

CP 88- Submission on behalf of Gorey Credit Union Ltd

Gorey Credit Union is pleased to have the opportunity to input into the consultation process on the proposed new regulations for credit unions.

We consider overall that the proposed regulations is seeking to give clearer guidance to credit unions but is too prescriptive in its approach and does not provide enough scope for on-going growth and development of credit unions. We consider that Central Bank is attempting to operate to the current lowest common denominator in addressing short-comings in some credit unions and fails to cater for the future development of the sector where mergers are increasing growth, albeit by default, and standards and expertise have improved significantly over the past few years. CUCORA '12 and Central Bank engagement through PRISM visits have been instrumental in establishing those standards to be achieved. The 'one size fits all' approach to regulation being proposed fails to recognise Registry's own work in this area and we believe a two-tier approach to regulation would be more appropriate. This would encourage credit unions to strive for excellence to achieve relaxation on imposed limits where standards and/or expertise are weak.

We hereby set out our responses to the views sought by Central Bank with regard to these proposals.

5.4 The Central Bank is seeking views on the following:

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

A- We are disappointed to note that risk-weighting of assets for credit unions continues to be ignored. The proposed regulation gives no cognisance to the varying sizes of credit unions or to expertise therein, nor does it recognise the limited asset types of credit unions. On average, 25%-30% of credit union loans are secured by shares thereby reducing the net risk. The majority of investments are now short term deposits in banks, posing minimal risk. Coincidentally these are the same institutions that cost taxpayers (our members) €64billion, and are permitted to risk weight. Until about 2008 statutory reserves were based on 10% of total savings plus any proposed dividend and with the stroke of the pen it changed to 10% of total assets. The effect on our credit union was that we went from a compliant 10.5% to a non-compliant 9.2%. Using a risk based approach (Basel II) we would go from a current 11% to 15% statutory reserve, excluding any additional reserves. We also believe a number of credit unions that may be marginally below the current reserve requirement would not appear as non-compliant as current figures would indicate.

We would propose that Statutory Reserves should be risk-based, thereby recognising stage growth in loan exposure, investment growth and future diversification, and local expertise. This would allow, and perhaps encourage, credit unions to grow and develop or otherwise, to take advantage of other's expertise in this area. We would further propose, for those credit unions that use this risk-based approach that a small buffer reserve be created to take account of the variance in current reserve levels this approach would create.

6.4 The Central Bank is seeking views on the following:

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

A- While we consider the general thrust of the regulation is appropriate, we believe the short term Liquidity requirement is unnecessary as it does not take account of Rule 31 of our Standard Rules for Credit Unions (Republic of Ireland) which we believe caters for appropriate control and management of short-term share demand.

Rule 31. Restrictions on withdrawal of shares and deposits

(1) Notwithstanding anything in these rules or in any contract, the credit union may require not less than sixty days' notice from a member of his intention to withdraw a share in the credit union and a member may not withdraw any shares at a time when a claim due on account of deposits is unsatisfied.

Therefore, we would propose the removal of the requirement for the short-term liquidity.

7.4 The Central Bank is seeking views on the following:

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

A- Again, we consider the general thrust of the regulation is appropriate, but we believe it is limiting itself to current general loan types and does not cater for any future exceptions. We would suggest that a further category be included and that any such anomalous loans might be limited to the higher standard of credit union and subject to prior Central Bank approval. This might promote credit union development to provide this loan type. Further, the concentration limits are based on statutory reserves and does not take into account other reserves credit unions may have. The limits proposed may be more appropriate to the smaller credit union and do not take account of the merger process currently underway in the movement. We consider this is micro management and limits should be linked to the growth of each credit union, allowing credit unions to manage and control its own loan book.

8.4 The Central Bank is seeking views on the following:

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

A- Credit unions, unlike banks, do not have the opportunity to create vehicles for investment products to generate income. We are victims of the current disastrous investment market returns and as such, there is little scope to obtain decent investment returns for our members. A little more leniency should be afforded with regard to collective investment schemes. We consider an additional percentage should be allowed over and above the direct investments as specified in 25 (a), (b) and (c) to provide more flexibility in investment products. The level of leniency should be linked to category of credit union.

9.4 The Central Bank is seeking views on the following:

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

A- With the small number of members identified by Central Bank that would be effected by the proposed regulation, we are surprised at the proposal to amend the current position. We consider the proposal as too restrictive. It is anti-competitive as our members are being forced to save with banks and the proposed liquidity requirements will assist in the protection of member savings in any event. We believe current limits are appropriate, as it allows for saving to increase along with the natural growth of the credit union while also taking account of mergers, amalgamations etc.

10.4 The Central Bank is seeking views on the following:

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

A- We consider the proposed regulation is appropriate to current market conditions and allows for controlled and managed development of credit unions.

11.4 The Central Bank is seeking views on the following:

(i) 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.

A- We concur with Central Banks' view on increasing transparency for members however, as previously outlined, we believe a risk-weighted approach to assets should be an option for credit unions therefore 45 (1) (a) should be amended to specify which approach is being used and the appropriate percentage attaching. Any additional 'buffer' reserve should also be specified.

12.3 The Central Bank is seeking views on the following:

(i) 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.

A- We note no reference is made to the provision of rail/bus tickets in exempt services, which may be an oversight. We would further propose that the supply of event tickets, such as concerts etc., be included as we perceive them to fall under the same categories as euro drafts or gift cheques in that this service can be provided on an agency basis.