Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Regulations for Credit Unions on Commencement of the Remaining Sections of the 2012 Act

Anna Marie Finnegan

Contents

Background – commencement of 2012 Act

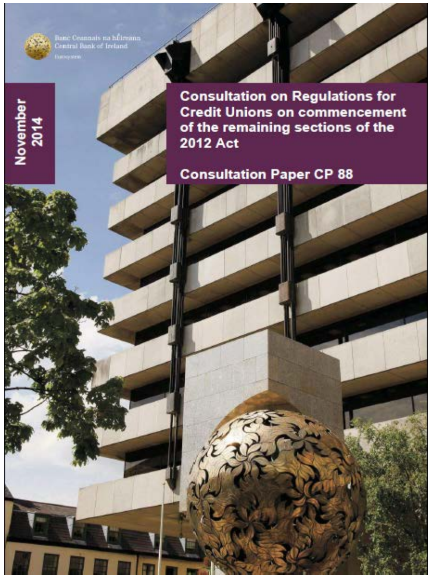
- Majority of provisions of the 2012 Act have been commenced – updated 1997 Act.
- A small number of sections of the 2012 Act have not yet been commenced.
- When commenced will update sections of the 1997 Act relating to:
  - Reserves, Liquidity, Lending, Investments, Savings, Borrowing.
- Central Bank is introducing regulations at the same time as these sections are due to commence to ensure:
  - that key prudential requirements remain in place; and
  - continue the introduction of the strengthened regulatory framework.

Consultation on Regulations (CP88)

- 27 November 2014 – Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act Consultation Paper ("CP88") published.

- 31 July final regulations and Feedback Statement on CP88 published – feedback influenced approach in areas such as:
  - Transitional arrangements for savings regulations;
  - The short term liquidity ratio;
  - Requirements for related party lending;
  - Disclosure requirements;
  - Development of the credit union business model.

- Statutory consultation with Minister for Finance and CUAC.



Regulations

- Regulations by prudential area:
  - *Reserves;*
  - *Liquidity;*
  - *Lending ;*
  - *Investments;*
  - *Savings;*
  - *Borrowings;*
  - *Systems, Controls and Reporting Arrangements;*
  - *Services exempt from Additional Services Requirements.*

- Introduction of the Regulations marks another important step in the development and implementation of a strengthened regulatory framework for credit unions.

Regulations

- The Regulations combined with the commencement of the remaining sections of the 2012 Act and the prudential and governance requirements already in place provide an appropriate regulatory framework for credit unions at this time.

- Provision of regulation making powers to the Central Bank provides flexibility – in the future can review and update the regulations as appropriate following consultation.

- Central Bank keen to ensure that the Regulations remain appropriate for the credit union sector and –

  - in the future where credit unions set out a clear path on how they wish to develop will consider any amendments to the regulations that may be appropriate;

  - Central Bank committed to reviewing specific areas of the regulations including the savings limit.

Communication and Guidance for Credit Unions

- In order to assist credit unions in implementing the Regulations we have developed:
  - **An FAQ Document:**
    - Addresses questions on the implementation of the new Regulations;
    - Will be updated as appropriate prior to introduction of the Regulations;
  - **Updated Chapters of the Credit Union Handbook:**
    - Chapters updated to reflect:
      - New sections of the 1997 Act;
      - The Regulations;
      - Guidance;
    - Draft Chapters published on 13 November and are available on the Central Bank website at the following link;
    - Updated Credit Union Handbook will go live following commencement of the remaining sections of the 2012 Act and the Regulations.

FAQs – Reserves

- **What are the implications of the commencement of the remaining sections of the 2012 Act and the Regulations for the statutory reserve?**
- On commencement of section 13 of the 2012 Act, any reference to the requirement for credit unions to hold a statutory reserve will be removed from the 1997 Act, including the requirement for credit unions to transfer 10% of their surplus to their statutory reserve each year.
- Notwithstanding this credit unions will be expected to continue to allocate surplus funds to maintain reserves at an appropriate level taking prudent account of the nature, scale and complexity of the credit union's business, its risk profile and prevailing market conditions.

