

Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act

The regulations the Central Bank is introducing contain requirements that will apply to all credit unions in the following areas:

- Reserves;
- Liquidity;
- Lending;
- Investments;
- Savings;
- Borrowing;
- Systems, Controls and Reporting Arrangements; and
- Services Exempt from Additional Services Requirements.

RESERVES

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Reserves	<input type="checkbox"/> Minimum Regulatory Reserve - 10% of total assets <input type="checkbox"/> Notifications to Central Bank	<input type="checkbox"/> Minimum Regulatory Reserve - 10% of total assets <input type="checkbox"/> Notifications to Central Bank <input type="checkbox"/> Initial reserve requirement for newly registered credit unions

Reserves: 5.4 The Central Bank is seeking views on the following:

- (i) Do you have any comments on the draft reserves regulations? If you have suggestions please provide them along with the supporting rationale.

Comment: Whereas it is acknowledged that this is included in the Act, the ability of the Central Bank to retain the right to 'prescribe the regulatory reserve requirement that a credit union' implies that the CB may prescribe different Regulatory reserves to different credit unions. Regulatory Reserves percentages should be enshrined in the Act so that it would require a legislative change to amend Regulatory Reserve percentages in credit unions and it would be the same for all credit unions. This would also give credit unions clear unchanging guidance around reserve percentages rather than them not knowing if the percentages will be changed by the Central Bank at any time.

There is no indication of how long the Regulations will remain in force or how changes to them will be dealt with. Will there be further consultation before any changes are made or will the Central Bank just notify credit unions of changes?

(ii) 'For that purpose the Bank may also prescribe in respect of other matters related to the regulatory reserve requirement, including any of the following:

- (a) the application of risk weightings to assets for the purposes of calculating the regulatory reserve requirement;
- (b) the types and attributes of the assets or liabilities included in the calculation of the regulatory reserve requirement;
- (c) the requirement for initial reserves to be held by a newly-registered credit union under section 6.'

Comment: Whereas it is acknowledged that this is included in the Act, as above surely this should be enshrined in the Act rather than being left to the CB to prescribe how it should be done and what percentages?

The nature of ‘risk weightings’ is not explained and is therefore open to interpretation by the Central Bank without further consultation.

LIQUIDITY

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Liquidity	<input type="checkbox"/> Minimum liquidity ratio of 20% <input type="checkbox"/> Notification to Central Bank where fail to meet liquidity requirements	<input type="checkbox"/> Minimum liquidity ratio of 20% <input type="checkbox"/> Short term liquidity ratio of 10% <input type="checkbox"/> Definition of liquid assets expanded <input type="checkbox"/> Notification to Central Bank where fail to meet liquidity requirements

Liquidity: 6.4 The Central Bank is seeking views on the following:

(i) Do you have any comments on the draft liquidity regulations? If you have suggestions please provide them along with the supporting rationale.

‘The Bank may prescribe the liquidity requirements that a credit union is required to maintain at a minimum’

Whereas it is acknowledged that this is included in the Act, the ability of the Central Bank to retain the right to prescribe the minimum liquidity requirements: This should be enshrined in the Act so that a legislative change would be required to amend it rather than any changes being in the control of the CB. This would also give credit unions clear unchanging guidance around reserve percentages rather than them not knowing if the percentages will be changed by the Central Bank at any time. There is no indication of how long the Regulations will remain in force or how changes to them will be dealt with. Will there be further consultation before any changes are made or will the Central Bank just notify credit unions of changes?

LENDING

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Lending	<ul style="list-style-type: none"> <input type="checkbox"/> Large exposure limit– greater of €39,000 or 1.5% of total assets <input type="checkbox"/> Limit on lending over 5 years – 30% of loan book <input type="checkbox"/> Limit on lending over 10 years – 10% of loan book <input type="checkbox"/> Central Bank approval for additional longer term lending 	<ul style="list-style-type: none"> <input type="checkbox"/> Large exposure limit– greater of €39,000 or 10% of Regulatory Reserve <input type="checkbox"/> Limit on lending over 5 years – 30% of loan book <input type="checkbox"/> Limit on lending over 10 years – 10% of loan book <input checked="" type="checkbox"/> Maximum maturity limit - 25 years <input type="checkbox"/> Central Bank approval for additional longer term lending <input checked="" type="checkbox"/> Categories of loans <ul style="list-style-type: none"> <input type="checkbox"/> Personal loans <input type="checkbox"/> Commercial loans <input type="checkbox"/> Community loans <input type="checkbox"/> House loans <input type="checkbox"/> Loans to other credit unions <input checked="" type="checkbox"/> Concentration limits <ul style="list-style-type: none"> <input type="checkbox"/> Commercial lending – 50% of Regulatory Reserve <input type="checkbox"/> Community lending – 25% of Regulatory Reserve <input type="checkbox"/> Lending to other credit unions - 12.5% of Regulatory Reserve <input checked="" type="checkbox"/> Related party lending requirements - management and monitoring

Lending:

Related Parties

The draft lending regulations define a related party as:

- a member of the board of directors or the management team of a credit union;
- a member of the family of a member of the board of directors or the management team of a credit union; or
- a business in which a member of the board of directors or the management team of a credit union has a significant shareholding;

and require that loans to related parties are not provided on more favourable terms than loans to non-related parties.

