Submission from

C.U.M.A.

The Credit Union Managers Association

In Response To

The Joint Consultation on
Funding the Cost of Financial Regulation

25th September 2015

The Credit Union Managers Association (CUMA) is the professional representative association for managers of credit unions in Ireland. CUMA provides professional development training and assistance to its members and engages with a wide range of stakeholders and industry bodies in its pursuit of excellence in professional standards in credit union management.

CUMA welcomes the opportunity to provide feedback in response to Consultation Paper (CP95) and offer feedback on the move from the current approach of partial industry funding of financial regulation towards full industry funding.

The recent financial crisis, from which Ireland is still recovering, underlines the huge economic cost that comes with recessions associated with severe financial crises. Costs over five years have risen from a lower base of €60.2m in 2009 to €139m in 2014, in order to fulfil the mandate of protecting consumers and safeguarding stability. The costs relate to the direct supervision team, supervisory specialists, policy, risk & enforcement, and ancillary/support services.

CP 95 points out that, in Ireland, the general approach adopted by regulators in other sectors is that industry fully funds the cost of regulation (e.g. the Commission for Energy Regulation, the Commission for Communication Regulation). Moreover, the dominant position internationally is that industry funds the cost of financial regulation and this is elaborated in the international comparison section of the consultation paper.

Full funding of financial regulation by industry would, however, eliminate the need for the Central Bank to provide an annual subvention. This would increase the reserves retained by the Central Bank which in turn would have a positive impact on Exchequer funds; amounting to around €67 million in 2015 alone.

Having reviewed CP 95, it is clear that much of the content does not directly apply to credit unions.

CP 95 clearly indicates that the Central Bank intends to progress the policy contained in CP 61 in 2013 and the subsequent Feedback Statement i.e. to phase in 50% of the cost of regulating credit unions over a period of 5 years commencing in 2016. The current amount payable by credit unions is capped at 0.01% of their total assets and CUMA believes this should be retained.

CP 95 specifically states:

> *"The balance of regulatory costs for this sector has been funded by the Central Bank in accordance with the provisions of the Central Bank Act, 1942 (as amended). The Central Bank previously publicly outlined the intention to phase in the move to a 50% funding of the cost of regulating credit unions over a period of 5 years, commencing in 2016 by gradually increasing the cap upwards from .01% in the Feedback Statement on Consultation Process for CP61 in 2013".*

This timing was in the context of restructuring and changes to the regulatory framework underway in the sector. In particular in relation to restructuring, 1 January 2016 is the date by which the Minister for Finance, after consultation with the Credit Union Restructuring Board (ReBo) and other persons he considers appropriate, shall have determined whether ReBo has completed the performance of its functions."

CUMA argues that all reference to credit unions should be removed from this document. The original timing for fee review was in the context of restructuring. Through no fault of credit unions or indeed ReBo, restructuring was delayed and held up for at least 12 months. Furthermore the restructuring process is by no means complete and ReBo are seeking an extension to their term by at least 12 months. ReBo has not completed the performance of its functions. On that basis it would be disingenuous for the Department of Finance and/or the Central Bank to pre-empt what post restructuring will look like and therefore any discussions on changing the fees structure is far too pre-mature to apply to credit unions, as per Appendix 16 (f).

Therefore, CUMA supports the recommendation in Appendix 16 (f), that the impact of the emerging shape of the credit union sector post-restructuring be taken into account in determining the detail of the approach to the changes required to funding the costs of regulation.

CUMA notes there are other elements of restructuring that have not been commenced, including the operation of state-stabilisation, which is being resisted by the Central Bank.

CUMA are happy to expand on any matters raised in our response if required, at a later date.

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