



INTERNATIONAL CREDIT UNION REGULATORS' NETWORK

Peer Review Report

Central Bank of Ireland's Performance of its Regulatory Functions in Relation to Credit Unions

November, 2019



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Acronyms & Abbreviations	
Academic and Professional Training Scheme	APTS
Accounting Practices Board	APB
Administrative Sanctions Procedure	ASP
Annual General Meeting	AGM
Annual Percentage Rate	APR
Anti-Money Laundering Committee	AMLC
Anti-Money Laundering Division	AMLD
Anti-Money Laundering/ Countering the Financing of Terrorism	AML/CFT
Association of Chartered Certified Accountants	ACCA
Association of International Accountants	AIA
Business Continuity Management	BCM
Central Bank and Credit Institutions (Resolution) Act 2011	the 2011 Act
Central Bank of Ireland	Central Bank
Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Minimum Competency Regulations 2017 (SI S.I. No. 391 of 2017)	MCR
Central Credit Register	CCR
Chartered Institute of Management Accountants	CIMA
Chartered Institute of Public Finance and Accountancy	CIPFA
Consultative Committee of Accountancy Bodies - Ireland	CCAB-I
Controlled Function	CF
Consultation on Potential Changes to the Lending Framework for Credit Unions	CP 125
Commission on Credit Unions	CCU
Corporate Finance Institute	CFI
Credit Institutions Management Team	CIMT
Credit Institutions Resolution Fund	CIRF
Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. No. 1 of 2016)	The 2016 Regulations
Credit Union Advisory Committee	CUAC
Credit Union Development Association	CUDA
Credit Union Managers' Association	CUMA
Credit Union Restructuring Board	ReBo
Credit Union Self-Assessment Document	CUSAD
Credit Union Services Organisation for Payments	CUSOP
Criminal Justice (Money Laundering and Terrorist Financing) Act 2010	CJA 2010
Customer Due Diligence	CDD
Death Benefit Insurance	DBI
Deposit Guarantee Scheme	DGS
Differentiated Proportionate Approach	DPA
Electronic Funds Transfer	EFT
Enhanced Supervisory Approach	ESA



Environmental Risk Assessment	ERA
European Banking Authority	EBA
European Central Bank	ECB
European Insurance and Occupational Pensions Authority	EIOPA
European Securities and Markets Authority	ESMA
European System of Central Banks	ESCB
Exceptional Liquidity Assistance	ELA
Expert Group on Money Laundering and Terrorist Financing	EGMLTF
Financial Action Task Force	FATF
Financial Reporting Council	FRC
Financial Reporting Standards	FRSs
Full Risk Assessment	FRA
Generally Accepted Accounting Principles	GAAP
Intervention and Restructuring	I&R
Incurred But Not Reported	IBNR
Institute of Certified Public Accountants in Ireland	ICPAI
Institute of Chartered Accountants in Ireland	ICAI
Institute of Chartered Accountants of Scotland	ICAS
Institute of Chartered Accountants in England & Wales	ICAEW
Institute of Incorporated Public Accountants	IIPA
International Auditing and Assurance Standards Board	IAASB
International Credit Union Regulators' Network	ICURN
International Financial Reporting Standards	IFRS
International Organisation of Securities Commissions	IOSCO
Irish Auditing and Accounting Supervisory Authority	IAASA
Irish Financial Services Appeals Tribunal	IFSAT
Irish League of Credit Unions	ILCU
Key Risk Indicator	KRI
Management Information	MI
Markets in Financial Instruments Directive	MIFID
Member Personal Current Account Services	MPCAS
Memorandum of Understanding	MOU
Money Laundering Reporting Officer	MLRO
Money Laundering Steering Committee	MLSC
Money Laundering/ Terrorist Financing	ML/TF
Mortgage Advice Bureau	MABS
National Supervisors Forum	NSF
National Treasure Management Agency	NTMA
Net Realisable Value	NRV
Office of the Director of Corporate Enforcement	ODCE



Online Reporting System	ONR
Operators of Essential Services	OES
Payment and Securities Settlements Division	PSSD
Personal Retirement Saving Accounts	PRSA's
Politically Exposed Persons	PEP's
Pre-Approval Controlled Function	PCF
Prescribed Accountancy Bodies	PAB's
Probability Risk and Impact System	PRISM
Prudential Analytics and Inspections Directorate	PAID
Recognised Accountancy Body	RAB
Regulated Financial Service Provider	RFSP
Regulatory Impact Analysis	RIA
Resolution and Crisis Management Division	RES
Risk Evaluation Questionnaire	REQ
Risk Governance Panel	RGP
Risk Mitigation Programme	RMP
Savings Protection Scheme	SPS
Service Level Agreements	SLA's
Small and Medium Sized Enterprises	SME's
Suspicious Transaction Reports	STR
The Consumer Protection Code	CPC
The Credit Union Act, 1997	The 1997 Act
The Credit Union and Co-operation with Overseas Regulators Act 2012	The 2012 Act
The European Communities (Consumer Credit Agreements) Regulations 2010 (S.I. 281/2010)	CCAR
The European Union (Consumer Mortgage Credit Agreements) Regulations 2016, which transposed Directive 2014/17/EU	MCD
The European Union (EU) Directive on the Security of Network and Information Systems	NISD
Treaty on the Functioning of the European Union	TFEU
Unauthorised Providers Unit	UPU
Undertakings for Collective Investments in Transferable Securities	UCITS



I. EXECUTIVE SUMMARY

The Central Bank of Ireland (the Central Bank) is required under Section 32M of the Central Bank Act of 1942 to have an independent review of the performance of its regulatory functions undertaken at least every four years. In 2019, following consultation with the Minister for Finance as required by the legislation, the Central Bank contracted the International Credit Union Regulators' Network (ICURN) to conduct a peer review of the functions carried out by the Registry of Credit Unions (the Registry).

In 2015, ICURN conducted the first peer review of the Registry of Credit Unions. Then and now the review was conducted vis-à-vis ICURN's Guiding Principles for Effective Prudential Supervision of Co-operative Financial Institutions (which draw heavily from Basel Principles for Effective Banking Supervision but are adapted for financial cooperatives). The peer review was conducted by a team from ICURN with expertise in regulation and supervision and credit unions internationally who assessed information provided during an off-site and on-site engagement. This information included a Credit Union Self-Assessment Document submitted in advance by the Central Bank setting out background on the credit union sector in Ireland and a detailed assessment of the Central Bank's observance of each of the relevant 23 ICURN Guiding Principles. The team also reviewed internal documents from the Central Bank and publicly available documentation, legislation, and regulations. Approximately 40 meetings with a range of credit unions, credit union associations, support organizations to credit unions, the Department of Finance and meetings within the Central Bank were undertaken between May 13-23, 2019. A full listing of these meetings is found in Section II.

Relative to the last review conducted by ICURN in 2015, there have been significant improvements in the way the Central Bank is performing its functions, specifically: a) in terms of how the PRISM supervisory system has been calibrated to be much more risk-based; b) resources within the Central Bank are better allocated via a clear and well-documented risk framework; and c) there is improved engagement and communication with the sector.

Over the past four years the credit union sector has seen substantial consolidation and the number of credit unions has declined by 122 (33%) to 248 trading credit unions, while the membership, savings and assets in the sector have all increased. The non-performing loans have decreased considerably over the past four years from 16% to 5% and the average capital has improved marginally from 16% to 16.5% of non-risk weighted assets. However, the return on assets is on a steady decreasing trend from 1.6% in 2015 to 0.8% in March 2019. Credit unions in Ireland continue to be one of the strongest brands in Ireland based on an annual independent



survey¹ and they play an important role in providing short-term unsecured credit at reasonable rates.

The Central Bank, as the authority with responsibility for the regulation and supervision of credit unions in Ireland, is effective in performing its functions. Under this review the peer review team assesses the Central Bank to be compliant with 20 out of ICURN's 23 Guiding Principles for Effective Prudential Supervision of Co-operative Financial Institutions plus the additional review of governance relative to ICURN's Governance Principles. Three areas are assessed as largely compliant² and one area is deemed not applicable – all other areas are compliant. During the last peer review of the Registry in 2015 there were also three areas assessed as largely compliant and the remainder as compliant.

Two of the areas rated largely compliant in 2015 (Abuse of Financial Services and Supervisory Approach, Techniques and Resources) have improved as of 2019 including monitoring of anti-money laundering and the supervisory approach taken towards credit unions. Both of these areas have been assessed as compliant in 2019.

At the time of the last review in 2015, a new risk management framework had only recently been established and the framework itself was considered to be compliant with the Guiding Principles. As risks for the sector have changed and the increased focus globally on the cybersecurity aspect of risk management (Guiding Principle 4) and management of operational risk (a new Guiding Principle 5), the risk management of these areas are deemed not fully embedded within the sector. While there is a culture of compliance in the sector, the culture of risk management still needs further development. There have been significant improvements in credit risk management and the supervision of this area compared to 2015. However, the latest PRISM Supervisory Commentary 2019 report highlights major areas for improvements across large and smaller credit unions and this area has again been assessed as largely compliant as it was in 2015. A summary of the team's assessment is provided in the table below which is supported by detailed assessments of each Guiding Principle in Section VI below.

¹ Ireland Customer Experience Report 2018

² Annex 3 defines "Largely Compliant" as only minor shortcomings, which do not raise serious concerns about the authority's ability to achieve the objective of the principle and there is clear intent to achieve full compliance with the principle within a prescribed period of time (for instance, the regulatory framework is agreed but has not yet been fully implemented).



Summary of Assessment Ratings

Compliant	Number	Principle / Guiding Principle
Compliant (C)	20	1,2,3,7,8,9,10,11,12,13,15,16,17,18,19,20,21,22,23,24
Largely Compliant (LC)	3	4,5,14
Materially Noncompliant (MNC)	0	-
Noncompliant (NC)	0	-
Non-applicable (N/A)	1	6
Total	24³	

The Registry of Credit Unions has been operational within the Central Bank since 2003 and along with its system of regulation should be seen as an evolving system of supervision. To continue to improve its progress toward full compliance with ICURN's Guiding Principles the Central Bank should build upon its existing communications with the credit union sector, confidentially share the overall PRISM probability risk ratings that have been sufficiently vetted internally at the Central Bank following on-site examinations, and publish data on yields, margins, fee income and operating expenses to help credit unions focus attention on these key areas. We are encouraged by the movement towards a supervisory system that provides greater discretion, within a prudent range, for well-performing credit unions with strong risk management cultures. Lastly, technology and innovation in the credit union sector in Ireland are lagging behind some jurisdictions and risk management capabilities will need to improve to allow for prudent development and innovation in the sector. The Central Bank should continue to assess the most appropriate role for itself in facilitating change of the credit union business model relative to private sector developments in this regard, taking account of its statutory mandate and strategic priorities.

³ Guiding Principle 6 Management of Currency Risk was not deemed applicable in the context of Irish credit unions.



II. BASIS, SCOPE AND METHODOLOGY OF PEER REVIEW

Legal Basis for the Review

One of the main statutory objectives of the Central Bank is to ensure “the proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected”. The Central Bank is committed to performing its regulatory and consumer protection functions to the highest international standards and in accordance with international best practice. To this end, and in accordance with legislative provisions, the Central Bank invites external scrutiny of both its regulatory powers and remit, and the performance of its supervisory functions through regular formal reviews by external parties.

Section 32M of the Central Bank Act, 1942 states that: *At least every 4 years the Bank shall make appropriate arrangements for (a) another national Central Bank, or (b) another person or body certified by the Governor, after consultation with the Minister, as appropriate, to carry out a review of the Bank's performance of its regulatory functions.*

The Central Bank's statutory mandate under section 84 of the Credit Union Act, 1997 (the 1997 Act) is to administer the system of regulation and supervision of credit unions with a view to the protection by each credit union of members' funds and the maintenance of the financial stability and well-being of credit unions generally. The 1997 Act sets out the functions and powers of the Central Bank in relation to credit unions. The functions of the Central Bank are delegated to the Registrar of Credit Unions. In undertaking its statutory duties, the Central Bank has regard to proportionality, nature, scale and complexity of credit unions operating in Ireland and engagement between the Central Bank and individual credit unions and sector stakeholders.

For the purposes of adherence to these legislative provisions and following consultation with the Minister for Finance, the Central Bank requested ICURN to carry out a peer review of the Central Bank's performance of its functions in relation to credit unions.

Scope of the Peer Review

As was the case in 2015, the scope of the 2019 credit union peer review was to assess the legal, regulatory and prudential supervisory framework in place to fulfil the above-mentioned Central Bank's statutory mandate with reference to the ICURN Guiding Principles.

At the basis for the assessment are the ICURN Guiding Principles for (1) Effective Supervision of Cooperative Financial Institutions, and (2) Enhancing Governance of Cooperative Financial Institutions. See Annex 1 for a copy of the ICURN Guiding Principles. These Guiding Principles (last updated in 2018) are recommended by ICURN as a framework for assessing the



effectiveness of the supervision of credit unions, where the supervisor has statutory responsibility for their safety and soundness.

There are many similarities between the ICURN Guiding Principles and the Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision". While the Basel Principles provide an internationally-accepted, well established framework for assessing supervisors of international, national or regional/state banks, they do not address some of the unique characteristics that distinguish credit unions from other types of deposit-takers.

The ICURN Guiding Principles for Effective Supervision form four Pillars (Registration and licensing of credit unions; Credit union structures and organisation; Prudential requirements; Supervisory Powers, Responsibilities & Approach) all of which must function adequately before a supervisor's activities may be considered to be "effective" overall.

Methodology and Resources

The credit union peer review has assessed compliance with each ICURN Guiding Principle in accordance with a defined grading system that is utilized by the International Monetary Fund and World Bank during its Financial Sector Assessments.⁴ The grading system includes: Compliant; Largely Compliant; Materially Non-Compliant; Non-Compliant; Not Applicable. The grading system is outlined in Annex 3.

Before the start of the on-site engagement, the Central Bank provided the peer review team with a detailed (344 pages) credit union self-assessment document (CUSAD) laying out the background and environment of the credit union sector in Ireland and a self-assessment of the Central Bank's compliance with each of the ICURN Guiding Principles. The CUSAD includes reference to a number of supporting documents, reports, practical regulatory examples, regulatory policies as well as public and internal documentation that accompany the assessment. Where the CUSAD referred to proposed changes to the regulatory framework, such references were identified as not part of the current regulatory framework for credit unions. This review relies on the legal and regulatory citations within the CUSAD.

The peer review team was given full access to data, and legal and regulatory documents affecting credit unions at the time of the review. The team was informed by the following materials provided by the Central Bank:

- Credit Union Self-Assessment Document against each of the ICURN Guiding Principles;

⁴ Although members of the team have experience conducting Basel Core Principal reviews for the World Bank and the International Monetary Fund ("IMF") and ratings used align with the IMF's rating categories, the review was *not* conducted on behalf of the IMF/World Bank or in consultation with the IMF/World Bank.



- Central Bank Strategic Plan 2019 – 2021;
- Central Bank's strategic priorities for the credit union sector;
- Current legislative and regulatory framework in place for credit unions;
- Any proposed changes to the regulatory framework for credit unions, as set out in public consultation papers;
- Financial Conditions of Credit Unions Statistical Publications;
- Restructuring which has taken place in the sector (including the Thematic Review of Restructuring in the Credit Union Sector); and
- Credit Union Advisory Committee Report Implementation Group, December 2018.

The peer review team travelled to Dublin, Ireland on May 13-23, 2019 and conducted in-depth interviews with Central Bank senior staff, including the Director of Credit Institutions, the Registrar of Credit Unions, and Deputy Registrars. The peer review team has had a dedicated meeting for each of the Guiding Principles where questions were answered by employees from the Anti-Money Laundering Division; Business Model & Engagement; Consumer Protection; Enforcement; Intervention & Restructuring; IT Inspections; Operations; Policy; Resolution; Risk; Risk Analysis, Data Analytics and Reporting; and Supervision.

An examination of the Registry of Credit Unions' internal documentation (e.g., supervisory materials, practical examples), staffing, data on credit unions and internal processes was carried out by the review team while on-site.

In addition, the review team met with representatives from the following system participants and service providers:

- Credit Union Advisory Committee
- Credit Union Development Association
- Credit Union Financial Analytics
- Credit Union Managers' Association
- Department of Finance
- Irish League of Credit Unions
- National Supervisors Forum
- Three different credit unions from within and outside the Dublin area

Based on the above interviews and materials ICURN has prepared an assessment report (Section VI) including a description, findings and assessment of compliance in relation to each of the ICURN Guiding Principles.

The ICURN Peer Review Team

ICURN was formed in 2007 and in 2016 became an independent, non-profit association of statutory credit union regulators from over 30 jurisdictions on six continents. ICURN promotes



greater international coordination and development among financial services regulators. It also facilitates sharing information and positions of common interest among financial cooperatives, initiates research on financial cooperatives and their oversight, identifies best practices and provides access to a forum for thought leaders worldwide on issues critical to sound credit union regulation. ICURN has a nine-member steering committee and is governed by an independent volunteer board of directors representing Canada, Ireland⁵, Kenya, Mexico and the United States.

The on-site review was conducted by a team of four individuals with extensive experience in supervision and credit unions internationally. The team included Dave Grace, Executive Director of ICURN, Wendy Ivey, Assistant Vice President, Regulation & Risk Assessment at the Credit Union Deposit Guarantee Corporation (Alberta, Canada), Roger Marsh a recently retired Senior Technical Specialist for Banks, Building Societies and Credit Unions at the Bank of England and Lili Tangwall, Membership Director of ICURN. This report was reviewed by a quality control team of ICURN members from the US, Australia and UK. Detailed bios on the team and the quality review team can be found in Annex 2.

⁵ Although ICURN is currently chaired by a member of the management team at the Registry of Credit Unions, the initial inquiry for ICURN to conduct the peer review and initiation of the project began under ICURN's previous chairperson from the Bank of England. The current chairperson of ICURN has delegated all aspects for oversight and conduct of the peer review to other board members to ensure there is no conflict of interest.



III. ENVIRONMENTAL CONTEXT FOR REVIEW & CHANGES SINCE 2015

a. The Macroeconomic Environment⁶

The viability and long-term sustainability of credit unions' businesses are directly related to the macroeconomic environment in which they operate. In Ireland, interest rates have been at historically low levels for more than 10 years, adversely affecting both income from lending⁷ and from investments. It seems unlikely that rates will be increased in the foreseeable future, the European Central Bank having warned in March 2019 that risks to growth were on the rise. At the same time, the legacy effects of the financial crisis in Ireland still influence customer behavior.

The Irish economy is expanding strongly, benefitting from higher net exports by multinational enterprises and robust domestic demand.⁸ However, the economy is seen as approaching full capacity and levels of consumption are close to their pre-crisis peak, suggesting that current levels of demand for credit, and individuals' attitudes towards indebtedness, are being strongly influenced by institutional and personal consequences of the financial crisis. Irish households have now significantly reduced their levels of indebtedness, yet remain overleveraged compared to the Euro Area average, and the proportion of low-income families in distress is still high. Household debt now stands at 126% of disposable income, a level last seen in 2003, having peaked at 212% in 2009.⁹ However, Ireland's household debt ratio is still the fourth highest in the EU. It is difficult to estimate when full consumer confidence might be restored. Further, there are very serious potential implications for Ireland of the exit of the United Kingdom from the European Union. This is injecting a significant degree of uncertainty into the economy.¹⁰

The recovery of housing supply, which contracted sharply during the crisis, has been unsatisfactory, triggering rapid increases in housing prices and very high rents, notably in the Dublin region. Regional disparities, albeit narrowing, persist, and many people have yet to experience benefits from the economic upturn.

Generally, credit union members' attitudes towards borrowing appear to remain cautious and there is a marked preference towards saving and reducing existing debt. Evidence from some credit unions themselves suggests that, while members remain loyal savers, when they need

⁶ Sources: International Monetary Fund, Article IV Consultation, Report 18/194, June 2018; Central Bank of Ireland Macro-Financial Review, November 2018; European Central Bank.

⁷ Although recently there has been a rise in loan interest income across the sector.

⁸ Source: IMF Country Report No. 19/164

⁹ Source: Department of Finance, March 2019.

¹⁰ See: <https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2019/quarterly-bulletin-q3-2019.pdf?sfvrsn=14>



credit they are more likely to turn to banks, which are now aggressively returning to the lending market.

b. Credit Union Sector Summary¹¹

Table 1 provides a summary of the financial position of the Irish credit union sector as at 30 September 2018. This information is based on the quarterly Prudential Returns submitted by credit unions, with the exception of the dividend information which is based on annual financial statements submitted by credit unions.

Table 1: Credit Union Sector Overview as at 30 September 2018

Assets: €17.6 billion	Savings: €14.6 billion
<ul style="list-style-type: none"> • 274 credit unions registered as at 30 September 2018¹². (369 registered credit unions as at 30 September 2015.) • 58 credit unions with total assets of less than €20m • 54 credit unions with total assets over €100m 	<ul style="list-style-type: none"> • €12.9 billion savings reported as unattached to loans
Loans: €4.8 billion	Reserves: €2.9 billion
<ul style="list-style-type: none"> • Average loans to assets ratio: 27.8% (Sep 2017: 27.2% and Sep 2016: 27.4%) • 104 Credit Unions with loans to assets ratio below 25% • 0.8% (two CUs) have arrears greater than 20% of their Gross Loans • 7.1% (18 CUs) have less than 70% provision coverage for loans in arrears 	<ul style="list-style-type: none"> • Two credit unions with reserves below the 10% Regulatory Requirement, as reported by the credit unions themselves (these are being dealt with by the I&R team) • The average dividend for 2018 across the sector was approximately 0.1%
Investments: €12.2 billion	
<ul style="list-style-type: none"> • Over 74% held in bank deposit accounts, 19.6% held in Bank Bonds/Government Securities. • Liquidity average of 37.3%. 	

** As reported by 252 credit unions in September 2018*

¹¹ Source: Central Bank of Ireland.

¹² There were 274 credit unions registered as at 30 September 2018. 20 credit unions were registered but were not trading and two credit unions did not submit Prudential Returns. The analysis in this section is based on the 252 credit unions that submitted Prudential Returns for 30 September 2018.



Number of Credit Unions, Members and Total Assets

The tables below provide a high-level overview of the credit union sector in Ireland over time. Table 2 shows that while there has been a decline in the number of credit unions the number of members and total assets have increased.

Table 2: Number of Registered Credit Unions and Members

Year	2015	2016	2017	2018
Number of Registered Credit Unions	369	329	292	274
Number of Members (Million's)	3.2	3.3	3.3	3.4
Total Assets (€m)	14,958	15,957	16,780	17,609

Source: Credit union Prudential Returns as at 30 September

Credit Union Asset Size Distribution

Table 3 illustrates the size of Irish credit unions with the majority of them remaining relatively small. The largest credit union in terms of asset size is €426m and the smallest is €0.89m as of 30 Sept 2018.

Table 3: Number of Credit Unions by Asset Bands as at 30 September 2018

Asset Bracket	Number	Total Assets (€m)	% Total Assets
< €20m	58	753	4.3
>€20m<€40m	59	1,715	9.7
>€40m<€60m	43	2,136	12.1
>€60m<€100m	38	3,008	17.1
>€100m	54	9,998	56.8
Total	252	17,609	100

Source: September 2018 Prudential Returns as reported by 252 credit unions

Credit Union Financial Position

Table 4 provides an overview of the financial position/performance of the credit union sector over time.

Table 4: Credit Union Sector Financial Position

	2015	2016	2017	2018
Total Assets (€m)	14,958	15,957	16,780	17,609
Total Loans (€m)	3,953	4,146	4,454	4,789
Total Investments (€m)	10,820	11,428	11,806	12,241
Total Realised Reserves (€m)	2,397	2,591	2,778	2,893
Total Savings (€m)	12,487	13,287	13,917	14,630
Arrears Greater than 9 weeks (€m)	491	358	279	227
Average Arrears (%)	13.5%	9.7%	7.4%	5.6%



Average Liquidity*	41.3%	35.8%	36.2%	37.3%*
Average Loans to Asset Ratio	27.8%	27.4%	27.2%	27.8%
Average Return on Assets	1.4%	1.2%	1.0%	1.0%
Average Dividend Paid ¹³	0.6%	0.4%	0.2%	0.1%

Source: Credit Union Prudential Returns (30 September 2018)

* Liquidity with outliers excluded (anything above 200%), 2018 figure based on revised regulations on liquidity.

Credit Unions Not Meeting Minimum Reserve Requirements

As at 30 September 2018, two credit unions reported that they were not meeting the minimum regulatory reserve requirement of 10% of total assets. Both of these credit unions were in the I&R portfolio and subject to intensive engagement. Credit unions that do not meet the minimum regulatory reserve requirement are directed by the Registry to restore their reserves position to meet the minimum reserve requirement within a specified period. In some such cases, credit unions obtain SPS support from the ILCU to assist them in meeting the reserve requirement. From 2015 to date, SPS support has been provided to 31 individual credit unions of which 25 transferred their engagements to other credit unions as part of this process. Where Regulatory Directions are issued to restore reserves, the Central Bank maintains, at all times, the right to use its regulatory, enforcement and other powers, including but not limited to resolution powers under the Central Bank and Credit Institutions (Resolution) Act, 2011.

c. Key Developments in the Irish Credit Union Sector since 2015

Credit Union Sector Restructuring

The 2012 Act made provision for restructuring the credit union sector to be overseen and facilitated by a board the Credit Union Restructuring Board ('ReBo') and supported by a fund (Credit Union Fund). By the time ReBo ceased its restructuring operations on 31 March 2017 it had supported a total of 117 transfer projects, of which 82 had concluded. ReBo published a final report in July 2017¹⁴ which provides an overview of its work between 2013 and 2017.

When ReBo ceased accepting new applications for assistance, the Registry issued a circular and explanatory note to all credit unions advising interested credit unions to engage directly with the Registry to facilitate further voluntary restructuring. Additionally, the Credit Union Handbook has been updated to include information on the restructuring process.

¹³ Figures for the average dividend paid is taken from the Year End Return.

¹⁴ Restructuring of the Credit Union Sector in Ireland 2013 – 2017



The Central Bank published a thematic review of restructuring in the credit union sector in February 2019.¹⁵ The report analyses the transformational impact of restructuring on the sector generally, as well as on membership, business locations and financial position and performance. In total, between 2013 and September 2018, 135¹⁶ individual transferor credit unions completed a transfer of engagements to another credit union. In 15 transfers of engagements exercises, two or more credit unions (34 transfers in total) transferred their engagements to another credit union at the same time. Of the transfers between 2013 and 30 September 2018, 27 involved the provision of private sector support and two were directed transfers under the Resolution Act.

Resolution

The Central Bank and Credit Institutions (Resolution) Act 2011 provides the Governor of the Central Bank with resolution powers which aim to effectively and efficiently resolve authorized credit institutions¹⁷ that are failing or likely to fail, while also seeking to protect the taxpayer, the stability of the financial system and the economy. In order to use the resolution tools contained in the 2011 Act, the 'Intervention Conditions' (covering, inter alia, financial stability issues, immediate winding up not in the public interest and regulatory breaches) must be met and the proposed action must be 'necessary in all the circumstances'.

The 2011 Act also established the Credit Institutions Resolution Fund ('CIRF'). The purpose of the CIRF is to provide a source of funding for the resolution of financial institutions. The Department of Finance is responsible for setting the target level for funds in the CIRF and the Minister of Finance is responsible for approving the use of the CIRF. The Central Bank has responsibility for administering the fund, to include the collection of levies. In 2019, the Department of Finance is undertaking a review and consultation on the current and future funding levels for the CIRF. It is anticipated that the consultation process will conclude in 2019.

To date the 2011 Act has been used to resolve six credit unions. Following the appointment of a special manager for a period, Newbridge Credit Union Limited was transferred to Permanent TSB plc (a bank) on 10 November 2013. Howth Sutton Credit Union Limited was transferred to Progressive Credit Union Limited on 5 March 2014. Berehaven Credit Union Limited was liquidated on 31 July 2014. Killorglin Credit Union Limited was transferred to Tralee Credit Union Limited on 18 December 2014. Rush Credit Union was liquidated on 2 November 2016. Charleville Credit Union was liquidated on 13 October 2017.

¹⁵ Registry of Credit Unions, *Thematic Review of Restructuring in the Credit Union Sector*, February 2019.

¹⁶ Not including a separate directed transfer to a non-credit union financial institution, seven dissolutions under the Act, and three liquidations under the Resolution Act.

¹⁷ This legislation now applies to credit unions only as credit institutions now come within the remit of the Bank Recovery and Resolution Directive ('BRRD') which was transposed into Irish law on 15 July 2015



Financial Conditions¹⁸

Since 2015 credit union membership has risen year-on-year, increasing by 217,000 by September 2018; this followed a net fall in membership recorded in 2014.

Similarly, there has been a steady increase in aggregate assets since 2015, totaling €2.9 billion and continued growth in total sector reserves to €2.9 billion at 31 March 2019, with average realized reserves ratio at 31 March 2019 of 16.5%, compared with the minimum regulatory requirement of 10%. Only one credit union reported reserves below the 10% minimum requirement as at 31 March 2019.

However, these positive data must be juxtaposed with a significant decrease in the surpluses reported by credit unions. The main factors driving this have been the reduction in total loan interest income as loan books have declined; in this regard it is noted that the loans-to-assets ratio seems to have stabilized at an average 28% and the consistent decrease in investment income as the impact of the low interest rate environment has reduced income on investments held by credit unions. Although surpluses have been supported over the review period by the release of bad debt provisions, with the effect of reducing reported expenditure this can only be a temporary source, is not sustainable and cannot be relied upon to continue to support surplus levels into the future.

The coalescence of challenging environmental factors poses a serious challenge to the credit union sector which overwhelmingly relies on a traditional “savings and loans” model. Sustainability will depend on credit unions being successful in confronting the many economic and competitive challenges they face and developing new lines of business and technologies that are attractive to their members.

d. Legal & Regulatory Framework

There is a comprehensive legal and regulatory framework for the Irish credit union sector.¹⁹ The following are the main items of legislation and regulations relevant to the regulation and supervision of credit unions:

- Central Bank Act, 1942;
- Credit Union Act, 1997;
- Central Bank Reform Act, 2010;
- Central Bank and Credit Institutions (Resolution) Act, 2011;

¹⁸ See, e.g.,: Central Bank, *Financial Conditions of Credit Unions: 2013-2018*, Issue 3, August 2018.

¹⁹ The *Credit Union Handbook* was introduced by the Central Bank in 2013 to assist credit unions by bringing together in one place the legal and regulatory requirements and guidance that apply to credit unions.



- Credit Union and Co-operation with Overseas Regulators Act, 2012;
- Central Bank (Supervision and Enforcement) Act, 2013, and
- Credit Union Act 1997 (Regulatory Requirements) Regulations 2016.

The Central Bank Act, 1942 sets out the functions and powers of the Central Bank and establishes a statutory position, the Registrar of Credit Unions. The Central Bank Act, 1942 sets out the process for the appointment, role and responsibilities of the Registrar of Credit Unions.

The 1997 Act sets out the functions and powers of the Central Bank in relation to credit unions. The functions of the Central Bank are delegated to the Registrar of Credit Unions. The 1997 Act sets out the framework for the registration, regulation, and operation of credit unions.

The Central Bank Reform Act 2010 establishes a single unitary body responsible for both central banking and financial regulation. The 2010 Act also provides the Central Bank with the powers to set out the Regulations and Standards of Fitness and Probity for regulated financial service providers, including credit unions.

The Central Bank and Credit Institutions (Resolution) Act 2011 provides the Central Bank with powers to manage and resolve distressed credit institutions, including credit unions.

The Credit Union and Co-operation with Overseas Regulators Act 2012 reflects many of the Commission on Credit Union's recommendations in areas such as prudential regulation, governance, restructuring and stabilization.

The Central Bank (Supervision and Enforcement) Act 2013 enhanced the supervisory and enforcement powers of the Central Bank. Many provisions were harmonized across all regulated financial service providers rather than being applicable to one industry sector alone. Key elements of the 2013 Act include whistle-blower protections, Central Bank regulation-making powers in such areas as conduct of business and consumer protection, and the power to require a regulated financial service provider to commission the production of an expert report by a third party.

The Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations)²⁰, which taken together with pre-existing statutory provisions now provide the regulatory framework for the credit union sector.

²⁰ The remaining sections of the 2012 Act commenced on 1 January 2016, replacing, amending or supplementing certain existing sections of the 1997 Act. These amendments in effect, removed some of the requirements from the 1997 Act and provided regulation making powers to the Central Bank.



In addition to credit union-specific provisions, there is anti-money laundering legislation which also applies to credit unions. The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA 2010), amended by the Criminal Justice Act 2013, transposes the Third Money Laundering Directive (2005/60/EC) and its Implementing Directive (2006/70/EC) into Irish law, bringing Ireland into line with EU requirements and the recommendations of the Financial Action Task Force (FATF). Designated persons under the CJA 2010, including credit unions, are required to comply with their obligations under the CJA 2010.

Other Key Regulatory Developments since 2015

Review of the Fitness and Probity Regime for Credit Unions

Credit unions are required to ensure that any person performing a Controlled Function (CF) position is fit and proper before appointing them to the position and the person must also agree to comply with the Central Bank's standards of fitness and probity on an on-going basis.

Initially, in 2013, there were two senior positions in all credit unions designated as Pre-approval Controlled Functions ('PCFs'), these being the roles of chair of the board of directors and manager/CEO of the credit union. Central Bank approval was required before appointments may be made to these positions.

The Central Bank conducted a review of the F&P regime for credit unions in 2017. The review was undertaken in the context of recent developments such as sector restructuring and business model development, the findings of the themed inspections on Fitness and Probity in credit unions and supervisory findings in credit unions around governance and systems of control arising from on-site inspections conducted by the Central Bank. Following the review, the Central Bank consulted publicly on the addition of three new PCFs (Risk Management Officer, Head of Internal Audit and Head of Finance) for credit unions with total assets of at least €100m. The Central Bank views these PCFs as key roles that are central roles for credit unions seeking to embed restructuring and to further develop their business model and ensure viability into the future. These changes came into effect from 1 July 2018.

Consultation and Regulatory Impact Analysis

Further to the recommendation of the Commission the Consultation Protocol for Credit Unions was published in 2012 and sets out how the Central Bank consults formally with credit unions, their representative bodies and other relevant stakeholders prior to the introduction of new regulations for credit unions. In addition to formal consultation, the Consultation Protocol sets out that the Central Bank may engage informally with credit unions, their representative bodies and other relevant stakeholders.



The Central Bank appears publicly committed to having clear, open and transparent engagement with stakeholders in fulfilling its financial regulation and supervisory objectives and its approach to this commitment is exemplified by the following:

- Consultations since 2015, including Consultation on Potential Changes to the Investment Framework for Credit Unions (CP109), Consultation on Potential Amendments to the Fitness and Probity Regime for Credit Unions (CP113) and Consultation on Potential Changes to the Lending Framework for Credit Unions (CP125);
- the Credit Union Handbook has been regularly updated to reflect changes to the regulatory framework for credit unions and to consolidate in one place guidance previously issued in Guidance Notes and circulars;
- new guidance has also been developed and published in a number of areas including Provisioning Guidelines for Credit Unions (April 2018), and Longer-Term Lending Guidance For Credit Unions (December 2017);
- the Registry has also introduced a number of new publications for the credit union sector including a twice yearly 'Financial Conditions' statistical information publication which provides insights to credit unions on key trends that we see based on our analysis of the data submitted to the Central Bank by credit unions;
- it has also enhanced the PRISM Supervisory Commentary for credit unions which is now published annually;
- the Registry has also introduced a number of new engagement initiatives since 2015 including:
 - Workshops for internal and external auditors;
 - Credit union workshops for credit union board members, and
 - Facilitation of a CEO Forum.

The Central Bank is also committed to undertaking a Regulatory Impact Analysis (RIA) to assess the impacts of new regulations and consideration of alternative options, where practicable, when consulting on new regulations. The Registry has to date published a RIA with all final consultation papers which have been issued. These RIAs have contained a thorough assessment of the potential impact of new regulations on individual credit unions and the sector, based on available data. The approach to RIA has evolved and the contents of each RIA is dependent on the specific issue being assessed. The Central Bank also strongly encourages credit unions and any other interested sector stakeholders to provide additional analysis to it during the course of each consultation to assist it in developing final regulations.

Provisioning Framework for Credit Unions

CP76 proposed that the Central Bank would develop a new framework in relation to provisioning to ensure consistency and clarity in the manner in which credit unions calculate their provisions.



The Central Bank published Provisioning Guidelines for Credit Unions in April 2018 setting out guidelines regarding the policies and procedures which credit unions should adopt to support the development and implementation of an appropriate provisioning framework to support:

- Recognition of loan losses as early as possible within the context of accounting standards;
- Adoption of a sufficiently conservative and comparable approach to the measurement and making of impairment provisions; and
- Disclosures to support members' understanding of the performance of the loan book and the credit union's credit risk management practices.

Review of Implementation of Commission on Credit Unions Recommendations

Following publication of the Report of the Commission on Credit Unions the Credit Union Advisory Committee (CUAC) undertook a review of the implementation of the Commission's recommendations. In June 2016, following this review CUAC published a report '[Review of Implementation of the Recommendations in the Commission on Credit Unions Report](#)'. The Report identifies that the vast majority of recommendations made by the Commission on Credit Unions have been implemented. It sets out recommendations in relation to a number of areas and recommended that an implementation group consisting of members from the credit union representative bodies, the Central Bank, the Department of Finance and a CUAC representative, be established to oversee and monitor implementation of CUAC's recommendations.

Recommendations were made in the following areas:

- **Tiered regulation** – While recognising there are significant challenges in the introduction of a tiered system, on balance CUAC considers a two tier model of regulation would be appropriate for credit unions;
- **Longer term lending limits** – full review of lending limits and concentration limits, including the basis of the calculation of the limits together with associated liquidity requirements;
- **Consultation and engagement** – introduction of Service Level Agreements and meaningful Regulatory Impact Analysis to form part of any consultation process;
- **Governance** – that all credit unions implement governance requirements as intended, that proportionality be exercised in implementation of governance requirements that the Central Bank and credit unions guard against excessive focus on governance to the detriment of service delivery and business growth;
- **Restructuring** – a mechanism be established to provide support to credit unions that have restructured and those that restructure in the future and that a review to assess whether benefits are accruing in restructured credit unions should be undertaken at a suitable point in time, and



- **Business model development** – that credit unions prioritise business model development and consider investing significantly in the development of their business models either individually or collectively.

CUAC Implementation Group

Further to CUAC's recommendation, the CUAC Implementation Group was established in November 2016 to oversee and monitor the implementation of CUAC's recommendations. The Implementation Group was chaired by the Department of Finance and consisted of one member from each of the credit union representative bodies and a representative from the Central Bank and CUAC.

The Implementation Group met 18 times during 2017 and 2018 and worked through each of the CUAC recommendations, with a particular focus on lending and consultation and engagement during 2017. The Implementation Group submitted three papers to the Central Bank on Lending, Consultation and Tiered Regulation.²¹

The Implementation Group published its Final Report 'CUAC Report Implementation Group' on 7 January 2019 which provided an overview of the status of the 2016 CUAC recommendations and set out a number of stakeholder recommendations.

Review of the Investment Framework for Credit Unions

In order to ensure that the investment framework remains appropriate for the credit union sector, the Central Bank undertook a review of the investment regulations in 2017. This review considered whether it was appropriate and prudent to facilitate investment by credit unions in other classes of investments. Consultation Paper 109 Consultation on Potential Changes to the Investment Framework for Credit Unions (CP109) set out proposed changes to the framework, which were primarily aimed at increasing diversification in credit union investment portfolios, and invited feedback on these proposals. A feedback statement on CP109 including amending regulations to give effect to the final changes to the investment framework was published on 1 February 2018. These changes included the introduction of three new investment classes for credit unions, accompanied by the introduction of specified credit quality, maturity and concentration limits:

- Bonds issued by Supranational Entities;
- Corporate Bonds, and
- Investments in Tier 3 Approved Housing Bodies ²²(AHBs).

²¹ The peer review team met the CUAC during the review,

²² The regulatory code applied to AHBs divides AHBs into three tiers – Tier 3 refers to larger AHBs.



The amending regulations also introduced changes to the liquidity framework for credit unions, reflecting significant feedback received on this topic through the consultation process.

Review of the Lending Framework for Credit Unions

In order to ensure that the lending framework remains appropriate for credit unions, taking account of the risk management capabilities, expertise and financial resilience of credit unions, a review of the lending framework for Credit Unions was undertaken in 2017/2018. Following this review CP125 Consultation on Potential Changes to the Lending Framework for Credit Unions (CP125) was published in October 2018.

The new proposals set out in CP125 were informed by engagement with industry stakeholders and an examination of the current regulatory framework and recent lending trends. As part of this review, a questionnaire was issued to all credit unions in April 2018 to gather information on current and forecasted lending and savings activity. The review also took into account broader balance sheet impacts – these include the changing maturity profile of credit union lending and investments, and related funding considerations.

The proposed amendments to the credit union lending framework include:

- Removal of the existing lending maturity limits which cap the percentage of credit union lending which may be outstanding for periods of greater than 5 and 10 years, and
- Introduction of concentration limits, on a tiered basis, for house and commercial loans expressed as a percentage of total assets.

The Consultation period closed on 9 January 2019 and the Central Bank is currently finalizing its proposed amendments to the lending framework.

Accounting and Audit

The 1997 Act sets out the requirement for the preparation and audit of the accounts of a credit union, in summary requiring it to:

- Maintain proper accounting records;
- Establish and maintain systems of control and safe custody;
- Adhere to certain accounting principles;
- Prepare annual accounts which provide a ‘true and fair view’ of its income and expenditure for the year and of the state of its affairs at year-end, signed by certain officers of the credit union and containing an external auditor’s report.

The requirement for annual accounts to give a true and fair view entails compliance with relevant accounting standards and the 1997 Act. “Financial Reporting Standards 102” (FRS) issued by the Financial Reporting Council (FRC) in the UK in March 2013 are the Irish “Generally Accepted



Accounting Principles" (GAAP) and replaced all previous Irish accounting standards with effect from the credit union financial year 2015/2016.

The 2016 Regulations include disclosure and reporting requirements related to credit union annual accounts. Under Part 8 Systems, Controls and Reporting Arrangements, the 2016 Regulations include a reporting requirement for a credit union to ensure that its directors shall prepare the prescribed supplementary information to be contained in its annual accounts.

Certain reporting requirements are also imposed on external auditors by Section 122 of the 1997 Act which places a duty on auditors to make an annual written report to the Central Bank within one month of the date of the auditor's report on the credit union's financial statements stating whether or not a reportable instance has arisen in the context of section 122 of the 1997 Act.

Section 33AK(5)(x) of the Central Bank Act 1942 provides that the Central Bank can disclose confidential information to anybody established under law for the purposes of overseeing auditors, in accordance with the terms of the supervisory EU legal acts, where applicable.

Depositor Protection

Deposits held in credit institutions (banks, building societies and credit unions) authorized in Ireland are protected by the Deposit Guarantee Scheme (DGS), which is administered by the Central Bank and funded by the credit institutions covered by the scheme. EU Directive 2014/49 took effect in Ireland on 20 November 2015. In the event of a credit institution being unable to repay deposits, all eligible deposits are guaranteed to be repaid by the DGS up to a limit of €100,000 per person per institution.

To date the DGS has been activated on four occasions, three being credit union insolvency.

In addition to the DGS protection, other statutory supports are in place for credit unions, including a Credit Union Fund for stabilization purposes and a resolution fund – the Credit Institutions Resolution Fund. There is also a private sector fund in place operated by the Irish League of Credit Unions.



IV. RECOMMENDED ACTIONS TO IMPROVE EFFECTIVENESS OF COMPLIANCE

Relative to the last review conducted by ICURN in 2015, there have been significant improvements in the way the Central Bank is performing its functions, specifically: a) in terms of how the PRISM supervisory system has been calibrated to be much more risk-based; b) resources within the Central Bank are better allocated via a clear and well-documented risk framework; and c) there is improved engagement and communication with the sector.

