



INTERNATIONAL CREDIT UNION REGULATORS' NETWORK

Peer Review Report

Central Bank of Ireland's Performance of its Regulatory Functions in Relation to Credit Unions

November 27, 2023



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Acronyms & Abbreviations	
Academic and Professional Training Scheme	APTS
Accounting Practices Board	APB
Administrative Sanctions Procedure	ASP
Annual General Meeting	AGM
Annual Percentage Rate	APR
Anti-Money Laundering Committee	AMLC
Anti-Money Laundering Division	AMLD
Anti-Money Laundering / Countering the Financing of Terrorism	AML / CFT
Association of Chartered Certified Accountants	ACCA
Association of International Accountants	AIA
Business Continuity Management	BCM
Central Bank and Credit Institutions (Resolution) Act 2011	The 2011 Act
Central Bank of Ireland	Central Bank
Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Minimum Competency Regulations 2017 (SI S.I. No. 391 of 2017)	MCR
Central Credit Register	CCR
Chartered Institute of Management Accountants	CIMA
Chartered Institute of Public Finance and Accountancy	CIPFA
Consultative Committee of Accountancy Bodies – Ireland	CCAB-I
Controlled Function	CF
Consultation on Potential Changes to the Lending Framework for Credit Unions	CP125
Commission on Credit Unions	CCU
Corporate Finance Institute	CFI
Credit Institutions Management Team	CIMT
Credit Institutions Resolution Fund	CIRF
Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. No. 1 of 2016)	The 2016 Regulations
Credit Union Advisory Committee	CUAC
Credit Union Development Association	CUDA
Credit Union Managers' Association	CUMA
Credit Union Restructuring Board	ReBo
Credit Union Self-Assessment Document	CUSAD
Credit Union Services Organisation for Payments	CUSOP
Criminal Justice (Money Laundering and Terrorist Financing) Act 2010	CJA 2010
Customer Due Diligence	CDD



Acronyms & Abbreviations	
Death Benefit Insurance	DBI
Deposit Guarantee Scheme	DGS
Electronic Funds Transfer	EFT
European Banking Authority	EBA
European Central Bank	ECB
European Insurance and Occupational Pensions Authority	EIOPA
European Securities and Markets Authority	ESMA
European System of Central Banks	ESCB
European Union	EU
Exceptional Liquidity Assistance	ELA
Expert Group on Money Laundering and Terrorist Financing	EGMLTF
Financial Action Task Force	FATF
Financial Reporting Council	FRC
Financial Reporting Standards	FRSs
Full Risk Assessment	FRA
Generally Accepted Accounting Principles	GAAP
Intervention and Restructuring	I&R
Incurred But Not Reported	IBNR
Institute of Certified Public Accountants in Ireland	ICPAI
Institute of Chartered Accountants in Ireland	ICAI
Institute of Chartered Accountants of Scotland	ICAS
Institute of Chartered Accountants in England & Wales	ICAEW
Institute of Incorporated Public Accountants	IIPA
International Auditing and Assurance Standards Board	IAASB
International Credit Union Regulators' Network	ICURN
International Financial Reporting Standards	IFRS
International Organisation of Securities Commissions	IOSCO
Irish Auditing and Accounting Supervisory Authority	IAASA
Irish Financial Services Appeals Tribunal	IFSAT
Irish League of Credit Unions	ILCU
Key Risk Indicator	KRI
Management Information	MI
Markets in Financial Instruments Directive	MIFID



Acronyms & Abbreviations	
Member Personal Current Account Services	MPCAS
Memorandum of Understanding	MOU
Money Laundering Reporting Officer	MLRO
Money Laundering Steering Committee	MLSC
Money Laundering / Terrorist Financing	ML / TF
Mortgage Advice Bureau	MABS
National Supervisors Forum	NSF
National Treasury Management Agency	NTMA
Net Realisable Value	NRV
Office of the Director of Corporate Enforcement	ODCE
Online Reporting System	ONR
Operators of Essential Services	OES
Payment and Securities Settlements Division	PSSD
Personal Retirement Saving Accounts	PRSAs
Politically Exposed Persons	PEPs
Pre-Approval Controlled Function	PCF
Prescribed Accountancy Bodies	PABs
Probability Risk and Impact System	PRISM
Prudential Analytics and Inspections Directorate	PAID
Recognised Accountancy Body	RAB
Regulated Financial Service Provider	RFSP
Regulatory Impact Analysis	RIA
Resolution and Crisis Management Division	RES
Risk Evaluation Questionnaire	REQ
Risk Governance Panel	RGP
Risk Mitigation Programme	RMP
Savings Protection Scheme	SPS
Service Level Agreements	SLAs
Small and Medium Sized Enterprises	SMEs
Suspicious Transaction Reports	STR
The Consumer Protection Code	CPC
The Credit Union Act, 1997	The 1997 Act
The Credit Union and Co-operation with Overseas Regulators Act 2012	The 2012 Act



Acronyms & Abbreviations	
The European Communities (Consumer Credit Agreements) Regulations 2010 (S.I. 281/2010)	CCAR
The European Union (Consumer Mortgage Credit Agreements) Regulations 2016, which transposed Directive 2014/17/EU	MCD
The European Union (EU) Directive on the Security of Network and Information Systems	NISD
Treaty on the Functioning of the European Union	TFEU
Unauthorised Providers Unit	UPU
Undertakings for Collective Investments in Transferable Securities	UCITS



I. EXECUTIVE SUMMARY

The Central Bank of Ireland (the Central Bank) is required under Section 32M of the Central Bank Act of 1942 to have an independent review of the performance of its regulatory functions undertaken at least every four years. In 2023, following consultation with the Minister for Finance as required by the legislation, the Central Bank contracted the International Credit Union Regulators' Network (ICURN) to conduct a peer review of the functions carried out by the Registry of Credit Unions (the Registry).

This is the third peer review that ICURN has conducted of the Registry with the previous reviews being conducted in 2015 and 2019. Then and now, the review was conducted vis-à-vis ICURN's Guiding Principles for Effective Prudential Supervision of Co-operative Financial Institutions (GPs) (which draws heavily from Basel Core Principles for Effective Banking Supervision, but are significantly adapted for financial cooperatives). The peer review was conducted by an international team from ICURN with expertise in regulation, supervision and credit union operations who assessed information provided during an off-site and on-site engagement. This information included a Credit Union Self-Assessment Document (CUSAD) submitted in advance by the Central Bank which set out the background on the credit union sector in Ireland and a detailed assessment of the Central Bank's observance of each of the relevant 24 ICURN Guiding Principles. The team reviewed internal documents from the Central Bank, publicly available documentation, legislation and regulations. In addition, approximately 25 meetings with a range of credit unions, credit union associations, support organizations to credit unions, the Department of Finance, the Credit Union Advisory Committee (CUAC) and meetings within the Central Bank were undertaken between May 15-23, 2023 and during an on-site engagement September 6-8, 2023. A full listing of these meetings is found in Section II.

Compared to the last review conducted by ICURN in 2019, there have been marked improvements in the way the Central Bank is performing its functions in relation to credit unions, specifically: 1) in terms of calibration of the PRISM supervisory system to be more risk-focused as more credit unions become medium-high impact institutions; 2) the process for submitting information for approvals by the Registry has improved and 3) data shared with the sector on financial performance has improved.

Over the past four years, the credit union sector has continued to consolidate, but at about half of the rate it had during the previous four-year period. At the end of September 2022, the number of credit unions had declined by 36 (15%) to 205 credit unions with a combined €20.3bn in total assets, while the membership, savings and assets in the sector have all increased during the period. The non-performing loans have decreased over the past four years from 5% to 3% and the average capital has decreased marginally from 16.5% to 16% of non-risk weighted assets. However, the return on assets (ROA) has maintained a concerning decreasing trend from 1.6% in 2015 to 0.8% in March 2019 to 0.6% in June 2023. Across multiple surveys, Irish credit unions continue to be one of the strongest brands in Ireland based on an annual independent reputational



survey¹ and they play an important role in providing short-term unsecured credit at reasonable rates. Credit unions in Ireland have 45% market share of the household consumer credit market, not including home loans.²

The Central Bank, as the authority with responsibility for the regulation and supervision of credit unions in Ireland, is effective in performing its functions. Under this review, the peer review team assesses the Central Bank to be compliant with 21 out of ICURN's 24 Guiding Principles for Effective Prudential Supervision of Co-operative Financial Institutions plus the additional review of governance relative to ICURN's Governance Principles. Two areas are assessed as largely compliant³ and one area is deemed not applicable related to currency risk – all other areas are compliant. This is an improvement from the last peer review in 2019.

One of the three areas rated as largely compliant in 2019 (Credit Risk) has improved as of 2023 to be considered compliant and two areas remain largely compliant (Risk Management and Management of Operational Risk).

Prompted in part by the last peer review, the Registry undertook a thematic review of risk management in 2021 utilizing information covering both the pre-pandemic and COVID pandemic periods. The Registry's own analysis showed that risk management in credit unions is still siloed and not fully embedded within all aspects of staff, management and boards. As risks for the sector have changed and there is increased focus globally on the cybersecurity and climate-related financial risks, the management of operational risk (Guiding Principle 5) could be further improved. While the culture of compliance in the sector remains strong, the culture of proactive risk management by credit unions still needs further development. A summary of the team's assessment is provided in the table below which is supported by detailed assessments of each Guiding Principle in Section VI below.

Summary of Assessment Ratings

Compliant	Number	Principle / Guiding Principle
Compliant (C)	21	1,2,3,7,8,9,10,11,12,13,14,15,16,17,18,19,20,21,22,23,24
Largely Compliant (LC)	2	4, 5
Materially Noncompliant (MNC)	0	-
Noncompliant (NC)	0	-
Non-applicable (N/A)	1	6
Total	24 ⁴	

¹ RepTrak Report 2023 and Ireland Customer Experience Report 2023.

² Central Bank of Ireland, Money and Banking Statistics.

³ Annex 3 defines "Largely Compliant" as only minor shortcomings, which do not raise serious concerns about the authority's ability to achieve the objective of the principle and there is clear intent to achieve full compliance with the principle within a prescribed period-of-time (for instance, the regulatory framework is agreed but has not yet been fully implemented).

⁴ Guiding Principle 6 Management of Currency Risk was not deemed applicable in the context of Irish credit unions.



