St. Mary's Parish Credit Union Ltd
47 Athlunkard Street
Limerick

Submission to the Central Bank of Ireland on Consultation Paper CP 76 – Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions.

Submission made to rcuconsultation@centralbank.ie on 31st March 2014

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1. Introduction:

1.1. **Welcome Opportunity:** In view of the importance of this issue to the future of Credit Unions in Ireland, St. Mary's Parish Credit Union Ltd welcomes the opportunity to present our views on the Introduction of a Tiered Regulatory Approach for Credit Unions.

1.2. **Agreement by Directors:** The general content of this submission was agreed by the Directors of St. Mary's Parish Credit Union Ltd at a Board Meeting held on 20th March 2014 and the final document was agreed by them via email prior to submission.

1.3. **Representative:** The contents of this submission therefore are to be regarded as representing the view of the Credit Union as a whole and not those of any one individual or group of individuals within the Credit Union.

1.4. **Appropriate and Fair:** This Credit Union believes that the basis of good regulation is that it should be appropriate and fair and, in considering this consultation paper, we have tried to measure the proposed approach against this benchmark.

1.5. **Purpose of Submission:** The purpose of this submission is to focus on the concerns we have in relation to this proposed approach and, where appropriate, to suggest alternative approaches which, in our opinion, would have the effect of making the regulatory approach for Credit Unions more appropriate and fairer.

2. General Comments:

2.1 **Opinion:** It is the considered opinion of the Board of Directors of St. Mary's Parish Credit Union that the Tiered Regulatory Approach for Credit Unions, as set out in Consultation Paper CP 76, will not provide for an appropriate and fair approach to the regulation of Credit Unions.

2.2 **Nature, Scale and Complexity**: We do not believe that a tiered approach to regulation, particularly in the format as set out in Consultation Paper CP 76, will properly take into account the nature, scale and complexity of a Credit Union in the application of regulatory requirements.

2.3 **Individual Credit Union Activities:** In our opinion, a tiered approach which has the minimal level of tiering will not allow for regulation to be aligned to individual Credit Union activities and will result in Credit Unions having to either cease certain activities or engage in mergers to achieve a level of scale to enable them be classified at the higher tier. Whilst this may benefit regulators in efficiency of regulation, it is likely to have a detrimental effect on the local communities in which many Credit Unions are based.

2.4 **Beyond Regulation:** We further believe that the proposed approach, as set out in Consultation Paper CP 76, goes beyond the setting out of a regulatory approach and concerns itself with strategic and operational matters that should be decided by the Board of Directors and Executive Managers of Credit Unions within the existing legislation. In this regard we refer particularly to Sections 5.2.3, 5.2.4, 5.3.2, 5.4.1, and 5.10.1 of the CP 76.

3. Specific Comments:

3.1 **Section 5.2.3 - Maturity Limits:** The maturity limits for Credit Union loans are set down in legislation – the proposal in this section seeks to override the legislative limits. It is our firm view that the role of the regulator should be to ensure Credit Unions are operating in accordance with the legislation, not to re-write it. Any requirement to amend maturity limits for individual Credit Unions should be done by way of Regulatory Order and not by way of a general regulatory requirement.

3.2 **Section 5.2.4 – Restricted Persons Limits:** This proposal will have a major impact on the proper functioning of community Credit Unions. It will lead to claims of discrimination, possible inadvertent breaches of regulation and, in many instances, it will be unworkable due to the community nature of the Credit Union. We are unaware of any other financial institution where such a regulatory clause has been imposed. We would further stress that we see this proposal as evidence that the Central Bank are concerning themselves with how to restrict Credit Union operations rather than how to regulate them in accordance with the existing regulation.

3.3 **Section 5.3.2 – Investment Classes and Limits, Category 1:** Once again, we believe that this proposal is neither appropriate nor fair, as it is not based on the nature, scale or complexity of a Credit Unions operation. The present investment restrictions already require a sizeable amount of time and effort to comply with, the restrictions being proposed in this Section will have the effect of making it even more complex to comply. The restriction proposed in relation to terms of investment will result in significantly reduced returns for Credit Unions and therefore having a major impact on future viability. Prior to any change of this nature an impact analysis should be carried out but we have seen no evidence that this has been done.

3.4 **Section 5.4.1 – Savings, Category 1:** No basis for setting a maximum savings limit of €100,000 is given. This is, in our opinion, yet another example of the proposals contained in this document concerning themselves with the strategic and operational issues, that are proper to Credit Union Boards and Management, rather than the regulation of existing legislation.

3.5 **Section 5.10.1 – Liquidity Requirements:** To the best of our knowledge, the present overall liquidity limits have proved sufficient for a number of years now for most Credit Unions and we view the level of short term liquidity as an operational matter that will vary from Credit Union to Credit Union and be dependent on lodgement and withdrawal patterns and we therefore do not regard it as a matter for additional regulation.

4. Alternative Suggestions

4.1 **Tiering by Services Provided:** We believe that a system of regulation based on the services provided would result in Credit Unions being regulated in a fair and appropriate matter as it would be based on the nature, scale and complexity of the operations. It would also allow Credit Unions to make strategic decisions about the direction they wanted their Credit Union to take and would mean that as Credit Unions choose to provide additional services to members they would be subject to additional regulation appropriate to the additional services they provided.

4.2 **Multiple Levels of Tiering**: As we have already mentioned, a tiering system with the minimal level of tiering will not allow for regulation to be aligned to individual Credit Union activities and we would therefore suggest that any tiering approach to regulation requires multiple levels of tiering.

4.3 **Asset Size Tiering:** Whilst we do not believe it will achieve regulation based on the nature, scale and complexity of a Credit Union, the Commission on Credit Unions suggest an asset size model be used. We would suggest the following if asset size were to be the determining factor:
Level 1 - Assets less than €10m
Level 2 - Assets between €10m to €30m
Level 3 - Assets between €30m to €60m
Level 4 - Assets between €60m to €100m
Level 5 - Assets over €100m

4.4 **Pick and Mix Tiering:** In this scenario, the Central Bank should set down various regulatory requirements for various levels of nature, scale and complexity of a Credit Union and individual Credit Unions, in agreement with the Central Bank, could then opt for the tier they wished to be regulated under, dependent on their existing operations and their strategic plans.

5. Conclusions:

5.1 **Regulator as Legislator:** In conclusion, we would state that, whilst we accept that the Central Bank have to set out clearly how they intend to regulate Credit Unions, we believe the proposals contained in CP 76 are as much about how the Central Bank want to impose their own ideas on the scope of Credit Unions activities rather than how they are going to regulate the existing regulation. It is our opinion that it is both dangerous and prejudicial for a regulator to take on the role of legislator.

5.2 **Individual Entity:** We believe that each Credit Union should be regulated as an individual entity based on the applicable legislation and that tiering is not an appropriate approach to achieve this. We made the same point in our submission on the Credit Union Bill 2012 and it is entirely consistent with our stated opinion on this matter in any consultations we have had with any parties concerning a tiered approach to regulation.

5.3 **Opposition Noted:** We would request that our strenuous opposition to the nature of this proposal be noted and given due regard during the review of feedback process.

John Hennessy,
Chairperson,
For, and on behalf of,
The Board of Directors
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47 Athlunkard Street,
Limerick.