Central Bank of Ireland's Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions: Consultation Paper CP 76

Rathangan & District Credit Union Ltd – Submission
28/03/2014

Submissions should be made in writing, preferably electronically as a word document or a pdf document on email by 31st March 2014. The Central Bank intends to make all submissions available on the Central Bank website. Submissions should be marked "Introduction of a Tiered Regulatory Approach for Credit Unions" and emailed to rcuconsultation@centralbank.ie or Registry of Credit Unions, Central Bank of Ireland, PO Box 559, Dame Street, Dublin 2.

Q1. 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.

We do not agree, we would prefer a 3 tier regulatory approach as per Davy Stockbrokers, for the following reasons.
-Should have opportunity to avail of 7-10 year investment
-Giving a better return for investments
- Fairer playing field with 3 categories.

Q2. 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 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.

Note: 5.11-5.11 essentially documents the proposals for each Category – please refer to Table 1 and 2 in the Appendices.

No: Preference is for 3 tier as recommended by Davy Stockbrokers.

Q3. 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? If you have suggestions please provide them along with the supporting rationale and the associated additional requirements.

Note: Both Category 1 and 2 will be able to provide the additional services currently available under the Exemption from Additional Service Requirements Regulations which include:

- Account access by phone

- Account access by internet
- Third party payments (including EFT)
- ATM services
- Bureau de change
- Certain insurance services on an agency basis
- Group health insurance
- Bill payment
- Money transfers
- Standing orders
- Direct debits
- Financial counselling and
- PRSAs on an introduction basis.
- Some credit unions have been approved under Section 48 of the 1997 Act to provide other services including mortgages on a tied agency basis and some additional insurance services on a referral basis.

Additional Services	Category 1?	Category 2?	Comment
Insert Response			

Q4. Do you agree that a provisioning framework should be developed for credit union as proposed in Section 6.2? If you have additional proposals please provide them along with the supporting rationale.

Aspect	Agree?	Comment
Credit unions will continue to be required to undertake a review of their loan books on a quarterly basis to assess and make the provisions for loan losses	Yes	It is important that quarterly reviews of the loan book are undertaken
Credit unions will be required to undertake the following steps in assessing their loan books for losses and determining the appropriate provisions: -collective assessment of the loan book -individual assessment of significant exposures -incurred but not reported exposures		
Loan loss provisions of each credit union must take account of the factors specific to that credit union.	Yes	
The Central Bank will set out guidance in relation to the above. The Central Bank may set a requirement for credit unions to provide in full for a loan that has been delinquent for a specified period.	No	The 52 weeks as is should stand
Credit unions will continue to be required to set provisions aside for rescheduled loans.	Yes	
All credit unions will be required to have a provisioning policy	Yes	

Q5. 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.

In the last 12 months Credit Unions have had to deal with a lot of change, Fitness & Probity. This change is coming too early and we feel that the commercial viability of the Credit Union could be compromised. Time should be allowed for all the Risk Management strategies to take effect.

Q6. 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.

31 March 2014	Consultation closes
March / April 2014	Review feedback received
May 2014	Issue feedback statement Issue second consultation paper, including Regulatory Impact Analysis, on the details of the tiered regulatory approach including regulations to implement the tiered regulatory approach.
July 2014	Second consultation closes
August / September 2014	Review feedback statement Publish regulations and updated Credit Union Handbook Conduct Information Seminars
October 2014 – March 2015	Transitional period including applications to become Category 2
April 2015	Regulations come into force

The 1997 Act states that Credit Unions are not to be tiered, on foot of this new approach does the 1997 Act need to be changed. We believe this will take longer than 2015 to implement and feel that in light of all recent changes, this proposal should be extended until 2016/2017

