



Issue 2 | January 2015

Welcome to Credit Union News

First, I would like to wish all credit unions and their officers a very happy and prosperous 2015. I hope you find our Newsletter a useful addition to our communications with you.

In this issue I would like to draw your attention to our new approach to onsite engagement, which we are extending to low impact credit unions (see page 2 for further details). I will also comment briefly on lending restrictions currently in place and the role of your credit union in that regard.

At the Registry of Credit Unions, we want to understand more clearly the specific issues facing some of the low impact credit unions. For this reason, we have introduced a new engagement model for these credit unions for 2015. This more intense engagement will allow us to focus more directly on the credit unions that may not have viable plans for growth and development and that may need to consider restructuring to ensure their long term viability.

The need for restructuring and the need to increase its pace in 2015 is clear. Credit union boards and management should rise to the challenge of developing viable and sustainable business plans and business models, and developing services for your members. Where restructuring is necessary, it is generally better that your credit union is as proactive as possible and seeks to effect voluntary restructuring, where possible.

Increasing your lending, in a prudent and viable way, is obviously one way to grow and develop. In this context, we expect credit unions to apply prudent lending standards for all new loans and top-ups of existing loans and to have systems in place to ensure that such applications are fully assessed to confirm the member's ability to repay the loan. Lending restrictions arise from on-going matters of supervisory concern arising in individual credit unions. During 2015 we will be reviewing such restrictions on a case by case basis and inviting all credit unions with a restriction to demonstrate that they have, and can document, the appropriate systems and controls so that we can consider easing or removing the lending restriction as appropriate.

We all have a role to play to ensure that credit unions retain their critical role in society. Credit unions must develop and implement the strategic plans required to ensure they can thrive in a challenging financial services market. The role of the Registry of Credit Unions is to develop and implement an appropriate regulatory framework for credit unions which protects members' savings. I would like to wish you every success in the coming year and I look forward to working with you to ensure that the credit union sector is strong and successful into the future.



Anne Marie McKiernan

Anne Marie McKiernan
Registrar of Credit Unions



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Annual Compliance Statement

In accordance with section 66C of the Credit Union Act, 1997 (the 1997 Act), all credit unions are required to submit an annual compliance statement to the Central Bank by 30 November each year.

The annual compliance statement is an important tool to assist credit unions in assessing their implementation of and compliance with the governance framework set out in the 1997 Act.

We recognise that 2014 was the first year in which credit unions were required to submit an annual compliance statement to the Central Bank. We would like to thank credit unions for their work in relation to the timely submission of this return.

We are currently reviewing the annual compliance statements received. We will determine the appropriate next steps, including what further guidance or clarification may be required, in advance of the submission of the next annual compliance statement (by 30 November 2015).

New Engagement Model for Low Impact Credit Unions

Given the important and unique position of credit unions as deposit takers in their local communities and our statutory duty to protect members' savings, we are expanding the scope of our engagement model to include low impact credit unions that were not previously subject to PRISM onsite engagement.

This change recognises that long term viability challenges being experienced by many larger credit unions are likely to be even more significant for smaller credit unions. Our focus is to understand how these credit unions are addressing their key risks and how they can satisfy themselves and their membership as to their long-term sustainability.

Our engagement will deliver value through providing the opportunity for credit unions to demonstrate their prudent risk management systems, their compliance with legislative and regulatory requirements and their capacity to maintain financial resilience on a stand-alone basis.

Credit unions that are not in a position to satisfy the above will be expected to demonstrate alternative arrangements that are being actively pursued to protect members' interests. For those credit unions in advanced discussions with other parties in relation to restructuring, it is important that this be signalled to us at an early stage and our scheduling of onsite engagements will accommodate this process.

We are contacting all low impact credit unions to request information prior to commencing our onsite engagements. For further information in relation to the above, please contact: rcu@centralbank.ie



Consultation on Regulations for Credit Unions (CP88)

Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act [\(CP88\)](#) was issued on 27 November 2014. This consultation paper was issued to consult on draft regulations that the Central Bank is proposing to introduce for credit unions at the same time as the remaining sections of the Credit Union and Co-operation with Overseas Regulators Act 2012 are commenced. CP88 includes regulations on reserves, liquidity, lending, investments, savings and borrowing.

Along with the publication of CP88, the Central Bank held nine nationwide information seminars for credit unions during November and December 2014, to engage directly with credit unions on regulatory policy developments. Presentations made at the seminars provided information on the new regulatory developments in 2014, the draft regulations for credit unions contained in CP88 and regulatory developments planned for 2015. The information seminars were well attended and provided us with helpful feedback on the draft regulations. The slides from the Information Seminars are available [here](#).

