

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

Buncrana Credit Union Ltd – Submission
25/3/2014

Submissions should be made in writing, preferably electronically as a word document or a pdf document on email by 31st March 2014. The Central Bank intends to make all submissions available on the Central Bank website. Submissions should be marked "Introduction of a Tiered Regulatory Approach for Credit Unions" and emailed to rcuconsultation@centralbank.ie or Registry of Credit Unions, Central Bank of Ireland, PO Box 559, Dame Street, Dublin 2.

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.

No. We agree that there should be a tiered approach, as proposed by the Commission on Credit Unions; but not the model proposed by the Central Bank. A realistic and detailed justification (supported by evidence) for a departure from the three tier model recommended by the Commission has not been set out in the Consultation Paper. The Central Bank's proposals are not "proportionate to the nature, scale and complexity of business undertaken".

Furthermore, logic and experience would demonstrate that asset size should not be the primary factor upon which credit unions are categorised; rather, categorisation should be "risk-based" - as assessed by the credit union itself, validated by the credit union's external auditor and approved by the Central Bank, as appropriate. As stated in paragraph 4.3 of the Consultation Paper, it is appropriate that smaller credit unions "have the flexibility to choose" to operate a model of governance and prudence suited to their own credit union and its members. The Central Bank should avoid being so prescriptive in regulation and supervision.

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.

No - for the reasons stated above, inter alia.

The Central Bank also proposes reductions in scope for Category 1 credit unions in the areas of Lending, Investments, Savings and Borrowings, with increased requirements in the areas of Governance, Liquidity, Reserves and Services – again without a realistic and detailed justification which is supported by evidence. These proposals are like the “parson’s egg” - good and bad in parts! The overall impression is one of proposals simply being plucked out of the air, with no rationale or any calculation of the potential impact on the credit union sector. For example, if certain asset classes are deemed unsuitable for credit union investment, why does the Central Bank currently permit many credit unions to invest in these assets? In addition to this, if such assets are suitable for investment by credit union Pension Funds, how can they possibly be unsuitable for investment by credit unions? How can Collective Investment Schemes be unsuitable for any category of Credit Unions – given the nature, purpose and professional management of such schemes?

Furthermore, the Central Bank’s proposals on Lending, in particular the Restricted Person Limits, are both prescriptive and illogical. The “aggregate” of such lending limits would force credit unions to refuse prudent loans to good members because they are related to a credit union officer! Once again, that was not a recommendation made by the Commission, and is yet another example of inappropriate, restrictive, interference in the operations of credit unions. Lending is the core business of credit unions and the existing rules are more than adequate to regulate this area of operations.

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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 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
Credit Unions should be permitted to provide all of the above other services, as and when required by their members.	Yes	Yes	The provision of other services should be subject to the individual credit union's ability to satisfy the Central Bank that it has the competence and capability to provide the service.

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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.

Aspect	Agree?	Comment
Credit unions will continue to be required to undertake a review of their loan books on a quarterly basis to assess and make the provisions for loan losses	Yes.	
Credit unions will be required to undertake the following steps in assessing their loan books for losses and determining the appropriate provisions: -collective assessment of the loan book -individual assessment of significant exposures -incurred but not reported exposures	Yes.	
Loan loss provisions of each credit union must take account of the factors specific to that credit union.	Yes.	
The Central Bank will set out guidance in relation to the above. The Central Bank may set a requirement for credit unions to provide in full for a loan that has been delinquent for a specified period.	Yes, subject to comment..	This is too vague and, again, evidences the intent of the Central Bank to interfere unduly in credit union operations
Credit unions will continue to be required to set provisions aside for rescheduled loans.	Yes	
All credit unions will be required to have a provisioning policy	Yes	

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.

No. At a time of such great change in the credit union sector, it is astonishing that the Central Bank proposes to introduce yet more prescriptive, restrictive and disproportionate regulation, when the requirements of the 2012 legislation are still being integrated in credit union governance and operational structures.

Given the significant changes occurring within credit unions, further proposals should be deferred for several years, to enable the change process to become embedded in credit unions, and to enable the Central Bank - and key stakeholders - to assess if further regulatory measures are required in a much-changed landscape. Governance is already complex enough, without adding further regulation at this time.

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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

No – refer to comments under Q5 above.