The Registry has been operational within the Central Bank since 2003 and along with its system of regulation should be seen as an evolving system of supervision. To continue to improve its progress toward full compliance with ICURN's Guiding Principles, the Central Bank should expand its oversight of risk management practices with a greater focus on operational risks (i.e., cyber security, fraud, and climate-related risks).

The recommendation of the Retail Banking Review is noted which states that taking into account the legislative amendments in the forthcoming Credit Union (Amendment) Bill 2022 (Amendment Bill of 2022), the credit union sector and its leadership should develop a strategic plan that enables the sector to safely and sustainably provide a universal product and service offering, which is community based, and which is offered to all credit union members, directly or on a referral basis. The Central Bank should continue its engagement with sector stakeholders on any proposals brought forward in this regard and seek to ensure that the regulatory framework evolves. As appropriate and where it is demonstrated that such proposals progressed by credit unions are prudent and sustainable, increased lending should be prioritized to balance the strategic risk associated with the declining profitability of the sector. We are encouraged by the movement towards a supervisory system that provides greater discretion, within a prudent range, for well-performing credit unions with strong risk management cultures. There is continued scope to enhance the data received from credit unions, analysis of the data and reporting on the data by the Registry back to the public and sector for their own use.

Lastly, technology, risk management and innovation in the credit union sector in Ireland continues to lag other advanced jurisdictions. As credit unions seek to prudently develop through innovative service offerings, they will need to adopt a proactive approach to management of outsourced services in line with existing legislative requirements to ensure related risks are identified and mitigated. Likewise, as is the case in other jurisdictions, the Registry will need to adapt its approach to ensure that mission critical service providers to credit unions are prudently managing their risks.



II. BASIS, SCOPE AND METHODOLOGY OF PEER REVIEW

Legal Basis for the Review

One of the main statutory objectives of the Central Bank is to ensure “the proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected.” The Central Bank is committed to performing its regulatory and consumer protection functions to the highest international standards and in accordance with international best practice. To this end, and in accordance with legislative provisions, the Central Bank invites external scrutiny of both its regulatory powers and remit, and the performance of its supervisory functions through regular formal reviews by external parties.

Section 32M of the Central Bank Act, 1942 states that: *At least every 4 years the Bank shall make appropriate arrangements for (a) another national Central Bank, or (b) another person or body certified by the Governor, after consultation with the Minister, as appropriate, to carry out a review of the Bank's performance of its regulatory functions.*

The Central Bank's statutory mandate under Section 84 of the Credit Union Act, 1997 (the 1997 Act) is to administer the system of regulation and supervision of credit unions with a view to the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally. The 1997 Act sets out the functions and powers of the Central Bank in relation to credit unions. The functions of the Central Bank are delegated to the Registrar of Credit Unions (the Registrar). In undertaking its statutory duties, the Central Bank aims to account for the proportionality, nature, scale, and complexity of credit unions operating in Ireland when engaging with individual credit unions and sector stakeholders.

For the purposes of adherence to these legislative provisions and following consultation with the Minister for Finance, the Central Bank requested ICURN to carry out a peer review of the Central Bank's performance of its functions in relation to credit unions.

Scope of the Peer Review

As was the case in previous peer reviews and again in 2023, the peer review is to assess the legal, regulatory, and prudential supervisory framework in place to fulfil the above-mentioned Central Bank's statutory mandate as it relates to credit unions with reference to the ICURN Guiding Principles.

The basis for the assessment are the ICURN Guiding Principles for (1) Effective Supervision of Cooperative Financial Institutions, and (2) Enhancing Governance of Cooperative Financial Institutions. See Annex 1 for a copy of the ICURN Guiding Principles. These Guiding Principles are recommended by ICURN as a framework for assessing the effectiveness of the supervision of credit unions, where the supervisor has statutory responsibility for their safety and soundness.

There are many similarities between the ICURN Guiding Principles and the Basel Committee on Banking Supervision's “Core Principles for Effective Banking Supervision”. While the Basel



Principles provide an internationally accepted, well established framework for assessing supervisors of international, national, or regional / state banks, they do not address the unique characteristics that distinguish credit unions from other types of deposit-takers.

The ICURN Guiding Principles for Effective Supervision form four Pillars (Registration and Licensing of Credit Unions; Credit Union Structures and Organization; Prudential Requirements; and Supervisory Powers, Responsibilities & Approach) all of which must function adequately before a supervisor's activities may be considered to be "effective" overall.

Methodology and Resources

The credit union peer review has assessed compliance with each ICURN Guiding Principle in accordance with a defined grading system that is utilized by the International Monetary Fund and World Bank during Financial Sector Assessments.⁵ The grading system includes: Compliant; Largely Compliant; Materially Non-Compliant; Non-Compliant; Not Applicable. The grading system is outlined in Annex 3.

Before the start of the on-site engagement, the Central Bank provided the peer review team with a detailed CUSAD laying out the background and environment of the credit union sector in Ireland and a self-assessment of the Central Bank's compliance with each of the ICURN Guiding Principles. The CUSAD includes reference to several supporting documents, reports, practical regulatory examples and regulatory policies, as well as public and internal documentation that accompany the assessment. Where the CUSAD referred to proposed changes to the regulatory framework, such references were identified as not part of the current regulatory framework for credit unions. This review relies on the legal and regulatory citations within the CUSAD. The peer review team was given full access to data, people, and legal and regulatory documents affecting credit unions at the time of the review. The team was informed by the following materials provided by the Central Bank:

- CUSAD against each of the ICURN Guiding Principles;
- Central Bank's Strategic Plan 2022 – 2024;
- Central Bank's strategic priorities for the credit union sector;
- Current legislative and regulatory framework in place for credit unions;
- Any proposed changes to the legal and regulatory framework for credit unions, as set out in public consultation papers and the Amendment Bill of 2022;
- Financial Conditions of Credit Unions Statistical Publications (Financial Conditions);
- Risk Management Thematic Review of November 2021;
- Retail Banking Review 2022; and
- CUAC correspondence to ICURN.

⁵ Although members of the team have experience conducting Basel Core Principle reviews for the World Bank and the International Monetary Fund (IMF) and ratings used align with the IMF's rating categories, the review was *not* conducted on behalf of the IMF/World Bank or in consultation with the IMF / World Bank.



An examination of the Registry's internal documentation (e.g., supervisory materials, practical examples), staffing, data on credit unions and internal processes was carried out remotely by the peer review team.

The peer review team met with representatives from the following system participants and other sector stakeholders:

- CUAC
- Credit Union Development Association
- Credit Union Managers' Association
- Department of Finance
- Irish League of Credit Unions
- National Supervisors Forum
- Two different credit unions from within and outside the Dublin area.

The peer review team travelled to Dublin, Ireland on September 6-8, 2023 to augment its desk-top review with more meetings with the Department of Finance, trade associations, CUAC, Central Bank senior staff including management within the Registry and the Director of Credit Institutions and credit unions.

Based on the above interviews and materials ICURN has prepared an assessment report (Section VI) including a description, findings and assessment of compliance in relation to each of the ICURN Guiding Principles.

The ICURN Peer Review Team

ICURN was formed in 2007 and in 2016 became an independent, non-profit association of statutory credit union regulators from over 45 jurisdictions on six continents. ICURN promotes greater international coordination and development among financial services regulators. It also facilitates sharing information and positions of common interest among financial cooperatives, initiates research on financial cooperatives and their oversight, identifies best practices and provides access to a forum for thought leaders worldwide on issues critical to sound credit union regulation. ICURN has a ten-member steering committee and is governed by an independent volunteer board of directors representing credit union supervisors in Belize, Canada, Ireland⁶, Kenya, and the United States.

The on-site review was conducted by a team of four individuals with extensive experience in supervision and credit unions internationally. The team included Dave Grace, Executive Director of ICURN, Katie Averill, Superintendent of Credit Unions for the state of Iowa (USA), Alison Emblow, Senior Manager for Small Mutuals and Strategic Goals, Prudential Regulation Authority, Bank of England and Lebogang Kgosiemang, Divisional Head, Banking Supervision,

⁶ Although ICURN is currently chaired by the Registrar of Credit Unions, the Registrar has delegated all aspects for this peer review to the Deputy Registrars at the Central Bank and to the Treasurer of ICURN from Manitoba, Canada who has overseen the process from the ICURN side to ensure no conflicts of interest.



Prudential Authority, South African Reserve Bank. This report was reviewed by a quality control team of current and former credit union supervisors from Australia and Canada. The quality control team was chaired by an independent consultant, Andrew Poprawa, who is a retired co-founder and former chairman of ICURN and supervisor of credit unions in Ontario, Canada. Detailed bios of the peer review team and the quality review team can be found in Annex 2.



III. ENVIRONMENTAL CONTEXT FOR REVIEW & KEY DEVELOPMENTS

a. The Macroeconomic Environment⁷

In Ireland, real GDP grew an impressive 13.5% in 2021, surpassing its pre-pandemic trend. Gross national income, which excludes most of multi-national enterprises, recovered from its 2.2% decline in 2020, growing by an estimated 6% in 2021. The fiscal deficit, at 1.9% of GDP, surprised on the upside due to buoyant tax revenues and somewhat lower-than-budgeted spending. Headline inflation registered an annual rate of 2.4%. The strong economic performance continued through Q1 2022, registering 11% year-over-year GDP growth which outpaced most other European countries. By May 2022, the unemployment rate fell to 4.7%, and the job vacancy rate stood at an all-time high.

The viability and long-term sustainability of credit unions are directly related to the macroeconomic environment in which they operate. In Ireland, interest rates have been at historically low levels for more than 10 years and have started to turn around as interest rates have risen in the euro area and globally. This is particularly important given the high level of investments held by credit unions in domestic banks.

The Irish economy is expanding strongly, and households have continued to deleverage. Household debt is now in line with the euro area as seen in Figure 1 below. Non-performing loans in the credit union and banking sectors have fallen from approximately 9.7% in 2016 to 3% in September 2022 per Central Bank data.

