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Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions

Consultation Paper CP 76

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Section 1: Introduction

Credit unions have been present in Ireland for over 50 years providing lending and savings products and related services to their members. Under the Credit Union Act, 1997 ("the 1997 Act") the objects of credit unions include[1]:

- the promotion of thrift among members by the accumulation of savings;
- the creation of sources of credit for the mutual benefit of members at a fair and reasonable rate of interest; and
- the use and control of members' savings for their mutual benefit.

Credit unions may also provide certain additional services[2] that are of benefit to their members.

The credit union model in Ireland is primarily based around the core services of lending and savings. Credit unions can also provide a number of ancillary related services to members including third party payments (incorporating electronic funds transfer "EFT"), standing orders, direct debits, bill payment, budget accounts, ATM services and certain insurance services on an agency basis.

Credit unions have developed and grown in number over the past 50 years and there are currently 392 credit unions ranging in size from €1.01m to €324.4m[3]. The report of the Commission on Credit Unions[4] noted this wide range in asset size and recommended that a tiered regulatory approach be adopted[5]. Under the tiered regulatory approach, credit unions that wish to operate a limited business model would be subject to a simpler regulatory regime and those that are capable of and wish to offer a more sophisticated business model would be subject to a more sophisticated regulatory regime[6] proportionate to the nature, scale and complexity of the credit union[7].

On 11 October 2013 the 1997 Act was amended to provide that the Central Bank of Ireland ("the Central Bank") can make regulations for a specified category or categories

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1 Section 6(2) (a) to (g) of the 1997 Act – objects of a credit union.
2 S.I. 223 of 2004 Credit Union Act 1997 (Exemption From Additional Services Requirements) Regulations 2004; S.I. 107 of 2007 Credit Union Act 1997 (Exemption from Additional Services Requirements) Regulations 2007.
3 Asset sizes as reported by credit unions in the September 2013 Prudential Return.
4 http://www.finance.gov.ie/documents/publications/reports/2012/Creditunioncomm.pdf
5 Section 7.6.1 of the Commission on Credit Unions' Report March 2012.
6 Section 3.9 and 3.10 of the Executive Summary of the Commission on Credit Unions' Report March 2012.
7 Section 10.2.4 of the Commission on Credit Unions' Report March 2012.

of credit unions[8], allowing for the introduction of a tiered regulatory approach for the credit union sector in areas where the Central Bank has regulation making powers. To facilitate the introduction of the tiered regulatory approach, the 1997 Act will be further amended once provisions in the Credit Union and Co-Operation with Overseas Regulators Act 2012 ("the 2012 Act") are commenced to provide the Central Bank with regulation making powers in a number of areas (including lending, investments, savings, borrowings, additional services, liquidity and reserves).

The introduction of the strengthened regulatory framework for credit unions began in the second half of 2013. Once this strengthened regulatory framework has been embedded in credit unions, the introduction of a tiered regulatory approach will facilitate the prudent development of the sector within an appropriate regulatory framework. The timing of the introduction of the tiered regulatory approach will need to be considered in light of the significant changes required in credit unions to implement the strengthened regulatory framework and the voluntary restructuring of the sector that is currently underway.

The purpose of this initial consultation paper is to seek views from credit unions and other sector stakeholders on:

- the proposed approach to tiering;
- the high level operation of the tiers, including the activities and services proposed for credit unions in each tier; and
- the appropriate timing for the introduction of a tiered regulatory approach for credit unions.

A further consultation paper, including a Regulatory Impact Analysis, will be issued on the draft regulations that will give effect to the tiered regulatory approach. This consultation will take place following consideration of the submissions received on the initial consultation and further development of the activities and services to be undertaken by each tier.

The consultation paper is structured as follows:

- section 2 looks at the background to the development of the tiered regulatory approach;
- section 3 sets out the purpose of the consultation;

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[8] Section 84A(3)(b) and section 182A(2) of the 1997 Act.

- section 4 provides an overview of the proposed tiered regulatory approach including how it will operate on an on-going basis;
- section 5 sets out details of the proposed activities and services that can be undertaken by credit unions in each tier, including the types of lending and investments;
- section 6 looks at provisioning and provides proposals on the development of a provisioning framework for credit unions;
- section 7 sets out the options regarding the timelines for the introduction of the tiered regulatory approach for credit unions, including timelines for consultation and transitional periods;
- section 8 summarises the areas where the Central Bank is seeking views; and
- section 9 sets out how to make submissions to the Central Bank.

Section 2: Background

2.1 The Commission on Credit Unions' Recommendations and Proposals on a Tiered Regulatory Approach

The report of the Commission on Credit Unions noted that it is important to ensure that the regulatory requirements in place for credit unions are proportionate to the nature, scale and complexity of the credit union and for this reason the report recommended a tiered regulatory approach[9].

The report made reference to the general principle that as the level of activities and services available to members increase, the scale, skills and competency of the credit union must also increase. Following on from this, the report recommended that credit unions that wish to operate a limited business model should be subject to a simpler regulatory regime[10]. In addition, the report recommended that credit unions that are capable of operating a more sophisticated business model should be allowed to offer a wider range of products and services and engage in a broader range of lending and investment activities[11] subject to more sophisticated requirements.

The report recommended that, given the range in asset size of credit unions and having regard to the additional risk that can arise from increased scale, asset size should be the primary basis for the development of a tiered regulatory approach[12].

The report also recommended that transitional arrangements be provided to facilitate the introduction of a tiered regulatory approach. This included allowing a credit union that considers it is capable of and wishes to operate in another category to make an application to the Central Bank to be re-categorised to another category[13].

The report included an illustration of how the tiered regulatory approach could operate with a proposal based on three types of credit unions:

- Type 1: Less than €10m asset size;
- Type 2: €10m to €100m asset size; and
- Type 3: Greater than €100m asset size.

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9 Section 7.6.1 of the Commission on Credit Unions' Report March 2012.
10 Section 3.9 of the Executive Summary of the Commission on Credit Unions' Report March 2012.
11 Section 3.10 of the Executive Summary of the Commission on Credit Unions' Report March 2012.
12 Section 7.6.2 of the Commission on Credit Unions' Report March 2012.
13 Section 7.6.6 of the Commission on Credit Unions' Report March 2012.

See the Appendix for the illustrative approach to the tiered regulatory approach contained in the report of the Commission on Credit Unions.

2.2 The Strengthened Regulatory Framework

The report of the Commission on Credit Unions also made a number of recommendations regarding the strengthening of the regulatory framework for credit unions including more effective governance and regulatory requirements. This included the recommendation that Part 3 of the Central Bank Reform Act 2010 be commenced for credit unions providing the Central Bank with the powers to set out the Regulations and Standards of Fitness and Probity for credit unions.

On 24 September 2012, the Minister for Finance commenced Part 3 of the Central Bank Reform Act 2010 for credit unions. A new Fitness and Probity regime for credit unions came into effect on 1 August 2013 for credit unions with assets greater than €10m. The regime is being introduced on a phased basis and will be fully implemented for all credit unions by 1 August 2016.

