



Issue 1 | July 2014

Welcome to Credit Union News

At the Central Bank, we are committed to on-going communication and engagement with credit unions to support you in the introduction of the new regulatory requirements and the prudent development of the credit union sector. As well as the Credit Union Handbook and our annual nationwide Information Seminars, we are introducing this newsletter to assist credit unions by introducing key regulatory updates, topical items of interest and to highlight where you can access key information on such matters. In addition to information from the Registry of Credit Unions, we will also bring you key information and articles of interest from other divisions within the Central Bank on matters relating to credit unions.

Credit unions play an important role in Irish society and in communities by delivering financial services to their members. The credit union sector is undergoing significant change, with the introduction of the new regulatory framework and the voluntary restructuring of the sector currently underway.

Credit unions continue to face a challenging and increasingly complex external environment which requires the development of sustainable business models to deliver the services their members require. Strong credit unions operating within the strengthened regulatory framework are of benefit to the wider credit union sector and credit union members. It is important that we all remain focused on achieving the longer-term objectives of development, growth and restructuring which are crucial to ensuring that the credit union sector remains viable and sustainable, and continues to play an important role in the community and in the Irish financial services sector.

We will be publishing this newsletter twice-yearly. We hope that you will find it useful and we welcome any feedback you may wish to give. Any feedback should be provided to rcu@centralbank.ie

Sharon Donnelly
Director of Credit Institutions



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Announcement of new Registrar of Credit Unions

Anne Marie McKiernan has been appointed Registrar of Credit Unions in the Central Bank of Ireland. Ms. McKiernan is currently Head of Risk in the Central Bank. Ms. McKiernan will take up her new position on 1 September 2014.

Announcing the appointment, Director of Credit Institutions Sharon Donnery said: 'I am delighted to announce the appointment of Anne Marie McKiernan as Registrar of Credit Unions. Anne Marie brings a broad range of financial system knowledge and experience to the position along with a strong risk, assurance and economics background.'

Anne Marie joined the Central Bank in 1994 as an economist and her roles included monetary and financial stability policy and international economic analysis. She has held a number of management positions in the Central Bank and has been in her current role for almost four years, where she was responsible for the set-up of the Risk Division, which develops and implements policy and risk frameworks for the Central Bank's collateralised lending, investment portfolios and financial buffers, and its operational risk and business continuity functions. Prior to that, she oversaw the integration of the Financial Regulator into the Central Bank in 2010 and the development of legislation to enhance financial regulation.

Anne Marie is a member of the European Central Bank's Risk Management Committee, and a number of high level Central Bank committees, including the Financial Stability Committee and Executive Risk Committee.

New Requirements:

1 August 2014 - Fitness and Probity regime applies to all Controlled Functions

With effect from 1 August 2014, the Fitness and Probity regime will be fully implemented for credit unions with total assets greater than €10 million and will apply to all Controlled Functions. By that date, credit unions will need to have carried out due diligence to ensure that all those persons holding Controlled Function positions in their credit unions comply with the Fitness and Probity standards and have agreed to continue to comply with the standards. All remaining credit unions will be brought within the scope of the Fitness and Probity regime from 1 August 2015.

A Fitness and Probity update was sent to all credit unions on 2 July 2014 setting out details on the upcoming requirements from 1 August 2014 and further information on other Fitness and Probity matters. This update is available on the Central Bank website at the following link: [Fitness and Probity Update](#)

30 November 2014 – Submission of Annual Compliance Statement

Under section 66C of the Credit Union Act, 1997, credit unions are obliged to submit a compliance statement annually to the Central Bank, certifying compliance with the requirements set out under Part IV of that Act and any other regulations prescribed under that Act by the Central Bank. Each annual compliance statement must be approved by the credit union's board of directors and submitted to the Central Bank within 2 months of each financial year end of the credit union. The first annual compliance statement, covering the period from 1 October 2013 to 30 September 2014, is required to be submitted to the Central Bank by 30 November 2014. The Central Bank has published guidance for credit unions on preparing and completing the annual compliance statement. This guidance is in Section 2.4 (Reporting to the Central Bank (Annual Compliance Statement)) of the updated Chapter on Governance of the Credit Union Handbook that was provided to credit unions on 27 June 2014 and is available at the following link: [Chapter on Governance](#)

