



Welcome to Credit Union News

As the new year starts I would like to wish credit union members, volunteers and staff a happy and successful year. In our first newsletter of 2017, I want to congratulate you on the progress you have achieved through your hard work in 2016 and explain some of our priorities as your regulator for this year.

2016 was a busy year for your sector bringing a significant transformation in the credit union landscape. The sector has been strengthened through mergers, with 290 active credit unions now, down from 333 at the start of 2016. You have worked hard to identify and progress the mergers that have brought about this transformation. The vast majority of restructuring has been voluntary. Where necessary we have used our powers to expedite consolidation of a number of distressed entities, using the private Savings and Protection Scheme of the Irish League of Credit Unions. These cases have often involved capital shortfalls arising from loan write-offs, falling fixed asset values and significant viability weaknesses. As you know, following the completion by ReBo of its functions the Registry now has responsibility for managing the full process of transfers of engagements with credit unions and we will work with credit unions that wish to consider this option.

Last November the Central Bank had to liquidate a credit union, an action we do not take lightly. Liquidation is a final option when all other possible solutions have failed. As Regulator we will take whatever action is necessary to protect the savings of credit union members and the stability of the sector. We take our strongest action where we see egregious failures, particularly a failure to put in place, operate and test the systems and controls that are necessary to protect your credit union and members. Our priority is to ensure that any failure is well-managed so that financial loss or loss of services for members is avoided as far as possible.

Looking ahead, the big challenge this year is for merged credit unions to leverage their increased scale to achieve greater operating efficiencies and to develop viable business models for the future. Consolidation alone will not guarantee stronger future viability.

One of the keys to achieving business model potential lies in credit unions collaborating to use shared service facilities and form strategic alliances with third party service providers, a successful approach used in other countries. The approval of a Member Personal Current Account Service (MPCAS) is a significant and positive development for the credit unions who wish to provide current account services and payment instruments such as debit cards to their members. It is an example of how credit unions, which have the culture and capability, can undertake suitable development of their business model. At the Registry we have set up a new unit on Business Model and Engagement to engage with you on business model changes, collectively or bilaterally or through engagement with central representative bodies or other agencies. The aim is to drive forward well-developed proposals grounded in a deep understanding of the risks involved.

With the focus this year on embedding the benefits of restructuring and making significant progress on building the business models required for future viability, it promises to be another interesting and challenging year!



Anne Marie McKiernan

Anne Marie McKiernan
Registrar of Credit Unions



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In this issue of Credit Union News, the various articles have been categorised as articles from the Registry of Credit Unions (light blue) and from other Central Bank Divisions (light grey). Articles have been colour coded for ease of reference.

Articles that are reminders or provide new information or updates have been further highlighted as such.

Feedback

We hope that you find this issue of credit union news useful and informative. We welcome your feedback at rcu@centralbank.ie.

On-Site Engagement 2017

The Registry will continue to apply the risk-based PRISM model to credit unions in 2017 including a significant number of on-site engagements ranging from 2 – 5 days. While these engagements will continue to be risk based and look across the entire credit union sector and the full spectrum of risks, there will be a focus on assessing impacts, both positive and negative, in post transfer of engagement credit unions. This focus will allow the Registry to gauge both the embeddedness of the oversight and risk management frameworks in the expanded credit unions and whether or not the benefits, as set out in the detailed business plans, have been achieved. This information will assist the Registry in shaping its view in relation to future proposed transfer of engagements.

In addition to focussing on post transfer of engagement credit unions the Registry will undertake a number of thematic reviews which will include assessing mortgage underwriting and the control frameworks in relation to such lending.

While the Registry recognises the resource requirements placed on credit unions during on-site visits, such visits are vital in ensuring that the Registry can take comfort that credit unions have the requisite control frameworks in place and where such frameworks are not in place that an outcome focussed risk mitigation plan can be agreed with the credit union and put in place to mitigate the identified weaknesses/risks and ensure the protection of member's funds.



On-Site Themed Inspections

Between June and October 2016, RCU conducted a series of themed inspections across a selected sample of credit unions in Fitness and Probity and Outsourcing. The aim of these inspections was twofold; (i) to assess compliance with the areas of the Fitness and Probity regime, which has been fully implemented in all credit unions since 1 August 2016, and (ii) an examination of the appropriateness, suitability, due diligence, oversight and monitoring of outsourced arrangements with regard to material business activities.