However, to further improve the supervisory effectiveness and compliance with the ICURN Guiding Principles for supervision and governance, the review team recommends that actions are taken in three key areas that are related to risk management. These are: a) further expand the existing communications from the Registry to support improved risk management; b) continue to develop a regulatory framework which recognizes the diversity and variability within the credit union sector; and c) support innovations and a culture of risk management in credit unions and within the scope of appropriate activities for the Registry. Each of these recommendations is further detailed below.

a. Communications to Support Improved Risk Management

The review team has been impressed by the level of communication the Registry has put in place, including regular (quarterly) meetings with four separate industry bodies, publications, speeches at annual conferences and ad hoc meetings. During the last peer review, it was noted that communication must remain at the heart of the Central Bank's relationship with the sector and improving communication was one of the recommendations. Significant strides have been made in this area with the introduction of new publications, sharing of data and on-going industry engagements. The peer review team has received consistent feedback from the credit unions that it interacted with (albeit a small sample) that they find value in the on-site inspections and the communications during those activities.

One of the newest communications from the Registry is the Annual PRISM Supervisory Commentary Report which details trends that the Registry has seen from its on-site and off-site activities during the previous year as well as forward-looking areas of potential concern. The review team found a low-level of awareness of this report among credit unions and further promotion of it should be undertaken by the Registry to improve risk management in credit unions.

The Registry's semi-annual Financial Conditions could further aid the sector by publishing more financial data and ratios which correspond to areas of interest for the Registry. For example, given the on-going reduction in reported surpluses among credit unions, the Registry could publish peer group data on net financial margins, yields on savings, fee income, investments and loans, breakdowns of operating expenses by peer groups and make all of the data available in



formats (e.g., Excel) that allow for further analysis. In addition, expanding the process to confidentially share a credit union's overall PRISM probability risk rating (that has been vetted within the Central Bank) with the credit union after an on-site exam, has been shown in other markets to help boards understand if they are progressing or regressing from exam to exam and should be implemented in Ireland. Likewise, the publication of PRISM weightings can also add to the transparency of the examination process and align views and risk management focuses of the Registry and credit unions.

Lastly, the review team heard of a few isolated cases where the Registry could improve its correspondence management and notifications to credit unions regarding their line supervisors changing or regarding the status of an application for new products/services. Ensuring consistency in these systems and processes can help improve communication.

b. Continued Evolution of Regulatory Framework to Improve Risk Management

Across many industries and countries regulatory developments can often lag industry developments as the private sector seeks to innovate or adapt with consumer demands. Since the last peer review there has been a significant consolidation of the sector and many improvements in the financial indicators of the credit unions (e.g., lower non-performing loans, increase in reserves and asset growth). During this time the ReBo Board concluded its activities and important provisions were transposed from the 1997 Credit Union Act into regulations. However, supervisory engagements with credit unions continue to show weaknesses in governance and risk management frameworks, with specific issues identified in relation to credit union underwriting.²³ Further work is required to strengthen credit unions core foundations across governance, risk management and operational capabilities to embed a sufficient risk management framework as highlighted in Guiding Principals 4 and 5. Although the responsibility rests with boards and management to ensure that their governance, compliance and risk management frameworks continue to be able to support their existing operations as well as support proposed business model change, the Registry has an important role to play in supporting and overseeing the risk management environment in credit unions.

As the credit union sector demonstrates an improvement in its risk profile, the Registry should consider how further regulatory development can allow some of the consistently strong performing credit unions to benefit from increased flexibility. There are already signs that this is underway in some parts of the regulatory framework. These developments should be monitored

²³ PRISM Supervisory Commentary 2019 - <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/supervisory-commentary/prism-supervisory-commentary-april-2019.pdf?sfvrsn=5>



and expanded, if successful, to facilitate prudent expansion where credit unions demonstrate an ability to effectively manage risks in their businesses.

c. Support Risk Management Culture Within Credit Unions

Financial institutions, of all stripes, can be lulled into believing they are effectively managing risk and complying with regulatory requirements because they have a standard set of policies (i.e., credit, liquidity investment, IT) in place. However, when credit unions are not actively monitoring, acting and updating these policies this can lead to a “tick-box” compliance by financial institutions instead of active risk management. Credit unions have put risk management officers and risk management frameworks in place, but they now need to demonstrate that the focus is on fully embedding these structures and ensuring that these resources are being actively utilised to inform strategic direction and decision making. In this way credit unions will have ownership of their own risk management process which must be embedded across the credit union.

Credit union boards in many jurisdictions have a conservative orientation in the oversight of their institutions as the incentives for risk taking can be muted. As new competitors have come into some of the traditional credit union markets and consumers have deleveraged in Ireland, most credit unions have found themselves flush with liquidity and with few attractive investment options in this low interest rate environment. As the low interest rate environment is likely to continue in the near to medium term, it will be critical that the sector maintains investments in assets that do not expose the credit union to undue risk.

Credit unions will need space to innovate in this new environment - be it through new products or services, leveraging of technology to reduce costs, offer new services or other business model innovations such as shared services. This requires an embedded culture of risk management as opposed to a tick box mentality within credit unions. The Registry has made attempts to encourage and support such changes through facilitating the CEO-led Forum and expanding some permissible activities through the creation of a dedicated Business Model and Engagement Unit. It will need to continuously monitor its approach in this area.

d. Additional Observations for Consideration

In addition to the three overarching recommendations which related to areas assessed as largely compliant, the review team has the following observations which are not borne directly out of ICURN's Guiding Principles, but nonetheless may further improve the regulation and supervision of the sector.

- The Central Bank should further ensure there is sufficient staffing allocated to the Registry to allow for continued regulatory development, intervention and restructuring, business model



development and a robust, yet proportional, examination program. This should include sufficient resources to undertake on-site inspections of a random sample of credit unions that would normally be subject to desk-based engagements only as a means to back test the desk-based engagement methodology.

- At present, the Central Bank can only open an investigation of an individual under its fitness and probity regime if the person is still in post. This restriction does not apply if the Central Bank wishes to take enforcement action against an individual under the Administrative Sanctions Procedure, and does not limit the regulator's ability to take criminal action. Notwithstanding the available alternatives, the Central Bank has publicly requested the broadening of the fitness and probity regime's remit to include investigations into those individuals who performed controlled functions in the past. This would be a welcome reform.
- The Central Bank regularly reviews its supervisory approach as the economy and the financial services sector develop. The sector is now supervised differently than it was in 2015, and against a quantitative assessment of risk. In its future reviews the Central Bank may wish to further develop its approach to include a differentiation between credit unions operating an inherently low-risk, basic savings and loans model, and those with more complex, riskier business models. As part of its reviews of the overall approach, the Central Bank should continue to ensure there is sufficient staffing allocated to the Registry to allow for a robust, yet proportional, examination programme.
- The Registry is encouraged to conduct additional stress-testing on regulatory reserves under the existing leverage ratio and risk-weighted reserve approach. This stress tests and impact assessments should take account of resilience to cyclical and structural vulnerabilities, long-term demographic trends in the markets where credit unions generally operate, and the impact it has on loan demand, lower re-pricing of investments, the potential economic impact of a hard Brexit and the fact that retained earnings are the sole source of capital for credit unions.
- There have been many positive developments regarding the application processes for approval of additional services for credit unions. The creation of a dedicated Business Model and Engagement Unit within the Registry in 2016 has been particularly effective in supporting the sector through direct and proactive regulatory engagement. There have been a few instances where the process leading to formal approval of a credit union's new services has taken some time. We recommend that where there is a major initiative from the sector to introduce, or to refine, credit union services, the Central Bank considers appropriate engagement with its key promoters and participants to assist them to gain a thorough understanding of the essential requirements for approval of individual applications. Setting out explicit and clear expectations would aid efficiency and limit uncertainty on the part of potential developers and participants. We particularly recommend close engagement with promoters of initiatives so that they are clear as to their due diligence responsibilities in the



selection of credit unions as participants. We also suggest the Central Bank considers how it can more clearly communicate with applicant credit unions on the progress of applications for additional services.

- There is no guidance in the Credit Union Handbook on the handling of dormant accounts within credit unions²⁴. Both the time frame for considering the account dormant (36 months)²⁵ and the fact that unclaimed balances are not eventually turned over to either the state or an independent body is an area of potential concern and should be improved.

²⁴ Under the [Dormant Accounts Acts 2001–2012](#) and the [Unclaimed Life Assurance Policies Act 2003](#), balances on dormant accounts with banks, building societies and An Post, as well as the net value of certain life assurance policies are paid into the Dormant Accounts Fund. This fund is managed by the [National Treasury Management Agency \(NTMA\)](#). The legislation does not apply to accounts held in [credit unions](#).

²⁵ Credit unions may set out rules relating to dormant accounts in the credit union's own rules and many credit unions consider member accounts to be dormant after 36 months of inactivity.



V. CENTRAL BANK'S RESPONSE (THE REGISTRY)

Introduction

The Central Bank acknowledges the detailed assessment, undertaken by the ICURN credit union peer review team (ICURN team), on the Central Bank's compliance with the ICURN [Guiding Principles for Effective Financial Cooperative Supervision](#) and [Best Practices for Financial Cooperative Governance](#).

In line with our statutory mandate, the Central Bank is committed to ensuring the protection by each credit union of the funds of its members and maintenance of the financial stability and well-being of credit unions generally. The requirement under legislation for a peer review to be undertaken every four years is an opportunity for regular external scrutiny on the performance of our functions in relation to the regulation and supervision of credit unions, for the purposes of ensuring that we continue to measure up to international standards and principles. We acknowledge and welcome the recommendations for potential enhancement in the Central Bank's performance of these functions.

The Central Bank welcomes recognition by the ICURN team that the Central Bank, as the authority with responsibility for the regulation and supervision of credit unions in Ireland, is effective in performing its functions and that, relative to the last review conducted by ICURN in 2015, there have been significant improvements in the way the Central Bank is performing its functions, specifically:

- a. in terms of how the PRISM supervisory system has been calibrated to be much more risk-based;
- b. resources within the Central Bank are better allocated via a clear and well-documented risk framework; and
- c. improved engagement and communication with the sector.

Overall Comments on ICURN Team's Recommendations

The Central Bank broadly agrees with the findings contained in the Peer Review Report and will consider how we can address the recommendations with a view to enhancing our current practices in the context of our mandate, vision and strategy for the credit union sector.

Credit unions continue to play an important role, at both community and society level, in the Irish financial services landscape. The Central Bank's strategy for the credit union sector is based on the belief that strong, well-governed credit unions should remain an important part of the financial landscape in Ireland. The Registry's vision for "Strong Credit Unions in Safe Hands" underpins our Statutory Mandate set out under Section 84 of the Credit Union Act, 1997: Our vision for the sector is supported by four key Strategic Priorities:

1. Inspections and Supervision;



2. Intervention and Restructuring;
3. Regulatory Development and Safety Nets; and
4. Business Model Engagement.

These four Strategic Priorities help to ensure appropriate management and mitigation of risks from a prudential perspective and support the ongoing change that is occurring within the sector. We regulate and supervise to ensure that credit unions:

- are financially sound;
- have sustainable business models which serve the needs of their members (and the wider financial system) over the long-term;
- are well governed and safely managed; and
- can recover if they get into difficulty and if not, are resolvable in an orderly manner.

In terms of the broader environmental context, the outlook for Ireland's open economy is somewhat uncertain given factors such as Brexit, global factors and domestic capacity constraints.

The Central Bank's Strategic Priorities for the credit union sector and the challenging and evolving environment for credit unions will be taken into account when identifying any changes or enhancements to be made to our supervisory and regulatory approach.

The Central Bank has the following comments in relation to the Key Recommendations made by the ICURN team in the Peer Review Report covering:

- A. Communications;
- B. Continued Evolution of the Regulatory Framework to Improve Risk Management;
- C. Support Risk Management Culture Within Credit Unions.

A. Communications

We welcome the ICURN team's acknowledgement of the level of communication that the Registry has put in place and the work undertaken in relation to communications since the 2015 Peer Review.

We are committed to constructive and transparent engagement with all credit unions and sector stakeholders and we continue to develop and enhance our engagement with the sector. The Registry has a Communications and Engagement Strategy which is reviewed and updated annually. The approach adopted is an outcomes focused communications and engagement strategy in line with the Central Bank's strategic approach which aims to ensure that our role is explained and understood, that supervisory objectives are supported by our communications and that credit unions are kept informed on key developments.



As we plan for 2020 and beyond, focused engagement with the sector will remain a key priority for the Registry. We will continue to keep our engagement with the sector under review to ensure that we maintain a constructive and structured approach as well as ensuring transparent communications of key messages and themes to the sector and its representatives.

Specific Publications

We note the ICURN team's recommendation that further promotion of the Annual PRISM Supervisory Commentary should be undertaken to raise awareness of the report and to improve risk management in credit unions. We will consider ways that we can raise awareness of this annual publication including through our regular engagements with credit unions and sector stakeholders.

We also note the ICURN team's recommendation regarding the semi-annual Financial Conditions of Credit Unions statistical publication. The detail and content of this publication is reviewed every 6 months and as part of this review we will give consideration to the ICURN team's suggestions on additional data and formats.

Feedback to credit unions after on-site inspections

In relation to the recommendation to confidentially share a credit union's overall PRISM probability risk rating after an on-site exam to 'help boards understand if they are progressing or regressing from exam to exam', the practice across the Central Bank is that the overall PRISM probability risk rating is disclosed to a firm following a significant engagement such as a Full Risk Assessment (FRA). The overall Probability Risk Rating following a FRA is a result of a detailed review of each risk category through an on-site inspection, supported by substantive evidence-based testing by the supervision team, which has also been subject to an internal Central Bank challenge process²⁶.

For other forms of engagement with credit unions outside of this process, a tailored proportionate approach is applied. All credit unions receive a communication from the Registry following such on-site engagement in the form of either (i) RMPs setting out actions that the credit union is required to take to address supervisory concerns or (ii) a supervisory letter. RMPs issued outside of the FRA process state that "this is not an exhaustive list of issues or risks faced by the credit union, rather it is those we consider highest priority". Supervisors undertake appropriate and timely follow-up to check that credit unions have addressed supervisory concerns (as set out in RMPs) or implemented requirements communicated to them.

²⁶ Under a FRA, the full PRISM risk framework is applied which entails a comprehensive review of each probability risk category. The findings of the assessment/inspection are presented and agreed through the Central Bank's Risk Governance Panel process.



The Registry will give consideration to further ways in which we can inform boards in understanding if the credit union is progressing or regressing in terms of their overall risk position.

Finally, under the area of communications, we note the ICURN team's recommendations on improving correspondence management and notifications to credit unions when there is a change in their line supervisors. We will give consideration to how the correspondence management processes could be enhanced in these cases.

B. Continued Evolution of the Regulatory Framework to Improve Risk Management

We note the ICURN team's recommendation in relation to the 'strengthening of core foundations across governance, risk management and operational capabilities to embed a sufficient risk management framework' and the acknowledgement that 'responsibility rests with boards and management to ensure that their governance, compliance and risk management frameworks continue to be able to support their existing operations as well as support proposed business model change'. We acknowledge our role in the Registry, as supervisor, in supporting and overseeing the risk management environment in credit unions. We will give consideration to how our supervisory engagements and other sector communications and engagements can continue to drive and support the strengthening of core foundations in credit unions.

In relation to the evolution of the regulatory framework, the current framework for credit unions is tailored and proportionate and continues to evolve. We are committed to ensuring an appropriate and responsive regulatory framework and evolving the framework, where prudentially justified.

Regulation making powers afford flexibility to ensure that the regulations applicable to credit unions remain fit for purpose and are proportionate. A number of reviews have been undertaken since 2016 including the review of the Fitness and Probity regime for credit unions and the review of the investment framework for credit unions undertaken in 2017/2018. In 2018/2019 we undertook a review of the lending framework for credit unions which will result in significant changes to the framework which will provide all credit unions with increased flexibility and for stronger credit unions, who demonstrate financial resilience and core prudential foundations, increased home mortgage and commercial lending capacity.

We are also of the view that the regulatory framework should evolve for credit unions in a flexible way to support business model development, taking account of our statutory mandate to ensure the protection by each credit union of the funds of its members and maintenance of the financial stability and well-being of credit unions generally. We will support sector business model development by providing regulatory approval to those progressive credit unions that can demonstrate that they are capable of doing more and exempting low risk initiatives from needing specific approval. We refer to this approach as 'earned flexibility', which means facilitating



strong credit unions in safe hands to develop their business models and transform their balance sheets.

We will continue to keep the regulatory framework under review to ensure that it is proportionate and appropriately tailored for credit unions taking account of their nature, scale and complexity. We are committed to introducing regulatory changes as necessary, following appropriate consultation, to facilitate prudent development where credit unions demonstrate an ability to effectively manage risks in their business.

C. Support Risk Management Culture Within Credit Unions

The Registry agrees with the ICURN team's observation that credit unions need to demonstrate that their focus is on fully embedding risk management officers and risk management frameworks and ensuring that these resources are being actively utilised to inform strategic direction and decision making. We also agree that innovation requires an embedded culture of risk management as opposed to a tick box mentality within credit unions.

We believe that the strengthening of core foundations in the areas of governance, risk management and operational capability remain essential to enable prudent business model transition. Effective governance enables credit unions to grow, supported by processes, systems and capabilities that can manage both existing and new business lines, as well as new commercial relationships.

In our experience, some forward-looking credit unions are focused on developing their business models to serve their members' needs into the future. They distinguish themselves from peers by embracing a risk mind-set and effectively leverage the support functions provided for under legislation of Compliance Officer, Risk Management Officer and Internal Auditor. These credit unions exhibit a positive culture of professionalism, honesty, integrity and accountability, by seeking to deliver outcomes that have the interests of members at their heart. The Registry will continue to seek to support the development of enhanced risk management culture across all credit unions.

As the ICURN team have noted, a dedicated business model development team was established in the Registry in 2016, with responsibility for direct structured engagement with credit unions on specific business model proposals. Transformation in all its forms, will take shared co-operative leadership and collaboration. The Registry informed by our statutory mandate, remains committed to providing appropriate regulatory oversight and challenge on a case-by-case basis.

Specific comments on ICURN Team's Findings and Ratings

The ICURN team assessed the Central Bank to be compliant with 20 out of 23 of ICURN's Guiding



Principles²⁷ for Effective Financial Cooperative Supervision plus the additional review of governance relative to ICURN's Best Practices for Financial Cooperative Governance.

The Central Bank has the following comments in relation to the three Guiding Principles which were rated as "Largely Compliant."

Guiding Principle 4 – Risk Management & Guiding Principle 5 – Management of Operational Risk

The ICURN team noted a number of areas for improvement in risk management including the management of operational risk and, while acknowledging the ultimate responsibility of boards and management for improvements in these risk areas, highlighted the role for the Central Bank in supporting credit unions with increased focus on embedding a risk management culture within credit unions.

The Registry recognises the importance of strong core foundations. The strengthening of core foundations in the areas of governance, risk management and operational capability remain essential to enable prudent business model transition in credit unions. While responsibility rests with boards and management to implement and embed strong risk management frameworks, the Registry has an important role to play in overseeing the risk management environment in credit unions and supporting the embedding of strong risk management frameworks. The Registry will give consideration to how we can further support the strengthening of these core foundations through our supervisory engagements with individual credit unions and our sector communications and guidance.

Guiding Principle 14 – Credit Risk

The ICURN team noted weaknesses in credit quality and credit risk management which had been identified through our supervisory engagements with credit unions.

Credit risk will remain a key area of focus during our supervisory engagements with credit unions and we will consider how the Registry can support credit unions in addressing identified credit risk issues in their individual credit unions. The Registry's annual PRISM Supervisory Commentary provides a means to articulate key findings and our supervisory expectations in relation to credit risk for credit unions. We will continue to utilise this report and our other engagements with individual credit unions and sector stakeholders to drive improving standards in credit risk management.

²⁷ One Guiding Principle (Management of Currency Risk) was not assessed as Irish credit unions do not have foreign currency exposures.



This will be particularly important as proposed changes to the lending framework for credit unions are implemented which will provide stronger credit unions, who demonstrate financial resilience and core prudential foundations, with increased home mortgage and commercial lending capacity.

Comments on additional observations for consideration

The Central Bank welcomes the ICURN team's additional observations covering staffing, the Fitness and Probity regime, our supervisory approach, stress testing, the processing of applications and the treatment of dormant accounts, which have been provided for our consideration. We will consider how these additional observations could help in the delivery of our Strategic Priorities.

Concluding Comments

The Central Bank acknowledges the benefits of an independent external review of the performance of our regulatory functions in relation to credit unions. We welcome the recommendations in the context of continuously seeking to refine and update our regulatory framework and supervisory practices for the sector.

The Central Bank will evaluate and consider all of the recommendations and additional considerations provided by the ICURN team to determine how they could enhance our regulatory and supervisory approach in support of the delivery of our strategic priorities for the credit union sector.



VI. DETAILED ASSESSMENT

<p>Pillar I Registration and licensing of credit unions Guiding Principles 1 to 3</p> <p>Guiding Principle 1: Registration, Licensing or Authorization</p> <p>Credit unions should be established by reference to distinct legal characteristics, which should be applied when registering and licensing (authorising) new credit unions. At a minimum, the registration and licensing processes, as appropriate, should consider: ownership (which must be a co-operative or mutual structure); governance; fitness and propriety, capability and competence, of Board members and senior management; strategy; risk management and capital. This is not intended to be an exhaustive list and the relevant authorities should consider any additional criteria needed to facilitate effective supervision in their regimes. Where a country/region/state provides a deposit-protection scheme, registration and licensing must be requirement of a credit union's membership of the scheme.</p>
<p>Overall Rating: Compliant</p> <p>Summary Assessment</p> <p>In the Republic of Ireland credit unions are registered (rather than licenced) under the 1997 Credit Union Act by the Central Bank, the sole authority with the power to register, regulate and supervise credit unions since 2003. While the Central Bank has not had a registration of a new credit union in 20 years²⁸, it has developed a prescriptive framework and an internal procedure for the registration application process.</p> <p>New credit unions are subject to prudential limits and governance requirements. In 2015 the Central Bank developed the “Checklist for completing and submitting Credit Union Registration Applications” and “Guidelines on completing and submitting Credit Union Registration Applications” which provide guidance on the criteria to be fulfilled and information required for establishing a credit union. The checklist considers the applicant's:</p> <ul style="list-style-type: none">• Common bond and membership;• Objectives and proposed activities;• Governance arrangements• Credit union oversight (internal audit, compliance, risk management, financial control, lending, investments, anti-money laundering, systems and controls, conflicts of interest, outsourcing)• Funding, reserves and liquidity;• Financial information and projections;• Information systems and business continuity;

²⁸ the last credit union registration took place in 1999 under the previous body responsible for registration of credit unions, the Registrar of Friendly Societies.



- Deposit Guarantee Scheme;

Since the last ICURN Peer Review, new regulations were introduced in 2016 which require newly registered credit unions to establish and maintain an initial reserve that is sufficient to meet the credit union's anticipated growth over 3 years. The reserve should also take account of operating losses that can be expected to occur until the credit union reaches an operationally viable performance level and is at least equal to the greater of €10,000 or the minimum regulatory reserve of at least 10% of the credit union assets.

1.1. The law identifies the authority responsible for granting and withdrawing credit union registration. The licensing authority could be the credit union supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed credit union. The supervisor imposes prudential conditions or limitations on the newly licensed credit union, where appropriate.

Laws or regulations give the licensing authority the power to set criteria for licensing credit unions. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the licence was based on false information, the licence can be revoked.

Legal & Regulatory Compliance

Sections 6-8 of the 1997 Act set out the conditions and process for registration of a credit union and designates the Central Bank as the authority responsible for registering a credit union as well as to refuse to register a credit union if the Bank is not satisfied that certain conditions have been fulfilled. Section 97 of the 1997 Act makes provision for the Central Bank to cancel the registration of a credit union. Winding up of credit unions may arise under various pieces of legislation - section 133-136 of the 1997 Act and Part 7 of the Central Bank and Credit Institutions (Resolution) Act 2011. The Central Bank is also the competent authority for regulating and supervising credit unions.

New credit unions are subject to prudential limits and governance requirements. In 2015 the Central Bank developed the "Checklist for completing and submitting Credit Union Registration Applications" and "Guidelines on completing and submitting Credit Union Registration Applications" which provide guidance on the criteria to be fulfilled and information required for establishing a credit union.

Regulation 4 of the 2016 Regulations makes provision for a newly registered credit union to establish and maintain an initial reserve requirement that:

- (a) is sufficient to meet the credit union's anticipated growth over 3 years;
- (b) takes account of operating losses that can be expected to occur until the credit union



reaches an operationally viable performance level; and
(c) is at least equal to the greater of: €10,000; or the minimum regulatory reserve requirement of at least 10% of the credit union assets.

In addition, under section 6A of the Act the Central Bank can impose supplemental provisions on a new credit union which may include requiring a credit union:

- (a) to notify the Bank of any events of such significance that could materially affect the credit union including any change to the strategic plan of the credit union;
- (b) to operate a more limited business model agreed with the Bank; (e.g. limit the maximum amount of deposits a credit union can accept from a member, limit the maximum amount a member can borrow from a credit union, or limit the investments a credit union can make or require to obtain approval from the Central Bank before entering a new business activity²⁹.)
- (c) to cause to be undertaken an independent review of the credit union's business within 12 months in order to ensure that the credit union is complying with all legal and regulatory requirements.

Section 8 of the 1997 Act provides the Central Bank with the power to refuse an application for registration as a credit union and the Central Bank must inform the applicant of the reasons for refusal. The reason for refusal would include that the criteria set out in the "Checklist for completing and submitting Credit Union Registration Applications" are not fulfilled. Section 97 of the 1997 Act makes provision for the Central Bank to cancel a credit union's registration in certain circumstances, including where the registration was granted based on false information.

Practical Compliance

The Central Bank has had a few inquiries but has not received a formal application to register a new credit union since the Central Bank assumed responsibility for registering, regulating and supervising credit unions in 2003. The last registration of a credit union took place 20 years ago in 1999 and was completed by the previous body responsible for registration of credit unions – The Registrar of Friendly Societies.

A number of credit unions have sought to withdraw their registration on a voluntary basis during the restructuring of the sector in recent years.

1.2. The licensing authority determines that the proposed legal, managerial and operational structures of the credit union will not hinder effective supervision. The licensing authority also

²⁹ The requirement for a credit union to obtain approval from the Central Bank before entering a new business activity is not referenced in section 6A of the 1997 Act.



determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future.

Legal & Regulatory Compliance

Sections 6 and 6A-8 of the 1997 Act set out the conditions for registration of a credit union. Section 6 provides that the registered office of a credit union must be in the State and that membership must be restricted to members that have a common bond. Credit unions are independent entities that cannot operate on a group, cross border or consolidated basis.

In making its determination on an application for registration, the Central Bank would use the information provided in the “Checklist for completing and submitting Credit Union Registration Applications” such as:

- Details on the applicant;
- Common bond and membership;
- Objectives and proposed activities;
- Governance arrangements
- Credit union oversight (internal audit, compliance, risk management, financial control, lending, investments, anti-money laundering, systems and controls, conflicts of interest, outsourcing)
- Funding, reserves and liquidity;
- Financial Information and Projections;
- Information Systems and Business Continuity;
- Deposit Guarantee Scheme;
- Other (participation in payments and settlements systems, location, etc.)

Practical Compliance

While the Central Bank has not received an application to register a new credit union in the last 20 years, the Bank has developed a comprehensive application process and supporting documentation a credit union is required to submit. The “Checklist for completing and submitting Credit Union Registration Applications” includes a review of the legal, managerial and operational structure of the proposed credit union to ensure the application meets all legal and regulatory requirements and would not hinder effective supervision or implementation of corrective measures in the future.

1.3. The licensing authority, at authorisation, evaluates the credit union's proposed Board members and management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the credit union; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a credit union. The licensing authority determines whether the



credit union's Board has collective sound knowledge of the material activities the credit union intends to pursue, and the associated risks.

Legal & Regulatory Compliance

The Fitness and Probity Standards for Credit Unions were issued by the Central Bank in 2013 pursuant to the powers set out in section 50 of the Central Bank Reform Act 2010. Section 21 of the Central Bank Reform Act 2010 requires that a credit union satisfies itself on reasonable grounds that a person performing a controlled function complies with the standards of fitness and probity issued by the Central Bank. The Standards require that a person must:

(a) be competent and capable; (b) act honestly, ethically and with integrity; and (c) be financially sound.

The "Checklist for completing and submitting Credit Union Registration Applications" developed by the Central Bank requires new credit unions to perform due diligence and submit information that allows the Bank to assess the fitness and probity of persons that would occupy senior positions. In addition, the Central Bank must approve the chair of the board of directors and the manager of the credit union prior to registering a credit union. On 1 July 2018, three additional pre-approval controlled functions were introduced for credit unions with total assets of at least €100 million: the risk management officer, the head of internal audit, and the head of finance.

Section 69 of the 1997 Act requires that officers of a credit union, including board members, shall at all times ensure that individually and collectively when acting in that capacity, they act in a manner free from conflicts of interest. Credit unions are also required to have a policy for identifying, managing and resolving conflicts of interest.

Section 53(10) of the 1997 Act contains requirements to manage potential conflicts of interest in a credit union by setting out a list of individuals who are not eligible to become a director of a credit union (e.g. employee, auditor).

Section 72 of the 1997 Act prohibits an individual from being a member of the board or management of a credit union if they have been adjudicated bankrupt or have been convicted of an offence involving fraud or dishonesty in relation to a credit union.

The Central Bank has provided guidance on the minimum competencies required for members of the board of directors and chair of the credit union in the "Guidance on Fitness and Probity for credit unions".

Practical Compliance

There is legislation in place and standards governing the fitness and probity that the board of directors, management and individuals carrying out certain other positions in a credit union must meet both before and once they undertake their position in a newly registered credit



union. The Registry takes a risk-based approach towards the review and approval of pre-approval control function positions and in some instances conducts interviews of persons that are to fill pre-approval control functions. No new applications have been received by the Central Bank to register a credit union since the Central Bank assumed responsibility for registering, regulating and supervising credit unions in 2003.

1.4. The licensing authority reviews the proposed strategic and operating plans of the credit union. This includes determining that an appropriate system of governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the credit union.

Legal & Regulatory Compliance

Section 27A of the 1997 Act provides that a credit union shall maintain appropriate oversight, policies, procedures, processes, practices, systems, controls, skills, expertise and reporting arrangements to ensure the protection of members' savings and that it complies with requirements imposed under the financial services legislation;

Section 66A of the 1997 Act requires a credit union to have governance arrangements which ensure that there is effective oversight of the activities of the credit union, taking into consideration the nature, scale and complexity of the business being conducted;

Section 76B of the 1997 Act requires a credit union to develop, implement, document and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to;

Section 76J of the 1997 Act sets out requirements relating to outsourcing, including a requirement that credit unions shall exercise due skill, care and diligence when entering into, managing or terminating any outsourced activities with a service provider.

The scope and degree of sophistication of proposed activities of a new credit union are limited by the activities permitted for credit unions under the 1997 Act. However, the assessment is required to ensure that the proposed operational structure and resources are sufficient to support any proposed areas of business involving complexity such as business lending and payment services.

Practical Compliance

All new credit union registration applications would be reviewed by the Registry. As part of this review, an assessment is carried out as to whether or not the applicant's proposed strategic and operating plans are feasible.



The Central Bank has developed Internal Procedures for assessing credit union registration applications and a “Checklist for completing and submitting Credit Union Registration Applications” which contains detailed information and supporting documentation on areas such as governance, risk management and internal controls including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourcing functions.

Following the review, a recommendation in relation to the application would be forwarded to the Registry management (Registrar of Credit Unions and Deputy Registrars) for approval. No new applications have been received by the Central Bank to register a credit union since the Central Bank assumed responsibility for registering, regulating and supervising credit unions in 2003.

1.5. Where a country/region/state provides a deposit-protection scheme, registration and licensing must be a requirement of a credit union’s membership of the scheme.

Legal & Regulatory Compliance

The Financial Services (Deposit Guarantee Scheme) Act 2009 established a deposit guarantee scheme (DGS) for eligible deposits held with credit institutions, including credit unions (up to €100,000 per person per institution). Section 4 of the 2009 Act states that credit institutions shall not carry on their business unless it maintains a deposit protection account with the Central Bank. The DGS is administered by the Central Bank and is funded by the credit institutions covered by the scheme: banks, building societies and credit unions.

Regulation 9 of the European Union (Deposit Guarantee Schemes) Regulations 2015 provides that an authorised credit institution (including credit unions) shall not take deposits unless it is a member of a deposit guarantee scheme.

Practical Compliance

The “Checklist for completing and submitting Credit Union Registration Applications” developed by the Central Bank seeks to confirm that the registration applicant is complying with all the DGS legal and regulatory requirements, including its contribution to the deposit protection account. No new applications have been received by the Central Bank to register a credit union since the Central Bank assumed responsibility for registering, regulating and supervising credit unions in 2003.

Guiding Principle 2: Ownership

The structure of any proposed credit union must comply fully with internationally-recognised cooperative/mutual principles, taking account of circumstances where second-tier organizations have proportional voting for members. No individual or group of individuals



may be permitted to exercise control from a minority position. Voting in credit union support organizations or associations may be proportional or representational.

Overall Rating: Compliant

Summary Assessment

The 1997 Credit Union Act sets out a number of conditions for registration as a credit union, which include a condition that membership must be restricted to those who have a common bond and that the credit union is being formed for specified objects set out in the legislation. These objects reflect the cooperative principles such as mutual benefits, the social goals of education and the promotion of thrift. Many jurisdictions allow for overlapping common bonds among credit unions as it supports consumer choice, access and competition and should be considered within the context of Ireland³⁰ as well.

The 1997 Act also includes provisions on the voting rights of credit union members which state that each member shall have only one vote on each question at an annual general meeting irrespective of his shareholding in the credit union, which is in line with the cooperative principle of “one member, one vote”.

Section 55(2) of the 1997 Act requires the board of directors of a credit union to ensure that no single person is responsible for making all of the material decisions of the credit union or has effective control over the business of the credit union in deciding on the roles, responsibilities and administrative structures and reporting relationships for all officers.

Irish credit unions comply with the International Cooperative Alliance’s cooperative principles and values. They are independent entities democratically controlled by their members who have equal voting rights (one member, one vote). They contribute equitably to the capital of their credit union and democratically control the distribution of that capital. Credit unions provide education and training for their members, volunteers, managers, and employees. In addition, credit unions in Ireland are cooperating with each other on various initiatives at the national and international levels and for the sustainable development of their communities.

Credit union support organisations and associations have been established on a cooperative basis. However, the Registry does not supervise or regulate them, and depending on the nature of their regulated activities (where undertaken) they may fall within the supervision of other areas of the Central Bank or of another body.

³⁰ While the 1997 Act does not preclude overlapping common bonds there are few such examples currently.



2.1. The supervisory authority should ensure the structure of any proposed credit union complies with cooperative principles, recognizing that some second-tier organizations have proportional voting for members.

Legal & Regulatory Compliance

Section 6 of the 1997 Act sets out the conditions for registration of a credit union, including that its membership must be restricted to persons with at least one of the common bonds:

- following a particular occupation;
- residing or being employed in a particular locality;
- being employed by a particular employer or having retired from employment with a particular employer;
- and being a member of a bona fide organisation or being otherwise associated with other members of the society for a purpose other than that of forming a society to be registered as a credit union.

Section 17 of the 1997 Act sets out provisions in relation to the requirements and qualification for membership. Membership of a credit union is open to any individual having the common bond set out in the rules of the credit union, as such, establishing the cooperative principle of voluntary and open membership.

Section 82(2) states that at a general meeting of a credit union each member shall have only one vote on each question, irrespective of his shareholding in the credit union. This is in line with the cooperative principle of democratic member control based on “one member, one vote” structure.

Practical Compliance

Where a credit union submits an application for registration as a credit union, as part of the approval process, they are required to confirm that they will meet all legal and regulatory requirements outlined above. No new applications have been received by the Central Bank to register a credit union since the Central Bank assumed responsibility for registering, regulating and supervising credit unions in 2003.

There are two credit union trade associations in the Irish credit union sector, as well as commercial entities and credit union-owned outsourced service providers. These organisations have been established either on a cooperative basis, as a trust established on behalf of participating credit unions or limited companies. While the Registry does not have any regulatory role or responsibility in relation to such support organisations, depending on the nature of regulated activities (where undertaken) they may fall within the supervision of other areas of the Central Bank or of another body. In addition, where credit unions inform the Registry that they are considering establishing support organisations, the Registry engages with such credit unions to ensure the proposed arrangements have been fully considered by the credit unions and do not involve undue risk to members' savings. When establishing



outsourced service providers and when obtaining services from them, credit unions must comply with obligations under the 1997 Act on outsourcing.

2.2. It is not appropriate for any individual or group of individuals to be in a position to exercise control from a minority position.

Legal & Regulatory Compliance

Section 82(2) of the 1997 Act states that at a general meeting of a credit union each member shall have only one vote on each question, irrespective of his shareholding in the credit union.

Section 55(2) of the 1997 Act requires the board of directors of a credit union to ensure that no single person is responsible for making all of the material decisions of the credit union or has effective control over the business of the credit union in deciding on the roles, responsibilities and administrative structures and reporting relationships for all officers.

All credit unions are required to have a set of registered rules. The First Schedule of the 1997 Act sets out the matters to be provided for in the rules of a credit union, including the quorum necessary for the transaction of any description of business. The Irish League of Credit Unions Standard Rules of a Credit Union (generally used by credit unions affiliated to the Irish League of Credit Unions) set out that each director of a credit union shall have one vote on any matter at a meeting of the board of directors (provided that the chair of the meeting shall have a second or casting vote in the event of equality of voting).

Practical Compliance

There are requirements and systems in place to ensure that no individual or group of individuals are able to exercise control from a minority position. The Registry monitors large deposits and loans through reviewing credit unions' quarterly Prudential Return as well as during on-site inspections. The Registry also reviews board minutes and annual reports and may identify instances of undue control of the credit unions by an individual or minority group and in the event that such matters are identified takes appropriate supervisory actions. Terms limits for board members and the designation of pre-approved control functions within credit unions also serve as compensating controls.

Guiding Principle 3: Permissible Activities

The permissible activities of credit unions should be clearly defined, and the local terminology used to describe the entities undertaking these activities, such as credit union, financial mutual, caisse populaire and SACCO, should be restricted and controlled. There should be a power to enforce against the use of the restricted terminology by unlicensed entities. Business powers and permissible activities may be proportional to the credit union's size and ability to manage the risks inherent in such services and compatible with its business objectives.



Overall Rating: Compliant

Summary Assessment

The permissible activities of Irish credit unions are clearly defined in the 1997 Act and the 2016 Regulations. Where a credit union wishes to provide services additional to these to its members, it has to apply for permission to the Central Bank and show that the new services are of mutual benefit to its members and do not impose undue risk to members' savings. A number of services (third party payments, ATM services, bill payment, money transfers, etc.) that credit unions may provide to their members are exempt from the approval requirements.

The law also provides for the protection of use of the registered name of credit union. It is illegal for any entity, other than a credit union, to make reference to itself by the name of "credit union" or "comhar creidmheasa"³¹. The Central Bank can take enforcement actions against the use of restricted terminology or misrepresentation by unlicensed entities.

Regarding business powers and permissible activities, the current regulations set out strict limits for both lending and savings activities that a credit union can undertake. The limits for long-term lending are currently 30% and 10% of gross loans for 5- and 10-year maturities respectively. Currently these limits may be increased to 40% and 15% respectively where a credit union is approved by the Central Bank to avail of increased limits. Regulations also set a limit on the maximum individual member's savings at €100,000. Credit unions with assets over €100 million may apply to the Central Bank for an increase of their individual members' savings. For that to happen credit unions must demonstrate that the increase is consistent with the adequate protection of the savings of members and is effective and proportionate, having regard to the nature, scale and complexity of the credit union. As the industry is developing and consolidation continues, the proportionality of permissible activities to the credit union size and ability to manage new risks will continue to evolve. Central Bank's CP125 is already proposing a number of changes to the lending framework for credit unions, including the removal of some of the lending maturity limits in favour of tiered concentration limits. It is important that the Central Bank remains flexible and allows healthy credit unions, those that can manage new risks, to further expand much-needed services and increase lending at a faster pace.

There have been many positive developments regarding the application processes for approval of additional services for credit unions. The creation of a dedicated Business Model and Engagement unit within the Registry in 2016 has been particularly effective in supporting the sector through direct and proactive regulatory engagement. However, feedback from the industry points to a desire to speed up the approval process by the Central Bank. Section 49 (5)

³¹ Irish for credit union



of the Act 1997 specifies a timeframe of four months from when a credit union application is received for an additional service and when the Central Bank should notify the credit union of its decision or require additional information in order to reach a decision. Where additional information is necessary the law requires the Central Bank to notify the credit union of its decision not later than four months from the date of the receipt of that additional information. It should be noted that the quality of the application received and the interaction with the credit union on issues related to the application can legitimately impact on timelines. The Central Bank may wish to consider how it can more clearly communicate with applicant credit unions on the progress of applications for additional services.

3.1 The permissible activities of institutions that are licensed and subject to supervision as credit unions are clearly defined either in laws or regulations.

Legal & Regulatory Compliance

The permissible activities of credit unions registered under the 1997 Act are defined in the same Act. Credit unions are permitted to make loans, investments, accept savings and borrow funds. Part 9 of the 2016 Regulations prescribes a number of services (third party payments, ATM services, bill payment, money transfers, etc.) that credit unions may provide to their members and which are exempt from the approval requirements set out in sections 48-52 of the 1997 Act. Notwithstanding the general range of permissible activities, the Central Bank may impose conditions on a new credit union's registration including a requirement for the credit union to operate a limited business model.

Where a credit union wishes to provide services to its members, in addition to those referred to above, they have to apply for permission to the Central Bank and show that that the additional services are of mutual benefit to its members and do not impose undue risk to members' savings. If a credit union would like to increase its longer-term lending limits beyond those currently provided for under the 2016 Regulations, the credit union must apply to the Central Bank for approval and meet certain conditions.

Credit unions that wish to provide insurance services on an introduction basis, as permitted under the 2016 Regulations, are also required to apply to the Central Bank for an authorisation as a retail intermediary if they receive remuneration for this service.

Part 4-9 of the 2016 Regulations set out specific requirements and limits relating to permitted activities.

Regulation 35 of the 2016 Regulations provides for a maximum individual member's savings limit of €100,000.

Practical Compliance



In 2016, six credit unions proposed to provide a new service to their members, called member personal current account services (MPCAS) and collaborated as a group in making individual applications to the Central Bank. MPCAS is a suite of services including a personal current account, overdraft facilities and the full range of payment services and payment devices (cards). The Central Bank considered the applications and approved them, subject to conditions to ensure appropriate systems and controls were put in place. The initial six credit unions along with a number of other credit unions, established a shared services firm, PaYac. Subsequently, a further 32 credit unions (affiliates of PaYac) applied for and were granted approval by the Central Bank to provide MPCAS.

Separately, another group of 13 credit unions, using a shared services firm, CUSOP, have individually applied for and been granted approval by the Central Bank to provide MPCAS, subject to conditions requiring appropriate systems and controls being in place.

3.2 The use of the word “credit unions” and any derivations in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled. The supervisory authority must have the power to enforce against the use of the restricted terminology by unlicensed entities.

Legal & Regulatory Compliance

Section 12(3) of the 1997 Act provides for the protection of use of the registered name of credit union. Any person, other than a credit union, who uses in reference to himself, a name, title or descriptive expression containing the words “credit union” or “comhar creidmheasa³²” or any cognate term or any derivative of those words, or represents himself as being a credit union, shall be guilty of an offence.

Practical Compliance

The Central Bank can take an enforcement action against the use of restricted terminology or misrepresentation by unlicensed entities. The Central Bank has a dedicated Unauthorised Providers Unit (UPU) which identifies and investigates alleged instances of unauthorised activity carried out by individuals or entities that are not otherwise authorised or regulated by the Central Bank. Where an individual or entity is allegedly holding itself out as a credit union, the UPU team would investigate such an instance. The Central Bank analyses the facts of each instance on a case by case basis to assess whether summary prosecution is appropriate in the circumstances. The Central Bank publishes a list of registered credit unions on its website and members of the public can search to see if a firm is a registered credit union. The Central Bank can give approval to an association or group of credit unions to use a name that includes the words “credit union” or “comhar creidmheasa”.

