Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions - (CP76).

Submission by Kilcormac Credit Union Ltd.

March 31st 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*

We welcome a tiered regulatory approach and believe it recognises the different issues facing Credit Unions today. We do however disagree with the measures proposed in CP76 as the implications could have financially damaging consequences for our credit union and constrain our future growth. We therefore cannot support the proposals outlined which will limit our growth & potentially threaten our viability in the future.

Our investment advisor Davy has conducted extensive research and testing on the viability of the proposals which the board has considered in detail. The second paper titled "Proposed Alternative Approach to Tiered Regulatory Framework for Credit Union Investments (CP 76): *A Follow-Up to our Assessment of the Impact on Credit Union Investments* " focuses on introducing a three tiered structure rather than two and provides a rationale to support the proposals put forward. We believe that the revised investment classes within a three tier structure are far more appropriate than those put forward in CP76.

On the matter of lending we are concerned that the proposals outlined in CP76 with limit will unreasonably limit our future growth and the provision of loans to our membership.

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 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.*

We do not agree with the proposals for the operation of the two category approach set out in 5.1 – 5.11. We do however support and endorse the alternative suggestions set out in the Davy paper titled "Proposed Alternative Approach to Tiered Regulatory Framework for Credit Union Investments (CP 76): *A Follow-Up to our Assessment of the Impact on Credit Union Investments* "which is attached at appendix 2.

Q3. *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.*

No Comment

Q4. *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.*

No Comment

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 do not agree that the tiered regulatory approach as outlined in CP 76 should be introduced at this time. The movement is undergoing extensive change at present in relation to increased governance & fitness and probity. We believe that more time should be given to permit these existing measures to be fully implemented prior to any further changes being introduced.

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*

We do not agree with the proposals or timelines or with the period between publication and commencement.

Kilcormac Credit Union Ltd Submission on Tiered Regulatory Proposals (CP 76) Additional Comments

1. **Small Credit Unions**:
   The smaller CU's had some hope of appropriate regulation under the proposals contained in the Commission on Credit Unions but this document cuts off this hope. We expected that "tiered regulation" would lead to a positive and supportive regulatory approach, and that for example smaller simpler credit unions would have simpler less intrusive regulation. Credit unions are already very tightly regulated and the Commission agreed that most credit unions would be in the lower tier and as such they could expect the current "status quo" level of regulation, - not additional and inappropriate levels of regulation. CP 76 amounts to a contradiction of what was agreed at the Commission and CU's are utterly disappointed by its contents.

2. **Tiering**
   There is minimal emphasis on tiering Credit Unions in this proposal. There is little difference in character between the categories as outlined and therefore credit unions are asking themselves why would they ever want to move to category 2 for example as this would force them to have dedicated Internal Audit, Risk and Compliance functions and board reviews without the advantage of being allowed offer much in the line of additional services

3. **Related Persons:**
   The section **5.2.4** is not clearly understood and would appear to be unworkable and discriminatory and should be removed.

4. **Large Exposures: (5.2.5)**
   The limits in relation to large exposures seem inappropriate and would amount to lax regulatory policy.

5. **Lending Practices and policies:**
   No category of lending should be related to regulatory reserves (5.2.2)

6. **Investments:**
   See attached Davy document.

7. **Governance**
   The requirement to have dedicated in-house resources is excessive and costly. We disagree in principle that an "external evaluation" is necessary considering the multiple and overlapping oversight functions which already operate such as Board Oversight, Nominating Committee, Chair of the Board etc.

8. **Operational Risk Reserve**
   We disagree with this proposal in principle because Credit Unions are already clearly very adequately reserved.

9. **Liquidity**
   Current guidelines are more than sufficient and requiring CU’s to hold higher percentages of their assets in short-term liquid form will further limit every CU’s ability to return operating surpluses and therefore threaten their viability.

10. **Provisioning (Section 6)**
    Any new model of provisioning should be drafted by the CU sector itself and should be designed in line with best International practice and methodology.

11. **Timelines**
    We suggest that because of the amount of change that CU’s have had to deal with over the last year we recommend that no further regulatory changes be considered until the current changes have had a chance to bed-in.
12. **Regulatory Impact Analysis**
    In advance of any changes in regulatory approach a full RIA should be carried out as per best practice. Any other approach risks damaging Credit Unions.