



27th February 2015

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

Re: Submission in respect of CP88

Dear Sir/Madam,

The Board of Wexford Credit Union Limited has studied and discussed the draft proposals as set out in CP88. Detailed below are the Boards reservations in relation to the specifics of the draft regulations.

**CP88 Proposal – Section 5.3.2
Regulatory Reserve Requirement**

Board Response

The rationale for setting a minimum reserve requirement at a fixed rate of 10% of total assets takes no account of the varying risk appetite of individual credit unions. It is a “one size fits all” approach. The Board of Wexford Credit Union believes a risk weighted approach to reserves is a more appropriate model that has been successfully implemented in other jurisdictions and in other types of financial institutions.

The draft regulations are silent in relation to the application of section 45(6) for additional reserves. Section 45(8) requires that the regulations made under this section are “effective and proportionate having regard to the nature scale and complexity of a credit union”.

Boards can assess “nature, scale and complexity” in different ways, therefore, the level of additional reserves can vary across credit unions.

The Board of Wexford Credit Union suggests that the draft regulations include guidance to credit unions for objectively assessing the nature scale and complexity of a credit union thus enabling boards of directors to reliably assess the need for additional reserves under section 45(6) based on a definitive quantitative measure. The rationale for this addition to the regulations is to provide a transparent and objective assessment of adequate additional reserve levels.

**CP88 Proposal – Section 6.3.2
Liquidity Requirements**

Board Response

The draft regulations refer to a minimum liquidity ratio based on a level of “unattached savings”. This requirement takes no account of savings which are unattached to a loan but are not readily withdrawable, such as term deposits.

The Board of Wexford Credit Union suggests that the draft regulations apply to savings which are “immediately withdrawable” rather than unattached. While credit unions may not currently offer significant levels of term deposits, it seems an inevitably likely tool to be utilised to manage the existing asset liability mismatch.

The rationale for this change is not to impose an inappropriate measure for short term liquidity setting which has already been managed through alternative asset liability strategies.

**CP88 Proposal – Section 7.3.2
Categories of Lending**

Board Response

The Board of Wexford Credit Union do not believe that a definitive list of lending products should be specified explicitly in regulations. If there are specific types of loans that are deemed inappropriate for credit unions to offer these should be specified in regulations as allowed for under Section 35(7)(e) of the legislation.

The definition of a personal loan excludes by definition loans to self-employed individuals in the furtherance of their trade or profession. The credit union propose that any loan, under €25,000 in value, made to a self-employed individual in the furtherance of their trade or profession be deemed a personal loan. This provides consistency across categories.

In addition the Board of Wexford Credit Union do not believe that a fixed amount value is appropriate for setting regulations in relation to small scale commercial borrowing. It does not take any account of inflationary issues or the time value of money. This issue needs to be addressed through some method of index linking.

**CP88 Proposal – Section 7.3.2
Concentration Limits**

Board Response

If the minimum reserve requirement of 10% is introduced the effective total lending for concentration limits is as follows;

- Commercial Loans – 5% of total assets (50% of 10%)
- Community Loans – 2.5% of total assets (25% of 10%)
- Other Credit Union Loans – 1.25% of total assets (12.5% of 10%)

The limits proposed above are commercially restrictive and appear to take little or no account of enhanced underwriting practices of prudently run credit unions. They also, by implication, appear to ascribe a higher level of risk to a loan to another credit union than that to a loan for speculative purposes ie. commercial loan.

The draft regulations express concentration limits using regulatory reserves as the base for calculation. Given that credit unions may have significant additional reserves in place the Board of Wexford Credit Union propose that concentration limits should be based on total realised reserves rather than regulatory reserves.

Similarly, the credit union propose that the large exposure limit be based on total realised reserves rather than regulatory reserves as all reserves have the capacity to absorb losses.

The definition of Community Lending refers to “community or voluntary organisations” and lists a pre-defined set of allowable purposes. This again appears to be excessively restrictive.

CP88 Proposal – Section 8.3.2 Investments

Board Response – Class of Investment

The removal of equities as an allowable investment class further restricts the ability of a credit union to diversify investment risk. Given that the existing limit of 5% of portfolio is sufficient to diversify some risk, its removal appears to be unwarranted.

Board Response – Concentration Limits

The relative limits set for maximum bank bond holdings and maximum credit union holdings are based on a different set of criteria, one being a percentage of portfolio, one being a percentage of reserves. There is a risk that with such a high exposure to bank bonds, the credit union movement as a whole will be unduly exposed to the possibility of a credit event within the banking system. There is limited opportunities under the proposed draft guidelines to diversify risk away from sovereign or banking exposures. The proposed restrictive limit to invest in other credit union unduly concentrates risk in either the banking system or the sovereign.

Board Response – Restrictions on authorised Class of Investment

The Board believe that these draft proposals are commercially restrictive. The ability of credit unions to lend or invest in certain areas which are core to their community and social ethos is being unduly restricted. In the interests of credit unions playing a valuable role in this area, additions should be made to the proposed list of authorised classes of investments (at draft Regulation 25). In this regard, we suggest the following:

- social housing;
- centralised lending [e.g. SMEs];
- State guaranteed projects;
- or otherwise as may be approved by the Bank.

Board Response – Maturity Limits for Investments

The Board believe that these draft proposals are commercially restrictive and exclude credit unions from investing in some sovereign bond issues which would appear to have a relatively low level of associated risk.

**CP88 Proposal – Section 9.3.2
Savings**

Board Response – Savings requirements

The Board believe that these draft proposals are commercially restrictive. There does not appear to be any proposal for any other financial institution to have such a restrictive limit. If these limits are imposed, a vital strategic source of future funding will be unduly restricted.

The Board fail to recognise the rationale for limiting the amount of deposits from members that a credit union can hold. Again, a vital strategic tool in managing the asset liability mismatch will be not available to credit unions to the extent it is available to other financial institutions.

In conclusion

There is no statutory appeal against the Central Bank of Ireland when it makes general Regulations (such as those contained, in draft form, in CP88).

In the interests of natural justice, the Board of Wexford Credit Union believe the existing system of individual Regulatory Direction and statutory appeal must be maintained and protected and not abandoned in favour of the Central Bank of Ireland using general Regulations to create an overly restrictive lending environment for all credit unions.

The Regulatory Impact Analysis has focussed on the impact these draft regulation will have on credit unions as they now operate. One of the major pillars of the Credit Union Act is the requirement for Boards to create and implement forward looking strategic plans. The Board believe that if these draft regulations are implemented the strategic options available to credit unions will be limited and essentially predefined.

Credit unions have expended vast amounts of members' funds putting in place risk management, compliance, internal audit and systems of control over the last two years. These are all designed to allow Boards manage and control risk to members' savings. If the draft regulations are implemented the rationale for putting in place all of these resources in fundamentally undermined. The necessity for such draconian

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regulation should not be required if the risk management and controls systems are already in place.

Yours faithfully,

Michael O'Reilly

Chair

On behalf of the Board of Wexford Credit Union Limited

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