The **Fitness and Probity** inspections focused on Controlled Functions with a particular focus on the level and quality of due diligence being undertaken and recorded by credit unions.

The **Outsourcing** inspections particularly focused around the processes and procedures, within the sample of credit unions, underpinning the selection, oversight and review of service providers. It also examined the level of board involvement in the decision making and monitoring of these arrangements, while, being mindful of the fact that the responsibility for these functions remains with the boards.

An industry communication, detailing the findings and key themes from the inspections, will be issued to all credit unions in Q1 of 2017. This will detail examples of good and poor practice and will serve as a guide to the sector on what these practices should look like.

Business Model Development

The internal and external challenges facing the sector are well-aided and there has been an increased focus on business model viability and sustainability in recent years. The vulnerabilities in core savings and loan performance are amplified by the increasing digitisation of financial services, and shifting consumer product and service expectations with the result that the scale and scope of expensive business model transformation required for a large number of credit unions is significant. Given the current size profile of the sector, necessary cost efficiencies are unlikely to be sufficiently achieved by credit unions on a stand-alone basis.

Where change is proposed, it is important that business model transformation is carried out in a prudent and structured fashion supported by risk focused business plans, key financial analysis addressing future surplus generation and balance sheet impact and ensuring the necessary resources and capabilities are in place to deliver on the required changes. The use of a shared service approach to bridge technical, operational, risk management and knowledge gaps is a key feature of business model evolution elsewhere. Clearly, in order to deliver necessary scope and scale economies, such shared services need to demonstrate critical mass and resilience.

The role of RCU's Business Model and Engagement unit, is to engage with the sector and key stakeholders in various fora on strategic business model issues and engage on significant new proposals, including new additional services applications. We seek to prioritise those proposals which have the potential to be of greatest benefit for the sector.

Key lessons from the recent successful Member Personal Current Account Service (MPCAS) credit union initiative included; open and transparent early stage engagement with the Registry, well-researched and targeted analysis to support the business case, use of appropriate technical and legal expertise, and effectively managed collaboration between credit unions.

The Unit can be contacted at rcu@centralbank.ie



Information Seminars 2016

The Central Bank held its annual nationwide Information Seminars for credit unions during November 2016, with seminars held in four locations: Athlone, Cork, and Dublin- Citywest and Santry. The main purpose of these Information Seminars is to inform and engage directly with credit unions on regulatory and supervisory developments.

The theme of this year's Seminars, was '**Embedding the strengthened regulatory framework and focusing on the potential future role credit unions have as a strong, safe sector offering competition and choice to members**'. The presentations delivered at the Information Seminars covered the four key strategic priorities identified by RCU:

- Supervisory Engagement 2016
- Restructuring
- Regulatory Frameworks – updates and developments
- Business Model Development

We were also joined by colleagues from other divisions of the Central Bank who provided presentations on:

- Safety and Integrity of Cash
- The Central Credit Register

Copies of the presentations were issued to attendees following the Information Seminars and are available [here](#)

The 2016 Information Seminars were attended by approximately 380 representatives from over 145 credit unions. The representatives comprised of credit union officers including, managers, chairs, directors and board oversight committee members. Representatives from ILCU, CUMA, NSF, CUDA and ReBo also attended.

We introduced some changes to the format and content of the 2016 Information Seminars from previous years including a breakout Q&A session during each Seminar where staff from the Registry were available to answer questions on a one to one basis. RCU seeks to continue to develop its future communications and engagements with credit unions and welcomes any feedback on the format or content for future Seminars.

CPD

Those who attended the 2016 Information Seminars can claim up to 2.5 CPD hours from the LIA for CUG, CUC and CUA certifications. Attendees were also able to claim 2.5 CU CPD hours for ILCU certifications.

Attendees were provided with accreditation codes by email following the Information Seminars in order to claim their CPD hours. Please contact rcu@centralbank.ie for further information on claiming CPD hours for attendance at the 2016 Information Seminars.





Cybersecurity

The risks associated with information technology ('IT') and cybersecurity are a key concern for the Central Bank given their potential to have serious implications for prudential soundness, consumer protection, financial stability and the reputation of the Irish financial system. Credit unions must increase resilience to IT failures and cybersecurity incidents.