The submission period for CP88 closes on 27 February 2015. Submissions should be sent by e-mail to rcuconsultation@centralbank.ie or by post to the following address:

CP88
Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2



Elaine Byrne, Deputy Registrar of Credit Unions, presenting at the South Dublin seminar

Credit Union Investments

Investments continue to represent a significant portion of assets in the credit union sector. Credit unions should ensure that any investments they make do not involve undue risk to members' savings (see Guidance Note on Investments by Credit Unions, October 2006). Credit unions should ensure that detailed analysis and careful consideration is undertaken before making an investment. Investments should be in line with the investment policy and risk appetite of the credit union and the rationale for investment decisions should be documented.

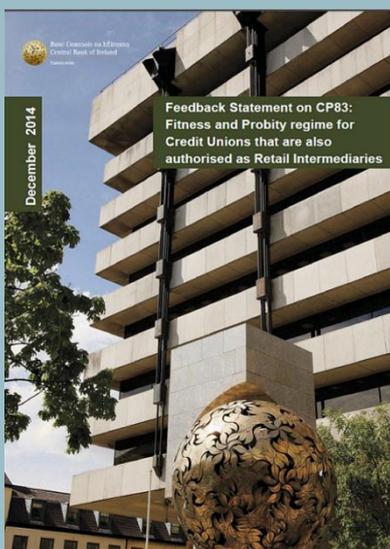
In relation to capital protection, when considering making an investment, credit unions should ensure that they understand the level of capital protection provided by the investment and that all potential risks to the repayment of capital are taken into account, including circumstances where repayment of capital may be dependent on events in institutions other than the issuing counterparty.

The Market in Financial Instruments Directive (MiFID) imposes certain obligations on investment firms and credit institutions when providing investment services to their clients, including credit unions. MiFID categorises the clients of investment firms and credit institutions into two categories, Retail Clients and Professional Clients. Investment firms owe a greater duty of care to Retail Clients than they do to Professional Clients under the provisions of MiFID. While credit unions are automatically categorised as Professional Clients under MiFID, they may opt to be treated as Retail Clients. Credit unions should give careful consideration to whether they should opt to be treated as Retail Clients for MiFID purposes, taking account of all of the implications of their chosen categorisation, including the higher duty of care in the Retail Client category.

For further information on credit union investments, see the [Investments Chapter](#) of the Credit Union Handbook.



Fitness and Probity in 2015



Fitness and Probity for credit unions that are also authorised as retail intermediaries

In August 2014, the Central Bank issued a consultation paper on Fitness and Probity for credit unions that are also authorised as retail intermediaries ([CP83](#)). CP83 set out the Central Bank's revised approach on fitness and probity for those credit unions that also hold an authorisation as a retail intermediary. Previously, the Central Bank had proposed to apply the general Fitness and Probity regime that applies to all other regulated financial services providers to these credit unions. The revised approach proposed that the current Pre-approval Controlled Functions (PCFs) that apply to credit unions (chair of the board of directors and manager of the credit union) will apply to these credit unions and that no additional PCFs will be required. CP83 also indicated that, as previously proposed, the CFs of the general Fitness and Probity regime (CFs 1 - 11) will apply to these credit unions for the retail intermediary part of their business.

The closing date for submissions on CP83 was 30 September 2014. 16 submissions were received. The submissions generally agreed with and supported the revised approach to the application of fitness and probity requirements to credit unions that are also authorised as retail intermediaries. On 19 December 2014, the Central Bank published the feedback statement on CP83 which indicated that we will proceed as outlined in CP83. The feedback statement and submissions received on CP83 can be accessed on the Central Bank's website [here](#).

This Fitness and Probity regime for credit unions that are also authorised as retail intermediaries comes into effect on 1 August 2015.

Fitness and Probity for credit unions with total assets of €10 million or less

On 1 August 2015, the **second** phase of the Fitness and Probity regime for credit unions will commence and will apply to credit unions with total assets of €10 million or less. The following transitional arrangements will 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 will also be required to submit a PCF In situ Return to the Central Bank by 1 December 2015, listing those persons that hold PCF positions within the credit union as at 1 August 2015.

Updated Fitness and Probity documentation

The Fitness and Probity Regulations, Standards and Guidance are being updated to reflect the requirements coming into effect on 1 August 2015. It is planned to issue the updated documents to credit unions by end March 2015.