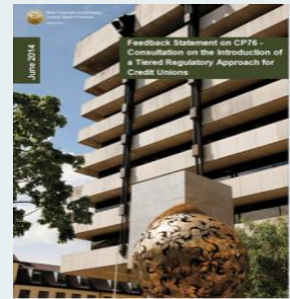
Annual compliance statements will be submitted via the Online Reporting System ("ONR") and further guidance on the submission process will be provided in September 2014.



Feedback Statement on CP76 and Next Steps

Publication of Feedback Statement:

On 23 December 2013 the Central Bank of Ireland published a consultation paper, CP76 - Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions ("CP76").



The consultation period closed on 31 March 2014 and the Central Bank received 164 responses to CP76. The Central Bank would like to thank everyone who took the time to make a submission in relation to CP76.

Following consideration of the submissions received, the Central Bank published the responses and issued a feedback statement on 30 June 2014, available at the following [link](#).

The feedback received has influenced the proposed approach in such areas as:

- the timing of the introduction of a tiered regulatory approach;
- limits on investments and limits on lending to restricted persons;
- proposals on additional services; and
- further engagement with the credit union sector on the development of the regulatory framework for credit unions.

Next Steps:

While the Central Bank is of the view that a two tier regulatory approach for credit unions is consistent with the recommendations of the Commission on Credit Unions, we consider it appropriate, in light of the feedback received, that a process of further communication and engagement with credit unions should be undertaken prior to taking a decision on the introduction of a tiered regulatory approach for credit unions. This further engagement will provide an opportunity for the Central Bank to outline to credit unions the purpose, scope and operation of the regulatory framework and to engage with credit unions on how this can support the prudent development of the credit union sector.

In the meantime, the Central Bank proposes to complete the introduction of the strengthened regulatory framework applicable to all credit unions by developing regulations for the sector under the regulation making powers contained in the Credit Union and Co-operation with Overseas Regulators Act 2012. These regulations will contain a set of requirements that will apply to all credit unions, including regulations on lending, savings, investments, borrowings, liquidity and reserves. The regulations will take into account the existing regulatory framework and feedback received on CP76. The Central Bank will publish a consultation paper, including a Regulatory Impact Analysis ("RIA"), on the draft regulations in September 2014, providing a three month consultation period for feedback.

We will also undertake a programme of nationwide Information Seminars, commencing in October 2014, to inform and engage with credit unions on the proposed new regulations and the next steps in developing the regulatory framework for credit unions.

Further details in relation to the next steps are set out in Section 2.4 of the feedback statement on CP76.





Sector Restructuring

A core recommendation of the Commission on Credit Unions was that the credit union sector should be restructured and that this should be achieved on a voluntary, incentivised and time-bound basis. Arising from this recommendation a statutory body, the Credit Union Restructuring Board (“ReBo”), was established to facilitate and support the restructuring of the credit union sector. The Central Bank is committed to working closely with ReBo and individual credit unions on restructuring proposals.

For credit unions considering merging, it is important to ensure contact with the Registry of Credit Unions at an early stage in the planning process, so that proposals and next steps regarding the merger process can be discussed.

The Central Bank will support restructuring proposals where they are sound and well thought out and supported by proper risk and control frameworks. What this means in practice is that we will accommodate restructuring supported by well-thought out proposals put forward by financially strong well-run credit unions. We do not favour the merger of weak credit unions whose focus is on cost alleviation alone without a coherent vision for the future development and strength of their combined businesses.

At a high level, the process involves appropriate due diligence on the credit unions involved. This is to ensure that the respective boards have an understanding of all factors before making any decisions. The due diligence process should be complemented with an examination by the credit unions of the suitability of any merger and detailed integration planning.