The 2012 Act, which reflects many of the Commission on Credit Unions' recommendations on governance and prudential requirements, was enacted on 19 December 2012. On 11 October 2013, the Minister for Finance signed the Credit Union and Co-operation with Overseas Regulators Act 2012 (Commencement of Certain Provisions) (No.2) Order 2013. This brought the majority of the new governance and prudential requirements in the 2012 Act into effect on 11 October 2013, with some additional governance requirements due to come into effect on 3 March 2014[14].

The introduction of a Fitness and Probity regime for credit unions and the new governance and prudential requirements provide a comprehensive strengthened regulatory framework that applies to all credit unions.

2.2.1 Nature, Scale and Complexity

As referred to in section 2.1, the report of the Commission on Credit Unions recommended that the regulatory requirements in place for credit unions should be proportionate to the nature, scale and complexity of the credit union and for this reason the report recommended a tiered regulatory approach[15].

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[14] See the Department of Finance website at: http://finance.gov.ie/viewdoc.asp?DocID=7854&CatID=78&StartDate=1+January+2013

[15] Section 7.6.1 of the Commission on Credit Unions' Report March 2012.

This approach is clearly reflected in the wording of a number of the new requirements contained in the 2012 Act which requires that all credit unions take nature, scale and complexity (and risk profile) into account when undertaking the following:

- establishing **governance arrangements** which shall be such as to ensure that there is effective oversight of the activities of the credit union[16];
- **managing and controlling lending** to ensure that the making of loans does not involve undue risk to members' savings[17];
- **managing investments** to ensure that those investments do not involve undue risk to members' savings[18];
- **maintaining adequate reserves**[19];
- **maintaining adequate resources**, both financial and non–financial in accordance with the strategic plan[20];
- developing, preparing, implementing and maintaining secure and reliable **information systems**[21]; and
- keeping at all times a **proportion of its total assets in liquid form** so as to enable the credit union to meet its obligations as they arise[22].

The nature, scale and complexity of the business being conducted by a credit union will impact on a number of areas in a credit union including the level of systems and controls required.

For example, under the strengthened regulatory framework all credit unions are required as part of their governance arrangements to have, inter alia, a risk management system, a compliance programme and an internal audit function. In establishing these governance arrangements, credit unions are required to take the nature, scale and complexity of the business being conducted by the credit union into consideration. While all credit unions are required to have a risk management system, a credit union operating a more sophisticated business model will require a more extensive risk management system to monitor, manage and mitigate the risks associated with its business model than a credit union operating a more limited business model.

In summary, the strengthened regulatory framework contains a comprehensive set of governance and prudential requirements that apply to all credit unions. Within this

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[16] See section 66A(1)(a) of the 1997 Act (as inserted by the 2012 Act).
[17] See section 35(3) of the 1997 Act (as amended by the 2012 Act – not yet commenced).
[18] See section 43(1) of the 1997 Act (as amended by the 2012 Act – not yet commenced).
[19] See section 45(2) of the 1997 Act (as amended by the 2012 Act – not yet commenced).
[20] See section 76A(3) of the 1997 Act (as inserted by the 2012 Act).
[21] See section 76G(2) of the 1997 Act (as inserted by the 2012 Act).
[22] See section 85A(2) of the 1997 Act (as inserted by the 2012 Act – not yet commenced).

framework the requirements provide that the arrangements put in place in each credit union should take account of the nature, scale and complexity of the business being undertaken, thereby facilitating a degree of tiering within the strengthened regulatory framework.

2.3 Tiering in Other Credit Union Jurisdictions

In general, in other jurisdictions, the regulation of credit unions is not undertaken on a tiered basis[23]. Our analysis has indicated that two other international jurisdictions operate a tiered regulatory approach for their credit union sector: the UK and Ontario, Canada[24]. Both of these jurisdictions regulate their credit unions on a two tier basis.

2.4 Summary

To date, two key elements of the strengthened regulatory framework have been implemented; the Fitness and Probity regime for credit unions and new governance and prudential requirements. The combination of new and existing requirements provides a comprehensive and strengthened regulatory framework that applies to all credit unions. This strengthened regulatory framework provides the basis from which a tiered regulatory approach can be developed.

In developing the tiered regulatory approach the Central Bank is taking account of the recommendations of the report of the Commission on Credit Unions, the manner in which the strengthened regulatory framework already recognises the nature, scale and complexity of individual credit unions and the approach to tiering of regulation for credit unions in other jurisdictions.

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[23] There are credit unions in 101 countries worldwide (source www.woccu.org).

[24] In the US a small number of requirements are applied to credit unions depending on asset size. However, a full tiered approach is not applied as there is no tiering in relation to the activities and services that can be undertaken by credit unions.

Section 3: Purpose of this Consultation

The Central Bank is seeking to develop a tiered regulatory approach that supports the continued operation of financially sound and well governed credit unions and facilitates the prudent development of the credit union sector. The tiered regulatory approach will allow credit unions to:

- continue to undertake services and activities comparable to those that credit unions are currently undertaking within the strengthened regulatory framework; and
- allow credit unions that are capable of and wish to undertake a wider range of services and activities to do so, subject to additional regulatory requirements.

The tiered regulatory approach will also take account of the Commission on Credit Unions' recommendations and proposals.

The introduction of a tiered regulatory approach for the credit union sector involves significant change to the operation and regulation of the credit union sector. In developing a tiered regulatory approach it is important to identify:

- the activities and services credit unions wish to offer their members, and are capable of undertaking in each tier; and
- the appropriate timing for the introduction of a tiered regulatory approach.

In light of this the Central Bank is proposing a two stage approach to consultation on the tiered regulatory approach.

In this first consultation, the Central Bank is seeking initial views from credit unions and sector stakeholders on the proposals on a tiered regulatory approach for credit unions, including the services and activities to be undertaken in each tier.

Views are sought in this consultation paper in the following areas:

- the tiered regulatory approach proposed for credit unions;
- the introduction and on-going operation of the tiered regulatory approach;
- the activities, services and related requirements proposed for each tier;
- the development of a provisioning framework for the credit union sector; and
- the timelines including the most appropriate time for the introduction of a tiered regulatory approach.

(See section 8 for further details and specific questions).

Further consultation on the draft regulations that will give effect to the tiered regulatory approach is planned to take place in 2014. The second consultation will set out the detailed operation of the tiered regulatory approach in the draft regulations, and will include a Regulatory Impact Analysis. The Regulatory Impact Analysis will take account of the feedback received on this initial consultation.

Section 4: Overview of the Proposed Tiered Regulatory Approach for Credit Unions

4.1 Overview

The report of the Commission on Credit Unions recommended a tiered regulatory approach for the credit union sector so that regulatory requirements are proportionate to the nature, scale and complexity of the business being undertaken by the credit union. As referred to in section 2.2.1, the requirements contained in the strengthened regulatory framework take account of nature, scale and complexity which facilitates an element of tiering within the regulatory framework.

