

Registry of Credit Unions

Central Bank of Ireland

PO Box 559

Dame Street

Dublin 2

27th February 2015

Dear Registrar

Consultation on the Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act. Consultation Paper 88.

Chartered Accountants Ireland ('the Institute') is pleased to respond to the above consultation.

A working party comprising members in practice has considered the consultation paper. Between them they are involved in advisory and audit work for a large number of credit unions, both large and small.

We hope you find the attached comments useful and should you wish to discuss any of the views expressed, please feel free to contact me.

We look forward to involvement in any further consultations.

Yours sincerely

Anne Sykes

Manager, Technical Policy

Chartered Accountants Ireland



General comments

Tiered Approach – it is not clear from the consultation paper why the CBI revised this suggested approach and have now abandoned the tiered approach. We understand that it may have been rejected by a selection of credit unions of a certain size but we would question the feasibility of a one fits all approach. We feel a two tier approach would have been sensible particularly given the future of credit unions where a lot of mergers are anticipated.

A more tailored set of requirements varying on size, complexity and scale with respect to regulation and services would adequately address some of the objectives of the consultation paper.

(i) Do you have any comments on the draft reserves regulations? If you have suggestions please provide them along with the supporting rationale.

There needs to be a consistent approach and clear rules. It would seem that there has been some inconsistency between supervisors in the past and in the absence of clear requirements this could continue.

For example Section 7 refers to a “deficit in the annual accounts” but this is not defined in the draft regulations. Consideration needs to be given to the impact of property revaluations, past losses and the difference between realised/unrealised losses in the calculation of the deficit.

The initial reserve requirements in the draft proposals would seem to discourage setting up any new credit unions. There may be instances eg in large employers where there is a demand for a new credit union and no logic for extending the common bond of an existing credit union. A locality based credit union may be in a position to expand its common bond to include a new townland to meet a demand. Is the extension/expansion of an existing credit union considered preferable to setting up new credit unions?

(ii) Do you have any comments on the draft liquidity regulations? If you have suggestions please provide them along with the supporting rationale.

The draft regulations, as outlined in Section 6.2.2 of CP88, propose that Credit Unions must maintain a short term liquidity ratio of at least 10% of unattached savings. Short term liquidity is defined as cash and investments available within eight days. Given current and projected decreased investment returns this proposal will further reduce Credit Unions’ investment income and therefore possibly have a negative effect on going concern and strategic planning. An appropriate timeframe for any divestment will be needed to avoid an adverse impact on the financial stability of credit unions.

Is there a rationale for imposing this on all credit unions where it might be more appropriate for restrictions/regulations for specific credit unions with a history or other indicators of having liquidity issues?



(iii) Do you have any comments on the draft lending regulations? If you have suggestions please provide them along with the supporting rationale.

The definition of ‘House Loans’, as outlined in Section 7.2.1 of CP88, is ‘a loan made to a member secured by property for the purpose of enabling a member to improve or renovate their principal residence’. Section 7.2.1 states that credit unions must hold the first legal charge secured on the property for any house loans made following commencement of the regulations. Part 16 of the draft regulations states that where a credit union grants a house loan it shall ensure that the credit unions holds the first legal charge on the property, the draft regulations do not include any definition of a house loan. This need to be clarified in the final regulations.

Furthermore the reality is that a mortgage lender would normally have already been granted a first legal charge over the member’s principal residence when it was bought or constructed. Therefore the draft regulations seem to imply that small home improvement loans, a very popular form of lending within the Credit Union movement, are not allowed unless a first legal charge can be granted to the Credit Union. This would seem highly unrealistic and unreasonable in practice.

Where a member is mortgage free and a charge could be secured the additional legal costs that would be incurred in securing the charge would make many smaller “home” loans uneconomical. This requirement does not take account of the other risks associated with the potential loan, eg where the member has substantial savings in the credit union.

Is the intention in this section to target larger loans and require additional security in the form of a (first) charge on the property?

The draft regulations, as outlined in Section 7.2.5 of CP88, propose reduced requirements for loans to related parties of less than €2,000. It would seem more appropriate to reference this threshold to the amount at risk rather than a fixed amount, for example loans of €2,000 or more over the savings or shares held by the related party.

Commercial loans

The draft regulations impose the requirement for a business plan for commercial/business loans over €25,000. We support the requirement for a business plan for such loans.

Related parties

The requirement for prior approval by the board of all related party loans (and any variation to their terms) above €2,000 could result in a lot of committee/board time being expended on minor amounts. The board may receive a large number of reports relating to small loan amounts. This could be more workable if the limit was set higher than €2,000.

(iv) Do you have any comments on the draft investments regulations? If you have suggestions please provide them along with the supporting rationale.

We would appreciate clarification on whether there is a ban on all equity investments for CU’s?



We would be of the opinion that some of the larger credit unions would have the expertise (in-house or consultants) to manage their own investment portfolio.

There will need to be some flexibility on the transitional arrangements if credit unions are to be able to alter their investment portfolios without incurring losses.

