



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Implementation of the New Regulatory Framework

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Credit Union Information Seminars: 2 – 11 July 2013



Contents

- Background
- Overview of New Regulatory Framework for all credit unions
- Key dates for New Regulatory Framework
 - 1 August 2013
 - 1 October 2013
 - 3 March 2014
 - Quarter 2 2014
- Implementation considerations
- Key Dates for 2013

Note: These slides constitute a summary only of the topics presented upon. Reference should be made to the original materials in all cases.



Background

- On 31 March 2012 Commission on Credit Unions made recommendations to strengthen the regulatory framework for credit unions including
 - More effective governance and regulatory requirements
 - Introduction of Fitness and Probity for credit unions

 - On 24 September 2012, the Minister for Finance commenced Part 3 of the Central Bank Reform Act 2010 for credit unions

 - On 19 December 2012 Credit Union and Co-operation with Overseas Regulators Act 2012 (“2012 Act”) was enacted – reflected many of the recommendations of the Commission on Credit Unions
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Introduction of New Regulatory Framework

- On 1 July 2013 the Minister for Finance published the implementation plan for the new governance and prudential requirements that will be inserted into the Credit Union Act, 1997 (“1997 Act”) by the 2012 Act
- On 1 August 2013 the Fitness and Probity regime for credit unions is due to commence on a phased basis with transitional arrangements
- Support the ***introduction of a strengthened regulatory framework*** for credit unions to
 - ***protect the financial stability of individual credit unions and***
 - ***allow prudent development of the credit union sector***



New Regulatory Framework for all credit unions

1 August 2013	<ul style="list-style-type: none">• Tailored Fitness & Probity regime for credit unions – discussed in previous presentation (<i>credit unions with assets > €10m</i>)• Administrative Sanctions Procedure - Part IIIC of the Central Bank Act, 1942 to be applied to credit unions from 1 August 2013. This will apply the administrative sanctions procedure to credit unions• Appeals to IFSAT - Part VIIA of the Central Bank Act 1942 to be applied to credit unions. Appealable decisions can be appealed to IFSAT
1 October 2013	<ul style="list-style-type: none">• New governance and prudential requirements - majority of the new and governance and prudential requirements inserted into the 1997 Act by the 2012 Act to be commenced• Revised ‘Section 35 Regulatory Requirements for Credit Unions’ (previously issued in 2010)
3 March 2014	<ul style="list-style-type: none">• 4 provisions related to governance requirements (reduction in board size, reporting requirements)
Quarter 2 2014	<ul style="list-style-type: none">• Provisions to support introduction of a Tiered Regulatory Approach (consultation paper planned to issue by end 2013)



1 August 2013 - Administrative Sanctions Procedure

- To date the administrative sanctions procedure has only applied to credit unions in relation to prescribed contraventions of
 - Anti-Money Laundering Legislation and
 - Payment Services Regulations
- 2012 Act contains amendments which, from 1 August 2013, will apply the administrative sanctions procedure to credit unions
- Administrative sanctions procedure - Central Bank's power to administer sanctions in respect of prescribed contraventions
- The Enforcement Directorate within the Central Bank is responsible for taking enforcement actions within the administrative sanctions procedure
- Credit unions can learn more about the administrative sanctions procedure by accessing the Central Bank's website:
 - <http://www.centralbank.ie/regulation/processes/enforcement/Pages/default.aspx>



1 August 2013 - Administrative Sanctions Procedure

- Formal sanctions are one of the regulatory tools available to the Central Bank
- Range of other regulatory powers
- Central Bank will consider all relevant factors before commencing the administrative sanctions procedure
- Where the Central Bank has reasonable grounds to suspect a prescribed contravention may be or may have been committed the Enforcement options available are:
 - No Action
 - Settlement
 - Inquiry
 - Criminal Prosecution
 - Referral to Other Agencies
 - Supervisory Action



1 August 2013 - Administrative Sanctions Procedure

- Where an administrative sanctions case is concluded via Settlement or Inquiry the following sanctions may be imposed:
 - Caution or reprimand
 - Direction to refund
 - Monetary penalty
 - Disqualification
 - Direction to cease the contravention
 - Direction to pay costs
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1 August 2013 - Appeals to IFSAT

- From 1 August 2013 Part VIIA of the Central Bank Act, 1942 will apply to credit unions
 - Provides credit unions with the right to appeal certain decisions of the Central Bank to IFSAT
 - Appealable decisions include:
 - certain decisions in the Credit Union Act, 1997 (“1997 Act”)
 - refusal of approval under the Central Bank Reform Act 2010
 - findings or orders of an inquiry under the Administrative Sanctions Procedure
 - For further information please see the IFSAT website at www.ifsat.ie
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1 Oct 2013 - New Governance Requirements

