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**26th February 2015**

**Registry of Credit Unions**
**Central Bank of Ireland**
**PO Box 559**
**College Green**
**Dublin 2**

Dear Sir or Madam,

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

I write to make submissions as part of the above consultation process.

As a general comment I believe that the overall thrust of the existing proposals is at significant odds with the Registrar's long-standing goal of "strong credit unions in safe hands". This is because the balance of risk management/avoidance with the commercial freedoms to develop a solid business model is skewed heavily in favour of the former at the expense of the latter.

I have worked as a consultant in governance, risk management & compliance in the sector for over a decade. Many instances of poor practices in credit unions have been identified over that time. Some of these have emerged in the public domain. Others that I am familiar with have not. Doubtless the Central bank has encountered many others. In my opinion, the Central Bank's experiences in respect of these is having a disproportionate impact on the overall thrust of these proposals

During the boom years poor practices occurred in public life (including in Central Bank regulation) as well as in other financial sectors. In general, they have been swept out of the system and the likelihood of them recurring and leading to any repeat of what befell the nation are now in the range of aircraft crash probability.

This fact must be reflected in the final implementation of the 2012 Act. The goal should be to manage risk in a strong credit union sector, rather than to remove all risk from it entirely. Banning equities from investment portfolios, excluding gilts from the definition of liquidity, a short-term liquidity limit of 10% of unattached savings and limiting commercial lending risk to 50% of regulatory reserves are examples of seeking to remove risk rather than manage it. The pendulum is swinging too far.

My more specific observations are set out below.

**Draft reserves regulations**

1. I am unable to comment on these ahead of more specific proposals regarding operational risk requirements.

**Draft liquidity regulations**

2. I agree with the requirement to introduce a short-term liquidity limit however not with the quantum proposed. I have been giving compliance, investment & general risk management advice to credit unions for almost a decade now and that has always included a short-term (Demand to 1 week) liquidity limit. In general the credit unions I advise keep such liquidity of approximately 5% of unattached savings and this level has served them well through the international crises (Northern Rock, Lehmans, Cyprus) as well as the various domestic crises (the bailout, Anglo, Newbridge Credit Union). I see no justification for requiring such a limit to the value of 10% of unattached shares, particularly if the proposal to restrict savings to the level of the State guarantee (which I oppose below) proceeds.

3. For the reasons stated earlier gilts should be included in the definition of liquid assets, with a haircut to allow for forced sale.

**Draft lending regulations**

4. The proposed concentration limit for commercial lending should be at least 200% of regulatory reserves rather than the proposed 50%. As the restructuring of the sector proceeds, enhanced risk management will demand greater diversification of income streams and expanding into the SME sector will be a necessary and appropriate business strategy for more sophisticated credit unions. The Central Bank is unlikely to achieve its goal of "strong credit unions in safe hands" unless it allows the sector to broaden its revenue base.

5. Community loans to both housing agencies and natural persons should be permitted.

**Draft investments regulations**

6. Investment in equities should be permitted. Credit union investment books are as permanent as any pension fund and the sector needs to develop the expertise to manage their investments properly, which will involve allocation to a broader asset class. Restricting investments to deposits & bonds, particularly in what is likely to be an ultra-low return environment for an extended period will only hamper the recovery & development of the sector.

7. The 25% limit per bank should be increased to 33%. The Irish credit union sector is umbilically linked to the Irish banking system. Most Irish credit unions have such large exposures to the Irish banks that if one or more of those banks fail, the credit unions will automatically fail likewise & limiting the exposure to 25% does nothing to alleviate this. The introduction of the 25% per bank limit in October 2006 has done nothing to reduce risk in the Irish credit union sector and has only pushed credit unions to invest in structured credit derivative products often with far higher credit & other risk (& in foreign banks of dubious credit standing) than if they had remained in deposits in the Irish banks. For example yesterday's[1] Financial Times led with the crisis in Brasilian oil company Petrobras, an entity whose credit was promoted to Irish credit unions last September in response to the Central Bank's rigorous enforcement of its 25% per bank limit. Irish credit unions have no business investing in such exotic risk and regulation should not encourage them to do so.

**Draft savings regulations**

8. The €100, 000 per member limit should be increased to €250,000. The signalling which the €100,000 creates is that the credit union sector is not a serious provider of financial services, at a time when it needs to be able to develop its products & services, broaden its income stream and strengthen its governance & risk management. If credit unions have to either return >€100,000 savings to members or turn away future savings above this threshold, they will never achieve the goal of strong credit unions in safe hands.

Yours Sincerely

Robert T Moynihan

[1] $26^{th}$ February 2015