24th March 2014

Registry of Credit Unions

Central Bank of Ireland

PO Box 559

Dame Street

Dublin 2

Re: Introduction of a Tiered Regulatory Approach for Credit Unions

Dear Sir/Madam,

The Board of Youghal Credit Union would like to make the following submission in relation to Consultation Paper CP76 issued in December 2013.

4.8 (i) We agree with the proposed tiered regulatory approach. However, we would recommend that the €100m guide for category 2 credit unions should not be rigidity applied as we view that the other criteria set out in 4.5 are more important.

5.12 (i) We have a number of comments on sections 5.1 to 5.11 which we set out below:

- It would have been beneficial if the paper had given the rationale for the various proposals. In the absence of a rationale, some of the proposals seem arbitrary and ad-hoc.
- 5.1.1 Lending –There is no reference in this consultation paper to the current ad-hoc lending limits that are being applied to many CU's by the Central Bank. Will these be withdrawn once the new tiered regulatory approach is adopted?
- 5.1.1 Savings –The €100,000 limit is too low. This represents 0.124% of Youghal CU's assets. When this is compared to the 1% limit allowed for a smaller CU there is an eightfold difference. This seems unreasonable and arbitrary.
- 5.2.3 Maturity Limits –Unless the maturity limits are extended for category 2 CU's, it will not be possible for them to provide home loans.
- 5.2.4 Restricted Persons Limits –The proposed limits are too low and will act as a disincentive to people becoming Directors. We fail to see any rationale for this limit.
- 5.3.2 Investments for Category 1 CU's –The proposed removal of Bank Bonds, Collective Investment Schemes and Structured Investments as approved investment class will cause significant difficulties for Youghal CU. Currently 14% or €7,500,000 of our investment portfolio of €55.2m is in Bank Bonds, 12% or €6,510,834 is in Collective Investment Schemes and 5% or €2,842,958 is in Structured Investments. If this proposal is adopted, we would have to diversify all these investments (31% or €16,853,793) into lower yielding asset classes (e.g. from bank bonds to cash deposits). Currently our yields on Bank Bonds average 4.05% while the CTT yields approximately 1%. Call deposits are currently yielding around 0.4% with Irish Banks and 0.2% with non-Irish banks. Therefore moving our current €7.5m investment in bank bonds to non-Irish bank deposits will result on an annual loss in income of €288,750. This represents 20% of the dividend and interest rebate paid by Youghal CU in 2013. The aim of these proposed changes should be to strengthen CU's. The effect of this proposed change will be to significantly weaken their financial position. We assume that this proposal is in the light of the draft EU Bank Resolution and Recovery Directive whereby, in the event of a bank failure, the bondholders in that bank would be at risk. However, deposits over €100,000 would also be at risk so the proposed restriction makes no sense to us. We recommend that CU's be allowed to continue to invest in these asset classes.
- 5.3.2 Investments for Category 1 CU's –The proposed 5 year limit will cause significant problems for Youghal CU. Currently 11% or €5,967,950 of our investment portfolio of €55.2m would be in breach of this proposed limit. The application of this limit will force Youghal and other CU's to diversify to lower yielding, shorter term investments (e.g. from 10 year Irish government bonds, which are currently yielding 3.26% to 5 year government bonds which are currently yielding 1.93%). Again, the effect of this proposed change will be to significantly weaken CU's financial position. We would suggest the following limits: 50% maturing within 3 years, 70% within 5 years, 85% within 7 years and 100% within 10 years.

- 5.3.2 Investments for Category 1 CU's –The proposed investment limit of 100% of Regulatory Reserves (€9.2m for Youghal CU) in a single counterparty is too restrictive. Currently 5.4% or €2,848,605 of our investment portfolio would be in breach of this limit. While Youghal CU very carefully manages its investments to achieve a balanced spread across institutions, there are a very limited number of such institutions in Ireland and the net result of this proposed limit would be force CU's to invest outside the country. The effect of this, together with some of the other investment proposals, will be to force CU's to divest from Irish Banks. We recommend that this limit be set at 150% of Regulatory Reserves.
- 5.3.3 Investments for Category 2 CU's –The investment limit for bank bonds of 50% of Regulatory Reserves is too low. We would suggest 150%. The proposed investment limit of 100% of Regulatory Reserves in a single counterparty is too restrictive. We recommend that this limit be set at 150% of Regulatory Reserves. The investment limit for corporate bonds of 50% of Regulatory Reserves is too low. We would suggest 100%.
- The adverse effects of these proposed changes will be compounded by the full implementation of Basel III liquidity ratios. This is likely to result in the non availability of access accounts. Currently 9% or €2,004,550 of Youghal CU's investments are in access accounts. This change is likely to lead to a further reduction in Youghal CU's income.
- 5.7.2 Additional Governance Requirements for category 2 CU's –In general, we agree with the requirements but would question the note that states the risk management officer and compliance officer can have no other responsibilities within a CU. As these roles would not be full time, it will mean that these roles will have to be outsourced, at additional cost. It will also remove an opportunity for staff to progress within the CU.
- 5.7.2 Additional Governance Requirements for category 2 CU's –The nature of any external evaluation of the board of directors needs to be defined. This should be followed by a consultation process before any decision is made on implementation.
- 5.9.2 Operational Risk Reserve –We would question whether any further reserves are necessary. There should be consultation on the proposed detail, before being implemented.

6.3 (i) We agree that a provisioning framework should be developed for CU's as proposed in section 6.2. However, once the Central Bank has developed the proposed provisioning framework for all CU's, further consultation with CU's should take place before the implementation of any proposals.

7.2 (i) We agree that the tiered regulatory approach should be adopted.

7.2 (ii) We view that the 6 month time frame proposed for the transition to be far too tight. We would recommend 18 months.

We trust that above is helpful and we would request the above very serious concerns be taken into account when developing the second consultation paper. If you would like clarification of any of the above points, please do not hesitate to contact us. We look forward to receipt of the second consultation paper.

Yours faithfully,

Elaine Martin, Chair,

Youghal Credit Union.