FAQs – Lending

- **When will it be necessary to obtain security for a loan?**
- Under the Regulations security (first legal charge on property) is required for house loans.
- Credit unions may determine that security should also be required for other types of loans:
  - The level of security required in respect of individual loans should reflect the size and risk profile of the proposed loan;
  - Approved types of security and the circumstances in which security should be taken, should be clearly set out in the credit policy of the credit union;
  - Credit unions should document their assessment of security and all security documentation should be securely and efficiently maintained.

FAQs – Lending (Cont'd)

- Under the lending regulations where a credit union is providing **home improvement loans** these may be provided as either '**personal**' loans or as '**house**' loans.
  - Where such a loan is provided as a 'house' loan the credit union must hold the first legal charge secured on the property.
  - Where such a loan is provided as a 'personal' loan there is no requirement to hold the first legal charge secured on the property.
- It will be a matter for each credit union to determine if a home improvement loan is to be issued as a house loan or a personal loan.

FAQs – Liquidity

- **How will the short term liquidity requirement be calculated?**
- Under the short term liquidity ratio, credit unions will be required to maintain 5% of unattached savings in cash and investments with a maturity of less than eight days.
- The expanded definition of liquid assets that applies for the calculation of the minimum liquidity ratio will also apply for the calculation of the short term liquidity ratio.
- Any cash and investments that fall within the short term liquidity ratio will also be included in the liquid assets used to calculate the minimum liquidity ratio.
  - For example, where a credit union currently holds 5% of unattached shares in cash or investments available in less than eight days as part of the 20% minimum liquidity ratio, this will also satisfy the short-term liquidity requirement.

Application Process to retain individual member savings in excess of €100,000

- Following the consultation process savings transitional arrangements amended.
- Transitional arrangements now provide for credit unions that have individual member savings in excess of €100,000 at the commencement of the regulations to apply to the Central Bank to retain these savings:
  - where they can demonstrate that it is appropriate and prudent for them to do so.

Application Process to retain individual member savings in excess of €100,000 (Cont.)

- We are currently refining the development of the application criteria, which will support a credit union in its demonstration that it is appropriate and prudent to retain such savings, to include considerations of the following:
  - asset size of the credit union – (a minimum asset size of €10,000,000);
  - credit union's liquidity ratio – (a minimum liquidity ratio of 25%);
  - level of additional reserves held in excess of the minimum 10% level;

  taking account of the scale, complexity and risk of the credit union.
- Credit unions will be expected to demonstrate why they require to retain existing savings in excess of €100,000 taking account of their business model.
- The application process will also give consideration to other relevant supervisory information for individual credit unions, including whether a credit union has a regulatory direction or business restriction in place.
- Prior to finalisation of the application process the Registry of Credit Unions will engage with the representative bodies and invite comments from them on the proposed process.

Application Process to retain individual member savings in excess of €100,000 (Cont.)

- We will provide an application form and explanatory notes on completion to credit unions.
- It is anticipated that the application forms will be available during December 2015.
  - We will also respond to any queries credit unions may have arising from completion of the application form.
- Applications will be accepted in the first quarter of 2016 and it is envisaged that applicant credit unions will be advised by the end of the second quarter of 2016 on the outcome of their application.
  - Where credit unions have demonstrated that they meet the application criteria they will be in a position to retain individual members' savings in excess of €100,000 held at commencement of the regulations.

Proposed next steps / Timelines

Date	
17 – 30 November	Conduct Information Seminars
December 2015	• Engagement with Representative Bodies on application process to retain individual member savings in excess of €100,000 held at the commencement of the regulations. • Publication of application process.
31 December 2015	Commencement of remaining sections of 2012 Act and final regulations
31 December 2015 – 31 December 2017	Transitional arrangements ranging from 12 months to two years will apply
Q1 2016	Applications accepted to retain individual member savings in excess of €100,000 held at the commencement of the regulations
On-going	On-going engagement and consultation with the credit union sector on business model development and development of the regulatory framework