³² Irish for credit union



3.3 The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks or credit unions.

Legal & Regulatory Compliance

Section 7 of the Central Bank Act 1971 provides that only banks holding a banking license may accept deposits or other repayable funds from the public, with a few exceptions which include credit unions regulated by the Central Bank under the 1997 Act. In addition, section 27 of the 1997 Act states that credit unions may raise funds by the issue to its members of shares in the credit union and by the acceptance of money on deposit from its members.

Practical Compliance

There is legislation in place to ensure that the taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks or credit unions. In addition, the law states that credit unions can only raise funds by the issue of shares to its members and by the acceptance of money on deposit from its members. For the adequate protection of members' savings, the Central Bank may prescribe requirements and limits for savings to a credit union.

3.4 Business powers and permissible activities may be proportional to the credit union's size and ability to manage the risks inherent in such services and compatible with its business objectives.

Legal & Regulatory Compliance

In general, all credit unions are permitted to undertake the same type of business activities as prescribed by the 1997 Act (see GP 3.1). Section 35 sets out provisions in relation to the Making of Loans and specifies that in prescribing matters for the purposes of this section, the Central Bank should ensure that the requirements imposed by the regulations made by it are effective and proportionate having regard to the nature, scale and complexity of credit unions, or the category or categories of credit unions, to which the regulations will apply. In addition, a credit union shall ensure that it has appropriate processes, procedures, systems, controls and reporting arrangements to monitor compliance with the requirements of this section.

Regulation 14(1) of the 2016 Regulations relating to Maturity Limits for lending sets out the percentage of a credit union's loan book that can be outstanding for periods exceeding both five and ten years. These limits are currently 30% and 10% of gross loans for 5- and 10-year maturities respectively. Under the 2016 Regulations these limits may be increased to 40% and 15% respectively, where a credit union is approved by the Central Bank to avail of increased limits. The "Long Term Lending - Guidance for Credit Unions" sets out the Central Bank's expectations which credit union boards should consider and address in assessing Long Term Lending.



The 2016 Regulations set out a maximum individual members' savings limit of €100,000. The Regulations provide that credit unions, with a minimum asset size of €100 million, may apply to the Central Bank for approval to increase individual members' savings in excess of €100,000 where they can demonstrate that it is consistent with the adequate protection of the savings of members and effective and proportionate, having regard to the nature, scale and complexity of the credit union for them to do so.

In considering applications from credit unions for approval of additional services, the Central Bank takes account of the credit union's business case for the additional service, its compliance with financial services legislation, the ability for the board of directors to appreciate the nature of the additional service proposed and if it is fully informed of the strategic, governance, risk management, operational, financial and legal implications involved; and that systems and controls are in place to ensure any risks involved in the provision of the additional service are managed and mitigated.

Practical Compliance

While the Central Bank is clearly supportive of credit unions increasing lending on a prudent basis, including engaging in new areas of lending and increasing exposure to longer term lending as part of a balanced loan portfolio, many credit unions are eager to further develop their business models and expand their investment and lending portfolio in a well-managed manner and in line with their objectives, capabilities and risk appetite. Where a credit union consistently can demonstrate an ability to have adequate resources, strong systems and controls and governance arrangements for an effective oversight, it should be allowed to expand services and increase lending at a faster pace. As the industry is developing and consolidation continues, the proportionality of permissible activities to the credit union size and ability to manage new risks will continue to evolve.

It is important that the Central Bank remains flexible as longer maturity lending becomes a larger proportion of the credit union total lending, or when they are considering expanding their lending risk appetite. Credit unions hold over 90% of loans in personal loans (mostly unsecured), 2% in commercial loans, and 4% in housing loans (based on March 2019 PR data). In 2018 the Central Bank did a review of the lending framework and, as a result, published a Consultation on Potential Changes to the Lending Framework for Credit Unions (CP125). CP125 proposes a number of changes to the lending framework for credit unions including the removal of the existing lending maturity limits and introduction of tiered joint concentration limits for house and commercial lending expressed as a percentage of total assets. The CP125 proposed changes will assist credit unions in diversifying and growing their loan portfolio to a certain extent.



Pillar II Credit union structures and organisation Guiding Principles 4 to 11

Guiding Principle 4: Risk Management

Credit unions should have, and use, appropriate risk-management processes and systems. A risk management system should be able to identify, evaluate, monitor, manage and control the risks to which the credit union may be exposed including, but not limited to, the specific risks described in this section. Policies and limits for risk undertakings should be clearly established and periodically reviewed. The risk management system should be commensurate with the size and complexity of the credit union and its activities. Credit union Board members should be provided with regular, accurate, management information and be capable (as a group) of interpreting that information and of challenging senior management on the application of the credit union's strategy.

Overall Rating: Largely Compliant

Summary Assessment

The 1997 Act requires credit unions to develop, implement, document and maintain a risk management system with governance arrangements, systems and controls to allow it to identify, assess, measure, monitor, report and manage the risk which it is, or might reasonably be, exposed to. The board of directors is required to review and approve all elements of the risk management policy at least annually, including the appropriateness of the risk management system, ensuring any changes to the strategic plan and the external environment are considered, and addressing any deficiencies identified in the risk management system.

To strengthen the risk management area the 1997 Act requires the board of directors to appoint a risk management officer with the necessary authority and resources to manage the risk management function with the credit union and with reporting lines to the board. The risk management officer is responsible for identifying, assessing, reporting and monitoring all internal and external risks that could affect the credit union. The risk management officer is a Controlled Function ("CF") in all credit unions. As of July 2018, the risk management office has been designated a Pre-Approval Controlled Function ("PCF") which requires pre-approval from the Central Bank before appointment, for all credit unions \geq €100 million in assets.

The guidance provided by the Central Bank in the Credit Union Handbook, Risk Management and Compliance Chapter indicates a credit union should document its risk tolerance documenting the amount of risk it is willing to accept and that its strategic goals should align with this risk tolerance. Risks identified by the credit union's risk management system should also be managed and mitigated to ensure that they are consistent with the credit union's risk tolerance and commensurate with its sound operation, financial strength and strategic objectives.

The Central Bank has implemented a risk-based assessment process to monitor credit unions. The "PRISM Supervisory Commentary 2019" report on issues arising from supervisory



engagements during 2018 records continued weakness in key governance risk areas. Common issues identified were: weaknesses in the risk management and compliance frameworks within credit unions and evidence of failure to adequately resource these key functions; inadequate risk management and compliance reporting to the board of directors; lack of evidence of board oversight of the risk management, compliance, and audit functions, with lack of challenge by boards, lack of follow up on issues identified, and lack of review of the performance of these functions.

Issues identified across credit unions of all asset size were: failure to implement an effective risk management/compliance function within the credit union; weaknesses in risk management and compliance reports, failure to highlight key risks, and failure to respond to issues raised.

Credit union boards and management are responsible for improvement in the risk management areas noted above. The Central Bank has a role in supporting credit unions with increased focus on embedding a risk management culture within credit unions.

4.1. The supervisor determines that credit unions have appropriate risk management strategies that have been approved by the credit unions' Boards and that the Boards set a suitable risk appetite to define the level of risk the credit unions are willing to assume or tolerate. The supervisor also determines that the Board ensures that: (a) a sound risk management culture is established throughout the credit union; (b) policies and processes are developed for risk-taking that are consistent with the risk management strategy and the established risk appetite; (c) uncertainties attached to risk measurement are recognized; and (d) appropriate limits are established, that are consistent with the credit union's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff.

Legal & Regulatory Compliance

The regulatory framework for credit unions includes a number of requirements in the area of risk management. Section 76B of the 1997 Act sets out that credit unions are required to develop, implement, document and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to. This risk management system must be clearly set out and documented and must clearly set out the related tasks and responsibilities in the credit union.

The board of directors under section 55 of the 1997 Act are required to implement a risk management process that ensures all risks are identified and mitigated to a level consistent with the risk tolerance of the credit union. The board of directors is also required to review and approve all elements of the risk management system on a regular basis and at least annually.

(a) A sound risk management culture is established throughout the credit union



The Central Bank has issued guidance in the Risk Management and Compliance Chapter of the Credit Union Handbook which indicates that the board of directors should promote a strong risk management culture within the credit union, including communicating policies, roles and responsibilities relating to risk management to all officers of the credit union. Regulation 46(2) of the 2016 Regulations on systems, controls and reporting arrangements for credit unions, includes a requirement for credit unions to ensure that the risk management policy is communicated to all officers in the credit union following any updates made.

(b) Policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite

Under section 55 of the 1997 Act, credit unions are required to have a risk management system, including a risk management policy and process, which should be reviewed and updated regularly (at least annually) by the board of directors. The board of directors is also required to implement a risk management process that ensures that all risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.

The Central Bank's guidance indicates that risks identified by the credit union's risk management system should be managed and mitigated to ensure that they are consistent with the credit union's risk tolerance and commensurate with its sound operation, financial strength and strategic objectives.

(c) Uncertainties attached to risk measurement are recognized

Under section 55 of the 1997 Act, the board of directors is required to review and approve all elements of the risk management system on a regular basis, but at least annually, and, in particular:

- Assessing the appropriateness of the risk management system;
- Taking account of any changes to the strategic plan including the credit union's resources or the external environment; and
- Taking measures necessary to address any deficiencies identified in the risk management system.

This ensures that any uncertainties relating to risk management are recognized and may be addressed by the board of directors and the risk management officer of the credit union.

(d) Appropriate limits are established that are consistent with the credit union's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff



The Central Bank has indicated in guidance that a credit union should document its risk tolerance statement, setting out the quantified level of risk that the credit union is willing to accept in various risk areas in pursuit of its strategic objectives. The guidance also indicates that board of directors should promote a strong risk management culture within the credit union, including communication of policies, roles and responsibilities relating to risk management to all officers of the credit union.

Practical Compliance

The Central Bank uses a consistent range of supervisory procedures and techniques when conducting onsite inspections (which are individually scoped) and desktop engagements. This allows Supervisors to take account of distinctive risk issues which may arise in credit unions. It also facilitates a proportionate approach to inspections taking into account factors such as nature, scale and complexity.

Methods used by the Central Bank in assessing Risk Management in credit unions can include a review of risk management policies and procedures including but not limited to an assessment of the risk management system and framework which is in place and a review of issues raised by internal or external auditors' functions. Meeting with the Risk Management officer and assessing the implementation of key risk policies through onsite testing may form part of an inspection, if within scope.

This facilitates an assessment by the supervisor of the risk management culture of the credit union and whether senior management take the steps necessary to monitor and control risks consistent with the approved strategies and risk appetite through implementation of appropriate policies, processes and limits.

4.2. The supervisor requires credit unions to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate: (a) to provide a comprehensive "credit union-wide" view of risk across all material risk types; (b) for the risk profile and systemic importance of the credit union; and (c) to assess risks arising from the macroeconomic environment affecting the markets in which the credit union operates and to incorporate such assessments into the credit union's risk management process.

Legal & Regulatory Compliance

Under the 1997 Act credit unions are required to put risk management systems in place to allow them to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to.

(a) to provide a comprehensive "credit union-wide" view of risk



The Central Bank has indicated in its guidance that risk identification should provide a comprehensive 'credit union-wide' view of risk across all material risk types relevant to a credit union and sets out areas of risk which should be considered.

(b) for the risk profile and systemic importance of the credit union

The Central Bank has indicated in guidance that credit unions should take the nature, scale and complexity of the business being conducted by the credit union into consideration when establishing governance arrangements, including arrangements in relation to, inter alia, risk management systems, systems and control, the risk management officer, the compliance officer and the internal audit function.

(c) to assess risks arising from the macroeconomic environment

Regulation 45 of the 2016 Regulations includes a requirement for credit unions to establish and maintain a written risk register that documents the risks that the credit union is or may be exposed to and the systems and controls that the credit union has established to manage and mitigate those risks.

Guidance indicates that a credit union's risk management system should include policies, processes and controls that provide adequate, timely and continuous identification, assessment, measurement, monitoring, management and reporting of risks that the credit union is, or might reasonably be exposed to, through its current activities and the external environment.

Credit unions are expected to consider environmental risk as part of the risk management process including risks arising from the macro-economy and credit union sector specific risks, and changes to the external environment.

Practical Compliance

The Registry assesses risk management processes through onsite and desktop inspections. In determining the appropriateness of risk management strategies, supervisors expect to see risk profile considerations including thresholds and limits, reflected in periodically updated, board-agreed policies, demonstrated through functional operational processes, and subject to independent assessment by internal audit.

4.3. The supervisor determines that risk management strategies, policies, processes and limits are: (a) properly documented; (b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and (c) communicated within the credit union. The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the credit union's Board where necessary.

Legal & Regulatory Compliance



(a) Properly documented

Section 76B of the 1997 Act documents that the risk management system is to be clearly set out and documented including the related tasks and responsibilities within the credit union. Credit unions are also to develop, adopt, implement, monitor, document and maintain systems and controls to manage and mitigate the risks identified by the risk management system. Furthermore, pursuant to regulation 45 of the 2016 Regulations credit unions are required to establish and maintain a written risk register that documents the risks that the credit union is or may be exposed to and the systems and controls that the credit union has established to manage and mitigate those risks.

(b) Regular review

Section 55 of the 1997 Act sets out that the board of directors of a credit union are required to review and approve all elements of the risk management system on a regular basis, but at least annually and assess the appropriateness of the risk management system, take account of any changes to the strategic plan, including the credit union's resources or the external environment, and take measures necessary to address any deficiencies identified in the risk management system.

As per regulation 45(2) of the 2016 Regulations, the board of directors is required to conduct a review of, and approve, the risk register (at least annually), to ensure that the risks that the credit union is, or may be, exposed to are contained on the risk register and that the systems and controls are appropriate to manage and mitigate these risks.

In addition, as per the Central Bank Handbook, the board of directors are expected to implement a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.

(c) Communicated within credit unions

Regulation 46 of the 2016 Regulations, requires credit unions to ensure that updates to the risk management policy are communicated to all officers of the credit union.

The Central Bank has indicated, in its guidance, that the risk management officer should provide reports on a monthly basis to the board of directors (or risk committee where one exists), and immediately when a significant risk event occurs, with copies to the manager. Any deviations from the risk management policy, are also to be reported by the risk management officer, with reasons for the deviation and an action plan to address it.

Practical Compliance

See Guiding Principle 4.1 in relation to on-going supervision for risk management for all credit unions.



Guiding Principle 5: Management of Operational Risk

Credit unions should have in place risk management policies and processes to identify, assess, monitor and control and mitigate operational risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Overall Rating: Largely Compliant

Summary Assessment

The 1997 Act requires all credit unions to have a risk management system which includes risk management policies and processes, a risk register, and systems and controls. Credit unions must identify the operational risks they are exposed to, or likely to be exposed to, and provide for the management and mitigation of those risks in the credit union's risk management system to a level consistent with the risk tolerance of the credit union. Credit unions are also required to hold additional reserves in respect of operational risk that are separate from the regulatory reserve requirements.

The Central Bank completed a thematic review of Information Technology ("IT") risk in credit unions in 2017 due to the increasing risks in this area as a result of the expanded branch networks, types and number of systems used, and increased connectivity to external systems. The report recorded observed good practices and poor practices for IT governance and outsourcing, business continuity management, and IT security, with the Central Bank's expectations for good practices documented for each of these areas. Improvements were noted over the past 3 years however, due to the pace of change of IT risks and security, it was concluded that greater engagement is required by credit unions in managing their IT risks and integrating IT risk management into their overall risk management frameworks.

The Central Bank has implemented a risk-based assessment process to monitor credit unions. The "PRISM Supervisory Commentary 2019" report on issues arising from a sample of supervisory engagements during 2018 indicates operational risk remains at an unacceptably high level. Common issues identified were: poor internal controls and processes, deficiencies in anti-money laundering processes and control framework, inadequate segregation of duties, inadequately resourced information technology function, and excessive access/authorization levels granted to staff members. Following the overall governance of risk management processes, operational risk issues were the second most common set of findings identified in the sample of PRISM engagements undertaken in 2018 by the Registry.

There are legal and regulatory requirements for operational risk management in place as recorded in this section, however, due to the issues identified in the supervisor engagements in 2018 and the overall increased risks in this area for financial institutions globally, continued weakness is evident.



Credit union boards and management require greater engagement in managing and mitigating operational risk and the Central Bank has a role in supporting and focusing attention on improvement in this area within credit unions.

5.1. Law, regulations or the supervisor require credit unions to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the credit union's strategy, policies and processes are consistent with the credit union's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the credit union on a credit union-wide basis (including periods when operational risk could increase).

Legal & Regulatory Compliance

Section 76E of the 1997 Act sets out the requirements for credit unions in relation to operational risk. A credit union is required to identify the operational risks it is exposed to, or is likely to be exposed to, and provide for the management and mitigation of those risks in a credit union's risk management system.

Under sections 76B, and 76E-J of the 1997 Act, credit unions are required to develop, implement, document and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks to which it is, or might reasonably be, exposed to. This includes operational risk related to business continuity, records management, information systems, management information and outsourcing.

Section 55 of the 1997 Act requires that the board of directors of a credit union review and approve all elements of the risk management system on a regular basis, but at least annually and, in particular; assess the appropriateness of the risk management system; take account of any changes to the strategic plan including the credit union's resources or the external environment; and take measures necessary to address any deficiencies identified in the risk management system.

The Central Bank has provided guidance for credit unions in respect of operational risk in the Operational Risk Chapter of the Credit Union Handbook which includes guidance in relation to the identification, assessment, measurement, management and reporting of operational risk.

Operational Risk Systemic Importance

When assessing a credit union's strategy, policies and processes supervisors take account of the nature scale and complexity of credit unions to ensure that they are appropriate taking account of the credit union's systemic importance.



Practical Compliance

Operational risk is assessed in credit unions by reviewing reports provided to the Central Bank such as; the annual compliance statement related to operational risks, internal audit reports, external audit reports, the auditor's management letter, and the prudential returns. Any deficiencies identified would be documented by way of a Risk Mitigation Programme ('RMP'), with the required action to be taken within a specified timeframe.

In addition to on-going supervision, an assessment of operational risk is undertaken as part of a program of PRISM desktop engagement for mid-size and small credit unions and on-site inspections for larger credit unions. The frequency and duration of an inspection is determined by the risk profile for the credit union. Operational risk is scoped pre-inspection by the supervision team which will determine the level of onsite work conducted.

The Central Bank uses a consistent range of supervisory procedures and techniques when conducting onsite inspections, while applying individual scoping to each inspection. This allows Supervisors to take account of distinctive risk issues which may arise in credit unions. It also facilitates a proportionate approach to inspections taking into account factors such as nature, scale and complexity.

Methods used by the Central Bank in assessing operational risk in credit unions can include a review of risk management policies and procedures including but not limited to an assessment of the risk management system and framework which is in place and a review of issues raised by internal or external auditors. Meeting with the Risk Management officer and assessing the implementation of key risk policies, including but not limited to business continuity, IT, outsourcing and cash management through onsite testing may form part of an inspection, if within scope.

Findings in relation to deficiencies in operational risk and the management of operational risk are communicated to the credit union and its' board of directors through the issuance of an RMP setting out any deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.

5.2. The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the credit union's overall risk management process.

Legal & Regulatory Compliance

Under section 76E of the 1997 Act a credit union is required to identify the operational risks it is exposed to, or is likely to be exposed to, and provide for the management and mitigation of those risks in a credit union's risk management system.



Section 55(3) of the 1997 Act requires that the board of directors implement a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.

The 1997 Act requires credit unions to have a risk management policy and to have the following policies, plans and documents in place to support the management of operational risk:

- Standards of conduct and ethical behavior for officers;
- Conflicts of interest policy;
- Records management policies;
- Information systems and management information policies;
- Business continuity plan; and
- Outsourcing policies.

These policies, plans and documents must be reviewed, approved and updated, where necessary, at least annually by the board of directors.

Practical Compliance

In addition to the ongoing supervision set out in Guiding Principle 5.1 an assessment of the implementation of policies and processes for the management of operational risk may be undertaken for credit unions. Supervisors may review operational risk management policy and process documents in advance of on-site engagements and assess the robustness and effectiveness of the implementation of such policies and process and the operational risk culture within the credit union when on-site.

Meetings held as part of the assessment allow supervisors to challenge the credit union on any risk areas identified or any potential vulnerabilities.

Findings in relation to deficiencies in operational risk and the management of operational risk are communicated to the credit union and its' board of directors through the issuance of a RMP setting out any deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.

5.3. The supervisor reviews the quality and comprehensiveness of the credit union's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the credit union. In so doing, the supervisor determines that the credit union is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.

Legal & Regulatory Compliance



Section 76I of the 1997 Act requires credit unions to have a business continuity plan in place, to ensure that its essential functions can continue during and after the occurrence of one or more abnormal events which could cause a material interruption to the business of the credit union, and that the plan includes comprehensive testing at regular intervals of recovery procedures and backup facilities.

The Central Bank has indicated in guidance that the business continuity plan should be tested on a regular basis to determine whether the credit union can recover to the extent envisaged in the continuity plan within the timeframe set out in the plan. Guidance also indicates that the business continuity plan should include details of any insurance arrangements in place and insurance notifications procedures to be followed in the event of loss from material interruptions.

The Central Bank's guidance on operational risk indicates that this review should cover the following at a minimum:

- Assessing the scope and adequacy of the business continuity plan;
- Evaluating the testing of the business continuity plan;
- Ensuring that, following testing, appropriate follow-up and corrective actions have been taken; and
- Ensuring the business continuity plan is updated as a result of the review.

The operational risk chapter of the Credit Union Handbook provides that credit unions should undertake a business impact analysis to consider the likelihood, impact and result of an interruption to the continuity of its operations from abnormal events. At a minimum, this should cover:

- Identification of critical business activities;
- Undertaking a risk assessment to assess the risk and impact of various interruptions on the credit union's operations;
- Defining the maximum allowable downtime for critical business activities and acceptable levels of loss;
- Establishing planned recovery levels and timeframes; and
- Identifying key internal and external dependencies.

In addition, Central Bank guidance provides that the board of directors of a credit union should develop recovery strategies which should cover, at a minimum, the following:

- Emergency reaction and recovery procedures;
- Communication arrangements including escalation plans;
- Information systems, continuity plans and recovery processes and data back-up and storage strategies; and
- Processes to validate the integrity of the information affected by the interruption.



Practical Compliance

As part of the supervisor's assessment of operational risk a review of a credit union's disaster recovery and business continuity plans may be completed, including the date it was last reviewed/tested. The supervision team will discuss the disaster recovery and business continuity plan with the credit union and challenge them on areas such as the appropriateness of the plan, roles and responsibilities, the detail of the plan, dependencies on IT providers, the regular testing of the plan etc.

Where operational risk issues are identified, an RMP may be issued to the credit union setting out deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.

5.4. The supervisor determines that credit unions have appropriate and effective information systems to: (a) monitor operational risk; (b) compile and analyze operational risk data; and (c) facilitate appropriate reporting mechanisms at the credit unions' Board of Directors, management and business line levels that support proactive management of operational risk.

Legal & Regulatory Compliance

Under 76G of the 1997 Act credit unions are required to develop, prepare, implement and maintain secure and reliable information systems to enable the board of directors and those involved in the management of the credit union to control, direct and manage its affairs.

Monitor Operational Risk

The Central Bank has provided guidance on credit union information systems in the operational risk chapter of the Credit Union Handbook. This guidance indicates that credit union information systems should have the capability to; provide accurate, reliable, consistent, timely and comprehensive information to enable the board of directors and the management team to monitor and analyze the financial position and performance of the credit union against the financial projections, targets and criteria contained in the strategic plan; and support the credit union in monitoring compliance with all legal and regulatory requirements and guidance.

Compile and Analyze Operational Risk Data

The operational risks identified by a credit union's risk management system should be included in the credit union's risk register and be assessed, measured and monitored in accordance with the credit union's overall risk management process.

Facilitate Appropriate Reporting Mechanisms

Under Section 76H of the 1997 Act a credit union must ensure that its information systems produce management information and other reports that are accurate, reliable, consistent and timely to enable the board of directors and management team to; direct, control and manage the credit union's business efficiently and effectively, make informed strategic and operational



decisions, and provide accurate information to the Central Bank on a timely basis, as and when required.

The Central Bank has indicated in guidance that in order to ensure that operational risks are adequately monitored, the risk management officer should include the following in its monthly reports to the board of directors (or risk committee where one exists):

- Any operational risk exposures and losses;
- Likely or actual deviations from risk tolerance levels;
- Significant operational risk events and losses;
- Relevant external events; and
- Significant increase in operational risk exposure.

The guidance also indicates that where a significant operational risk event occurs, the risk management officer should bring this to the attention of the board of directors (or risk committee where one exists) immediately.

Practical Compliance

See Guiding Principle 5.1 in relation to supervision of operational risk for all credit unions.

Guiding Principle 6: Management of Currency Risk

Credit unions which are permitted to invest in deposits or securities that are denominated in the currency of another state should have a clear risk appetite and specific policies and practices designed to monitor and manage currency risk.

Overall Rating: This guiding principle is Not Applicable in the context of Irish credit unions as it is not an approved or occurring activity.

Guiding Principle 7: Management of Interest Rate Risk and Market Risk

Credit unions should have policies and processes in place to manage any interest rate risk to which they may be exposed. In particular, they should be attuned to the interest rate risk of fixed rate lending portfolios.

Overall Rating: Compliant

Summary Assessment

The costs of funds in credit unions is almost entirely variable with no wholesale funding received by the sector. Credit unions' declaration of annual dividends as opposed to set deposit rates and mobilization of fixed deposits, as is common in the US, Canada and Australia, gives them a high degree of flexibility. In addition, the very short-term nature of



credit union lending, which is also often at variable rates, currently presents little risk to the system.

However, this conventional analysis of the balance sheet of the sector does not provide a full picture of risks in 2019 as credit unions are 28% lent out relative to assets and deposits continue to flow into credit unions as consumers deleverage and lending market competition has increased. This has put a significant strain on credit unions as they have placed 76% (based on March 2019 Prudential Return data) of their surplus funds in accounts in authorized credit institutions with total investments with maturity of less than 1 year representing 40% of investments and investments between 1 and 5 years representing 33% of investments. The yields on these funds are 1% or less on average which is squeezing credit unions financial operations.

7.1. Laws, regulations or the supervisor require credit unions to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive credit union-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the credit union's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the credit union, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the credit union's changing risk profile and market developments.

Legal & Regulatory Compliance:

Credit unions are required to have asset and liability management policies but it is not a requirement to have a specific asset and liability committee but can be handled through the overall risk management framework. Central Bank has indicated, in guidance, that the asset and liability management policy should cover the following at a minimum:

- Objectives of the credit union's asset and liability management policy;
- Organizational arrangements setting out the roles and responsibilities of officers involved in managing and monitoring the asset liability position of the credit union;
- Strategy for the management of assets and liabilities taking account of:
 - legal and regulatory requirements and guidance including those relating to liquidity, lending, savings, borrowings and investments;
 - the strategic plan of the credit union taking account of the funding strategy proposed to support the projected balance sheet structure;
 - the current economic climate and business operating environment;
 - the nature, scale and complexity of the credit union;
 - the risk profile of the credit union including, the level of credit and market risk in the credit union;
 - the risk tolerance of the credit union; and



- the credit union's policy in relation to the type, maturity and limits for lending, borrowings, savings and investments and pricing strategies for lending and savings;
- The process for measuring and monitoring risks arising from asset and liability mismatches;
- Procedures on how the credit union responds to changes in the economic climate and business operating environment including stress testing;
- The credit union's policy in relation to members' savings (shares and deposits) including the setting of a maximum number of shares a member can hold and a maximum amount that a member may deposit;
- The credit union's policy in relation to borrowings;
- Reporting arrangements, including the frequency, form and content of reporting on asset and liability management to the board of directors; and
- The process for the approval, review and update of the asset and liability management policy by board of directors.

Restrictions on dividends: The regulatory framework contains requirements relating to dividends on shares, including requirements under section 30 of the 1997 Act which impose a maximum on the dividend payable (10%), and a requirement that a dividend may only be paid out of the surplus funds generated in the previous years or a reserve set aside to provide for dividends.

Lending Maturity limits: The regulatory framework also contains limits on the amount of longer-term lending that a credit union may undertake. Under regulation 14 of the 2016 Regulations a credit union may have up to 30% of the loan book outstanding for more than five years and up to 10% of the loan book can be outstanding for more than 10 years. Subject to approval by the Central Bank these limits can be increased to 40% and 15% respectively. These are being reviewed as part of a review of the lending framework in CP 125.

Investment maturity limits: Regulation 28 of the 2016 Regulations outlines limits on the maturities of investments made by credit union as follows:

- With the exception of an investment in a regulated investment vehicle where the underlying investments of the regulated investment vehicle are investments in Tier 3 Approved Housing Bodies, a credit union shall not make an investment, either directly or through a UCITS, which has a maturity date which exceeds 10 years from the date of the investment.
- A credit union shall not make an investment in a regulated investment vehicle where the underlying investments of the regulated investment vehicle are investments in Tier 3 Approved Housing Bodies where those underlying investments have a maturity date which exceeds 25 years from the date of the investment.
- A credit union shall not make an investment which would cause the credit union to have more than 30 per cent of its investments maturing after 7 years.



- A credit union shall not make an investment which would cause the credit union to have more than 50 per cent of its investments maturing after 5 years.

Restrictions on interest rate: Section 38 of the 1997 Act also restricts the maximum interest rate a credit union can charge a member for a loan to 1% per month of the loan. The Registry may review the dividends that credit unions intend to pay at the end of the financial year but does not approve them. Where a credit union has recorded a deficit in its annual accounts and is proposing to pay a dividend and/or a loan interest rebate, the credit union shall inform the Bank in writing at least 3 weeks before it gives notice of its Annual General Meeting. Supervisors engage with individual credit unions on proposed dividend payments as appropriate.

Practical Compliance

There are currently no material borrowings by credit unions and 97% of their funds come from members shares which pay a discretionary annual dividend at the end of the financial year based on surpluses. The remaining three percent come from deposit accounts and other member funds. Most credit unions have been responsive to the decreasing interest rate environment and have reduced dividends on shares - the average sector dividend has reduced from 0.6% in 2015 to 0.1% in 2018. Nonetheless, members continued to save and brought an additional 2 billion euros into credit unions during this period as consumers de-leveraged. Credit unions continue to be highly liquid with an average loan to asset ratio of 27.6% resulting with 67% of their assets held with the range of allowable conservative investments as of March 2019. A survey of credit union's lending in March 2018 indicated that 88% of the personal loans were for less than 5 years and 11% between 5-10 years and 1% over ten years³³. Importantly, nearly all of the loans are offered at variable rates which could be re-priced, if needed. On the investment side, 40% of their investments have maturities of less than 1 year, 34% of investments have maturities between 1- 5 years, 26% maturing between 5 - 10 years and less than 1 % over 10 years as of March 2019

Given that the dividends paid on savings and rates charged on loans are variable and maturities are short-term as are the short duration of most investments, there is limited interest rate risk in terms of pricing mis-matching. The larger challenge for the sector is the overall low interest rate environment that has been in place for several years and is forecasted for the near term. While most credit unions have been able to adjust to this environment, their yield on longer-term fixed deposits in banks continue to mature and are being re-invested at lower rates given the interest rate environment. Very few credit unions are off-setting the low interest rate and low lending environment with measurable fee income as average 'other 'income as a

³³ Based on data submitted to the Central Bank by 172 credit unions (over 80% coverage in terms of overall sector lending) in response to a survey issued to all credit unions in April 2018.



percentage of total income is 1.3%. Additional analysis of the impact on profitability from fee income could be a new area of exploration for the Registry in its future financial conditions reports and published statistics.

The Registry may review the dividends that credit unions intend to pay at the end of the financial year but it does not approve them. Where a credit union has recorded a deficit in its annual accounts and is proposing to pay a dividend and/or a loan interest rebate, the credit union shall inform the Bank in writing at least 3 weeks before it gives notice of its Annual General Meeting. Supervisors engage with individual credit unions on proposed dividend payments as appropriate.

Guiding Principle 8: Management of Market Conduct Risk³⁴

Where credit unions in a jurisdiction are permitted to engage in business that may expose them to market conduct risk they should have in place risk management policies and processes to identify, assess, monitor and control, and mitigate such risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Overall Rating: Compliant

Summary Assessment

In line with PRISM, the Consumer Protection Directorate of the Central Bank adopts a risk and evidence-based approach to prioritizing work within its consumer protection mandate, supported by comprehensive annual risk assessments, whereby it examines each of the retail sectors regulated by the Central Bank to identify current and emerging Consumer Protection Risks. While credit unions operate on a not-for profit nature with volunteer boards coming from their communities, credit unions are nonetheless subject to a variety of consumer protection requirements related to disclosure, capacity to repay analysis and consumer complaints mechanisms. In addition to these legal and regulatory requirements, the cooperative nature of credit unions and high level of trust that Irish consumers have in credit unions provides structural elements to align with consumers' interests – if the institutions are well-managed. There have been isolated cases of where credit unions compliance with consumer protection practices or transparency could be improved and these have been addressed and changes implemented.

Legal & Regulatory Compliance

Numerous consumer protection laws and regulations affecting credit unions emanate from both Ireland and the European Union. An overview of these laws and regulations follows:

³⁴ This is the only new guiding principle that ICURN added since the 2015 review of the Registry.



Consumer Credit Agreements

Under the 1997 Act, credit unions are subject to consumer protection requirements on consumer credit agreements. Where a credit union provides a loan between €200 and €75,000, they must comply with:

- Sections 37A and 37B of the 1997 Act; and
- The European Communities (Consumer Credit Agreements) Regulations 2010 (S.I. 281/2010) (CCAR).

This covers the majority of loans made by credit unions and these requirements cover 'information and practices preliminary to conclusion of credit agreements' and 'Information and rights concerning credit agreements'.

Where a credit union provides a loan in excess of €75,000, they must comply with section 37A to section 37E of the 1997 Act. These sections of the 1997 Act set out requirements relating to credit agreements including contents of credit agreements and the definition and calculation of APR.

Disputes and Complaints

Part VIII of the 1997 Act sets out provisions relating to handling disputes with and complaints from credit union members. The [EBA Guidelines on Complaints Handling for the Securities and Banking Sectors](#) also apply to the Central Bank in respect of credit unions. The Central Bank has confirmed its intention to the EBA to comply with the Guidelines and communicated its expectation to the sector that credit unions incorporate them into their policies, procedures and practices.

Advertising

Section 86 of the 1997 Act sets out provisions relating to the 'Control of advertising'. Under section 86, the Central Bank may give directions relating to the content or form of advertising. The CCAR also sets out requirements relating to the advertising of credit.

Conduct of Business Requirements under the Payment Services Regulations

Where a credit union provides payment services under the European Communities (Payment Services) Regulations 2018 (S.I. No. 6 of 2018), the following provisions of the Payment Services Regulations apply, from a conduct of business perspective:

- Part 3 – Transparency of Conditions and Information Requirements for Payment Services; and
- Part 4 – Rights and Obligations in Relation to the Provision and Use of Payment Services.

Mortgage Credit Directive

The European Union (Consumer Mortgage Credit Agreements) Regulations 2016, which transposed Directive 2014/17/EU on credit agreements for consumers relating to residential



immovable property (the Mortgage Credit Directive) into Irish law, applies to credit unions who are involved in the provision of mortgages to their members. These Regulations include requirements relating to:

- Information and practices preliminary to the conclusion of the credit agreement, including conduct of business obligations when providing credit to consumers;
- Creditworthiness assessment; and
- Sound execution of credit agreements and related rights.

Consumer Protection Requirements

The Consumer Protection Code 2012 (CPC), the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)), Minimum Competency Regulations 2017 (MCR) and Minimum Competency Code 2017 (MCC) currently apply to those credit unions authorized as insurance intermediaries³⁵, with respect to their insurance intermediary business. The MCC/MCR also apply to credit unions when providing mortgages. They do not currently apply to any other regulated activities carried out by credit unions, for example, core lending and term deposit business. The Central Bank has articulated its intention, following further consultation, to apply the MCC/MCR to credit unions for their core lending and term deposit business³⁶. The Central Bank also intends to commence a review of the CPC in 2019/2020 and as part of that review to consider the application of the CPC to the regulated activities of credit unions that are not currently in scope of the CPC.

Conduct Supervision by the Central Bank

Although the financial conduct and prudential supervision pillars are separate within the Central Bank there is coordination between them. Where supervisors in the Registry become aware of specific conduct issues during the course of their supervisory engagements, they liaise with the Consumer Protection Directorate and take appropriate follow-up actions with the credit union.

CCPC

The Competition and Consumer Protection Commission (CCPC) has a statutory mandate to enforce competition and consumer protection law by:

- Protecting and strengthening competition;
- Empowering consumers to make informed decisions; and

³⁵ 162 Credit Unions are authorized as intermediaries.

³⁶ [Minimum Competency Code 2017 and Minimum Competency Regulations 2017 Questions and Answers](#) –outlines the Central Bank’s intention to undertake further work (seeking information from the credit union sector about the level of qualifications already held by staff) to gain a better understanding of the impact of proposed changes on the sector while taking account of comments made in CP106 (Review of the Minimum Competency Code 2011) submissions to determine an appropriate implementation approach for the application of MCC to credit unions for their core loan and savings business.



- Protecting consumers from harmful business practices.

The CCPC and the Central Bank hold concurrent functions under:

- i. Consumer Protection Act 2007 (No. 19 of 2007), and
- ii. The European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 (S.I. No. 27 of 1995), as amended by the European Communities (Unfair Terms in Consumer Contracts) (Amendment) Regulations 2013 (S.I. No. 160 of 2013).

Practical Compliance

The Consumer Protection Directorate has included credit unions in some thematic reviews and has supported the Registry in respect of its ongoing supervision of credit unions

Members of credit unions are informed by the credit union of how they can contact the Financial Services and Pensions Ombudsman if they are dissatisfied with the initial resolution from the credit union on issues of concern. While not directly required by this Guiding Principle, the Registry may find it useful to have regular communication with the Ombudsman regarding the number type nature and scope of complaints that the Ombudsman receives from credit unions members. These complaints may be signs of deeper areas of concern for the Central Bank.

Guiding Principle 9: Internal Controls

Credit unions should have in place an appropriate level of internal controls commensurate with the size and complexity of the credit union and its activities. This should include arrangements around delegations of responsibilities, authorizations, segregation of duties, reconciliations and accounting for assets and liabilities.

Overall Rating: Compliant

Summary Assessment

All credit unions are required to have internal audits, external audits (with management letters), compliance and risk officers. The annual audited accounts and management letter must be submitted to the Registry annually. Credit unions also must have information systems and management information policies and the Registry has issued guidance on internal controls and physical control of assets. Quarterly prudential returns and a risk-based supervisory approach tests and checks that internal controls are in place. The Central Bank has a separate unit within the Bank which receives whistle-blower concerns and these are sent to the Registry in a redacted manner to protect the person making the disclosure.

However, there have been some examples of lapses of internal controls that are more difficult to detect in desktop reviews in some smaller credit unions. While this does present a challenge for any risk-based supervisory approach, the Registry could improve its desk-based review



process by conducting a limited number of randomly selected on-site inspections of credit unions that would normally have desk-based reviews to back test the methodology.

9.1 Laws, regulations or the supervisor require credit unions to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the credit union's Board and/or management and deal with organizational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorized trading and computer intrusion). More specifically, these controls address: (a) organizational structure: definitions of duties and responsibilities, including clear delegation of authority (e.g. clear loan approval limits), decision-making policies and processes, separation of critical functions (e.g. business origination, payments, reconciliation, risk management, accounting, audit and compliance); (b) accounting policies and processes: reconciliation of accounts, control lists, information for management; (c) checks and balances (or "four eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and (d) safeguarding assets and investments: including physical control and computer access.

Legal & Regulatory Compliance

Under the 1997 Act, credit unions are required to:

- Have governance arrangements that ensure effective oversight of the activities of the credit union, taking account of the nature, scale and complexity of the business being conducted;
- Have oversight, policies, procedures, practices, systems, controls, skills, expertise and reporting arrangements in place to ensure compliance with governance requirements.
- The legal and regulatory requirements for internal controls are evident in the 1997 Act Sections:
 - Section 55 refers to functions of board of directors;
 - Section 55(6) refers to register of matters requiring board's approval;
 - Section 66A refers to governance arrangements in credit unions;
 - Section 66C refers to the Annual Compliance Statement;
 - Section 70 refers to required signatories;
 - Section 76B refers to risk management systems and control;
 - Section 76C refers to the risk management officer;
 - Section 76D refers to the compliance officer;
 - Section 76E refers to operational risk;
 - Section 76F refers to records management;
 - Section 76G refers to information systems;
 - Section 76H refers to management information;
 - Section 76I refers to business continuity plan;



- Section 76K refers to internal audit;
- Section 108 refers to accounting records etc.;
- Section 109 refers to systems of control and safe custody;
- Section 111 refer to annual accounts;
- Section 124 refers to annual returns; and
- Section 186 refers to records and registers.

Organizational Structure

Section 66A of the 1997 Act requires a credit union to have governance arrangements in place which:

- Include a clear organizational structure with well defined, transparent and consistent reporting lines; and
- Are documented and set out the roles, responsibilities and accountabilities of the officers clearly in writing.
- All credit unions must also have a compliance officer which shall ensure compliance with laws and regulations and a board oversight committee which also serves as an additional check on the activities of the Board of Directors.

Policies and Processes

Sections 108 and 109 of the 1997 Act outline the requirements for credit unions with regard to their accounting records, including requirements to prepare proper accounting records which are to be kept on a continuous and consistent basis and to establish and maintain systems of control of its business and records.

Section 76 of the 1997 Act has requirements for IT systems, records management, and requirements for managing operational risk.

Checks and Balances

All credit unions are required to have internal auditors (which can be outsourced or shared) and external audits completed. This is in addition to the governance requirements, compliance requirements and monitoring by the Registry. All credit unions are required to have a process to handle complaints.

The Board (or Audit Committee where there is one) is required to annually review the internal audit charter and audit plan for the year. The Internal Audit function has clear powers and independence in the 1997 Act and is required to report quarterly to the Board (or Audit Committee where there is one).

Practical Compliance

On-going supervision

Internal controls are assessed for all credit unions on an on-going basis. Internal control concerns may be identified through:



- Review of the external auditor's year end management letter which may include systems and control issues and related governance issues;
- Timeliness and accuracy of returns; and
- The validation of RMP items where an action has been required to be undertaken by the credit union.

Credit unions are also required to submit an Annual Compliance Statement to the Central Bank (the Annual Compliance Statement provides information on a credit union's compliance with the requirements of Part IV of the 1997 Act, which includes provisions relating to internal controls). Where a credit union identifies material non-compliance with the requirements of Part IV of the 1997 Act, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified.

The Registry also conducts on-site inspections or desktop inspections based on the size, complexity and risk profile of the credit union. Staff in all supervised entities of the Central Bank, including credit unions, are also made aware of their ability to contact the Protected Disclosures Unit of the Central Bank for any concerns by whistle blowers – this can aid in the identification of weak controls. The identity of the whistle blowers is kept confidential within that unit and not shared with the Registry. There were 113 protected disclosures for the financial sector in 2018 and 79 in 2017.

A common area of concern for internal controls in many credit unions (or banks) globally is in relation to dormant accounts. There is limited guidance in the Credit Union Handbook on the handling of dormant accounts within credit unions. Both the time frame for considering the account dormant (generally 36 months) and the fact that unclaimed balances are not eventually turned over to either the state or an independent body is an area of potential concern and should be improved.

9.2 The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, where appropriate, in the case of control functions, sufficient access to the credit union's Board) to be an effective check and balance to the business origination units.

Legal and Regulatory Compliance

The 1997 Act sets out specific roles and responsibilities relating to risk and internal controls, including the functions of the board of directors, the manager, the risk management officer, the compliance officer and the internal audit function.

Board of directors

The functions of the board of directors are set out in section 55 of the 1997 Act and include:

- Operating a comprehensive decision-making process;



- The appointment of a manager, risk management officer and compliance officer;
- The approval of the appointment of any other member of the management team;
- Ensuring there is an effective management team in place;
- Reviewing the performance of the manager; and
- Ensuring that the performance of every other employee and voluntary assistant is reviewed and monitored on an on-going basis.

Manager

Under section 63A of the 1997 Act, the manager has responsibility for the day-to-day management of the credit union's operations, compliance and performance of the credit union.

Compliance officer

Under section 76D of the 1997 Act:

- The board of directors must appoint a compliance officer with the necessary authority and resources to manage the compliance programme, as provided for by section 76B, within the credit union; and
- The credit union must ensure that the compliance officer has clearly documented reporting lines and access to the board of directors.

