

Submission from North Longford & Arva Credit Union LTD.

This is a response from the board of directors to the Consultation Paper issued by the Registry of Credit Unions on the introduction of a Tired Regulatory approach for Credit Unions

1. **Small Credit Unions:**

The smaller CU's had some hope of appropriate regulation under the proposals contained in the Commission on Credit Unions but this document cuts off this hope. We expected that "tiered regulation" would lead to a positive and supportive regulatory approach, and that for example smaller simpler credit unions would have simpler less intrusive regulation.

The Commission agreed that most credit unions would be in the lower tier and as such they could expect the current "status quo" level of regulation, - not additional and inappropriate levels of regulation. CP 76 amounts to a contradiction of what was agreed at the Commission and CU's are utterly disappointed by its contents.

2. **Tiering**

There is minimal emphasis on tiering Credit Unions in this proposal. There is little difference in character between the categories as outlined and therefore credit unions are asking themselves why would they ever want to move to category 2 for example as this would force them to have dedicated Internal Audit, Risk and Compliance functions and board reviews without the advantage of being allowed offer much in the line of additional services

3. **Related Persons:**

The proposals under this topic are totally unworkable and discriminatory. We also feel that this proposal would make it more difficult to attract volunteers for the board of directors

4. **Lending Practices and policies:**

No category of lending should be related to regulatory reserves (5.2.2)

The "Credible Business Plans" requirement for small traders is unworkable. The real problem here is that the definition of commercial loans should not encompass these types of small traders. This is a traditional CU lending area in which Credit Unions are far better placed to judge the needs and capabilities of their members without too much outside interference. (5.2.6)

We object in the strongest possible terms to the proposal around the creation of restricted person limits under lending, why should good members be penalised for no good reason?

6. **Investments:**

The limits in the existing guidelines are adequate. Any proposed limits should be related to the investment portfolio and not to the regulatory reserve. Class five of the 2006 Regulations, Collective Investments scheme (CTMF) should be permitted.

We feel that this proposal will have a significant effect on the returns that credit unions will be able to generate on their investments. This could threaten the viability of the credit union.

Credit unions should be permitted to invest in collective investments schemes, particularly as this would facilitate investments in state projects.

7. **Investment Counterparties**

The Proposals will increase investment counterparties unnecessarily. Linking the amount held in any counterparty to Regulatory Reserves will force credit unions to hold investments with six or more counterparties as opposed to the current number of four. CU's will also be forced to invest funds outside of Ireland which is totally counter-intuitive and inappropriate for a community owned financial co-operative and will also have a potentially negative impact on their investment return

8. **Investment Duration**

We disagree with any reduction in the allowed investment durations, - Already quite restrictive.

Category 1 CU's should not be restricted to 5 year terms - should be 10 year terms.

9. **Limits on Savings**

The €100K maximum is totally unfair and unjust. It does not cater for member needs and is hugely restrictive for Credit Unions and their loyal members. The scale of change involved from current legislation is unprecedented. This is unacceptable and anti-competitive in that it limits the ability of Credit Unions to service the needs of its members. We also feel that this is another example of the Central Bank trying to damage or restrict credit unions.

10. **Additional Services**

CU's should be allowed provide Current Account with overdraft facilities and Debit Card and such associated facilities. In general CU's should expect that as new financial products become available they should not in any way be restricted by any proposals put in place under Section 6.

11. **Goverance**

The requirement to have dedicated in-house resources is excessive and costly. We disagree in principle that an "external evaluation" is necessary considering the multiple and overlapping oversight functions which already operate such as Board Oversight, Nominating Committee, Chair of the Board etc.

12. **Fitness and Probity**

No comment

13. **Operational Risk Reserve**

We disagree with this proposal in principle because Credit Unions are already clearly very adequately reserved. We are concerned that credit unions will be unable to pay a dividend if all of their surplus have to go on reserves.

14. **Liquidity**

Current guidelines are more than sufficient and requiring CU's to hold higher percentages of their assets in short-term liquid form will further limit every CU's ability to return operating surpluses and therefore threaten their viability.

15. **Provisioning (Section 6)**

Any new model of provisioning should be drafted by the CU sector itself and should be designed in line with best International practice and methodology.

16. **Timelines**

We suggest that because of the amount of change that CU's have had to deal with over the last year we recommend that no further regulatory changes be considered until the current changes have had a chance to bed-in.

17. **Regulatory Impact Analysis**

In advance of any changes in regulatory approach a full RIA should be carried out as per best practice. Any other approach risks damaging Credit Unions.

Summary.

This credit union has examined the proposals in CP 76 and we have furthermore consulted with other credit unions through out our chapter. Our considered opinion is that many of the proposals contained in this consultation paper are quite inappropriate and can only impact negatively on Credit Unions in our region.

We therefore ask the CB as our statutorily appointed Regulator to review these proposals in light of the clear opinion of rank and file credit unions across this country who operate at the coal-face of community financial services on a daily basis.

Credit Unions deserve regulation that will support them in delivering the very necessary financial services to citizens while of course ensuring the safety and soundness of their institutions.

Any further regulatory action should be focused primarily on the long term viability of Credit Unions and on the long term viability of the Credit Union movement itself.

Approved by the Board of Directors of North Longford & Arva Credit Union Ltd.