

RESPONSE TO CP88 FROM BUNCRANA CREDIT UNION LTD.

The Board of BunCrana Credit Union Ltd is pleased to have the opportunity to comment on this consultation paper, which sets out a further raft of wide-ranging regulations that the Central Bank is proposing to introduce for all credit unions. At the outset, we wish to state that we endorse the submissions made (respectively) by DAVY, our Investment Advisors, and by the Irish League of Credit Unions, of which we are an affiliate-member.

There are however some points that we wish to add, based on our own experience.

Section 4 (page 14) it states: "Where credit unions can demonstrate improvements in their credit risk management practices in line with the strengthened regulatory framework, it is anticipated that the use of credit union specific lending restrictions as a regulatory tool will reduce over time." That may be the theory, but it is not our experience of such regulation in actual practice. On the contrary, despite significant improvements in credit risk management in this credit union --as evidenced to the Central Bank by our prudent lending and reduced delinquency--the lending restrictions which were imposed on this credit union some years ago remain in place even today. Indeed, only very recently (after complaints to the previous Registrar and others in the Central Bank) have we seen any relaxation on Investment and Liquidity restrictions which had also been imposed some years ago. Therefore we trust we could be forgiven for some scepticism about such general statements as that outlined. We hope that our fears on that point may prove unfounded over the period ahead; but we will assess that on the basis of our experience in the months and years ahead.

Section 5: On the draft Reserves regulations, we would agree that credit unions reserves are very important; however we are puzzled as to the rationale for a "standard" minimum regulatory reserve of at least 10% of the assets--which was increased from the previous 8% figure without justification--despite the Central Bank admission that regulation (and therefore provision, inter alia for reserves) should be "risk-based". We suggest that a standard 10% minimum is a blunt instrument and evidences a "one-size-fits-all" approach which is inappropriate --and inferior to-- a risk-based approach to this and other regulations.

Section 6: On the draft Liquidity regulations, we would agree that a minimum liquidity ratio of 20% should be established and maintained. However, in the present low-interest rate conditions which (given ECB's quantitative easing approach) are forecast to continue until 2019 at least, we question the justification for a second "short term liquidity ratio...of at least 10% of unattached savings". There is no justification evidenced for that; and it is arguably a case of "over-egging the pudding" in current fiscal conditions--especially where credit unions are struggling to obtain a decent return for members' savings.

Section 7: On the draft Lending regulations, we are seriously concerned --despite the CP 76 Feedback Statement-- that overall, the proposed lending restrictions suggest that Central Bank seems intent on further unwarranted interference in the lending business of credit unions. Where is the evidence for the restricted "Categories of lending"? What is the justification for a "first legal charge on the

property" for House Loans--not a mortgage-- as defined? What is the logic for such a restriction; and does it apply to all financial institutions, or only to credit unions? Does the Central bank specify the type of security to be held by other financial institutions in Ireland? What could be more "personal" than a loan to improve and/or repair a member's own home? The policy and procedures on lending are the responsibility of the Board and Management of the credit union. As stated, a credit union should "ensure that its credit assessment process is based on coherent and clearly defined criteria and that the process of approving loans and amending loans is clearly established and documented in its lending policy." Micro-management of that lending service is not the function of the Central Bank. The draft lending categories/regulations would restrict credit unions unfairly.

We accept entirely that loans to "related persons" should not be on more favourable terms than loans to other members. However the effect of the draft changes would shift the balance against related parties--to such an extent that a credit union volunteer could effectively be penalised for working as a director in his own credit union (or even for being related to a director or management team member). Overall, the proposed lending regulations would provide an increasingly strong disincentive for credit union directors, managers --and family members--despite public utterances of both Central Bank and Government Ministers about the importance of volunteers in the credit union movement.

Section 8: On the draft Investment regulations, we see no evidence offered for the removal of equities (or commercial bonds) as an investment class. Surely this is incoherent and ill-defined? It is permitted for Pension Fund investments; yet denied for credit unions. Dependant on their risk policy, a credit union may wish to consider (say) 5 % or 10% of its long-term investment funds in a managed (e.g. a centralised investment) fund which offers potential for real growth with minimal/tolerable exposure to risk. Additionally, it is best practice to match assets to liabilities; therefore we suggest that a 10 year restriction is inappropriate; and a 25 year maturity term is much more realistic and meaningful--particularly in the present low-interest deposit rate ECB scenario.

Further, as argued by DAVY and/or ILCU, asset classes should include (inter alia) Centralised Lending, Social Housing and State Guaranteed projects. Therefore the draft definition of Collective Investment Schemes is much too narrow/restrictive. We do, of course, agree that credit union investments should not put members' funds at undue risk, as stated; and we further agree that all our investments should be managed, monitored and reported regularly to the Board and to the Central Bank.

Section 9: On the draft Savings regulations, we consider that (whilst they appear at first sight to be innocuous) the proposal to limit savings and to force the return of all savings over the proposed new limit--with no regard for a member's wishes--is ludicrous. Whilst we accept that it may be desirable, in the best interests of the members, for a credit union Board to limit individual shares it would be quite intolerable to have that imposed on all credit unions against their will. What evidence-based assumptions are made in this respect; and what potential consequences have been anticipated by such restriction? Have any other Irish financial organisations been likewise limited; and if so, what were the consequences? Have you considered what this may imply about the safety and soundness of members' savings in their local credit union? How could that be interpreted by members and the media? Our critics--and our competitors--would

have a field day! Such draft regulations--to be imposed on credit unions by their own Regulator--could have serious, adverse, unintended consequences. Those proposals should therefore be totally withdrawn.

Section 10: We would accept the proposed Borrowing regulations fully. Whilst there is a possibility that future conditions may change, it is unlikely in our view that a 25% limit of aggregate savings would be insufficient.

Section 11: On Systems, Controls and Reporting Arrangements we agree the broad thrust of the proposals on Risk Register, Plans, Policies and Procedures. However we have serious concerns about the proposals on Reporting and Disclosure in the Annual Accounts. First, the draft is ill-defined, e.g. what is intended by the phrase "the performance of its loan book"--and why?

Has the Central Bank imposed the same/similar requirements on banks and other financial institutions; and if not why? We contend that such information--if required to be detailed--would be commercially sensitive and almost certainly used by "the competition" to the detriment of credit unions and their members.

Again, on Related Parties, whilst we accept that Loans to Directors and Managers should be reported to members in the annual Report, we question the extension of that requirement to related parties. We totally accept that there should be no "preferred treatment"; however a relative of a credit union officer should not be exposed to the same degree of detailed scrutiny and open reporting as would be appropriate for the officers themselves.

Section 12: We would accept the proposals as outlined.

Section 13: The proposed next steps and timelines are much too tight. In particular, the period of 6 months to commence all remaining regulations is crazy, in current economic conditions. Once again, we strongly endorse the views of the ILCU and DAVY as expressed in their respective submissions.

Further research work is needed to assess the true impact of all these proposed regulations on Irish credit unions; and only when the potential impacts/consequences are known, is it possible to put a realistic, reasonable timescale on their introduction. If the draft proposals were introduced, as proposed, it would have an adverse, long-term impact on the development of the credit union sector and its ability to flourish (as intended by the Credit Union Commission) in Ireland.

That combination--of the raft of new regulations plus a much too-tight timescale--would truly have unintended, negative and damaging consequences for credit union members, their families and the wider community.

Once again, the Board is pleased to respond, as requested, to Consultation Paper 88.

Paul Brogan, Chair, Buncrana Credit Union Limited, 26th February 2015.