Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions

Consultation Paper CP 76

Submission by St Michael's Credit Union Ltd

To the Registry of Credit Unions

Central Bank of Ireland

March 2014

Consultation Paper CP 76

The Board of St Michael's Credit Union (SMCU) welcomes the opportunity to share its views on the Consultation Paper CP 76: The introduction of a Tiered Regulatory Approach for Credit Unions.

In general any action that might inhibit the growth, viability or operation capacity of any credit union or restrict their ability to serve their members should be subject to in-depth consideration before confining regulations are introduced. In that regard SMCU very much welcomes the fact that a further consultation paper including a Regulatory impact analysis will be published in May.

Section 4 - Proposed Tiered Approach

Q1; Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with supporting rational.

St Michael's supports the tiered regulatory approach being introduced by the Central Bank and recommended in the Commission report. Our understanding is that all credit unions will be placed in category 1, with credit unions capable and wishing to undertake a wider range of services applying to become a category 2 credit union.

The regulatory requirements of category 1 credit unions will be based on size and the proportionality approached envisaged should reduce regulatory burdens that are non-complex in operation and services to their members.

Section 5 - Overview of Categories

Q2; Do you agree with the approach set out in 5.2 to 5.11?

5.2 Lending

The difficulty for credit unions currently is the falling loan book and the affect on increased investment portfolios. Prudent and sound lending practices should be demonstrated to be in place however the classes of lending should be at the discretion of the Board of Directors.

The SMCU board based on our experience would suggest lower levels of large exposure loans and connected party loans.

- The total exposure (including contingent liabilities) of a credit union to a borrower or a group of borrowers who are connected can be the greater of € **a limit set by the Board of Directors** (being more that €200,000) or **5%** of the Regulatory Reserve of the credit union: and
- The total large exposures (including contingent liabilities) of the credit union can be up to **100%** (and not 500% as suggested in the consultation paper) of the Regulatory Reserves of the credit union and on individual exposure should be no more that 0.5% (and not 1.5% as suggested in the consultation paper).

Concentration limits; SMCU would suggest that category 1 credit union be allowed to undertake commercial lending up to 50% of the Regulatory Reserves rather that the 25% suggested. It should be noted that 25% of Regulatory Reserves represent approx. 3% of assets and a figure closer to 5% doesn't seem unreasonable.

The introduction of concentration limits plus maturity limits will constrain credit union lending and the Central Bank has not addressed the issue of e.g. if a loan is issued for 10 years and over time is being repaid per the agreement, if there are still a number of years to run e.g. 4 is it still classed as a 10 year loan?

5.3 Investments

The Board of St Michael's Credit Union suggest the following amendment to the proposal under 5.3.2 Category 1

- Investments in a single counterparty other than a credit union (i.e. bank or EEA state) can be up to **125%** (rather that the 100% suggested in the consultation paper) for a category 1 credit unions Regulatory Reserves:

Rational – this is due to the small number of bank holding in the country at present.

- A facility should be available to Category 1 credit unions to invest in **corporate bonds** with a restriction to **A rated**

Rational – due to falling loan portfolio's the need to secure a return on a range of investment options will be of critical to income generation.

5.4 Savings

The Board of St Michael's Credit Union would suggest a change to the proposal for category 1 credit unions – Category 1 credit unions will be able to offer savings up to the lower of €100,000 or **2.5%** (rather than 1% as suggested in the consultation paper) of the credit union's assets.

Rational – €100,000 is guaranteed by the state and to have a figure less that that will not make sense to members with savings and under the proposal amid sized credit union with say €40m in assets would be restricted to €40,000 maximum shares. This will impact many credit unions unnecessarily and it is our view that the 1% limit is not in keeping with the fundamentals of co-operative financial service.

5.5 Borrowing

St Michael's Credit Union is traditionally funded by member's savings and that is intention of board going forward hence we have no observations on this section.

5.6 Additional Services

The area of additional services provided by credit unions is important for member retention and attraction into the future. Access to their savings through debit card is seen as a key service for salary payment/or social welfare payment direct into the credit union.

5.7 Governance

The Board of St Michael's Credit Union is implementing the governance framework for credit unions. The key elements are taking time to implement, and we can understand the additional requirements for category 2 credit unions, but suggest that the additional cost expected from the "dedicated "positions will retain credit unions within Category 1 due to the resources required.

5.8 Fitness & Probity

The consultation paper gives no further proposals on the Fitness & Probity regime for credit unions. The implementation of the F & P will be within the current year, and at this time we would recommend that no further requirements be introduced.

5.9 Reserves

It is the view of St Michael's Credit Union that credit unions in either category on maintaining the Regulatory Reserve Ratio requirement of the 10% or such higher figure if so decided by the Regulator should be **allowed automatically to provide a dividend** for their members. There should be full clarity by way of transparent guidance on when it is permissible to pay a dividend from the Regulator in the second consultation paper.

5.10 Liquidity

Due to current restrictions and the proposed reduction in investment duration, the board feels that liquidity levels in credit unions will rise significantly. The idea of fixed term deposit accounts with a specified rate, and the promotion of lending to credit union members, supported by prudent lending practices, policies and procedures, will assist credit unions to reduce their unattached shares balance.

5.11 Other Prudential Requirements

The board is concerned about the additional costs that the prudential requirements are having with the "systems and programme" requirements now required and suggested interim audit and continuity testing. The impact study prior to the implementation of the Tiered Regulatory Approach will have an important bearing on whether credit unions will have the financial capacity to carry out these requirements.

Section 6 – Provisioning

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

St Michael's Credit Union is of the view that there has been no specific guidance on provisioning by the Central Bank and there is a requirement by the credit union movement for a defined and clear provisioning guidance document.

There is too much discretion; more specific guidance is required from the Regulator on provisioning requirements and many in the industry including accountants and auditors have called for this.

SMCU would suggest a clear provisioning requirement which is specific of say 100% full provision on all loans over 12 weeks/90 days + 20% provision for top up loans and as a minimum with discretion for the board thereafter.

Section 7 – Timelines for the Introduction of a Tiered Regulatory Approach

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 Board of St Michael's Credit Union is of the view that the tiered regulatory approach should be introduced at a time when the Fitness & Probity, and Governance requirements are embedded into credit union operations, and post the requirement of acknowledging compliance through the Compliance Statement required for November 2014.

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 publication and commencement of the regulations? If you have other suggestions please provide them, along with the support rationale.

The board of St Michael's Credit Union would suggest the following timelines for implementation of a tiered regulatory approach. The rational is that face to face discussion with the Central Bank would be afforded credit unions as part of the implementation process.

Date	**Stages**
23 December 2013:	Issue initial consultation paper
31 March 2014:	Consultation closes

April / May 2014:	Review Feedback received
June 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:	**Regional Forum meeting with Central Bank officials**
August 2014:	Second Consultation closes
September / October 14	Review feedback received
November 2014:	Issue feedback statement Publish regulations and update Credit Union Handbook
December 14 /January 2015:	**Conduct Information Seminars**
February – July 2015	Transitional period including applications to become category 2
October 2015	**Regulations come into force**

St Michael's Credit Union Ltd
Skehard Road
Blackrock
Cork

Telephone 021-435 7771
E-mail – Info@stmcihaelscu.ie