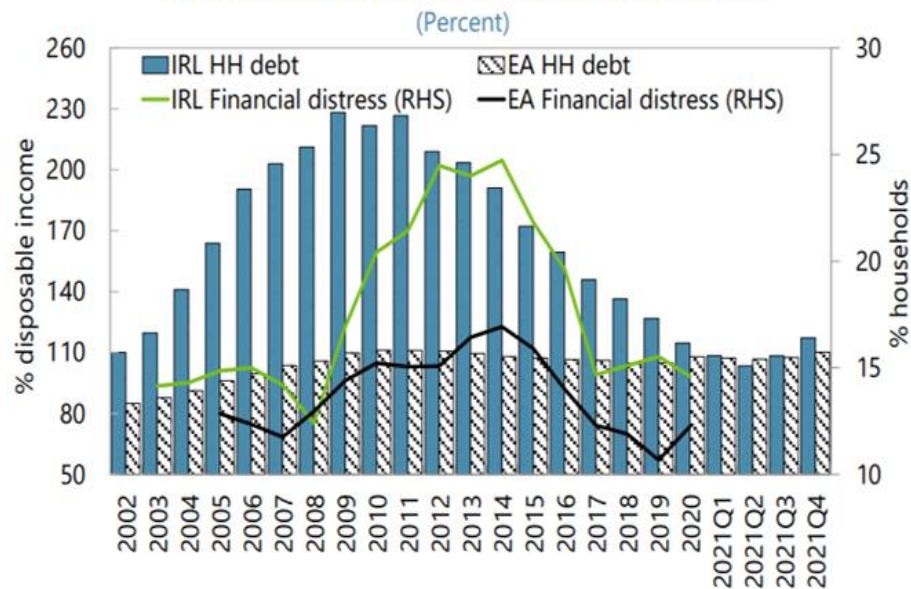
Figure 1: Household Debt Levels

Households continued to deleverage, and Ireland has reached the average EA level of debt to disposable income ratio.

⁷ International Monetary Fund, Article IV Consultation, Report 22/213, July 2022.



Households Debt and Financial Distress



Source: IMF Article IV Consultations 2022.

Generally, when Irish credit union members are compared to credit union members in other jurisdictions, Irish credit union members' attitudes towards borrowing appear to remain cautious and there is a marked preference towards saving and reducing existing debt. With the exit of two major foreign banks since the last review in 2019 and the aggressive entry by on-line banks, the credit union sector will either fill this gap or be further displaced in the lending market. Evidence from some credit unions themselves suggests that, while members remain loyal savers, when they need credit, they are more likely to turn to banks or non-banks.

b. Credit Union Sector Summary⁸

Table 1 provides a summary of the financial position of the Irish credit union sector as at 30 September 2022.⁹ This information is based on the quarterly Prudential Returns submitted by credit unions, except for the dividend information which is based on annual financial statements submitted by credit unions. Since the last peer review report, the number of credit unions not meeting the minimum capital ratio has been reduced to zero, the value of non-performing loans has decreased to 3% from 5% and the coverage of non-performing loans with provisions has increased for the sector. Capital and liquidity ratios have decreased slightly at 16.0% and 34.7%, respectively, and membership in the sector has remained steady. Credit unions hold €17bn in

⁸ Source: Central Bank of Ireland.

⁹ The primary date for data used in the report is the audited financial year of September 2022. However, given the large and rapid rise in interest rates between June 2022-2023, we have also considered the impact of these rates.



deposits or 11.5% of all household deposits in the banking sector and €5.6bn in loans or 5.6% of the household credit market as of September 2022.¹⁰

The significant rise in interest rates over the past 12 months has started to improve the financial position of the credit union sector. As of June 2023, the annualized ROA is 0.6%, non-performing loans (NPLs) have decreased to 2.9%, loans to assets have increased to 29.6% and capital has remained at 16%.¹¹

Table 1: Credit Union Sector Overview as at 30 September 2022

<p>Assets: €20.3bn</p> <ul style="list-style-type: none"> • 205 credit unions registered as at 30 September 2022. (274 registered credit unions as at 30 September 2018.) • 9 credit unions with total assets above €350m representing 19% of sector assets • 63 credit unions with total assets under €40m representing 7% of sector assets 	<p>Savings: €17bn</p> <ul style="list-style-type: none"> • €15.7bn savings reported as unattached to loans
<p>Loans: €5.6bn</p> <ul style="list-style-type: none"> • Average loans to assets ratio: 28.4% (Sep 2018: 27.8%) • 83 Credit unions with loans to assets ratio below 25% • 1.5% (3 CUs) have arrears greater than 10% of their Gross Loans • 2.4% (5 CUs) have less than 70% provision coverage for loans in arrears (compared to 7% in 2018) 	<p>Reserves: €3.2bn</p> <ul style="list-style-type: none"> • No credit unions with reserves below the 10% Regulatory Requirement • The average dividend for 2022 across the sector is below 0.1%
<p>Investments: €13.1bn</p> <ul style="list-style-type: none"> • 70% held in bank deposit accounts, 24.5% held in Bank Bonds / Government Securities. • Liquidity average of 34.7%. 	<p>Membership</p> <ul style="list-style-type: none"> • Despite a decline in the number of credit unions, membership has remained steady at 3.5m.

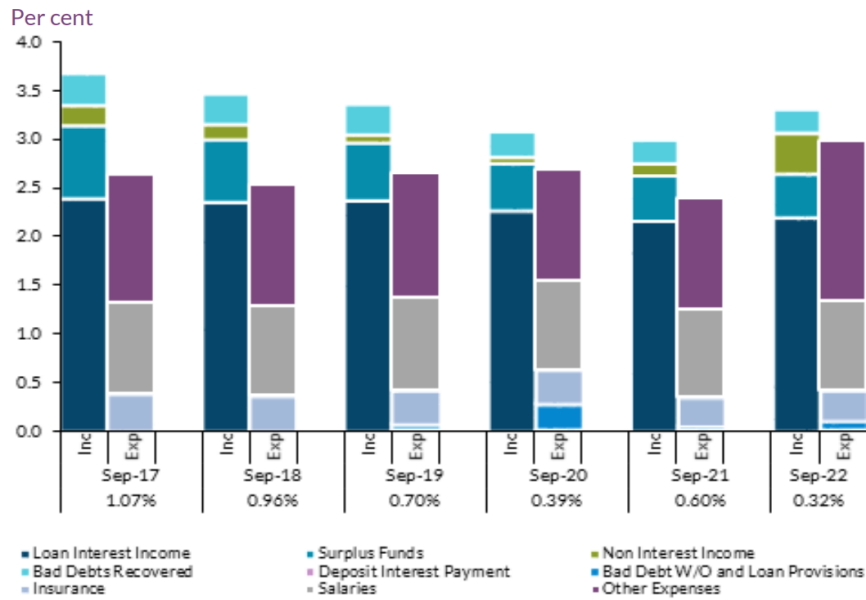
* As reported by 205 Credit Union Prudential Returns September 30, 2022.

¹⁰ Source: Central Bank of Ireland, [Money and Banking Statistics](#).

¹¹ Internal Central Bank of Ireland data.



Return on Assets Components



Number of Credit Unions, Members and Total Assets

The tables below provide a high-level overview of the credit union sector in Ireland over time. Table 2 shows that while there has been a decline in the number of credit unions, the number of members and total assets have increased.

Table 2: Number of Registered Credit Unions and Members

Year	2019	2020	2021	2022
Number of Registered Credit Unions	241	228	213	205
Number of Members (Millions)	3.4	3.5	3.5	3.5
Total Assets (€ Billions)	18.3	19.4	19.9	20.3

Source: Credit Union Prudential Returns September 30, 2022.



Credit Union Asset Size Distribution

Table 3 illustrates the size of Irish credit unions with most of them remaining relatively small. The largest credit union in terms of asset size is €560m.

Table 3: Number of Credit Unions by Asset Bands as at 30 September 2022

Asset Bracket	Number	Total Assets (€B)	% Total Assets
< €40m	63	1.5	7.3%
>€40m<€100m	75	4.8	23.6%
>€100m	67	14	69%
Total	205	20.3	100

Source: Credit Union Prudential Returns September 30, 2022 as reported by 205 credit unions in the Republic of Ireland

Credit Union Financial Position

Table 4 provides an overview of the financial position / performance of the credit union sector over time.

Table 4: Credit Union Sector Financial Position

	2019	2020	2021	2022
Total Assets (€B)	18.3	19.4	19.9	20.3
Average Loans to Asset Ratio	27.8%	26.2%	26.3%	28.3%
Average Arrears > 9 weeks	4.59%	4.81%	3.38%	2.99%
Average Liquidity	36.7%	34.4%	36.2%	34.7%
Average Return on Assets	0.7%	0.4%	0.6%	0.3%
Average Capital Ratio	16.2%	15.5%	15.5%	15.5%

Source: Credit Union Prudential Returns September 30, 2022.

c. Key Developments since 2019

Supervisory Responsiveness to COVID Pandemic

The credit union sector performed remarkably well during the COVID pandemic. While members pulled back on loans and increased savings, the credit unions were able to meet their members' needs and remain open. With fiscal stimulus from the state and loan forbearance, credit unions have emerged with similar levels of capital, lower loans in arrears and marginally higher loan books. This financial performance speaks to the level of financial health and prudent oversight of the sector.

The onset of the pandemic in 2020 necessitated the Registry to demonstrate supervisory agility in addressing emergent risks and impacts arising from COVID. The Central Bank continued to deliver risk-based, outcome-focused supervision from the perspective of both operational and



financial resilience. Strong governance and robust risk management remained a key focus of the Registry's supervisory strategy. The Central Bank proactively engaged with credit unions to facilitate business continuity and to ensure members' needs continued to be served. The supervisory approach took account of the impacts of the pandemic, and underlined the importance of credit unions maintaining a prudent approach to all aspects of their business affairs, aligned with risk appetite, and underpinned by strong governance, operational capabilities, and risk management frameworks.

Extensive two-way engagement with the sector and its stakeholders was undertaken in supporting credit unions during this time, through a range of channels including supervisory calls, virtual meetings, presentations, publications (Supervisory Commentary, Financial Conditions) and circulars. Regulatory flexibility was also provided, in line with other sectors, considering the unprecedented challenges faced by credit unions in responding to COVID (e.g. reporting remittance dates for regulatory returns and RMP timelines).

[Evolution in supervisory approach](#)

Since the previous peer review, the Registry has continued the evolution of its supervisory strategy / approach during a time of significant sector restructuring and in responding to particular risks and challenges experienced by the sector (including COVID pandemic). The Registry has focused on the increased use of data analytics and improved communication in upgrading of its supervisory framework.

