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

BY EMAIL: rcuconsultation@centralbank.ie

31 March 2014

RE: Introduction of a Tiered Regulatory Approach for Credit Unions

Dear Sir or Madam,

I attached for your review a submission by on behalf of Desmond Credit Union Ltd.

I trust this is in order.

Yours faithfully

Declan Benson
Manager – Desmond Credit Union Ltd

1. Summary of Areas where the Central Bank is Seeking Views

- The key areas where views are sought, questions raised, alternative proposal and rationale are set out in the table following.

Key Issues	Desmond Credit Union Questions	Desmond Credit Union Proposal	Desmond Credit Union Rationale
(i) Do you agree with the proposed tiered regulatory approach for credit unions?	A Tiered Regulatory System for credit unions is not a proven industry concept. It is currently only used in 1 country, the UK, and 1 region in Canada, Ontario. It is not used in the other 99 countries in which credit unions operate. Indeed, the current structure of the Irish credit union sector is very different from both the UK and the Ontario models. The Commission Report on Credit Unions introduced and recommended a tiered approach to regulation, but in this regard suggested a model around a 3 Tier approach. It is not clear why CP76 diverges from this view and proposes a 2 Tier approach in this paper.	We support the view of a Tiered Approach, but would recommend an amendment of the total asset size as follows: Category 1 up to €20m Category 2 up to €100m Category 3 €100m +	The rationale for a Tiered Approach is understandable and a 'one size fits all' is not in our view optimal for credit unions in Ireland. We believe the 3 Tier proposal with the total assets limits as set out by Desmond Credit Union ('DCU'), more accurately reflects a similar risk profile for services operated by credit unions of this asset size. We would be cautious, that in an attempt to be included in the €100m Category 2 credit unions, credit unions may opt for a sub-optimal merger to achieve the €100m asset size. We would also be cautious that a 2 Tiered approach would adversely impact on the sustainability of 'mid-sized (e.g. €50m total asset) credit unions by restricting certain activities (e.g. loan interest and investment earning ability) as set out in this paper.

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(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?	5.1.2 Lending: There is no clear rationale for the 15 year term limit proposal. It is put forward as an arbitrary number. The current scenario is to assess the risk of each loan on a case by case basis. 5.2.2 Concentration Limits Commercial Lending We note the ability of category 2 CUs to lend up to 100% of regulatory reserves for commercial purposes. We do not believe this is a natural fit for Irish credit unions and see the role of credit unions as primarily lending to the personal loan market. 5.2.3 Maturity Limits Home Loans We have a strong view that a CU of less than €100m in total assets has the necessary skills to make an assessment of Home Loan class of loan. Restricting this class to CU of more than €100m will adversely impact on the provision of a current service available to our members.	Allow the risk, compliance and internal audit roles in the enhanced regulatory framework be established and allowed to prior to further regulatory changes. Many <€100m credit unions are currently complying with: ✓ Fitness & Probity for PCFs ✓ Governance – Internal Audit, Risk, Compliance Officers ✓ Have adequate IT systems ✓ Have Investment Expertise & Advisors ✓ Have adequate bad debt provisions and may be overprovided.. ✓ Have adequate oversight management and Boards. ✓ Are well in excess of Statutory Reserves requirements of 10%.	Overall Point: DCU operates within the current guidelines and requirements are set out in the Credit Union Acts, the Central Bank Guidelines/Rulebook and rules of the ILCU. The proposals are set out will adversely impact on DCU and potentially through this proposal, by restricting the lending, investment and savings activities make this profitable credit union, unsustainable. A number of the proposals, particularly in relation to savings, lending and investments will give undue advantage to other financial services providers operating in our market and could potentially be deemed to be anti-competitive. We believe the full impact of the changes as proposed will shrink credit union balance sheet size.

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	5.3 Investments: 5.3.2 Term Limits This will adversely impact on a credit unions ability to maximise return from its Investments. We see it as a restrictive practice. It could also be potential damaging to a credit unions long term sustainability by limiting its portfolio horizon to 5 years. It could also create a mismatch asset liability scenario for credit unions in relation to its loan book. 5.3.2 Counterparty limits – investments limited to a % of regulatory reserves. This will reduce the current counterparty limit from 25% to c. 12.5%. At this time, in a low investment return environment, this will adversely impact on investment returns to credit unions.		
	5.3.3 Investment Classes and Limits Senior Unsecured Bank Bonds rank pari passu with Bank Deposits, we do not understand the distinction presented in this paper.	Continue to allow credit unions to invest in Bank Bonds.	Any credit union who wishes to invest in corporate and bank bonds must retain the services of an independent external 'approved' investment advisor.
	5.4 Savings Limiting savings to €100,000. There is not clear rationale for this		

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(iii) Are there any other areas where credit unions could provide additional products or services	This paper is silent on the area of social finance.	The area of social finance and financial exclusion needs to be addressed at a national policy level.	Money lenders are filling a void in the area of social finance, traditionally a sector credit unions have served.
(iv) Do you agree that a provisioning framework should be developed for credit unions?		We welcome a standard Provisioning Framework	Provisioning is not standardised across the sector. We do not believe that Resolution 49 Provisioning Standards are fit for purpose in the current environment. We also believe the various software providers do not have a standard interpretation of provisions in the application of the standard and in doing so, CUs with different systems may have different provisioning requirements.

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(v) Do you agree with the proposed timelines?	No	Introduce a tiered model in 2016/2017.	Credit Unions have absorbed a huge amount of change and are still absorbing the full impact of the 2012 Credit Union Act. In the period, credit unions have not been regulated in a consistent manner. Supervisors are also building their understanding of how to apply the new regulatory standards. Additionally, the state of the Irish economy since 2007 and the trading environment has led to difficult trading conditions for credit unions. Introducing a tiered regulatory model at this stage of the economic cycle and with all the regulatory change already being absorbed by the sector would introduce additional risks to credit unions.