- New governance framework introduced in Part IV of the 1997 Act
- Governance arrangements to ensure effective oversight of the credit union
- Board remains responsible for the general control, direction & management of the credit union.
- Separation of responsibilities for oversight and execution
- Clear organisational structure - documented roles & responsibilities
- Sets out the governance structure for the credit union including the functions & operation of the:
 - Board of Directors
 - Chair
 - Manager
 - Board Oversight Committee
 - Nomination Committee
 - Other Board Committees



1 Oct 2013 - New Prudential Requirements

- Addresses gaps in existing prudential framework

New sections of 1997 Act	Prudential Requirements
76K	<ul style="list-style-type: none">• Internal Audit
76E, 76F, 76G, 76H, 76I	<ul style="list-style-type: none">• Operational Risk<ul style="list-style-type: none">• Business continuity plan• Records management• Information systems• Management information• Information systems and management information policies
76J	<ul style="list-style-type: none">• Outsourcing
76B, 76C, 76D	<ul style="list-style-type: none">• Risk management and compliance<ul style="list-style-type: none">• Risk management systems• Risk management officer• Compliance programme• Compliance officer
76A	<ul style="list-style-type: none">• Strategic Plan



2012 Act - New Prudential Framework

- Amends existing sections 1997 Act – **Quarter 2 2014**

Savings	Borrowing	Lending	Investments	Reserves	Liquidity
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- Introduces additional sections into 1997 Act – **1 October 2013**

Strategic Plan	Risk Management Systems	Systems and Controls	Risk Management Officer	Compliance Officer	Internal Audit Function
Operational Risk	Records Management	Information Systems	Management Information	Business Continuity Plan	Outsourcing



1 Oct 2013 - Revised Section 35 Regulatory Requirements

- Commission on Credit Unions proposed some amendments to ‘Section 35 Regulatory Requirements for Credit Unions’ issued in November 2010
 - Requirements have been revised to take account of proposals and provide additional clarifications and updates
 - Revisions include
 - Reschedule requires ‘consent of’ rather than ‘request from’ member
 - Provision for loan rescheduled more than once can be reviewed if loan performing for period of not less than 1 year (previously 2 years)
 - Trial period at initial reschedule changed from 3 to 4 months
 - Clarification on net loan amount used to calculate provision requirements
 - Revised requirements to be circulated to credit unions with effective date of 1 October 2013
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3 March 2014

- Reduction in maximum board size
 - Section 53(3) – number of directors - no more than 11
 - Credit unions with a board of directors containing more than 11 members should reduce the number board members to a maximum of 11 at the next AGM in advance of commencement of section
 - Rule amendments in relation to this will have immediate effect

 - Reporting
 - Compliance statement
 - First annual statement required to be submitted by 30 November 2014

 - Board oversight committee report to members
 - Report to the members at the AGM on whether the board of directors has operated in accordance with Part IV and Part IVA
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Quarter 2 2014

- New governance and prudential requirements, inserted into the 1997 Act by the 2012 Act, apply to *all* credit unions
 - Combination of new and existing requirements provides a comprehensive regulatory framework for all credit unions
 - Tiered Regulatory Approach for credit unions can be developed where regulation making powers are provided in the legislation (e.g. lending, investments, savings)
 - Consultation paper on Tiered Regulatory Approach planned to issue by end 2013.
 - Following consultation, additional provisions will be commenced to support introduction of Tiered Regulatory Approach
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Implementation Considerations

Exclusions

- Section 53(10) sets out list of persons who are not eligible to *become* a director
- Director already serving as a director not required to resign until their term ends
- Not eligible for re-election to the board of directors once term has been completed
- A director that did not fall within the list at 1 October 2013 but subsequently does as a result of change in circumstances must resign from their position on board of directors

Transition to Board Oversight Committee

- **First board oversight committee** - section 27(2) provides that each member of the supervisory committee deemed to have been a duly elected member of the board oversight committee for remainder of term



Implementation Considerations

Term Limits

- Section 53(12) and 76N (6) set out term limit requirements for the board of directors and board oversight committee.
 - Member may not be appointed or elected to the board of directors or the board oversight committee if he/she has served 12 years in aggregate of the last 15 on the board of directors or the board oversight committee
 - ***The 12 year period referred to in sections 53(12) and 76N(6) commences on 1 October 2013***
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Implementation Considerations

Resources Required

- Board of directors determine whether functions performed
 - In-house
 - Dedicated role or otherwise
 - Through a sharing arrangement between credit unions
 - Outsourced

 - Board of directors retains responsibility for control, direction and management of the credit union

 - Considerations include
 - Nature, scale, complexity and risk profile of the credit union
 - Functions of role can be effectively carried out
 - Any potential conflicts are identified and managed
 - Where independence of functions is required - this is maintained
 - Legal and regulatory requirements (e.g. outsourcing) are met
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New Regulatory Framework for all credit unions

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