The Central Bank has indicated in guidance that the board of directors should ensure the compliance officer has adequate time and resources to carry out their functions having regard to the nature, scale, complexity and risk profile of the credit union.

Risk management officer

Under section 76C of the 1997 Act:

- The board of directors is required to appoint a risk management officer with the necessary authority and resources to manage the risk management function within the credit union;
- The credit union must ensure that the risk management officer has clearly documented reporting lines and access to the board of directors; and
- The risk management officer is designated as a PCF in credit unions with assets of at least €100m and requiring pre-approval from the Central Bank before an individual takes up this role.

The Central Bank has indicated in guidance that the board of directors should ensure the risk management officer has adequate time and resources to carry out their functions having regard to the nature, scale, complexity and risk profile of the credit union.

Internal audit function

Section 76K of the 1997 Act requires that the board of directors of a credit union appoints a person to provide independent internal oversight, and to evaluate and improve the effectiveness of the credit union's risk management, internal controls and governance



processes. Section 76K contains a specific requirement that the internal audit function must be separate from other functions and activities of the credit union, and be capable of operating independently of management and without undue influence over its activities. The internal audit function is required to report the results of its evaluations and recommendations to the board of directors (or the audit committee, where one exists). Guidance indicates that the internal audit function should have adequate time and resources to carry out its functions under this section having regard to the nature, scale, complexity and risk profile of the credit union.

External auditor

Credit unions are required to appoint an external auditor under section 113 of the 1997 Act. Under the 1997 Act, credit unions are required to provide a “management letter” to the Central Bank highlighting areas of significant concern about systems, control and related governance issues in credit unions.

In addition, under section 56B of the 1997 Act, the nomination committee is required to review the composition of the board of directors at least annually for the purpose of identifying any deficiencies in the composition of the board. The review must include determining whether or not there are any deficiencies in the balance of skills amongst the members of the board of directors and considering other matters relating to deficiencies that may be prescribed by the Central Bank.

Fitness and probity

Under the Central Bank’s Fitness and Probity regime for credit unions, any person that performs a control function is subject to fitness and probity requirements. There are two PCFs prescribed for all credit unions, Board chair and CEO/Manager, as they exercise a significant influence on the conduct of the affairs of a credit union and larger credit unions have more than two PCFs in regulations.

Since July 2018 the following roles that help ensure, control or monitor compliance by a credit union with its relevant obligations and as such have been designated as PCFs for credit unions that have total assets of at least €100 million:

- Risk Management Officer (CUPCF-3);
- Head of Internal Audit (CUPCF-4); and
- Head of Finance (CUPCF-5)

Similar to the role of Board chair and CEO/Manager the prior approval of the Central Bank is required before an individual can be appointed to one of the above listed PCF roles.

Practical Compliance

The Registry has taken a risk-based approach towards its assessment of persons in pre-approval control functions. The Registry approves the key personnel in pre-approval control functions based on review of the Individual Questionnaire and reference checks and may



conduct interviews of those persons as well. The approval process is more than just perfunctory and there are higher expectations for larger credit unions. The Registry also assesses the skills and resources of the back office and control functions as part of its on-site inspections and on-site meetings with management and the board of directors.

The Registry also appears to be mindful that the skill set and backgrounds of the Board of Directors and Committee members have to come from within the common bond of the credit union.

Guiding Principle 10: Abuse of Financial Services

Credit Unions should have policies and procedures in place that will prevent them from being used for criminal activities, including money laundering. This should include having “know-your-customer” rules.

Overall Rating: Compliant

Summary Assessment

The FATF standards and recommendations are the global benchmark for Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) compliance; Ireland’s compliance with them was reviewed by a team of international experts and members of the FATF Secretariat over the course of 2016/2017. The review considered all aspects of Ireland’s compliance with the FATF recommendations and standards, including having an appropriate legal framework to combat money laundering/terrorist financing (ML/TF) and having an effective system of AML/CFT supervision. It concluded that supervisors were aware of the relevant ML/TF risks and were able to demonstrate that they were taking a risk-based approach to supervision. The Central Bank’s AML/CTF supervision was assessed by FATF as being Substantially Effective.

The Central Bank’s supervision of credit unions concerning the prevention of ML/TF is effective, underpinned by a robust and proportionate regulatory approach. There appear to be good levels of awareness of relevant issues in credit union Boards, with a significant proportion of all Suspicious Transaction Reports (STRs) from financial institutions being submitted by credit unions.

The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended (CJA 2010), which came into force on 15 July 2010, transposed the EU’s Third Anti Money Laundering Directive and its implementing directive into Irish Law. The CJA 2010 has been amended twice: by the Criminal Justice Act (Money Laundering and Terrorist Financing) 2013, and the Criminal Justice Act (Money Laundering and Terrorist Financing) Act 2018, which transposed the EU’s Fourth Anti Money Laundering Directive into Irish law.

The Central Bank is the competent authority under CJA 2010, for supervision of compliance by credit and financial institutions (including Credit Unions) with obligations imposed by the



CJA 2010. This responsibility is discharged by the Central Bank's Anti-Money Laundering Division (AML/D).

Credit unions are required under the CJA 2010 to have in place Policies and Procedures to comply with the requirements of the legislation. The implementation of these policies and procedures, such as through processes or systems in place in the credit union are subject to review by AML/D supervisors in line with the AML/D's risk-based supervisory engagement model for Irish financial institutions.

As provided for by the CJA 2010, and in keeping with AML/CFT standards and recommendations set by the Financial Action Task Force (FATF), the Central Bank adopts a risk-based approach to AML/CFT supervision.

The Central Bank has assessed the Money Laundering/Terrorist Financing (ML/TF risk associated with Credit Unions as Medium-Low; similarly, the ML/TF National Risk Assessment has concluded that overall ML/TF risk in the Credit Union sector is Medium-Low.

The Central Bank discharges its responsibilities through:

- Supervisory Engagements (these are described below);
- Communication and Outreach Activity; through a combination of industry presentations, briefings and publications on its website, the Central Bank engages with credit unions to set out the role, approach and expectations of the Central Bank in supervising compliance with the CJA 2010, and
- Liaison with other relevant authorities as required or as dictated by the Central Bank's legal obligations:
 - membership of the Anti-Money Laundering Steering Committee (AMLSC), a co-ordination committee of government departments/agencies dealing with AML/CFT issues;
 - Bi-lateral meetings with the Department of Finance, the Financial Intelligence Unit of An Garda Síochána, the Revenue Commissioners, Department of Justice and the Criminal Assets Bureau on relevant issues as they arise, and
 - International co-operation, as a member of the Anti-Money Laundering Committee (AMLC), a sub-committee of The Joint Committee (which consists of the EBA, EIOPA, and ESMA) in carrying out its work programme in areas related to AML/CFT.

In addition, AML/D has attended and hosted a number of 'Best Practice' visits with other AML/CFT regulators, to share supervisory practices.

10.1. The supervisor determines that Credit Unions have adequate policies and processes that promote high ethical and professional standards and prevent the Credit Union from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and



detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.

Legal & Regulatory Compliance

Credit unions are required to have policies and procedures in place which comply with the legislative requirements under the CJA 2010 and the Central Bank's expectations on AML/CFT. As part of supervisory engagements they are required to confirm that they do have such policies and procedures and, since 2016, the annual returns submitted by credit unions have required credit unions to confirm that they have read, and implemented as appropriate, measures to address the expectations of the Central Bank as set out in the 'Report on Anti-Money Laundering/Countering the Financing of Terrorism and Financial Sanctions Compliance in the Irish Credit Union Sector.

Where the Registry identifies AML/CFT issues at on site-meetings these are notified to and discussed with AMLD, which may investigate if appropriate. Where the Registry desk-based assessment or intelligence make it appropriate, AMLD also visits Low Risk credit unions.

Further, a comprehensive AML/CFT Risk Evaluation Questionnaire ('REQ') has been developed to collect AML/CFT specific risk data. The REQ's design is robust and seeks information relating to:

- The inherent ML/TF risks faced by the credit union covering such areas as customer type, products offered, distribution channels and geographic location;
- The credit union's AML/CFT control framework covering areas such as risk assessment, CDD and on-going monitoring, training, policies and procedures, financial sanctions, and suspicious transactions, and
- Compliance with the credit union's AML/CFT obligations under the CJA 2010. If there are areas of material non-compliance, then such non-compliance must be declared by the credit union and details provided.

All credit unions are required to submit a REQ over a three-yearly cycle. The information obtained is tested by the Registry and evaluated by AMLD; this analysis feeds into credit unions' individual risk-management assessments, assisting AMLD in assessing the ML/TF risk in the Credit Union sector and in devising its credit union supervisory strategy. Information gathered, is also used as an input into the ML/TF National Risk Assessment, outreach to the credit union sector and to inform peer analysis.

Practical Compliance

The Central Bank performs a number of AML/CFT on-site inspections of credit unions each year. The inspections include interviews with the Money Laundering Reporting Officer (MLRO) and other relevant personnel. In addition, a large amount of information is gathered and reviewed as part of the inspection. This includes, but is not limited to:



- An up-to-date organisation chart, including the names of directors and senior managers, together with a breakdown of those with day-to-day management of AML/CFT responsibilities;
- Details on the credit union's business e.g. product and service lines offered, member base, geographical reach;
- A copy of the credit union's AML/CFT policies and procedures;
- A copy of the credit union's current AML/CFT Risk Management Strategy, including details of the risk-based approach employed;
- Copies of board minutes since the enactment of the CJA 2010 (where they relate to AML/CFT);
- A copy of the credit union's suspicious transaction reporting procedures;
- An outline of the credit union's transaction monitoring procedure/system;
- Details and results of any AML/CFT testing and/or internal or external audits carried out;
- Details of the number of suspicious transactions received by the MLRO together with details of how many Suspicious Transaction Reports ("STRs") were submitted to An Garda Síochána and the Revenue Commissioners;
- Copies of AML/CFT training provided to staff.

As part of the on-site inspection process, supervisors identify 'findings', which are deficiencies in AML/CFT compliance within the credit union, or areas where the supervisor believes enhancements are required. A post inspection letter is issued to the credit union outlining the findings which the Central Bank has identified. The findings will outline what the issue identified was, what action is required by the credit union to remediate these issues and the timeframe for this action.

Supervisors engage with the credit union and monitor progress made against the inspection findings until all findings have been closed out. At this time, a notification will be sent to the credit union confirming the inspection is closed out, and a referral may be made (where appropriate) to the Central Bank's Enforcement Division to take enforcement action against the credit union for the identified breaches of compliance.

Of the eight AML/CFT enforcement actions taken by the Central Bank since 2015, two have been against credit unions.

10.2. The supervisor determines that Credit Unions establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the Credit Union's overall risk management and there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management program, on a group-wide basis, has as its essential elements: (a) a customer acceptance policy that identifies business relationships that the Credit Union will



not accept based on identified risks; (b) a customer identification, verification and due diligence program on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant; (c) policies and processes to monitor and recognize unusual or potentially suspicious transactions; (d) enhanced due diligence on high-risk accounts (e.g. escalation to the Credit Union's management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk); (e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the Credit Union's management level of decisions on entering into business relationships with these persons); and (f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five-year retention period.

Legal & Regulatory Compliance

The key obligations of the CJA 2010 with which, among others, credit unions must comply are set out in Part 4 of the CJA 2010, and are summarised as follows:

- to identify and verify members, identify beneficial ownership, and apply enhanced due diligence requirements to higher risk relationships;
- to identify and report suspicious transactions. Reports of suspicious transactions are made by credit unions directly to the financial intelligence units of the Irish police force (An Garda Síochána) and the Irish Tax Authorities (Revenue Commissioners), who have responsibility for the investigation and disposition of those reports, and
- to have policies and procedures in place for the prevention and detection of ML/TF activities.

Practical Compliance

As part of Supervisory engagements, AMLD reviews the appropriateness and adequacy of a credit union's approach to CDD including their risk assessment, governance, risk management and control and the operational procedures and processes in place for CDD. Information gathered and reviewed as part of the inspection process includes, but is not limited to:

- An up-to-date organisation chart, including the names of directors and senior managers, together with a breakdown of those with day-to-day management of AML/CFT responsibilities;
- Details on the credit union's business e.g. product and service lines offered, member base, geographical reach;
- A copy of the credit union's AML/CFT policies and procedures;
- A copy of the credit union's current AML/CFT Risk Management Strategy, including details of the risk-based approach employed;



- Copies of board minutes since the enactment of the CJA 2010 (where they relate to AML/CFT);
- A copy of the credit union's suspicious transaction reporting procedures;
- An outline of the credit union's transaction monitoring procedure/system;
- Details and results of any AML/CFT testing and/or internal or external audits carried out;
- Details of the number of suspicious transactions received by the MLRO together with details of how many Suspicious Transaction Reports ("STRs") were submitted to An Garda Síochána and the Revenue Commissioners, and
- Copies of AML/CFT training provided to staff.

These requirements are supported by on-site sample testing of key controls as well as interviews with the MLRO and other relevant staff.

Guiding Principle 11: Accounting and Disclosure

Credit unions should maintain adequate records that have been prepared in accordance with the relevant accounting laws in its jurisdiction. Credit unions' records must be independently professionally audited and the full annual report prepared in accordance with the relevant accounting standards must be freely available to all members.

Overall Rating: Compliant

Summary Assessment

The preparation and maintenance of accurate records and financial statements by credit unions remains subject to close attention by the Registry. Provisioning and the valuation of investments has been a particular focus in recent years, expertise is seen to be developing and there is some evidence of a better perception of risk in loan books and improvements recently in underwriting standards.

The Central Bank applies significant resources in articulating and explaining its expectations for both credit unions and their auditors and this approach has proven generally beneficial. These communications and other engagements are complemented by a proportionate, risk-based, supervisory approach, directed at raising standards and securing viability.

Legislation and accounting standards require credit unions to maintain adequate and reliable records, prepare financial statements in accordance with generally-accepted accounting principles and to have an independent external auditor's opinion.

The 1997 Act requires a credit union to:

- Maintain proper accounting records;
- Establish and maintain systems of control and safe custody;
- Adhere to certain accounting principles;



- Prepare annual accounts which provide a 'true and fair view' of its income and expenditure for the year and of the state of its affairs at year-end, signed by certain officers of the credit union and containing an external auditor's report.

The requirement for annual accounts to give a true and fair view entails compliance with relevant accounting standards and the 1997 Act. "Financial Reporting Standards 102" (FRS) issued by the Financial Reporting Council (FRC) in the UK in March 2013 are the Irish "Generally Accepted Accounting Principles" (GAAP) and replaced all previous Irish accounting standards with effect from the credit union financial year 2015/2016.

The 2016 Regulations include disclosure and reporting requirements related to credit union annual accounts. Under Part 8 Systems, Controls and Reporting Arrangements, the 2016 Regulations include a reporting requirement for a credit union to ensure that its directors shall prepare the prescribed supplementary information to be contained in its annual accounts.

The Central Bank also has powers in respect of auditors of credit unions which are outlined in Part VII of the 1997 Act and Part IV of the Central Bank Act 1997.

Certain reporting requirements are also imposed on external auditors by Section 122 of the 1997 Act to make a written report to the Central Bank where at any time the auditor has reason to believe that:

- The credit union may not be able to fulfil its obligations to its members or to meet its obligations under the 1997 Act;
- There are material defects in the accounting records or systems of control of the business and records of the credit union (including systems for ensuring safe custody of all documents of title, deeds and accounting records of the credit union);
- There are material inaccuracies in, or omissions from, any returns made by the credit union to the Central Bank;
- The board of directors have failed to respond to any recommendations made by them, or
- If the auditor proposes to qualify any report which he is to provide under the 1997 Act.

Section 118(2) of the 1997 Act requires the auditor to notify the Central Bank if he/she intends resigning as auditor of a credit union.

The Central Bank also has the right under Part 2 of the Central Bank (Supervision and Enforcement) Act 2013, for the purposes of the proper and effective regulation of a credit union, to request a report on any matter as required by the Central Bank ("Skilled Persons Reports"). The person preparing the report must be sufficiently skilled to prepare such reports and must be nominated or approved by the Central Bank, and therefore the Central Bank is not limited to only using the external auditor to provide the report.



Section 33AK(5)(x) of the Central Bank Act 1942 provides that the Central Bank can disclose confidential information to anybody established under law for the purposes of overseeing auditors, in accordance with the terms of the supervisory EU legal acts, where applicable.

The Registry issues a communication to credit unions annually setting out key areas for the board of directors of credit unions to focus on when considering their approach to the financial year-end. Supervisors also engage with external auditors of credit unions as necessary as part of the scoping process of an inspection.

The Registry takes the view that, in order to enhance the independence and objectivity of the audit process, consideration should be given to appropriate levels of audit partner and audit firm rotation. The Central Bank has provided guidance in this regard in The Accounts and Audit Chapter of the Credit Union Handbook. Supervisory concerns that auditor independence had been effectively impaired by lack of rotation have been identified in RMPs issued to individual credit unions.

The Central Bank Act 1942 provides a statutory gateway to lodge complaints regarding auditors to the Recognised Accountancy Bodies for assessment in accordance with their own monitoring and disciplinary procedures.

The Registry also makes presentations to auditors to provide them with updates on changes to the regulatory framework for credit unions – for example a presentation was made to ACCA in June 2018.

The Central Bank engages with relevant stakeholders regarding issues of mutual interest and to assist auditors in the development of guidance to assist auditors of regulated entities. The Central Bank most recently engaged with Institute of Chartered Accountants Ireland in 2017 and 2018 on the Provisioning Guidelines for Credit Unions, which were subsequently published in April 2018.

11.1. The supervisor holds the credit union's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by record keeping systems in order to produce adequate and reliable data.

Legal & Regulatory Compliance

Under section 124 of the 1997 Act, credit unions are required, not later than 31 March in each year, to send to the Central Bank a return relating to its affairs for the most recent financial year (1 October – 30 September), along with a copy of its annual accounts and a copy of the report of the auditor on the credit union's annual accounts for that financial year. The auditor's report should state that the audit was conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Section 120(3) of the 1997 Act sets out matters which must be addressed in the auditor's report, including his or her



opinion on whether proper accounting records have been kept by the credit union and whether the annual accounts have been properly prepared so as to conform with any requirements made by, or under, the 1997 Act and give a true and fair view.

Section 111(5) of the 1997 Act, provides that if a member of the board of directors fails to take all reasonable steps to secure compliance with the provisions for true and fair accounts, the member may be guilty of a criminal offence.

The 2016 Regulations also impose a reporting requirement for a credit union to ensure that the directors of a credit union shall prepare prescribed supplementary information to be contained in its annual accounts.

Practical Compliance

Supervisors assess the information reported in draft financial statements for compliance with key financial regulatory requirements. Should any issues of concern arise a supervisor will revert to the credit union and/or its auditors; the type of interaction with auditors is dependent on the circumstances and may, for example, be conducted before an onsite inspection or at any time where appropriate.

The Central Bank's approach is that its expectations will be met if a Board has acted responsibly and the auditor has presented the accounts to the Board and clarified them as requested by directors. There has been no criminal prosecution against a credit union director for failing to take all reasonable steps to secure compliance with the provisions concerning true and fair accounts.

However, persistent breaches of statutory obligations regarding record-keeping and reporting have resulted in enforcement actions. In June 2018, the Central Bank reprimanded and fined a credit union €210k in relation to eight breaches of the 1997 Act between August 2014 and January 2016. The credit union was found to have failed to ensure its accounting records were maintained on a continuous and consistent basis and to establish and maintain appropriate systems of control of its business and records. Further it had submitted inaccurate regulatory returns for each quarter from September 2014 to September 2015.

11.2. The supervisor determines that credit unions use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that credit unions document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.

Legal & Regulatory Compliance

The 1997 Act requires credit unions in Ireland to prepare their financial statements in accordance with prescribed accounting principles and relevant accounting standards.



Valuations are subject to external audit by the statutory auditor and an independent assessment may be required by the Central Bank.

Under FRS 102, given the nature of a credit union's business, financial assets are classified for valuation purposes as "basic" or "complex". Most financial assets in credit unions are classified as basic instruments and measured at amortised cost using the effective interest rate method. Basic instruments include member's loans and investments such as certain bank bonds, Government bonds etc. and will normally be measured at amortised cost. Assets such as cash, cash equivalents and short-dated investment instruments (e.g. deposits) are generally measured at cost in the financial statements. Longer dated instruments, e.g. bonds with a maturity greater than one year are measured at amortised cost. Complex instruments are measured at net realisable value.

Practical Compliance

The Accounts and Audit Chapter of the Credit Union Handbook sets out guidance on the valuation of investments. The Central Bank has indicated in this guidance that in most cases the lower of cost and net realisable value will be the most appropriate valuation method for investments. The external auditor also reviews the investment valuations held at year-end during their year-end audit. Credit unions are required to have investment policies that are reviewed, updated and approved by the board of directors at least annually. The Central Bank has also issued guidance, contained in The Investments Chapter of the Credit Union Handbook, on what investment policies should cover, including the process for monitoring the value of investments and the accounting treatment adopted for the valuation of investments.

The Central Bank, during both on-site and off-site reviews, may assess whether the valuations are reliable and prudent. Where the Central Bank determines that valuations are not sufficiently prudent, the Central Bank requires the credit union to consider and make adjustments as appropriate.

Where significant inconsistencies between information reported in Year End Returns and key figures reported in the year-end Prudential Return (30 September) are identified supervisors follow up with credit unions as appropriate to ensure that these are adequately explained.

Fixed asset impairments identified through the year end process have in some cases negatively impacted on a credit union's reserve position taking them below the regulatory minimum. In such cases the Registry has the power to issue a regulatory direction to a credit union to restore its reserve position.

Pillar III Prudential Requirements Guiding Principles 12 to 17

Guiding Principle 12: Capital Adequacy

The supervisor should establish and enforce the rules for an appropriate capital framework with which all credit unions must comply. The rules must balance cooperative principles and objectives with the need to protect depositors. Accordingly, supervisors will need to carefully



consider what meets the criteria for capital and to ensure that capital instruments are able to absorb losses in the event of failure. When supervisors choose to align the capital requirements of credit unions to Basel standards, a simplified approach may be adopted for small or simple credit unions that are not allowed to hold complex financial instruments. For such credit unions, compliance with the most advanced risk measurement techniques may be beyond their resources. Therefore, the supervisor may require the credit union to have sufficient capital to support the limited information that may be available for supervisors.

Overall Rating: Compliant

Summary Assessment

Credit unions are required by regulations 3-6 of the 2016 Regulations to maintain a regulatory reserve requirement (i.e., capital adequacy) ratio of 10% of total assets. This requirement is on a non-risk weighted basis and their capital components are limited to the highest quality capital to absorb losses, i.e., retained earnings. Compliance with this requirement is monitored by the Central Bank via quarterly prudential returns, the year-end return and annual audited financial statements. Credit unions are required to continuously monitor their compliance and notify the Registry the next business day if their regulatory reserves go below the required level. Any credit union with less than the regulatory reserve requirement is handled by the Intervention and Restructuring team within the Registry. Credit unions are also required to hold additional reserves in relation to operational risk. The level of operational risk reserves a credit union is required to hold is not specified in the 2016 Regulations.

As of March 2019, there was only one credit union that had less than 10% regulatory reserves, which was in the process of addressing the deficiency. The median regulatory reserves for the sector in March 2019 was a healthy 16.2%.

To ensure the protection of members' funds by credit unions and safeguarding the stability of the sector the Registry instituted a €100,000 cap on deposits per member in credit unions in 2016, but also provided an avenue for requesting specific exemption. Several credit unions have voluntarily gone a step further to stem the inflow of members' savings by instituting even lower caps as they are unable to lend out additional funds, credit unions are receiving negative interest rates in some cases on their investments with banks and are concerned about the impact the additional funds are having on their regulatory reserve ratios.

Several jurisdictions have successfully implemented a risk-weight capital approach for their credit unions. This has generally occurred as part of a review of the competitive environment as opposed to responding to structural challenges in a sector. Given long-term demographic trends in the markets where credit unions generally operate and the impact it has on loan demand, the Registry is encouraged to conduct additional stress-testing on regulatory reserves under the existing leverage ratio and risk-weighted reserve approaches. Institutional capacity



of the credit unions to implement, monitor and report on risk-weight capital would be of paramount consideration in any analysis.

12.1 Laws, regulations or the supervisor require credit unions to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a credit union might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.

Legal and Regulatory Compliance

The minimum regulatory reserve, prescribed by the Central Bank in the 2016 Regulations, to be maintained by all credit unions, is 10% of the assets of the credit union. Section 45 of the 1997 Act defines the regulatory reserve and provides the Central Bank with regulation making powers in relation to reserves. Section 55 of the 1997 Act outlines the functions of the board of directors in relation to the reserves management policy. The Reserves Chapter of the Credit Union Handbook outlines that a reserves management policy should at a minimum cover the following:

- Objectives of the policy;
- Organizational arrangements setting out the roles and responsibilities of officers involved in reserve management;
- Strategy setting out the quantity and quality of reserves to be maintained by the credit union over time, including the setting of reserve targets, to protect the credit union against unexpected losses taking account of:
 - the regulatory reserve requirement to be maintained by the credit union in compliance with the 1997 Act (and any regulations made thereunder);
 - the risk profile of the credit union including the level of credit, market and operational risk in the credit union;
 - the risk tolerance of the credit union;
 - any reserve buffers the credit union requires such as a reserve conservation buffer;³⁷
 - additional reserves required to support the strategic plan of the credit union; and
 - the current economic climate and business operating environment;
- Plans for the generation of any additional reserves required to support the above;
- Dividend and loan interest rebate policy;
- Procedures for:
 - complying with minimum legal and regulatory requirements and guidance in relation to reserves;

³⁷ A reserve conservation buffer is a buffer that is designed to build up reserves outside periods of stress and can be drawn down as losses are incurred.



- monitoring, reviewing and reporting on the credit union's reserves position against reserves targets; and
- regular stress testing of reserves and scenario analysis taking account of potential risks;
- Contingency plans to be put in place if reserve targets are not met, including:
 - actions to be taken to protect the credit union's reserves position such as changes to dividend and loan interest rebate policy;
 - raising of additional reserves, if necessary; and
 - notifying the Central Bank where reserves fall below the regulatory minimum;
- Reporting arrangements, including the frequency, form and content of reporting on the adequacy of reserves to the board of directors; and
- The process and timelines for the approval, review and update of the reserve management policy by the board of directors.

The Central Bank has provided guidance to credit unions that they are expected to operate with a level of reserves *above* the regulatory reserve minimum requirement. It is for the board of directors of each credit union to decide on the amount of reserves to hold in excess of this minimum requirement. Under the 2016 Regulations credit unions are required to monitor their reserves on a continuous basis and to notify the Central Bank if they fail or are likely to fail to comply with reserve requirements.

A credit union reporting a reserve position below the 10% minimum reserve requirement will be subject to supervisory action where it is unable to meet minimum regulatory reserve requirements within an agreed timeframe based on the circumstances and severity of the reserve shortfall involved. Where a reserve shortfall is likely to persist, the credit union will be issued with a formal notice which sets out the concerns regarding the financial position of the credit union and requiring a detailed plan setting out how they plan to restore their reserve position.

Practical Compliance

While by any measure the credit union sector is currently well-capitalized, and in comparison to 2015, the number of credit unions that are not meeting the minimum capital requirement has decreased, there are concerning trends in the sector. Since the only source of capital for credit unions are their retained earnings, it's troubling that the profitability of the sector has consistently decreased every year since 2015. Profitability has declined by 43% since September 2015 as consumers continued to deleverage, investments have repriced at lower rates and competition for loans has intensified. This has been occurring while credit unions trimmed costs, and in many cases, supported their profits through recognition of income that resulted from their abundance of loan loss provisions but still had decreased profits. Earnings will need to stabilize or capital could be negatively impacted.

12.2 The prescribed capital requirements reflect the risk profile and systemic importance of credit unions in the context of the markets and macroeconomic conditions in which they



operate and constrain the build-up of leverage in credit unions and the credit union sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.

Legal & Regulatory Compliance

Credit unions are not permitted to issue or utilize any capital instruments that would be considered tier 2 capital under the Basel Accord. Per the 2016 regulations 3-6, all reserves held by credit unions for the purposes of the regulatory reserve requirement are required to be:

- Perpetual in nature;
- Freely available to absorb losses; and
- Realized financial reserves that are:
 - unrestricted; and
 - non-distributable.

In order to be considered reserves an instrument must meet the following conditions:

- Not be secured or subject to guarantee which enhances its seniority;
- Be permanent and without an obligation for repayment of principal;
- Have no preferential distribution rights;
- Rank below all other claims in the event of a liquidation; and
- Qualify as a reserve for accounting purposes.

Practical Compliance

Credit unions in Ireland do not have a complex business model and in recent years their exposure to credit risk in their loan portfolios has decreased as the loan-to-asset ratio for the sector has decreased from 32% in 2013 to 27.6% in March 2019. During this same period the yield on their investments have also continuously decreased and are expected to remain low for the next several years. The strong quality of capital and the amount of capital in the sector is reflective of the limited avenues that credit unions have to build new capital. Additional sources of income through either fee income, improving the loan-to-assets ratio and/or better yields on investments will be required to even maintain the current capital levels. Stress testing scenarios should be conducted taking into account lower re-pricing of their investments and potential economic impact of a hard Brexit.

Guiding Principle 13: Liquidity and Funding Risk

The supervisor should ensure that credit unions develop reasonable and prudent liquidity management strategies and contingency plans, including central bank borrowing, standby facilities and/or liquid reserves in a regulated central financial facility, which cover the funding of the credit union and the ongoing monitoring of the credit union's liquidity/funding position. Supervisors must have the ability to intervene when they believe a credit union has an excessively risky funding base or liquidity position. Liquidity risk must be addressed both



on a per-credit union and on a network-wide basis. Soundly managed network-wide liquidity and stability facilities are highly desirable.

Overall Rating: Compliant

Summary Assessment

The low level of borrowing by credit union members and low interest rate environment has resulted in 38% liquid assets, to unencumbered deposits, ratio as of March 2019. There were no credit unions as of this date that had breached the 2016 Regulatory requirement of 20% and approximately 71% of the liquid assets are held with authorized credit institutions.

Approximately 11% of credit union investments are available within 7 days while 27% of investments have less than 3 months to maturity and 40% of all investments by credit unions are less than one year in maturity.

One of the principle challenges in the broader Irish financial market at the moment are the high levels of liquidity and the low interest rate environment. Yields for Irish government bonds for the next seven years are negative with 10-year government bonds paying less than 0.5%.³⁸

Approximately 97% of all funding in credit unions comes in the form of fully withdrawable shares and the rest of the funding comes in the form of fixed term deposits and other member funds. Although credit unions are not required to have a specific assets/ liability committee some credit unions do have these committees and the liquidity monitoring of credit unions is carried out by their boards which are required to have a liquidity policy reviewed and approved annually.

Eligible counterparties can use the marginal lending facility to obtain overnight liquidity from the Central Bank against eligible assets. In order to be an eligible counterparty for open market operations, a credit institution must satisfy the eligibility criteria set out in Article 55 and 55a of the Central Bank's Documentation on Monetary Policy Instruments and Procedures (the 'MPIPs'). All monetary policy counterparties of the Central Bank are required to execute the MPIPs Agreement. In addition, the ECB requires credit institutions established in the euro area to hold deposits on account with their National Central Bank. These are called minimum or required reserves. Credit unions hold minimum reserves with the Central Bank. DGS funds may also be used for alternative measures in order to prevent the failure of a credit institution provided that the certain conditions are met. Such back up facilities are an important part of supporting financial stability.

³⁸ Source: June 30, 2019 www.worldgovernmentbonds.com.



13.1 Laws, regulations or the supervisor require credit unions to consistently observe prescribed liquidity requirements including thresholds by reference to which a credit union is subject to supervisory action.

Legal & Regulatory Compliance

Under Section 85A of the 1997 Act credit unions are required, at all times, to keep a proportion of their total assets in liquid form so as to enable the credit union to meet its obligations as they arise. The proportion of assets in liquid form must take into account the nature, scale and complexity of the credit union, and the composition and maturity of its assets and liabilities.

Liquid assets are defined as:

- Cash;
- Investments with a maturity of less than 3 months, excluding the minimum reserve deposit account and the deposit protection account;
- Irish and EEA State Securities, bank bonds and supranational bonds with a maturity of greater than 3 months, provided that such bonds comply with the minimum rating requirements specified in the 2016 Regulations; and
- where at least 2.5% of unattached saving must be comprised of cash and investments with a maturity of less than 8 days and no more than 10% of unattached savings will be comprised of Irish and EEA State Securities, bank bonds and supranational bonds with a maturity of greater than 3 months after the application of discounts specified in the 2016 Regulations

Additionally, the Section 35 Requirements provides that where a credit union undertakes lending over five years above 20% of total gross loans outstanding it must hold additional liquidity as set out in the table below:

<u>Lending Over Five Years</u>	<u>Minimum Liquidity Ratio</u>
>20% and <25%	at least 25%
≥25% and <29%	over 25%
≥29%	at least 30%

Practical Compliance

Credit unions are required to report quarterly their liquidity positions to the Registry. These positions are closely monitored by supervisors through automated and manual tools. As part of both desktop and onsite inspections supervisors review liquidity policies and compliance with regulatory requirements. Where credit unions are non-compliant the Registry can take a number of actions including more frequent reporting, issuance of an RMP, regulatory directions or administrative sanctions. The Registry has experience with taking a number of such actions.



13.2 The supervisor determines that credit unions have a robust liquidity management framework that requires the credit unions to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the credit unions' Boards. The supervisor also determines that these policies and processes provide a comprehensive credit union-wide view of liquidity risk and are consistent with the credit unions' risk profile and systemic importance.

The supervisor requires credit unions to regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (e.g. credit, market, operational and reputation risk) may impact the credit union's overall liquidity strategy, and include: (a) an analysis of funding requirements under alternative scenarios; (b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress; (c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits; and (d) regular assessment of the capacity to sell assets.

Legal & Regulatory Compliance

Under section 76A of the 1997 Act credit unions are required to have a strategic plan which must include the funding strategy proposed to support the projected balance sheet structure. The Central Bank has indicated in this guidance that liquidity management policies should cover the following at a minimum:

- Objectives of the credit union's liquidity management policy;
- Organizational arrangements setting out the roles and responsibilities of officers involved in liquidity management;
- Strategy setting out the quantity and quality of liquid assets to be maintained by the credit union over time, including the setting of liquidity targets, to enable the credit union to meet its obligations as they arise and to meet stress conditions taking account of:
 - the minimum liquidity to be maintained by the credit union in compliance with the legal and regulatory requirements and guidance;
 - the strategic plan of the credit union;
 - the current economic climate and business operating environment;
 - the nature, scale and complexity of the credit union;
 - the risk profile of the credit union including the level of credit and market risk in the credit union;
 - the risk tolerance of the credit union; and
 - any liquidity buffers to be maintained as a safeguard on the basis of stressed conditions that may arise;
- Plans for the generation of any additional liquidity required to support the above;



- Procedures for:
 - complying with minimum legal and regulatory requirements and guidance in relation to liquidity;
 - monitoring, reviewing and reporting on the credit union's liquidity position against liquidity targets; and
 - regular stress testing of liquidity and scenario analysis taking account of potential risks;
- Contingency plans to be put in place if the liquidity targets are not met, including:
 - actions to be taken to protect the credit union's liquidity position;
 - raising of additional liquidity, if necessary; and
 - notifying the Central Bank where liquidity falls below the regulatory minimum;
- Reporting arrangements, including the frequency, form and content of reporting on the adequacy of liquidity to the board of directors; and
- The process and timelines for the approval, review and update of the liquidity management policy by the board of directors.

The Registry has the power to require credit unions to undertake stress tests to assess what would be the consequences for their liquidity if one or more scenarios were to arise.

The Registry monitors the large savers in credit unions and on January 1, 2016 implemented regulation 35 requiring that no member shall have total savings which exceed €100,000. Credit unions with over €100 million in assets can apply to the Central Bank to increase individual members' savings in excess of €100,000 where they can demonstrate that it is consistent with the adequate protection of the savings of members and effective and proportionate, having regard to the nature, scale and complexity of the credit union. Only 1.4% of the savings in credit unions is comprised of depositors with amounts over €100,000 and the risk of a single large depositor withdrawing their funds and affecting the stability of credit unions is neutralized.

Practical Compliance

The Registry supervisors monitor the liquidity in credit unions by reviewing the liquidity policy and asset/liability management policy and through an evaluation of the liquidity management and monitoring process. If within scope meetings with the chair and vice-chair of the board, the CEO, risk management officer, compliance officer and the internal audit function can also aid with the assessment of liquidity management.

At present credit unions have a sufficiently conservative investment and liquidity framework in place. However, experience from other jurisdictions has found that credit unions with significant liquidity and depressed margins at times go into more speculative investments (e.g., real estate development, low quality assets, equity investments in firms, etc.) to chase yields. As the low interest rate environment is likely to continue in the near to medium term, it will be critical that the sector maintains investments in lower risk assets.



13.3 The supervisor determines that credit unions have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the credit union's contingency funding plan is formally articulated, adequately documented and sets out the credit union's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the credit union's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the credit union's risk profile and systemic importance, the credit union's contingency funding plan is feasible and requires the credit union to address any deficiencies.

Legal & Regulatory Compliance

Sections 85A and 85B of the 1997 Act provide liquidity requirements and the Central Bank may, from time to time, require credit unions to undertake stress tests to assess the consequences for its liquidity, if one or more scenarios were to arise. The terms of the stress tests are set by the Central Bank and the requirements for stress testing are required to be effective and proportionate to the nature, scale and complexity of the credit union.

Practical Compliance:

Credit unions have access to the marginal lending facility to obtain overnight liquidity from the Central Bank against eligible assets.

The Registry has also conducted studies into the potential compliance of credit unions relative to the existing liquidity requirements and the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) that is applied to banks. The studies reveal that credit unions would comfortably meet the standards even if lending increased significantly.

Guiding Principle 14: Credit Risk

The supervisor should ensure that credit unions have policies and systems that are designed to provide satisfactory management of its loan portfolio and the risks to which they are exposed. It is essential that a credit union is able to manage its credit portfolio effectively, monitors the performance of the portfolio and pursues loans in default. The supervisor should also ensure that credit unions engage only in types of lending that their Boards understand and are capable of managing effectively, while avoiding areas that require expertise they do not possess.

Overall Rating: Largely Compliant

Summary Assessment



There has been improvement in the overall credit risk of the sector however, there is continued weakness in credit quality and credit risk management as noted in the Central Bank's reports below.

The Central Bank's report, "Financial Conditions of Credit Unions: 2013-2018" reports as at September 30/18 92% of the sector has Loan-to-Asset ratios of less than 40% with an overall sector average loan-to-asset ratio of 28%. There has been a decrease in loan-to-asset ratios as growth in savings have outpaced growth in loans with this ratio declining from 33% in 2013 to 27% in 2016. The trend is now moving in a positive direction. There is an increase in loan growth both in number, size, and maturity of loans as longer-term lending increases. The average loan size has increased from €6,300 in 2013 to €7,100 in 2018. Average loan arrears > 9 weeks have improved significantly from 19.1% in 2013 to less than 5.6% as at September 30/18, however remains elevated.

The Central Bank has implemented a risk-based assessment process to monitor credit risk in credit unions. Credit risk is a key area of focus of the Central Bank's supervisory engagements with credit unions. The "PRISM Supervisory Commentary 2019" report on issues arising from a sample of 2018 supervisory engagements records continued weakness in credit frameworks and underwriting practices across all sizes of credit unions. Common issues identified were in fundamental areas such as: errors in debt-to-income ratio calculations, lack of evidence of the assessment of member's ability to repay, and weakness and/or absence of documented rationale for credit decisions.

78% (32 out of 41) of sampled credit unions with assets of \geq €100 million that received a RMP were found to have credit risk issues in the areas of underwriting, management information/board oversight, and policy/process, with 76% (31 out of 41) found to have credit risk issues related to underwriting including; "widespread examples of issues, errors or miscalculations of debt-to-income ratios which are utilized as part of the loan assessment; evidence of weak and/or the absence of a documented rationale on file to support lending decisions made by the responsible officer; evidence that member's ability to repay was lacking or unable to be substantiated in numerous examples reviewed during loan file testing; and examples of failure to successfully secure a first legal charge on house loans issued by the credit union." (PRISM Supervisory Commentary 2019). It is noted that the 41 sampled credit unions represent 77% of the credit unions in this asset class as of the Dec. 31, 2018 Prudential Return.

60% (18 out of 30) of sampled credit unions with assets > €40 million and < €100 million that received a RMP were found to have credit risk issues in the areas of underwriting, management information/board oversight, and policy/process, with 53% (16 out of 30) related to underwriting similar to the issues noted above in the larger credit unions, (excluding house loans), and the absence of accounts/verifiable income for self-employed members.



53% (17 out of 32) of sampled credit unions with assets < €40 million that received a RMP were found to have credit risk issues in the areas of underwriting, management information/board oversight, and policy/process, with 22% (7 out of 32) related to underwriting, and a larger portion 34% (11 out of 32) related to policy/process issues including a small number of breaches of lending restrictions.

While the Central Bank noted examples of improving credit frameworks in some cases, it also noted that findings in relation to credit risk continue to highlight some basic weaknesses in credit frameworks and underwriting practices in many credit unions. The Central Bank noted its concern that such a large number of credit risk issues were found in the larger credit unions, and that breaches of lending restrictions were found in a small number of cases in the smaller credit unions.

There has been improvement in the number of lending restrictions outstanding as detailed in section 14.1 below.

There has been additional guidance provided by the Central Bank with Credit Union Handbook chapters on Lending, and Investments, and separate guidance on Long Term Lending and provisioning published.

The 2016 Regulations document the categories of lending, concentration limits, maximum exposures, and maturity limits for loan portfolios of credit unions. A review of the lending framework was undertaken by the Central Bank in 2018 resulting in Consultation Paper 125 - Consultation on Potential Changes to the Lending Framework for Credit Unions. These draft regulations propose removal of the existing long-term lending maturity limits, introducing maximum 10-year term on unsecured lending, introduction of a prescribed large exposure amount for credit unions, and introducing tiered combined concentration limits for commercial and house loans combined.

Credit unions as at March 2019 have 94% of loans outstanding in personal loan type lending (the majority is unsecured), 2% in commercial loans, and 4% in house loans. The changes proposed to the lending framework will assist credit unions in diversifying and growing their loan book to a certain extent.

14.1 The supervisor determines that a credit union's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming, identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.



Legal & Regulatory Compliance

The 1997 Act and the 2016 Regulations reference risk management policies, processes, and systems which would include credit risk management as noted below.

The 1997 Act and the 2016 Regulations require Board of Directors to:

- implement a risk management process that ensures all significant risks are identified and mitigated to level consistent with the risk tolerance of the credit union, as per section 55(3) of the 1997 Act,
- approve, review and update risk management plans, policies and procedures, as least annually, as per 46(2) of the 2016 Regulations,
- review, approve, and assess all elements, and the appropriateness of, the risk management system at least annually, as per 55(1)(l) of the 1997 Act,
- approve, review and update, at least annually, all plans, policies and procedures including; lending policies including lending limits, investment policies, and risk management policy, as per 55(1)(o) of the 1997 Act,

The 1997 Act and the 2016 Regulations require credit unions to:

- develop, implement, document and maintain a risk management system to identify, assess, measure, monitor, report and manage the risks that it is or might reasonably be exposed to, as per 76B of the 1997 Act,
- ensure the risk management system is clearly set out and documented and clearly set out the related tasks and responsibilities, as per 76B of the 1997 Act,
- report on the performance of loans to the board of directors on a monthly basis as per Part 4 of the 2016 Regulations.

The 1997 Act as per 63A sets out the requirements of the manager of the credit union to implement the strategies agreed by the board of directors to the standards set out in the strategic plan or as otherwise required by the board of directors.

Section 35 and 36 of the 1997 Act detail the requirements for making of loans and approval of loans.

The Central Bank has also issued additional guidance to credit unions through its Credit Union Handbook chapters on Lending, Investments, and Risk Management and Compliance.

Practical Compliance

The Central Bank supervision includes ongoing supervision through scheduled returns, including but not limited to the Prudential Return, to assess the effectiveness of the credit risk management of the credit union. Through PRISM alerts, key risk indicators are flagged and action required by the supervisor to investigate and address these identified risks which may result in implementing an RMP.



