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Regulatory Updates

Wendy Kearns & Mark Ward

Risk Management Maturity Thematic Review

Introduction

- The Registry of Credit Unions (the Registry) has undertaken a Thematic Review on Risk Management Maturity in Credit Unions (the Thematic Review).
- The need for credit unions to strengthen their core foundations of governance, and in particular risk management, is a key focus of our supervisory strategy for the sector. It has been evident from our supervisory work in prior years – highlighted in our publications including the 2020 PRISM Supervisory Commentary – that greater ownership of risk management, by Boards of Directors of credit unions, is critical to overcoming and addressing the recurring risk issues that were being identified.

Objective of Thematic Review

- In consideration of the above the overall objective of the Thematic Review was:
 - 1) To assess compliance with the relevant legal and regulatory requirements on risk management; and
 - 2) To observe and identify the actions and processes that the sample of credit unions were undertaking to foster a culture of risk management in their day to day operations, and to improve the level of risk management maturity in the credit union.



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Risk Management Maturity Thematic Review

Methodology of Thematic Review

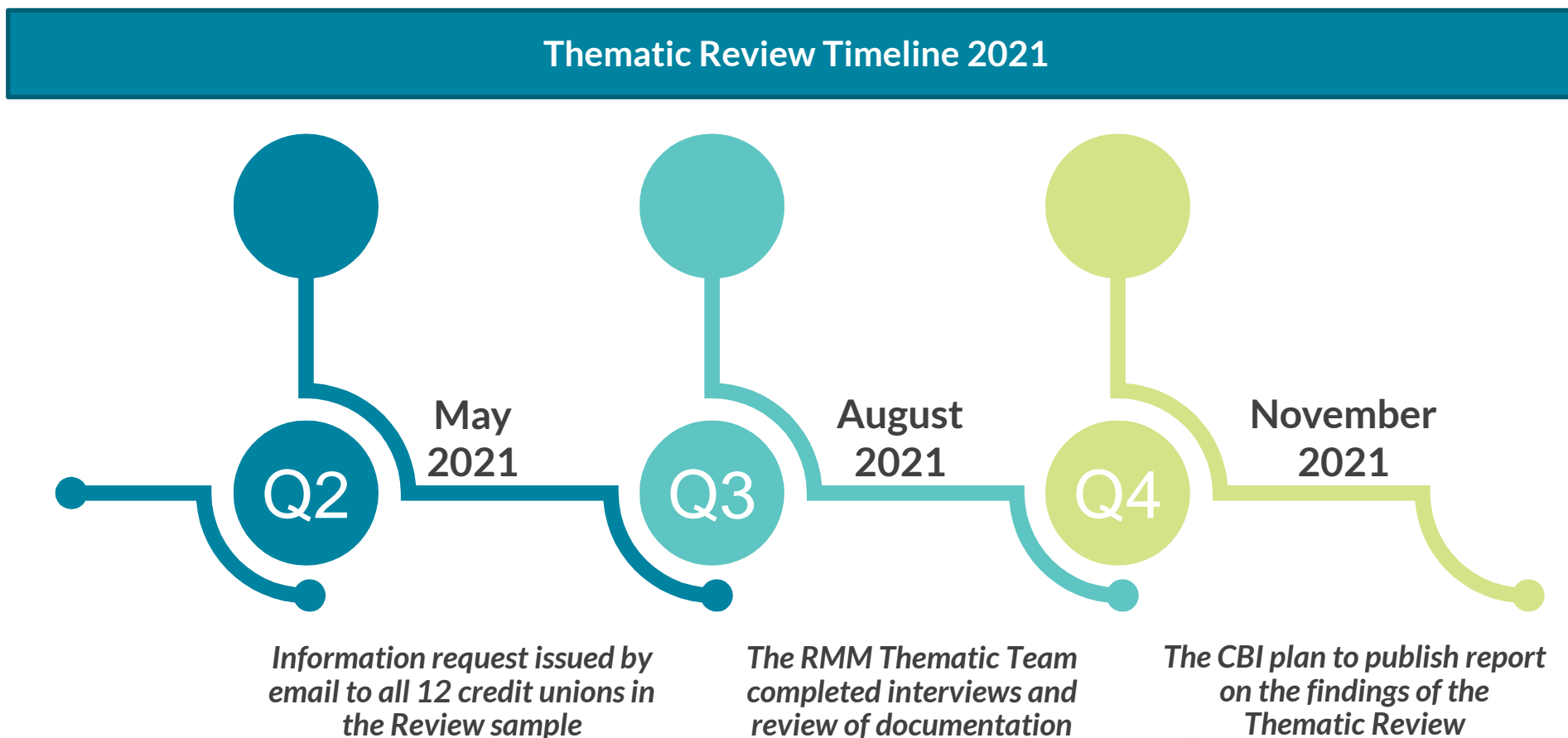
- There were 12 credit unions selected as part of the Thematic Review (the sample).
- The sample selected provided a mix of different asset sizes, urban and rural locations, a mix of internal and outsourced Risk Management Functions, and a mix of industrial and community based credit unions.
- The Review focussed on four key areas of Risk Management:
 - 1) Board Ownership & Oversight;
 - 2) Risk Management Function – Structure & Framework;
 - 3) Risk Management Reporting;
 - 4) Training and Culture.
- All credit unions in the sample were sent an information request, requesting documentation relating specifically to risk management.
- Following submission and review of the documentation by each credit union, the Registry's Thematic Review team held 36 separate interviews across the sample, with the Risk Management Officer, Chief Executive Officer and Board representatives of each credit union.