IT is now at the heart of the supply of financial services. The incidence of cyber-attack and business interruption is on the increase and credit unions should assume they will be targeted. The failure of a credit union's IT systems can have significant adverse financial, legal, member and reputational consequences and should not be underestimated. The security and resilience of IT systems, their governance and management must reflect this reality. The Central Bank expects boards and senior management to fully recognise their responsibilities for these issues and to put them among their top priorities.

Credit unions must robustly address key issues such as alignment of IT and business strategy, outsourcing risk, change management, cybersecurity, incident response, disaster recovery and business continuity. They need to make sure that they understand these risks and that they are managed effectively.

In September 2016 the Central Bank issued guidance in relation to [IT risk management and cybersecurity for financial services firms](#). This guidance incorporates key findings from supervisory work carried out in banks and market firms since 2015. It sets out the Central Bank's expectations of Regulated Financial Service Providers including credit unions in this area. The Central Bank's supervisory engagement will reflect this guidance with credit unions assessed accordingly.

We would remind all credit unions that Section 3, point 11, page 21 notes that a credit union must notify "the Central Bank when it becomes aware of a cybersecurity incident that could have a significant and adverse effect on the firm's ability to provide adequate services to its customers, its reputation or financial condition." All such notifications should be directed to your supervisor in the Registry.

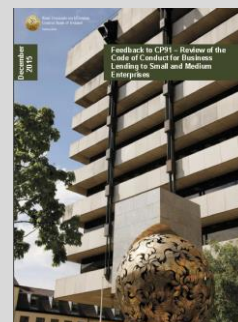
SME Regulations

The Central Bank published the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium Enterprises) Regulations 2015 (SME Regulations) for firms lending to SMEs in December 2015. Regulated lenders, other than credit unions, were required to comply with these regulations from 1 July 2016. The SME Regulations came into effect for credit unions from **1 January 2017**.

The SME Regulations are available on the Central Bank [website](#).

The SME Regulations provide for the following key requirements on lenders:

- Appropriate training of staff;
- The offer of a meeting, on an annual basis, to borrowers;
- Greater transparency for borrowers around the application process;
- Reasons for decline in writing;
- Greater protections for guarantors;
- Requirement for lenders to engage with borrowers in arrears and financial difficulties; and
- Expanded grounds for appeal and an internal Appeals Panel.



These regulations will strengthen the existing SME framework by introducing specific requirements, to be complied with by regulated entities.



AnaCredit

In the summer of 2016, the European Central Bank (ECB) published a new statistical Regulation, covering the collection of granular credit data from all euro area credit institutions. This new data initiative, known as AnaCredit, will establish a common granular credit database shared among the Eurosystem members. This article outlines the high-level details of the AnaCredit project and the implications for Irish credit unions.

The AnaCredit Regulation specifies the collection of granular-level information relating to loans granted by resident credit institutions to legal entity counterparties. These data can be widely used to serve a number of functions – primarily to facilitate a better understanding of credit conditions in the SME market. The data will also substantially contribute to improving existing statistics, and will facilitate financial stability surveillance and macroprudential policy. Collection of data under the AnaCredit Regulation will commence in September 2018.

Although lending to households and private individuals is currently out of scope for this project, Irish credit unions will have a reporting obligation under AnaCredit, mainly due to their interactions with Irish banks. Funds placed on deposit with banks are treated as loans to these entities and data relating to these will be required by the Central Bank, for onward transmission to the ECB. Any loans issued to non-financial corporations will also be included in the reporting obligations.

The AnaCredit Regulation permits the National Central Bank to exclude small reporting agents from the reporting population, provided that their exclusion does not result in the omission of more than two per cent of total lending within that jurisdiction. The Central Bank will use this derogation in full, to exclude as many credit unions as possible. However, not all credit unions will be fully exempt, and it is likely that the largest 50 credit unions will be required to submit data. The Central Bank will also apply other partial derogations that are available, such as a reduced frequency of reporting and a smaller number of data fields required to be reported for each loan.

