

“Introduction of a Tiered Regulatory Approach for Credit Unions”

- **Submission from Roscommon Credit Union Ltd. on CP 76**

Overall Comments

Roscommon Credit Union welcomes this opportunity to respond to the CP 76 consultation process and we are happy to give our comments on these proposals. We believe in principle that a tiered regulatory structure is appropriate for regulating Irish Credit Unions with the proviso that the implementation around tiering must be appropriate and supportive of the different types and sizes of credit unions in Ireland.

In general however, while we are happy to respond we do find the overall thrust of this particular consultation paper to be somewhat disappointing considering what we expected would be proposed by the Central Bank. We see a big divergence between these proposals and those which were agreed at the Commission on Credit Unions and we think these new proposals will create huge challenges for Credit Unions like us and further threaten our viability. The absence of a differentiated approach based on the nature scale and complexity of credit unions is a really disappointing outcome particularly as these issues were teased out by the Commission on Credit Unions and CP 76 appears to ignore that forum’s report completely. We feel this approach is unacceptable and should be rejected because it is an effort at micro-managing Credit Unions rather than regulating them through a challenging yet supportive approach.

Individual Sections

Having studied CP 76 in detail we find it difficult to comprehend the rationale behind a number of the specific proposals. However, we have endeavoured throughout to give a constructive response to each issue raised.

A. Tiers

The approach in these proposals is more like a “one size fits all” than a truly tiering approach. All except a few credit unions are in the same category which amounts to a very blunt instrument in regulatory terms. We believe an inspired way to progress this debate would be for the CB to discuss these issues with the representative bodies with a view to implementing at least three (if not four) tiers based firstly on the “nature scale and complexity” of credit unions while also taking asset sizes into consideration.

B. Lending:

We disagree in principle that lending levels should be related to regulatory reserves as in section 5.2.2.

Also the proposal of “Credible Business Plans” in relation to small business traders is not workable. The definition of commercial loans should not cover small traders who

are a traditional (and safe) element of credit union lending. Local Credit Unions are well placed to assess the risks around this market segment without external interference: - ref 5.2.6.

C. 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.

Also, the Proposals in relation to Investment Counterparties are unworkable. Linking Regulatory Reserves to the amounts held in any counterparty will force us to split investments over six or more counterparties as against four. We will also be forced to invest funds outside of Ireland which is against our nature as a community organisation and all-in-all these proposals will stifle our income streams further

We also do not agree with any reduction in the allowed investment durations which are already quite restrictive and we feel the 5 year terms should be extended to 10 year terms. We also feel that Bank Bonds should not be restricted to Senior Bonds as this is again unnecessarily restrictive.

D. Savings

Imposing a maximum of €100K on savings is totally at odds with providing a market based service to members. It is an unfair imposition on members who may be after retiring and wish to invest a lump-sum in their community CU. We cannot see the rationale for this idea because it will restrict Credit Unions from serving the legitimate financial needs of their members. It is also extremely anti-competitive and we can't see how we could compete with other financial institutions if this is imposed.

E. Deposits

Again we cannot see the rationale for limiting the amounts of Deposits held on a member's behalf. Asset liability management and therefore limiting Credit Union deposits seems irrational and perhaps short-sighted.

F. Additional Services

We need to be allowed provide whatever new financial services members require without any unreasonable obstacles being put in place under Section 6.

G. Governance and Fitness and Probity

CUCORA 2012 has recently imposed substantial new requirements in terms of Governance and Oversight of Credit Unions. Imposing more new requirements while the legislation has not even been allowed to bed-in seems a confusing Regulatory approach. Surely this legislation should not be undermined so soon by Regulatory imposition. We also disagree fundamentally with the idea of an "external evaluation" as this is totally unnecessary and duplicates the other "oversight" roles.

H. Timelines and Regulatory Impact Analysis

In Roscommon we are proud that we are in compliance with the new requirements such as Internal Audit, Risk and Compliance and associated obligations. Credit Unions like ourselves have worked very hard to comply with what is an unprecedented level of change and we do not see further regulatory changes as either

necessary or advisable until the current changes are fully institutionalised. If a proper tiered regulatory approach is embarked upon we think the first step should be a detailed Regulatory Impact Assessment and if the results prove satisfactory the new tiering arrangement should be phased in slowly over a four-year period.

I. Related Persons

We believe the proposals in relation to related persons to be extremely unfair to the point that that they may be open to legal challenge.

J. Operational Risk Reserve

CU's are already well reserved and we disagree fundamentally with this proposal.

K. Liquidity

Current liquidity guidelines are sufficient and the proposal to require Credit Unions like us to hold higher percentages of their assets in short-term liquid form will further limit our surpluses and therefore further threaten our viability.

L. Provisioning

The entire Credit Union movement should be involved in the drafting of any new model of provisioning and it should be designed with best practice internationally.

M. Small Credit Unions

The future of small Credit Unions is already under huge threat even before these proposals. However, if the proposals in CP 76 become a reality it is difficult to see many small CU's surviving. This is again at odds with the Commission's outlook which emphasised that small well-run credit unions could have a bright future in Ireland. Again, we are disappointed that a "tiered regulation" initiative would lead to such a negative outcome when we expected that smaller simpler credit unions would have less intrusive regulation and be allowed serve their members via a simple business model.

In conclusion and having reflected on all the proposals contained in CP 76 we in Roscommon Credit Union find them very restrictive and anti-competitive. If these changes are forced through they will undoubtedly impact negatively on Credit Unions like Roscommon and further threaten our viability.

We hope therefore that the Central Bank will take our opinion into consideration and amend these proposals in line with our suggestions.

Thanking you for taking the time to read our submission

Signed: _____

(on behalf of Roscommon Credit Union Ltd)