Protecting Credit Unions from Fraud

The risk of loss from fraud is a matter that credit unions, like other financial institutions, should be aware of at all times. Credit union boards should ensure that systems and controls are put in place to ensure that any operational risks, such as potential fraud or dishonesty of its officers, are identified, managed and mitigated. Credit unions should consider whether they have adequate measures in place when assessing their ability to deal with the threat of fraud, including ensuring that they have the following:

- systems and controls to minimise the risk of loss from fraud, (including inspection and verification of cash, passbooks or statements, bank reconciliations, and records and transactions relating to loans and investments);
- adequate segregation of duties and clear organisational and reporting structures whereby no one individual has responsibility for all stages of processes within the credit union (e.g. loan application, approval and drawdown); and
- information security policies which ensure that:
 - appropriate access and process controls are in place for information systems, and
 - audit trails of information systems access are monitored and reviewed.

Section 76E of the 1997 Act sets out requirements on the identification, management and mitigation of operational risk (which includes fraud) by credit unions.

Section 47 of the 1997 Act requires credit unions to have an insurance policy in place in respect of loss suffered or liability incurred by reason of the fraud or other dishonesty of its officers.

The Operational Risk section of the [Risk Management and Compliance Chapter](#) of the Credit Union Handbook also contains guidance on the identification, management and mitigation of operational risk by credit unions.

Finally, credit unions should be aware of the statutory reporting requirements when potentially fraudulent activity is uncovered or suspected within a credit union. Section 59 of the Criminal Justice (Theft and Fraud Offences) Act, 2001 (the 2001 Act) requires firms (including credit unions) to report any suspected fraud (as set out in the 2001 Act) to a member of An Garda Síochána.

Credit Union Sector Restructuring

A core recommendation of the Commission on Credit Unions was that the credit union sector should be restructured and that this should be achieved on a voluntary, incentivised and time-bound basis. The Credit Union Restructuring Board (ReBo), was established to facilitate and oversee the restructuring of credit unions to support their financial stability and long term sustainability. The Central Bank works closely with ReBo and individual credit unions on restructuring proposals. We urge all credit unions, who feel that restructuring may be an option, to engage proactively with ReBo, if they have not already done so.

Further information on the legal process and timelines for transfers of engagements is available in the [Transfer of Engagements and Amalgamations Chapter](#) of the Credit Union Handbook.

Further information and contact details for ReBo can be found at www.rebo.ie including details on a one day conference on restructuring, which is scheduled to be held at the Aviva Stadium, Ballsbridge, on 21 March 2015.



Ensuring Clear and Fair Standards in Credit Advertising

All consumers, including credit union members, must be confident that financial products and services, including loans, are advertised and marketed in a way that is clear, fair and not misleading. Fair and transparent advertising of credit is an area that has been recently reviewed by the Central Bank's Consumer Protection Directorate (CPD) to assess compliance with the Advertising Requirements of the European Communities (Consumer Credit Agreements) Regulations 2010 (the CCR).

When compared with the banking and moneylending sector, this review found low levels of compliance in the credit union sector, with only one third of the advertisements meeting the relevant requirements. On foot of these results, the Central Bank wrote to all firms (including credit unions) highlighting concerns and firms have been asked to withdraw and amend advertisements, where necessary, to ensure that they comply with the requirements of the CCR.

Part 2, section 7 of the CCR requires that an advertisement for a credit agreement includes standard information in a clear, concise and prominent way, by means of a representative example. Please see a best practice example below:

Know Your Loan- Representative example: €1,500 loan repayable over 12 months
12 monthly payments of €130.79
Rate of interest 8.45% p.a. variable
Representative 8.73% APR
Total Amount Payable is €1,569.48

The monitoring of advertising plays an important role in the area of consumer protection and CPD can consider further regulatory action if issues are not dealt with satisfactorily and/or if issues are serious or reoccurring. In addition to desk-based reviews, CPD regularly monitors advertisements, to ensure that they comply with consumer protection advertising requirements and meet the best interests of consumers.

Deposit Guarantee Scheme – New Directive

The Deposit Guarantee Scheme (DGS) in Ireland is overseen and operated by the Central Bank. A new Directive on Deposit Guarantee Schemes (2014/49/EU) has been introduced which is due to be transposed by the Department of Finance into national legislation by July 2015. The Directive introduces harmonised funding requirements, a reduction in payout deadlines, harmonisation of eligibility categories and new depositor information requirements.

A key element of the new Directive is the obligation being placed on credit institutions (including credit unions) to be in a position to mark eligible deposits in a way that allows an immediate identification of such deposits and to provide the DGS team within the Central Bank with the aggregate amount of eligible deposits of every depositor on request. Depositor data requests are made for the sole purpose of verifying that, in the event of invocation of the DGS, a credit union is in a position to provide data of sufficient quality to the Central Bank to ensure that the DGS can fulfil its mandate.