A cycle of mandatory onsite inspections is in place for the Medium Low Impact credit unions, those with assets \geq €100m. As part of an onsite inspection, the supervisor will scope the level of onsite work to be conducted as part of the inspection which is based on the risk profile of the credit union. This profile is determined through a review of the information received from the credit union prior to the inspection, the current financial position, the current probability risk ratings and any previous supervisory engagement with the credit union. Depending on the agreed scope, the onsite inspection may include meetings with key officers, a level of credit underwriting testing through sampling of loans issued and walkthroughs of credit operational process.

Desktop reviews are completed for smaller credit unions (<€ 100 million) with the frequency based on the risk profile of the credit union. The supervisor requests a level of documentation from the credit union including, but not limited to, reports from the risk, compliance and internal audit function, key credit union credit risk policies and financial projections. Regular PRISM Engagement meetings with the Chair and CEO are deemed a key component of the desk-based approach along with other key minimum tasks such as regulatory returns analysis and the year-end process which support this approach in the effective identification of risk.

For credit unions undergoing a transfer of engagement the intervention and restructuring supervisors perform an asset review including a review of the systems and controls for credit risk.

Where there are credit risk issues identified the Central Bank may implement investment or lending restrictions for a credit union. Approximately 13% of all credit unions are currently (September 2019) under some type of lending restriction. Approximately 7% of all credit unions are currently under a lending restriction for commercial lending activity. We note this is a significant improvement from the 2015 ICURN Peer Review when approximately 53% of all credit unions had some form of lending restriction, and of these credit unions with a lending restriction, approximately 67% had a restriction relating to commercial lending.

14.2 Laws, regulations or the supervisor require credit unions to have appropriate credit risk management processes that provide a comprehensive credit union-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the credit union, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.

Legal & Regulatory Compliance

The 1997 Act and the 2016 Regulations recorded in 14.1 are applicable for this section as well.



In addition, the board of directors is required to review and approve all elements of the risk management system on a regular basis to assess the appropriateness of the risk management system, taking account of any changes to the strategic plan including the credit union's resources or the external environment, and taking measures necessary to address any deficiencies identified in the risk management system, as per the 1997 Act, section 55(1)(l).

Practical Compliance

The Central Bank as part of its supervision model will assess the role of the board of directors and senior management in the approval, review, and implementation of the credit risk management processes.

Guiding Principle 15: Problem Assets, Provisions and Reserves

The supervisor should ensure that credit unions have adequate policies and processes for managing problem assets and make appropriate provision for such assets. It is essential for supervisory authorities to ensure that regulated institutions are adequately provisioned for troubled/problem loans and other impaired assets. Provisions must also be considered for untroubled loans to reflect historical loss experience and changes in economic conditions that may affect the quality of the loan portfolio as a whole. Some provision may be required for contingent liabilities, depending on the probability of a corresponding cash outflow.

Overall Rating: Compliant

Summary Assessment

The Central Bank through its' supervisory oversight, onsite engagements, and loan book reviews had taken an active stance in ensuring that credit unions have policies and processes in place for managing problem assets and establishing appropriate provisions. Where it is deemed the credit union does not have adequate provisions, and additional impairment charges are required that impact capital, the Central Bank has the authority under section 87 of the 1997 Act to issue a regulatory directive to restore the reserve position of the credit union.

The Central Bank has issued guidelines in 2018 to credit unions regarding the policies and procedures for an appropriate provisioning framework and ensuring an adequate level of provisions is held for the loan book and other impaired assets. It reinforces recognizing loan losses as early as possible within the accounting standards, adoption of a sufficiently conservative and comparable approach to the measurement and recognition of provisions, and appropriate disclosures to members. These guidelines also provide guidance on approaches to the calculation of provisions for the collective assessment of loans. Guidance also notes directors should take into consideration the level of risk inherent in the loan book, being mindful of the current economic and financial environment and historical loss experience. The impairment provision as part of this collective assessment will include provisions for currently performing loans based on probability that they will become nonperforming.



The Central Bank's report on the financial condition of credit unions from 2013 to 2018 indicates the average level of bad debt provisions to total loans has decreased from 19% in September 2013 to 8% in September 2018. With a reduction in loans in arrears during the same period, average arrears reduced from 19% to 6%, the average level of provision coverage on loans in arrears has increased from 119% in September 2013 to 171% in September 2018. These statistics record improvement in these financial indicators over this 5-year period.

15.1 Laws, regulations or the supervisor require credit unions to formulate policies and processes for identifying and managing problem assets. Criteria should be established for assets to be (a) identified as problem assets (e.g. a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and (b) reclassified as performing (e.g. a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected). In addition, laws, regulations or the supervisor require regular review by credit unions of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.

Legal & Regulatory Compliance

Credit unions have policies and processes for identifying and managing problem assets, and for regular review of these loans, provisions and write-offs, as per the legislation noted below.

Under section 76B(2) of the 1997 Act, Credit unions are required to develop, implement, document and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to.

Under section 108 of the 1997 Act, credit unions must cause proper accounting records to be kept on a continuous and consistent basis, entries are to be made in a timely manner, and must disclose with reasonable accuracy and promptness a true and fair view of the financial position of the credit union at any time.

Under Part 4, regulation 23 of the 2016 Regulations, a credit union is to establish and maintain a credit policy, credit control policy, and a provisioning policy.

Credit unions must also follow the current accounting standard Financial Reporting Standard 102 ("FRS 102"), which details the accounting standards for recognizing impairment, measuring impairment, and reversal of impairment loss. FRS 102 also requires that at the end of each reporting period a credit union is required to assess for objective evidence of impairment.



Practical Compliance

The Provisioning Guidelines for Credit Unions provide guidelines for assessing and calculating impairment provisions and sets out an approach for individual and collective impairment assessment.

The Central Bank provides additional guidance to credit unions on what to record in a provisioning policy including information on loan classification, reporting requirements, provisioning methodology, impairment assessment tools, loan default, loan write-offs and recoveries. This guidance recommends classifying loans as performing but in arrears when loans are up to 9 weeks in arrears with a higher provision than performing loans, loans > 9 weeks in arrears should be classified as non-performing with an increased provision, and loans in arrears > 180 days should have a 100% provision of the net value of the loan.

The Central Bank reviews the Prudential Returns, year-end accounts, internal/external reports and other information provided by Credit Unions as part of their supervisory requirements to assess the loan classification, adequacy of provisions, and write-offs. If deemed necessary the Central Bank may require a more in-depth review of the loan book by an independent external third party to assess the adequacy of provisions and write-offs which it has done in the past.

15.2 The supervisor determines that credit unions have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.

Legal & Regulatory Compliance

As part of its obligations under section 55 of the 1997 Act, the board of directors of a credit union must approve, review and update where necessary, but at least annually, lending policies, (which include a provisioning policy), and investment policies which should reflect the criteria and process relating to write downs and write-offs for loans and investments.

As noted in section 15.1 credit unions must also follow the current accounting standard FRS 102, which details the accounting standards for recognizing impairment, measuring impairment, and reversal of impairment loss. FRS 102 also requires that at the end of each reporting period a credit union is required to assess for objective evidence of impairment.

The Central Bank has indicated in guidance that the provisioning policy of a credit union should outline the credit union's approach to loan write offs. Guidance indicates that consideration should be given by the credit union on what is a reasonable time period for a loan to remain on the balance sheet after it has defaulted and before it is written off. The guidelines indicate that where a loan is in arrears of 53 weeks or more, that serious consideration should be given to writing off that loan.



Practical Compliance

Supervisors as part of their ongoing supervision may assess policies and processes, the adequacy of provisions and write-offs, and regular review of the level of provisions and write-offs to ensure these are updated in a timely manner. Through PRISM alerts, key risk indicators are flagged and action required by the supervisor to investigate and address these identified risks which may result in implementing an RMP. More in-depth analysis and intensity of supervision is completed through desktop reviews (credit unions < €100 million) and onsite inspections depending on the size, complexity and risk profile of the credit union.

15.3 The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g. if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the credit union to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.

Legal & Regulatory Compliance

Under section 87 of the 1997 Act the Central Bank has the power to give regulatory directions to require the credit union to apply a specified policy for making provisions for such debts or treatment of assets, as may be specified, for the purpose of capital and reserve requirements. Supervisors assess the adequacy of provisions as part of their on-going supervisory work. Where there are particular concerns on the adequacy of a credit union's provisions the credit union may be required to undertake a loan book review. Where such a review indicates that provisioning is not adequate a credit union is requested to reflect additional impairments arising from an asset review in its financial statements. These impairments may lead to a shortfall in reserves, resulting in a requirement for additional regulatory action. In such cases the Central Bank may issue a regulatory direction to a credit union directing it to restore its reserves position in order to meet regulatory reserve requirements.

Practical Compliance

The Intervention and Restructuring team may require credit unions with increased risk profiles under their supervision to obtain an asset review by an independent third party to ensure assets are appropriately classified and valued, to assess the adequacy of provisions, and write offs. The results of this review may necessitate direct intervention or restructuring options to be considered.

15.4 Provisions should also be considered for untroubled loans to reflect historical loss experience and changes in economic conditions that may affect the quality of the loan portfolio as a whole.



Legal & Regulatory Compliance

FRS 102, the current accounting standards, requires the use of an incurred loss approach to the calculation of impairment provisions on loans. The core principle with respect to impairment is that there must be objective evidence of impairment before a provision is recognized.

Section 11.21 of FRS 102 requires that at the end of each reporting period a credit union is required to assess for objective evidence of impairment. Where it is deemed that there is objective evidence of impairment, the credit union shall recognize a provision in the profit or loss immediately. In accordance with section 11.25 of FRS 102, the provision should be the difference between the carrying amount of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

Section 11.22 (e) permits that a provision may be required on a group of loans where there is observable data which indicates that there has been a measurable decrease in the estimated future cash flows on the group of loans since their initial recognition, even though the decrease cannot yet be identified with the individual loans in the group, such as adverse national or local economic conditions or adverse changes in industry conditions. This element of a credit union's overall provision is commonly known as incurred but not reported (IBNR).

Practical Compliance

As noted in the previous sections, the Central Bank's Provisioning Guidelines for Credit Unions provide guidelines for assessing and calculating impairment provisions and sets out an approach for individual and collective impairment assessment.

Guiding Principle 16: Large Exposures

The supervisor should set rules that define and limit the large exposures to which credit unions can be exposed and must have the power to intervene should these be breached. Credit unions must have appropriate and adequate policies and processes concerning large exposures (concentration risk).

Overall Rating: Compliant

Summary Assessment

The Central Bank has specific regulations in place for defining and limiting large exposures in both lending and investments of credit unions. The Central Bank has the authority to restrict the size and type of lending and/or restrict investments where there are concerns with the lending and/or investment practices of a credit union. Credit unions are required to have lending and investment policies in place which set out the lending limits, concentration limits for categories of lending and investments, and counterparty risk.

The Central Bank is currently reviewing changes to the lending framework as part of Consultation Paper 125 – Consultation on Potential Changes to the Lending Framework for Credit Unions. Draft regulations propose the introduction of a prescribed large exposure



amount for lending based on a percentage of regulatory reserves (2.5%), with increased monitoring and reporting requirements for large exposures. This change represents a change to current guidance for a single large exposure of 5% of regulatory reserves and will allow for the management and monitoring of borrower concentration risk by credit unions.

Credit unions are considered risk averse, however, as the need for increased income continues this may put additional pressure on increasing returns from investments and increasing large exposures and concentrations in the lending book.

Large exposures were a contributing factor in some credit union failures and the regulatory changes proposed indicate the Central Bank takes this risk seriously and has the necessary supervisory oversight in place to address this risk.

16.1 Laws, regulations or the supervisor set prudent and appropriate requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. “Exposures” for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. Laws or regulations explicitly define, or the supervisor has the power to define, a “group of connected counterparties” to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis. The supervisor determines that management monitors these limits and that they are not exceeded on a solo or consolidated basis.

Legal & Regulatory Compliance

The current regulations define large exposures, connected borrowers, and lending restrictions to a borrower or connected borrowers are in place. Regulations for concentration limits are in place for loan portfolios. On the investment side regulations define counterparty, counterparty limits, concentration limits for various classes of investments, and restrictions on types of investments. Off-balance sheet transactions are not typical within the system with only 1 credit union reporting an off-balance sheet item as at Sept. 30/18 on the Prudential Return. Credit unions are required to document lending limits, concentration limits, and loan portfolio diversification and report on loan performance to the Board of Directors monthly. Boards of Directors are required to approve and review lending limits and policies at least annually.

The Central Bank has provided guidance in the Credit Union Handbook in the lending chapter on large exposures and connected borrowers. Credit unions are required to document in writing the assessment undertaken to determine whether or not borrowers constitute a group of borrowers who are connected during the underwriting process.

Credit unions are required to have a written investment strategy to manage concentration risk and ensure investment are within regulatory limits. The Board of Directors are required to approve and review investment policies at least annually.



The Central Bank has provided guidance in the Credit Union Handbook in the Investments chapter on investment policies including; classes of investments, counterparty limits, concentration limits, and concentration risk.

Lending

Section 35(1)(a) of the 1997 Act defines a “large exposure”, “in relation to loans of a credit union to a borrower or a group of borrowers who are connected, means the total exposure (including contingent liabilities) of the credit union where the total exposure to such borrower or group of borrowers would be greater than an amount (whether expressed as a monetary amount or as a percentage of some monetary amount or determinable monetary amount) prescribed by the Bank.”

Section 35 (1)(b) defines “group of borrowers who are connected” as “2 or more persons—
(i) who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other person or persons (not being individuals); or
(ii) between whom there is no relationship of control as set out in subparagraph (i), but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other person or some or all of the other persons would be likely to encounter repayment difficulties.”

Under regulation 13(1) of the 2016 Regulations a credit union is prohibited from making a loan to a borrower or a group of borrowers who are connected, which would cause the credit union to have a total exposure to the borrower or group of borrowers who are connected, which would exceed whichever is the greater of:

- (a) €39,000; or
- (b) 10% of the regulatory reserves of the credit union.

Regulation 12 of the 2016 Regulations provides concentration limits for certain categories of lending, including commercial lending.

Regulation 17(2)(a) of the 2016 Regulations requires credit unions to document in writing the credit union’s lending limits in respect of credit concentration and loan portfolio diversification including the maximum amount of commercial lending, community lending and lending to other credit unions.

As per regulation 16(2) of the 2016 Regulations, credit unions are required to report, in writing, on the performance of loans to the board of directors of the credit union on a monthly basis (including details on the performance of commercial loans, community loans and loans to other credit unions).



Section 35(10) of the 1997 Act provides that a credit union is required to ensure that it has appropriate processes, procedures, systems, controls and reporting arrangements to monitor compliance with the requirements under section 35 of the 1997 Act.

As part of its obligations under section 55 of the 1997 Act, the board of directors of a credit union must approve, review and update where necessary, but at least annually, lending policies, including lending limits.

Investments

The investments framework includes: a definition of a “counterparty”, classes of permissible investments, limits on the percentage of total investments which can be invested in a counterparty, limits on direct investment in corporate bonds issued by a counterparty and concentration limits for certain categories of investments.

Under regulation 26(1) of the 2016 Regulations (as amended), a credit union is prohibited from making an investment with a counterparty which, were the investment to be made, would cause the investments with that counterparty to exceed 20 per cent of the credit union’s total value of investments.

Regulation 26(2) of the 2016 Regulations (as amended) prohibits a credit union from making a direct investment in corporate bonds issued by a particular counterparty which, were that investment to be made, would cause the credit union’s direct investments in corporate bonds (issued by that counterparty) to exceed 5 per cent of the total value of the credit union’s regulatory reserve.

Furthermore, regulation 27 of the 2016 Regulations (as amended) includes limits on exposures to specified classes of investments.

Credit unions are required, pursuant to regulation 32 of the 2016 Regulations, to establish and maintain a written strategy (having regard to section 43 of the 1997 Act), to manage concentration risk which can result from dealing with a single counterparty or holding investments with similar characteristics like maturities and to ensure investments remain within the limits contained in these Regulations.

In addition, under section 55(1)(o)(i) of the 1997 Act, the board of directors of a credit union must also approve, review and update where necessary, but at least annually, investment policies.

Practical Compliance

The Central Bank monitors large exposures through reviewing the credit unions' quarterly Prudential Return and adherence to limits and guidance. More in-depth analysis and intensity of supervision is undertaken through desktop reviews and onsite inspections depending on the



size, complexity and risk profile of the credit union. Where there are deficiencies or breaches identified an RMP is implemented with the credit union which identifies the issues and the mitigating action to be taken within a specified timeline. Follow up of outstanding RMPs is undertaken to ensure implementation of the required action and compliance is achieved before closing any RMP actions.

The Central Bank may also impose administrative sanctions or issue regulatory directives in the case of breaches of limits.

Where the Central Bank has concerns relating to a credit union's lending exposures, it has the power to issue a lending restriction to restrict the size or type of lending which the credit union may undertake. As at 4 September 2019, 7% of all credit unions had a restriction on commercial lending activity while 13% of all credit unions had a restriction on the largest loan that can be issued.

16.2 The supervisor determines that a credit union's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the credit union's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the credit union's policies and processes require all material concentrations to be regularly reviewed and reported to the credit union's Board.

Legal & Regulatory Compliance

The 1997 Act and the 2016 Regulations require Board of Directors to:

- implement a risk management process that ensures all significant risks are identified and mitigated to level consistent with the risk tolerance of the credit union, as per section 55(3) of the 1997 Act,
- approve, review and update risk management plans, policies and procedures, as least annually, as per 46(2) of the 2016 Regulations,
- review, approve, and assess all elements, and the appropriateness of, the risk management system at least annually, as per 55(1)(l) of the 1997 Act.

The 1997 Act and the 2016 Regulations require credit unions to:

- develop, implement, document and maintain a risk management system to identify, assess, measure, monitor, report and manage the risks that it is or might reasonably be exposed to, as per 76B of the 1997 Act,
- ensure the risk management system is clearly set out and documented and clearly set out the related tasks and responsibilities, as per 76B of the 1997 Act,
- communicate the risk management policy to all officers of the credit union including any updates, and following the review, approval and update by the board of directors required at least annually, as per 46(2) of the 2016 Regulations,



- submit an annual compliance statement to the Central Bank certifying compliance with regulations, as per 66C of the 1997 Act.

The Central Bank has provided additional guidance in the Credit Union Handbook in the Risk Management and Compliance chapter indicating that the risk management process should be comprehensive and take a credit union-wide view of all material risks and describes key risks to be considered. Risk tolerance statements are to be documented recording the quantified level of risk that the credit union is willing to accept in various risk areas.

This guidance sets out that the systems and controls to be put in place under section 76B of the 1997 Act should:

- Include checking for compliance with limits and follow up on non-compliance; and
- Ensure that there should be effective channels of communication to ensure officers fully understand and adhere to policies and procedures affecting their duties and responsibilities.

In addition, Central Bank guidance sets out specific responsibilities for the risk management officer including:

- Communicating the risk management policy, process and roles and responsibilities relating to officers of the credit union; and
- Providing training and support in the area of risk management to officers of the credit union.

Additionally, the risk management officer should provide reports on a monthly basis to the board of directors (or risk committee where one exists) covering areas including likely or actual deviations from risk tolerance levels or established systems and controls.

Practical Compliance

The Central Bank reviews the risk management policies and Board and committee reporting packages during supervisory engagements and will determine if there has been annual approval by the Board of Directors. Onsite inspections allow discussion with credit union staff to ascertain if the risk management policies and processes are understood and communicated to relevant staff.

The Central Bank also reviews the quarterly Prudential Returns and the annual compliance statements to assess for compliance with the regulations and that any noncompliance issues are addressed through issuance of an RMP, if required.

The concept of risk tolerances and appetite statements is not fully understood by all credit unions and Directors. Elevation of risk management has been a focus in the many forums including a key message in the Registrar's speeches to the sector. The representative bodies and support organisations also recognize the need for training for credit union Directors and provides courses in this area.



Guiding Principle 17: Major Acquisitions

The supervisor should have the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and to impose prudential conditions on, major acquisitions or investments by a credit union, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the credit union to undue risks or hinder effective supervision.

Overall Rating: Compliant

Summary Assessment

Credit unions are autonomous entities that cannot operate on a group or cross border basis. The legal framework for credit unions, including the membership and common bond requirements, does not facilitate the acquisition of other types of businesses by credit unions.

Where credit unions wish to merge/acquire other credit unions there are two options under the 1997 Act. Credit unions may amalgamate or a credit union may transfer its engagements to another credit union. Where one credit union transfers its engagements to another credit union, this can be classified as a 'major acquisition' in the context of this guiding principle. To date, all mergers/acquisitions have been by way of transfer of engagements. The 1997 Act sets out the powers of the Central Bank to approve credit union mergers/acquisitions.

17.1 Laws or regulations clearly define: (a) what types and amounts (absolute and/or in relation to a credit union's capital) of acquisitions and investments need prior supervisory approval; and (b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to credit union business and where the investment is small relative to the credit union's capital.

Legal & Regulatory Compliance

Amalgamations and transfer of engagements between credit unions requires the Central Bank's confirmation as noted in sections 128 (Amalgamation of credit unions) and 129 (Transfer of engagements between credit unions) of the 1997 Act, prior to registering the applicable approval.

Section 130 requires credit unions proposing to amalgamate or transfer engagements to issue a statement for members setting out certain specified information (e.g. financial statements, proposed payments to members, any changes to outstanding loan terms, staffing, etc.), and the notice of resolution passed by the board of directors approving the transfer of engagement (where appropriate) within 7 days following the date of the board meeting where the resolution was passed.

Section 131 details the application process for the confirmation of a transfer of engagements or amalgamation by the Central Bank.



Section 132 sets out requirements surrounding the distribution among any of the members of the participating credit unions of part of the funds of one or more of those credit unions in consideration of the amalgamation or transfer where the terms of an amalgamation of, or transfer of engagements between, credit unions include provision for such distribution.

Section 136 of the 1997 Act outlines restrictions on the dissolution or cancellation of registration.

Practical Compliance

To date, all mergers/acquisitions have been by way of transfer of engagements. Amalgamations are considered joining of equals and are more onerous due to the additional regulatory requirements, as a new credit union is established in this process.

The Central Bank has provided guidance in the Credit Union Handbook in the Transfer of Engagements and Amalgamations chapter, and further details of the procedures to be followed in the process in the publication, Transfer of Engagements: Explanatory Note and Related Forms. This explanatory note is a good resource for credit unions in understanding the process and steps required in a transfer of engagements.

Under section 129(1) of the 1997 Act a decision to undertake a transfer of engagements may be approved by a resolution of the board of directors instead of requiring a special resolution approved by three quarters of the members at an annual general meeting or special general meeting where the Registry considers it expedient.

17.2 Laws or regulations provide criteria by which to judge individual proposals.

Legal & Regulatory Compliance

Under the 1997 Act, credit unions must meet a number of requirements before an amalgamation or a transfer of engagements may take place as per sections 128-132, and 136 detailed under Guiding Principle 17.1 above. The Central Bank ensures that these requirements are met during the transfer/amalgamation process.

Practical Compliance

The Central Bank has provided guidance in the Credit Union Handbook in the Transfer of Engagements and Amalgamations chapter, and further details of the procedures to be followed in the process in the publication, Transfer of Engagements: Explanatory Note and Related Forms.

The transfer of engagement process includes key steps of: initial discussion and review of a high level business case, asset review by both the transferee and the transferor, due diligence review by both the transferee and the transferor, completion of a detailed business and



integration plan, approval by special resolution or resolution of the board of directors of the transfer, confirmation of the transfer, and cancellation of the registration of the transferor credit union.

The Central Bank has developed an internal process document to assist supervisors in the Intervention and Restructuring team in assessing transfer of engagement proposals on a consistent basis. It documents the steps to be completed before the legal transfer of engagement process begins. This includes a desk-based suitability assessment to determine if there are any significant areas of concern which could not be sufficiently mitigated that would preclude the transfer from proceeding supported by an examination by the Registry of a detailed business plan.

The Irish Government established a Commission on Credit Unions (“CCU”) in 2011 to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for credit unions. A core recommendation of CCU was that the credit union sector should be restructured and that this should be achieved on a voluntary, incentivized and time-bound basis. Arising from this recommendation a statutory body, ReBo, was established in January 2013 as an independent body set up to facilitate and oversee the restructuring of credit unions in accordance with Part 3 of the 2012 Act. ReBo ceased operations in March 2017, supporting 117 transfer of engagements with 82 completed during its operation from 2013-2017. The Central Bank continues to have the legal responsibility to confirm any transfer of engagements in accordance with the 1997 Act.

From January 2008 to September 2018, 154 transfer of engagements were completed, with 135 occurring between 2013 and 2018. The timeframe for completion of transfer of engagements is typically 6-9 months however, can be extended depending on the scale and complexity of the transaction as well as other factors.

17.3 Consistent with the licensing requirements, among the objective criteria that the supervisor uses are that any new acquisitions and investments do not expose the credit union to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future. The supervisor can prohibit credit unions from making major acquisitions/investments in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis.

Legal & Regulatory Compliance

As part of the assessment of the suitability of the transfer of engagements proposal, the Central Bank ensures that any transfer of engagements would not expose the credit unions involved to undue risks. This includes an assessment of areas of potential risk, including an assessment of



the combined entity's ability to comply with regulatory requirements and the proposed governance structure of the combined entity.

The criteria against which any proposal for a transfer of engagements is assessed is set out in an internal process document and the justification memo (which is sent to the Registrar of Credit Unions for review/approval) in relation to the proposed transfer of engagements. Through a detailed examination of all information provided as part of the proposal and based on the information available, the Central Bank determines that the transfer of engagements is acceptable and should proceed by way of members' resolution or board resolution.

Group/Cross-Border operations

Credit unions are autonomous entities that cannot operate on a group or cross border basis. As a result, the criteria on prohibition of credit unions from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision or consideration of the effectiveness of supervision in the host country or its own ability to exercise supervision on a consolidated basis are not applicable.

Practical Compliance

The Central Bank reviews the transfer of engagements requests on a case by case basis and based on their review, at various stages in the process, determines if the proposed transfer of engagements should proceed. There have been a number of transfers that have not proceeded due to issues identified by the Central Bank. In other cases, an RMP was issued by the Central Bank to the credit union to address the risks identified in the credit union and the actions required to mitigate these risks.

Pillar IV Supervisory Powers, Responsibilities & Approach Guiding Principles 18 to 23

Guiding Principle 18: Supervisory Powers & Responsibilities

The supervisor should have:

- clearly-defined responsibilities and objectives;
- operational independence, transparent processes, sound governance, adequate resources and legal protection for its staff;
- all financial, human and technological resources necessary fully to discharge its responsibilities;
- complete and unfettered access to credit unions, their premises and records, (and any subsidiaries) as it considers necessary;
- the power and the resources to guarantee access to credit unions where this is not provided; and
- the legal capacity to share information while protecting the confidentiality of such information.



The supervisor should be publicly accountable in the discharge of its duties.

Overall Rating: Compliant

Summary Assessment

As a statutory body, the Central Bank has a defined mandate for its supervision of credit unions; this is a matter of public record, as is the approach and objectives that apply. Although the Central Bank is obliged to operate independently, by international standards its supervision of credit unions is subject to a high degree of scrutiny at all levels, to which it responds with a strong level of engagement and transparency. The Central Bank engages with Government, the Legislature, the sector, and the public on matters of concern.

The Central Bank has appropriately qualified, well-trained, and supported staff with those resources required to discharge its responsibilities for credit union supervision. This is complemented by an appropriate and useful suite of statutory powers and resources that ensure that it has all necessary access to entities, individuals and records, together with the ability to make confidential disclosures of information where required or otherwise appropriate.

The Central Bank is an independent statutory body and is the single competent authority responsible for credit union supervision. Supervisory responsibility is clearly defined in the 1997 Act, section 84 of which gives the Central Bank the objective to “administer the system of regulation and supervision of credit unions provided for by or under this Act with a view to:

- the protection by each credit union of the funds of its members, and
- the maintenance of the financial stability and well-being of credit unions generally”.

The performance and exercise of the functions and powers of the Central Bank under the 1997 Act have been delegated to the Registrar of Credit Unions under section 33AA of the Central Bank Act, 1942.

The responsibilities and objectives of the Central Bank are clearly set out in legislation (in particular the 1997 Act in respect of credit unions) and are also published in the Central Bank’s Annual Report and Strategic Plan. The Central Bank also has broader responsibilities, including, among other things, monetary policy (as part of the European System of Central Banks (ESCB)), financial market operations, payments and settlements, and other financial services supervision. The Central Bank is also a competent authority, under the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, for Anti-Money Laundering and Terrorist Financing. Credit union supervision is not subordinate to any of these, or to the other responsibilities of the Central Bank. In particular, the Central Bank’s stated objective – the proper and effective regulation of financial institutions and markets, while ensuring that the best interests of consumers of financial services are protected – is not in conflict. The protection of members is firstly and most effectively provided through safe and sound credit unions.



The Central Bank and its employees have statutory protection from being liable in damages for actions carried out while performing the functions of the Central Bank provided that they have not acted in bad faith.

The Central Bank has powers to inspect the books, records and management of credit unions. In addition, the Central Bank (Supervision and Enforcement) Act 2013 provides the Central Bank with powers of inspection for authorised officers. The Central Bank also has the power to appoint an authorised officer to carry out and report on an inspection of a credit union (under section 90 of the 1997 Act) and exercise any of the powers of an authorised officer under Part 3 of the Central Bank (Supervision and Enforcement) Act 2013. The Central Bank can also require a credit union to instruct a third party, “a skilled person” to prepare a report into one or more issues and processes under provisions of the Central Bank (Supervision and Enforcement) Act 2013.

The Central Bank has powers to take action against credit unions in breach of regulatory requirements, including where it is necessary to undertake timely corrective actions to address safety and soundness concerns. The Central Bank may give regulatory directions to a credit union under section 87 of the 1997 Act and section 45 of the Central Bank (Supervision and Enforcement) Act 2013 in certain circumstances, including where the Central Bank is satisfied that the credit union has failed to comply with the requirements imposed under financial services legislation. The Central Bank and Credit Institutions (Resolution) Act 2011 established an effective resolution and liquidation regime for dealing with failing credit unions, and for protecting financial stability of the credit union sector.

The 1997 Act, together with the 2016 Regulations, set out the framework for the registration, regulation, supervision and operation of credit unions. Section 182A of the 1997 Act provides the Central Bank with a general power to make regulations which can be made for all credit unions, a category of credit unions or categories of credit unions. Furthermore, pursuant to the 1997 Act, the Central Bank has the power to issue regulations on prudential areas including: lending, savings, investments, borrowings, liquidity and reserves. This is in addition to the general regulation making powers which the Central Bank has under section 27A of the 1997 Act regarding the protection of members' savings and Part 8 of the Central Bank (Supervision and Enforcement) Act 2013.

The Central Bank's aim is to promote a financially stable credit union sector that operates in a transparent and fair manner and safeguards its members' funds.

The Central Bank is held accountable in a number of ways, for example by the requirement to prepare a three-year strategic plan for submission to the Minister for Finance.

The Central Bank has transparent processes and annually publishes its objectives and the extent of achievement of those objectives. The Central Bank has a clearly defined Governance Framework. The Governance Framework takes account of the requirements of the Central Bank Acts and the EU Treaties (the Treaties) (including the requirement for the Central Bank



to be independent), the Code of Practice for the Governance of State Bodies 2016 and other internal governance arrangements in the Central Bank.

There is on-going manpower planning within the Central Bank to ensure that resources continue to be adequate. The allocation of resources takes account of the Bank's strategic themes and priorities.

The Central Bank provides confidential information to other supervisors and Irish authorities, in specified circumstances and in accordance with appropriate legal and confidentiality safeguards, in accordance with Section 33AK of the Central Bank Act, 1942.

18.1. The responsibilities and objectives of each of the authorities involved in credit union supervision are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the credit union sector, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.

Legal & Regulatory Compliance

The Central Bank is the single competent authority responsible for credit union supervision. Its overall responsibilities are largely defined in legislation section 6A(2)(b) of the Central Bank Act, 1942 and as such are publicly disclosed.

Specifically, in relation to credit unions, section 84 of the 1997 Act designates the Central Bank as the authority responsible for administering the system of regulation and supervision of credit unions with a view to:

- the protection by each credit union of the funds of its members; and
- the maintenance of the financial stability and well-being of credit unions generally.

The Central Bank is also the competent authority under the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, for supervision of compliance by credit and financial institutions, including credit unions, with obligations imposed by the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010.

The Central Bank Act, 1942 delegates the responsibility for the performance of the Central Bank's functions under the 1997 Act to the Registrar of Credit Unions.

Practical Compliance

The 1997 Act, together with the 2016 Regulations, set out the framework for the registration, regulation, supervision and operation of credit unions. Section 182A of the 1997 Act provides the Central Bank with a general power to make regulations which can be made for all credit unions, a category of credit unions or categories of credit unions. The 1997 Act gives the Central Bank the power to issue regulations on prudential areas including: lending, savings, investments, borrowings, liquidity and reserves. Furthermore, Part 8 of the Central Bank (Supervision and Enforcement) Act 2013 gives the Central Bank a broad power to issue



regulations for the proper and effective regulation of regulated financial service providers. This is in addition to the general regulation making powers which the Central Bank has under section 27A of the 1997 Act regarding the protection of members' savings.

18.2. Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for credit unions. The supervisor has the power to increase the prudential requirements for credit unions based on their risk profile and systemic importance.

Legal & Regulatory Compliance

The 1997 Act provides the Central Bank with certain regulation making powers including power to make regulations in relation to lending, savings, investments, borrowings, liquidity and reserves. The Central Bank (Supervision and Enforcement) Act 2013 also provides powers to the Central Bank to make regulations for all regulated financial services providers (including credit unions). Regulations can be made for all credit unions, a category of credit unions or categories of credit unions; when making regulations under the 1997 Act the Central Bank must have regard to the nature, scale and complexity of credit unions.

Practical Compliance

Minimum prudential standards may be set in primary legislation (e.g. the 1997 Act), or secondary legislation (e.g. Statutory Instruments containing regulations, such as S.I. No. 1 of 2016 on regulatory requirements for credit unions). This power gives the Central Bank flexibility in setting minimum prudential standards for credit unions and to increase the prudential standards for the sector, if required. In addition, specific requirements may be attached as a condition on the registration of a credit union, although this power has not yet been exercised by the Registry.

The implementation in 2016 of powers under the 1997 Act to make regulations has proved to be advantageous, not least by introducing enhanced regulatory flexibility. All proposed regulations are subjected to full public consultation which benefits the development of regulations by helping to ensure proposals are correctly framed and proportionate. The high level of sector engagement is also valued by the Registry for the quality and thoughtfulness of responses and the rise in understanding of complex issues that is increasingly evident in submissions.

The Central Bank may require a credit union to implement an RMP. For more serious issues the Central Bank has the power to enforce prudential standards by imposing regulatory directions on credit unions, issuing a supervisory warning or by taking an enforcement action under the Central Bank's administrative sanctions procedure. Certain breaches of prudential standards are also criminal offences whereby a prosecution can be taken by the Central Bank or the Director of Public Prosecution.

18.3. Processes are in place for the supervisor to support resolution authorities (e.g. central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions.



Legal & Regulatory Compliance

The resolution powers under the Central Bank and Credit Institutions (Resolution) Act 2011 are vested in the Central Bank, whose Governor is responsible for the exercise of the Central Bank's functions under the Act. The Resolution and Crisis Management Division (RES) carries out the resolution functions of the Central Bank under the Act but the ultimate decision whether or not to resolve a credit union (or liquidate a 'designated credit institution') remains with the Governor. Following the transposition of the Bank Recovery and Resolution Directive into Irish law, the 2011 Act (apart from Part 7 (Winding-up)) now only deals with the resolution of credit unions. The 2011 Act makes intervention conditional on the Central Bank having consulted the Minister for Finance.

The European Union (Deposit Guarantee Schemes) Regulations 2015 (the DGS Regulations) entered into force on 20 November 2015 and transposed the Deposit Guarantee Schemes Directive (2014/49/EU) into Irish law. The DGS Regulations introduced changes to funding requirements, a reduction in pay-out deadlines and harmonisation of eligibility categories. In addition, new depositor information requirements have been introduced in order to ensure that depositors are aware of the key aspects of protection of their deposits by the DGS.

Practical Compliance

The supervisory function and RES are operationally separate. The Registry collaborates with RES in terms of information sharing at an early stage in the resolution process. In order to formalise this collaboration, a protocol has been put in place between the supervisory function and RES, setting out the principles that have been agreed between the Registry and RES for the exchange of information and co-operation at all stages of the resolution process.

The DGS is administered by the Payment and Securities Settlements Division (PSSD), and RES and the supervisory function works closely with them in relation to prospective credit union resolution cases to ensure that preparatory planning takes account of ensuring members would be compensated in a timely manner. There is also a Central Bank 'Resolution Committee' that handles resolution cases operationally and advises the Governor on issues central to the fulfilment of the Central Bank's role.

Resolution action, by way of liquidation or transfer of engagements, has been taken by the Central Bank in six instances since 2013.

18.4. The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on credit unions under its supervision. The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives.

Legal & Regulatory Compliance



The Central Bank is an independent statutory body that must act in accordance with the TFEU and the ESCB Statute and within the confines of the statutory regime of Irish financial services law (primarily the Central Bank Act 1942 and the designated enactments and statutory instruments listed in Schedule 2 of that Act, including the 1997 Act). The 2011 Act provides the Central Bank with resolution powers to effectively and efficiently resolve authorised credit unions that are failing or are likely to fail, while also seeking to protect the taxpayer, the stability of the financial system and the economy. This empowers the Central Bank to take resolution actions based on its assessment of the difficulties facing a credit union.

The Central Bank is held accountable in a number of ways:

- **Strategic Plan:** the requirement to prepare a three-year strategic plan for submission to the Minister for Finance;
- **Annual Report and Annual Performance Statement:** the Central Bank is required to prepare a report of its activities during the year and present this report to the Minister for Finance within six months after the end of each financial year. Furthermore, the Central Bank is required to prepare an annual performance statement on the regulation of financial services, which includes the annual report prepared by the Registrar of Credit Unions, for submission to the Minister for Finance by 30 April each year, and
- **Peer Review:** the requirement at least every four years to arrange for an international peer review of the Central Bank's regulatory performance.

In relation to credit unions, the Registrar of Credit Unions must submit to the Central Bank an annual report specifying the activities of the Registrar during that year and a draft work plan outlining the objectives of the Registrar for the financial year concerned. The Registrar of Credit Union's annual report and strategic plan are included as part of the Central Bank's annual report and strategic plan.

Section 84A of the 1997 Act requires that before making regulations the Central Bank shall consult with the Minister for Finance, the Credit Union Advisory Committee and any other body that appears to the Central Bank to have expertise or knowledge of credit unions generally. Every order or regulation made under the 1997 Act must be laid before each House of the Oireachtas as soon as practicable after it is made and either House of the Oireachtas may, annul the regulation or order (by way of resolution) within 21 days of that being done.

Regulations issued under section 48 of the Central Bank (Supervision and Enforcement) Act 2013 or under the 1997 Act must also be laid before the Houses of the Oireachtas.

The Central Bank has a clearly defined Governance Framework which is published on the Central Bank's website. The governance framework takes account of the requirements of the Central Bank Acts and the EU Treaties (the Treaties) (including the requirement for the Central Bank to be independent), the Code of Practice for the Governance of State Bodies 2016 and other internal governance arrangements in the Central Bank. The process for the



appointment, cessation, removal, suspension of the Registrar of Credit Unions is set out in section 33X of the Central Bank Act, 1942.

The framework by which the Registrar of Credit Unions establishes and enforces minimum prudential standards for credit unions is set down in legislation and regulations which are updated as and when required. Section 27A of the 1997 Act provides the Central Bank with regulation making powers relating to inter alia: policies, procedures, processes, practices, systems and controls. Section 182A of the 1997 Act provides the Central Bank with a general power to make regulations. Furthermore, the 1997 Act provides the Central Bank with specific regulation making powers in the areas of lending (section 35), savings (section 27), investments (section 43), borrowings (section 33), liquidity (sections 85 and 85A) and reserves (section 45). When making regulations, the Central Bank has the power to apply them either generally or by reference to a specified category or categories of credit unions, or to a specified time or times, or during a specified period or periods or by reference to any other matter as the Central Bank may consider appropriate.

The Central Bank (Supervision and Enforcement) Act 2013 provides additional regulation making powers to the Central Bank for all regulated financial services providers (including credit unions).

The Central Bank has the power to take action against a credit union, including imposing financial penalties and ultimately revoking the registration of a credit union. Certain decisions of the Central Bank relating to credit unions, including those set out in section 52 of the 1997 Act, may be appealed to the Irish Financial Services Appeals Tribunal. The decisions making process of the Central Bank can also be judicially reviewed.

Practical Compliance

In circumstances prescribed by statute the Central Bank is required to consult with, or in specific circumstances receive approval from, the Minister for Finance. While the Central Bank consults with credit unions and credit union bodies (and is required to consult with certain parties when making regulations), such participants do not have any authority to interfere in the decision-making processes of the Central Bank.

The Governor, a Deputy Governor or the Registrar may be obliged to attend before a Joint Committee of the Oireachtas responsible for examining matters relating to the Central Bank and to provide that committee with such information as it requires, subject to the TFEU and the ESCB Statute and to the Central Bank's professional secrecy and confidentiality obligations, including information relating to the Central Bank's performance statement.

The Governor or a Deputy Governor may also be requested to attend before an Oireachtas Committee to provide that committee with information. In such circumstances, the Governor or Deputy Governor shall appear before the committee and provide the committee with such information as it can about the Central Bank's statutory performance statement, subject to the Central Bank's professional secrecy and confidentiality obligations.



The Central Bank Commission is responsible for ensuring that the statutory functions of the Central Bank are properly discharged. Its Minutes are publicly available *via* the Central Bank's website.

The Central Bank's regulatory strategy for the credit union sector is a matter of public record and is based on the principle that strong, well governed credit unions should remain an important part of the financial landscape in Ireland. The Registry of Credit Union's vision for "Strong Credit Unions in Safe Hands" is supported by four key strategic priorities:

- Inspections and Supervision;
- Intervention and Restructuring;
- Regulatory Development and Safety Nets; and
- Business Model Engagement.

These four strategic priorities ensure that the Registry of Credit Union's prudential agenda towards the sector:

- enables stronger credit unions to undertake transfers of engagement of weaker credit unions and to engage in business model development activity, on a basis that serves members' needs sustainably;
- continues to enhance and review the Policy Framework taking account of credit unions risks and capabilities; and applies risk-based supervision to ensure all credit unions have effective governance, risk management and control arrangements.

18.5. The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest.

Legal & Regulatory Compliance

The performance and exercise of the functions and powers of the Central Bank under the 1997 Act have been delegated to the Registrar of Credit Unions under section 33AA of the Central Bank Act, 1942. These powers include the power to register a society under the 1997 Act as a credit union, petition the High Court to appoint an examiner and wind up a credit union, give regulatory directions to credit unions, and the power to make regulations.

In addition to the delegation of powers to the Registrar of Credit Unions of the functions and powers of the Central Bank under the 1997 Act, section 18F of the 1942 Act provides the Commission of the Central Bank with a power to delegate its functions and powers to the Governor, a Deputy Governor, or an employee of the Central Bank. Such delegations are made in the interests of the efficient and effective management of the Central Bank, and to ensure the proper exercise and discharge of the Central Bank's functions and powers. To that end, the



exercise of most of the Central Bank's statutory functions and powers has been delegated by the Commission.

Practical Compliance

The governance structure of the Central Bank is structured to ensure that decisions are taken at the appropriate level and in a timely manner, this is evidenced in a number of ways:

The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at the appropriate level depending on the significance of the issue. Decisions are escalated from the Registry of Credit Union's supervisors to his/her line manager and, if necessary, to senior management in the Registry and certain committees/panels of the Central Bank (as detailed further below) depending on the seriousness of the supervisory decision to be taken. Advice is also sought, as required, regarding supervisory decisions from the Legal and Enforcement divisions of the Central Bank.

