



Credit Union Chair
By E-Mail

1 September 2015

Re: Credit Union Financial Year End 30 September 2015 – Year End Approach

Dear Chair

In preparing the 2015 annual accounts we expect directors of credit unions to comply with all legislative and regulatory requirements and guidance issued by this office. We have set out below the key areas on which boards of directors should give greater focus for the 2015 year-end:

- Loan Provisioning and Attached Savings
- Financial Stability and Viability
- Financial Reporting Standard 102

We also remind directors of the following matters:

- Internal Audit, Risk and Compliance
- Fitness and Probity Regime for Credit Unions with assets less than €10m
- New Regulations commencing 31 December 2015

1. Loan Provisioning and Attached Savings

We request boards of directors, as part of the year-end accounts process, to place particular emphasis on the adequacy of the bad and doubtful debt provisions in the 2015 accounts. It is vital that credit unions maintain adequate levels of overall reserves and provisions to ensure they remain financially stable. Credit unions are reminded that they must undertake a full review of



the bad debts provisions, including provisions held against rescheduled loans, as part of the year-end accounts preparation and audit process.

We expect directors of credit unions to apply a conservative and realistic approach in the measurement of bad debt provisions. Directors should take into consideration the level of risk inherent in the loan book, being mindful of the current economic and financial environment. The board of directors should discuss the credit union's provisioning policy with their auditors prior to finalisation of the annual accounts for 2015.

The board of directors are reminded of the amendments made to Section 32 of the Credit Union Act 1997 ("the 1997 Act") in October 2013 whereby the definition of attached savings and its calculation changed. Notification of the changes to Section 32 of the 1997 Act was issued to the sector on 3 December 2013. It has been noted that the changes in Section 32 of the 1997 Act may not be reflected in credit union IT systems resulting in the incorrect reporting of attached savings in the Prudential Returns. The board are reminded of their obligation to ensure all regulatory reporting to the Central Bank is complete, timely, accurate and in compliance with relevant legislation and guidance.

2. Financial Stability and Viability

The board of each credit union must focus on its future direction and viability. Well developed and credible strategic and business plans incorporating financial projections will assist boards of directors in assessing the credit unions future viability and sustainability. We continue to engage with credit unions to gain an understanding how credit unions are assessing and addressing the key risks and how they can satisfy themselves, and their membership, as to their long-term sustainability and viability.

It is important that boards consider whether there are events or conditions that may raise significant concerns on the credit union's ability to continue as a going concern. Where such concerns exist an assessment of the credit unions ability to continue as a going concern should be performed. Where viability cannot be demonstrated on a stand-alone basis, the need for



restructuring should be considered, if those credit unions are to be a stable and significant part of the Irish financial system in the future.

3. Financial Reporting Standard 102

The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”), will replace current Irish GAAP¹ and will be the accounting standard which credit unions will be required to prepare their annual audited accounts from 30 September 2016. Under FRS 102 the restatement of 2015 comparatives will also be required at that time.

The adoption of FRS 102 by credit unions will give rise to many changes in the requirements applicable to key areas of accounts preparation and financial reporting. The board of directors should discuss the adoption of FRS 102 and its impact with their auditors and IT suppliers to ensure that they identify the necessary steps and actions required so that they are adequately prepared for transition to FRS 102 in accordance with the relevant timelines.

The Central Bank intends to engage with the sector stakeholders including the Consultative Committee of Accountancy Bodies – Ireland (‘CCAB-I’) on this matter and will provide further updates to credit unions on the regulatory aspects arising. The Central Bank is currently working on upgrading the Online Reporting System (‘ONR’). However credit unions are to continue to report under the current guidelines until notified by this office of the revised ONR reporting requirements.

FRS 102 can be accessed on the Financial Reporting Council website².

¹ GAAP – (General Accepted Accounting Practice)

² [FRS 102- The Financial Reporting Standard](#)



4. Internal Audit, Risk and Compliance

The embedding of the new functional roles of compliance officer, risk management officer and internal audit should be adequately resourced with experienced persons, to enable these functions to support boards and management in discharging their fiduciary duties and responsibilities to credit union members.