Further information on the legal process and timelines for transfers of engagements is available in the Chapter on Transfers of Engagements and Amalgamations in the Credit Union Handbook at the following [link](#).

Further information and contact details for ReBo can be found at www.rebo.ie

PRISM Supervision

Our recently published paper, [Credit Union PRISM Risk Assessments](#) (May 2014), provided a basis for all credit unions to benchmark their own performance to required minimum standards.



It allows progressive credit unions to compare their performance to our expectations and highlight areas for improvement. For others, it provides an important benchmark to establish the scale and scope of change required to meet standards now required of all credit unions, whatever their size and complexity.

We focused on establishing a baseline risk assessment during our first cycle of engagements. Risk Mitigation Programmes (“RMPs”) issued to credit unions we engaged with, identifying remediation actions and improvements in governance and risk management necessary to ensure they achieve the standards required of soundly governed and managed credit unions.

Our second cycle of PRISM engagements is well underway with a particular focus on assessing governance and risk management frameworks. We expect to find framework requirements embedded within the credit union’s functions, roles, policies, processes, procedures and structures. These include the roles of the board of directors, the board oversight committee, the manager, risk management and compliance officers and internal audit. We anticipate having more developed, forward-looking conversations with boards and management covering material business risks, business model and strategy. We also expect to find our RMPs fully implemented and we will assess the quality of implementation. Where we find a credit union is unwilling to meet minimum standards, we will use our supervisory and enforcement powers to effect the changes necessary to protect members’ interests. For those credit unions with a responsive approach to delivering on necessary changes, our approach, while assertive, will also be supportive of their transformation programmes.



Navigating the Changing Payments Landscape

It is over a year now since the [National Payments Plan](#) was published, with the aim of transforming the way Irish people make payments. Ireland is a relatively cash and cheque intensive society and this is costly. The Central Bank estimates that €1bn could be saved annually to the Irish economy by adopting more efficient payment habits.

However payment habits are changing, and fast. Debit card usage is doubling every five years, and there is now one debit card for every member of the population. The 'cheque in the post' culture is also ending. People in Ireland are writing half the number of cheques than they did before the onset of the recession. The National Payments Plan has already accelerated this movement to give Ireland a fast, efficient and secure payment system that is fit for purpose for a modern, digital economy.

For credit unions, the changes in retail payments represent a challenge and an opportunity. Increasingly members will expect to be able to make and receive payments electronically and be able to check their balance from their own homes. Further, the Department of Social Protection has signalled its intention to move away from the 'cash and cheque' model of making social welfare payments.

Under S.I. No. 223/2004 - Credit Union Act 1997 (Exemption From Additional Services Requirements) Regulations 2004, credit unions are permitted to provide third party payments and ATM services to their members and some credit unions have begun to provide electronic payment services to their members.

The Registry of Credit Unions advises that credit unions must think carefully about their strategy and business plan for offering payment services. Delivery of electronic payment services requires operational capability and expertise along with appropriate risk management. Consideration also needs to be given to the cost of such services to ensure operational and investment costs are covered.

Where a credit union is giving consideration to offering debit card services to its members, the credit union should, in the first instance, contact its supervisor in the Registry of Credit Unions.

For further information in relation to the National Payments Plan, please contact the National Payments Plan team (at nppfeedback@centralbank.ie) in the Payment and Securities Settlements Division of the Central Bank.

Planning by Credit Unions for Implementation of Financial Reporting Standard 102

In March 2013 Financial Reporting Standard 102 (the "Standard") was published. This new Standard replaces virtually all existing local accounting standards and will be the accounting standard under which credit unions will be required to prepare their annual audited accounts. Adoption of this Standard is mandatory for year-ends beginning on or after 1 January 2015. Effectively all credit union accounts for year-end 30 September 2016 will be required to be prepared under this Standard with restatement of 2015 comparatives also required at that time

The adoption of this Standard by credit unions will give rise to many changes in the requirements applicable to key areas of accounts preparation and financial reporting. While mandatory adoption is not required until 2016, credit unions should now begin to consider and plan for the implementation of the new requirements. In particular credit unions should begin to engage with their auditors and IT suppliers to ensure that they identify the necessary steps and actions required so that they are adequately prepared for transition to this Standard in accordance with the relevant timelines.