It should be noted that AnaCredit is a separate data requirement to the Irish Central Credit Register (CCR). The scope and purpose of the two initiatives are different, and Irish resident credit institutions will be obliged to submit data satisfying both requirements. There is some overlap in terms of the precise requirements, and during the design phase of the CCR project the attributes and domain values were developed to align with AnaCredit where possible. The aim of this is to ensure that similar pieces of information are not requested twice using different definitions.

The Central Bank has commenced engagement with the various representative bodies, and will be contacting the relevant credit unions in the coming weeks. More information on AnaCredit, including the Regulation, is available on the [Statistics page](#) of the Central Bank website or by contacting AnaCredit@centralbank.ie.





Central Credit Register

During 2016, the Central Credit Register Project Team continued engagement with industry, and designed the Central Credit Register solution and processes in conjunction with CRIF Ireland Ltd.

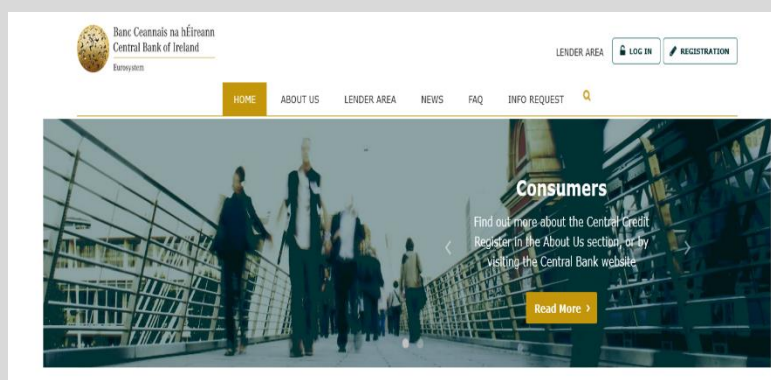
Following the completion of a Privacy Impact Assessment, the Central Bank published the regulations governing the operation of the Central Credit Register on 22 September 2016. These regulations set out the legal obligations on lenders to supply information to the Central Credit Register and to access it when considering loan applications. The regulations are available on our website <https://www.centralcreditregister.ie/about-us/legal-framework/>

In October 2016 we wrote to each Credit Union, advising of these obligations. We also included a provider code and registration number to allow you access the guidance manuals and documents which are published on the website. If you did not receive this information, or have mislaid it, please access www.centralcreditregister.ie/info-request/ to request your provider code and registration number again.

The Central Credit Register Project Team also attended Credit Union Information Seminars around the country in November 2016 to deliver a presentation on the Central Credit Register and answer your questions. A copy of this presentation was issued to attendees following the Information Seminars and is available [here](#)

Many credit unions are now registered and have engaged with the Central Credit Register to complete the onboarding process and make preparations to submit data to the Central Credit Register from **30 June 2017**. A schedule of training sessions stretching from January to March 2017 for the onboarding process is available in the Lender Area/Highlights section of our website. You must be registered in order to access the Lender Area and book the training sessions.

The focus of activity now is to engage with lenders to ensure they can submit data within the required timelines.



If you are not yet registered on www.centralcreditregister.ie you should do so immediately in order to commence the onboarding process.



Risk Based Contributions to the Deposit Guarantee Scheme

As required under the European Union (Deposit Guarantee Schemes) Regulations 2015, the Central Bank of Ireland has established a DGS Contributory Fund, which must reach a level of 0.8% of covered deposits by 2024. In order to reach this target level, credit institutions are required to contribute to the Fund annually based on their covered deposits and individual risk assessment. An outline of the methodology used to calculate the contributions is available on the Central Bank Website at: <http://www.centralbank.ie/paycurr/paysys/dgs>.

All credit institutions (including credit unions) were issued invoices in December for their 2016 contributions by the Payments & Securities Settlements Division. Funds held on deposit in the DGS Legacy Fund were used to fund credit unions' initial contributions. Once the funds in the legacy fund are depleted, credit unions will be required to make contributions directly into the contributory fund on an annual basis until the target level is achieved. If you have any queries in relation to this you can contact us at dgs@centralbank.ie.



Minimum Reserves

All credit institutions (CI's) including credit unions are required to hold minimum reserves on account with the Central Bank of Ireland (the Bank) over the course of each maintenance period which typically lasts six weeks. As an averaging provision is in place, CI's can hold minimum reserves on average over the course of the maintenance period in order to accommodate liquidity fluctuations. The practice is for CI's to calculate their own reserve requirement and relay it to the Bank.