Risk Governance Panels (RGP) bring together a wide variety of experience and expertise to assist supervisors in reaching high quality supervisory judgements. RGP meetings are designed to facilitate constructive challenge and engagement between the supervision team and the panel, and to give an opportunity for different ideas and approaches to be tested and approved through informed discussions. The frequency of RGP meetings is a function of the Impact Rating of the specific credit union. However, there are at least annual supervisory contacts with credit unions through the quarterly reporting, annual audits, AML/CFT visits and meetings with the CEO and chair.

While the Commission has delegated the exercise of the majority of the functions and powers of the Central Bank and has approved the Plan for the assignment of such responsibilities, the Commission retains overall responsibility for the performance of such functions and for ensuring that the powers and functions conferred on the Central Bank (other than those in respect of which responsibility is conferred solely on the Governor) are being effectively managed and controlled. Furthermore, the Commission retains the power to exercise any of those functions and powers of the Central Bank that it has delegated from time to time by the Commission where it considers it appropriate to do so. In this regard, the Commission may impose conditions, limitations, or restrictions on the performance or exercise of functions or powers delegated. In appropriate cases, the Commission may review decisions taken or things done in the performance or exercise of any delegated function or power.

Provisions exist for decisions to be taken by specified staff, thus ensuring that decisions are taken at the appropriate level. A number of senior committees have been established by the Central Bank: the Policy Committee, the Supervisory Risk Committee, the Financial Stability Committee, the Financial Regulation Oversight Committee and the Financial Regulation Framework Committee.



The Central Bank Commission has adopted its own Code of Conduct and Ethics for Members of the Commission which is available on the Central Bank's website. Commission members are expected to read and sign the Code of Conduct and Ethics to indicate their understanding and acceptance of its provisions. Furthermore, Commission members must observe and uphold the collective responsibility of the Commission and any committee of which they are a member. Commission members are required to discharge their duties and responsibilities with high standards of integrity and be guided in their actions by the provisions of the Central Bank's legislative environment.

The Central Bank ensures that conflict of interest issues do not arise through a number of means including legislation and internal codes. All staff are required to adhere to the Code of Ethics for Staff of the Central Bank, which sets out the ethical standards of conduct expected. The Code of Ethics is reviewed and approved annually by the Commission. All staff have a duty to inform themselves about the Code of Ethics and to uphold its standards of conduct at all times. Staff are requested to refresh their awareness and understanding of their obligations under the Code of Ethics, via an annual familiarisation and attestation process, the results of which are reported to senior management and the Commission. The Central Bank's Code of Ethics requires that staff do not put themselves in the position that might give rise to an actual or apparent conflict between the discharge of their official duties and their personal, financial or other interests. In addition, the Central Bank's Code of Ethics requires that staff should not engage in any activity, which may, by virtue of their employment in the Bank, call into question the apolitical status of the Central Bank.

18.6. The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes: (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the credit union; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks; (d) a budget and program for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the credit union industry and assess individual credit unions; and (f) a travel budget that allows appropriate on-site work and participation in domestic and international meetings of significant relevance (e.g. supervisory colleges).

Legal & Regulatory Compliance

The Central Bank is an autonomous entity and self-funding; it applies levies on credit unions which contribute to the cost of its regulatory functions. The power to charge these levies is set out in the Central Bank Act, 1942. The levy on individual credit unions is currently capped by regulation at 0.01% of total assets reported at financial year-end; the cost of supervising the credit union sector that is not met by levies is met from other funds available to the Central Bank under statutory provisions. There was public consultation on funding in 2015. The



Central Bank, with approval from the Minister for Finance, published (on 14 June 2019) the expected path towards an increase in the proportion of financial regulation costs to be recovered from credit unions over the next 5 years³⁹. Recovery rates are expected to increase to 20% of the costs of regulating the credit union sector for the 2019 levy-cycle; 35 per cent for 2020; and 50 per cent for 2021. Credit Union recovery rates from 2022 onwards will be subject to review and a public consultation to guide strategy once 50% recovery rates have been achieved.

The Central Bank (Supervision and Enforcement) Act 2013 provides powers in relation to third-party skilled persons reports (Part 2) and enables the Central Bank to appoint non-employees as authorised officers.

Practical Compliance

The Central Bank constantly evaluates both the level of staff and skillset of staff to ensure that the requisite level of resources is available to carry out its duties. The recruitment of suitable staff is supported by the offer of a defined benefit pension scheme, certainty of tenure and training and development opportunities.

Staff employed in the Registry have a range of backgrounds including accounting, economics, law, compliance and the credit union sector. The Registry ensures on appointment that all staff are suitably qualified for their role and has a budget available for further training and development. Training is also given in-post and by “shadowing” experienced members of staff.

The Central Bank as an organisation has a significant training budget, which staff in the Registry can avail of for courses arranged centrally. Staff can also avail of the Academic and Professional Training Scheme (APTS), which provides support to staff to pursue relevant third level, post-graduate and approved professional qualifications. Further, the Registry has its own training budget, which is utilised for specific supervisory training identified as part of its Training Needs Analysis.

The Central Bank employs a “Performance Management and Development Programme” to ensure that staff have clear objectives for a given year. The development element of the program focuses on training objectives for each staff member and there is a specific Learning and Development Plan for each individual staff member. In addition, the Registry circulates a monthly policy bulletin to keep staff informed of regulatory news and developments in the credit union sector. In terms of career paths, the Central Bank operates a hierarchical grade structure, which facilitates staff promotion as and when vacancies or new roles arise. In

³⁹ <https://www.centralbank.ie/docs/default-source/regulation/how-we-regulate/fees-levies/industry-funding-levy/funding-the-cost-of-financial-regulation.pdf?sfvrsn=6>



considering staff members for promotion, the following aspects are considered: experience; knowledge; qualifications; leadership skills and behavioural competencies.

The Registry's supervisors have access to, and support from, a dedicated credit union Policy Team. They also have taken advantage of access to experts in the banking area and credit risk and IT risk assessment. Experts from such areas also take part in full risk-assessments where appropriate.

The Central Bank's "One Bank" policy implies close co-operation and integration across the whole range of skills and specialisations, working as a collective towards its stated Mission. This has already benefited the Registry, one example being the participation of colleagues from across the Central Bank in the development of CP125 (regarding the Credit Union Lending Framework).

The Central Bank has the power to commission external experts to conduct supervisory tasks. The Registry may request a credit union to appoint a consultant to undertake an asset review and/or a review of its governance and operational structures, which review may be paid at the credit union's expense. Where necessary and appropriate, the Registry has a Consultancy Budget to meet the cost of engaging external consultants to undertake asset reviews.

Permanent staffing levels in the Registry are posited on a risk-based approach to supervision and are kept under review in order that the levels reflect the actual demands of the Registry's obligations. Face-to-face meetings for all credit unions occur between annually and 36 months depending on the viability and risk-profile of the credit union.

As noted above, the Central Bank now operates a "One Bank" model that reflects the need to apply staff across the institution as a whole when circumstances dictate in the context of strategic priorities. The Registry has the ability to request support from other areas of the Central Bank or to employ external resources to carry out governance, asset and post restructuring reviews as required.

The Registry has a travel budget adequate to facilitate staff undertaking travel that is relevant to their roles.

The Central Bank operates a centralised technology budget. Divisions that wish to implement new technology projects present a business case to senior management for assessment and approval; the Registry receives adequate funding to support its functions.

18.7. Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.

Legal & Regulatory Compliance

Section 33AJ of the Central Bank Act, 1942 provides that:



- the Bank;
- the Governor;
- the Heads of Function;
- the Secretary General of the Department of Finance, in his or her capacity as an ex-officio member of the Commission;
- the appointed members of the Commission;
- the Registrar of Credit Unions;
- the Registrar of the Appeals Tribunal;
- employees of the Bank; and
- agents of the Bank

are not liable for damages for anything done or omitted in the performance or purported performance or exercise of any of its functions or powers, unless it is proved that the act or omission was in bad faith.

Similarly, the 1997 Act provides that the Central Bank and its employees in the Registry are not liable in respect of any losses incurred through the insolvency or default of a credit union.

Practical Compliance

The Central Bank and its employees have statutory protection from being liable in damages for actions carried out while performing the functions of the Central Bank provided that they have not acted in bad faith.

18.8. Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of credit unions, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.

Legal & Regulatory Compliance

The relevant provisions of the Central Bank Act, 1942 require the Central Bank to report appropriately to specified bodies and enables it to disclose confidential information to relevant parties. These comprise:

- the Garda Síochána,
- the Revenue Commissioners,
- the Director of Corporate Enforcement,
- the Competition Authority,
- any other body, whether within the State or otherwise, charged with the detection or investigation of a criminal offence;
- any other body charged with the detection or investigation of a contravention of the Companies Acts 1963 to 2001 and certain provisions of the Competition Act 2002 where information relevant to that body leads the Bank to suspect that a criminal



offence may have been committed by a supervised entity, or a supervised entity may have contravened a provision of the Companies Acts and the Competition Act.

In addition, as regards financial crime, the Central Bank must report to An Garda Síochána and the Revenue Commissioners any suspicion it forms of a contravention of Irish anti-money laundering or terrorist financing laws.

In 2008 a MOU was agreed between the Central Bank and IAASA, the regulatory body charged with responsibility for oversight of the auditing profession in Ireland. It allows, *inter alia*, for exchange of relevant information and cooperation in respect of investigation work by either party.

Practical Compliance

Governance arrangements within the Central Bank ensure that there is cooperation and sharing of information between the respective areas of the Central Bank. The Registry provides a bi-annual update to the Financial Stability Committee. The Supervisory process itself also formally takes account of financial stability considerations, for example the PRISM framework includes an assessment by the Financial Risk and Governance Policy Division of Environmental Risk (which includes macro-economic risks and sector-specific risks).

There are other domestic authorities with which the Central Bank collaborates and shares information. These authorities have an interest in the overall stability of the financial system (e.g. Department of Finance), and responsibility for monitoring compliance with other relevant legislation (e.g. financial crime and fraud). Therefore, from time to time it is necessary to liaise with the Department of Finance and/or Minister for Finance, An Garda Síochána, the Revenue Commissioners and with IAASA.

The Central Bank is required not to disclose confidential information unless it is legally required to do so. The Central Bank may be required to provide information to other supervisors and Irish authorities, in specified circumstances and in accordance with appropriate legal and confidentiality safeguards, pursuant to the Central Bank Act, 1942. Non-confidential information may be disclosed as the Central Bank thinks appropriate.

18.9. The supervisor has the power to request and receive any relevant information from credit unions, irrespective of their activities, where the supervisor believes that it is material to the condition of the credit union, or to the assessment of the risks of the credit union or is needed to support resolution planning. This includes internal management information.

The supervisor has the power to access all credit union records for the furtherance of supervisory work. The supervisor also has similar access to the credit union's board, management and staff, when required.

Legal & Regulatory Compliance



The Central Bank has powers under the 1997 Act to require credit unions, and any person that has information on a credit union, to submit information to the Central Bank for the purpose of the performance of its functions. The Central Bank can set out requirements in relation to the information to be submitted, including requirements on the format, content and frequency of submission. The 1997 Act also sets out certain statutory reporting requirements for credit unions, including the obligation to submit an Annual Return (Audited Annual Accounts) following each year end.

The Central Bank's powers under section 91 of the 1997 Act allow it to request books, documents or information from the credit union, its officers, members, agents or liquidators (past or present) and any other persons who have in their possession books, documents and information relating to the business of the credit union. The information requested must be "reasonably required" by the Central Bank in order to exercise its powers under the 1997 Act. Supervisors may take copies of the information produced and can request any explanation as may be "reasonably required" in relation to the information provided. Where information relating to a credit union is not in an individual's possession, but he has knowledge of its whereabouts, the individual can be asked to state where the item is and to verify that information via a statutory declaration. Section 91(4) of the 1997 Act also provides the Central Bank with the power to require an officer, member, agent or liquidator of a credit union to provide an explanation of any books, documents or information produced in compliance with a notice from the Central Bank as may be reasonably required.

Part 2 of the Central Bank (Supervision and Enforcement) Act 2013 gives the Central Bank power to procure a third-party report investigating the conduct and affairs of a credit union, to be paid for by the credit union.

Part 3 of the Central Bank (Supervision and Enforcement) Act 2013 also includes comprehensive powers to request information "where it is necessary to do so for the purpose of the performance of the Central Bank's functions under financial services legislation relating to the proper and effective regulation of financial service providers." The Central Bank may also require a credit union to prepare and provide to the Central Bank forecasts, plans, accounts or other documents so specified by the Central Bank.

The Central Bank has the power to appoint authorised officers under Part 3 of the Central Bank (Supervision and Enforcement) Act 2013. An authorised officer may be an officer or an employee of the Central Bank or another suitably qualified person who has been appointed by warrant. Authorised officers have a number of powers to access records, including the power to search and inspect premises pursuant to a warrant and the power to secure any data equipment, including any computer, in which those records may be held. They also have powers under the Central Bank (Supervision and Enforcement) Act 2013 to require a person to answer questions or provide an explanation of a decision.

The Central Bank is given powers as regards the fitness and probity of the directors and management of a credit union by Part 3 of the Central Bank Reform Act 2010. The Central



Bank has a formal power under section 23 of the Central Bank Reform Act 2010 to request documentation from or to interview an individual as part of its consideration of that individual's fitness and probity to perform a pre-approved controlled function. The Central Bank may also investigate an individual's fitness and probity and require persons to give evidence or produce documents in relation to the investigation (where that person is performing a controlled function).

Under the 2011 Act, the Central Bank has the following powers:

- Directed transfers: to require a credit union to provide information to the Central Bank where a transfer order is proposed. Under this power, any information relating to the assets and liabilities of a credit union can be requested where it is required to "permit the effective and efficient making of a proposed transfer order";
- to direct a credit union to provide such information and analysis as the Central Bank requires for the preparation of a resolution plan;
- to summon a person to give evidence at an Inquiry and/or produce documents to the Inquiry.

Practical Compliance

The supervisor has a comprehensive range of powers to secure access to all credit union records for the furtherance of supervisory work. The supervisor also has similar access to the credit union's board, management and staff, when required.

Year End Returns are required from all credit unions, which include information relating to the financial position and the governance of the credit union.

The Registry typically requires information to be provided to it in advance of onsite PRISM engagements.

18.10 The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the credit union's management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.

Legal & Regulatory Compliance

Where an entity fails to provide required information or provides inaccurate or misleading information to the Central Bank, this is a prescribed contravention and may be subject to the powers of sanction under Part IIIC of the Central Bank Act, 1942. In addition, credit unions may be required to resubmit inaccurate information.

Section 25 of the Central Bank Reform Act 2010 provides that provision of false or misleading information to the Central Bank by a person performing a CF may result in the Central Bank commencing an investigation into the 'fitness and probity' of such person. An adverse finding



on investigation as to fitness and probity may result in the removal or suspension of such individual.

Prior to submitting returns to the Central Bank, a credit union must confirm that

- The information on the Prudential Return accurately reflects the financial position of the credit union and has been verified and approved by the manager of the credit union, and that
- The information on the Year End Return is in accordance with the annual audited accounts and has been approved and signed off by the credit union board of directors.

The annual audited accounts must be signed by the manager of the credit union, a member of the board of directors and a member of the board oversight committee.

The auditor of a credit union is also obliged to report to the Central Bank if he/she has reason to believe that there are material inaccuracies in or omissions from any returns made by the credit union to the Central Bank.

Practical Compliance

Where the Registry has concerns about the validity and integrity of information submitted by the credit union on its financial position, in the first instance the supervisor follows up with the credit union to verify the accuracy of the information submitted and where necessary requires the credit union to amend and resubmit the information.

Where significant inconsistencies between information reported in Year End Returns and key figures reported in the year-end Prudential Return (30 September) are identified supervisors follow up with credit unions as appropriate to ensure that these are adequately explained.

Since October 2017, on average, 96% of credit unions have submitted their PRs on time.

Over successive quarters in 2013 and 2014 a credit union failed to complete and submit a Credit Union Prudential Return electronically to the Central Bank. The Credit Union also failed to have adequate systems and controls in place to ensure that the returns were submitted within the required timelines. The Credit Union was subsequently the subject of an administrative sanction procedure and in October 2015 the Central Bank imposed a fine of €5,000 on it for breaches of its obligations under the 1997 Act.

Guiding Principle 19: Supervisory Approach, Techniques and Resources

The supervisor should develop and maintain a thorough understanding of the operations of individual credit unions, the risks to which they are exposed and the management of such risks, and must deploy an effective and ongoing combination of offsite and onsite supervisory techniques. Where the supervisor does not have the responsibility for oversight of a credit union's compliance with its licence conditions, for the prevention of criminal activities including money laundering, or other obligations covered by these GPs, it must have the



power to refer its concerns to the appropriate authority and memoranda of understanding must be agreed and maintained accordingly.

Overall Rating: Compliant

Summary Assessment

The Central Bank's regulatory framework for credit unions provides a risk-based, proportionate, and clearly-articulated approach to supervision. The PRISM system is central to supervisory activity but changes made to it (since the 2015 Peer Review) mean that it is considerably more flexible. Consequently, supervisors now have a tool available to them which fully supports their work.

The PRISM methodology demands that supervisors understand and evaluate a comprehensive suite of prudential risks and supports a structured and proportionate approach to supervision. The framework for engagement is now routinely reviewed and refined as appropriate, building on the understanding gained from the comprehensive prudential “audit” of the sector undertaken by the Central Bank in the years following the Financial Crisis. There have been significant changes to the intensity and methods of supervision in 2018 and 2019, dependent on Impact categorisation, further, the Registry internal models allocate resources based on both impact and risk. This overall approach reflects the constraint that resources are limited and engagement must be directed to the risks in credit unions that have the greatest potential for harm, both to the individual entities and more generally.

The Central Bank’s risk-based framework to determine supervisory programmes and allocate resources, “PRISM”, takes into account the risk profile and systemic importance of individual credit unions and the different mitigation approaches available. PRISM assigns entities to one of four possible impact categories which are subject to ongoing review:

- High;
- Medium High;
- Medium Low; and
- Low

based on a quantitative assessment of the impact of their failure upon, inter alia, the economy/financial stability, the taxpayer and the consumer. A programme of minimum supervisory engagement has been developed for each of the impact categories.

Each active credit union is currently assigned to one of two impact categories:

- Low Impact, with assets less than €100m – 191 credit unions. and
- Medium Low Impact, with assets of €100m and greater – 54 credit unions.

Credit unions over €500m in assets would be classified within the Medium High Impact category; to date there are no such credit unions.



Credit unions that are in breach of the minimum regulatory reserve requirements and/or have other significant issues of prudential concern (e.g. significant governance concerns, liquidity issues, valuation of asset issues, credit issues, breaches of other regulatory requirements) are included in the I&R portfolio and are supervised by a team with a focussed supervisory engagement model tailored to reflect the individual circumstances of these credit unions.

Where significant AML/CTF issues are identified through supervisory engagement, these are escalated to AMLD for consideration and necessary action where appropriate.

The PRISM methodology supports a structured and proportionate approach to supervision that has a strong linkage between impact, risk and supervisory intensity. This is supplemented by the Registry's internal models, including consideration of viability.

The Central Bank uses a variety of tools and information to regularly review and assess the safety and soundness of credit unions and the credit union sector. The tools used, which are determined by the impact risk category of each institution, include:

- Onsite Inspections, which are scoped based on the risk profile of the credit unions. These inspections include substantive onsite testing supplemented by meetings with the key officers of the credit union which may include but not be limited to, the management team, members of the board of directors, risk management officer, internal auditor, compliance officer and where required the board oversight committee and the external auditor;
- Desktop Engagements which include a desk based, offsite review of requested credit union information including but not limited to financial information, reports completed by credit union's risk management officer, compliance officer and internal auditor, most recent board minutes and board approved policies;
- Analysis of returns submitted by credit unions;
- Analysis of internal and external reports; and
- Other tasks including a cycle of mandatory meetings with the Chair and CEO, the frequency of which is determined by the asset size and risk profile of the credit union.

The Central Bank regularly assesses its supervisory approach and engagement model to ensure it remains appropriate and effective. The Registry also undertakes an internal review of its supervisory approach for credit unions which includes a review of both onsite and offsite supervisory activities. The most recent significant review was in 2017 when a revised engagement model which introduced risk profile along with impact as a means of prioritising supervision with credit unions was implemented. Following this a comprehensive PRISM evolution project was undertaken to align the PRISM system to the supervisory approach. The Registry keeps the supervisory approach under regular review.

The Central Bank has adequate information systems which facilitate the processing, monitoring and analysis of prudential and governance information. These systems (including



PRISM and supervisory reporting tools for reviewing returns) aid the identification of areas requiring follow-up action. Support is provided to the Registry's supervision teams from several departments within the Central Bank.

Credit union supervision employs a mix of on-site and off-site supervision. The Central Bank has a coherent process for planning and executing on-site and off-site activities and there is effective coordination of these activities.

Risk Governance Panels have been established to provide support, mainly in discussing key risk areas and agreeing a supervisory strategy for a credit union as determined by the nature of an onsite inspection. These are routinely used following the completion of a Full Risk Assessment of credit unions of asset size greater than €100m.

The Registry communicates its findings to credit unions as appropriate and in a timely way; it requires credit unions to take action to mitigate any particular vulnerabilities/risks that have the potential to affect their safety or soundness. Risks deemed to be higher must have an RMP created to address the risk.

The Registry also communicates with the sector as a whole in relation to supervisory findings through speeches and publications such as the Credit Union PRISM Supervisory Commentary published in May 2014, March 2018 and April 2019.

The Central Bank is publicly committed to producing regular reports on the financial condition of the credit union sector as one of its regulatory supports to the sector. The primary focus of this semi-annual publication, which was first issued in February 2017, is to provide analysis of data to credit unions to support them in analysing their performance alongside the sector and peers.

19.1. The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks: (a) which credit unions are exposed to; and (b) which credit unions present to the safety and soundness of the credit union sector. The methodology addresses, among other things, the business focus, risk profile, internal control environment and the resolvability of credit unions, and permits relevant comparisons between credit unions. The frequency and intensity of supervision of credit unions reflect the outcome of this analysis.

Legal & Regulatory Compliance

PRISM is a risk-based framework used by supervisors for determining and assessing on an ongoing basis the nature, impact and scope of risks to which credit unions are exposed. The supervisor is required to apply, at a minimum, the engagement model appropriate for the credit union's impact category. In general, the intensity and frequency of engagement is designed to be proportionate to the amount of resources available based on both the impact categorisation and the risk profile of the credit union.



Probability risk is distinct from impact. It requires the supervisor to look at different probability risk categories (e.g. Credit Risk, Governance Risk) and assess the likelihood of there being an adverse event. Probability risk relates to how likely the credit union is to cause serious harm. The higher the likelihood, the higher the probability risk and supervisors are required to provide a rationale on the PRISM system to support their probability risk rating.

- Business focus is captured under Strategy/Business Model Risk, the assessment of which derives from the engagement model task of onsite inspections for Medium Low Impact credit unions and desktop reviews for Low Impact credit unions.
- The risk profile is assessed using the engagement model and focuses on the standard risk categories.
- The internal control environment is assessed in many respects on a per risk basis via the engagement model. In addition, assessment of the internal control environment is a component of the assessment of most PRISM risk categories including governance and operational risk.
- Credit unions experiencing significant and pronounced financial difficulties are supervised by the I&R team who assess the available supervisory options.

In making comparisons between credit unions, there are pre-determined peer groups within PRISM and a facility to create customised peer review groups. Additionally, the Registry of Credit Union's Analytics team provides a Quarterly "Horizontal File" (Excel) based on Prudential Returns submitted by credit unions which can be filtered to provide the relevant peer groups (e.g. industrial credit unions compared against community credit unions and Medium Low Impact credit unions compared against Low Impact credit unions).

The minimum frequency and intensity of the supervision of credit unions is largely a function of its impact categorisation (i.e. the assessment of the impact of a credit union's failure on the economy, the taxpayer and consumers) and the risk profile of the credit union. The impact assessment is purely quantitative and is assessed on an on-going basis as new impact metric data become available (typically on a quarterly basis). The impact metric for credit unions is asset size.

The Registry has determined that the most effective supervisory approach in order to achieve risk-based, outcome focused supervisory objectives, is through having a desk-based approach to supervising low impact credit unions. The supervisor requests a level of documentation from the credit union including, but not limited to, reports from the risk, compliance and internal audit function, key credit union policies and financial projections. Regular PRISM Engagement meetings with the Chair and CEO are deemed a key component of the desk-based approach along with other key minimum tasks such as regulatory returns analysis and the year-end process which support this approach in the effective identification of risk.

An additional level of proportionality in relation to the desk-based approach is in place in the €40m to €100m cohort over that applied to credit unions with assets <€40m. The desk-based supervisory approach is supplemented by onsite inspections or other follow up actions where



significant risks are identified based on supervisory judgment. An example of some of the significant issues identified from the desk-based review included concerns regarding credit risk (type and nature of lending, specific breaches identified) and operational risk (bank reconciliations and controls).

The level of minimum supervision is defined by a credit union's impact score; all Irish credit unions are currently classified "Medium Low" and "Low".

A cycle of mandatory onsite inspections is in place for the Medium Low Impact credit unions, those with assets \geq €100m.

Prior to the onsite element of the inspection, the supervisor requests a level of documentation from the credit union including but not limited to reports from the risk, compliance and internal audit function, key credit union policies and financial projections. As part of an onsite inspection, the supervisor will scope the level of onsite work to be conducted as part of the inspection which is based on the risk profile of the credit union. This profile is determined through a review of the information received from the credit union prior to the inspection, the current financial position, the current probability risk ratings and any previous supervisory engagement with the credit union. Depending on the agreed scope, the onsite inspection may include meetings with key officers, a level of credit underwriting testing through sampling of loans issued and walkthroughs of operational processes.

Regular PRISM Engagement meetings with the Chair and CEO are deemed a key component of the Supervisory Engagement along with other key minimum tasks such as regulatory returns analysis and the year-end process which support the identification of risk.

Credit unions that are in breach of the minimum regulatory reserve requirements and/or have other significant issues of prudential concern (e.g. significant governance concerns, liquidity issues, valuation of asset issues, credit issues, breaches of other regulatory requirements) are included in the I&R portfolio and are supervised by a specific team. The I&R portfolio can include credit unions from any impact category and the supervisory engagement approach for these credit unions is tailored to reflect the risk of the individual credit union rather than the impact category. The supervisory engagement model for credit unions in the I&R portfolio is aligned to the challenges of those specific credit unions and includes meetings, inspections, on-site RMP validation, asset reviews, governance reviews and post-restructuring reviews undertaken by independent consultants on behalf of the Registry and transfers of engagements (ToE). In the event that a credit union's reserves fall below the regulatory required levels, the I&R team will direct the credit union to restore its reserve position, which may be achieved through the credit union securing capital support via private sector funding. In the event that all potential voluntary solutions are expended, the I&R team will then focus on preparatory work in advance of a formal referral to the RES.

Practical Compliance



The Registry uses a range of internal procedures which provides a structure and consistency of approach for supervisors for onsite and offsite supervision. This is supported by a risk-based approach to RMP validation to ensure that intended outcomes are achieved. The Supervision teams are also supported in their work through data provided by the Analytics team and expertise provided by the Policy team.

19.2. The supervisor has processes to understand the risk profile of credit unions and employs a well-defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each credit union is based on the results of this analysis.

Legal & Regulatory Compliance

Supervisors use PRISM as the framework to understand credit unions' risk profiles and to establish a view of the strategic/business model risk profile. The PRISM system has alert functionality, which assists supervisors to prioritise their work and focus on emerging risks and trends and potential or actual breaches of regulatory requirements. The engagement model, which is implemented by the supervisory teams, provides the operational context through which risk assessments are conducted. Engagement with credit unions is not designed to be an exercise in compliance, but rather an assessment of risk. The results and findings from previous supervisory engagements may direct the focus of future engagements.

In conducting risk assessments, supervisors have access to guidance material including:

- Internal supervisory procedures for conducting inspection tasks; and
- Engagement Task Guidance.

A centrally available assessment generated by the Central Bank's Cross Sector Risk team in relation to Environmental risks also provides context against which the specific risks facing credit unions can be assessed and monitored.

Practical Compliance

In more serious cases, credit unions with specific risks are allocated to the I&R portfolio in accordance with the Registry's "Policy for reallocation of credit unions to and from the Intervention and Restructuring Team". This policy also specifies the process for credit unions in the I&R portfolio to return to the standard supervisory process.

19.3. The supervisor employs an appropriate mix of on-site and off-site supervision to evaluate the condition of credit unions, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the credit union. The supervisor regularly assesses the quality, effectiveness and integration of its on-site and off-site functions, and amends its approach, as needed.

Legal & Regulatory Compliance



The supervisory function is underpinned by two principal statutory powers:

- Section 91 of the 1997 Act provides powers in relation to notice to furnish books, information etc.
- Part 3 of the Central Bank (Supervision and Enforcement) Act 2013 provides powers for authorised officers

The PRISM framework determines the level of engagement for the supervision of a credit union which is dependent on the impact and risk profile of the credit union. The guidance provided for in PRISM employs an appropriate level of on-site and off-site supervision to evaluate the condition of credit unions including their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns dependent on impact category.

In 2017 a revised engagement model which included risk profiling along with impact as a means of prioritising supervision of credit unions was implemented into PRISM. A comprehensive PRISM evolution project was undertaken to align the PRISM system to the supervisory approach.

The Registry's revised engagement approach was introduced for 2018 to differentiate on a proportionate basis between small (under €40m total assets), medium (€40m-€100m total assets) and large credit unions (over €100m total assets). In addition to these three specific cohorts, credit unions that have been identified as having specific risks by the Registry are included in the Intervention and Restructuring (I&R) teams' portfolio, where a more tailored supervisory approach is applied through PRISM.

A tailored revised engagement model introduced for 2019 takes account of the evolving sectoral profiling and lessons learned from 2018, together with ongoing resourcing considerations. This approach has involved changing from onsite inspections for Low Impact credit unions to a desk-based approach. These are supplemented by onsite inspections or other follow up actions where significant risks are identified based on supervisory judgment. A programme of rolling onsite inspections are in place for all credit unions over €100m in assets, the frequency of which are driven by viability risk profiling.

Onsite inspections are carried out on a 1-3 year cycle for Medium-Low Impact credit unions (with a proportion of these presented to RGP annually). Unscheduled inspections are also carried out across all impact categories where required arising from supervisory concerns. Subject matter experts outside of the Registry where required may accompany supervision teams during the onsite inspection. During 2017, supervisors from Banking Supervision within the Credit Institutions Directorate, accompanied Credit Union supervisors when assessing areas of credit risk and operational risk in a number of credit unions.

Thematic inspections are carried out from time to time in order to provide a high-level assessment of specific areas of credit unions' operations.



In 2018, under the PRISM engagement model for Supervision, the Registry completed:

- 44 onsite inspections in credit unions under the Enhanced Supervisory Approach;
- 31 onsite inspections in credit unions under the Differentiated Proportionate Approach, and
- 42 offsite desk-based engagements in credit unions under the Differentiated Proportionate Approach.

Practical Compliance

At least annually the Registry reviews its supervisory approach taking into consideration areas including but not limited to:

- Experience gained through the application of the supervisory approach;
- Viability challenges and evolving consolidation in the sector;
- Evolving credit union business models; and
- Internal resourcing considerations.

Material amendments to the supervisory approach are agreed and approved at Credit Institution Supervision Director level and Financial Regulation Policy and Risk Director level. These amendments are reflected in both internal procedures and through technical changes to PRISM. The Registry of Credit Union's Supervisory Framework and Inspection Model are subject to review by the Central Bank's Internal Audit function. Since 2016, the Central Bank has published the following Thematic Reports on the credit union sector:

- 'Report on Findings of Thematic Fitness and Probity Inspections in Credit Unions' – February 2017
- 'Report on Thematic Outsourcing Inspections in Credit Unions' – April 2017
- 'IT Risk in Credit Unions - Thematic Review Findings' –January 2018
- 'House Loans in Credit Unions - Thematic Review Findings' –January 2018
- 'Prize Draws in Credit Unions - Thematic Review Findings' –March 2018
- 'Restructuring in the Credit Union Sector - Thematic Review Findings' –February 2019

19.4. The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the on-site and off-site functions.

Legal & Regulatory Compliance

The planning module in PRISM sets out the minimum level of engagement with credit unions, dependent on the impact category of the credit union. The Registry has a formal Supervisory Engagement and Inspection Planning Procedure in place which aligns to the PRISM minimum engagement. PRISM guidance materials set out the processes to follow in conducting reviews



of a credit union and the Quality Assurance Team (“QAT”), a unit within the Supervisory Risk Division, carries out reviews of the practical implementation of PRISM and the quality of supervision, to ensure that reviews are conducted on a thorough and consistent basis. Supervisors are supported by the specialist teams, including the Analytics team by way of regular and scheduled co-ordination and information sharing between supervision teams and the Analytics team.

A tailored engagement model has been developed and agreed for I&R credit unions to facilitate a targeted and appropriate supervisory approach for these credit unions.

Practical Compliance

The onsite inspection process provides for a consistent approach to onsite inspections while allowing for each inspection to be scoped according to the risk profile of the credit union as set out in the Registry Supervisory Manual.

19.5. The supervisor uses a variety of information to regularly review and assess the safety and soundness of credit unions, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns and publicly available information. The supervisor determines that information provided by credit unions is reliable and obtains, as necessary, additional information on the credit unions.

Legal & Regulatory Compliance

The supervisory function is underpinned by two principal statutory powers:

- Section 91 of the 1997 Act provides powers in relation to notice to furnish books, information etc.
- Part 3 of the Central Bank (Supervision and Enforcement) Act 2013 provides powers for authorised officers

The Central Bank receives a variety of information on credit unions such as:

- Scheduled Regulatory returns: Quarterly Prudential Returns containing information on reserves, liquidity, large exposures, arrears, provisions, financial performance and compliance with prudential limits;
- Year End Returns: Annual returns including draft and final financial statements and information on the board of directors, committees and management of the credit unions.
- Audit Reports: from the External Auditor, including Statutory Duty Confirmation and Auditor Management Letters together with relevant responses from the credit union concerned;



- Information and documents requested from credit unions, or obtained from credit unions during the course of inspections or engagement meetings, and
- PRISM: using the Central Bank database, the PRISM system generates alerts to assist supervisors to regularly review and assess the safety and soundness of credit union. Alerts are triggered by significant changes in impact metrics, KRIs, new information available, risk mitigation actions or engagement tasks. The alerts highlight issues; they act as an early warning system and assist supervisors in determining key risks which require further examination. Alerts are only closed once the alert has been addressed and the rationale for closing is recorded.

Since 3 March 2014, all credit unions are required to submit an annual compliance statement to the Central Bank.

For certain credit unions the Central Bank also uses information from external reports, including asset reviews conducted by independent consultants at the request of the Central Bank.

The supervisor takes the following steps to ensure that the data is reliable:

- Validations are inbuilt for the On-Line Reporting System which prevents credit unions from sending through incomplete information on the Prudential Return and Draft Financial Statements.
- The supervision teams review KRI alerts generated for all credit unions every quarter following submission of the Prudential Return. Supervisors also perform a detailed analysis of Prudential Returns, dependent on the impact rating of the firm.
- Supervisors carry out a detailed year-end review process for credit unions based on the information submitted by credit unions in their Year End Returns.
- Follow up queries raised by supervisors in relation to Prudential and Year End Returns may result in the re-submission of returns.
- In some instances, requesting internal audit or external third parties to carry out reviews where issues arise.
- Information submitted by the credit union to demonstrate that the credit union has taken the necessary steps to address a risk mitigation action is challenged by the supervisor desk-based review of documentation, with further clarifications requested if needed, and through on-site review to ensure that the action is embedded within the credit union.

Prudential Returns are received quarterly and Key Risk Indicator alerts are generated and sent to supervisors for review. The level of detail of the review of Prudential Returns by supervisors is determined by their impact category.



Guiding Principle 20: Supervisory Reporting

The supervisor should have the resources and ability to collect financial and statistical reports from credit unions in whatever form it requires. It must also have the ability to have such reports or forms independently verified where it considers this necessary. The supervisor should undertake appropriate reviews and analysis of all such material and to take relevant action where this is indicated.

Overall Rating: Compliant

Summary Assessment

The Central Bank has powers under the 1997 Act and the Central Bank (Supervision and Enforcement) Act 2013 to require credit unions, and any person that has information on a credit union, to submit information to the Central Bank for the performance of its functions. The Central Bank can set out requirements in relation to the information to be submitted, including the format, content and frequency of submission. The 1997 Act also sets out reporting requirements for credit unions in relation to their annual accounts.

The Central Bank has established an online regulatory reporting framework that includes the submission of Prudential Returns for all credit unions on a quarterly basis as well as the submission of Year End Returns on an annual basis. In certain circumstances the Central Bank requires additional returns to be submitted by some or all credit unions arising from supervisory concerns.

The Central Bank has a dedicated Analytics Team responsible for the collation, analysis and distribution of credit union financial reporting, including quarterly returns and annual financial statements. The team analyses prudential and financial information, develops sectoral statistical publications, provides analysis to supervision teams to inform their work and undertakes stress testing analysis.

A Key Risk Indicator (KRI) analysis is performed on all Prudential Returns and Year End Returns and KRI alerts are generated for review by supervisors. These alerts inform supervisors of changes in KRIs above or below certain thresholds. These alerts can be calibrated by alert type and impact category and are subject to periodic review. The Analytics team and PRISM system provide additional reports, such as financial analysis and peer group reports that assist supervisors in their review and analysis of returns. A more detailed review and analysis of Prudential Returns and Year End Returns is also carried out for Medium Low and Low Impact credit unions.

The Central Bank can require institutions to engage external experts, for a variety of tasks, including the verification of supervisory information, where deemed necessary.



20.1. The supervisor has the power to require credit unions to submit information on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, and market risk. The supervisor also collects and analyses information from credit unions at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the credit union.

Legal & Regulatory Compliance

The Central Bank has powers under the 1997 Act and the Central Bank (Supervision and Enforcement) Act 2013 to require credit unions, and any person that has information on a credit union, to submit information to the Central Bank for the purpose of the performance of its functions. The Central Bank can set out requirements in relation to the information to be submitted, including requirements on the format, content and frequency of submission. The 1997 Act also sets out certain statutory reporting requirements for credit unions, including the obligation to submit an Annual Return (Audited Annual Accounts) following each year end.

The returns credit unions are required to submit to the Central Bank on a regular/recurring basis include: the Prudential Return, the Year End Returns (AGM notice, annual (audited) accounts, and annual return), the Annual compliance statement, and the Notifications in relation to outsourcing arrangements. The Central Bank has also the power to collect information on the governance and management of credit unions including information on fitness and probity.

The Prudential Return is a key supervisory tool and contains information on a credit union's:

- Income and expenditure;
- Balance sheet;
- Reserves and liquidity position;
- Large exposures;
- Size and maturity analysis of loans, investments and savings;
- Level of new loans granted;
- Investment exposure;
- Arrears position;
- Provisioning; and
- Loans to officers.

Prudential Returns are collected from all credit unions on a quarterly basis and Year End Returns, including audited accounts, are collected from all credit unions on an annual basis. Key Risk Indicators (KRI) analysis is performed on all Prudential Returns and Year End Returns and KRI alerts are generated for review by supervisors. The Analytics team and PRISM system also provide additional reports, such as financial analysis and peer group



reports, which assist supervisors in their review and analysis of returns. More detailed and frequent reviews and analysis of Prudential Returns is carried out for Medium Low and Low impact credit unions.

Where relevant, credit unions also report any committed liquidity facilities, off-balance sheet items and charge on assets on the Prudential Return.

In addition, all credit unions are required to submit Year End Returns to the Central Bank with audited accounts including an Income and Expenditure, Balance Sheet and auditor's report.

All credit unions are required to submit an annual compliance statement certifying if the credit union has complied with the legal and regulatory requirements in Part IV of the 1997 Act, which relates to the management of credit unions.

Credit unions may also be required to submit additional reports based on their risk profile in certain circumstances.

The Central Bank has developed Guidance Notes to assist credit unions in the completion of the Prudential Return, Year End Return and annual compliance statement. Information for credit unions on reporting requirements is available on the Central Bank website.

Practical Compliance

Credit unions regardless of their size are all are required to complete the same quarterly Prudential Returns and Year End Returns. These are submitted electronically to the Central Bank using a web-based tool called the Online Reporting System introduced in 2010. Once the data is collected, an Analytics team within the Central Bank assists the supervision team by providing financial analysis, peer group and other reports as part of the PRISM system.

The Central Bank shares its prudential return data with one of the credit union trade associations, once the prior consent of individual credit unions has been obtained. In addition, the Central Bank uses the aggregate data to produces regular reports on the financial condition of the credit union sector. The report includes analysis by credit union asset size, common bond type and by region which helps credit unions assess their performance alongside the sector and their peers.

20.2 The supervisor utilises policies and procedures to determine the validity and integrity of supervisory information. This includes a programme for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts.

Legal & Regulatory Compliance

The Central Bank has powers under the 1997 Act and the Central Bank (Supervision and Enforcement) Act 2013 to require credit unions, and any person that has information on a



credit union, to submit information to the Central Bank for the purpose of the performance of its functions.

Practical Compliance

Credit unions submit supervisory information via the Online Reporting System which carries out validation on the Prudential Return and Year End Return before a credit union can submit the returns to enhance validity and internal consistency of the information submitted. Credit unions are required to confirm certain checks have been carried out on the validity and integrity of the information before they submit the Prudential and Year End Returns to the Central Bank. When submitting the Year End Return, credit unions are required to confirm that the information on the Year End Return is in accordance with the Annual Audited Accounts and has been approved and signed off by the credit union board.

The Central Bank has a framework for the analysis of the returns which assist supervisors in determining the validity of the information submitted by credit unions through quarter-on-quarter comparisons and peer group analysis.

Where the Central Bank has concerns about the validity and integrity of information submitted by the credit union on its financial position, the supervisor follows up with the credit union to verify the accuracy of the information submitted and where necessary requires the credit union to amend and resubmit the information. In addition, during the on-site engagement with credit unions, supervisory work, such as bank reconciliations, may be used to validate certain information submitted on the Prudential Return. In certain circumstances the Registry may ask the auditor to verify the information or commission external reports, including asset reviews by independent third parties.

Where there are significant concerns about the financial position of a credit union, an asset review of the credit union is undertaken by a third party appointed by the Central Bank or credit union, as appropriate. Such asset reviews will, amongst other things, determine the validity and integrity of supervisory information.

Guiding Principle 21: Conflicts of Interest and Related Party Exposures

The supervisor should have the power to establish rules to control conflicts of interest and related party exposures and it must have powers that permit it to intervene where such rules are breached. Rules must require that related party-transactions be undertaken at arm's length and there must be rules requiring full disclosure and reporting of such transactions.

Overall Rating: Compliant

Summary Assessment

The 1997 Act contains a number of provisions to control conflicts of interest in a credit union, including:



- Officers of a credit union (including members of the board of directors) are required at all times to ensure they act in a manner free from conflicts of interest;
- The chair of the board of directors is required to ensure that conflicts of interest are appropriately managed by the board of directors;
- The nominations committee of a credit union is required to have regard to potential conflicts of interest in considering the proposing of candidates for the board of directors; and
- The board of directors is also required to record all discussions relating to conflicts of interest in meeting minutes.

The 1997 Act also contains restrictions preventing certain persons becoming a member of the board of directors, the board oversight committee or the chair of the board of directors arising from potential conflicts of interest.

All credit unions are required to have a conflicts of interest policy, to manage and resolve conflicts of interest, that is required to be reviewed and updated, at least annually, by the board of directors.

The 1997 Act and the Central Bank (Supervision and Enforcement) Act 2013 provide the Central Bank with the power to prescribe regulations in relation to related party exposures. The 1997 Act contains provisions in relation to loans to officers, including a requirement that loans to officers be approved by a special committee which consists of a majority of the board of directors and at least one member of the credit committee, but cannot include the applicant for the loan. Credit unions are required to report on loans to officers on returns submitted to the Central Bank. Accounting standards include requirements regarding related party disclosures for credit unions' audited accounts.

The 2016 Regulations provide a definition of related persons and set out requirements on the governance (including approval, monitoring, reporting and disclosure) of lending to related parties.

Where a credit union breaches requirements in relation to conflicts of interest or loans to officers, the Central Bank may take a number of actions including issuing an RMP, the imposition of administrative sanctions or the issuance of regulatory directions. See Guiding Principle 23 for further details on the enforcement process.

