Consultation Paper No CP 76 refers

Section 5.3.1 refers

Banagher Credit Union has the following concerns in relation to investment proposals:-

a) **A more limited subset of authorised investment classes:** Category 1 credit unions are limited to bank deposits and government bonds, while Category 2 credit unions are limited to bank deposits, government bonds, bank / corporate bonds.

b) **Counterparty limit is based on 100% of regulatory reserves:** This is likely to reduce counterparty limits as a percentage of the portfolio to c. 17% of the investment portfolio.

c) **The introduction of short term liquidity constraints:** At least 10% of unattached savings must be available in up to seven days and up to 15% of unattached savings must be available within one month. These constraints, in addition to the proposed exclusion of collective investment schemes as an investment alternative, are likely to exacerbate the negative impact of Basel III liquidity ratios on credit unions.

d) **Maximum maturity limits are scaled back:** Investments can have a maximum maturity of five years (Category 1) and seven to ten years (Category 2) depending on the asset class.

Consultation Paper No. CP 76 refers

Banagher Credit Union welcomes the Consultation Paper for above and wishes to make the following observations:-

It appears to the directors of Banagher Credit Union that there is a mis-match between the findings of the Commission on Credit Unions Report and the Central Bank's interpretation of same. In general, and notwithstanding the Central Bank's regulatory remit, it was anticipated that smaller credit unions with simpler business models would be subject to simpler regulation The Commission envisaged that the majority of credit unions would be in the lower tier and they should expect the current "status quo" level of regulation, not additional levels of regulation. This is clearly not the outcome of the Consultation Paper.

Directors are baffled by suffocating supervision at a time when revenue is decreasing, costs rising and the proposals will directly affect the service to members, dividends and interest rebates. The proposals are also an attempt to restrict the supply of future volunteers and with all this increased regulation and standards it will become extraordinarily difficult to attract volunteers.

Directors wish to emphasise their appreciation of Central Bank's function to regulate the financial services sector but after careful consideration of the proposals set out in the Consultation Paper do not see that many of the proposals are the right fit at this time. Specifically of concern are:-

1. **<u>Small Credit Unions</u>**:
   Credit unions are already very tightly regulated and the Commission agreed that most credit unions would be in the lower tier and as such they could expect the current "status quo" level of regulation, - not additional and inappropriate levels of regulation.

2. **<u>Tiering:</u>**
   There is minimal emphasis on tiering Credit Unions in this proposal. There is minimal incentive to move to category 2 for example as this would force them to have dedicated Internal Audit, Risk and Compliance functions and board reviews without the advantage of being allowed offer much in the line of additional services

3. **<u>Related Persons</u>:**
   The proposals under this topic are not workable and are discriminatory

4. **<u>Large Exposures: (5.2.5)</u>**
   The limits in relation to large exposures seem inappropriate and would amount to lax regulatory policy.

5. **<u>Lending Practices and policies:</u>**
   a. No category of lending should be related to regulatory reserves (5.2.2)

   b. The "Credible Business Plans" requirement for small traders is unworkable. The real problem here is that the definition of commercial loans.

6. **<u>Investments:</u>**
   The limits in the existing guidelines are adequate. Any proposed limits should be related to the investment portfolio and not to the regulatory reserve. Class five of the 2006 Regulations, Collective Investments scheme (CTMF) should be permitted.

7. **<u>Investment Counterparties</u>**
   The Proposals will increase investment counterparties unnecessarily. Linking the amount held in any counterparty to Regulatory Reserves will force credit unions to hold investments with six or more counterparties as opposed to the current number of four. CU's will also be forced to invest funds outside of Ireland which is totally counter-intuitive and inappropriate for a community owned financial co-operative and will also have a potentially negative impact on their investment return

8. **<u>Bank Bonds</u>**
   Bank Bonds should not be restricted to Senior Bonds. – Unnecessarily restrictive.

9. **<u>Investment Duration</u>**
   Any reduction in the allowed investment durations is unduly restrictive – Terms are already quite restrictive.

   Category 1 CU's should not be restricted to 5 year terms - should have option of 10 year terms.

10. **<u>Limits on Savings</u>**
    The €100K maximum is hugely restrictive for Credit Unions and their loyal members. The scale of change involved from current legislation is unprecedented. For example currently a CU of say €100M assets can allow a member to save up to €1M but this proposal will reduce this amount by 90% to €100K. This is unacceptable and anti-competitive in that it limits the ability of Credit Unions to service the needs of its members, - an example of which is the investment of life-savings or redundancy payments etc

11. **<u>Limits on Deposits</u>**
    We cannot understand the rationale for this proposal. It seems counter-intuitive in that CU deposits could be used as a tool in terms of asset liability management and therefore limits CU deposits.

12. **<u>Borrowing</u>**
    No comments

13. **<u>Additional Services</u>**
    CU's should be allowed provide Current Account with overdraft facilities and Debit Card and such associated facilities. In general CU's should expect that as new financial products become available they should not in any way be restricted by any proposals put in place under Section 6.

14. **<u>Governance</u>**
    The requirement to have dedicated in-house resources is excessive and costly. We disagree in principle that an "external evaluation" is necessary considering the multiple and overlapping oversight functions which already operate such as Board Oversight, Nominating Committee, Chair of the Board etc.

15. **Fitness and Probity**
    No further comments

16. **Operational Risk Reserve**
    We disagree with this proposal in principle because Credit Unions are already clearly very adequately reserved.

17. **Liquidity**
    Current guidelines are more than sufficient and requiring CU's to hold higher percentages of their assets in short-term liquid form will further limit every CU's ability to return operating surpluses and therefore threaten their viability.

18. **Provisioning (Section 6)**
    Any new model of provisioning should be drafted by the CU sector in partnership with Central Bank and should be designed in line with best International practice and methodology.

19. **Timelines**
    We suggest that because of the amount of change that CU's have had to deal with over the last year we recommend that no further regulatory changes be considered until the current changes have been successfully implemented.

20. **Regulatory Impact Analysis**
    In advance of any changes in regulatory approach a full RIA should be carried out as per best practice. Any other approach risks damaging Credit Unions.

Summary.

The directors of Banagher Credit Union have examined the proposals in CP 76 and have also consulted with other credit unions in Chapter 15. The directors appreciate the expertise and dedication in formulating the proposals. However their considered opinion is that many of the proposals contained in this consultation paper are not appropriate at this time and can only impact negatively on Credit Unions in our region.

We therefore ask the CB as our statutorily appointed Regulator to look again at these proposals.