If, at the end of each maintenance period, a CI has held insufficient reserves throughout the period, a sanction may be imposed by the Bank. The framework for monitoring reserves and imposing sanctions is dictated by the ECB and therefore is not subject to Central Bank discretion. In recent maintenance periods, a growing number of credit unions have failed to meet their minimum reserve requirement. Therefore, credit unions are reminded of the need to closely monitor their current account balance with the Bank so as to ensure that at the end of each maintenance period they have maintained sufficient reserves in order to meet their requirement.

For more details, please see the Minimum Reserves System section on the Bank's website:

<http://www.centralbank.ie/mpolbo/mpo/Pages/reserve.aspx>

If you have any queries on the above article please contact modesk@centralbank.ie

EBA Guidelines- Product oversight and governance requirements for mortgages, personal loans, deposits, payment accounts, payment services and electronic money

Since **3 January 2017**, all credit unions are required to comply with the European Banking Authority's (EBA) guidelines on Product Oversight and Governance Arrangements for Retail Banking Products.

These guidelines set out requirements for manufacturers and distributors when designing and bringing to the market retail banking products such as mortgages, personal loans, deposits, payment accounts, payment services and electronic money.

The guidelines are a key part of the overall consumer protection framework placing responsibilities on regulated entities, including credit unions, to demonstrate that their products are delivering the best outcomes for consumers throughout their life cycle, from product development to their launch and sales.

The guidelines are divided into two parts:

1. The first part sets out requirements for manufacturers of retail banking products on their internal control functions; the identification of the target market; product testing; disclosure; product monitoring, remedial actions, and distribution channels.
2. The second part of the guidelines sets out requirements for the distributors of retail banking products on their governance arrangements, the identification and knowledge of the target market, and information requirements.

A credit union could be a manufacturer and/or a distributor of one of these products, and as such, would have to comply with the relevant section(s) of the guidelines.

The guidelines apply to all products brought to the market after 3 January 2017 as well as to existing products on the market that are significantly changed after that date.

The full text of the EBA guidelines are available [here](#). The Central Bank has also updated the page on its website related to the European Supervisory Authorities to reflect the introduction of these EBA guidelines.



The Counterfeit Analysis and Monitoring Unit

The Counterfeit Analysis and Monitoring Unit (the 'Unit') within the National Analysis Centre is responsible for analysing all counterfeit submissions from financial institutions. The Unit also conducts inspections of financial institutions and cash-in-transit sites to monitor and ensure their compliance with the ECB Decision 2010/14.



During 2016, the Unit conducted inspections of forty financial institutions, including nine credit unions encompassing a wide geographical spread. The Unit would like to re-iterate the following:

- Procedures should document treatment of fit and unfit notes;
- Process to be followed in the event of any counterfeits being detected - the counterfeit submission link is available on the Central Bank website;
- If a credit union is using a machine to fitness sort notes, this machine **must be** on the ECB list of successfully tested types of banknote handling machines:

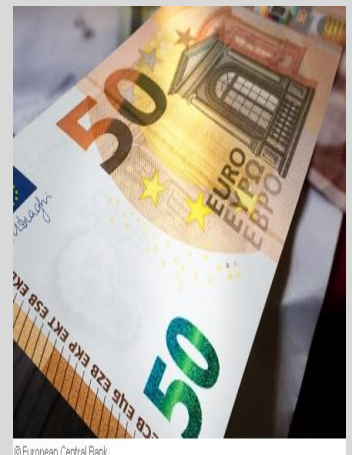
<http://www.ecb.europa.eu/euro/cashprof/cashhand/recycling/html/tested.en.html>

During 2016 the Unit has received 8,309 counterfeit € banknotes, from financial institutions – over 95% of the counterfeits received were €20 and €50 counterfeits. There are also two particularly notable counterfeits at the moment, a €100 and €500 note. While these two counterfeits are not prevalent in Ireland, credit unions should be aware of their existence.