The nature, scale and complexity of a credit union is determined by the individual characteristics of that credit union, e.g. asset size, profile of membership, the nature and range of activities and services it undertakes and the operational model of the credit union. In addition, complexity can vary in different areas of a credit union's business. For example, a credit union may invest in a limited range of investments but may engage in more sophisticated lending activities. The blend of these characteristics will vary for each credit union and this is taken into account in the application of regulatory requirements in the regulatory framework. This provides credit unions with the flexibility to operate different aspects of their business with differing levels of nature, scale and complexity within the current regulatory framework.

In addition to this flexibility within the regulatory framework, some credit unions may wish to undertake additional activities and services and the tiered regulatory approach set out below is proposed to provide for this.

4.2 Proposed Approach

The Central Bank is proposing a two category[25] approach to the introduction of a tiered regulatory approach for the credit union sector. The proposed approach takes account of the recommendations of the report of the Commission on Credit Unions and the strengthened regulatory framework that applies to all credit unions. This approach will allow for the prudent development of the sector within an appropriate regulatory framework.

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[25] The term "category" is used because this is the term used in the 1997 Act to note that the regulations made under the 1997 Act can "apply either generally or by reference to a specified category or categories of credit unions" (section 182A(2) of the 1997 Act).

4.2.1 Category 1 Credit Unions

Under the proposed approach, category 1 credit unions can offer services comparable to those currently being offered by credit unions. Given that requirements of the strengthened regulatory framework take account of nature, scale and complexity, where a credit union operates a more limited business model (e.g. the business model proposed for Type 1 credit unions in the report of the Commission on Credit Unions), these requirements will automatically apply in a proportionate manner.

4.2.2 Category 2 Credit Unions

Credit unions that are capable of and wish to undertake a wider range of activities and services can apply to become a category 2 credit union. Category 2 credit unions will be subject to additional regulatory requirements to take account of the additional level of risk.

4.2.3 Additional Services

Additional services are ancillary services that credit unions can provide to their members in addition to their core services of lending and savings.

Both category 1 and category 2 credit unions will be able to provide the additional services currently available under the exemption from additional service requirements regulations[26]. Any new additional services to be provided by credit unions will either be available to both category 1 and category 2 credit unions, or category 2 credit unions only, depending on the level of complexity of the service. Further details of the activities and services proposed for category 1 and category 2 credit unions are provided in section 5.

4.3 Commission Recommendations and Proposals

While this proposed approach is based on a two tier approach rather than the three tier approach proposed on an illustrative basis in the report of the Commission on Credit Unions, it takes account of the fundamental recommendation of the report (i.e. a tiered regulatory approach with requirements that are proportionate to the nature, scale and complexity of business undertaken). The diagram overleaf demonstrates how the two categories facilitate the operation of the three types of credit unions proposed in the illustrative approach contained in the report. Category 1 supports the Type 1 and Type 2 credit unions proposed in the report and category 2 is comparable to Type 3.

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[26] S.I. 223 of 2004 Credit Union Act 1997 (Exemption From Additional Services Requirements) Regulations 2004; S.I. 107 of 2007 Credit Union Act 1997 (Exemption from Additional Services Requirements) Regulations 2007.

Central Bank - 2 Category Approach	Commission on Credit Unions - 3 Type Illustrative Approach
Category 1 – All credit unions able to offer a range of activities and services comparable to those that they currently offer. Further additional services may be appropriate depending on the complexity of the service. Where credit unions operate a more limited business model, governance arrangements and prudential requirements that take account of nature, scale and complexity apply proportionate to the business undertaken within the strengthened regulatory framework.	**Type 1** – Business model limited to basic lending, investments and savings within specified limits (e.g. max loan term five years / investments restricted to bank deposits with max maturity of one year). Minimum governance and Fitness & Probity requirements. **Type 2** – As for Type 1. In addition, limited business lending / ability to invest in longer maturities and in government bonds / ability to offer certain additional services.
Category 2 – Credit unions that wish to undertake a wider range of lending and investment activities and certain additional services are permitted to apply to be categorised as category 2 credit unions. Subject to additional requirements including a minimum operational risk reserve requirement.	**Type 3** – Less restricted business lending / wider range of assets for investments with longer maturities / additional products and services subject to meeting requirements with introduction of an operational risk reserve and additional governance requirements.

The strengthened regulatory framework introduces a comprehensive set of regulatory requirements applying to all credit unions. It is therefore appropriate that smaller credit unions have the flexibility to choose to operate a model comparable to that currently being undertaken by credit unions rather than be required to operate a more limited model such as that proposed for Type 1 credit unions by the Commission on Credit Unions (e.g. investments limited to bank deposits with a maximum maturity of one year and lending limited to a maximum term of five years). See the Appendix for the illustrative proposals in the report of the Commission on Credit Unions.

The Central Bank's proposed approach recognises that the assessment of which category a credit union should operate within is linked to the credit union's ability to meet the requirements of the category. It also takes account of asset size[27] by indicating the minimum asset size that would be expected for credit unions that will seek to apply to move into category 2.

4.4 Introduction and Operation of the Tiered Regulatory Approach

Initially all credit unions will be designated as category 1 credit unions. This encompasses Type 1 and Type 2 credit unions as envisaged by the report of the Commission on Credit Unions. Category 1 credit unions will be able to offer a comparable range of services to those that credit unions are currently offering thereby preserving the current credit union model. However, as referred to in section 4.2.1 within this category of credit unions, category 1 credit unions that wish to operate a more limited

[27] Section 7.6.2 and 7.6.5 of the Commission on Credit Unions' Report March 2012.

business model (comparable to the Type 1 credit unions described in the Commissions on Credit Union's illustrative approach) can choose to do so and the governance arrangements and prudential requirements that take account of nature, scale and complexity will automatically apply in a manner proportionate to the business undertaken.

4.5 Application Process to Become Category 2

Credit unions that are capable of and wish to undertake a wider range of activities, including more sophisticated lending and investment activities, will be permitted to apply to the Central Bank to be categorised as a category 2 credit union. Category 2 credit unions can offer a greater range of services but as part of such categorisation they will have to comply with additional requirements due to the increased level / complexity of the business they wish to undertake. This is comparable to the Type 3 credit union envisaged by the Commission on Credit Unions. It is expected that in general, credit unions that apply to become category 2 credit unions will have assets close to or above €100m. Applications will be assessed based on criteria that demonstrate that the credit union has the ability to meet the proposed regulatory requirements of a category 2 credit union including having a sound and robust strategic plan, adequate financial and other resources and appropriate governance arrangements.

