



BAILIEBOROUGH CREDIT UNION

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Ms Sharon Donnery
Registrar of Credit Unions
PO Box 559
Dame Street
Dublin 2

28th March 2014.

Re: Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions ('CP76').

Dear Ms Donnery,

The consultation paper as issued from your office in December 2013 refers. Before outlining our position in relation to the specific proposals set out in your document, I would like to state that Bailieborough Credit Union ('BCU') welcomes the proposed introduction of a tiered regulatory approach by the Central Bank in its supervision of Credit Unions. It has always been the view of our Board that the level of prudential supervision which the Bank imposes on Credit Unions should be relative to the nature, scale and complexity of the entity. This was one of the areas in which the Board of BCU agreed with the recommendations as proposed by the Commission on Credit Unions ('commission'). However, having reviewed the content of CP76, the Board has grave reservations as to the potential impact your proposals will have on both the Credit Union movement and specifically our entity. The proposals do not mitigate risk but curtail returns.

In particular, your proposal to use asset size as the determining factor for the types of products and services which Credit Unions will in future be able to provide to their members is of concern and not an element of the commission's report which this Credit Union would have been in agreement with. Tiered regulation in our opinion should stipulate the level of prudential supervision which the Bank proposes to commit Credit Unions to. The level of services which Credit Unions provide, should fall outside this generalized approach and be based on the capabilities, governance standards and quality of resources available to each Credit Union.

For the purpose of absolute clarity, I shall address more specific issues in the order in which they were presented in CP76.

Lending

Restricted Persons: The Board believes that the imposition of such regulation will be derisory to existing Directors in that it will be unfairly prejudicial to their family members. This will also impact on the ability of Credit Unions to attract new volunteers. The definition of family member is unwarranted and inconsistent with the purpose of the definition of family member in Section 2(1) of the 1997 Act, which related to operational relationships. The Board would be keen to hear from the Bank as to how it proposes we monitor restricted borrowers, given the fact that it is not always apparent where relationships exist. This Board complies with best practice in relation to conflicts of interest, however under your proposal, unless each loan is submitted to the full Board of Directors and Officers for approval, existing relationships may be hard to determine. Furthermore, we are interested in knowing how the Bank proposes we reject applications from restricted individuals where the limits have been met, and will advising a member of such grounds for rejection cause a data protection issue? Finally, as a matter of principle, your proposal goes against the nature of mutuality in which Credit Unions were established, where each member is of equal standing and has equal rights and obligations.

Commercial & Community Lending: The board is concerned with your proposals in relation to Commercial and Community Lending. Whilst we welcome your acknowledgement that Credit Unions should support local communities and businesses, the proposal lacks clarity in what you define Commercial Lending & Community Lending.

Lending Limits linked to Regulatory Reserves: The Board wishes in the strongest terms to make clear our objection to the linking of lending limits to regulatory reserves. Regulatory reserves are and should be set by Credit Unions relative to the risk profile of the entity and therefore reserve levels should inter alia be relative to lending and not the other way around. Our Board recommends that lending limits should be linked to total assets rather than regulatory reserves.

Maturity Limits: The Board welcomes the amendment of Section 35 limits for Category 2 Credit Unions, however the thresholds which determine when a Credit Union is eligible to be considered Category 2 are too restrictive and ask that the commission's proposed three tiered system be reconsidered. In reducing the proposed tiers from three to two, the Commission's recommendations have been either inadvertently or blatantly ignored, and will not serve small or medium sized Credit Unions well.

Investments

The Board wishes to make clear its objection to all proposals relating to Investments. It is the Board's opinion that to enforce such limits on Credit Unions will have such an impact as to make many Credit Unions unviable. We would remind the Bank of its core objective as the competent authority for the supervision of Credit Unions, to ensure the financial stability of Credit Unions for the protection of

consumers and the financial system. Imposing such debilitating restrictions on what instruments Category 1 Credit Unions can invest in will not serve to make Credit Unions more robust or shareholders savings any more secure. In such absence, we question the purpose and value of this inclusion in your proposals. Imposing requirements on Credit Unions to increase counterparties is inconsistent with the current market in which Credit Unions operate. Due to the limited options available it is clear that Credit Unions will need to invest in Irish and EEA state securities. Your proposal would require Credit Unions to invest with approximately eight counterparties as opposed to the current four. This is an extremely difficult challenge at a time of major consolidation in the Irish banking market. As a result of this consolidation, we strongly recommend increasing the counterparty limits rather than decreasing such limits.

As mentioned earlier, our Board recommends linking investment limits to total assets or total investments rather than as a percentage of Regulatory Reserves. From the perspective of effective portfolio management, it is unusual to introduce limits which are unrelated to an investment as the measure of a firm's investment capability. The Regulatory Reserve figure is a very separate unrelated aspect of the business to the investment portfolio, and therefore by introducing it as a measure to limit counterparty risk, it presents complications in terms of management

Savings

It is the view of the Board that imposing a maximum limit of €100,000 that members can hold in Credit Unions will undermine the confidence of our members, existing and new. BCU currently has a voluntary limit of €100,000, and it is our understanding that many other Credit Unions also have limits in place, as a mechanism for good balance sheet management. To restrict members from placing saving above €100,000 by way of legislation could be viewed as ensuring members do not exceed the deposit guarantee limits which could be construed by consumers as an indication of instability. Since it would appear you are aiming to address a non-existent issue in this proposal, the Board recommends that this be removed and that individual Credit Union's savings limits be set by the Bank individually as part of ongoing regulatory engagement.

Provisioning

The Board is in broad agreement with your proposals in relation to provisioning and welcomes the adoption of a consistent provision framework. We would however be keen to see greater clarity as to your proposals in this area prior to making further comment.

The above raised issues are based on the current information which the Board has access to. We note under your consultation protocol issued by your office in October 2012 that you will be providing a Regulatory Impact Analysis (RIA) as part of this consultation. In the absence of the information contained in this RIA we are unable to submit further responses and we earnestly await the circulation of this analysis.

Outside of the aforementioned issues, the Board has particular concern over the proposed timeframe at which you intend implementing your suggested approach. Credit Unions are actively engaged in risk mitigation programmes with the Bank. Introducing a protocol of tiered regulation in

the timeframe as suggested in your paper will only serve as a distraction to the work in which Credit Unions are currently undertaking and may prove counter-productive. This Board recommends that any tiered regulatory approach be phased in from 2016, rather than 2015 as suggested.

In conclusion, based on the information provided to date, whilst there is merit in some of your proposals, it is the view of the Board that the general thrust of these set of proposals are over-restrictive, inappropriate and indeed imbalanced.

Sincerely

On behalf of the Board of Directors

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**C Traynor
Chairperson**