The Registry continues to apply an assertive risk-based approach to supervision with supervisory effort focused on the greater risks – in line with the objective of safeguarding member's interests in accordance with its statutory mandate. In delivering supervisory proportionality, supervisory expectations are highest for credit unions with more complex business models. Accordingly, the Registry applies the greatest intensity and depth of supervisory engagement to those larger credit unions with elevated risk profiles.

Where supervisory engagement identifies credit unions that face viability challenges, the Registry continues to engage with boards on the strategic solutions available, including transfer of engagements where standalone viability cannot be demonstrated. In the event that no transfer is available, options tend towards resolution, to ensure members' funds are protected.

Enhanced data and reporting capabilities are essential for credit unions to facilitate continual assessment of the range of credit union risk considerations. It aligns with the Central Bank's stated desire to enhance the use of data analytics in supporting effective supervision. Data is also an important resource for boards of credit unions as they assess the financial resilience of their credit union, using key performance and risk indicators.

[Regulatory Approvals](#)

Credit union business models have continued to evolve over the period 2019 to 2022. This development has been facilitated by changes and evolution in the regulatory framework and the



rollout of the Central Bank Portal to facilitate communication and approvals between the Registry and the sector.

The changes introduced to the lending framework in 2020 have provided credit unions with scope to increase their lending modestly in the areas of house and business loans (i.e., up to 7.5% of total assets combined and either 10% or 15% of assets for large credit unions through a notification and approvals process respectively). In addition, the lending changes have also facilitated credit unions in expanding the maturity profile of their loan books with a move to longer duration, higher value unsecured loans. At the time of the peer review, nine credit unions (of the 67 credit unions with total assets of >€100m who are eligible to apply) have been approved to avail of the higher concentration limit of 15% of total assets with a further two applications under review.¹² The credit union sector has generated approximately €320m in mortgages with an average mortgage of €175,000.

A significant change from the last review in 2019 is the number of credit unions that have applied and been approved to provide Member Personal Current Account Services (MPCAS). At the time of the peer review there were 80 credit unions approved to provide MPCAS (under the additional services framework provided under Section 48 of the 1997 Act). The retail banking landscape in Ireland has changed with the departure of two retail banks in recent times. Between the beginning of January 2022 and January 2023, credit unions authorized to provide current account services have issued 69,000 new cards to their members.

The Registry remains engaged with credit unions and the sector in relation to business model developments and proposals. The Registry is also engaged with the sector with respect to their proposal to establish a Credit Union Service Organization (CUSO) which seeks to increase sectoral mortgage lending. The Registry also notes the recommendation from the recently published Retail Banking Review Report with respect to credit unions which recommended that taking into account the legislative amendments in the forthcoming Amendment Bill of 2022, the credit union sector and its leadership should develop a strategic plan that enables the sector to safely and sustainably provide a universal product and service offering, which is community based, and which is offered to all credit union members, directly or on a referral basis.

d. Legal & Regulatory Framework

There is a comprehensive legal and regulatory framework for the Irish credit union sector¹³. The following are the main items of legislation and regulations relevant to the regulation and supervision of credit unions:

- Central Bank Act, 1942;

¹² At 30 September 2022, there were 67 credit unions representing 70% of total sector assets who were eligible to apply to avail of the increased concentration limits for house and business loans.

¹³ *The Credit Union Handbook* was introduced by the Central Bank in 2013 to assist credit unions by bringing together in one place the legal and regulatory requirements and guidance that apply to credit unions.



- Credit Union Act, 1997;
- Central Bank Reform Act, 2010;
- Central Bank and Credit Institutions (Resolution) Act, 2011;
- Credit Union and Co-operation with Overseas Regulators Act, 2012;
- Central Bank (Supervision and Enforcement) Act, 2013, and
- Credit Union Act 1997 (Regulatory Requirements) Regulations 2016.

The Central Bank Act, 1942 sets out the functions and powers of the Central Bank and establishes a statutory position of the Registrar. The Central Bank Act, 1942 sets out the process for the appointment, role, and responsibilities of the Registrar.

The 1997 Act sets out the functions and powers of the Central Bank in relation to credit unions. The functions of the Central Bank are delegated to the Registrar. The 1997 Act sets out the framework for the registration, regulation, and operation of credit unions.

The Central Bank Reform Act 2010 (the 2010 Act) establishes a single unitary body responsible for both central banking and financial regulation. The 2010 Act also provides the Central Bank with the powers to set out the Regulations and Standards of Fitness and Probity for regulated financial service providers, including credit unions.

The Central Bank and Credit Institutions (Resolution) Act 2011 (the 2011 Act) provides the Central Bank with powers to manage and resolve distressed credit institutions, including credit unions.

The Credit Union and Co-operation with Overseas Regulators Act 2012 reflects many of the Commission on Credit Unions' recommendations in areas such as prudential regulation, governance, restructuring and stabilization.

The Central Bank (Supervision and Enforcement) Act 2013 enhanced the supervisory and enforcement powers of the Central Bank. Many provisions were harmonized across all regulated financial service providers rather than being applicable to one industry sector alone. Key elements of the 2013 Act include whistle-blower protections, Central Bank regulation-making powers in such areas as conduct of business and consumer protection, and the power to require a regulated financial service provider to commission the production of an expert report by a third party.

The Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations)¹⁴, taken together with pre-existing statutory provisions now provide the regulatory framework for the credit union sector.

¹⁴ The remaining sections of the 2012 Act commenced on 1 January 2016, replacing, amending or supplementing certain existing sections of the 1997 Act. These amendments in effect, removed some of the requirements from the 1997 Act and provided regulation making powers to the Central Bank.



In addition to credit union-specific provisions, there is anti-money laundering legislation which also applies to credit unions. The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (CJA 2010), amended by the Criminal Justice Act 2013, transposes the Third Money Laundering Directive (2005/60/EC) and its Implementing Directive (2006/70/EC) into Irish law, bringing Ireland into line with EU requirements and the recommendations of the Financial Action Task Force (FATF). Designated persons under the CJA 2010, including credit unions, are required to comply with their obligations under the CJA 2010.

Depositor Protection

Deposits held in credit institutions (banks, building societies and credit unions) authorized in Ireland are protected by the Deposit Guarantee Scheme (DGS), which is administered by the Central Bank and funded by the credit institutions covered by the scheme. EU Directive 2014/49 took effect in Ireland on 20 November 2015. In the event of a credit institution being unable to repay deposits, all eligible deposits are guaranteed to be repaid by the DGS up to a limit of €100,000 per person per institution.

To date the DGS has been activated on five occasions, four being credit union insolvency. In addition to the DGS protection, other statutory supports are in place for credit unions, including a Credit Union Fund for stabilization purposes and a resolution fund – the Credit Institutions Resolution Fund. There is also a private sector fund in place operated by the Irish League of Credit Unions.



IV. RECOMMENDED ACTIONS TO IMPROVE EFFECTIVENESS OF COMPLIANCE

Relative to the last review conducted by ICURN in 2019, there have been important improvements in the way the Central Bank is performing its functions, specifically: a) in terms of how the supervisory approach has been calibrated to be more risk-based; b) the process for submitting information for approvals by the Registry has improved and c) resources within the Central Bank continue to be shared to aid with a data driven approach to supervision and bringing expert resources to bear with the Registry receiving support from a number of areas within the Central Bank. (e.g. Anti- Money Laundering division, Legal division, Enforcement division, Governance and Operational Resilience division). Likewise, credit risk in the sector has decreased as the coverage of loans in arrears through provisioning grew from approximately 200% at September 2019 to 300% at September 2022.

To further improve the supervisory effectiveness and achieve full compliance with the ICURN Guiding Principles for supervision and governance, the peer review team recommends that actions should be taken in four key areas as follows: a) further focus on risk management throughout the credit union structure; b) continue to develop a regulatory framework which recognizes the increasing diversification of business lines among credit unions where credit unions demonstrate the necessary capability and competence; c) balance Prudential and Strategic Risk, and d) improve the data received, analysis of data and reporting back of data to the sector.

a. Focus on Risk Management throughout the Credit Union Structure

Further work is required by credit unions to strengthen their core foundations across governance, risk management and operational capabilities for an effective risk management framework as highlighted in Guiding Principles 4 and 5. Although the responsibility rests with boards and management of credit unions to ensure that their governance, compliance and risk management frameworks support operations as well as proposed business model changes, the Registry has an important role to play in providing guidance and overseeing the risk management environment in credit unions. For example, aspects of the Credit Union Handbook related to operational risk could be updated, requirements to report fraud and greater engagement with credit union boards and staff on risk management would be beneficial.

b. Balance Prudential and Strategic Risk

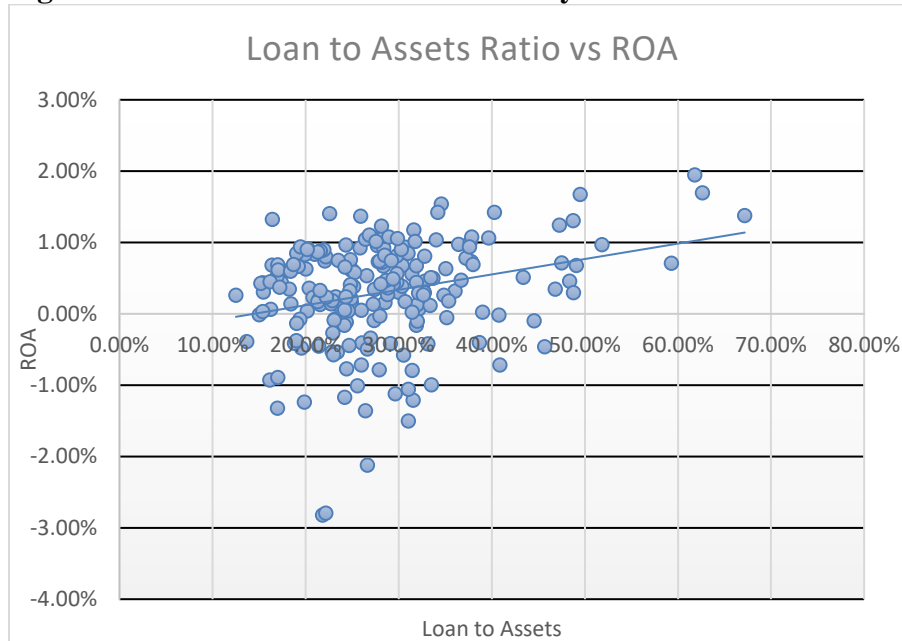
The Registry of Credit Unions' statutory obligation is to ensure the protection by each credit union of the funds of its members and the maintenance of the financial stability and the well-being of credit unions generally. The long-term trend of decreasing profitability of credit unions witnessed during the 2019 review has continued unabated even as credit unions have been granted greater investment flexibility. While the impact of the global pandemic and losses incurred by their private pension scheme further exacerbated the situation in addition to an increasing operational cost base, the overall challenge is structural in credit unions.

