

Central Bank of Ireland's Consultation on the Introduction of a
Tiered Regulatory Approach for Credit Unions: Consultation
Paper CP 76

Athboy Credit Union Ltd – Submission
March 2014

Q1. Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with the supporting rationale.

Athboy credit union agrees with a tiered regulatory approach but not on the basis suggested in the CP76 consultation paper. The measures set down are penal and our board is highly concerned in relation to the impact that may have our future and our ability to grow in the future.

The three tiered approach put forward by the commission in 2012 seems a fairer and more balanced standard and we believe that the RCU to defer to this method.

Q2. Do you agree with the proposals for the operation of the two category approach for credit unions set out in sections 5.1-5.11? If you have other suggestions, please provide them along with the supporting rationale. It should be noted that tiering is possible where regulation powers are available to the Central Bank. Where requirements are set out in the 1997 Act they apply to all credit unions and cannot be tiered.

Note: 5.11-5.11 essentially documents the proposals for each Category – please refer to Table 1 and 2 in the Appendices.

As outlined above we do not agree with a two tiered regulatory approach. Our investment advisors have assisted us with completing an impact analysis on our investments which is attached and the significant negative consequences run contrary to our strategic plan. We therefore do not support the position as outlined.

ACU has had a 3 month investment restriction imposed for the last number of years and have relied upon our investment in a collective investment scheme during that time in order to meet liquidity while earning some investment return. We don't understand the basis for removal of this type of investment and we also disagree with the reference to regulatory reserves for investments and lending

While the impact on lending will not currently have an impact on ACU it limits future growth in areas such as larger personal loans and mortgage lending.

Q3. Are there any areas where credit unions could provide new additional services to their members? Should these be available to Category 1 and Category 2 credit unions

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or only Category 2 credit unions? If you have suggestions please provide them along with the supporting rationale and the associated additional requirements.

Note: Both Category 1 and 2 will be able to provide the additional services currently available under the Exemption from Additional Service Requirements Regulations which include:

- Account access by phone
- Account access by internet
- Third party payments (including EFT)
- ATM services
- Bureau de change
- Certain insurance services on an agency basis
- Group health insurance
- Bill payment
- Money transfers
- Standing orders
- Direct debits
- Financial counselling and
- PRSAs on an introduction basis.
- Some credit unions have been approved under Section 48 of the 1997 Act to provide other services including mortgages on a tied agency basis and some additional insurance services on a referral basis.

Additional Services	Category 1?	Category 2?	Comment
<p>Insert Response</p> <p>The Board are satisfied that ACU will not have an immediate requirement to go outside of the services listed above.</p>			

Q4. Do you agree that a provisioning framework should be developed for credit union as proposed in Section 6.2? If you have additional proposals please provide them along with the supporting rationale.

ACU agrees with the proposed framework as outlined. We have no further submission to make in regard to this.

Q5. Do you agree that the tiered regulatory approach should be introduced at this time? If you consider that alternative timing is more appropriate, please provide suggestions, along with the supporting rationale.

ACU does not believe that this is the right time to introduce changes of this scale. ACU and other credit unions are struggling to implement the extensive governance and fitness and probity measures imposed in recent years and further change is unnecessary and excessive at this time.

Q6. If it is considered that the tiered regulatory approach should be introduced at this time, do you agree with the proposed timelines for the introduction of the tiered regulatory approach set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.

31 March 2014	Consultation closes
March / April 2014	Review feedback received
May 2014	Issue feedback statement Issue second consultation paper, including Regulatory Impact Analysis, on the details of the tiered regulatory approach including regulations to implement the tiered regulatory approach.
July 2014	Second consultation closes
August / September 2014	Review feedback statement Publish regulations and updated Credit Union Handbook Conduct Information Seminars
October 2014 – March 2015	Transitional period including applications to become Category 2
April 2015	Regulations come into force

See 5 above. The timing is not right so we have no comment to make in relation to the transitional arrangements. ACU feels that any proposed changes should be postponed for at least 2 years while the current governance regime is allowed to take effect. We will also welcome the commercial analysis of the proposals which is being conducted by the RCU as part of the next phase of the consultation.

