higher interest earning accounts to lower interesting bearing accounts and thus adversely impact our investment income.
- We may struggle to source an appropriate number of suitable deposit taking counterparties.
- Credit unions could be forced to redirect funds to Government bonds which may introduce volatility to the portfolio.
- Credit unions are community based and consequently would prefer to see funds being invested in Ireland but an outflow of funds from this country could have an adverse impact on Irish banks at a time they are endeavouring to return to profitability. This not happening will impact on all our endeavours to grow.

- The introduction of more counterparties makes the exercise of monitoring more onerous involving more time and resources and especially so at a time when credit unions are faced with implementing huge change.

Summary

- The proposed changes in the investment area would have a serious impact on our income and at a time when the return on investments is sensitive given the reduction that has taken place in our loan book and the associated implication of reduced income from that source.
- These changes could potentially mean in our credit union's scenario alone, the outflow of €9m to non-Irish banks. At a national level such an outflow of funds could have an adverse impact on the country's endeavours to sustain economic growth. We would suggest that an impact analysis of credit unions should be conducted at national level to assess its impact.
- Having to consider redirecting funds to shorter dated government bonds could introduce volatility in to the portfolio at a time when we cannot afford such volatility.

Liquidity

In principle we do not have a problem with the liquidity measures. Our problem with the liquidity measures relate to the impact caused by the proposed changes to the investment classes that we can invest in and the changes to the counterparty exposure. (This has being outlined earlier in this document).

Savings

We would not be in favour of the proposed cap on member savings as outlined and we would suggest that this cap be increased. We would have aspirations to grow our business in a prudent manner and in this regard we would consider this limit to be overly restrictive.

Loans

Similar to the countrywide trend our loan book has come under pressure. However core to our strategic plan for our credit union is the growth of our loans and lending base. Whereas the limits outlined would not majorly impact us at the moment, given the structure and size of our loan portfolio, the limits could however seriously impact our scope to expand and develop in the coming years. We would have concerns with regard to the limits being referenced to the regulatory reserves which we again feel could potentially inhibit future growth which is contrary to our strategic plan.

Question 3 – 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?

We would strongly support the provision of additional resources by each of the categories. The provision of such services would very much be part of our strategic plans to grow and expand services to our members. However we now operate in a very fast evolving world and member requirements can change and we need to be able to react and therefore we would prefer to leave the option open to add and subtract services as the need arises. We would feel that a list may be

become restrictive and could limit the creation of new services or products and impact our endeavours to grow and react to member's requirements.

Question 4 – 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.

We are generally in agreement with this proposal. However before expanding this reply further we would like to have the opportunity to review the guidance that the Central Bank intends to set out for credit unions on assessing the appropriate loan loss provisions for each of the steps outlined in the consultation paper. We would also like the Central Bank to expand further on their intention to set a requirement for credit unions to provide in full for a loan that has been delinquent for a specified period.

Question 5 – 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.

We do not feel that this is now the appropriate time to be implementing changes of this nature. Significant transformation has taken place in the past twelve months in the evolution of the credit union movement. The increased governance regime is still in its early stages and not yet fully bedded down. Credit unions are overwhelmed with the workload that the changes have imposed. Sufficient time should be accorded to allow the new regime to firmly embed and then a proper risk analysis can be conducted in order to assess the requirement or necessity for change.

Question 6 – 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?

We do not agree that the current timeframe nor its timing is appropriate at this point in time and at a minimum we would consider it helpful and beneficial if the timeframe would be extended.

We trust that the above is clear and that our views will be given consideration. We again acknowledge being afforded the opportunity to make a submission on these matters.

Yours sincerely

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James C Murphy
Chairman