Comhar Linn
INTO CREDIT UNION

# CP88.
# Consultation on Regulations for Credit Unions on the commencement of the remaining sections of the 2012 Act.
# Suggestions and Rationale.

**Section 5: Reserves.**

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| Do you have any comments on the reserves regulations? If you have suggestions, please provide them with supporting rationale. |

- Comhar Linn INTO Credit Union is in agreement with the reserve regulations.

**Section 6: Liquidity**.

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| Do you have any comments on the draft liquidity regulations? If you have suggestions, please provide them with supporting rationale. |

- ***Liquidity:*** Comhar Linn INTO Credit Union welcomes the proposal from the Central Bank to include investments with more than three months to maturity where the credit union has a guarantee that the funds can be accessed. The requirements to hold 10% of unattached shares as short term liquidity (cash and Investments maturing in less than 8 days) will restrict the Credit Union's ability to generate a return on investments. Whilst the Credit Union will always hold a liquidity buffer to meet known and unknown liquidity demands, the strict requirement to hold 10% of unattached shares at all times will restrict the investment and lending opportunities of the Credit Union. This is particularly relevant in the current low/negative interest rate environment whereby funds held on very short term deposit or in demand accounts may attract a negative yield. This will result in an actual financial cost being realised by the credit union as well as an investment opportunity cost.
- The proposal does not appear to take into account the current position in regard to withdrawals whereby credit unions have the option to control the level of withdrawals for a period of up to sixty days. Neither does it appear to take into account the ability of the credit union to put additional liquidity arrangements in place e.g. insurance cover for funds in excess of any proposed limit.
- Credit unions, by and large, are currently required to put their surplus cash into the banking system and are providing liquidity to this sector. In the current climate, the rates available from banks are likely to reduce as soon as they satisfy the requirement of BASEL 111 Liquidity Ratios, a factor that will impact on the income of credit unions. It would appear that credit unions are providing significant liquidity to the banking sector.
- In this case, it's a one size fits all approach. There is no recognition for credit unions who have put systems in place to manage liquidity in a professional manner. We note that the '8 days' requirement is also a FSA requirement for credit unions in the UK and Northern Ireland. Comhar Linn INTO Credit Union believes that the current limits should be retained for credit

unions who can demonstrate that they have the appropriate risk management systems and expertise in place.

**Section 7: Lending.**

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| Do you have any comments on the draft lending regulations? If you have suggestions, please provide them with supporting rationale. |

- ***Lending:*** The draft legislation allows for a value of up to 50% of the Credit Union's regulatory reserve to be lent as commercial loans. However, the large exposure limit only allows for the greater of €39,000 or 10% of Regulatory Reserve to be lent to a borrower or a connected group of borrowers. This may restrict the credit union's ability to participate in club or syndicated lending arrangements to high credit corporate entities in the future, as typically the minimum lending tranches in these facilities would be in excess of 10% of the credit unions reserve. It would be preferable to legislate/regulate for this type of lending at this stage by stating that where a potential borrowing entity holds a credit rating of BBB- or higher and/or is a state owned organisation (commercial or non-commercial), then the maximum lending exposure allowed is 100% of Regulatory Reserves.

**Section 8: Investments.**

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| Do you have any comments on the draft investment regulations? If you have suggestions, please provide them with supporting rationale. |

- ***Investments:*** Broadly speaking we are in agreement with the proposed regulations in respect of investments
- We would however, make the following comment:

    - Equities: The current guidelines allow for up to 5% of the credit union's investment portfolio to be invested in equities. Comhar Linn INTO Credit Union believes that this limit should be retained for credit unions who can demonstrate that they have the appropriate risk management systems and expertise in place.

    - The proposed blanket restriction on holding shares in a company will restrict the future business strategy of a credit union. If for instance, a group of credit unions wished to establish a special purpose company to provide services such as IT and Audit to the credit unions on a shared basis, this blanket restriction would not allow them to hold equity in such a company. The provision within regulation for such strategic holdings of equity in companies should be considered for inclusion.

