Introduction to a Tiered Regulatory Approach for Credit Unions

The following is our submission and opinions on the above:

- The entire approach is fundamentally flawed – in our opinion the Central Bank has gone way beyond its remit in the Consultation Paper - is not about tiered regulation but is instead about micro-managing credit unions.
- It runs contrary to many aspects of the commission report with no rationale for it.
- The report is perhaps un- constitutional in relation to lending to officers – why should good members be penalized?
- The approach is designed to restrict credit unions further and inhibit their ability to return a surplus to Members.
- It is totally un-competitive.

Are these restrictions for all financial institutions or just credit unions?

Currently, credit unions are struggling to implement the new legislative framework [arising from the Commission Report and Risk Mitigation Programmes put in place as a result of P.R.I.S.M. visits] to ensure credit unions are complying and regulated as required – **is this not sufficient** without a further raft of restrictions with percentages in relation to lending , liquidity, savings and investments?

We would refer you to S7.3.2 of the Commission report which refers to volunteers and succession planning. Also, reference in the commission report to focusing on the viability of credit unions, in particular reference to scale, complexity and nature of credit unions determining the level of regulation. This consultation document **does not** reflect this approach rather the complete opposite as it places all credit union in category 1 – in a **'one size fits all'** approach.

In Relation to the Tiered Regulatory Approach:
Ref: 5.2.2
The granting of loans should not be based on the restrictions in the concentration limits proposed but **all loans should be granted based on the underwriting criteria with prudent lending paramount.**

Maturity Limits
This should be related to the liquidity and reserves of the individual credit union.
e.g. Category 1 credit union - if they have liquidity of 30% they should be allowed up to 40% of their loan book outstanding for more than 5 years and up to 15% outstanding for more than 10 years.

Ref: 5.2.4
Restricted Person Limits
<u>We would strongly recommend that this proposal be removed in its entirety</u> as it is totally un-workable, bordering on un-constitutional and most discriminatory and restrictive. Bearing in mind the wide definition of relations and the consequences it will have in our endeavours to attract volunteers.

Ref: 5.2.5
…….the total large exposures of the credit union can be up to 500% of the regulatory reserves of the credit union – **please explain the rationale behind this?**

Ref: 5.2.6
For long established members with a good business record this is totally un-workable and restrictive.

Ref: 5.3.2
<u>This whole section is totally un-competitive.</u>
We object to the recommended limits on investments as they will restrict the credit unions ability to earn a reasonable rate of return. Credit Unions are currently finding it most difficult to spread the investment portfolio due to the lack of alternative institutions within the state, particularly if a credit union can only invest 100% of the regulatory reserve in any one institution.

Credit Unions should be allowed to continue to prudently invest up to a 10 year maximum and there should be no requirement to hold 50% of investment portfolio in investments maturing in under 5 years, bearing in mind the current stringent liquidity requirements.

Ref: 5.4
Restriction on savings:
We object to the €100,000 restriction on savings – totally non-competitive and discriminating against members – e.g. if a long standing good member sells his/her house or inherits money or wishes to lodge the proceeds of a claim above this limit we have to send them to a competing financial institution. **<u>Are these restrictions for all financial institutions or just credit unions?</u>**

Ref: 5.4.1
The aggregate liabilities of category 1 credit union in respect of deposits: we do not agree with this – credit union should be allowed to have at least 50% of the individual members savings held on deposit.
This will allow the credit union to invest the deposit element out for various terms and can link it to the investment return [back to back].

Ref: 5.4.3
Additional Services:

- ✓ Current a/c's
- ✓ Overdraft facilities
- ✓ Debit Cards

Reason: To allow credit unions to be competitive and earn additional income and provide a complete financial service to our members.

Ref: 5.9.2
We would query the need for the operational risk reserve in light of the fact we already have adequate regulatory reserves to cover this risk.

What is the rationale behind the additional short term liquidity requirement? This will place further restrictions on the credit union's ability to gain a return on investments, will impact on surplus funds and the credit union's ability to pay a dividend.

Ref: 6.2 – Provisioning
We feel that existing provisioning framework which is the Res49 & S35 is sufficient to meet the requirements.

Time-Frame:
The time frame for the implementation of the tiered regulatory approach is too short and should not be implemented before mid-2016 to allow credit unions a reasonable period of time to address the changes arising from the implementation of C.U.C.O.R.A.

The commission believes that the regulatory and supervisory framework must be flexible enough to accommodate different types of credit union with a calibrated approach for smaller product restricted credit unions. **Nowhere in this consultation document is this flexible approach apparent.**

In conclusion:

This consultation paper does not recognise the contribution the credit union movement has made to the faltering economy over the past number of years and in its present state will restrict the movement to make a meaningful contribution to a recovering economy.