The Central Bank has its own Conflicts of Interest & Gifts Policy with regard to supervisors and the credit unions in their portfolio. All staff at the Registry are required to complete an online Code of Ethics module and complete a log of Conflicts of Interests maintained by the Registry.



21.1 Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of “related parties”. This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case by case basis. The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the credit union’s Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related party transactions. Related party transactions should be required to be undertaken at arm’s length, and there should be rules that require disclosure and reporting of such transactions.

Footnote: Related parties can include, among other things, the credit union’s Board members, management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

Legal & Regulatory Compliance

The 2016 Regulations define a related party as: a member of the board of directors or the management team of a credit union; a member of their family; or a business in which a member of the board of directors or the management team of a credit union has a significant shareholding. “Member of the family” is defined as “a person’s father, mother, spouse or civil partner, cohabitant, son, daughter, brother, or sister”.

Where the total credit union exposure to the related party is greater than €2,000, Regulations 18-22 of the 2016 Regulations outlines the following requirements for related party lending:

- A credit union shall not make or manage a loan to a related party on more favourable terms than a loan to a non-related party;
- Related party lending is subject to additional oversight including individual prior approval in writing by the credit committee and actions in relation to the management of a loan are subject to individual prior approval in writing by the credit committee or the credit control committee of the credit union as appropriate;
- A credit union must record and monitor loans made to related parties and report, in writing, on related party loans to the board of directors on a monthly basis. Such a report shall include details of loans advanced to related parties during the month, total loans outstanding to related parties, the performance of loans to related parties and actions in respect of the management of loans to related parties.

Section 36(3) of the 1997 Act requires that a loan to an officer is approved by not less than two-thirds of the members of a special committee voting by secret ballot at a meeting at which the application for the loan is considered. The special committee must consist of a majority of the board of directors and at least one member of the credit committee, but cannot include the applicant for the loan.



Under the 1997 Act, an officer cannot be involved in the approval of a loan they have applied for. Additionally, section 69(4) of the 1997 Act provides that an officer of a credit union shall not, in any manner, directly or indirectly, participate in the consideration or determination of any matter which he or she, or a body with which he or she is connected, has a pecuniary interest or other conflict of interest or where a reasonably perceived conflict of interest exists and, accordingly, an officer shall withdraw from any meeting or part of the meeting during which such a matter is to be considered or determined.

Section 33 of Financial Reporting Standard 102 (FRS 102) sets out requirements in relation to related party disclosures for credit union's audited accounts.

Under the 2016 Regulations a credit union must ensure that the internal audit function assesses, at least annually, the compliance or otherwise by the credit union with the related party lending requirements. Furthermore, after each assessment a credit union is required to submit a written report to the board of directors indicating their findings and conclusions and making recommendations on any changes required.

Regulation 22 of the 2016 Regulation requires a credit union to include the process in relation to lending to a related party in its credit policy.

Practical Compliance

Credit unions report on the number and amount of loans to officers (including board members) of the credit union as part of the Prudential Return as well as any loans to officers which are in arrears. In addition to on-going supervision, an assessment of conflicts of interest and related party exposures may be undertaken as part of the on-site inspections of credit unions by the Central Bank.

An example illustrating compliance in practice is where an auditor of one credit union brought forward irregularities in relation to loans made to an officer of the credit union. The auditor undertook a report on connected/related party borrowings. The report confirmed that connected/related loans were not adequately reflected in the Prudential Returns submitted to the Central Bank. The Central Bank then advised that, arising from the loan book review and report on connected/related officer loans, the resignation of certain officers was appropriate.

21.2 The supervisor requires that officers of a credit union, including Board members, shall at all times act in a manner free from conflicts of interest. The Board shall approve and document in writing a policy for identifying, managing and resolving conflicts of interest and which will apply to all officers of a credit union. A credit union must have procedures and controls in place to manage conflicts of interest. Every officer of a credit union shall identify all potential conflicts of interest between his or her own interests and the interests of the credit union and take all necessary steps to ensure his or her own role in the credit union is not influenced by any other interest.



Legal & Regulatory Compliance

Section 69 of the 1997 Act sets out provisions relating to conflicts of interest which requires that officers of a credit union, including the members of its board of directors, shall at all times ensure that, individually and collectively, they act in a manner free from conflicts of interest. Section 69(4) specifically provides that an officer of a credit union shall not, in any manner, directly or indirectly, participate in the consideration or determination of any matter which he or she, or a body with which he or she is connected, has a pecuniary interest or other conflict of interest or where a reasonably perceived conflict of interest exists and, accordingly, an officer shall withdraw from any meeting or part of the meeting during which such a matter is to be considered or determined.

Credit unions are required to have a conflicts of interest policy for identifying, managing and resolving conflicts of interest and this policy must be reviewed and updated by the board at least annually and communicated to all officers of the credit union. In addition, the chair of the credit union has a specific responsibility to ensure that conflicts of interest are appropriately managed by the board of directors.

The Central Bank guidance in relation to conflicts of interest indicates credit unions should take into account at a minimum:

- Whether an officer is likely to make a financial gain, or avoid a loss as a result of their position in the credit union;
- Any interest that the officer may have in the outcome of a contract, transaction, and/or arrangement;
- The business or body that the officer is involved in or connected with and whether conflicts of interest may arise from that involvement; and
- The receipt of any inducement by the officer.

The guidance also provides that “every officer of a credit union shall identify all potential conflicts between his or her own interests and the interests of the credit union and shall take all necessary steps to ensure his or her role in the credit union is not influenced by any other interest.”

Practical Compliance

The Central Bank requires credit unions to submit an annual compliance statement which includes information on a credit union's compliance with the conflicts of interest provisions. Where a credit union identifies material non-compliance with the requirements of Part IV of the 1997 Act, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified. Credit unions are required to report on loans to officers on the quarterly Prudential Return.



In addition to on-going supervision, an assessment of conflicts of interest and related party exposures is undertaken as part of a program of PRISM desktop engagement for mid-size and small credit unions and on-site inspections for larger credit unions. The frequency and duration of an inspection is determined by the risk profile for the credit union. Risks are scoped pre-inspection by the supervision team which will determine the level of onsite work conducted. Methods used by the Central Bank in assessing conflicts of interest and related party exposures in credit unions can include a review of credit policies and procedure, the conflicts of interest policy and the conflicts of interest register. Meeting with the credit unions' board members and officers and assessing the implementation of key risk policies through onsite testing may form part of an inspection, if within scope.

Supervisors require credit unions to correct deficiencies identified during supervisory engagements in a timely manner. These issues are set out in an RMP which identifies the issues, the mitigating action to be taken and the deadline by which each action is to be implemented.

Guiding Principle 22: Internal Audit

The supervisor should consider the need for a credit union to have an appropriately qualified, independent and adequately resourced internal audit function. The credit union's internal audit function must focus on ensuring that the internal control function operates effectively. Where there is an internal audit function, it must report to an appropriate level within the credit union and must have direct access to the Board where it considers this necessary. The scope of internal auditing within a credit union may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets and compliance with policies, laws and regulations.

Overall Assessment: Compliant

Summary Assessment

The statutory requirement that a credit union have an internal audit function with status and responsibilities defined by law is an important safeguard and protection. The steps that the Central Bank has taken, through supervisory engagement, Pre-Approval Controlled Function and Controlled Function requirements and outreach activities are reinforcing and supporting the effectiveness of the internal audit function.

The 1997 Act requires credit unions to have an internal audit function to:

- Provide for independent internal oversight; and
- Evaluate and improve the effectiveness of the credit union's risk management, internal controls and governance process.

The internal audit function must prepare both an internal audit charter and internal audit plan which must be reviewed and approved by the board of directors. The internal audit function



must report the outcome of its evaluations and recommendations directly to the board of directors (or audit committee where one exists) regularly, and at least quarterly.

The Central Bank has indicated in guidance (contained in the Internal Audit Chapter of the Credit Union Handbook) that the scope of the internal audit function should include:

- Evaluating whether the risk management system identifies significant risks including operational risk;
- Ensuring appropriate risk controls are in place, reviewing methods employed by the credit union to safeguard assets;
- Evaluating the accuracy, consistency, comprehensiveness, accessibility, timeliness, and security of management information;
- Reviewing methods employed by the credit union to safeguard assets;
- Assessing the effectiveness of the compliance programme; and
- Evaluating the credit union's governance arrangements.

Under section 55(8) of the 1997 Act, the board of directors is required to regularly review (at least annually) and approve the internal audit charter and the internal audit plan; to include reviewing and approving any modifications, ensuring they are updated and any issues, identified in the review, are managed and rectified in a timely manner.

The guidance indicates that as part of the review, the board of directors should ensure the internal audit charter and the internal audit plan are updated to reflect any material changes, to include at a minimum:

- The risk management system;
- Systems and controls;
- Governance arrangements;
- Legal and regulatory requirements and guidance, and
- The credit union's strategic plan. This should include any proposals in relation to new products and services, material modifications to existing products and services, outsourcing to service providers and major management initiatives, such as transfers of engagements or amalgamations.

The internal audit function in a credit union is subject to fitness and probity requirements. Therefore, a credit union is required to ensure an individual is:

- Competent and capable;
- Honest, ethical and acts with integrity; and
- Financially sound,

before appointing them as the internal audit function and a credit union must ensure the individual remains fit and proper on an on-going basis.

In July 2018, the Central Bank issued regulations for credit unions with total assets of at least €100 million, whereby the role of Head of Internal Audit is a Pre-Approval Controlled



Function (PCF), requiring the pre-approval of the Central Bank before an individual can take up the position.

The Internal Audit Chapter of the Credit Union Handbook contains guidance, in relation to the minimum evaluation to be undertaken by the internal audit function, to assess the effectiveness of a credit union's risk management, internal controls and governance process, which should include:

- Evaluating whether the risk management system identifies and assesses significant risks in the credit union including the identification of operational risks;
- Ensuring appropriate risk controls are selected that manage risks within the credit union's risk tolerance;
- Ensuring that relevant risk information is captured and communicated in a timely manner across the credit union enabling officers of the credit union to carry out their responsibilities;
- Evaluating the effectiveness of the credit union's information systems;
- Evaluating the accuracy, consistency, comprehensiveness, accessibility, timeliness, and security of management information;
- Reviewing methods employed by the credit union to safeguard assets (including inspection and verification of cash, passbooks or statements, bank reconciliations, securities, cash accounts and all records relating to loans and investments);
- Assessing the effectiveness of the compliance programme, in ensuring compliance with legal and regulatory requirements and guidance;
- Evaluating the effectiveness of the credit union's governance arrangements required under the 1997 Act.

The Guidance also provides that the internal audit function should make recommendations, to include an overall opinion, to the board of directors (or the audit committee where one exists) on improving the effectiveness of the risk management, internal controls and governance processes. Recommendations should be ranked and should include proposed timelines for implementation. There should also be a follow up on the recommendations to ensure that agreed actions have been effectively implemented and the internal audit function should maintain a system to monitor the implementation of agreed actions.

All credit unions are required to provide information on their internal audit function as part of their Year End Return. This provides a means of identifying any credit unions that do not currently have an internal audit function.

Credit unions are also required to submit an annual compliance statement to the Central Bank. The annual compliance statement provides information on a credit union's compliance with the requirements of Part IV of the 1997 Act, which includes the provisions relating to the internal audit function. Where a credit union identifies material non-compliance with the



requirements of Part IV of the 1997 Act, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified.

Supervisors employ a range of methods for assessing credit unions' compliance with their obligations. Examples were provided of ineffective internal audit functions being replaced following supervisory engagement.

22.1 The supervisor determines that credit unions have an independent, permanent and effective internal audit function charged with: (a) assessing whether existing policies, processes and internal controls (including risk management, compliance and governance processes) are effective, appropriate and remain sufficient for the credit union's business; and (b) ensuring that policies and processes are complied with.

Legal & Regulatory Compliance

The 1997 Act requires credit unions to separate the internal audit function from other functions and activities of the credit union, and to ensure that the internal audit function is capable of operating independently of management and without undue influence over its activities.

All credit unions are required to provide information on their internal audit function as part of their Year End Return. This provides a means of identifying any credit unions that do not currently have an internal audit function.

Practical Compliance

Through inspections, including engagement with the internal audit function, supervisors review a credit union's compliance with the requirements set out in section 76K of the 1997 Act and associated guidance. For example, during engagements with the internal audit function supervisors may examine whether the internal audit function has the full cooperation of, and direct reporting lines, to the board of directors and require the internal audit function to confirm the priorities it has identified, including areas of high risk for the credit union concerned. Supervisors may also review whether the internal audit function is cognisant of contents of the risk register, forming part of a credit union's risk management system.

Credit unions are also required to submit an annual compliance statement to the Central Bank which includes information on a credit union's compliance with its obligations relating to the internal audit function. Where a credit union identifies material non-compliance with the requirements of Part IV of the 1997 Act, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified.

In addition to on-going supervision, a review of the internal audit function is undertaken as part of a program of PRISM desktop engagement for mid-size and small credit unions and on-site inspections for larger credit unions. The frequency and duration of an inspection is determined by the risk profile of the credit union. Risks are scoped pre-inspection by the supervision team which will determine the level of onsite work conducted.



Methods used by the Central Bank in reviewing the internal audit function in credit unions can include an assessment of the effectiveness of the function with regards to the scale and complexity of the credit union, a review of the internal audit plan and a review of the internal audit reports to assess that the reports provide objective assurance on the effectiveness of the credit union's risk management, internal control and governance processes. Meeting with the internal auditor may form part of an inspection, if within scope.

Supervisors require credit unions to correct deficiencies identified during on-site inspections in a timely manner. These issues are set out in an RMP, which sets out the issue identified, the mitigating action to be taken and the deadline by which each action is to be implemented.

22.2 The supervisor determines that the internal audit function: (a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing; (b) has appropriate independence with reporting lines to the credit union's Board or to an audit committee of the Board, and has status within the credit union to ensure that management reacts to and acts upon its recommendations; (c) is kept informed in a timely manner of any material changes made to the credit union's risk management strategy, policies or processes; (d) has full access to and communication with any member of staff as well as full access to records, files or data of the credit union and its affiliates, whenever relevant to the performance of its duties; (e) employs a methodology that identifies the material risks run by the credit union; (f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and (g) has the authority to assess any outsourced functions.

Regulatory & Legal Compliance

Section 76K(4) of the 1997 Act expressly requires that the internal audit function be "separate from other functions and activities of the credit union and be capable of operating independently of management and without undue influence over its activities".

In addition, Guidance issued by the Central Bank highlights that the internal audit function should be appointed at a senior level to facilitate the appropriate standing and authority within the credit union, be separate from other functions and avoid conflicts of interest. The internal audit function should be capable of operating independently of management and without undue influence over its activities. It also provides that the internal audit function should be free to report its findings and assessment through clear reporting lines and have access to the board of directors (or audit committee, where one exists). This supports the legal requirement under section 76K(5) of the 1997 Act for the internal audit function to report the results of its evaluations and recommendations to the board of directors (or audit committee, where one exists) on a regular basis, and at least quarterly. Accordingly, supervisors require the internal audit function to report directly to the board of directors and not to management. Guidance



also states that the board of directors should not outsource internal audit activities to the credit union's existing auditors as this may impact on the independence of the auditor.

The Central Bank has also indicated in Guidance that the internal audit function should have adequate time and resources to carry out its functions having regard to the nature, scale, complexity and risk profile of the credit union.

The Central Bank issued regulations for credit unions with total assets of at least €100 million whereby the role of Head of Internal Audit is a Pre-Approval Controlled Function (PCF), requiring the pre-approval of the Central Bank. The individual being proposed for the Head of Internal Audit role (CUPCF-4) must complete an online Individual Questionnaire, which is endorsed by the proposing credit union and then submitted electronically to the Central Bank for assessment.

In addition, the Fitness and Probity regime prescribes that for credit unions with assets of less than €100 million the internal audit function is a controlled function (known as CUCF-2). While a credit union is not required to seek prior approval from the Central Bank to the appointment of a CUCF-2, it must satisfy itself on reasonable grounds that the person complies with the Fitness and Probity Standards for credit unions prescribed in the Standards which include that the person appointed must be:

- Competent and capable;
- Honest, ethical and act with integrity; and
- Financially sound.

Section 76K(7) of the 1997 Act states that the internal audit function is to be provided with access at all times to the books and documents (including draft documents) of the credit union to enable it to carry out its functions under the 1997 Act. The internal audit charter is also required to specifically authorise the internal audit function to access the records, personnel and physical properties of the credit union, relevant to the performance of its duties. Guidance provides further clarification that the internal audit function's access should include unrestricted and timely access to the records, personnel and physical properties of the credit union.

The internal audit function is required to prepare an internal audit plan detailing the scope and objectives of audits, setting priorities in relation to areas to be audited and determining the resources required to implement the plan. Guidance provides that the internal audit plan should cover the organisational arrangements setting out the roles and responsibilities of the personnel involved in its implementation. Guidance also advises that in advance of preparing the internal audit plan, the internal audit function should undertake a risk assessment to identify the material risks and controls within the credit union.

Section 76J(9) of the 1997 Act states where a credit union has outsourced activities, the credit union remains legally responsible for compliance with requirements imposed under financial



services legislation in respect of those activities. The credit union must also ensure that it retains the necessary expertise to supervise the outsourced activities effectively, manages the risks associated with the outsourcing and supervises those activities and manage those risks.

The Outsourcing Chapter of the Credit Union Handbook provides guidance that where a credit union decides to outsource a business activity it should ensure that the internal audit function, the risk management system and the compliance programme are updated to take account of the outsourced activity.

Practical Compliance

In recent years there has been an increase in the availability of external providers of internal audit services, from bodies associated with the sector and from professional firms. The recent introduction in credit unions with assets of at least €100m of a PCF for the internal audit function has been seen to contribute to a rise in standards and awareness.

Through inspections, including direct engagement with the internal audit function, supervisors review a credit union's compliance with the requirements set out in section 76K of the 1997 Act and associated Guidance.

A proportion of internal audit documentation in Low Risk credit unions is subject to desktop reviews. If the supervisor identifies significant risk being identified in such reports s/he may initiate an on-site examination.

In support of the sector's compliance with its obligations, the Central Bank engaged extensively in 2018 with the sector and its professional advisors. The Registry hosted a workshop designed to enable the Registry to engage directly with credit union internal auditors. The range of internal auditors in attendance ensured a broad cross sector representation. The overall purpose of the workshop was for the Registry to highlight good and weak practises, identified in internal audit functions during on-site supervisory engagements, and to receive feedback from credit union internal auditors on relevant matters relating to the carrying out of their functions. The Registry also held six Supervisory Workshops for Medium Low and Low Impact credit unions aimed at Boards of Directors with the purpose of supporting credit unions meaningfully to address key governance vulnerabilities.

Guiding Principle 23: Corrective and Remedial Powers

The supervisor should have an adequate range of enforcement tools to facilitate timely corrective action including the power and resources to issue appropriate legal orders, to revoke licenses, force liquidation, removal of officer or board members or to recommend revocation. This includes the power and resources to impose restrictions on a credit union's activities and operations.



Overall Rating: Compliant

Summary Assessment

The Central Bank has a comprehensive range of powers that allow it to intervene at an early stage to require a credit union to take timely corrective action in respect to regulatory breaches and to address concerns as to solvency. Where the circumstances warrant it may use its Regulatory Directions power, issue supervisory warnings, and take enforcement action under its administrative sanctions procedure, with the power to take criminal action by way of summary proceedings in the District Court in certain circumstances. It also has available the ultimate sanctions of suspending or revoking a credit union's registration. Individuals may be restricted or disqualified under the Fitness & Probity regime and sanctioned under the administrative sanctions procedure in given circumstances. The Central Bank is appropriately resourced to facilitate the use of these various powers as necessary.

The Central Bank has a broad range of enforcement tools available to facilitate timely corrective action when, in its judgement, a credit union is not complying with laws, regulations or required actions and enforcement action is justified. The Central Bank has a number of enforcement powers to ensure that credit unions and individuals are held to account:

- Sanctions for breaches of regulations: Part IIIC of the Central Bank Act, 1942 provides the Central Bank with the power to administer sanctions in respect of the breaches of regulatory requirements (referred to as "prescribed contraventions") by credit unions and the participation in the prescribed contravention(s) by persons concerned in their management, and to publicise the findings and sanctions imposed. The Central Bank (Supervision and Enforcement) Act 2013 further strengthened enforcement powers by introducing additional sanctions under the Administrative Sanctions Procedure (ASP), and substantially increasing the fines available thereunder. The ASP is the means by which the Central Bank investigates and sanctions "prescribed contraventions" by credit unions and individuals. In investigating under the ASP, the Central Bank may interview persons it suspects have knowledge of matters pertaining to the suspected prescribed contravention(s). It may also use compulsory powers to compel the production of documents and conduct on-site inspections. If, having investigated, the Central Bank has reasonable grounds to suspect a prescribed contravention, it may: decide to take no further action; issue a Supervisory Warning; resolve the matter by taking supervisory action; agree a settlement; or refer the case to Inquiry for determination and sanction. Sanctions (as part of a settlement or following an Inquiry) may include a caution or reprimand; the imposition of a monetary penalty; and/or a direction disqualifying a person from being concerned in the management of a credit union.
- Fitness and Probity Regime: This ensures that individuals in designated positions within credit unions are competent and capable, honest, ethical and of integrity, and



financially sound. Credit unions must be satisfied on reasonable grounds and on a continuing basis that an individual performing a certain function (“a controlled function”) meets the standards of fitness and probity. Certain controlled functions (known as “pre-approval controlled functions”) require prior approval from the Central Bank, which acts as a gatekeeper, before the individual can perform the function in the credit union. The Central Bank may investigate persons if there is “reason to suspect” a person’s fitness and probity and such an investigation is “warranted in the circumstances”. An investigation under Section 25 of the 2010 Act may give rise to: a suspension (up to three months, which can be extended by further three months); or a prohibition (for a specified period or indefinitely). The Central Bank has powers to prohibit the person from performing “the controlled function, the specified part of a controlled function or any controlled function as the case requires ... either for a specified period or indefinitely.”; and

- Revocations of Registration: Where the Registry is not satisfied that an applicant or credit union complies with the on-going requirements for registration, it engages with Enforcement Division to establish if available evidence supports grounds set out within the 1997 Act to revoke registration, and

Resolution: The 2011 Act established a resolution and liquidation regime for dealing with failing credit unions. If specified intervention conditions (relating to the serious concerns for the financial stability of the credit union concerned) are met, the resolution regime allows the Central Bank to seek a High Court order to transfer the assets and liabilities of a credit union to a third party and an order imposing a special manager regime on a credit union. The Central Bank may also petition the High Court for the winding up of a failing credit union in certain circumstances.

Section 87 of the 1997 Act permits the Central Bank to give “regulatory directions” to individual credit unions in specified circumstances. For example, where the credit union is unable to meet its obligations to its creditors or its members or the credit union has breached a regulatory requirement or it is expedient to do so for public interest reasons (such as protection of members’ savings and to ensure the orderly conduct of business). Regulatory directions under the 1997 Act can relate to one or more activities or matters such as prohibiting the credit union, for up to 6 months, from: raising funds, making payments or acquiring or disposing of assets, making or releasing investments or specifying a maximum threshold for secured and unsecured loans to members. The Central Bank can also require a credit union to provide a statement in writing to the Central Bank on the steps it will take to comply with a regulatory direction under Section 87 or with any other requirement under the 1997 Act.

Section 45 of the Central Bank (Supervision and Enforcement) Act 2013 also provides the Central Bank with the power to give directions to credit unions in certain circumstances, for example, if a credit union is unable to meet obligations to creditors or members, is not maintaining adequate capital or other financial resources or has breached a regulatory



requirement. A section 45 direction can cover suspension, for up to 12 months, of certain activities, disposal of assets, raising and maintaining capital, modifying systems and controls, and/or complying with requirements of financial services law.

The Central Bank's available measures facilitate taking timely corrective action and sanctioning, according to the gravity of the situation. The Central Bank may consider it to be more effective to resolve a matter by requiring credit unions to implement remedial programs or issuing directions, rather than imposing sanctions or taking resolution actions. When a matter is referred to the Central Bank's Enforcement Division, it will consider on a case-by-case basis whether the gravity of the situation warrants enforcement action, the potential nature of such action and if an enforcement referral is accepted. If the matter proceeds to Settlement or Inquiry, the Central Bank has further discretion as to the quantum and nature of the sanction it may seek to impose such as a caution, imposition of a monetary penalty or revocation of a registration.

As an alternative approach in enforcement proceedings, the ASP provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement. This is a written agreement which binds the Central Bank and the credit union and/or persons concerned in its management.

Importantly, the fact of mutuality is not a bar to the imposition of a financial penalty. The Central Bank will take all the circumstances of the case into account in determining sanctions including a credit union's turnover, among other things and in doing so, may have regard to the factors set out in its *Outline of the Administrative Sanctions Procedure 2018*. The sanctions imposed at Inquiry or under a settlement agreement are subject to an overriding requirement that any monetary penalty imposed will not cause the credit union to cease business or cause an individual to be adjudicated bankrupt

Where the Central Bank has reasonable cause to suspect that a "prescribed contravention" has been committed, but where it is considered that an administrative sanction under the ASP in respect of the prescribed contravention is not warranted a non-formal approach may be employed. Supervisory Warnings are reserved for cases where the breach is relatively minor in nature and the regulated financial service provider or person concerned in its management has co-operated and remedied the breach in a timely manner. Details of Supervisory Warnings which have issued are private and are not published on the Central Bank's website, however they do form part of a firm's compliance record.

The Central Bank issues public statements at the conclusion of enforcement actions. These statements are an integral part of the enforcement mission and play a crucial role in promoting compliance and increasing public trust in the system of regulation.

23.1. The supervisor has available an appropriate range of supervisory tools for use when, in the supervisor's judgement, a credit union is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose



risks to the credit union or credit union sector, or when the interests of depositors are otherwise threatened.

Legal & Regulatory Compliance

In addition to the enforcement tools referred to above the Central Bank also has available the following supervisory tools:

Risk Mitigation Programme: The Central Bank raises concerns at an early stage with the credit union and requires that these concerns be addressed in a timely manner. The Central Bank issues an RMP where it has identified issues which it requires a credit union to remediate.

Such issues include:

- A breach of legislative or regulatory requirements;
- Where a credit union is engaged in unsafe or unsound practices or in activities that could pose risks to the credit union or the credit union system; and
- When the interests of members are otherwise threatened.

An RMP will set out the basis of the issue, the prescribed action for the credit union to take, the required outcome and a defined timeline for the action to be taken.

Power to give Regulatory Directions: There are specific provisions in section 87 of the 1997 Act that permit the Central Bank to give “regulatory directions” to individual credit unions in specified circumstances. For example, where the credit union is unable to meet its obligations to its creditors or its members or the credit union has breached a regulatory requirement or it is expedient to do so for public interest reasons (such as protection of members’ savings and to ensure the orderly conduct of business). Regulatory directions under the 1997 Act can relate to one or more activities or matters such as prohibiting the credit union, for up to six months, from: raising funds, making payments or acquiring or disposing of assets, making or releasing investments or specifying a maximum threshold for secured and unsecured loans to members. The Central Bank can also require a credit union to provide a statement in writing to the Central Bank on the steps it will take to comply with a regulatory direction under Section 87 or with any other requirement under the 1997 Act.

Section 45 of the Central Bank (Supervision and Enforcement) Act 2013 also provides the Central Bank with the power to give directions to credit unions in certain circumstances, for example, if a credit union is unable to meet obligations to creditors or members, is not maintaining adequate capital or other financial resources or has breached a regulatory requirement. A section 45 direction can cover suspension, for up to 12 months, of certain activities, disposal of assets, raising and maintaining capital, modifying systems and controls, and/or complying with requirements of financial services law.

Power to Impose Conditions on Registration: Section 6A of the 1997 Act permits the Central Bank to impose additional conditions on registration of a credit union where necessary to



“protect... the interests of members”. Section 6A does not limit the subject of such conditions.

Practical Compliance

The Central Bank’s available measures facilitate the imposition of timely corrective action and sanctioning. These measures can be used in accordance with the gravity of the situation. Specifically, the Central Bank may consider it to be more effective to resolve a matter by requiring credit unions to implement an RMP or, in more serious circumstances, by giving a Regulatory Direction by consent, which shall not be published.

The maximum penalties attaching to summary prosecutions are relatively low, accordingly, with certain limited exceptions, the Central Bank’s general policy is to prefer regulatory action under the ASP regime over criminal enforcement.

The Central Bank has employed its Resolution powers on a number of occasions. For example, the appointment of a Special Manager, a Directed Transfer, and liquidation of a credit union.

23.2. The supervisor has the power to act where a credit union falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a credit union to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios. These measures include the ability to require a credit union to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the credit union, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders, restricting asset transfers, barring individuals from the credit union sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the credit union, and revoking or recommending the revocation of the credit union registration.

Legal & Regulatory Compliance

As detailed above, the Central Bank has a broad range of enforcement powers available to address regulatory breaches and can require a credit union to take timely corrective action or impose sanctions expeditiously. The Registry has statutory and non-statutory means to require credit unions to take corrective action in respect of regulatory breaches, in particular where there are concerns as to the solvency of the credit union. Non-statutory powers include the use of an RMP when supervisors become aware of potential issues in a credit union including issues which could result in a credit union breaching its regulatory threshold requirements. The RMP sets out in detail the remedial actions required by the credit union and the date by which



those actions are to be taken. Statutory powers are used in more serious cases and include the ability to give regulatory directions regarding a credit union's regulatory threshold requirements as required.

The supervisor provides clear prudential objectives and can set out the actions to be taken such as restricting the current activities of a credit union. The Central Bank also has the power to withhold approval of new activities and acquisitions that may be undertaken by a credit union as these cannot be undertaken without prior Central Bank approval (under the 1997 Act).

The Central Bank has powers in relation to:

- **Timeliness of Corrective Action and Sanctioning and Proportionality of Response:** the Central Bank's available measures facilitate the imposition of timely corrective action and sanctioning. These measures can be used in accordance with the gravity of the situation. Specifically, the Central Bank may consider it to be more effective to resolve a matter by requiring credit unions to implement remedial programmes or issuing directions, rather than imposing sanctions or taking resolution actions;
- **Provision of Clear Prudential Objectives/Actions to be taken:** the Central Bank issues RMPs which provide clear prudential objectives with actions to be undertaken by the relevant credit union. Regulatory directions may also be issued which may impose constraining prudential limits, may restrict payments to members and restrict asset transfers.
- **Restricting Current Activities:** where supervisors have specific concerns about activities that could pose risks to a credit union, they may impose restrictions on the business of the credit union, such as restricting the level of investment or lending undertaken. For example, lending restrictions are imposed in the context of on-going matters of supervisory concern, relating to weaknesses in governance and systems and controls for lending and credit control, arising in individual credit unions.
- **Approval of new Activity or Acquisition and facilitating a Takeover by or Merger with another Credit Union:** the permissible activities of credit unions registered under the 1997 Act are clearly defined in laws and regulations, namely the 1997 Act and associated regulations. Where a credit union wishes to provide services to its members, in addition to those referred to in the 1997 Act and associated regulations, that are of mutual benefit to its members and do not impose undue risk to members' savings, they can apply to the Central Bank for approval. Before a credit union wishes to merge with or acquire another credit union, the credit union concerned must obtain approval from the Central Bank. The 1997 Act sets out the powers of the Central Bank to approve credit union mergers/acquisitions. Where credit unions wish to merge/acquire other credit unions there are two options under the 1997 Act. Credit unions may amalgamate, or a credit union may transfer its engagements to another credit union.



- Powers in relation to Revocation/Resolution: the Central Bank has the power to suspend or revoke the registration of a credit union;
- Powers with respect to Individuals: the Central Bank also has significant powers in relation to individuals in the credit union sector, including power to restrict and disqualify individuals under the Fitness and Probity regime and under the Central Bank's administrative sanctions procedure regime whereby "persons concerned in the management" of a credit union may be sanctioned for participation in the commission of a prescribed contravention.

Practical Compliance

In relation to resolution actions, although voluntary restructuring and resolution are distinct and separate processes, the Central Bank considers that both courses of action can be structured within a single framework to operate in a complementary and orderly fashion and help towards achieving the twin aims of (a) protecting sector stability and (b) enabling sector development.

The Central Bank considers that it can be possible to deal with credit unions in financial difficulty in a positive, collaborative manner with the goal of ensuring that the impact of resolution actions on member confidence, across the credit union sector, is kept to a minimum. The Central Bank will also facilitate a transfer of engagements between a weaker credit union and a healthier credit union if required, then cancelling the transferring credit union's registration.

Supplemental Guiding Principle 24: Governance⁴⁰

The supervisor determines that credit unions have robust governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the credit unions' boards and management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the credit union.

Overall Rating: Compliant

Summary Assessment

There are extensive, and proportional requirements for the fitness and probity of credit union boards and staff within the context of the Irish financial services sector. The Registry has also

⁴⁰ ICURN's Guiding Principles for Effective Supervision of Financial Cooperative Institutions do not specifically include a principle on Governance. However, ICURN does have a set of Guiding Principles on Enhancing Governance of Cooperative Financial Institutions and specific expectations for the role of supervisors in ensuring good governance. It is these aspects of the ICURN Governance Principles that are included in this peer review given the importance of good governance in credit unions.



established clear expectations in regulations and credit union handbook for the policy and control environment in credit unions.

The Registry has taken a risk-based approach in the implementation and monitoring of governance and the required control environment in credit unions. This is evident in the more extensive pre-approval control functions required for credit unions over €100 million in assets, the extent that they assess the fitness of the credit union board and staff (including in-person interviews at the Central Bank) depending on potential impact and risk to the financial system and the allocation of supervisory resources in conducting desk-top versus on-site examinations. The Registry has also sought to provide guidance to the sector through frequent interactions and industry conferences, workshops provided by the Registry and a series of publications (i.e., Financial Conditions Report and PRISM Supervisory Commentary) which have been introduced or updated since the last peer review in 2015. In addition, in line with its legal mandate to support the “well-being of credit unions generally” the Registry facilitated the establishment of a CEO led Forum in an effort to help the management of credit unions improve their business models and strategic directions.

24.1. Laws, regulations or the supervisor establish the responsibilities of the credit union’s board and management with respect to governance to ensure there is effective control over the credit union’s entire business. The supervisor provides guidance to credit unions on expectations for sound governance. Where appropriate, supervisors should share industry best practices and emerging risks that are relevant to the credit union business practices.

Legal & Regulatory Compliance

The 1997 Act sets out a clearly defined and detailed governance framework that applies to all credit unions. The responsibilities of the chair and the manager are detailed in the 1997 Act and are set out in sections 55 and 63 respectively.

The 1997 Act also provides that the board of directors shall be responsible for appointing a manager, risk management officer, compliance officer and the approval of the appointment of any other member of the management team, with appropriate integrity and adequate knowledge, experience, skill and competence for their role. In addition, the board of directors is responsible for ensuring that the performance of every other employee and voluntary assistant is reviewed and monitored on an on-going basis, ensuring that they remain appropriate for their particular role in the credit union. The 1997 Act also provides that the board of directors shall ensure that there is an appropriate succession plan in place, in respect of each of the positions that constitute the management team. Furthermore, the nomination committee is obliged to ensure that there is an appropriate succession plan in place for the board of directors.



Sections 53-57 of the 1997 Act set out comprehensive governance requirements for credit unions which must be adhered to by all credit unions according to the nature, scale and complexity of their business. Section 66A requires well-defined, transparent and consistent reporting lines, section 66B requires remuneration policies and practices to be consistent with and promote sound and effective risk management and 66C requires the credit union to submit an annual compliance statement to the Registry. The 1997 Act provides that a credit union should have governance arrangements which ensure there is effective oversight of the activities of the credit union and these governance arrangements must take into consideration the nature, scale and complexity of the business being conducted by the credit union.

Section 76A to 76R of the 1997 Act outlines detailed requirements for a strategic plan, controls, compliance officer, operational risk, internal audit, MIS systems, outsourcing and the board oversight committee and its functions, structure and role. The Credit Union Handbook produced by the Registry also has a specific chapter related to governance.

Practical Compliance

On a risk basis the Registry actively supervises the extensive legal and regulatory requirements through the monitoring of activities, policies, and practices in credit unions. The Registry also has taken a pro-active approach in sharing industry best practices with the sector through peer reporting as part of the semi-annual financial conditions reports, its annual PRISM Supervisory Commentary reports, thematic reviews, which have at times highlighted good practices and through speeches at industry forums.

24.2 Supervisors should regularly perform a comprehensive evaluation of a credit union's governance policies, practices and procedures and implementation of the principles that are proportionate to the size, complexity and risk profile of the CFI. Supervisors should have supervisory processes and tools for evaluating governance policies and practices. Evaluations may be conducted through on-site inspections and off-site monitoring and should include regular communication with a credit union's senior management, board and those responsible for the internal control functions and external auditors.

When evaluating individual credit unions, supervisors should consider the need to adopt different approaches to governance that are proportionate to the size, complexity, structure and risk profile of the credit union.

Supervisors should supplement their regular evaluation of a CFI's governance policies and practice by monitoring a combination of internal reports and prudential reports, including, as appropriate, reports from third parties such as internal auditors.

Legal & Regulatory Compliance

On-going Supervision



Governance is assessed for all credit unions during on-going supervision where governance concerns may be identified from interactions with credit unions and may include the following:

- Review of the annual compliance statement (see further detail below);
- Review of the annual accounts, including directors' reports;
- Issues raised in auditors' management letters;
- Issues raised in internal/external reports;
- Review of quarterly Prudential Returns;
- Timeliness and accuracy of returns;
- Whistle-blowers;
- Thematic reviews; and
- The validation of an RMP where an action has been required to be undertaken by the credit union.

A contravention of the 1997 Act may result in the Central Bank using any of its regulatory powers, including, but not limited to, any or all of the following:

- The imposition of an administrative sanction under Part IIIC of the Central Bank Act, 1942;
- The refusal to approve the appointment of a proposed individual to a pre-approved controlled function where prescribed by the Central Bank pursuant to Part 3 of the Central Bank Reform Act 2010 (Sections 20 and 22 – Credit Unions) Regulations 2013 (the 2010 Act); and/or
- The suspension, removal or prohibition of an individual from carrying out a controlled function where prescribed by the Central Bank pursuant to Part 3 of the 2010 Act.

In the event of issues in relation to policies or implementation being identified, follow-up action is undertaken as appropriate by the supervisor.

The annual compliance statement provides information on a credit union's compliance with the requirements of Part IV of the 1997 Act, which includes provisions relating to the management and governance of the credit union. Where a credit union identifies material non-compliance with the requirements of Part IV of the 1997 Act, a credit union must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified.

Section 122 of the 1997 Act require external auditors to report to the Central Bank in certain circumstances including where they have reason to believe that there are material defects in the accounting records or systems of control or that there are material inaccuracies in or omissions from any returns made by the credit union to the Central Bank.



Supervisors require credit unions to correct deficiencies identified during supervisory engagements in a timely manner. These issues are set out in an RMP, which sets out the issue identified, the mitigating action to be taken and the deadline by which each action is to be implemented. Supervisors will also consider all whistle-blower reports that are received, and act as appropriate.

Practical Compliance

The Registry regularly engages with the board and management of credit unions as part of its on-site inspections and at times through off-site monitoring, review of annual financial statements and meetings with the chair and manager. The 2019 PRISM Supervisory Commentary identifies common issue and concerns that the Registry has identified in credit unions in the previous year and where RMPs are most often issued. The report also provides example of effective governance practices as a way of providing guidance.

In addition to on-going supervision, an assessment of governance risk is undertaken as part of a program of PRISM desktop engagement for mid-size and small credit unions and onsite inspections for larger credit unions. The frequency and duration of an inspection is determined by the risk profile for the credit union. Governance risk is scoped pre-inspection by the supervision team which will determine the level of onsite work conducted.

Methods used by the Central Bank in assessing Governance Risk in credit unions can include a review of policies and procedures, including but not limited to an assessment of credit union's organizational structure that is in place and a review of issues raised by internal or external auditors. Meeting with the board, CEO and risk management officer and assessing the implementation of key policies including but not limited to strategic planning may form part of an inspection, if within scope.

Findings in relation to deficiencies in governance risk and the management of governance risk are communicated to the credit union through the issuance of an RMP setting out any deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.

While the Registry effectively utilizes the RMP framework to identify areas of material weakness or non-compliance within credit unions, the process could be improved by specifically indicating that the RMPs are listed in priority order and/or giving some ranking of the RMPs as its common that a credit union will have multiple RMPs following an inspection.

24.3 Supervisors should obtain information they deem necessary to evaluate the expertise and integrity of proposed board members and senior management. The fit and proper criteria should include, but may not be limited to: (1) the contributions that an individual's skills and experience can make to the safe and sound operation of the CFI, including general management skills and (2) any record of criminal activities or adverse regulatory judgments



that in the supervisor's judgement make a person unfit to uphold key positions in the CFI. Moreover, supervisors should require CFIs to have in place processes to review how well the board, senior management and control functions are fulfilling their responsibilities as set out earlier in these principles.

Supervisors should evaluate whether the credit union has in place effective mechanisms through which the board and senior management execute their oversight responsibilities. In addition to policies and processes, such mechanisms include properly positioned and staffed control functions, such as internal audit, risk management and compliance. In this regard, supervisors should assess the effectiveness of oversight of these functions by the CFI's board and ensure that the internal audit function conducts independent, risk-based and effective audits, including periodic reviews of the CFI's control functions and of the overall internal controls. Supervisors should assess the adequacy of internal controls that foster sound governance and how well they are being implemented.

Legal & Regulatory Compliance

Part 3 of the 2010 Act introduced a statutory system for the regulation by the Central Bank of persons performing Controlled Functions (CFs) or Pre-approved Controlled Functions (PCFs) in regulated financial service providers (including credit unions). A tailored Fitness and Probity regime for credit unions came into effect on 1 August 2013.

The Fitness and Probity regime for credit unions was implemented in two phases, as follows:

- The first phase began on 1 August 2013, and introduced Fitness and Probity requirements for credit unions with total assets, per their latest audited balance sheet, of greater than €10 million;
- The second phase commenced on 1 August 2015 when all remaining credit unions were brought within the scope of the regime.

Any person that performs a CF position in a credit union is subject to fitness and probity requirements, namely any person who performs a function that:

- Exercises a significant influence on the conduct of the affairs of the credit union; or
- Is related to ensuring, controlling or monitoring compliance.

Credit unions are required to ensure that any person performing a CF position is fit and proper before appointing them to the position and the person must also agree to comply with the Central Bank's standards of fitness and probity on an ongoing basis.

There are two senior positions in *all* credit unions which are designated as PCFs. These are the role of chair of the board of directors and the manager/CEO of the credit union. Central Bank approval is required before appointments may be made to these positions.



The Central Bank conducted a review of the Fitness and Probity regime for credit unions in 2017. Following the review, the Central Bank consulted publicly on the addition of three new PCFs (Risk Management Officer, Head of Internal Audit and Head of Finance) for credit unions with total assets of at least €100m. These changes came into effect from 1 July 2018. The Central Bank's approval is required before appointments may be made to these PCF positions. In June 2018 the Central Bank issued updated guidance on fitness and probity for credit unions.

A credit union is not allowed appoint a person to perform a CF/PCF unless the credit union is "satisfied on reasonable grounds" that the person complies with the Standards of Fitness and Probity for Credit Unions (the Standards) and that the person has agreed to abide by the Standards. In order to comply with the Standards, a person is required to be:

- a) Competent and capable;
- b) Honest, ethical and to act with integrity; and
- c) Financially sound.

Credit unions are cooperative financial institutions that are owned and governed by their members. Inherent in the nature of credit unions is they continue to be governed by democratically elected boards of directors. At the same time, it's a legal requirement to have a fitness and probity regime in place for credit unions. The standards above regarding competency, honesty and financial soundness strike a reasonable middle ground and are proportionally adjusted based on the complexity of the credit union.

Failure by a person to comply with the Standards may include:

- a) Where the approval of the Central Bank is being sought to permit a person to perform a PCF, it may lead to approval being refused;
- b) Where a person is performing a CF/PCF, it may lead to an investigation being conducted in relation to the fitness and probity of that person to perform the relevant function; and
- c) Cause that person to be the subject of a prohibition notice under the 2010 Act.