As is the case in the financial services sector generally, greater economies of scale may have a positive impact on profitability in the longer term. As evidence to support this perspective, none of the nine largest credit unions had negative ROA in 2022. In addition, the allocation of assets



to loans, which generally have generated greater income for credit unions than investments in bank bonds, can be seen in Figure 2 below as higher-loan to assets ratios are correlated to higher profitability.

Figure 2: Loan to Assets and Profitability

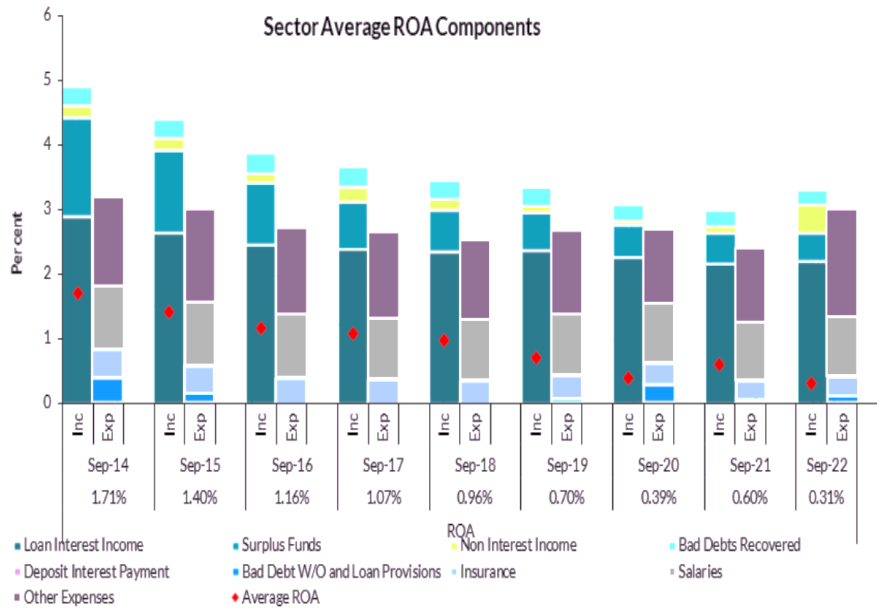


Although the purpose of credit unions is to provide services to members as opposed to maximizing surplus for shareholders, credit unions need to ensure a level of profitability sufficient to maintain their longer-term sustainability as well as funding their capital needs. The sector average cost-to-income ratio in September 2022 was 92%, up from 80% in September 2019 – this is a tenuous position that allows a very narrow margin for error. Figure 3 below shows the impact of the extraordinary expenses in 2022, the continued decrease in income from investments of surplus funds and the decrease in loan interest income. Rising rates in 2023 have helped credit unions' investment portfolios but could potentially be off-set by a need to begin paying dividends again to members if interest rates remain at current / increased levels.¹⁵

¹⁵ This report was finalized before the year-end 2023 audit figures were available. However, June 2023 data suggests that the higher interest rates that credit unions are earning on their substantial investments will bring year-end ROA more in-line with 2019 and 2021 results.



Figure 3: ROA Components & Profitability over time



The exit of two large foreign banks from the Irish market place, the continued strong reputation of credit unions and significant funds to be lent out could change the dynamics in the market place. The improvement by credit unions of their long-term sustainability would align with and support the Central Bank’s statutory mandate, specifically its function to administer the system of regulation and supervision with a view to maintenance of the financial stability and well-being of credit unions generally. While significant changes have been made in terms of provision of current accounts to meet member needs, the Registry also has a part to play in being open to credit unions broadening their product set on the lending side of the balance sheet, provided risks are appropriately managed. In 2020, following a review of the lending framework undertaken by the Registry, changes to the lending framework were commenced, which provided credit unions with increased capacity to undertake house and business lending, however, activity in these areas of lending has still been limited to date by credit unions. This may be in part because of the low limits available for such avenues of lending versus the investment of expertise required by credit unions to enter the business lines more significantly. There have been recent strides made in improving loan underwriting which could aid credit unions that have interest and capacity to enter the mortgage market. Small business lending by credit unions, while it would also require additional specialized staff either directly or via credit union service organizations to enter this market in a more significant way, is another potential area for meeting members’ needs and increasing lending.

c. Develop a regulatory framework that recognizes the increasing diversity of capacity in credit unions

Like most credit union systems in advanced economies, the Irish sector is starting to witness a



greater concentration of sector assets in a fewer number of very large credit unions. As of September 2022, there were nine credit unions with over €350m in assets and one credit union with over €500m in assets. Together, these credit unions represent 19% of sector assets. As this trend continues, the Registry should consider how further regulatory development can allow larger, strong performing credit unions who demonstrate strong core foundations of governance, risk management and operational capabilities to enter activities which promote longer-term sustainability of credit unions and offer members a greater range of financial services. There are already signs that this process is underway in some parts of the Registry's evolving regulatory framework and the Amendment Bill of 2022.

d. Improve the data received, analysis of data and reporting back to the sector

The Registry should enhance the data that it collects from the sector, with a focus on larger, higher impact credit unions, related to investments and loans. As there is greater bifurcation of sizes of credit unions, the Registry should ensure that its analysis of information is calibrated to take account of these differences. Lastly, the Registry should continue its on-going improvements in reporting data to the sector, and public at large, to aid data-driven decisions by credit unions and peer group comparisons within the sector and across key areas of focus (e.g., cost-to-income, NPLs, capital, liquidity, ROA, loans to assets, fee income, financial margins, investment yields and maturities, etc.). Such data published in a modifiable format as is done with the Central Bank's Money and Banking Statistics could facilitate the sector, academia, and others in further analysis of the data.

e. Additional Observations for Consideration

In addition to the four overarching recommendations which relate to areas assessed as largely compliant, the peer review team has the following observations which are not borne directly out of ICURN's Guiding Principles, but nonetheless may further improve the regulation and supervision of the sector.

As credit union business models and balance sheets further develop they should also develop their approach to liquidity management including asset and liability management considerations. The Registry should give consideration to enhancing the data collected from credit unions in this area to facilitate enhanced understanding as to the ongoing appropriateness of existing liquidity requirements and whether other liquidity metrics such as the Liquidity Coverage Ratio (LCR) or the Net Stable Funding Ratio (NSFR) could represent suitable alternative liquidity requirements for credit unions and provide better information. In addition to these requirements, there should be greater clarity regarding the liquidity management facilities (e.g., emergency liquidity assistance and market-based borrowing for settlement and short-term demands) available, or required, for credit unions should they be needed.

- Following a review of the performance of many of the mortgages that credit unions have made in the past several years, we support a collaborative approach to a review of the impact of the changes to the lending framework introduced in 2020. Without some liberalization of the limits and flexibility, the Amendment Bill of 2022 may not have the anticipated positive impact, as credit unions may question whether they can achieve the necessary economies of



scale to make it worthwhile diversifying into mortgage and SME lending. As part of the review of lending limits that the Registry has committed to, risk-based measures, for example regarding loan-to-value and loan-to-income ratios should be considered as they are strong predictors of loan performance and risk. We also support separating limits for mortgages and SME lending as these two types of lending have very different risk-profiles and required skills.

- As credit unions continue to expand their lending activities into longer-term loans, including those undertaken on a fixed rate basis, there may be merit in the future to begin looking at tools which some credit unions could use to manage interest rate risk. The Central Bank might want to consider a requirement for an Asset Liability Committee (ALCO) on a proportionate basis (e.g., to the extent certain credit union business models expose them to greater levels of liquidity and interest rate risk from current accounts and mortgages), to engage in more dynamic analysis and stress testing of a credit union's exposure to liquidity and interest rate risk.
- There is no guidance from the Central Bank in the Credit Union Handbook on the handling of dormant accounts within credit unions¹⁶. Both the time frame for considering the account dormant (36 months)¹⁷ and the fact that unclaimed balances are not eventually turned over to either the state or an independent body is an area of potential concern and source of potential fraud. As mentioned in the last peer review, this is an area for improvement.
- The development of an Engagement Protocol between the Registry and credit unions would assist in providing clarity on regulatory engagements and outlining the overarching principles for such engagements.
- The Registry is encouraged to consider the feasibility of analyzing regulatory reserves under the existing leverage ratio and the risk-weighted reserve approach. This analysis could take account of credit union resilience to cyclical and structural vulnerabilities, costs pressures and long-term demographic trends in the markets where credit unions generally operate. The pandemic itself served as a live stress event for credit unions and the broader financial sector, which the sector managed effectively. Exploring alternative capital instruments, that would not impact the cooperative nature of credit unions, may also be a viable option for improving the capital position of credit unions. Risk-weighted capital could also be explored as a future option to better align the risks in credit union balance sheets and operations with the required capital.

¹⁶ Under the [Dormant Accounts Acts 2001–2012](#) and the [Unclaimed Life Assurance Policies Act 2003](#), balances on dormant accounts with banks, building societies and An Post, as well as the net value of certain life assurance policies are paid into the Dormant Accounts Fund. This fund is managed by the [National Treasury Management Agency \(NTMA\)](#). The legislation does not apply to accounts held in [credit unions](#).

¹⁷ Credit unions may set out rules relating to dormant accounts in the credit union's own rules and many credit unions consider member accounts to be dormant after 36 months of inactivity.



INTERNATIONAL CREDIT UNION REGULATORS' NETWORK

- Required timely reporting by the credit union to the Registry on fraud events within a credit union should be required when such an event occurs.
- Update the Credit Union Handbook to reflect subsequent publications, for example Outsourcing and Operational Resilience expectations and update the Registry's Inspection Manual.



V. CENTRAL BANK'S RESPONSE (THE REGISTRY)

Introduction

The Central Bank acknowledges the detailed assessment, undertaken by the ICURN credit union peer review team (ICURN team), on the Central Bank's compliance with the ICURN Guiding Principles for Effective Financial Cooperative Supervision and Best Practices for Financial Cooperative Governance.