Appendix 1: Impact of CP76 on the Investment Portfolio

	Description	Current Allocation	% Portfolio
Investments which are not authorised under proposals	Collective Investment Schemes (not authorised)	€3,392,890	23%
	Structured investments (bank bonds)	€600,000	4%
	Total	€3.9m would need to be allocated to alternative investments/classes	7%
Breaches of proposed counterparty limit of 100% regulatory reserves (€2.6m which is c.17.7% of the investment portfolio)	AIB	344,826	113%
	BOI	794,831	130%
	PTSB	797,687	130%
	Rabobank	137,632	105%
	Total	€2m will need to be allocated to alternative counterparties	14% of investment portfolio
<i>The above figure of €2m is likely to be higher due to the requirement to invest funds from the CTT with direct counterparties</i>			
	% Portfolio	Proposed Limit	OK/Breach?
Maturity Limit: no more than 50% of the portfolio may mature after 3 years	1.14%	50%	OK
	% Unattached Shares	Proposed Limit	OK/Breach?
Proposed short term liquidity constraints	43%	10%	OK
	43%	15%	OK

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Appendix 2: Impact of CP76 on the Lending Limits

Total Assets		20,079,648							
Regulatory Reserves		2,657,457	13.23%						
Loans to Members		5,252,261							

Maturity Limits	Existing limits under Section 35 (2) of the 1997 continue to apply. Longer term limits will apply to Category 2.	Term	Category 1		Category 2	
			% Loan Book	€ limit	% Loan Book	€ limit
			More than 5 years	30%	€1,575,678	40%
More than 10 years	10%	€525,226	15%	€787,839		

Classes of Lending and Concentration Limits	Classes of Lending	Definition	Maximum Loan Term	Category 1			Category 2		
				Permitted?	Proposed Limit	€ limit of total loans	Permitted?	Proposed Limit	€ limit of total loans
				Personal Loan	A loan provided to an individual for personal, family or household use, once that use is for purposes unrelated to the person's trade, business or profession	15 years	Yes		
Commercial Loan	A loan, the primary objective of which is to fund an activity whose purpose to make a profit	15 years	Yes	25%	€664,364	Yes	100%	€2,657,457	
Community Loan	A loan provided to a community or voluntary organisation which is established for the express purpose of further the social, economic or environmental well-being of individuals.	15 years	Yes	25%	€664,364	Yes	25%	€664,364	
Lending to other credit unions		15 years	Yes	12.50%	€332,182	Yes	12.50%	€332,182	
Home Loans	A home loan made to a member to purchase their principle private residence where the credit unions holds the first legal charge on the property & the amt of the loan does not exceed 80% of the value of the property when the loan is made.	25 years	No	n/a	n/a	Yes	15.00%	€787,839	

Restricted Person's Limits	Definition	Category 1 and 2		
		Limit is the greater of ...	Limit of Aggregate lending to RP's	
			5% Regulatory Reserves	Limit
A restricted person is i) a member of the board of directors or the management team of a credit union ii) a member of the family of a member of the board of directors or the management team of a credit union or iii) a business in which a member of the board of directors or the management team of a credit union has a significant shareholding	€200,000	€132,873	€200,000	

Large Exposure Limits	Definition	Category 1 and 2			
		Large exposure is one which exceeds:	Total large exposures can be up to 500% Regulatory Reserves	Limit of exposure to a borrower or a group of connected borrowers	
				Limit	Limit
A large exposure is an exposure (including contingent liabilities) that exceeds 5% of a credit union's Regulatory Reserves	€132,873	€13,287,285	€39,000	€265,746	€265,746
			Currently, limit is the greater of 1.5% total assets	Current Limit	
			€39,000	€301,195	€301,195