The Registry of Credit Unions intends to engage with the accountancy bodies on this matter and will provide further updates to credit unions on regulatory aspects arising.

The Standard can be accessed on the Financial Reporting Council website at the following [link](#).



Ensuring Members' Best Interests are Protected when acting as a Retail Intermediary

In addition to their core activities, provided for under the Credit Union Act, 1997, credit unions that act as retail intermediaries can offer insurance products to their members. Members must have confidence and trust that they are sold products that they need and that their best interests are being considered. A member-focused culture with full and proper governance/oversight is essential to gaining and maintaining confidence and trust.

The Consumer Protection Code ("the Code") (available [here](#)) sets out the rules that credit unions must comply with to ensure that they are consumer-focused and acting in the best interests of consumers when selling insurance to their members.

Below are some of the key areas of the Code. However, credit unions should familiarise themselves with all Code provisions, as they apply to credit unions selling insurance products. The Central Bank expects that credit unions will, on an on-going basis, review their processes and procedures to ensure that they meet all of the relevant Code requirements and that they can demonstrate compliance with the requirements.

- Key Information
 - Provide key information to members about insurance including information about exclusions, waiting periods and information to help a member decide to buy the insurance.
 - Provide each member with terms of business prior to providing the first insurance service to that member.

- Knowing the Member

Credit unions must gather and record sufficient information from the member prior to offering, recommending, arranging or providing an insurance product appropriate to that member, including:

- needs and objectives;
- personal circumstances; and
- financial situation.

- Suitability

In assessing suitability credit unions must:

- look beyond whether the member is eligible to claim on the insurance and assess whether it is suitable for the member's needs and objectives, personal circumstances and financial situation;
- provide the member with written reasons why the insurance is suitable;
- ensure that vulnerable members are provided with such reasonable arrangements and/or assistance that may be necessary.

- Optional Products

Where insurance is being sold alongside another product e.g. a loan, the credit union must make it clear to the member that the purchase of the insurance product is optional. Credit unions cannot make the approval of a loan contingent on the purchase of an insurance product and cannot suggest that this is the case to the member.

For further information in relation to the Consumer Protection Code, please contact the Consumer Protection Directorate of the Central Bank at CPCOperations@centralbank.ie



Outsourcing Notifications to the Central Bank

As outlined in our communication to all credit unions on 25 March 2014, in accordance with section 76J(11)(a) of the Credit Union Act, 1997, credit unions must notify the Central Bank in writing:

- when it is proposed to outsource to a service provider a material business activity, or
- of any material development affecting the service provider and his or her ability to fulfil its obligations.

When proposing to outsource a material business activity, change or terminate an outsourced provider or where there is a material development affecting the service provider, a credit union should notify the Central Bank via the Online Reporting System (“ONR”), using one of the following notification options:

- Notification of Change of Outsourced Service Provider (e.g. change of IT Supplier)
- Notification of Material Development (e.g. a material development that would materially impair the (i) continuing compliance with the conditions and obligations of the credit union’s registration or its other obligations under the financial services legislation, (ii) the credit union’s financial performance, (iii) the soundness or continuity of the credit union’s financial performance or (iv) the soundness or continuity of the credit union’s business.)
- Notification of Proposal to Outsource (e.g. Internal Audit)
- Notification of Termination

The outsourcing requirements and associated guidance can be found in the Chapter on Outsourcing in the Credit Union Handbook, which is available for download from the credit union section of the Central Bank website at the following [link](#). Credit unions are reminded of their obligations regarding outsourcing arrangements which must meet, on an on-going basis, all legal and regulatory requirements including requirements under section 76J of the Credit Union Act, 1997.

