Sarsfield Credit Union Ltd
Response to CP88

Overview
The Central Bank has been advocating the merging of credit unions to create a sector with a smaller number of units but with higher asset values per unit. Higher assets values will of necessity require a higher skill set than has been the norm in credit unions to date. Already the need for additional qualified professionals is becoming apparent in those CUs who have completed consolidations.

However, the implementation of CP88 will inhibit the advancement of professionalism in the sector by imposing micro regulation / management in the numerous restrictions it imposes e.g. the restrictions on savings, lending and investments which will impair the development of the sector, whether in its current shape or in the new shape that emerges after the current round of consolidations has been completed.

In our view, should CP88, in its current form, be implemented it will be a brake on the future development of the sector.

Reserves
Reserves for Operational Risks (whilst potentially necessary in some credit unions) should be introduced into the current regulatory reserve requirement and any change should be introduced on a long term transitional basis.

Liquidity
We believe that the current required level of liquidity is satisfactory and has worked well to date.
The impact of having 10% of unattached shares available within 8 days is a major inhibitor to the long term viability of the sector as well as being an increased administrative burden on the CU staff.
Since the funds would have to be placed in a financial institution the CU sector would in effect be providing cheap funds to competitors in the lending market.
At present should CUs place liquid funds in A rated Financial Institutions for short periods they will do so at a discount which would reduce the capital value of members' share.
With Quantitative Easing introduced by the ECB there will be an abundance of liquidity in the market place; reducing further the return on short term funds.
Government Bonds are currently excluded from the calculation of liquidity rates; the Government ensures that there is a market at all times for these bonds and therefore, since liquidity restrictions are in fact an attempt to ensure that there is enough liquidity in case of an emergency, we should be allowed to use whatever funds are available in times of an emergency. Bonds could be discounted to 75%, say, in order to recognise any decrease in the value in such an emergency.
In order to monitor the proposed liquidity rate staff would effectively have to spend an in ordinate amount of time to ensure continued compliance; thus costs would come under additional pressure.
The Central bank always has the right to introduce additional liquidity requirement on a case by case basis should they so desire.

Lending
With returns on investments likely to remain low for the foreseeable future there will follow a strong need for an increase in lending. This will necessitate CUs looking at all areas of the market and; the proposal to place additional restrictions on them will inhibit the development and viability of the sector.
We believe that there should be flexibility built in to requirements; even if such flexibility should be with the approval of the Central Bank.
Community loans should include loans to housing agencies or individuals for social housing.

Limits to the SME sector should be at a rate of 200% of Regulatory Reserve for large CUs and a relative reduction of these limits for smaller CUs
The restrictions on lending terms and type on one asset and the investment restriction on the other will lead to significantly increased income pressure in the sector.
We do not believe that is the Central Banks intention.

Investments
With the prevailing low interest environment CU income is under pressure and placing further restrictions on these investments will inhibit their long term growth and viability.
We believe that the 25% counterparty limit should be increased to, say, 33%; this recognises the reduced number of institutions in which CUs can place deposits/bonds.
The ability to invest in equities of large capitalized EFTs should be retained; again we would see that the ability to do so should be conditional on the individual CUs having the necessary expertise to so invest.

Savings
Restricting members to a saving limit of €100,000 sends the wrong signal to the community at large that the CU sector is not up to standard for a financial institution; again contrary to the image of that the Central Bank is portraying by encouraging consolidations.
We believe that the current levels should prevail.

Borrowing
Whilst we have not borrowed in the past we believe that CUs should have the flexibility to borrow over the 25% level subject to prior Central Bank approval.

Disclosure in the Annual Accounts
We believe that the extra disclosure requirements will not benefit anyone. Providing such detailed information will increase the cost of the AGM without any benefit. The information is provided as part of the Annual Returns and as such those who can use it are already provided with it.
We suggest that the statistics should be available on request at the Credit Union's office.