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Registry of Credit Unions,
Central Bank of Ireland
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<u>Submissions on the proposals by the Central Bank on Introduction of a Tiered Regulatory Approach for Credit Unions.</u>

The Board of this credit union has considered the Consultation Paper CP76 and makes the following submissions;

1. The Consultation Paper is not about tiered regulation but is instead about micro-managing credit unions. The level of intervention suggested goes way beyond the remit of a regulatory body.

2. The proposals amount to an attempt to "restrict the life" out of credit unions. It is suggesting imposing "suffocating supervision" at a time when our revenue is decreasing and our costs are rising. If imposed, it will directly affect the service to members, dividends and interest rebates. The proposals will also dissuade possible future volunteers who are the lifeblood of the organization.

3. The proposals do not reflect the recommendations of the Commission. It was anticipated that smaller credit unions with simpler business models would be subject to simpler regulation but that is clearly not the case under these proposals. It appears to be part of a wider campaign by the Central Bank to get rid of smaller credit unions. Many small credit unions are operating very efficiently and

competently. The Central Bank would seem, by this proposal, to be trying to force credit unions to merge which is totally against the spirit and aim of the Commission's report which was a voluntary basis.

4. We had believed that the aim of the Commission and the view of stakeholders and the Department of Finance was that tiered regulation should be a positive, and that smaller simpler credit unions would have simpler less intrusive regulation. Credit unions are already tightly regulated as it is. The Commission envisaged that the majority of credit unions would be in the lower tier and they should expect the current "status quo" level of regulation, not additional levels of regulation. There should be no confusion on what was agreed at the Commission and the Consultation Paper is not what was agreed by the Commission. The Central Bank has misinterpreted what tiered regulation should be about, and takes no account of the changing landscape for credit unions.

5. The Central Bank is trying to take over the functions of credit unions. It is for credit unions and their representative bodies to drive change and not for the Central Bank. The function of the Central Bank is to regulate. The function of credit unions is to provide a service to their members.

6. The Consultation Paper seems instead to be aimed at shrinking the movement. For example the proposed savings limit will have the impact of shrinking credit unions. The limits on credit unions in general are being tightened and tightened.

7. We do not believe that the proposals around the creation of restricted persons limits under lending are fair. It will affect boards, staff and family members hugely. Why should good members be penalised for no good reason? This proposal will make it more difficult to attract volunteers for the board of directors. The definition of family is so broad as to make the proposal completely unworkable especially for smaller credit unions such as ours.

8. This requirement will potentially create a "2nd class" of membership. The current controls regarding loans to officers are sufficient.

9.

10. The proposals on investments will have a significant effect on the returns that we will be able to generate on our investments. These are already very restrictive and do not need further restriction.

11. The proposal to link the amount held in any counterparty to Regulatory Reserves would mean that we would have to hold investments with six or more counterparties as opposed to the current number of four. We do not believe this is correct because it will force us to invest funds outside of Ireland which they would not wish to do at this critical time for the Irish economy. We are a community based organisation and we want to do everything we can to support the Irish economy. Investing abroad will not do that.

12. We should be permitted to invest in collective investment schemes, particularly as this would facilitate investment in State projects as envisaged by the Commission.

13. We also believe that the proposed limits for Category 1 credit unions in particular i.e. the proposals to reduce the maximum investment term from 10 years down to 5 and also the proposed requirement to half total investments under 3 years would be detrimental to credit unions at a time when we are trying to get the best returns for our members. Again we see this as interference by the Central Bank in the management of credit unions by their Boards and members. We need to protect our members savings when investing and we have years of experience in doing this. Why should the Central Bank decide to interfere now in this process?

14. The proposals to increase the liquidity requirements will impact negatively on our investment income.

15. We are very concerned about the proposed savings limit of €100,000 per member. Many of our members have lost all faith in banks and trust the credit union. They are aware of the ceiling of €100,000 under the Deposit Guarantee Scheme but nevertheless they are happy to leave their retirement funds or redundancy money with the credit union. Why should the Central Bank dictate to credit union members where they save when the Central Bank does not do this to banks? This is another example of the Central Bank trying to damage or restrict credit unions.

16. We are not in favour of the proposed requirement that we will have to maintain an additional reserve for operational risk having regard to the nature, scale and complexity of the credit union. We are already extremely well reserved (better than other financial institutions) and this proposed reserve is unnecessary. We will be unable to pay a dividend if our entire surplus has to go to reserves and members would move their savings out of credit unions in search of a return. One of our greatest assets currently is member loyalty.

17. We believe that much more discussion needs to take place on these proposals. We need to see how the many changes introduced by the new Act are impacting on our credit unions. The timeline for implementation of the proposed tiered regulatory approach is too short given all of the other changes that we have to deal with as a result of the implementation of the Act. A suitable period of time should be allowed for credit unions to bed in these changes before having to understand and prepare for a tiered regulatory system.

18. We believe that these proposals attack the very ethos of credit unions. We are in many cases the last line of defence before moneylenders , both legal and illegal. If these proposals are brought in , it will not be possible for us to function as we have for the last forty years – not for profit, not for charity but for service.

19. The Board of Directors of this credit union fully endorse the submissions of the Irish League of Credit Unions.

The Board of Directors of Fairview Credit Union Ltd.
25th March 2014