4.6 Transitional Arrangements

Transitional arrangements will be provided prior to commencement of the tiered regulatory approach to provide all credit unions with the opportunity to make any changes required to their strategic plan, governance arrangements, policies, procedures, systems, controls and resources to ensure they meet the requirements of their category. This will ensure that the tiered regulatory approach is introduced in a planned and coordinated manner. It will also provide credit unions with the opportunity to decide whether they wish to apply to operate as a category 2 credit union and to make such an application. See section 7 for the proposed transitional arrangement timelines.

4.7 On-Going Operation

On an on-going basis, credit unions will be permitted to apply to the Central Bank on an annual basis to move from category 1 to category 2. This will afford the credit union sufficient time to consider if a change of category is appropriate. Credit unions will require time to give full consideration to all the implications of the decision to move category including time to prepare a plan for the changes required to their strategic plan, governance arrangements, policies, procedures, systems, controls and resources and to implement these changes before moving category.

It is envisaged that, in general, credit unions will only move from category 1 to category 2. In exceptional circumstances, credit unions may be permitted to move from category 2 to category 1.

4.8 The Central Bank is seeking views on the following:

(i) 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.

Section 5: Overview of Categories

The strengthened regulatory framework set out in the 1997 Act contains requirements that apply to all credit unions, e.g. the requirement to have a risk management system, a compliance programme and an internal audit function. Where regulation making powers are available to the Central Bank, the Central Bank may impose requirements on all credit unions or a category or categories of credit unions facilitating the introduction of a tiered regulatory approach. The key areas where the Central Bank proposes to make regulations for all credit unions or a category or categories of credit unions are lending, investments, savings, borrowings, additional services, governance, reserves and liquidity. Regulations can be made by the Central Bank within the regulation making powers that are available to the Central Bank within these areas.

The Central Bank's proposals take account of the proposals set out in the report of the Commission on Credit Unions[28] (see the Appendix).

A summary of the proposals for each category is provided below. An overview of the key proposals is provided in the table in section 5.1.4. Details of the proposals for each individual area are provided in the subsequent sections. The areas the Central Bank is seeking views on are set out in 5.12.

5.1 Summary of Proposals for each Category

5.1.1 Category 1 Credit Unions

Lending

Category 1 credit unions will be able to offer personal lending as well as a degree of community lending, commercial lending and lending to other credit unions. Lending limits will apply. These will include the current section 35 maturity limits and a maximum loan maturity of 15 years.

Investments

Category 1 credit unions will be able to invest in bank deposits, Irish and EEA State Securities and the shares and deposits of other credit unions with a maximum duration of five years. Concentration and counterparty limits will apply to investments.

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[28] For Type 2 and Type 3 credit unions.

Savings

Category 1 credit unions will be able to offer savings up to the lower of €100,000 or 1% of the credit union's assets.

Borrowings

Category 1 credit unions will be able to borrow an amount up to 25% of the total savings of the credit union.

Additional services

Category 1 credit unions will be able to provide any additional services to their members that are currently available under the exemption from additional services regulations which include third party payments (incorporating EFT), ATM services and certain insurance services on an agency basis. See section 5.1.3 for details on further additional services.

Governance and Fitness and Probity

The existing governance requirements and Fitness and Probity regime for credit unions will apply.

Liquidity

The existing liquidity requirements will apply and category 1 credit unions will have some additional short term liquidity requirements.

Reserves

The current reserve requirement will apply and category 1 credit unions will be required to hold any additional reserves it has assessed are required for operational risk.

5.1.2 Category 2 Credit Unions

Lending

In addition to the lending available to category 1 credit unions, category 2 credit unions will be able to offer an additional amount of commercial lending. Lending limits will also apply including the current section 35 longer term lending maturity limits within which a specific class of home loan may be considered.

Investments

Category 2 credit unions will be able to invest in the same instruments as category 1 credit unions and in addition they will be able to make some investments in senior unsecured bank bonds and corporate bonds. The permitted duration of these investments will be longer than for category 1 credit unions. Concentration and counterparty limits will apply to investments.

Savings

Category 2 credit unions will be able to offer savings up to €100,000.

Borrowings

Category 2 credit unions will be able to borrow an amount up to 25% of the total savings of the credit union.

Additional services

Category 2 credit unions will be able to provide the same additional services to their members as category 1 credit unions. See section 5.1.3 for details on further additional services.

Governance

Additional governance requirements will apply, including the requirement to have an audit committee, a risk committee, a remuneration committee, an asset and liability committee and an external review of the board of directors every three years.

Fitness and Probity

The existing Fitness and Probity regime for credit unions will apply.

Liquidity

In addition to the requirements for category 1 credit unions, further liquidity requirements will be considered for category 2 credit unions including requirements in relation to stress testing and maturity mismatches.

Reserves

The current reserve requirement will continue to apply. In addition, category 2 will be required to maintain a minimum operational risk reserve.

5.1.3 Further Additional Services

Category 1 and category 2 credit unions may also be able to provide further additional services taking account of the submissions received on this initial consultation. The provision of further additional services by credit unions will depend on the nature and complexity of services proposed.

5.1.4 High Level Summary

This table provides a high level summary of the activities, services and requirements that are proposed for category 1 and category 2 credit unions. Further details on each individual area are provided in subsequent sections.

General Principle

Level of activities and services to members increases

Increased scale, skills and competencies required

	Category 1 Credit Unions (Type 1 / Type 2)	Category 2 Credit Unions (Type 3)
Lending	• Personal lending, limited commercial lending, community lending and lending to other credit unions. • Existing maturity limits – maximum loan term 15 years. • Other lending limits based on reserves. • Large exposure limits / restricted persons limits.	• Personal lending, less restrictive commercial lending, limited community lending and lending to other credit unions. • Existing maturity limits with existing longer term lending limits and consideration of a specific class of home loan. • Other lending limits based on reserves. • Large exposure limits / restricted persons limits.
Investments	• Bank deposits, Irish and EEA State Securities and shares / deposits of other credit unions. • Concentration and counterparty limits related to reserves. • Maximum maturity five years. • Investment committee.	• Bank deposits, Irish and EEA State Securities, shares / deposits of other credit unions, bank bonds and corporate bonds. • Concentration and counterparty limits related to reserves. • Maximum maturity 7 / 10 years, depending on type of investment. • Investment committee.
Savings	• Limited to lower of €100k and 1% of assets. • Total deposits to total savings ratio.	• Limited to €100k. • Total deposits to total savings ratio.
Borrowings	• Total borrowings cannot exceed 25% of total savings.	• Total borrowings cannot exceed 25% of total savings.
Additional services	• Able to provide the additional services currently available under the exemption from additional service requirements regulations. • Further additional services depending on proposals and level of complexity.	• Able to provide the additional services currently available under the exemption from additional service requirements regulations. • Further additional services depending on proposals and level of complexity.
Governance	• New governance framework in the 1997 Act.	• New governance framework in the 1997 Act. • Audit Committee, Risk Committee, Remuneration Committee and Asset and Liability Committee. • Dedicated risk management officer, compliance officer and internal audit function. • External review of the board of directors every three years.
Fitness and Probity	• As introduced from 1 August 2013[29].	• As introduced from 1 August 2013.
Reserves	• Existing approach to apply. • Assess additional reserves required for operational risk.	• Existing approach to apply. • Risk weighted approach may be considered following restructuring. • Minimum operational risk reserve requirement.
Liquidity	• Existing requirements with additional short term liquidity requirements. • Amended definition of liquid assets.	• Existing requirements with additional short term liquidity requirements. • Amended definition of liquid assets. • Consideration of additional requirements on stress tests and maturity mismatches.