The Unit looks forward to developing our relationship further with the credit unions, and their representative bodies, during 2017 and is committed to providing banknote handling training to the sector. In that context, please look out for our upcoming training sessions on the ES2€50 – dates and times for these sessions will be communicated through the credit union representative bodies. In the meantime, to get a preview of what features the ES2€50 will entail, please see below link:

<http://www.new-euro-banknotes.eu/>


The Unit can be contacted at cid.monitoring@centralbank.ie .



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Updates to the Year End Return




Updates were made to the Annual Return, Draft Financial Statements and Final Financial Statements from 30 September 2016, to reflect the adoption of the FRS102 accounting standard. The updated returns have been available to credit unions since 1 October 2016. Previous versions of the Year End returns continue to be available for credit unions to view on the Online Reporting System (ONR).

While a large number of returns have been submitted to date, credit unions are reminded of their obligation to submit the 2016 Annual Return, Final Financial Statements and Annual Audited Accounts by 31 March 2017.

The Year End Return Guidance Notes, Year End Return Online Reporting System (ONR) User Manual and Year End Return Frequently Asked Questions documents, most recently updated in December 2016, are available on ONR. For queries in relation to the Year End returns, please contact rcu@centralbank.ie.



Fitness and Probity




Credit Unions should ensure that an applicant includes their Credit Union experience on all Individual Questionnaires submitted.

A large percentage of Individual Questionnaires submitted from Credit Unions do not include the relevant Credit Union experience which is required in assessing the fitness of the Applicant for both CUPCF roles.

Credit Unions should update the Online Reporting Tool when a person has been approved by the CBI but has not taken up the role.

Funding Levies



The 2016 Industry Funding Levy notices were issued by the Central Bank in October 2016 and became due and payable on 21 November 2016. The Central Bank also issued levy notices on behalf of the Competition and Consumer Protection Commission which became due and payable on 19 October 2016 and the Credit Union Restructuring Board which is due for payment on 28 February 2017. Reminder letters in respect of each of these levies issued in November (CCPC) and December (Industry Funding). Credit unions who have not paid these levies are kindly requested to do so to reduce administrative cost associated with debt collection activity.

Credit unions are also reminded that levies payable to the Credit Institutions Resolution Fund and the Credit Union Fund (Stabilisation Levies) will be issued early in the New Year and will all be due for payment no later than end February 2017.

Key Dates for Credit Unions in 2017

28 January	CUDA Annual Conference- Elaine Byrne, Deputy Registrar addressed the conference. The speech given can be accessed here .
7/8 March 2017	CUMA Spring Conference- Registry of Credit Unions to address conference.
31 March 2017	Final date for submission of the: <ul style="list-style-type: none"> • Annual Return • Annual Audited Accounts, and • Final Financial Statements.
21 April 2017	Final date for submission of Prudential Return for 31 March 2017 reporting period
21 July 2017	Final date for submission of Prudential Return for 30 June 2017 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	Contact
Registry of Credit Unions		
General day to day supervisory queries	Registry of Credit Unions (RCU)	Credit union supervisor/ rcu@centralbank.ie
Queries for other Central Bank Divisions:		
Anti-Money Laundering/Countering Terrorist Financing Financial Sanctions	Anti-Money Laundering Division	AMLpolicy@centralbank.ie sanctions@centralbank.ie
Consumer Protection: Retail Intermediaries – Authorisations Retail Intermediaries - Supervision	Consumer Protection Directorate	CPCOperations@centralbank.ie RIAuthorisations@centralbank.ie brokers@centralbank.ie
Deposit Guarantee Scheme	Deposit Guarantee Scheme	dgscreditunions@centralbank.ie
Fitness and Probity: Individual Questionnaire queries	Regulatory Transactions Division	fitnessandprobity@centralbank.ie
Funding Levy	Financial Control Division	funding@centralbank.ie
Minimum Reserve Requirements: Calculation of reserve requirements Transfer of amounts to/from your account in the Central Bank Confirming balances and meeting your reserve requirement	Statistics Division Euro-settlements team Financial Markets Division	creditunion@centralbank.ie eurosettlements@centralbank.ie modesk@centralbank.ie
Online Reporting queries	Regulatory Transactions Division	onlinereturns@centralbank.ie
Recirculation of euro banknotes	Currency Issue Division	CID.monitoring@Centralbank.ie
Reporting Payment Statistics	Payments and Securities Settlements Division	paystats@centralbank.ie

Feedback

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