In line with our statutory mandate, the Central Bank is committed to ensuring the protection by each credit union of the funds of its members and maintenance of the financial stability and well-being of credit unions generally. The requirement under legislation for a peer review to be undertaken every four years is an opportunity for regular external scrutiny on the performance of our functions in relation to the regulation and supervision of credit unions. We acknowledge and welcome the recommendations for enhancement in the Central Bank's performance of these functions.

The Central Bank welcomes recognition by the ICURN team that the Central Bank is effective in performing its functions. The Central Bank also welcomes that relative to the last review conducted by ICURN in 2019, there have been important improvements in the way the Central Bank is performing its functions, specifically:

- a) in terms of calibration of the PRISM supervisory system to be more risk-focused as more credit unions become medium-high impact institutions;
- b) the process for submitting information for approvals by the Registry has improved; and
- c) data sharing with the sector on financial performance has improved.

The Central Bank acknowledges and broadly agrees with the findings contained in the Peer Review Report and will consider how we can address the recommendations with a view to enhancing our current practices in the context of our mandate, vision and strategy for the credit union sector and aligned with our supervisory frameworks and risk appetite. Our approach to addressing the recommendations will also be informed by the broader macroeconomic environment conditions and the potential for these to impact on individual credit unions and the credit union sector more generally. As referenced in the Central Bank's Financial Stability Review (November 2023), the world economy is slowing with inflation having become more broad based and persistent in the latter part of 2023. Global financial conditions have tightened amid a pronounced shift in monetary policy, exposing pockets of vulnerability. There is heightened uncertainty around the potential source of future shocks and the potential downside risks that these present. These developments, among other things, will inform our approach as we deliver on our statutory mandate for credit unions and their members.

Central Bank Strategy

The Central Bank's strategy for the credit union sector is informed by the view that strong, well-governed credit unions should remain an important part of the financial landscape in Ireland. The Registry's vision for "Strong Credit Unions in Safe Hands" underpins the statutory mandate set out under Section 84 of the Credit Union Act, 1997 (the 1997 Act). We seek to deliver our vision



for the sector through the Central Bank's four strategic themes set out in the Central Bank's Strategy (for 2022-2024) which are connected and have an emphasis on being outward, engaged and forward looking, namely:

- ***Open and engaged***- to build trust and understanding in the role of the Central Bank through stronger engagement with the public, stakeholders and peers.
- ***Future focused***- to adopt a forward-looking approach anticipating and responding proactively to changes in the economy and the financial system.
- ***Transforming***- to transform our Bank to be a more agile, resilient, diverse and intelligence-led organisation.
- ***Safeguarding***- to continue to evolve our key policy frameworks and approaches, strengthening our ability to maintain price stability and the resilience of the financial system, while ensuring the best interests of customers are protected.

Credit unions continue to play an important role, at both community and societal level, in the Irish financial services landscape. The Central Bank acknowledges the recommendation of the Retail Banking Review¹⁸ that the credit union sector and its leadership should develop a strategic plan that enables the sector to safely and sustainably provide a universal product and service offering to all credit union members. In addition, the Central Bank welcomes the Credit Union (Amendment) Act 2023 which, when commenced, will introduce a number of changes to the 1997 Act, providing opportunities for credit unions to expand their membership and services, including the referral of members to another credit union with a wider product offering, loan participation and loan syndication, statutory recognition of credit union shared service organisations and as well as the establishment of corporate credit unions.

While the Central Bank is supportive of credit unions pursuing new business opportunities, we consider that strategic business decisions should be informed by a number of key considerations including:

- capabilities and expertise within individual credit unions,
- risk appetite within individual credit unions, and
- available financial resources within individual credit unions, including current and projected levels of regulatory reserves,

with the overall objective of the provision of products and services which their members want to avail of, in a manner consistent with ensuring the financial and operational resilience of the credit union. More broadly, credit unions should also ensure that the business opportunities which they pursue are cognisant of external macroeconomic developments and the potential for downside risks to emerge and the likely impact on the credit union.

Overall Comments on ICURN Team's Recommendations

The Central Bank acknowledges the recommendations of the ICURN team and we will consider these as we deliver on our strategy for the credit union sector taking account of our statutory

¹⁸ <https://www.gov.ie/en/publication/28cf9-retail-banking-review-november-2022/>



mandate under the 1997 Act. We set out below our comments on the key recommendations made by the ICURN team in the Peer Review Report covering:

- A. Focus on Risk Management throughout the Credit Union Structure;
- B. Balance Prudential and Strategic Risk;
- C. Develop a regulatory framework that recognises the increasing diversity of capacity in credit unions; and
- D. Improve the data received, analysis of data and reporting back to the sector.

A. Focus on Risk Management throughout the Credit Union Structure

Risk management is a key line of defense for businesses, including credit unions. It is a fundamental capability and a key business enabler, one that underpins informed decision making. The Registry agrees with the ICURN team's observation that *'further work is required by credit unions to strengthen their core foundations across governance, risk management and operational capabilities for an effective risk management framework'*. Strengthening credit union core foundations across the areas listed will continue to be a key focus of our ongoing supervisory strategy.

Responsibility to implement and embed strong risk management frameworks rests with credit union boards and management. The Registry has an important role to play in providing guidance and overseeing the risk management environment in credit unions, requiring risk mitigation by credit unions and providing updated guidance as necessary. We welcome the ICURN team's acknowledgement that the 2021 Thematic Review of Risk Management Maturity in Credit Unions by the Registry served as an important step towards supporting credit unions in the further development of their risk management frameworks. The findings in that review remain relevant in supporting credit unions in embedding a strong risk management culture and ensuring that risk management serves as a key enabler.

The Registry will continue to seek to support the development of an enhanced risk management culture across all credit unions. In this context, we will consider how we can further support this objective through our supervisory engagements with individual credit unions, thematic reviews and sector engagement and communications.

B. Balance Prudential and Strategic Risk

The Central Bank regulates and supervises credit unions to seek to ensure that they:

- are financially sound;
- have sustainable business models which serve the needs of their members (and the wider financial system) over the long-term;
- are well governed and safely managed; and
- can recover if they get into difficulty and if not, are resolvable in an orderly manner.

The Registry continues to apply an assertive risk-based approach to supervision with supervisory effort focused on the greatest risks - in line with the objective of safeguarding members' interests in accordance with our statutory mandate. In delivering supervisory proportionality, supervisory expectations are highest for credit unions with more complex business models. Accordingly, the



Registry applies greatest intensity and depth of supervisory engagement to those larger credit unions with elevated risk profiles. More broadly, aligned with the Central Bank's strategic theme of transforming the Central Bank has committed to further evolution of our risk-based supervisory approach, such that it becomes more data-driven, agile and scalable. We note the points raised by the ICURN team with respect to credit union sustainability and that the improvement by credit unions of their long term sustainability would align with and support our statutory mandate under section 84 of the 1997 Act. We have identified and highlighted concerns on credit union sustainability, evidenced by low loan to assets ratios, high cost to income ratios with resulting low return on assets, for a number of years in our engagements and communications with credit unions and sector stakeholders.

The regulatory framework has evolved over recent years to facilitate business model initiatives brought forward by the sector- changes introduced include member personal current accounts (recently expanded to permit member business current accounts) as well as changes to the lending and investment frameworks for credit unions. We note the recommendation of the Retail Banking Review that the credit union sector and its leadership should develop a strategic plan that enables the sector to safely and sustainably provide a universal product and service offering to all credit union members.

Lending is the principal source of credit union income, and income is the only source of capital. Therefore lending is critical to sustainability and member protection. We support prudent credit diversification by credit unions towards a more balanced loan portfolio as evidenced through the changes which we introduced to the lending framework in 2020 following a public consultation process via Consultation Paper 125- Consultation on Potential Changes to the Lending Framework for Credit Unions (CP125). These changes were introduced to facilitate credit unions to engage in increased longer term lending, including house and business lending. As communicated in CP125, we remain open to supporting credit unions to increase lending activity on a prudent basis, including in new areas of lending. While there has been some increased activity by credit unions in house and business lending, this is from a low base and to date has been focused across a relatively small number of credit unions. Significant capacity¹⁹ still exists within the current lending limits for further house and business lending to be undertaken by credit unions. While there are some suggestions that the limits themselves act as a barrier for credit unions undertaking increased house and business lending, we do not concur with this view and consider that there are a number of factors which may be contributing to the low level uptake evidenced to date including individual credit union risk appetite. In line with our commitment outlined in the feedback statement to CP125, we have commenced a review to assess and analyse the actual impact which the changes to the lending regulations have had and to inform any decisions on the need for future change. The outcome of this review will be published in H1 2024.

¹⁹ At end of September 2023, there was total outstanding capacity of €2.1bn should all large credit unions take advantage of the increased lending limits available to them.



The Central Bank remains engaged with individual credit unions and sector stakeholders in relation to proposals around business model development. We are supportive of credit unions developing their business models and providing new services to members, however we consider that such initiatives should be cognisant of members' needs and preferences, together with consideration of the associated risks, mitigants and costs. The Central Bank is committed to introducing regulatory changes as necessary and following consultation. Any such changes will be guided by our statutory mandate under Section 84 of the 1997 Act with a view to ensuring the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally.

C. Develop a regulatory framework that recognises the increasing diversity of capacity in credit unions

The Central Bank recognises the changed profile of the credit union sector which is the result of the significant restructuring which has occurred over the past decade with the number of trading credit unions reducing to 191 at the end of December 2023 from 391 at the end of December 2013. Restructuring has also significantly transformed the asset profile of the sector, providing certain credit unions with the scale needed to deliver future transformation and evolve their product and service offerings to their members.

The Central Bank welcomes the ICURN team's acknowledgement that there are already elements of the regulatory framework which recognise the diversity of capacity for credit unions, specifically that the framework provides increased scope to certain credit unions who demonstrate strong core foundations to enter into activities which promote longer-term sustainability of credit unions and offer members a greater range of financial services. Credit unions benefit from a tailored regulatory framework that has evolved to ensure that it remains proportionate and appropriate to the characteristics of the sector and to the non-complex nature of the credit union business model. The current regulatory framework recognises that larger credit unions may seek to avail of increased capacity to undertake more complex activity, in areas such as investments, lending and savings. We consider that such credit unions undertaking increased or more complex activity need to be able to clearly demonstrate to the Central Bank that they have the capability and required competency for such activities and an ability to comply with regulatory requirements, to ensure that any associated risks arising will be managed and mitigated appropriately.