[29] Fitness and Probity will come into effect for credit unions with assets less than €10m on 1 August 2015.

5.2 Lending

The current lending framework for credit unions is set out in section 35 of the 1997 Act. The current framework contains limits on the percentage of the loan book that can be outstanding for periods exceeding both five and ten years, as well as limits on the maximum outstanding liability to an individual member.

The new lending framework will include details of the classes of lending that each category of credit union can engage in (including definitions of each of these classes), as well as concentration limits, maturity limits, limits on loans to restricted persons and large exposure limits[30].

As recommended by the report of the Commission on Credit Unions, lending limits will be related to reserves. The new lending framework will also include details on the lending policies and practices that credit unions will need to put in place.

The following provides an outline of the proposed lending framework.

5.2.1 Classes of Lending

The following permitted classes of lending are proposed:

A category 1 and category 2 credit union can make the following types of loans:

- a personal loan;
- a commercial loan;
- a community loan; and
- a loan to another credit union.

It is proposed to define the different classes of lending as follows:

- a **personal loan** is 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;
- a **commercial loan** is a loan, the primary objective of which is to fund an activity whose purpose is to make a profit; and
- a **community loan** is a loan provided to a community or voluntary organisation which is established for the express purpose of furthering the social, economic or

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[30] A large exposure is a total exposure (including contingent liabilities) of the credit union to a borrower or group of connected borrowers that is above an amount prescribed by the Central Bank (see section 11(1) of the 2012 Act).

environmental well-being of individuals within the common bond of the credit union in the following areas:

a) sport and recreation;
b) culture and heritage;
c) the arts (within the meaning of the Arts Act 2003);
d) health of the community;
e) youth, welfare and amenities; and
f) natural environment.

5.2.2 Concentration Limits

Based on the Central Bank's analysis of a sample of credit unions, the vast majority of lending undertaken by credit unions is personal lending. In relation to other lending the following concentration limits are proposed:

- both category 1 and category 2 credit unions can undertake lending to other credit unions up to a total amount outstanding of 12.5% of Regulatory Reserves;
- both category 1 and category 2 credit unions can undertake community lending up to a total amount outstanding of 25% of Regulatory Reserves;
- category 1 credit unions can undertake commercial lending up to a total amount outstanding of 25% of Regulatory Reserves; and
- category 2 credit unions can undertake commercial lending up to a total amount outstanding of 100% of Regulatory Reserves.

5.2.3 Maturity Limits

The existing maturity limits contained in section 35(2) of the 1997 Act will continue to apply to category 1 credit unions (i.e. up to 30% of the loan book can be outstanding for more than five years and up to 10% of the loan book can be outstanding for more than 10 years).

For category 2 credit unions, the longer term lending limits in section 35(2) will apply (i.e. up to 40% of the loan book can be outstanding for more than five years and up to 15% of the loan book can be outstanding for more than 10 years).

For category 1 and category 2 credit unions the initial maturity for a personal loan, commercial loan, community loan or loan to another credit union can be up to a maximum of 15 years.

Currently credit unions are not prohibited from providing home loans to members. However, home loans are subject to the maturity limits contained in section 35(2) of the 1997 Act. Based on Central Bank analysis a small number of credit unions currently carry out limited lending in relation to home loans. Consideration is being given as to whether category 2 credit unions should be permitted to provide a specific class of home loan to members within the lending limits, including the maturity limits.

This class would relate to a home loan made to a member to purchase their principle private residence where:

- the credit union holds the first legal charge on the property;
- the amount of the loan does not exceed 80% of the value of the property when the loan is made; and
- the maximum maturity is 25 years.

5.2.4 Restricted Person Limits

In the current legislative framework, under section 36 of the 1997 Act, loans to an officer of a credit union are required to be approved by a special committee.

It is proposed to put in place limits and requirements for lending for persons that fall within the definition of restricted persons for both category 1 and category 2 credit unions.

The following definition and limit is proposed for restricted persons.

A restricted person is:

- a member of the board of directors[31] or the management team[32] of a credit union;
- a member of the family[33] of a member of the board of directors or the management team of a credit union; or
- a business in which a member of the board of directors or the management team of a credit union has a significant shareholding[34].

The aggregate of lending to restricted persons can be up to the greater of €200,000 or 5% of the Regulatory Reserves of the credit union.

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[31] As defined in section 2(1) of the 1997 Act.
[32] As defined in section 2(1) of the 1997 Act.
[33] As defined in section 2(1) of the 1997 Act.
[34] A significant shareholding is 10% or more of the shares or voting rights in the business.

5.2.5 Large Exposure Limits

Section 35(3) of the 1997 Act limits the maximum size of a member's outstanding liability to the credit union, whether as a borrower, guarantor or otherwise, to the greater of €39,000 or 1.5% of the total assets of the credit union. This limit will be updated to reflect the new legislative framework for lending, which refers to large exposures, and the limit will be linked to Regulatory Reserves, as recommended by the report of the Commission on Credit Unions.

The following large exposure definition and limits are proposed:

- a large exposure is an exposure (including contingent liabilities) that exceeds 5% of a credit union's Regulatory Reserves;
- the total exposure (including contingent liabilities) of a credit union to a borrower or a group of borrowers who are connected can be the greater of €39,000 or 10% of the Regulatory Reserves of the credit union; and
- the total large exposures (including contingent liabilities) of the credit union can be up to 500% of the Regulatory Reserves of the credit union.

5.2.6 Lending Practices and Policies

The lending practices for rescheduled loans contained in the Section 35 Regulatory Requirements for Credit Unions (October 2013) continue to apply to all credit unions.

Additional requirements are proposed to be put in place in relation to lending practices and these include:

- lending practices and reporting arrangements for lending to restricted persons for both category 1 and category 2 credit unions;
- a credible business plan and robust financial projections required for commercial loans, community loans and loans to other credit unions for both category 1 and category 2 credit unions; and
- additional systems and controls required if category 2 credit unions are permitted to provide a specific class of home loan.

5.3 Investments

The existing framework for investments is set out in section 43 of the 1997 Act. Additional guidance was provided in the Guidance Note on Investments by Credit Unions (October 2006) and the Guidance Note for Credit Unions on Matters Relating to Accounting for Investments and Distribution Policy (April 2009) as well as subsequent circulars. The Guidance Note on Investments by Credit Unions (October 2006) sets out a list of authorised investments for credit unions as well as the maturity, concentration and counterparty limits in place for each class of investments.