**Section 9: Savings.**

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| Do you have any comments on the draft savings regulations? If you have suggestions, please provide them with supporting rationale. |

- **Savings**: The proposed maximum savings limit of €100,000 per member would be a significant retrograde step penalising, in particular, credit unions with larger asset bases. Specific issues relating to this restriction include:

- The proposed €100,000 limit on savings restrict a credit union's ability to meet its members' needs. Whilst the number of Credit Union members who hold on-going balances in excess of €100,000 may be few the credit union is providing them with a valuable service by safeguarding their savings. Additionally, there are many credit union members who will for a short period, for various reasons, need to deposit cash in excess of €100,000 with a financial institution (sale of house, redundancy, lump sum from pension, inheritance, etc.).
- The proposal will also restrict credit unions from holding accounts from clubs, businesses and associated groups within the credit union common bond, who from time to time will have deposits in excess of this limit. In any case, there is an implied maximum savings limit within all common bonds. Some members are in a position to save more than others due to their particular circumstances. Members who have used the credit union as their primary financial institution will, in the event of this limit being imposed, be directed towards the banking sector. If they have funds in excess of €100,000 with a bank, will they be advised to go to the credit union? Members trust the credit union and the credit union sector should be able to support members when they require this type of service.
- The proposed €100,000 limit on savings is potentially anti-competitive as it is being levied unilaterally on the credit union sector. This regulation will put Credit Unions in a less competitive position vis-a-vis other savings institutions operating in the Irish market.
- The proposed €100,000 limit on savings suggests that there is a risk with holding funds in excess of this with any credit union. This suggests that the Credit Union is not financially stable and will undermine the public's confidence in the sector. A communication to all credit union members informing them that the Regulator no longer allows them to hold funds in excess of €100,000 with a credit union may well cause a run on the sector.
- The current savings limit has not resulted in a significant number of members lodging large sums in excess of €100,000. **We advocate either the** retention of the current limit or a more appropriate restriction would be 1% of Total Assets, thereby providing assurance to our members that their credit union is a safe and secure place to deposit their savings.
- The credit union sector has, by and large, survived the GFC and has not required significant direct state funded support. The message to our members, in the event of this limit being imposed, is that it's ok to lodge in excess of €100,000 to the state controlled banks where, the maximum state guarantee is €100,000 it's ok to invest in excess of €100,000~~,~~ where the limit on the Investor Compensation Scheme is €20,000, but it **is not ok** to have funds with the credit union in excess of €100,000**. Members, in these circumstances, will have no choice but to go to the banks**. It is Comhar Linn INTO Credit Union's view that this is arbitrary and will have a significant impact on credit unions so affected.
- We also note that the FSA's maximum savings limit for a credit union member in Northern Ireland is the greater of £15,000 or 1.5% of total savings. This issue needs further consideration as the proposed limit will create a disparity between credit unions in the Republic and those in Northern Ireland.
- The proposed €100,000 limit on savings is unfairly prejudiced against Credit Unions with larger asset bases. The lack of recognition of the size of the asset base of a credit union unfairly penalises larger credit unions. The risk

associated with a credit union with Total Assets of €10,000,000 holding savings from single members in excess of €100,000 is far greater than that of a credit union with Total Assets €100,000,000. This will have an impact on both larger credit unions and curtail the appetite for consolidation within the sector. The proposed €100,000 limit on savings encourages a 'race to the bottom' and does not reward Credit Unions which have invested considerably in Risk Management and Compliance Functions.

- Comhar Linn INTO Credit Union believes that, at the very least, this limit should be reviewed and provision made for credit unions who can demonstrate that they have the appropriate risk management systems and expertise in place.
- The apparent logic being applied to the proposed new savings limit is linked to the current Deposit Guarantee Limit. In the event of a future reduction in this limit, will credit unions then have to to comply with the new lower limit?

The imposition of many of these proposed regulations in the current low interest environment, will impact significantly on the credit union business model. There is a need to constantly evaluate the impact of these regulations and make changes in line with the evolving macro financial services environment. Otherwise, credit unions will be stuck in a straightjacket, unable to respond to market conditions and member needs. Hence, there is a requirement to review and update, in consultation with the sector, on an on-going basis.

In an overall context, the proposed regulations should take account of, inter alia:

(a) The balance sheet of the credit union.
(b) The ability of the credit union to demonstrate that they have the appropriate risk management systems and expertise in place.
(c) International credit union regulatory environment.

These factors need to be considered in the context of the proposed regulations. The tiered regulatory model, as proposed by the Credit Union Commission 2012 is, in our opinion, the most appropriate model to address these issues.

Board of Directors.
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26/2/2015