There have been significant developments in the regulatory framework over recent years. It is our expectation that the regulatory framework will continue to evolve as appropriate to address changes in credit union business models and take account of opportunities provided for in the Credit Union (Amendment) Act 2023. The Central Bank is cognisant of the need to ensure that the regulatory framework continues to be tailored and proportionate taking account of the nature, scale and complexity of business undertaken and this will inform any proposals for future regulatory changes.



D. Improve the data received, analysis of data and reporting back to the sector

In line with the broader Central Bank Strategy, specifically the strategic themes of safeguarding and transforming, data and technology will play an important role in further driving effective and efficient credit union supervision over the medium- term. We recognise the need to keep under review the type and range of data requested from credit unions so that it continues to be relevant, informative and reflects changing trends and informs timely identification of new and emerging risks for credit unions. Over recent years we have continued to improve and adapt reporting of data by credit unions to the Central Bank including for lending, investments and liquidity together with capturing new data on operational resilience and climate-related/environmental risk. We recognise that further enhancing the collection of data on a regular basis will be even more important as the nature and complexity of credit union activities continue to change, with potential for new risks to emerge.

Similarly the analysis of any revised data sets will also be required to support the evolution of supervision to further assess the most significant sectoral risks, identify emerging risks and assist with prioritisation of supervisory activities, taking into consideration the individual credit union impact (asset size) category.

In terms of how the data is reported back to the sector, we will continue to review our approach to data related output, including our Financial Conditions statistical publication, as well as more targeted communications such as the outcome of thematic reviews. This will take account of what can be provided to give credit unions an improved overall understanding of the evolving risk profile and peer comparisons and we will consider format, frequency and comparability of the output.

Specific Comments on ICURN Team's Findings and Ratings

The ICURN team assessed the Central Bank to be compliant with 21 out of 23 of ICURN's Guiding Principles for Effective Financial Cooperative Supervision / ICURN's Best Practices for Financial Cooperative Governance.

The Central Bank has the following comments in relation to the two Guiding Principles rated as "Largely Compliant".

- Guiding Principle 4 – Risk Management
- Guiding Principle 5 – Management of Operational Risk

The ICURN team noted areas for improvement in risk management, including the management of operational risk.

Strengthening credit union core foundations across governance, risk management and operational capabilities continues to be a key focus of the Registry's supervisory strategy. Responsibility rests with boards and management to implement and embed strong risk management frameworks. The Registry has an important role to play in providing guidance and overseeing the risk management environment in credit unions. The findings of the Registry's 2021 thematic review remain relevant in supporting credit unions in embedding a strong risk



management culture and ensuring that risk management serves as a key enabler, managing both existing and new business lines/proposed business model changes.

The Registry will continue to seek to support the development of an enhanced risk management culture across all credit unions through our supervisory engagements with individual credit unions, thematic reviews and through sector engagement and communications.

Comments on Additional Observations for Consideration

While recognising that the Central Bank has been assessed as compliant against 21 of 23 Guiding Principles and largely compliant for the other 2 Guiding Principles, we note the observations outlined by the ICURN team, which are not borne directly out of the Guiding Principles. A number of the observations relate to specific aspects of the regulatory framework particularly in the areas of lending, reserves and liquidity/asset and liability management (ALM). While we consider that the regulatory framework in these areas is appropriate and proportionate at this time, having regard to the nature, scale and complexity of credit unions we recognise the need to ensure that the framework continues to be appropriate and proportionate in the future, taking account of governance and risk management capabilities in credit unions, as credit union business models evolve and develop. We set out below some comments on the specific observations.

- **ALM and Liquidity** - ALM including liquidity management remains a key supervisory focus for the Registry. We concur with the ICURN's team view that as credit unions develop their business models and balance sheets further that they should also further develop their approach to liquidity management including ALM considerations. This view aligns with the ICURN team's observation regarding Asset and Liability Committees within credit unions and this may be appropriate in the future to support credit unions in their ALM management.
- **Lending** - As previously outlined, in line with our commitment under CP125, the Central Bank is currently undertaking a review to assess and analyse the impact which the changes introduced to the lending framework in 2020 have had on credit union lending and to inform on the need for future changes.
- **Dormant accounts** - We note the concerns raised by the ICURN team in relation to dormant accounts and the potential risks attaching. Noting that the Dormant Accounts Act 2001 does not apply to credit unions, we will consider whether providing credit unions with guidance in this area would be of practical use to credit unions, through an update to the Savings Chapter of the Credit Union Handbook.
- **Engagement protocol** - This observation aligns with a recommendation from the Department of Finance led Policy Framework Review and the Registry has commenced work in this area. In line with the Central Bank's strategic theme of being Open and Engaged, the Registry is committed to open and transparent engagement with credit unions.
- **Reserves** - The Registry notes the observation around reserves and specifically that risk weighted capital could be explored as a future option for credit unions. The current reserve



requirement for credit unions is calculated on a non-risk weighted, leverage ratio basis. This is a reflection of a number of factors including: available sources of reserves (retained earnings only); the need for individual credit unions to have the capacity to absorb potential losses in absolute terms and the non-complex business model currently operated by Irish credit unions. We remain of the view that there is no rationale to change to a risk weighted approach (to potentially include various capital buffers, such as a countercyclical capital buffer) given the current asset mix of Irish credit unions, the nature of the business model and indeed the costs associated with implementation for credit unions.

- Reporting of fraud - We note the observation of the peer review team for timely reporting of fraud events in credit unions to the Registry. The Registry maintains open two way supervisory engagement with credit unions which has resulted in such type of events being brought to our attention by credit unions in the past.
- Credit Union Handbook - The Credit Union Handbook was developed to assist credit unions by bringing together in one place the legislation, regulations and guidance that are relevant to credit unions. Since initial publication a number of updates have been made to reflect developments in the legislative and regulatory framework and inclusion of new guidance as appropriate. The Registry will endeavor to ensure that the Credit Union Handbook remains up to date and will consider the need for future updates and refinements.

Concluding Comments

The Central Bank acknowledges the benefits of an independent external review of the performance of our regulatory functions in relation to credit unions. We welcome the recommendations in the context of continuously seeking to refine and update our regulatory framework and supervisory practices for the sector. The Central Bank will evaluate and consider all of the recommendations and additional considerations provided by the ICURN team to determine how they could enhance our regulatory and supervisory approach in support of the delivery of our strategic priorities for the credit union sector and in the context of our statutory mandate.



VI. DETAILED ASSESSMENT

Pillar I Registration and licensing of credit unions Guiding Principles 1 to 3

Guiding Principle 1: Registration, Licensing or Authorization

Credit unions should be established by reference to distinct legal characteristics, which should be applied when registering and licensing (authorising) new credit unions. At a minimum, the registration and licensing processes, as appropriate, should consider: ownership (which must be a co-operative or mutual structure); governance; fitness and propriety, capability and competence, of board members and senior management; strategy; risk management and capital. This is not intended to be an exhaustive list and the relevant authorities should consider any additional criteria needed to facilitate effective supervision in their regimes. Where a country / region / state provides a deposit-protection scheme, registration and licensing must be requirement of a credit union's membership of the scheme.

Overall Rating: Compliant

Summary Assessment

The Registry is the Division within the Central Bank which is responsible for the registration, regulation and supervision of credit unions. Under the 1997 Act, the Central Bank has the sole authority with the power to register, regulate and supervise credit unions. The Central Bank has a specific and clear application process, along with supporting documentation for any potential applicant that wishes to register as a credit union. These new credit unions are subject to prudential limits and governance requirements. After a credit union is registered, it is subject to the prudential and governance requirements that apply to credit unions.

The Central Bank details the requirements of registration consideration as being:

- Cooperative Ownership
- Fitness and Probity
- Governance
- Capacity and Competency (board and senior leadership)
- Strategic Plans
- Risk Management
- Capital / Reserve Requirements and Parameters

Records indicate that no new applications for registration have been received by the Central Bank since 2003. Considering the consolidation of the sector and the lack of applications for new registrations, the credit union sector in Ireland continues its voluntary consolidation, albeit at a slower pace than over the previous period between 2015-2019.



Legal & Regulatory Compliance

In recognition of the unique nature of credit unions, a statutory position of Registrar was explicitly created within the Central Bank with responsibility for the regulation and supervision of credit unions.

Sections 6-10 of the 1997 Act relate to the registration of a credit union. In particular:

- Section 6 provides that the Central Bank may register a credit union provided it is satisfied that specified conditions have been fulfilled;
- Section 6A allows the Central Bank to impose conditions on a newly registered credit union; and
- Section 8 of the 1997 Act provides the Central Bank with the power to refuse an application for registration. Section 6 of the 1997 Act also provides that the registered office of a credit union must be in the State and that membership must be restricted to members that have a common bond.

Section 97 of the 1997 Act makes provision for the Central Bank to cancel the registration of a credit union. Winding up of credit unions may arise under various pieces of legislation – Section 133-136 of the 1997 Act and Part 7 of the Central Bank and Credit Institutions (Resolution) Act 2011. Section 27A of the 1997 Act provides that a credit union shall maintain appropriate oversight, policies, procedures, processes, practices, systems, controls, skills, expertise, and reporting arrangements to ensure the protection of members' savings and that it complies with requirements imposed under the financial services legislation. Section 66A of the 1997 Act requires a credit union to have governance arrangements which ensure that there is effective oversight of the activities of the credit union, taking into consideration the nature, scale and complexity of the business being undertaken.

Section 76B of the 1997 Act requires a credit union to develop, implement, document and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to; Section 76J of the 1997 Act sets out requirements relating to outsourcing, including a requirement that credit unions shall exercise due skill, care and diligence when entering into, managing or terminating any outsourced activities with a service provider; Section 53(10) of the 1997 Act sets out a list of individuals who are not eligible to become a director of a credit union; Section 69 of the 1997 Act requires that officers of the credit union should at all times ensure that individually and collectively they act in a manner free from conflicts; and Section 72 of the 1997 Act prohibits an individual from being an officer of a credit union if they are bankrupt or have been convicted of an offence of fraud or dishonesty in relation to a credit union.

Regulation 4 of the 2016 Regulations includes a provision relating to an initial reserve requirement for new credit unions. Part 3 of the 2010 Act provides a statutory system for the regulation by the Central Bank of individuals performing control functions (CFs) and pre-approved control functions (PCFs) in credit unions. There is also Guidance on Fitness and



Probity for Credit Unions (June 2018); Minimum Competency Code (2017); and Fitness and Probity Standards for Credit Unions (2015) provided by the Central Bank.