During the course of our 2014 and 2015 PRISM on-site engagements with credit unions, we noted a significant number of credit unions which did not have effective or embedded Internal Audit, Risk and Compliance functions in place.

We take this opportunity to remind the board of the importance that should be placed on the level of assurances provided by the Internal Audit function. The board is also reminded of its responsibility for the oversight of the internal audit function and for ensuring that the credit union complies with all the requirements relating to the internal audit function and to regularly review, at least annually, the performance and effectiveness of this function.

Credit unions are required to comply with section 76J of the 1997 Act where they have outsourced the internal audit function to a third party service provider. Credit unions should also be aware of the fitness and probity requirements relating to outsourcing.

5. Fitness and Probity Regime for Credit Unions

On 1 August 2015, the second phase of the Fitness and Probity regime for credit unions commenced and apply to credit unions with total assets of €10 million or less. The following transitional arrangements apply:

- from 1 August 2015, persons holding PCF positions (chair and manager) within these credit unions will be subject to the Fitness and Probity Standards for Credit Unions (the Standards);



- from 1 November 2015, the Standards will apply to all persons performing CFs for the first time (other than CFs which are also prescribed as PCFs);
- from 1 August 2016, the Standards will apply to all persons occupying CFs.

Credit unions with total assets of €10 million or less are required to submit a PCF In situ Return to the Central Bank by 1 December 2015, listing those persons that held PCF positions within the credit union as at 1 August 2015.

6. New Regulations commencing 31 December 2015

Following the consultation on “Consultation Paper 88- Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act³” (“CP88”), the Central Bank is introducing new regulations for credit unions which will commence on 31 December 2015. New requirements will also be introduced for credit unions following the commencement of the remaining sections of the 2012 Act.

Further information on the regulations is available in the feedback statement on CP88 on the Central Bank website⁴.

The Credit Union Handbook will be updated, in advance of the commencement of the new regulations, to reflect the new regulations and guidance where appropriate. A FAQ document will also be developed for credit unions to address questions on the implementation of the new regulations. Information seminars will also be undertaken nationwide in Q4 2015 which will include presentations on the new regulations.

Credit unions should prepare well in advance to ensure that the 2015 year-end process operates as smoothly as possible. Appendix 1 sets out areas requiring compliance. Where credit unions require further clarification on the process they should contact the supervisor dealing with their credit union as early as possible.

³Credit Union and Co-Operation with Overseas Regulators Act 2012

⁴[CP88 Feedback Statement](#)



A copy of this circular will also be sent to the auditors of all credit unions.

Finally, if you have any queries on the above please contact Martin Johnson in this office on (01) 224 4202 or by e-mail at martin.johnson@centralbank.ie.

Yours faithfully

Anne Marie McKiernan

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Registrar of Credit Unions



Appendix 1

I. Regulatory Reserve Ratio

Regulatory Reserve Ratio for Credit Unions – August 2009: available at www.centralbank.ie in the Credit Union Handbook chapter on Reserves.

II. Liquidity and Investments

These guidance notes are available at www.centralbank.ie in the Credit Union Handbook chapter on Investments.

III. Change in Auditor

Credit unions are obliged to notify this office in accordance with the provisions of Section 117 of the 1997 Act regarding a change in the auditor.

IV. The Submission of Draft Financial Statements

Credit unions are obliged to submit the 30 September 2015 draft audited financial statements information via the ‘Draft Financial Statements’ on the Online Reporting system, prior to setting a date for the 2015 annual general meeting.

V. Year End Requirements

Credit unions have a statutory obligation to submit the following to the Central Bank:

- Draft Financial Statements;
- Final Financial Statements;
- Signed Annual Audited Accounts;
- AGM Notifications; and
- Annual Year End Return;

Credit unions are reminded of the letter issued by this office on 18 September 2014 detailing the requirements pursuant to Section 22 and 23 of the Central Bank (Supervision and Enforcement) Act 2013 with regard to the year end return.



VI. Annual Compliance Statement

Credit unions are obliged to submit an annual compliance statement to the Bank within two months of the end of the financial year of the credit union, i.e., by 30 November.

All of the above guidance notes and statutory requirements are available at www.centralbank.ie in the Credit Union Handbook and Reporting Requirements.