Risk Management Maturity Thematic Review

Next steps

- The CBI is planning to publish a report on the Thematic Review in November 2021, setting out key findings and recommendations for consideration and action as appropriate.



Individual Accountability Framework

- The General Scheme of the Central Bank (Individual Accountability Framework) Bill 2021 published by the Department of Finance on 27 July 2021.

Key Components of the Individual Accountability Framework

Four key components of the Individual Accountability Framework (IAF) as proposed in the Central Bank's [Behaviour and Culture Report into Irish Retail Banks](#):

- **The Senior Executive Accountability Regime (SEAR).**
- **Enforceable Conduct Standards.**
- **Enhancements to the F&P Regime.**
- **Strengthening of the Administrative Sanctions Procedure.**



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Individual Accountability Framework

- It is intended that SEAR will not initially apply to credit unions. Credit unions, along with other sectors not in scope initially, may be brought within scope of SEAR in the future, after the legislation is enacted.
- The proposed conduct standards will apply to credit unions.
 - Standards for Businesses create a single reference point setting out in clear and simple terms the conduct standards that all Regulated Financial Service Providers (RFSPs), regardless of sector, must meet.
 - Proposed Common Conduct standards will also apply to persons performing Controlled Function (CF) roles (including Pre-Approval Controlled Function (PCF) roles) in credit unions.
 - Additional Conduct Standards will apply to senior persons performing PCF roles and other persons who exercise significant influence on the conduct of a credit union's affairs.
- Credit unions will also be within scope of proposed changes to F&P and the Administrative Sanctions Procedure.

Next Steps

- Once the Bill has been enacted the Central Bank intends to publicly consult on the implementation of the IAF.



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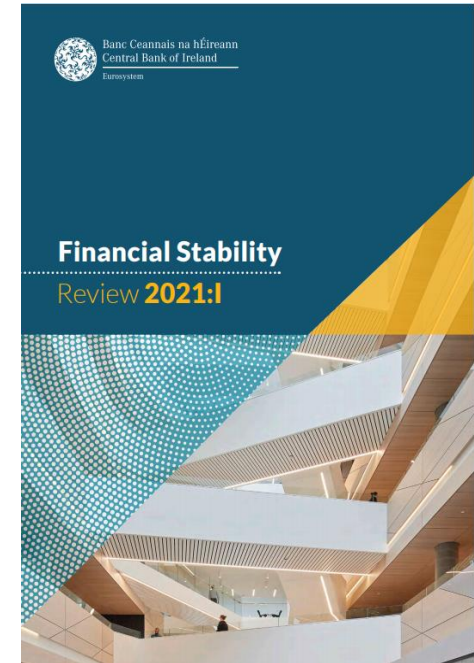
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Credit Union 2021 Financial Year End – Context

COVID-19 has “increased and exacerbated risks and challenges for credit unions, heightening the well-documented sustainability challenges many individual credit unions already faced.”

Macro-Financial Environment

- After 18 months of COVID-19 restrictions, the expansion of the vaccination programmes has reduced uncertainty and downside risks to the macro-financial outlook and provides a clearer path to economic recovery. However the recovery is likely to be uneven across countries and sectors and could be vulnerable to setbacks.
- Vulnerabilities in global financial markets have been building, amid higher levels of sovereign and corporate indebtedness.
- Domestically, the policy response to the pandemic has cushioned the impact of the shock on households and businesses, with the **full extent of borrower financial distress likely to become apparent only as government supports start to unwind.**
- Looking beyond the pandemic, structural risks remain, including those stemming from international tax changes, changes in the structure of the banking sector and climate change.
- All of these factors exacerbate the risks and challenges for credit unions, **heightening the well-documented sustainability challenges faced by many individual credit unions.**



Credit Union 2021 Financial Year End – Important Considerations

“It is fundamentally important that a prudent approach is maintained to all aspects of a credit union’s business, including lending, investments, liquidity and reserve management, to underpin the overall financial resilience of the credit union.”

- Credit unions, in preparing their 2021 accounts, should take account of all matters set out in the *2021 Financial Year-End Circular*.
- The boards of directors need to carefully consider the adequacy of loan provisions, other asset impairments and prudent reserve management in 2021, given the current uncertain economic outlook and significant related challenges.
- A key aspect of the 2021 year-end process should be an informed identification and consideration of the key risks arising from **COVID-19 and Brexit** and appropriate mitigation of such risks.
- Credit unions are **to contact their supervisor within RCU where they are considering distributions** setting out the rationale and how the proposal **demonstrates prudent forward-looking capital reserve management in the current environment**.
- In the circular of 25 February 2021, we recommended that credit unions pass a rule amendment at their 2020 AGM to ensure that they have the option to hold virtual general meetings beyond the interim period, which ended on 30 June. Where credit unions plan to hold a virtual AGM they need to ensure that they have passed such a rule amendment and that this rule amendment has been registered by the Central Bank.



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Restructuring – Transfer of Engagements

Continued Motivating Factors for credit unions to engage in ToE Activity

- Financial synergies
- Governance strengthening
 - Operational resilience

Profile of Restructuring in 2021

- 12 ToE's completed in 2021
- Transferee asset sizes ranging from €49m to €387m
 - Transferor asset sizes from €56m to less than €1m



Solutions provided to secure long term access to credit union services

- Addressed **immediate** and longer term financial viability concerns.
- Addressed significant weaknesses in governance frameworks at managerial and board level.
- Operational control weaknesses identified and remediated.

RCU works with Credit Unions to advance ToE processes

- Credit unions should consider potential ToE activity
- RCU will assist credit unions explore such options
- Guidance material at www.centralbank.ie
- Please contact:
 - Wendy Kearns 01-224 4974
 - James McAuley 01-224 4219



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