In this regard the DGS team will be in contact with all credit unions in order to progress work in this area and intends to issue a file specification to enable the provision of the required deposit information. The new Directive is available [here](#). Further information on the new requirements will be provided to credit unions shortly.



Credit Union Peer Review

Under section 32M of the Central Bank Act, 1942, the Central Bank must ensure a review of the performance of its regulatory functions (peer review) is carried out once every four years. It is anticipated that the first peer review of the credit union sector in Ireland will be carried out during the first half of 2015.

The International Credit Union Regulators' Network (ICURN) has agreed in principle to carry out a peer review on the regulation of the credit union sector in Ireland. ICURN is an independent international network of credit union regulators, formed in 2007, with members drawn from over 30 countries and jurisdictions. The peer review assessment will be informed by the ICURN Guiding Principles for Effective Prudential Supervision of Cooperative Financial Institutions – 2011, available [here](#). These Guiding Principles were developed in 2011 as guidance for supervisory authorities involved in the prudential supervision of cooperative financial institutions to establish an environment that facilitates effective supervision.

We anticipate that credit union representatives will participate in some meetings with the peer review team during their onsite visit and we will be in contact with credit union representatives when further details, including timelines, have been finalised.

Minimum Reserve Requirements – Period Extension

The European Central Bank (ECB) has extended the 2015 minimum reserve maintenance periods from four to six weeks. This followed a decision by the ECB's Governing Council to hold its monetary policy meetings at six week intervals instead of once a month, beginning in January 2015. As a consequence, the reserve maintenance periods, during which banks and credit unions are required on average to hold minimum reserves with the Eurosystem, will also be extended to match the new frequency of monetary policy meetings. Taking into account the 2015 schedule for the meetings of the Governing Council of the ECB, the first maintenance period of 2015, which began on 28 January, was extended by 14 days and will end on 10 March.

The reporting schedule reflecting the new extended maintenance periods can be found on the ECB's website and at the following link on the Central Bank of Ireland website: [Schedule of Reporting Dates](#).

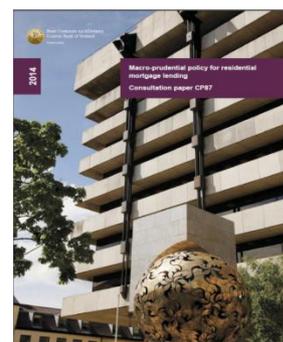
Outcome of CP87 – New Regulations for Mortgage Lending

On 27 January, the Central Bank of Ireland, following a public consultation ([CP87](#)), announced the introduction of new regulations which will apply to mortgage lending by regulated financial services providers (including credit unions) in the Irish market.

The measures introduce proportionate limits for loan to value and loan to income ratios for both primary dwelling houses and buy to let mortgages. The limits are supplementary to individual lenders' credit policies and are not designed as a substitute for lenders' responsibilities to assess affordability and lend prudently on a case-by-case basis. The key objective of these regulations is to increase the resilience of the financial and household sectors to the property market and to reduce the risk of credit and house price spirals from developing in the future. It is expected that the Regulations will be introduced under legislation in the coming weeks.

Further information on the Regulations can be found in the Information Note outlining the measures [here](#). Feedback to the public consultation can be found [here](#).

As indicated in CP88, these new regulations will be taken into account when finalising the draft lending regulations for credit unions contained in CP88.





Review of the Code of Conduct for Business Lending to Small and Medium Enterprises (CP91)

The Consumer Protection Directorate (CPD) at the Central Bank has published a consultation paper ([CP91](#)) reviewing the Code of Conduct for Business Lending to Small and Medium Enterprises (SMEs). CPD is proposing additional and enhanced protections to strengthen the existing SME Code. It is also proposing a change of scope such that credit unions providing or offering to provide credit to SMEs would come within scope of the revised provisions.

The new rules will be issued as regulations under section 48 of the Central Bank (Supervision and Enforcement) Act 2013. A set of draft regulations is included with the consultation paper.

CPD would welcome comments and views from all interested parties on the issues highlighted in the paper and the revised provisions as well as any other views relevant to the SME Code review. The closing date for submissions is 13 April 2015.

Submission of Year-End Returns

Draft Financial Statements, AGM Notification, Annual Audited Accounts

The Year End Contact is required to submit the above returns by 31 March 2015.