The current concentration limits are causing some problems for credit unions who have a preference for investing in Irish securities.

The requirement to establish and maintain a written investment strategy for the credit union is in our view a good discipline for the board.

(v) Do you have any comments with the draft savings regulations? If you have suggestions please provide them along with the supporting rationale.

In the absence of a tiered approach the we consider that the global cap on savings of €100,000 might not be appropriate in all cases. The cap may be appropriate for smaller credit unions but in larger credit unions where the governance is deemed robust enough to permit mortgage lending for instance an appropriate cap would be capable of being monitored by the credit unions board.

Any proposed cap on savings should take account of any loans outstanding by the member and any loans to any related parties of the member where the savings are (part) security for the loans.

We feel that the proposed transitional arrangements are too short and may result in a large cash outflow for some credit unions in a short period. This could have a negative impact on going concern and also in the credit unions' strategic planning.

In addition there could be undue pressure on members to find alternate investments/open bank accounts. With demise of the branch network of the commercial banks and the closure of post offices this may be problematic in some areas.

(vi) Do you have any comments on the draft borrowing regulations? If you have suggestions please provide them along with the supporting rationale.

We have no comments on these proposals.

(vii) Do you have any comments on the draft regulations on systems, controls and reporting arrangements? If you have suggestions please provide them along with the supporting rationale.

We feel that this is an area that needs further discussion and consultation with the auditing profession and the credit unions. We are willing to contribute to any such discussions.

Under Financial Reporting Standard 102 (FRS 102) credit unions will be required to give a much broader breakdown of assets and liabilities. The regulations should take account of any additional disclosures that will be required under FRS 102.

Regulation 45. (1) A credit union shall disclose the following in its annual accounts:

It is unclear whether the “annual accounts” refers to the credit union annual report to members which includes the financial statements. If any/all of these matters are to be disclosed in the financial statements this will significantly impact on the auditors work. Some of these matters would not typically be included in financial statements and may be more appropriately included elsewhere in the report to members.

45. (1) (a) the regulatory reserve requirement, the credit union’s regulatory reserve expressed as a percentage of total assets, the additional reserves that the credit union holds in respect of operational risk expressed as a percentage of total assets, together with the credit union’s dividend and loan interest rebate policy;

It is unclear whether the policies referred to above are accounting policies or business policies. This should be clarified. If they are business policies they would be more appropriately included in the directors’ report as there is no framework for auditing and reporting on business policies.

The regulatory reserve requirement is a prudential requirement which should be reported by the credit union directly to the Regulator as part of their prudential reporting requirements. This should not be reported as part of the financial statements.

45 (1) (b) the performance of its loan book;

The draft regulations propose that a Credit Union should disclose in its annual accounts ‘the performance of its loan book’. This term is not defined in the regulations, nor are specifics provided in terms of what level of disclosure or commentary is considered sufficient and appropriate in this regard.

This is a judgemental area not governed by legislation, regulation or accounting standards which would therefore create considerable difficulties for auditors.

The auditor’s opinion relates to the true and fair view of the financial statements as a whole in the context of a reporting framework (UK/Irish GAAP). It is not clear how a report on the performance of a loan book would sit in this context. If such a report is included as part of the annual report to members, along with the audited financial statements, the auditor will review it for consistency with the financial statements in accordance with auditing standards.

The auditor’s responsibility in relation to the other information in the annual report outside of the financial statements is addressed in ISA (UK and Ireland) 720A The Auditor's Responsibilities Relating to Other Information in Documents containing Audited Financial Statements and in ISA (UK and Ireland) 700 The Independent Auditors Report on Financial Statements.

In our view a report by the directors on the performance of the loan book should not form part of the annual accounts but should be a regulatory report made directly to the regulator by the directors of the credit union but we would be happy to explore this matter further.





45 (1) (c) the total amount of loans outstanding to related parties and the loans to such persons as a percentage of the total loans outstanding;

Does this disclosure envisage using the accounting standard definition (currently FRS 8) or the definition in this consultation paper? If it is to use the CP88 definition it would be more appropriate for the disclosures to be included elsewhere in the annual report and ISA 720 will apply to auditors.

(viii) Do you have any suggestions on additions, amendments or deletions to the services and related conditions that are included in the draft regulations? If you have suggestions please provide them along with the supporting rationale. It should be noted that any further services proposed to be included in the regulations must not involve undue risk to members' savings, the financial stability of the credit union or the operational capability of the credit union.

We have no comments on these proposals.

(ix) Do you agree with the proposed timelines for the introduction of the draft regulations set out in this consultation paper, in particular the transition period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.

Our comments above include some references to areas where we feel that the proposed timetable could have a detrimental impact on the operations and profitability of some credit unions.

Divesting investments or returning savings to members could prove to have liquidity consequences which could cause going concern issue.

A careful impact analysis is needed before any implementation timetable is set.

Some regulations may be more appropriately set for periods starting after a selected date with due consideration for the time needed to make system changes.