Submission of the Year End Return

The year-end date for credit unions of 30 September 2014 is fast approaching and a circular will be issued shortly, reminding credit unions of their filing obligations in relation to the year end.

We acknowledge that the Year End Returns were submitted successfully and on time by many credit unions for the 30 September 2013 year end on the Online Reporting System (“ONR”). However, we note that a number of credit unions did not successfully submit their signed off Year End Return for the year ended 30 September 2013 via the ONR.

Returns successfully submitted to the Central Bank must have a status of “Signed off” on the ONR system. Returns with a status of “Finalised” are not considered as validly submitted to the Central Bank. For example, the Final Financial Statements return will display a “Finalised” status until it has been signed off by the Year End Verifier (see Year End Return Guidance Notes, available on ONR, for further details). Credit unions are reminded to check return statuses to ensure that all returns have been successfully signed off and submitted.

2014 IT Survey



The first phase of the 2014 IT Survey is complete and 99% of credit unions who were asked to participate in the survey responded. RCU is currently carrying out a random Quality Assurance Review of 25% of the IT Survey data submitted, to ensure that the data upon which our survey analysis is based is fully reflective of the standards in the credit unions surveyed. The selected credit unions were contacted and their Internal Audit Function was requested to carry out an assessment of their IT Survey Questionnaire responses to ‘Section C: IT Control Processes’ to validate the accuracy of the data provided i.e. to evidence the existence of the IT Control processes and policies.

RCU findings, which will be issued in aggregate form by end September 2014, will be of assistance to the sector in driving necessary improvements in this important area.



Upcoming RCU Communications / Events for Credit Unions

August 2014 :	Year End Circular
September 2014 :	Consultation Paper on New Regulations (see article on Feedback Statement on CP76) Guidance on submitting Annual Compliance Statement 2014 IT Survey Analysis
October 2014 :	Information Seminars



Key Dates for Credit Unions in 2014

21 July 2014:	Final date for submission of Prudential Return for 30 June 2014 reporting period
1 August 2014:	Application of Fitness and Probity regime to all Controlled Functions for credit unions with total assets greater than €10 million
30 September 2014:	Credit union financial year end
From 1 October 2014:	Draft audited financial statements information must be submitted via the 'Draft Financial Statements' on the Online Reporting system, prior to setting a date for the 2014 AGM
21 October 2014:	Final date for submission of Prudential Return for 30 September 2014 reporting period
30 November 2014:	Final date for submission of first Annual Compliance Statement
Circa 2 months in advance of credit union's AGM:	Submission of Individual Questionnaire for applicants for the position of Chair

Contact Us

As part of our commitment to ongoing communication with you, we have set out details of the main contact points for queries below. Please contact us directly, either via your RCU supervisor or at rcu@centralbank.ie with any questions or queries about the supervision of your credit union.

Query	Central Bank Division/Team	Contact
General day to day supervisory queries	RCU	Credit union supervisor/ rcu@centralbank.ie
Consumer Protection	Consumer Protection Division	CPCOperations@centralbank.ie
Anti-Money Laundering requirements for credit unions	Anti-Money Laundering Division	AmlCtfqueries@centralbank.ie
Deposit Guarantee Scheme	Deposit Guarantee Scheme team	dgs@centralbank.ie
Online Reporting queries	Regulatory Transactions Division	regulatorytransactions@centralbank.ie
Fitness & Probity – Individual Questionnaire queries	Regulatory Transactions Division	FitnessAndProbity@centralbank.ie
National Payments Plan	Payments and Securities Settlements Division	nppfeedback@centralbank.ie
Minimum Reserve Requirements:		
Calculation of reserve requirements	Statistics Division	creditunion@centralbank.ie
Transfer of amounts to/from your account in the Central Bank	Euro-settlements team	eurosettlements@centralbank.ie
Confirming balances and meeting your reserve requirement	Financial Markets Division	modesk@centralbank.ie