Final Financial Statements

The Year End Verifier (a principal officer in the credit union i.e. chair, vice-chair or secretary and not the Year End contact) is required to review the 2014 Financial Statements information. When satisfied that the information is correct, the Year End Verifier must sign off the 2014 Final Financial Statements (return must be in a "Signed Off" status on the Online Reporting System (ONR)) no later than 31 March 2015. Users can reset their password on ONR via the reset password link on the left hand side of the ONR login screen. If the credit union intends to change the Year End Verifier on ONR, sufficient time must be allowed to set up the new user account.

Please e-mail regulatorytransactions@centralbank.ie to request a new ONR user account.

Annual Return

The 2014 Annual Return must be submitted by 31 March 2015. Please ensure completed returns are in 'Signed Off' status on ONR. Credit unions that are subject to Fitness and Probity will see that these positions are populated automatically on the Annual Return on ONR. If several options appear for the manager or chair, please select the current active chair/manager on the Annual Return. Updated Year End guidance notes are available on ONR under the 'Annual Return' section.

Please e-mail regulatorytransactions@centralbank.ie if there are any issues with this return.

Update on IT Survey 2014 Analysis



The analysis report of the IT Survey of credit unions with assets greater than €40 million, conducted in May 2014, was issued to all credit unions on 30 September 2014. The 2014 IT Survey reflected a disappointing level of progress made by many credit unions, in their own self-assessment, in managing and controlling the risks associated with IT. Although there is an acknowledgement of improvements in some areas, overall it is clear that significant additional work still needs to be done.

At this stage, the Registry of Credit Unions (RCU) expects that all credit unions will have completed the questionnaire and have carried out a full self-assessment of their own IT systems and related governance and controls. Based on the results of the self-assessment findings, documented risks and associated remediation actions in respect of non-compliant IT assessment areas should be included in the credit union's risk register and all identified issues should be fully addressed, with clear actions, owners and timelines. The self-assessment findings, documented risks and the associated remediation actions should also have been presented to the board of directors, which has responsibility to ensure delivery of necessary improvements.

Credit unions are not required to submit the completed self-assessment to RCU but should be in a position to provide a copy of the completed assessment and board approved mitigating actions should they be asked by RCU as part of an onsite engagement.



Communications / Events for Credit Unions

- 31 January 2015:** Speech by Registrar of Credit Unions at CUDA Annual Conference
- 4 March 2015:** Speech by Registrar of Credit Unions at CUMA Spring Conference
- 21 March 2015:** Speech by Registrar of Credit Unions at ReBo Conference
- 25 April 2015:** Speech by Registrar of Credit Unions at ILCU AGM



Key Dates for Credit Unions in 2015

- 21 January 2015:** Final date for submission of Prudential Return for 31 December 2014 reporting period
- 27 February 2015:** End of consultation period for CP88 – Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act
- 31 March 2015:** Final date for submission of Annual Return by credit union Year End contact
- 31 March 2015:** Final date for submission of Annual Audited Accounts
- 31 March 2015:** Final date for submission of Final Financial Statements
- 13 April 2015:** End of consultation period for CP91 – Review of the Code of Conduct for Business Lending to Small and Medium Enterprises
- 21 April 2015:** Final date for submission of Prudential Return for 31 March 2015 reporting period
- 21 July 2015:** Final date for submission of Prudential Return for 30 June 2015 reporting period

Contact Us

As part of our commitment to on-going communication with you, we have set out details of the main contact points for queries below. Please contact us directly, either via your RCU supervisor or at rcu@centralbank.ie, with any questions or queries.

QUERY	CENTRAL BANK DIVISION/TEAM	CONTACT
General day to day supervisory queries	RCU	Credit union supervisor / rcu@centralbank.ie
Consumer Protection	Consumer Protection Division	CPCOperations@centralbank.ie
Anti-Money Laundering requirements for credit unions	Anti-Money Laundering Division	AmlCtfqueries@centralbank.ie
Deposit Guarantee Scheme	Deposit Guarantee Scheme team	dgs@centralbank.ie
Online Reporting queries	Regulatory Transactions Division	regulatorytransactions@centralbank.ie
Fitness & Probity – Individual Questionnaire queries	Regulatory Transactions Division	FitnessAndProbity@centralbank.ie
Minimum Reserve Requirements:		
Calculation of reserve requirements	Statistics Division	creditunion@centralbank.ie
Transfer of amounts to/from your account in the Central Bank	Euro-settlements team	eurosettlements@centralbank.ie
Confirming balances and meeting your reserve requirement	Financial Markets Division	modesk@centralbank.ie

Feedback

We hope that you find this issue of Credit Union News useful and we welcome your feedback to rcu@centralbank.ie