

“THE INTRODUCTION OF A TIERED REGULATORY APPROACH FOR CREDIT UNIONS”

RESPONSE BY RTÉ CREDIT UNION LTD TO THE CENTRAL BANK CONSULTATION PAPER CP76

GENERAL RESPONSE

RTÉ Credit Union Ltd (RTÉ CU) considers that the Consultation Paper (CP76) is based unreasonably on a flawed premise. The presumption contained in the title of the consultation paper (and then reinforced throughout the document) fundamentally presumes that a tiered regulatory approach is needed and that it is simply a question of deciding what number of tiers or categories is required. Nowhere in the consultation paper is there a rationale to support the principle of a tiered approach and the absence of such a rationale suggests strongly that there is a self-fulfilling and fallacious presumption at the heart of the document.

RTÉ CU believes that the Central Bank, through CP76, has placed an inordinate and unacceptable emphasis on ‘scale’ (asset size) and in a manner which is both arbitrary and capricious. It is not difficult to conclude from the Central Bank position that the primary objective of CP76 is to use a proposed tiered approach to reduce the number of credit unions overall rather than supporting credit union business by providing a workable and appropriate regulatory framework.

Despite the Commission on Credit Union’s view that there ought to be a tiered approach to regulation, it is a fact that the legislators decided not to, specifically, incorporate this into the CUCOR Act 2012. The legislators, therefore, left the legislation open to the possibility that regulations could be introduced which were not related to tiers or categories at all. In the context of

this possibility, RTÉ CU is at a loss to understand why the Central Bank wishes to be a proponent of the 'tiered' approach only? Surely, the correct approach was to set out the arguments for and against tiers or categories and to build consensus around this. CP76 fails in this important regard.

CP76 acknowledges that throughout the world, there are only two areas (UK and Ontario) where a tiered approach is used, and accepts that in the remaining 100 other countries approximately, there is no tiered approach. In this context, it is impossible to see how our near neighbours with a relatively under-developed credit union sector should be used as a benchmark for how we ought to conduct our business in regulatory terms.

The high-level objectives of the CUCOR Act 2012 are very clearly outlined at the beginning of this important piece of legislation and while there is specific reference to prudential requirements and governance, there is no specific high-level reference to tiers or categories of credit unions. RTÉ CU would argue that the pursuit of a tiered approach to regulation based on asset size was never intended to be a priority objective of the legislature and that the Central Bank's pursuit of this is self-serving and not necessarily in the overall best business interests of individual credit unions.

RTE CU falls significantly short of the CP76 proposed requirement that, to be a top-tier credit union, we must have assets which are "close to or above €100m". RTÉ CU, based on extensive member research, wishes to provide a high-level of product and service offerings to its members and wishes to do this based on our current size of €59m plus hopefully annual incremental growth. We believe that the Central Bank should ignore scale/asset size as a priority consideration and simply define a set of regulations which are linked to the other two key variables – nature and complexity- and allow individual credit unions to decide whether they wish to invest in the appropriate resources/infrastructure needed to prudently manage and control their business.

It is inappropriate and inimical to the interests of small and medium sized enterprises for the Central Bank to be devising regulations based on figures which appear to be plucked out of the sky. Specifically, no compelling evidence has been advanced to support the contention that the cut-off point (for top-

tier status) must be “close to or above €100m”. Respectfully, we ask why not €120m or €60m or €75m or €40m as a cut-off point and the answer is surely to be found in the fact that approximately 100 other countries cannot satisfactorily answer this question either.

Ultimately, we think that we should not be prevented from being in business simply because the Central Bank believes that we are not big enough. We should be prevented from being involved in certain types of business activity only because we cannot achieve the correct governance and prudential conditions to meet the nature and complexity of the business we wish to pursue.

PARTICULAR RESPONSES

5.12 QUESTION

- (i) 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 making 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.

As already outlined, CP76 has failed to persuade us that ‘tiering’ is required at all and in this regard, we favour an approach which is not linked to scale or asset size. We believe that all credit unions should have the possibility of ‘opting-in’ to a regulatory regime which is properly defined by and linked to the nature and complexity of the business which that credit union wishes to be in. It should be for each credit union to decide whether they can effectively implement that higher level sophisticated business model and whether the return on this investment is sufficient to underpin the viability of this business model. It should not, in our view, be the prerogative of the Central Bank to put medium-size businesses of fifty-years standing out of business simply because our scale and size do not meet arbitrarily-decided targets. Using language like ‘close to €100m’ has such a quality of capriciousness about it that it only further serves to fuel the belief that the Central Bank is not confident itself in what it is proposing.

For many credit unions, the choice they make regarding a simple business model or a more sophisticated business model will be straightforward and they should be allowed to make that choice. Similarly, but less straightforwardly, credit unions of our scale should be able to decide for themselves how they wish to proceed. As proposed, we believe the CP76 is hostile to the future development of small and medium-size business enterprises when it should be endeavouring to be supportive of credit unions with our track record. Surely, we should be given the support of the Central Bank to arrive at our own choices rather than, for reasons of relative scale and size only, being either forced out of business altogether or driven into the arms of a bigger credit union.

6.3 QUESTION

- (i) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2?

We accept that a proper provisioning framework must be put in place which is robust enough to allow business under a more sophisticated business model to take place. This is especially true in relation to medium term products particularly those over 10 years which we believe will be necessary as part of any sustainable business model. Within all of this, there is a requirement for greater discussion on asset/liability management and in the area of share capital. We believe that discussion on these points is essential in conjunction with what is being proposed in CP76.

7.2 QUESTIONS

- (i) Do you agree that the tiered regulatory approach should be introduced at this time?

For the reasons already outlined, we do not believe that the business of credit unions will be well-served by the introduction of tiered approach to regulation based on asset size.

End note/.