5.3.1 Investment Classes and Limits

It is proposed that the following classes of instruments and limits will apply to credit unions in their investments:

5.3.2 Category 1

Category 1 credit unions can invest in bank deposits in an authorised credit institution, Irish and EEA[35] State Securities and the shares and deposits in other credit unions. The following limits will apply:

- investments can have a maximum maturity of five years;
- up to 50% of the total value of a category 1 credit union's investment portfolio can be in investments maturing after three years;
- investments can be made in euro denominated investments;
- investments in a single counterparty other than a credit union (i.e. bank or EEA state) can be up to 100% of a category 1 credit union's Regulatory Reserves; and
- investments in the shares and deposits of a single credit union can be up to 12.5% of a category 1 credit union's Regulatory Reserves.

5.3.3 Category 2

It is proposed that category 2 credit unions can invest in bank deposits, Irish and EEA State Securities, senior unsecured bank bonds, corporate bonds that are listed on a registered exchange with a rating that is not lower than A or its equivalent, and the shares and deposits in other credit unions within the limits as set out below.

<table>
<tr><th>Class of Investment</th><th>Investment specific limits</th><th>General limits</th></tr>
<tr><td>Bank deposits in an authorised credit institution.</td><td>Investments in interest bearing deposit accounts can have a maximum maturity of seven years.</td><td rowspan="3">a) Up to 50% of the total value of a category 2 credit union's investment portfolio can be in investments maturing after five years.
b) Investments in a single counterparty can be up to 100% of a category 2 credit union's Regulatory Reserves.
c) Investments can be made in euro denominated investments.</td></tr>
<tr><td>Irish and EEA State Securities.</td><td>Investments in transferable securities issued by the Irish State and other EEA States can have a maximum maturity of 10 years.</td></tr>
<tr><td>Senior unsecured bonds issued by credit institutions authorised by the Central Bank of Ireland or in any other EEA state.</td><td>a) Investments in senior unsecured bonds issued by credit institutions can have a maximum maturity of seven years.
b) Total investments in bank bonds can be up to 50% of a credit union's Regulatory Reserves.</td></tr>
</table>

[35] The EEA comprises of the member states of the European Union ("EU") together with the following countries: Iceland, Liechtenstein and Norway.

Corporate bonds that are listed on a registered exchange with a rating that is not lower than A or its equivalent.	a) Investments in corporate bonds can have a maximum maturity of seven years. b) Total investments in corporate bonds can be up to 50% of a credit union's Regulatory Reserves.	
Shares and deposits in other credit unions.	a) Investments in the shares and deposits of other credit unions can have a maximum maturity of five years. b) Up to 12.5% of the credit union's Regulatory Reserves can be invested in the shares and deposits of other credit unions.	

5.3.4 Additional Requirements

It is proposed that additional requirements will apply to the investment activities of credit unions. These will include the requirement that both category 1 and category 2 credit unions have an investment committee and an investment policy. In addition category 2 credit unions must disclose their accounting policies for the income recognition of investments and the valuation of investments in their annual accounts.

5.4 Savings

The existing requirements in relation to savings (shares and deposits) are contained in section 27 of the 1997 Act. This section imposes requirements including a maximum deposit of €100,000 that can be held with a credit union and a maximum claim a member can have on a credit union in terms of savings which cannot exceed €200,000 or 1% of the total assets of the credit union, whichever is the greater. The following is proposed in terms of savings for category 1 and category 2 credit unions:

5.4.1 Category 1

A member of a category 1 credit union can have savings in the credit union up to the maximum of either €100,000 or 1% of the total assets of the credit union, whichever is the lower.

The aggregate liabilities of a category 1 credit union in respect of deposits can be up to a maximum of 50% of aggregate liabilities in respect of shares issued to members.

5.4.2 Category 2

A member of a category 2 credit union can have savings in the credit union up to a maximum of €100,000.

The aggregate liabilities of a category 2 credit union in respect of deposits can be up to a maximum of 75% of aggregate liabilities in respect of shares issued to members.

5.4.3 Additional Requirements

Where appropriate, additional requirements will apply in relation to savings. These will include the requirement that category 2 credit unions that offer deposits shall put in place systems and controls to assess the amount of interest payable on deposits over a period of time to ensure there is no undue risk to members' savings arising from deposit interest payable.

5.5 Borrowing

The existing requirements in terms of borrowing by a credit union are contained in section 33 of the 1997 Act. This includes a limit on the amount of money that a credit union can borrow up to 50% of the aggregate savings in the credit union.

Credit unions are traditionally funded by their members and do not engage in borrowing to any significant extent.

The following is proposed in terms of borrowings for both category 1 and category 2 credit unions:

A category 1 and category 2 credit union can borrow money, on security or otherwise, so long as the total amount outstanding in respect of monies so borrowed does not at any time exceed 25% of the aggregate savings of the credit union.

5.6 Additional Services[36]

Both category 1 and category 2 credit unions will be able to provide the additional services currently available under the Exemption from Additional Service Requirements Regulations[37] 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;

[36] This includes services provided to members beyond the core services of lending and savings.
[37] S.I. 223 of 2004 Credit Union Act 1997 (Exemption From Additional Services Requirements) Regulations2004; S.I. 107 of 2007 Credit Union Act 1997 (Exemption from Additional Services Requirements) Regulations 2007.

- bill payment;
- money transfers;
- standing orders;
- direct debits;
- financial counselling; and
- PRSAs on an introduction basis.

In addition 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.

This consultation is seeking feedback on any further additional services credit unions wish to provide to their members. Based on the feedback received, consideration will be given to whether any services that credit unions wish to provide to their members that are not currently provided for under the credit union regulatory framework should be available to both category 1 and category 2 credit unions or only category 2 credit unions.

5.7 Governance

5.7.1 Governance Requirements for all Credit Unions

The governance framework contained in the 1997 Act applies to both category 1 and category 2 credit unions. The governance requirements include the requirement to have:

- documented governance arrangements, including a clear organisational structure with well-defined and transparent reporting lines, that ensure the effective oversight of the credit union[38]; and
- oversight, policies, practices, procedures, systems and controls to ensure compliance with requirements[39].

In addition, the governance requirements set out the functions and operations of the key elements of the governance structure in a credit union including the:

- board of directors;
- chair;
- manager;
- board oversight committee;

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[38] See section 66A(1)(b) of the 1997 Act.
[39] See section 27A(1) of the 1997 Act.

- nomination committee; and
- other board committees.

5.7.2 Additional Governance Requirements

It is proposed that additional requirements will apply in relation to governance. These will include the following additional governance requirements which will apply to category 2 credit unions arising from the additional complexity of the activities and services they can undertake.

