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

Drogheda Credit Union Ltd – Submission
18/3/2014

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.

The proposed tiered regulation is based on a one size fits all which is certainly not case with credit unions. The Commission recommended a 3 tier regulation which offered a greater flexibility with the larger credit unions being in the higher risk category. Presently credit unions are completely involved in complying with the new regulatory requirements so to impose a further requirement for them to apply for Category 2 status is totally unnecessary and which we are totally against.

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.

Note: 5.11-5.11 essentially documents the proposals for each Category – please refer to Table 1 and 2 in the Appendices.

We disagree entirely with the proposals as set out 5.1 – 5.11.

I attach some analysis of both our loan Book and our Investment portfolio showing the income and based on the new proposals this income from both our loan book and our Investment Book will reduce considerably.

Also the effect that Basel 111 will have will compound this decline of income. Under the new proposals we will be required to find a further 2-3 new counterparties and will have no option but to place considerable investments outside of the state.

Liquidity: the proposal that 25% of unattached shares be available within 1 month is putting further pressure on credit unions to restrict a larger portion of their investments into short term which at present and indeed into the medium term will again reduce their investment income.

We engaged Davy together with our Investment Committee to confirm the effect that this new structure would have on Drogheda and the effect it will have. €27m would have to be diversified into foreign banks at much lower rates than we are achieving at present and a further €14m would be in breach of existing guidelines

In relation to the proposal to restrict members savings to €100k or 1% whichever is the lower for Category 1 and €100k for category 2 is hugely restrictive and does now allow our members freedom of choice. We have a considerable number of members who have in excess of €100k in savings and to restrict savings to this level will result in a reduction of our savings.

The term of maturities will also cause us to reduce the term of some of our investments which will result in loss of investment income

See appendix 1 attached

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.

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 specific basios and some additional insurance services on a referral basis.
- **We fully endorse the need for credit unions to develop new additional products and services. Putting in place restrictions on loan limits, both individual and sector, maturity limits and restricted persons make this unworkable. If a credit union can display their ability and resourcefulness they should be able to offer any particular product.**
- **What is definition of "family" ?**

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.

General comment: if this new provision framework is going to apply to ALL credit unions then it has no place in a "Tiered Regulation Consultation Paper
We do agree that if this framework is developed then it should apply to all credit unions

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.

We disagree to the introduction of a 2 Tiered Regulatory Framework at this time, when credit unions are stretched to the limits in putting in place the new regulatory & compliance requirements and Boards are getting to grips with new governance legislation etc..
Based on the Commission report a 3 tier framework (with some adjustments to the Asset size of the categories) is more appropriate and maybe further consideration can be given to this new proposed framework when economic times improve and business returns to some semblance of normality

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.

See answer to Q5

Appendix 1. - Analysis of the implications of CP76 Proposals on the Investment Portfolio of Drogheda Credit Union

Analysis of Drogheda Credit Union's Investment Portfolio with Proposed Limits

		Description	Current Allocation		% Portfolio
Investments which are not authorised under proposals		Government Bonds (>5yrs maturity)	€3,030,476		2.62%
		Collective Investment Schemes	€8,386,351		7.25%
		Bank Bonds	€3,070,549		2.65%
		Total	***€14.4m would need to be allocated to alternative investments/classes***		**12.52%**
		Direct Exposure (no look-through on CTT)		Total Exposure (inc. look-through on CTT)	
		€ exposure < 100%RR	% RR	€ exposure < 100%RR	% RR
Breaches of proposed counterparty limit of 100% regulatory reserves (€18.1m which is c.15.6% of the investment portfolio)	AIB	3,698,225	120%	5,273,890	129%
	BOI	13,465,522	174%	15,747,207	187%
	PTSB	9,942,672	155%	11,969,711	166%
Total to be allocated to alternative counterparties		**€27.1m**	**23% of the portfolio**	**€33m**	**29% of the portfolio**
		% Portfolio	**Proposed Limit**		**OK/Breach?**
Maturity Limit: no more than 50% of the portfolio may mature after 3 years		24.2%	50%		OK
		% Unattached Shares	**Proposed Minimum**		**OK/Breach?**
Proposed short term liquidity constraints		21%	10%		OK
		21%	15%		OK

Source: Davy with reference to the Central Bank consultation paper

Category 2: The following analysis is based on the assumption that DCU will apply for and successfully achieve Category 2 status.

Table 2: Analysis of DCU's Investment Portfolio with Proposed Limits for Category 2 Credit Unions

		Description	Current Allocation		% Portfolio
Investments in classes which may not be authorised under proposals		Collective Investment Schemes	€8,386,351		7.25%
		Total	***€8.3m would need to be allocated to alternative investment classes***		**7.25%**
		Direct Exposure (no look-through on CTT)		Total Exposure (inc. look-through on CTT)	
Breaches of proposed counterparty limit of 100% regulatory reserves (€18.1m which is c.15.6% of the investment portfolio)		€ exposure < 100%RR	% RR	€ exposure < 100%RR	% RR
	AIB	3,698,225	120%	5,273,890	129%
	BOI	13,465,522	174%	15,747,207	187%
	PTSB	9,942,672	155%	11,969,711	166%

Total to be allocated to alternative counterparties	**€27.1m**	**23% of the portfolio**	**€33m**	**29% of the portfolio**

	% RR	Proposed Limit	OK/Breach?
Bank bonds limit: No more than 50% of credit union's regulatory reserves	17% (€3.07m)	50% or €9.05m	OK
Maturity Limit: no more than 50% of the portfolio may mature after 5 years	2.6%	50%	OK
	% Unattached Shares	**Proposed Minimum**	**OK/Breach?**
Proposed short term liquidity constraints	21%	10%	OK
	21%	15%	OK