Lending: The Central Bank is seeking views on the following:

(vii) Do you have any comments on the draft lending regulations? If you have suggestions please provide them along with the supporting rationale.

Comment: Concentration limits should be based on % of Loan Book rather than Regulatory Reserve. This part excludes individual loans less than €25,000.

Comment: In relation to **Related Parties** the inclusion of brother, sister is very extensive in a local community credit union.

INVESTMENTS

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Investments	<ul style="list-style-type: none"> <input type="checkbox"/> Classes of investments <ul style="list-style-type: none"> o Irish and EMU State Securities o Accounts in Authorised Credit Institutions (AACIs) o Bank bonds o Equities o Collective investment schemes o Other credit unions o Industrial and Provident Societies <input type="checkbox"/> Counterparty limit – investments in single institution - 25% of investment portfolio <input type="checkbox"/> Concentration limits <ul style="list-style-type: none"> o Investments in Irish and EMU State Securities - 70% of investment portfolio o Investments in bank bonds - 70% of investment portfolio <input type="checkbox"/> Maturity limits <ul style="list-style-type: none"> o Maximum maturity 10 years o AACIs maturing after 5 years – 50% of this class of investment o AACIs maturing after 7 years – 20% of this class of investment o Irish and EMU State Securities maturing after 7 years – 30% of this class of investment o Bank bonds maturing after 7 years – 30% of this class of investment <input type="checkbox"/> Currency limits – all investments denominated in Euro 	<ul style="list-style-type: none"> <input type="checkbox"/> Classes of investments <ul style="list-style-type: none"> o Irish and EEA State Securities o Accounts in Authorised Credit Institutions (AACIs) o Bank bonds o Collective investment schemes o Other credit unions o Industrial and Provident Societies <input type="checkbox"/> Counterparty limit – investments in single institution - 25% of investment portfolio <input type="checkbox"/> Concentration limits <ul style="list-style-type: none"> o Investments in Irish and EEA State Securities - 70% of investment portfolio o Investments in bank bonds - 70% of investment portfolio o Investments in other credit unions - 12.5% of Regulatory Reserve o Investments in societies – 12.5% of Regulatory Reserve <input type="checkbox"/> Maturity limits <ul style="list-style-type: none"> o Maximum maturity 10 years o Investment maturing after 5 years – 50% of investment portfolio o Investments maturing after 7 years – 30% of investment portfolio <input type="checkbox"/> Currency limits - all investments denominated in Euro

Investments

The Central Bank is seeking views on the following:

(i) Do you have any comments on the draft investments regulations? If you have suggestions please provide them along with the supporting rationale.

None

SAVINGS

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Savings	<input type="checkbox"/> Maximum member savings (shares and deposits)– greater of €200,000 or 1% of total assets <input type="checkbox"/> Limit on total deposits as percentage of total shares – 100% <input type="checkbox"/> Maximum member deposit - €100,000	<input type="checkbox"/> Maximum member savings (shares and deposits) – €100,000 <input type="checkbox"/> Limit on total deposits as percentage of total shares – 100% <input type="checkbox"/> See Maximum member savings requirement above

The Central Bank is seeking views on the following:

- (i) Do you have any comments on the draft savings regulations? If you have suggestions please provide them along with the supporting rationale.

Comment:

The restriction on savings of €100,000 is a major change for credit union members and is not acceptable. The argument that overall in credit unions, there is a very low percentage of savings over €100,000 can be used equally to argue for and against this restriction.

This restriction is not applied to any other financial institution and no reason can be established as to why it should be applied exclusively to credit unions.

This was not the proposal in CP76 on Tiered Regulation where Category 2 (larger) credit unions would have been restricted to €100,000 or 1% of total assets (ECU €1.3M). There is no reference to any tiering of credit unions in CP88 except that it will not go ahead at this time.

Whereas we do not agree with this limitation, if the existing limits must be changed, greater savings balances should be catered for in certain categories of accounts e.g. saving schemes for Christmas (Penny Bank accounts) and greater savings amounts should be allowed for in bigger credit unions – go back to existing €100,000 or 1% of Total Assets. Credit unions try to encourage thrift amongst our members and the provision of a Penny Bank account to save for Christmas is very much part of the ethos of our credit union.

