

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

St. Dominic Credit Union Ltd – Submission
31/3/2014

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.

In favour of Tiered approach in principle but two tiers appears to place far more supervision and restrictions on Credit Unions than would have been expected.

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.

Under Personal Lending – Restricted Persons: If the use of the word “family” is as defined by the Act, it is felt that this too broad a classification that discriminates against volunteers and their extended family, especially the case for small Credit Unions, and that this should be confined to the “Immediate Family” resident in the home.

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

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- 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
	Agree	Agree	Both

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	Agree	
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	Agree	
Loan loss provisions of each credit union must take account of the factors specific to that credit union.	Agree	
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.	Agree	
Credit unions will continue to be required to set provisions aside for rescheduled loans.	Agree	
All credit unions will be required to have a provisioning policy	Agree	

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.

The timeline for implementation is too short and a suitable period of time should be allowed to prepare for the implementation of a tiered system due to the availability of resources.

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

This should not be introduced as per our reply for Question 5.

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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.		

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Table 2: Investments

Current Guidance	Category 1	Category 2
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.	✓ Maturity date shall not exceed 5 years.	✓ Maturity date shall not exceed 10 years
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.	✓ Maximum maturity of 5 years	✓ Maximum maturity of 7 years
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.	✗	✓
		Senior unsecured Bank Bonds Corporate Bonds that are listed with a rating of 'A'
		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
Investment in Equities	✗	✗
Collective Investment Schemes	✗	✗
Shares and Deposits of other Credit Unions (New Class)	✓ 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	✓ 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
Counterparty Limits a) Investments in a single institution shall not exceed 25% of the total value of the investment portfolio	Investments in a single counterparty other than a credit union can be up to 100% of a credit union's Regulatory Reserves	
Maturity Limits As outlined under individual asset classes above	Up to 50% of the total value of the portfolio can be in investments maturing after 3yrs	Up to 50% of the total value of the portfolio can be in investments maturing after 5yrs
Liquidity a) 20% of unattached savings (up to 30% if applicable)	20% of unattached savings (up to 30% if applicable) 10% unattached savings available up to 7days 15% unattached savings available up to 1month	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