There are detailed governance requirements for credit unions in relation to succession planning, strategic planning and responsibilities for executing board strategies, including the following:

- The board of directors shall ensure that there is an appropriate succession plan in place for the management team;
- The nomination committee shall be involved in succession planning for the board of directors;
- The manager is responsible for implementing the strategies agreed by the board of directors to the standards set out in the strategic plan or as otherwise required by the board of directors.

Practical Compliance



A thematic review of compliance with certain requirements of the fitness and probity regime including due diligence in a sample of credit unions was undertaken by the Registry in 2016. The inspections highlighted a number of issues of concern, particularly in the area of due diligence, which included examples of credit unions having failed to undertake due diligence on CF role holders and examples of incomplete or poor-quality due diligence. Most frequently this resulted from credit unions failing to fully and properly engage with the Fitness and Probity regime for credit unions and taking a 'tick box' approach to compliance with Fitness and Probity requirements, without detailed assessment and understanding of the requirements.

The thematic review also revealed a lack of understanding/appreciation of the role of the Nomination Committee in some credit unions in relation to oversight of Fitness and Probity compliance.

24.4 Supervisors should require effective and timely remedial action by a credit union to address material deficiencies in its governance policies and practices, and should have the appropriate tools for this. Supervisors should have a range of tools at their disposal to address material governance deficiencies of a credit union, including the authority to compel appropriate remedial action. The choice of tool and the timeframe for any remedial action should be proportionate to the level of risk the deficiency poses to the safety and soundness of the credit union. When the supervisor requires remedial action, a timetable should be established for completion. Supervisors should have escalation procedures in place to adequately address the deficiencies identified where further action is warranted.

Legal and Regulatory Compliance

Section 96 of the 1997 Credit Union Act provides the powers to the Central Bank to remove or suspend members of the board or board oversight committee. Guiding Principle 23 outlines additional enforcement actions, remedial powers and administration sanctions that the Central Bank can take. Where the Registry needs to take such actions there is a structured process within the Central Bank for the Registry to liaise with the Enforcement Unit of the Central Bank which has expertise in understanding the process and legal powers of the Central Bank.

Practical Compliance

Taking administrative action or removing officials is often one of the hardest actions for supervisors in various jurisdictions, especially where regulatory capture exists. The Registry has shown a willingness to take these difficult actions where circumstances are warranted.

At present, the Central Bank can only open an investigation of an individual under its fitness and probity regime if the person is still in post and is a weakness in the current framework. This restriction does not apply if the Central Bank wishes to take enforcement action against an individual under the Administrative Sanctions Procedure, and does not limit the regulator's ability to take criminal action. Notwithstanding the available alternatives, the Central Bank has



publicly requested the broadening of the fitness and probity regime's remit to include investigations into those individuals who performed controlled functions in the past. This would be a welcome reform.

24.5 Supervisors should cooperate with other relevant supervisors in other jurisdictions regarding the supervision of governance policies and practices. The tools for cooperation can include memorandum of understanding, supervisory colleges and periodic meetings among supervisors. Information shared should be relevant for supervisory purposes and be provided within the constraints of applicable laws. Special arrangements, such as a memorandum of understanding, may be warranted to govern the sharing of information among supervisors or between supervisors and other authorities.

Legal & Regulatory Compliance:

There is no legal requirement in the 1997 Credit Union Act regarding cross-border collaboration by the Registry given the domestic focus of credit unions. However, the Central Bank recognizes the importance of co-operation with other relevant supervisors in other jurisdictions and has had periodic meetings regarding legal and regulatory policy matters with a number of organizations from other jurisdictions as indicated below. Members of staff from the Registry have also attended relevant international conferences to keep informed of relevant credit union developments in other jurisdictions and to exchange information.

Practical Compliance

Since September 2018 a senior staff member of the Registry has served as the chair of the board of ICURN. The following are examples of the Registry's collaboration with supervisors in other jurisdictions:

- July 2018 – The Central Bank hosted a visit from the Moldovan National Commission for Financial Markets.
- June 2018 – The Central Bank hosted the ICURN Annual Conference.
- In 2018, the Central Bank participated in a study along with 8 other jurisdictions (Australia, Brazil, China, France, Germany, Kenya, South Africa and the USA) on the regulation and supervision of financial cooperatives (including credit unions) conducted by the Financial Stability Institute (FSI) (part of the Bank for International Settlements). The findings of the study were published on 10 January 2019 as a [FSI Insight paper](#).



ANNEX 1: ICURN GUIDING PRINCIPLES

THE ICURN GUIDING PRINCIPLES FOR EFFECTIVE SUPERVISION 2018©

These 23 Guiding Principles (GPs) are recommended by the International Credit Union Regulators' Network (ICURN) as a framework for assessing the effectiveness of the supervisor of credit unions (however described), where the supervisor has statutory responsibility for their safety and soundness. They should be read in conjunction with the accompanying Guidance Notes.

The GPs form four Pillars, all of which must function adequately before a supervisor's activities may be considered to be "effective" overall.

PILLAR I	PILLAR II	PILLAR III	PILLAR IV
Registration and licensing of credit unions	Credit union structures and organisation	Prudential requirements	Supervisory Powers, Responsibilities & Approach
GPs 1 to 3	GPs 4 to 11	GPs 12 to 17	GPs 18 to 23

The Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision" provide an internationally-accepted, well established, framework for assessing supervisors of international, national or regional/state banks, but they do not address certain of the unique characteristics that distinguish credit unions from other types of deposit-taker. The reader will note similarities between the Basel Guiding Principles and the ICURN Guiding Principles, which may facilitate comparisons between banks and credit unions, where this is useful. ICURN also hopes that these GPs will provide helpful guidance for credit union supervisors in jurisdictions where their powers are based on a system of self-regulation or other non-statutory arrangement.

The reader may find it helpful to read the relevant GPs in conjunction with the ICURN [Guiding Principles for Enhancing Governance of Cooperative Financial Institutions](#).

Definitions

In these GPs:

Credit union means a credit union, co-operative, or financial mutual that accepts deposits from its members, (including, for example but not exclusively, caisses populaires and deposit-taking SACCOs) that has been registered and licensed (or authorised) as such in its county/region/state of operation and which is subject to the jurisdiction of a supervisor;

Supervisor means the authority in a country/region/state with statutory responsibility for the safety and soundness of credit unions.



Guiding Principle 1

REGISTRATION, LICENSING or AUTHORISATION

Credit unions should be established by reference to distinct legal characteristics, which should be applied when registering and licensing (authorising) new credit unions. At a minimum, the registration and licensing processes, as appropriate, should consider: ownership (which must be a co-operative or mutual structure); governance; fitness and propriety, capability and competence, of Board members and senior management; strategy; risk management and capital. This is not intended to be an exhaustive list and the relevant authorities should consider any additional criteria needed to facilitate effective supervision in their regimes. Where a country/region/state provides a deposit-protection scheme, registration and licensing must be requirement of a credit union's membership of the scheme.

Guiding Principle 2

OWNERSHIP

The structure of any proposed credit union must comply fully with internationally-recognised cooperative/mutual principles, taking account of circumstances where second-tier organizations have proportional voting for members. No individual or group of individuals may be permitted to exercise control from a minority position. Voting in credit union support organizations or associations may be proportional or representational.

Guiding Principle 3

PERMISSIBLE ACTIVITIES

The permissible activities of credit unions should be clearly defined, and the local terminology used to describe the entities undertaking these activities, such as *credit union*, *financial mutual*, *caisse populaire* and *SACCO*, should be restricted and controlled. There should be a power to enforce against the use of the restricted terminology by unlicensed entities. Business powers and permissible activities may be proportional to the credit union's size and ability to manage the risks inherent in such services and compatible with its business objectives.

Guiding Principle 4

RISK MANAGEMENT

Credit unions should have, and use, appropriate risk-management processes and systems. A risk management system should be able to identify, evaluate, monitor, manage and control the risks to which the credit union may be exposed including, but not limited to, the specific risks described in this section. Policies and limits for risk undertakings should be clearly established and periodically reviewed. The risk management system should be commensurate with the size and complexity of the credit union and its activities. Credit union Board members should be



provided with regular, accurate, management information and be capable (as a group) of interpreting that information and of challenging senior management on the application of the credit union's strategy.

Guiding Principle 5

MANAGEMENT OF OPERATIONAL RISK

Credit unions should have in place risk management policies and processes to identify, assess, monitor and control and mitigate operational risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Guiding Principle 6

MANAGEMENT OF CURRENCY RISK

Credit unions which are permitted to invest in deposits or securities that are denominated in the currency of another state should have a clear risk appetite and specific policies and practices designed to monitor and manage currency risk.

Guiding Principle 7

MANAGEMENT OF INTEREST RATE RISK AND MARKET RISK

Credit unions should have policies and processes in place to manage any interest rate risk to which they may be exposed. In particular, they should be attuned to the interest rate risk of fixed rate lending portfolios.

Guiding Principle 8

MANAGEMENT OF MARKET CONDUCT RISK

Where credit unions in a jurisdiction are permitted to engage in business that may expose them to market conduct risk, they should have in place risk management policies and processes to identify, assess, monitor and control, and mitigate such risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Guiding Principle 9

INTERNAL CONTROLS

Credit unions should have in place an appropriate level of internal controls commensurate with the size and complexity of the credit union and its activities. This should include arrangements around delegations of responsibilities, authorizations, segregation of duties, reconciliations and accounting for assets and liabilities.



Guiding Principle 10

ABUSE OF FINANCIAL SERVICES

Credit unions should have policies and procedures in place that will prevent them from being used for criminal activities, including money laundering. This should include having “know-your-customer” rules.

Guiding Principle 11

ACCOUNTING AND DISCLOSURE

Credit unions should maintain adequate records that have been prepared in accordance with the relevant accounting laws in its jurisdiction. Credit unions' records must be independently professionally audited and the full annual report prepared in accordance with the relevant accounting standards must be freely available to all members.

Guiding Principle 12

CAPITAL ADEQUACY

The supervisor should establish and enforce the rules for an appropriate capital framework with which all credit unions must comply. The rules must balance cooperative principles and objectives with the need to protect depositors. Accordingly, supervisors will need to carefully consider what meets the criteria for capital and to ensure that capital instruments are able to absorb losses in the event of failure. When supervisors choose to align the capital requirements of credit unions to Basel standards, a simplified approach may be adopted for small or simple credit unions that are not allowed to hold complex financial instruments. For such credit unions, compliance with the most advanced risk measurement techniques may be beyond their resources. Therefore, the supervisor may require the credit union to have sufficient capital to support the limited information that may be available for supervisors.

Guiding Principle 13

LIQUIDITY AND FUNDING RISK

The supervisor should ensure that credit unions develop reasonable and prudent liquidity management strategies and contingency plans, including central bank borrowing, standby facilities and/or liquid reserves in a regulated central financial facility, which cover the funding of the credit union and the ongoing monitoring of the credit union's liquidity/funding position. Supervisors must have the ability to intervene when they believe a credit union has an excessively risky funding base or liquidity position. Liquidity risk must be addressed both on a per-credit union and on a network-wide basis. Soundly managed network-wide liquidity and stability facilities are highly desirable.



Guiding Principle 14

CREDIT RISK

The supervisor should ensure that credit unions have policies and systems that are designed to provide satisfactory management of its loan portfolio and the risks to which they are exposed. It is essential that a credit union is able to manage its credit portfolio effectively, monitors the performance of the portfolio and pursues loans in default. The supervisor should also ensure that credit unions engage only in types of lending that their Boards understand and are capable of managing effectively, while avoiding areas that require expertise they do not possess.

Guiding Principle 15

PROBLEM ASSETS, PROVISIONS AND RESERVES

The supervisor should ensure that credit unions have adequate policies and processes for managing problem assets and make appropriate provisions for such assets. It is essential that supervisors ensure that credit unions are adequately provisioned for troubled/problem loans and other impaired assets. Provisions must also be considered for untroubled loans to reflect historical loss experience and changes in economic conditions that may affect the quality of the loan portfolio as a whole. Some provision may be required for contingent liabilities, depending on the probability of a corresponding cash outflow.

Guiding Principle 16

LARGE EXPOSURES

The supervisor should set rules that define and limit the large exposures to which credit unions can be exposed and must have the power to intervene should these be breached. Credit unions must have appropriate and adequate policies and processes concerning large exposures (concentration risk).

Guiding Principle 17

MAJOR ACQUISITIONS

The supervisor should have the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and to impose prudential conditions on, major acquisitions or investments by a credit union, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the credit union to undue risks or hinder effective supervision.

Guiding Principle 18

SUPERVISORY POWERS & RESPONSIBILITIES



The supervisor should have:

- clearly-defined responsibilities and objectives;
- operational independence, transparent processes, sound governance, adequate resources and legal protection for its staff;
- all financial, human and technological resources necessary fully to discharge its responsibilities;
- complete and unfettered access to credit unions, their premises and records, (and any subsidiaries) as it considers necessary;
- the power and the resources to guarantee access to credit unions where this is not provided, and
- the legal capacity to share information while protecting the confidentiality of such information.

The supervisor should be publicly accountable in the discharge of its duties.

Guiding Principle 19

SUPERVISORY APPROACH, TECHNIQUES AND RESOURCES

The supervisor should develop and maintain a thorough understanding of the operations of individual credit unions, the risks to which they are exposed and the management of such risks, and must deploy an effective and ongoing combination of offsite and onsite supervisory techniques. Where the supervisor does not have the responsibility for oversight of a credit union's compliance with its licence conditions, for the prevention of criminal activities including money laundering, or other obligations covered by these GPs, it must have the power to refer its concerns to the appropriate authority and memoranda of understanding must be agreed and maintained accordingly.

Guiding Principle 20

SUPERVISORY REPORTING

The supervisor should have the resources and ability to collect financial and statistical reports from credit unions in whatever form it requires. It must also have the ability to have such reports or forms independently verified where it considers this necessary. The supervisor should undertake appropriate reviews and analysis of all such material and to take relevant action where this is indicated.

Guiding Principle 21

CONFLICTS OF INTEREST & RELATED-PARTY EXPOSURES

The supervisor should have the power to establish rules to control conflicts of interest and related-party exposures and it must have powers that permit it to intervene where such rules are



breached. Rules must require that related-party transactions be undertaken at arm's length and there must be rules requiring full disclosure and reporting of such transactions.

Guiding Principle 22

INTERNAL AUDIT

The supervisor should consider the need for a credit union to have an appropriately qualified, independent and adequately resourced internal audit function. The credit union's internal audit function must focus on ensuring that the internal control function operates effectively. Where there is an internal audit function, it must report to an appropriate level within the credit union and must have direct access to the Board where it considers this necessary. The scope of internal auditing within a credit union may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets and compliance with policies, laws and regulations.

Guiding Principle 23

CORRECTIVE AND REMEDIAL POWERS

The supervisor should have an adequate range of enforcement tools to facilitate timely corrective action, including the power and resources to issue appropriate legal orders, to revoke licenses, force liquidation, removal of officer or board members or to recommend revocation. This includes the power and resources to impose restrictions on a credit union's activities and operations.

Guidance Notes

This document replaces ICURN's publication of 16 September 2011. It retains most of the underlying philosophy and concepts of the original and ICURN gratefully acknowledges the work of its authors and the guidance gained from reference to the Core Principles for Effective Banking Supervision issued by the Basel Committee of Banking Supervision⁴¹. ICURN emphasises that this document has not been developed or endorsed by the Basel Committee, rather it has been prepared independently on behalf of ICURN's Board as guidance for members in assisting them in establishing and supporting effective systems of prudential supervision. ICURN's members operate in jurisdictions in a large number of states in six continents, with the diversity and unique local circumstances that this implies. For that reason, this guidance is offered as a "high-level" approach to considering specific supervisory systems, composed as they may be of unitary authorities or those where responsibilities are separated or shared between authorities. Equally, the legislative basis for the establishment of a credit union or other financial co-operative is often not within the remit of the authorities responsible for overseeing those

⁴¹ The Table attached to these Notes shows how the Guiding Principles correspond to the Basel Core Principles.



institutions and this fact may mean that supervisors do not have all of the regulatory powers that they would wish or which ICURN regards as essential to the existence of an effective system of supervision.

ICURN's view is that the fundamental requirements for an effective system of supervision are:

- ❖ an effective legal framework, including the powers for licensing, authorisation, supervision, the enforcement of compliance with relevant laws and regulations;
- ❖ a clearly-defined and enforced safety-and-soundness regime;
- ❖ each supervisor involved in the supervision of the sector has clearly-defined responsibilities and objectives;
- ❖ each supervisor should have operational independence, transparent processes, sound governance and adequate resources, and legal protection for its staff;
- ❖ a supervisor should have the legal capacity to share information while protecting the confidentiality of such information, and
- ❖ a supervisor should be publicly accountable in the discharge of its duties.

The ICURN Steering Committee hopes that this document will allow supervisors to review their own effectiveness and to identify not only areas where valuable changes or improvements might be made but also any aspects of their work where their effectiveness is constrained for reasons not within their control. It may also form the basis of an independent review of a supervisor's effectiveness in certain circumstances. Where a credit union sector is mature and material to its local economy an independent review may call for a more detailed methodology and a tailored approach; in such circumstances ICURN would be happy to discuss specific circumstances and requirements with a view to preparing a review framework designed specifically to meet the supervisor's, or the state's, requirements.

Table of Equivalence between the ICURN Guiding Principles for Effective Supervision and the Basel Core Principles – the reader is asked to note that the general differences between banks and co-operative financial institutions mean that not all Principles correspond directly.

Basel Core Principle	ICURN Guiding Principle
CP 1 Responsibilities, objectives and powers	GP 18
CP 2 Independence, accountability, resourcing and legal protection for supervisors	GP 18
CP 3 Cooperation and collaboration	GP 18; GP 19
CP 4 Permissible activities	GP 3
CP 5 Licensing criteria	GP 1
CP 6 Transfer of significant ownership	GP 2



CP 7 Major acquisitions	GP 17
CP 8 Supervisory approach	GP 19
CP 9 Supervisory techniques and tools	GP 19
CP 10 Supervisory reporting	GP 20
CP 11 Corrective and sanctioning powers of supervisors	GP 23
CP 12 Consolidated supervision	Not applicable
CP 13 Home-host relationships	Not applicable
CP 14 Corporate governance	GP 2; GP 4; GP 9
CP 15 Risk management process	GP 4
CP 16 Capital adequacy	GP 12
CP 17 Credit risk	GP 14
CP 18 Problem assets, provisions and reserves	GP 15
CP 19 Concentration risk and large exposure limits	GP 16
CP 20 Transactions with related parties	GP 21
CP 21 Country and transfer risks	Not applicable
CP 22 Market risks	GP 7
CP 23 Interest rate risk in the banking book	GP 7
CP 24 Liquidity risk	GP 13
CP 25 Operational risk	GP 5
CP 26 Internal control and audit	GP 9; GP 22
CP 27 Financial reporting and external audit	GP 11
CP 28 Disclosure and transparency	GP 11
CP 29 Abuse of financial services	GP 10



ICURN Guiding Principles

Enhancing Governance of Cooperative Financial Institutions

These Guiding Principles⁴² incorporate 17 elements considered desirable in facilitating effective governance of cooperative financial institutions. The principles are categorized into seven groups:

GROUP 1 – Cooperative Principles

GROUP 2 – Board Practices

GROUP 3 – Senior Management

GROUP 4 – Risk Management and Internal Controls

GROUP 5 – Compensation

GROUP 6 – Disclosure and transparency

GROUP 7 – Role of Supervisors

COOPERATIVE PRINCIPLES

Guiding Principle 1⁴³ MEMBERS' RIGHTS AND OBLIGATIONS

The values of a cooperative financial institution (“CFI”) should be based on the following seven cooperative principles:

- 1. Voluntary and Open Membership** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- 2. Democratic Member Control** Cooperatives are democratic organizations controlled by their members, who, where applicable, actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner, which may provide for proportional voting based on investment/ownership. The Board should oversee the development and implementation of strategies that will result in member attendance and participation in

⁴² While best efforts have been made to develop the Guiding Principles to recognize both the common law and civil law legal systems, the principles should be adapted to ensure they align appropriately with the legal system applicable in the jurisdiction.

⁴³ While Guiding Principle 1 is a restatement of The International Cooperative Alliance revised Rochdale principles, clarification has been provided regarding these principles in the Cooperative Financial Institution context.



General Meetings. The meeting agenda and other relevant information, including any Board candidates and the CEO where the members elect same, should provide for full disclosure and be readily available. In addition, election processes should be objective, transparent and consistent with the CFI's by-laws.

3. Member Economic Participation Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members may receive limited compensation, if any, on capital subscribed as a condition of membership and, in order to build capital reserves, a dividend may be paid in the form of patronage or bonus shares. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public and opinion leaders – particularly young people - about the nature and benefits of cooperation.

6. Cooperation among Cooperatives Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures. 7. Concern for Community Cooperatives work for the sustainable development of their communities through policies approved by their members that should additionally promote social responsibility and member education on cooperative and financial issues.

The board should ensure that these cooperative principles are incorporated into governance policies and practices.

BOARD PRACTICES

Guiding Principle 2 RESPONSIBILITIES OF THE BOARD

The board has overall responsibility for the cooperative financial institution (“CFI”), including approving and overseeing implementation of strategic objectives, risk strategies, adopting best corporate governance practices and values, and oversight of management. The board should approve and monitor the overall business strategy, taking into account long-term financial interests, and exposure to and ability to manage risk effectively. In discharging these responsibilities, the board should take into account the interests of members, other relevant



stakeholders and, where permitted, non-member depositors and borrowers, and ensure an effective relationship is maintained with its supervisor.

Corporate Values and Code of Conduct. The board should lead in establishing the ‘tone at the top’ and in setting professional and ethical standards and corporate values that promote integrity for itself, senior management and other employees. The officers and board committee members owe a duty to the CFI to operate the institution with reasonable prudence and in the best interests of the CFI and its members. The directors owe the members a duty of fair dealing with respect to issues of membership, ownership and corporate governance. In addition, the board should ensure transactions with related parties are subject to appropriate restrictions. In discharging these duties, directors may rely on reports, advice, and other information provided by the CFI’s employees, lawyers, consultants and committees of the board of which the director is not a member, unless the director has knowledge which would make such reliance unreasonable or in bad faith. These corporate values are communicated through a code of conduct that articulates acceptable and unacceptable behaviors.

Oversight of Senior Management The board or, where applicable, members should select and, when necessary, replace senior management and have in place an appropriate succession plan. In carrying out its role of oversight, the board should:

- Meet regularly with senior management
- Monitor actions to ensure they are consistent with the strategy and policies approved by the board, including the risk tolerance/appetite;
- Question and review critically explanations and information provided;
- Set performance standards consistent with long term objectives, strategy and financial soundness of the CFI and monitor performance against the standards; and
- Ensure management’s knowledge and expertise remains appropriate for the nature of the business and the CFI’s risk profile.

The board should ensure the organizational structure facilitates effective decision making and good governance. This includes regularly reviewing policies and internal controls to determine areas needing improvement, as well as identifying and addressing significant risks and issues.

Guiding Principle 3 BOARD QUALIFICATIONS

The CFI should set out expectations desired regarding qualifications, for example, work experience, education, business-oriented degrees and professional designation and training requirements for directors. Where appropriate, each director should conduct an annual self-assessment to confirm competency and identify potential areas for growth and development. Board members should be and remain qualified, when appropriate for their positions, including through training. They should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of the CFI.

Qualifications The board should possess, individually and collectively, appropriate experience, competencies and personal qualities, including professionalism and personal integrity.



Training The board should ensure board members have access to programs of tailored initial and ongoing education on relevant issues. The board should dedicate sufficient time, budget and other resources.

Composition The CFI should have an appropriate composition of board members, for example, taking into consideration demographics, geography, and professional qualifications. This is achieved by identifying and nominating candidates to ensure appropriate succession planning and strengthening itself to meet the CFI's long-term oversight needs. Recruiting members from a broad population of candidates helps to enhance board perspective and ability to exercise objective judgment independent of senior management and personal interests. In identifying potential board members, the board should ensure candidates are qualified to serve as board members and are able to commit the necessary time and effort to fulfil their responsibilities and to undertake any required training requirements within the timeframes established by the CFI.

Guiding Principle 4 BOARD'S OWN PRACTICES AND STRUCTURE

The board should define appropriate governance practices for its own work and have in place the means to ensure such practices are followed and periodically reviewed. The board should conduct an annual self-assessment to review and improve its performance, and the performance of Chairs and individual directors.

Organization and Functioning of the Board The board should maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organizations, rights, responsibilities and key activities. Taking into account its size, the frequency of meetings and use of committees, the board should structure itself in a way so as to promote efficiency, sufficiently deep review of matters, and, robust, critical challenge and discussion of issues. To support board performance, the board should carry out regular assessments of both the board as a whole and of individual board members.

Role of the Chair The chair should ensure board decisions are taken on a sound and well-informed basis and should encourage and promote critical discussion. This includes ensuring dissenting views can be expressed and discussed within the decision-making process.

Role of Directors The Directors provide an important service to the CFI and to fellow members, who have entrusted them to oversee the organization. To best carry out their duties, directors should:

- Undertake appropriate established training requirements
- Regularly attend Board meetings and prepare for them by reviewing all material provided
- Actively participate at board meetings and question management so they fully understand their reports and actions
- Ensure that the best interest of the CFI is considered in all Board decisions
- Ensure management has developed, and the Board approved with member participation where appropriate, all policies and procedures required under applicable legislation



- Where appropriate, ensure an appropriate Enterprise Risk Management Framework has been established based on the size, complexity and risk profile of the CFI
- Fully understand the limits imposed on the CFI's business powers under applicable legislation and the CFI's by-laws, articles and policies
- Ensure controversial decisions involving conflicts of interest are carefully documented
- Review examination reports and other reports prepared by external parties and external auditors' reports to identify and correct deficiencies in the operation of the CFI and to ensure the best possible performance; and
- Develop a common view among Board members before making a public comment regarding controversial issues that concern the CFI.

Board Committees The board should establish such committees as may be required in its jurisdiction and may establish other committees to have specialized responsibilities, for example, committees for compensation, nominations, human resources, governance, ethics, and compliance. Each committee should have a charter or other instrument setting out its mandate, scope and working procedures. Committees should maintain appropriate records of their deliberations and decisions. Where appropriate based on the size, complexity and risk profile of the CFI, board members may also have a seat on Executive Committees, for example, the Asset Liability Committee (ALCO).

Audit Committee The audit (or supervisory) committee is typically responsible for the financial reporting process; providing oversight of the CFI's internal and external auditors; approving or recommending to the board for their approval the appointment, compensation and dismissal of external auditors, reviewing and approving the audit scope and frequency; receiving key audit reports; and ensuring senior management is taking necessary corrective actions in a timely manner to address control weaknesses, noncompliance with policies, laws and regulations and other problems identified by auditors. In addition, the audit committee should oversee the establishment of accounting policies and practices.

Risk Committee It is appropriate for many CFIs, especially where warranted by their size, complexity or risk profile, to have a board-level risk committee or equivalent. The risk committee is typically responsible for advising the board on the CFI's overall current and future risk tolerance/appetite and strategy and for overseeing senior management's implementation of that strategy. This should include strategies for capital and liquidity management, as well as for credit, market, operational, compliance, reputational and other risks. To enhance the effectiveness of the risk committee, it should receive formal and informal communication from the CFI's risk management function and should, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and amalgamations.

Conflict of Interest The board should have a formal written conflict of interest policy and an objective compliance process for implementing the policy. The policy should include:



- A member's duty to avoid to the extent possible activities that could create conflicts of interest of the appearance of conflicts of interest;
- A review or approval process for members to follow before they engage in certain activities so as to ensure that such activity will not create a conflict of interest;
- A member's duty to disclose any matter that may result, or has already resulted, in a conflict of interest;
- A member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity of ability to properly fulfil duties to the CFI may be otherwise compromised;
- Adequate procedures for transactions with related parties to be made on an arms-length basis; and the way in which the board will deal with any non-compliance with the policy.

SENIOR MANAGEMENT

Guiding Principle 5 ACTIVITIES ALIGNED WITH BUSINESS STRATEGY

The Chief Executive Officer (CEO)/General Manager/Manager or, where applicable, senior management reports directly to the board and is responsible for the day to day operations of the CFI, implementing board-approved plans to achieve desired strategic objectives and reporting on results. The board, through the chair, typically communicates directly to the CEO who may be supported by a senior management team. Senior management is responsible for ensuring the management and staff of the CFI apply the processes, procedures and controls necessary to prudently manage the risk and for providing the board of directors with timely, relevant, accurate and complete information to enable it to assess that delegated responsibilities are being discharged effectively. Under the direction of the board, senior management should ensure the CFI's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the board. Senior management contributes to sound corporate governance through personal conduct and by providing adequate oversight of those they manage. Senior management is responsible for delegating duties to staff and should establish a management structure that promotes accountability and transparency. Senior management should implement, consistent with the direction given by the board, appropriate systems for managing the risks – both financial and non-financial – to which the CFI is exposed.

RISK MANAGEMENT AND INTERNAL CONTROLS

Guiding Principle 6 EFFECTIVE INTERNAL CONTROLS AND RISK MANAGEMENT FUNCTION

Cooperative financial institutions should have an effective internal controls system and a risk management function, such as a chief risk officer or equivalent, with appropriate qualification, expertise, sufficient authority, stature, independence, resources and access to the board. Risk management generally encompasses:

- Identifying key risks;



- Assessing these risks and measuring exposure to them;
- Monitoring the risk exposures and determining the corresponding capital needs on an ongoing basis;
- Monitoring and assessing decisions to accept particular risks, risk mitigation measures and whether risk decisions are in line with the board-approved risk tolerance/appetite and risk policy; and
- Reporting to senior management, and/or having unfettered access to the risk committee and/or board as appropriate, on all items noted above.

Guiding Principle 7 IDENTIFICATION AND MONITORING OF RISKS ON AN ONGOING BASIS

Risks should be identified and monitored on an ongoing basis, and the sophistication of the CFI's risk management and internal control infrastructures should keep pace with any changes to the CFI's risk profile (including its growth), and to the external risk landscape. Risk analysis should include both quantitative and qualitative elements. In addition to identifying and measuring risk exposures, the risk management function should evaluate possible ways to manage these exposures. Cooperative financial institutions should have an approval process for new products that includes an assessment of the risks.

As part of its quantitative and qualitative analysis, where appropriate, the CFI should also use forward-looking stress tests and scenario analysis to better understand potential risk exposures under a variety of adverse circumstances. In addition to these forward-looking tools, CFIs should also regularly review actual performance after the fact relative to risk estimates (i.e., back testing) to assist in gauging the accuracy and effectiveness of the risk management process and making necessary adjustments.

Guiding Principle 8 ROBUST INTERNAL COMMUNICATIONS

Effective risk management requires robust internal communication within the CFI about risk across the organization and through reporting to the board and senior management. Sound corporate governance is evidenced, among other things, by a culture where senior management and staff are expected and encouraged to identify risk issues. The CFI's risk exposures and strategy should be communicated throughout the CFI both horizontally and vertically with appropriate frequency. Information should be communicated to the board and senior management in a timely, complete, understandable and accurate manner so they are equipped to make informed decisions. Risk reporting systems should be dynamic, comprehensive and accurate, and board reports designed carefully to ensure information regarding risks is conveyed in a concise and meaningful manner.

Guiding Principle 9 EFFECTIVE USE OF AUDIT AND INTERNAL CONTROL FUNCTIONS



The board and senior management should use the work conducted by internal audit functions, external auditors and internal control functions in an effective manner. The board should recognize that independent, competent and qualified internal and external auditors, as well as other internal control functions, are vital to the corporate governance process. The board and senior management can enhance the ability of the internal audit function to identify problems with a CFI's governance, risk management and internal control systems by:

- Encouraging internal auditors to adhere to national and international professional standards;
- Requiring audit staff have skills commensurate with the business activities and risks of the CFI;
- Promoting the independence of the internal auditor;
- Recognizing the importance of the audit and internal control processes and communicating their importance throughout the CFI;
- Requiring the timely and effective correction of identified internal audit issues by senior management;
- Engaging internal auditors to judge the effectiveness of the risk management function and the compliance function, including the quality of risk reporting to the board and senior management, as well as the effectiveness of other key control functions; and
- Receiving appropriate assurances that risks are being effectively identified, monitored and managed, including non-compliance with applicable legislation. For example, that the CFI has developed and implemented effective processes to ensure compliance with anti-money laundering legislation including "know your customer" requirements.

The board and management are responsible for the preparation and fair presentation of financial statements in accordance with applicable accounting standards in each jurisdiction, as well as the establishment of effective internal controls related to financial reporting. The CFI should maintain sound control functions, including an effective compliance function that, among other things, routinely monitors compliance with laws, corporate governance rules, regulations, codes and policies to which the CFI is subject and to ensure deviations are reported to an appropriate level of management, and, in case of material deviations, to the board. Senior management should promote strong internal controls and should avoid activities and practices that undermine their effectiveness.

COMPENSATION

Guiding Principle 10 ACTIVE OVERSIGHT

Compensation should be a key component of a CFI's governance and risk management. The board should actively oversee the design and operation of the compensation system, and should monitor and review it to ensure it operates as intended. Board members who are actively involved in the design and operation of the compensation system should be independent with appropriate knowledge about compensation arrangements and the



incentives and risks that can arise. The board should monitor and review outcomes to ensure the compensation scheme is operating as intended. Owing to the importance and sensitivity on the subject of compensation, where appropriate, the CFI may elect to establish a Compensation Committee. The committee board members who are most actively involved in the design and operation of the compensation system should be independent with substantial knowledge about compensation arrangements, including incentives and impact on performance behavior, and related risks.

Guiding Principle 11 ALIGNED WITH PRUDENT RISK TAKING

An employee's compensation should be effectively aligned with prudent risk taking. The CFI should ensure variable compensation is adjusted to take into account the risks an employee takes, considering all types of risk over a timeframe sufficient for risk outcomes to be revealed. An appropriate compensation program includes both quantitative risk measures and human judgment. Compensation should be symmetric with risk outcomes.

DISCLOSURE AND TRANSPARENCY

Guiding Principle 12 ADEQUATE TRANSPARENCY

Governance should be adequately transparent to members, depositors and other relevant stakeholders.

Transparency is essential for sound and effective corporate governance. It is challenging for members, depositors and other relevant stakeholders to hold the board and senior management accountable when there is insufficient transparency.

The CFI should disclose relevant and useful information that supports the key areas of governance identified in these guiding principles. The disclosure should be proportionate to the size, complexity, structure and risk profile of the CFI, and, at a minimum, meet any disclosure requirements applicable in its jurisdiction.

ROLE OF SUPERVISORS

Guiding Principle 13 GUIDANCE ON EXPECTATIONS

Supervisors should provide guidance to CFIs on expectations for sound governance by establishing guidance or rules consistent with the principles set forth in this document, and requiring CFIs to have robust governance strategies, policies and procedures. Where appropriate, supervisors should share industry best practices and emerging risks that are relevant to the CFI's business practices.

Guiding Principle 14 REGULAR EVALUATIONS

Supervisors should regularly perform a comprehensive evaluation of a CFI's governance policies, practices and procedures and implementation of the principles that are proportionate to the size, complexity and risk profile of the CFI. Supervisors should have supervisory



processes and tools for evaluating governance policies and practices. Evaluations may be conducted through on-site inspections and off-site monitoring and should include regular communication with a CFI's senior management, board and those responsible for the internal control functions and external auditors

When evaluating individual CFIs, supervisors should consider the need to adopt different approaches to governance that are proportionate to the size, complexity, structure and risk profile of the CFI.

Supervisors should obtain information they deem necessary to evaluate the expertise and integrity of proposed board members and senior management. The fit and proper criteria should include, but may not be limited to: (1) the contributions that an individual's skills and experience can make to the safe and sound operation of the CFI, including general management skills and (2) any record of criminal activities or adverse regulatory judgments that in the supervisor's judgement make a person unfit to uphold key positions in the CFI. Moreover, supervisors should require CFIs to have in place processes to review how well the board, senior management and control functions are fulfilling their responsibilities as set out earlier in these principles.

Supervisors should evaluate whether the CFI has in place effective mechanisms through which the board and senior management execute their oversight responsibilities. In addition to policies and processes, such mechanisms include properly positioned and staffed control functions, such as internal audit, risk management and compliance. In this regard, supervisors should assess the effectiveness of oversight of these functions by the CFI's board and ensure that the internal audit function conducts independent, risk-based and effective audits, including periodic reviews of the CFI's control functions and of the overall internal controls. Supervisors should assess the adequacy of internal controls that foster sound governance and how well they are being implemented.

Guiding Principle 15 MONITORING

Supervisors should supplement their regular evaluation of a CFI's governance policies and practice by monitoring a combination of internal reports and prudential reports, including, as appropriate, reports from third parties such as internal auditors. Supervisors should obtain information from CFIs on their governance policies and practices which should be updated at regular intervals and when significant changes have occurred. Supervisors should collect and analyze information from CFIs with a frequency commensurate with the nature of the information requested, and its size, complexity and risk profile. For monitoring and evaluation purposes, the supervisor should periodically review key internal reports of the CFI. To make meaningful comparisons between CFIs, the supervisor may also require a standardized supervisory reporting process, covering the data items the supervisor deems necessary.



Guiding Principle 16 EFFECTIVE AND TIMELY REMEDIAL ACTION

Supervisors should require effective and timely remedial action by a CFI to address material deficiencies in its governance policies and practices, and should have the appropriate tools for this. Supervisors should have a range of tools at their disposal to address material governance deficiencies of a CFI, including the authority to compel appropriate remedial action. The choice of tool and the timeframe for any remedial action should be proportionate to the level of risk the deficiency poses to the safety and soundness of the CFI. When the supervisor requires remedial action, a timetable should be established for completion. Supervisors should have escalation procedures in place to adequately address the deficiencies identified where further action is warranted.

Guiding Principle 17 COOPERATION WITH OTHER JURISDICTIONS

Supervisors should cooperate with other relevant supervisors in other jurisdictions regarding the supervision of governance policies and practices. The tools for cooperation can include memorandum of understanding, supervisory colleges and periodic meetings among supervisors. Information shared should be relevant for supervisory purposes and be provided within the constraints of applicable laws. Special arrangements, such as a memorandum of understanding, may be warranted to govern the sharing of information among supervisors or between supervisors and other authorities.

The INTERNATIONAL CREDIT UNION REGULATORS' NETWORK (ICURN) created this document in March 2013 as guidance for cooperative financial institutions to promote enhanced governance. Recognizing that CFIs operate in a wide range of systems, the guiding principles may not always be applicable or relevant in all circumstances; ICURN encourages CFIs to focus on the guiding principles' goals. These principles have been developed using the Basel Committee on Banking Supervision's Principles for Enhancing Corporate Governance. ICURN is grateful for the Basel Committee's ongoing support, although it wishes to emphasize that this document was developed independently by the ICURN steering committee and is not endorsed in any way by the Basel Committee.



ANNEX 2: PEER REVIEW TEAM

The ICURN peer review team has provided the Central Bank with a high level of experience, global perspective and continuity from the 2015 review. Members of the ICURN team are regulatory representatives from Canada, United Kingdom, and the United States, as follows:

- Dave Grace, team leader, (United States) is the Executive Director and co-founder of ICURN and a credit union supervision consultant for the International Monetary Fund, World Bank and others. He has conducted assessments of the National Credit Union Administration in the United States and multiple jurisdictions in the Caribbean and Africa regions utilizing ICURN Guiding Principles. Prior to starting his consultancy firm Mr. Grace was Senior Vice President at the World Council of Credit Unions for 14 years. In this capacity he led the organization's advocacy efforts in Brussels and worked extensively with the Irish League of Credit Unions as a founding member of the European Network of Credit Unions. Prior to WOCCU, Mr. Grace was a Manager with the Federal Reserve Bank of St. Louis, USA.
- Roger Marsh (United Kingdom) is an independent consultant who retired from the Bank of England (Sept., 2018) where he was a Senior Technical Specialist for Banks, Building Societies and Credit Unions at the Prudential Regulation Authority. Previously he was a Senior Manager of the Credit Unions Supervision Team responsible for the prudential supervision of UK credit unions and for credit union prudential policy. Mr. Marsh has held various positions with supervisory bodies in the UK since 1993, originally in enforcement roles and later as a supervision manager. Mr. Marsh is a Solicitor, England & Wales, Attorney at Law, New York, and has practiced as a Solicitor in New South Wales and the Australian Federal Jurisdiction. He is a Member of the Chartered Institute of Arbitrators. In 2015 he was part of ICURN's on-site team which undertook the statutory peer review of credit union supervision in Ireland and was the principal author of the assessment report.
- Wendy Ivey (Canada) is Assistant Vice President, Regulation & Risk Assessment at the Credit Union Deposit Guarantee Corporation of Alberta, where she leads a team of risk management professionals who provide regulatory oversight of the \$26B (assets) Alberta credit union system. Ms. Ivey has held various positions with Scotiabank including Vice President, Global Risk Management, where she led the management of credit risk and adjudication teams in four regional offices. Ms. Ivey has a BSc, MBA, and is a Fellow of the Institute of Canadian Bankers.
- Lili Tangwall (United States) is the Membership Director of ICURN where she facilitates training, sharing of best practices, research and education for an independent international network of financial cooperatives regulators. She has over 15 years of experience developing financial cooperatives internationally, including starting credit unions in her native Moldova.



Mrs. Tangwall has worked with credit unions in over 100 countries during her time as the World Council of Credit Unions' Manager of Member Services. In addition, Mrs. Tangwall has held the position of Outreach Specialist at the University of Wisconsin Center for Cooperatives – a resource for start-up cooperatives in the U.S. Midwest. She has a Bachelor degree in Economics with minor in International Relations from the Academy of Economic Studies in Bucharest, Romania.

In addition to the peer review team, findings from the on-site analysis have been reviewed and evaluated by a second group of regulatory experts which formed the quality control team:

- John Kutchev (United States) is the Deputy Executive Director of the National Credit Union Administration (NCUA), the federal U.S. agency responsible for supervising and insuring the 5,600 credit unions and \$1.3 trillion in assets. Mr. Kutchev has spent 29 years with NCUA where he started as a staff examiner to become the second highest civil servant in this 5,000+ person agency. Mr. Kutchev is a member of the ICURN Steering Committee and was part of the quality control team for the 2015 review of the Central Bank of Ireland.
- Clayton Osborne (Australia) is the head of the Australian Prudential Regulation Authority's (APRA) Northern Region office in Brisbane. Mr. Osborne has been with APRA since 1999 and was promoted to the head of the region in 2008. He has extensive regulatory experience in the supervision of banks, credit unions and building societies. Prior to joining APRA, he worked in the banking and finance industry, specializing in credit management. Mr. Osborne is a member of the ICURN Board of Directors, its Audit Committee and is a Certified Practicing Accountant.
- Martin Stewart (United Kingdom) is an independent consultant, the immediate past ICURN Chairman and former Director of Banks, Building Societies & Credit Unions at the Bank of England. Mr. Stewart brings 17 years of experience, as a board member, advisor and regulator in the UK. He has and a deep European operational experience, as well as worldwide advisory and regulatory insights. An influencer of chairmen, CEO's and government ministers, he is able to translate emerging risks into strategic intent. Mr. Stewart was part of the quality review team for ICURN's 2015 review of the Central Bank of Ireland.



ANNEX 3: GRADING FOR ASSESSMENT AGAINST GUIDING PRINCIPLES

<i>Grade</i>	<i>Criteria</i>
Compliant	An assessment of “compliant” is given when all criteria are met without any significant deficiencies, including instances where the principle has been achieved by other means.
Largely Compliant	A “largely compliant” assessment is given when there are only minor shortcomings, which do not raise serious concerns about the authority’s ability to achieve the objective of the principle and there is clear intent to achieve full compliance with the principle within a prescribed period of time (for instance, the regulatory framework is agreed but has not yet been fully implemented).
Materially Non-compliant	A principle is considered to be “materially noncompliant” in case of severe shortcomings, despite the existence of formal rules and procedures and there is evidence that supervision has clearly not been effective, the practical implementation is weak or that the shortcomings are sufficient to raise doubts about the authority’s ability to achieve compliance.
Non-Compliant	A principle is assessed “noncompliant” if it is not substantially implemented, several criteria are not complied with, or supervision is manifestly ineffective.
Non-Applicable	A category of “non-applicable” is reserved for those cases that the criteria would not relate the country’s circumstances. In addition, a Principle would be considered not applicable when, in the view of the assessor, the Principle does not apply given the structural, legal and institutional features of a country.