A category 2 credit union will have:

- an audit committee, a risk committee, a remuneration committee and an asset and liability committee;
- a dedicated[40] risk management officer;
- a dedicated compliance officer; and
- a dedicated internal audit function.

It is also proposed that an external evaluation of the performance of the board of directors will be required every three years.

5.8 Fitness and Probity

It is proposed that the existing Fitness and Probity regime for credit unions, which will be fully implemented for all credit unions by 1 August 2016, will continue to apply.

5.9 Reserves

5.9.1 Reserve Requirements

The existing reserve requirement will apply to all credit unions. Both category 1 and category 2 credit unions will continue to be required to maintain a minimum Regulatory Reserve Ratio of not less than 10% on an on-going basis.

Consideration will be given to a risk weighted asset approach for category 2 credit unions following restructuring of the credit union sector.

5.9.2 Operational Risk Reserve

The new section 45(5)(a) of the 1997 Act will replace the existing section 45(5)(a) following commencement of section 13 of the 2012 Act. Under this section each credit

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[40] The term ‘dedicated’ refers to an in-house resource on a part-time or full-time basis with no other responsibilities in the credit union.

union will have to maintain an additional reserve that it has assessed is required for operational risk having regard to the nature, scale and complexity of the credit union.

It is proposed that category 2 credit unions will be required to maintain a minimum operational risk reserve arising from their more sophisticated business model. Consideration is being given as to whether this will be based on:

- the Basel Basic Indicator Approach adapted for credit unions[41]; or
- an additional specified percentage of assets, e.g. 2%.

5.10 Liquidity

Under the 1997 Act a credit union is required to keep a proportion of its total assets in liquid form so as to enable the credit union to meet its liabilities as they arise. Under the Credit Union Act 1997 (Section 85) Rules 2010 (S.I. 515 of 2010) a credit union must maintain at all times a minimum liquidity ratio of at least 20%. The liquidity requirements set out in the Section 35 Regulatory Requirements for Credit Unions (October 2013) also apply.

5.10.1 Liquidity Requirements

Section 85A(2) of the 1997 Act (as inserted by the 2012 Act) will require a credit union to keep a proportion of its total assets in liquid form so as to enable the credit union to meet its obligations as they arise. The proportion of assets kept in liquid form will be required to take into account the nature, scale and complexity of the credit union, and the composition and maturity of its assets and liabilities.

The existing liquidity requirements will apply to all credit unions. Both category 1 and category 2 credit unions will be required to continue to maintain a minimum liquidity ratio of 20% on an on-going basis. The minimum liquidity requirements contained in the Section 35 Regulatory Requirements for Credit Unions (October 2013) will also continue to apply.

The definition of liquid assets will be extended to include investments with more than three months to maturity that have an explicit written guarantee that the funds can be accessed by the credit union in less than three months, excluding penalties on interest or income. Where a portion of an investment carries such a guarantee only this portion will be considered to be in liquid form.

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41 Basel Committee, International Convergence of Capital Measurement and Capital Standards (June 2006). Available at: http://www.bis.org/publ/bcbs128.pdf

In addition to the minimum liquidity ratio of 20% additional short term liquidity requirements will apply. It is proposed that the assets of a credit union to be held in liquid form will be at least 10% of unattached savings[42] available up to seven days and up to 15% of unattached savings available up to one month.

5.10.2 Additional Liquidity Requirements for Category 2

In recognition of the longer duration of assets for a category 2 credit union consideration will be given to further requirements for category 2 credit unions including the requirement to carry out stress tests on their liquidity and the requirement to ensure that their liquidity ratios are adjusted to take account of the results of such stress tests where they indicate deficiencies in liquidity ratios.

Consideration will also be given to the setting of requirements for category 2 credit unions on the monitoring and management of maturity mismatches between assets and liabilities.

5.11 Other Prudential Requirements

Other requirements in place for all credit unions include requirements in relation to:

- risk management systems;
- a compliance programme;
- an internal audit function;
- a strategic plan; and
- operational risk, including business continuity and outsourcing.

Consideration will be given to other prudential requirements for category 2 credit unions including:

- the requirement to have an interim audit; and
- additional requirements in relation to the frequency and operation of business continuity testing.

[42] Attached savings are those savings which are attached to loans or otherwise pledged as security and are not withdrawable by members (Section 35 Regulatory Requirements for Credit Unions (October 2013)).

5.12 The Central Bank is seeking views on the following:

(i) **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 making 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.**

(ii) **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.**

Section 6: Provisioning

6.1 Existing Provisioning Requirements

The Central Bank has provided guidance on provisioning in the Guidance Note on Credit and Credit Control for Credit Unions (October 2007). This guidance refers to the following sections of the 1997 Act that are relevant for provisioning:

- section 108 of the 1997 Act requires that every credit union must cause proper accounting records to be kept on a continuous and consistent basis and to disclose with reasonable accuracy and promptness the financial position of the credit union at any time;
- section 108 of the 1997 Act also sets out the specific requirements for the accounting records of a credit union in order to show a true and fair view of the state of affairs of the credit union and to explain its transactions; and
- section 109 of the 1997 Act requires that proper systems of control are maintained for the purposes of producing accurate and timely information so that the officers and auditor of the credit union are enabled to discharge their functions. These systems must also be adequate for the provision to the Central Bank of accurate information.

The Guidance Note on Credit and Credit Control for Credit Unions (October 2007) also contains guidance on the provisioning policy of a credit union, loans to be individually assessed and loans deemed irrecoverable.

The Central Bank has set provisioning requirements for credit unions in the Section 35 Regulatory Requirements for Credit Unions (October 2013). This includes requirements for credit unions to:

- maintain provisions for rescheduled loans; and
- review their total loan portfolios on a quarterly basis to verify the adequacy of the provision for bad and doubtful debts and to ensure that any resulting adjustments are incorporated into the monthly management accounts submitted to the board of directors, and the Prudential Returns submitted to the Central Bank.

On the introduction of the tiered regulatory approach the Central Bank will have powers under section 35(8)(a) of the 1997 Act to prescribe requirements as it considers necessary in relation to:

- the making of provision for specified matters;
- reviews to assess the adequacy of provisions; and

- maintaining policies for the holding of provisions, for credit and for credit control.

6.2 Proposed Provisioning Framework

In line with the powers that will be available to the Central Bank, and to ensure consistency and clarity in the manner in which credit unions calculate their provisions, the Central Bank is proposing to develop a provisioning framework for **all** credit unions to reflect the following objectives:

- recognition of loan losses as early as possible within the context of accounting standards;
- adoption of a sufficiently conservative and comparable approach to the measurement and making of impairment provisions in their loan book; and
- disclosures to support members' understanding of the performance of the loan book and the credit union's credit risk management practices.

It is proposed that the provisioning framework will include the following requirements:

- 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 required for loan losses in line with the Section 35 Regulatory Requirements for Credit Unions (October 2013).