Table 1: Activities and Requirements

	Category 1		Category 2		Comment
Lending	Personal lending Community lending (25% RR) Commercial lending (25% RR) Lending to other credit unions (12.5% RR) Maximum loan maturity of 15years		Personal lending Community lending (25% RR) Commercial lending (100% RR) Lending to other credit unions (12.5% RR) Maximum loan maturity of 15years Home loans may be considered		
Investments	Please see table overleaf		Please see table overleaf		
Savings	Will be able to offer savings up to the lower of €100k or 1% of assets Deposits can be up to 50% of aggregate liabilities in respect of shares issued to members		Will be able to offer savings up to €100k Deposits can be up to 75% of aggregate liabilities in respect of shares issued to members		
Borrowings	May borrow up to 25% of the total savings		May borrow up to 25% of the total savings		
Additional Services	Please refer to CP		Please refer to CP		
Governance	The existing governance regime for credit unions will apply		The existing governance and fitness and probity regime for credit unions will apply, including the requirements to have an audit committee, a risk committee, a remuneration committee, an asset and liability committee and an external review of the board of directors every 3yrs.		
Fitness and probity	The existing fitness and probity regime for credit unions will apply		The existing fitness and probity regime for credit unions will apply		
Liquidity	The existing liquidity requirements will apply. Definition of liquid assets amended. Short term liquidity constraints introduced.		The existing liquidity requirements will apply. Definition of liquid assets amended. Short term liquidity constraints introduced. Stress testing required.		
Reserves	The current reserve requirement (10%) will apply. Additional reserves will be held if required for operational risk.		The current reserve requirement will apply. A minimum operational reserve will be required. Potentially: -the Basel Basic Indicator Approach adapted for credit unions or -an additional specified percentage of assets e.g. 2%		
Other prudential requirements	Existing requirements in relation to risk management systems, a compliance programme, an internal audit function, a strategic plan and operational risk including business continuity and outsourcing.		Existing requirements in relation to risk management systems, a compliance programme, an internal audit function, a strategic plan and operational risk including business continuity and outsourcing. Requirement to have an interim audit Additional requirements in relation to the frequency and operation of business continuity testing.		

Table 2: Investments

<table>
<tr><th>Current Guidance</th><th colspan="2">Category 1</th><th colspan="2">Category 2</th></tr>
<tr><td>Irish and EMU State Securities
(a) Maturity date shall not exceed 10 yrs
(b) Not more than 30% of holding shall be held in bonds maturing after 7 yrs
(c) Holding shall not exceed 70% of the total value of the credit union’s investment portfolio.</td><td colspan="2">✓
Maturity date shall not exceed 5 years.</td><td colspan="2">✓
Maturity date shall not exceed 10 years</td></tr>
<tr><td>Accounts in Authorised Credit Institutions
a) Maturity date shall not exceed 10 yrs
b) Not more than 50% of deposits shall be held in deposits maturing after 5 yrs
c) Not more than 20% of deposits shall be held in deposits maturing after 7yrs.</td><td colspan="2">✓
Maximum maturity of 5 years</td><td colspan="2">✓
Maximum maturity of 7 years</td></tr>
<tr><td rowspan="3">Bank Bonds
a) Maturity date shall not exceed 10 years
b) Not more than 30% of bank bonds shall be held in bank bonds maturing after 7 years
c) Holding in bank bonds shall not exceed 70% of the credit unions investment portfolio.</td><td colspan="2" rowspan="3">✗</td><td colspan="2">✓</td></tr>
<tr><td>Senior unsecured Bank Bonds</td><td>Corporate Bonds that are listed with a rating of ‘A’</td></tr>
<tr><td colspan="2">a) Maximum maturity of 7 years
b) Total investments in bank bonds can be up to 50% of a credit union’s regulatory reserves.
c) Total investments in corporate bonds can be up to 50% of regulatory reserves</td></tr>
<tr><td>Investment in Equities</td><td colspan="2">✗</td><td colspan="2">✗</td></tr>
<tr><td>Collective Investment Schemes</td><td colspan="2">✗</td><td colspan="2">✗</td></tr>
<tr><td>Shares and Deposits of other Credit Unions (New Class)</td><td colspan="2">✓
Investments in shares & deposits of a single credit union can have a maximum maturity of 5 years and can be up to 12.5% of the Regulatory Reserves</td><td colspan="2">✓
Investments in shares & deposits of a single credit union can have a maximum maturity of 5 years and can be up to 12.5% of the Regulatory Reserves</td></tr>
<tr><td>Counterparty Limits
a) Investments in a single institution shall not exceed 25% of the total value of the investment portfolio</td><td colspan="4">Investments in a single counterparty other than a credit union can be up to 100% of a credit union’s Regulatory Reserves</td></tr>
<tr><td>Maturity Limits
As outlined under individual asset classes above</td><td colspan="2">Up to 50% of the total value of the portfolio can be in investments maturing after 3yrs</td><td colspan="2">Up to 50% of the total value of the portfolio can be in investments maturing after 5yrs</td></tr>
<tr><td>Liquidity
a) 20% of unattached savings (up to 30% if applicable)</td><td colspan="2">20% of unattached savings (up to 30% if applicable)
10% unattached savings available up to 7days
15% unattached savings available up to 1month</td><td colspan="2">20% of unattached savings (up to 30% if applicable)
10% unattached savings available up to 7days
15% unattached savings available up to 1month
Liquidity stress tests required</td></tr>
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