BORROWING

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Borrowing	<input type="checkbox"/> Maximum borrowing – 50% of aggregate savings <input type="checkbox"/> Notification to Central Bank	<input type="checkbox"/> Maximum borrowing – 25% of aggregate savings <input type="checkbox"/> Notification to Central Bank

The Central Bank is seeking views on the following:

- (i) Do you have any comments on the draft borrowing regulations? If you have suggestions please provide them along with the supporting rationale.

Comment: None

SYSTEMS, CONTROLS AND REPORTING ARRANGEMENTS

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Systems, Controls and Reporting Arrangements	<input type="checkbox"/> Requirement to maintain, approve and review a risk register and other documentation referred to in the 1997 Act <input type="checkbox"/> Communication of certain policies to all officers of the credit union	<input type="checkbox"/> Requirement to maintain, approve and review a risk register and other documentation referred to in the 1997 Act <input type="checkbox"/> Communication of certain policies to all officers of the credit union <input type="checkbox"/> Certain disclosure requirements in relation to the annual accounts

A credit union shall document, approve and update, at least annually, the matters specified in Schedule 1 to these Regulations.

SCHEDULE 1

1. *The systems of control of its business and records required under section 108(1)(b) of the Act,*
2. *A succession plan for the board of directors and the management team which shall detail the key skills and competencies required for members of the board of directors and management team,*
3. *The annual performance review carried out by the board of directors,*
4. *The annual compliance statement, together with supporting documentation used in the preparation of the compliance statement.*

The Central Bank is seeking views on the following:

(i) Do you have any comments on the draft regulations on systems, controls and reporting arrangements? If you have suggestions please provide them along with the supporting rationale.

Comment:

To include the performance of the loan book in the Annual Report is restrictive in that it may reveal sensitive information to outside agencies. This is not a requirement for other financial institutions.

Is it intended that this disclosure would be included in the remit of the external auditors' report?

Is it intended that Points 2-4 of Schedule 1 would be included in the Directors' Statement as is done for existing requirement - Point 1?

ADDITIONAL SERVICES

Area (Green=change, Blue=new)	Existing requirements and guidance	Requirements in draft regulations
Additional services	<input type="checkbox"/> Exemption from Additional Services Requirements Regulations (S.I. No. 223 of 2004 and S.I. No. 107 of 2007)	<input type="checkbox"/> Exemptions in S.I. No. 223 of 2004 and S.I. No. 107 of 2007 now provided for under Central Bank regulation making powers

SERVICES EXEMPT FROM ADDITIONAL SERVICES REQUIREMENTS

Performing Services

46. (1) The services set out in Schedule 2 to these Regulations are services prescribed by the Bank for the purposes of section 48(2)(b) of the Act.

1. Telephone, internet and fax access to the credit union by the member.
 - (1) Access by telephone
 - (2) Access by internet
 - (3) Loan applications by fax
2. Third Party Payments
3. Automated teller machine services (ATMs)
4. Insurance services
5. Group health insurance schemes
6. Discount for goods and services
7. Budget account scheme
8. Bill payment services
9. Euro drafts and bureau de change
10. Money transfers
11. Money Advice and Budgeting Service
12. Service centres
13. Draws
14. Standing orders (refers to payments out of members' accounts)
15. Direct debits (refers to payments out of members' accounts)
16. Financial Counselling
17. Will making
18. Gift cheques
19. Electricity budget meter cards or tokens
20. Savings Stamps
21. PRSA

The Central Bank is seeking views on the following:

- (i) Do you have any suggestions on additions, amendments or deletions to the services and related conditions that are included in the draft regulations? If you have suggestions please provide them along with the supporting rationale. It should be noted that any further services proposed to be included in the regulations must not involve undue risk to members' savings, the financial stability of the credit union or the operational capability of the credit union.

Comment: None

SECTION 13: PROPOSED NEXT STEPS AND TIMELINES FOR THE INTRODUCTION OF THE DRAFT REGULATIONS

The table below sets out proposed next steps and timelines for the introduction of the draft regulations set out in this consultation paper.

Date	Step
27 November / 10 December 2014	Conduct Information Seminars
27 February 2015	Consultation period closes
June 2015	Publish feedback statement and final regulations
July - December 2015	Transition period before final regulations are commenced
31 December 2015	Commencement of remaining sections of 2012 Act and final regulations
On-going	On-going engagement and consultation with the credit union sector on the development of the regulatory framework

The Central Bank is seeking views on the following:

(i) Do you agree with the proposed timelines for the introduction of the draft regulations set out in this consultation paper, in particular the transition period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.