- 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:*
    This involves examining the loan book on a collective basis using previous experience of losses in the loan book as well as the expected cash flows to estimate the amount of losses in the loan book.
  - *Individual assessment of significant exposures:*
    This involves examining the loan files of significant exposures (including top 100 loans, rescheduled loans, loans with non-standard repayment terms, top-up loans) on an individual basis to ascertain if there have been loan losses.
  - *Incurred but not reported exposures:*
    This involves using historical experience to estimate the losses in the loan book that have not yet materialised and to set aside an appropriate amount of provisions.

- The loan loss provisions of each credit union must take account of the factors specific to that credit union.

- The Central Bank will set out guidance for credit unions on assessing the appropriate loan loss provisions for each of the steps set out above. The Central Bank is also considering setting a requirement for credit unions to provide in full for a loan that has been delinquent for a specified period.

- Credit unions will continue to be required to set aside provisions for rescheduled loans in line with the Section 35 Regulatory Requirements for Credit Unions (October 2013).

- All credit unions will be required to have a provisioning policy which must include the following elements:
    - objectives of the credit union's provisioning policy;
    - organisational arrangements setting out the roles and responsibilities of officers involved in measuring and making appropriate loan loss provisions;
    - the procedures for the loan book review to assess the adequacy of provisions;
    - the timings of the loan book reviews;
    - how the credit union will regularly review and revise key management judgements, assumptions and estimates used in calculating the credit union's provisions;
    - the accounting policy used for provisions;
    - reporting arrangements, including the frequency, form and content of reporting to the board of directors; and
    - the process for the approval, review and update of the provisioning policy by the board of directors.

- The provisioning policy adopted by a credit union must ensure consistency with the requirements of section 108 of the 1997 Act. Credit unions must also ensure that they comply with all relevant accounting standards.

6.3 The Central Bank is seeking views on the following:

(i) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.

Section 7: Timelines for the Introduction of the Tiered Regulatory Approach

As referred to previously, credit unions are currently undergoing significant change in implementing the new regulatory framework. In addition, restructuring of the credit union sector is underway. Therefore a question arises as to the most appropriate timeframe for the introduction of a tiered regulatory approach. If it is considered that the tiered regulatory approach should be introduced at this point, the table below sets out the stages and high level timelines proposed.

7.1 Proposed Stages and Timelines

Note: The proposed timelines set out below will be impacted by the extension of the submission date for this consultation paper from 28 February 2014 to 31 March 2014.

Date	Stages
23 December 2013:	Issue initial consultation paper
28 February 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 received
October 2014:	Issue 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

These timelines are in line with the Consultation Protocol for Credit Unions (2012) which notes that the period of time for making submissions on consultations will, generally, be a minimum of two calendar months. It should be noted that the implementation timeline may change in light of submissions received.

Given the extent of change it is likely will be required to credit unions policies, procedures, systems, controls and reporting arrangements arising from the introduction of the tiered regulatory approach, it is proposed that credit unions will have a six month transitional period to implement any changes required before the coming into force of the regulations. This will include allowing credit unions that are capable of, and wish to, undertake the services and activities of a category 2 credit union to apply to become a category 2 credit union and to implement the changes required.

7.2 The Central Bank is seeking views on the following:

(i) 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.

(ii) 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.

Section 8: Summary of Areas where the Central Bank is Seeking Views

The Central Bank is seeking views on the following:

(i) 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.

(ii) 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 making 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.

(iii) Are there any areas where credit unions could provide new additional products or 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.

(iv) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.

(v) 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.

(vi) 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.

Section 9: Making Submissions

Please make your submissions in writing, if possible electronically as a word document or a .pdf document by email, on or before Monday 31 March 2014.

When addressing the questions raised in this Consultation Paper, please use the relevant section heading to identify the section you are referring to and clearly set out the basis for your views.

The Central Bank intends to make all submissions available on the Central Bank website. Information deemed to be potentially libellous or defamatory will not be published. The Central Bank will accept no liability in respect of any information provided which is subsequently released, or in respect of any consequential damage suffered as a result.

Submissions should be marked "Introduction of a Tiered Regulatory Approach for Credit Unions" and sent by email to rcuconsultation@centralbank.ie.

In the event that you are unable to send your response electronically, please forward it by post before Monday 31 March 2014 to:

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

Registry of Credit Unions
23 December 2013 (submission date extended on 24 January 2014)

Appendix

Commission on Credit Unions' three tier illustrative approach

General Principle:

Level of activities and services to members increases
Increased scale, skills and competencies required

Requirements	Type 1 Credit Unions	Type 2 Credit Unions	Type 3 Credit Unions
Illustrative Asset Bands	**Assets < €10m**	**Assets > €10m < €100m**	**Assets > €100m**
Governance & Risk Management	Minimum requirements in relation to Governance and Risk Management.	Governance and Risk Management requirements including internal audit function, risk management and compliance officer.	Governance and Risk Management requirements that apply to Type 2 credit union with dedicated internal audit, compliance and risk personnel and additional board committees.

Fitness & Probity	Minimum requirements (type of requirements to be considered in 2nd Phase of implementation of Fitness & Probity Regime for credit unions).	Under 1st Phase of Fitness & Probity regime.
		• Chair and Manager designated PCFs.
		• Additionally individuals performing roles:
		  o with significant influence
		  o involved in ensuring, controlling or monitoring compliance.
		will be designated as CFs for credit unions (includes all board members).
			Under 1st Phase of Fitness & Probity regime.
			As for Type 2 credit unions with additional PCFs:
			• all additional board members
			• the chair of the nomination committee
			• the chair of the supervisory committee.

Reserves	Existing approach to apply.	Existing approach to apply.	Existing approach to apply / risk weighted approach if appropriate.
Liquidity	Existing approach to apply.	Existing approach to apply.	Existing approach to apply / more complex approach in line with business model of credit unions.
Lending	• Maximum loan amount in excess of chares to be specified. • Maximum loan term of five years. • No business lending.	• Existing maturity limits. Changes include: • Lending limits related to reserves. • Limited business lending.	• Existing maturity limits. Changes include: • Lending limits related to reserves. • Less restrictive business lending than Type 2 credit unions.
Investments	• Restricted to bank deposits. • Maximum maturity one year.	• Restricted to bank deposits & government bonds. • Maximum maturity five years.	• Wider range of assets e.g. bank bonds. • Longer maturities.
Savings	Limited to lower of specified % of assets and €50k.	Limited to lower of specified % of assets and €100k.	Limit based on specified % of assets.
Operations & Services	• Focus on core savings & lending. • Exempted additional services.	• Focus on core savings & lending. • Exempted additional services. • Additional services subject to meeting specific requirements set by Central Bank or subject to prior approval from the Central Bank. • Introduction of operational risk reserve requirement.	• Savings & lending. • Exempted additional services. Additional products / services subject to meeting specific requirements set by Central Bank. Certain products / services may require Central Bank approval. • Introduction of operational risk reserve requirement.

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