Section 4 of the Central Bank's "Checklist for completing and submitting Credit Union Registration Applications" requires details of the "Governance Arrangements" of a proposed credit union. Detailed information is also sought on credit union oversight including: Strategic plan; Risk management; Compliance; Internal audit; Financial control; Systems and controls; Anti-money laundering; Conflicts of interest; Funding, reserves and liquidity; Lending and investments; and Systems and controls / policies and procedures; Financial Services (Deposit Guarantee Scheme) Act 2009; and European Union (Deposit Guarantee Schemes) Regulations 2015.

Regulations enacted in 2016 requires newly-registered credit unions to establish and maintain an initial reserve that is sufficient to meet the credit union's anticipated growth over three years. The reserve should also take account of operating losses that can be expected to occur until the credit union reaches an operationally viable performance level and is at least equal to the greater of €10,000 or the minimum regulatory reserve of at least 10% of the credit union assets.

Practical Compliance

As defined on the Central Bank's website, a credit union is a financial cooperative formed for the promotion of thrift among its members by:

- the accumulation of their savings
- the creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest
- the use and control of members' savings for their mutual benefit.

Members in credit unions each have equal voting rights. Therefore, credit unions have a straightforward structure.

The application process, and supporting documentation, developed by the Central Bank requires the review of, among other things, the proposed legal, managerial, and operational structure of the applicant to ensure the application meets all legal and regulatory requirements and that the proposed legal, managerial and operational structure would not hinder: (i) effective supervision; or (ii) implementation of corrective measures in the future. In relation to the board of directors and management, information would also be sought on the applicant's governance framework in the context of the 1997 Act which sets out requirements for the board of directors and certain management positions.

In the event of a credit union registration application being received, the application would be reviewed within the Registry. As part of this review, an assessment would be carried out as to whether the applicant's proposed strategic and operating plans are feasible and follow-up would be carried out on any matters arising. Following the review, a recommendation in relation to the application would be forwarded to the Registry management (Registrar and Deputy Registrars) for approval. In the absence of actual applications made in the past 20 years, based on our review of the registration, licensing and authorization processes, it is



concluded that the Central Banks meets the standards of the ICURN guiding principle in this area. While other mature credit union markets abroad are also witnessing many mergers of credit unions, they do also periodically license new credit unions. The lack of any new applications for credit unions, despite other new entrants in the market, could be an area of further analysis by the Registry (and the sector).

Guiding Principle 2: Ownership

The structure of any proposed credit union must comply fully with internationally-recognised cooperative / mutual principles, taking account of circumstances where second-tier organizations have proportional voting for members. No individual or group of individuals may be permitted to exercise control from a minority position. Voting in credit union support organizations or associations may be proportional or representational.

Overall Rating: Compliant

Summary Assessment

The 1997 Act sets out several conditions for registration as a credit union.

The ownership cooperative structure of a credit union is fundamentally based on the “one member, one vote” concept in which no member has more authority than another. Under Section 82 of the 1997 Act, each member shall have one vote. This establishes the cooperative structure legislatively.

A financial cooperative has several basic principles from the International Cooperative Alliance:

- Credit unions are owned by members (one member, one vote);
- Credit unions are not-for-profit entities;
- Credit unions are independent and democratically-controlled;
- Membership is based on common bond to determine eligibility;
- Credit unions promote education and thrift;
- Credit unions have a cooperative business structure; and
- Credit unions are socially responsible and promote community.

Many jurisdictions globally allow for overlapping common bonds among credit unions, as it supports consumer choice, access and competition. Expansion of credit union’s field of membership would give the opportunity for sector growth. Proposals contained within the Amendment Bill of 2022 provide for referral of members from one credit union to another. Further expansion of membership opportunities should be considered which would require legislative changes to the 1997 Act.



As outlined in Section 17(3A) of the 1997 Act, subject to the rules of the credit union concerned, a member who held a common bond of that credit union shall not cease to be a member solely because that member no longer holds the common bond of that credit union.

Third party / Support Organizations / CUSO

The Registry does not have supervisory responsibility over service organizations or trade associations. However, where credit unions inform the Registry that they are considering establishing support organizations, the Registry engages with such credit unions to ensure the proposed arrangements have been fully considered by the credit unions and do not involve undue risk to members' savings.

There are only a small number of central support organizations and associations in the Irish credit union sector. These include trade associations and their commercial entities and more recently, credit union owned outsourced service providers. In the six cases where such organizations have been established this has been on a co-operative basis, a trust established on behalf of participating credit unions or in the case of credit union owned service providers, limited companies. While the Registry does not have any regulatory role or responsibility in relation to such support organizations, associations, or service providers, depending on the nature of regulated activities (where undertaken) they may fall within the supervision of other areas of the Central Bank or of another body such as the Registry of Friendly Societies. In addition, where credit unions inform the Registry that they are considering establishing support organizations, the Registry engages with such credit unions to ensure the proposed arrangements have been fully considered by the credit unions and do not involve undue risk to members' savings. When availing of services from outsourced service providers credit unions must comply with the requirements on outsourcing contained in Section 76J of the 1997 Act.

Guiding Principle 3: Permissible Activities

The permissible activities of credit unions should be clearly defined, and the local terminology used to describe the entities undertaking these activities, such as credit union, financial mutual, caisse populaire and SACCO, should be restricted and controlled. There should be a power to enforce against the use of the restricted terminology by unlicensed entities. Business powers and permissible activities may be proportional to the credit union's size and ability to manage the risks inherent in such services and compatible with its business objectives.

Overall Rating: Compliant

Summary Assessment

The permissible activities of credit unions are clearly specified in the 1997 Act and 2016 Regulations.

Credit unions are permitted to:

- Make loans;



- Make investments;
- Accept savings; and
- Borrow.

If a credit union wants to provide additional services to its members, they must apply to the Central Bank under Section 48 of the 1997 Act to seek approval and demonstrate that this offering will not cause undue risk to members savings and that this service is mutually beneficial to the membership. There are also several services and activities prescribed in the 2016 Regulations that are considered low risk and therefore “exempt” from the additional services provisions contained in the 1997 Act and do not require the approval of the Registry provided certain conditions specified in Schedule 2 of the 2016 Regulations (the Exempt Services Schedule) are met.

In January of 2022, the Central Bank published CP148 Consultation on Credit Union Exempt Services. The goal of this consultation was to provide clarification to the scope and definition of the defined exemptions as well as to consider the modern landscape and competitive environment in which Irish credit unions operate. Two specific areas were contemplated; changes and additions to the current conditions set out in the Exempt Services Schedule and prescribing a broader set of intermediation services in relation to insurance and investments. The Registry is currently deliberating on the feedback with consideration to possible regulation amendments in 2024.

Central Bank guidance in the Additional Services Chapter of the Credit Union Handbook provides information on the applicable legislation and regulations for the provision of additional services. A very positive development since the 2019 review is the continued momentum evidenced in the number of credit unions applying for and being granted approval to provide the additional service of MPCAS in Irish credit unions, with 80 credit unions permitted to provide this service at the time of the peer review; MPCAS is a suite of services, including a personal current account, overdraft facilities, payment services and payment devices (cards) provided for under the Payment Services Directive (PSD2).

Part 4 of the 2016 Regulations speaks to lending limits, maturity limits, exposure and concentration risk.

The 2016 Regulations prescribe the following categories of lending which a credit union can undertake:

- Personal loans;
- Business loans;
- Community loans;
- House loans; and
- Loans to other credit unions.



Changes were introduced to the lending framework following a review of the lending framework set out in the 2016 Regulations, which included a public consultation process (CP125). These came into effect in January 2020. In the Feedback Statement on CP125, the Central Bank committed to performing and publishing an analysis on the credit union sector's lending three years post commencement of the new lending regulations. It will be to assess and analyze the actual impact which the changes to the lending regulations have had.

Section 12 of the 1997 Act provides for the protection of use of the registered name of credit union. It is illegal for any entity, other than a credit union, to refer to itself by the name of "credit union" or "comhar creidmheasa". The Central Bank can take enforcement actions against the use of restricted terminology or misrepresentation by unlicensed entities.

The Central Bank has a dedicated Unauthorized Providers Unit (UPU) which identifies and investigates alleged instances of unauthorized activity carried out by individuals or entities that are not otherwise authorized or regulated by the Central Bank. If an individual or entity is misrepresenting itself as a credit union, the UPU team would investigate. The Central Bank analyses the facts of each instance on a case-by-case basis. The Central Bank has certain statutory reporting obligations to the Gardaí, where it suspects a criminal offence may have been committed. The Director of Public Prosecutions (DPP) is responsible for prosecuting offences on indictment. The Central Bank may consider using its summary prosecution powers or it may also consider utilizing one of its other enforcement powers. These powers include the power to publish Warning Notices or to seek an Enforcement Order from the High Court. The Central Bank publishes a list of registered credit unions on its website and members of the public can search to see if a firm is a registered credit union. However, the Central Bank may give approval to an association or group of credit unions to use a name that includes the words "credit union" or "comhar creidmheasa".

Notably, there are some proposals in the Amendment Bill of 2022 that will give Irish credit unions more opportunity for expansion and growth. Key proposed changes to the 1997 Act include:

- Acknowledgement of the role of the sector in cooperative financial services;
- Recognition of Credit Union Shared Service Organizations;
- Introduction of a Corporate Credit Union model;
- Governance meeting requirements, administrative relief, review of policy, number of required meetings, role of CEO on the board of directors;
- Loan participations;
- Referrals to other credit unions; and
- Loan interest rate cap changes.

The Amendment Bill of 2022 was published in November 2022. It passed through the final stage in the Dáil in November 2023 and was enacted on 13 December 2023.



The exit of two large retail banks in the Irish financial services sector provides a potential gap in the market for credit unions to fill. The Amendment Bill of 2022 will provide opportunities for credit unions and the Registry will need to develop a framework which allows well-managed credit unions to provide new services. This is a significant opportunity for sector advancement.

Pillar II Credit union structures and organization Guiding Principles 4 to 11

Guiding Principle 4: Risk Management

Credit unions should have, and use, appropriate risk-management processes and systems. A risk management system should be able to identify, evaluate, monitor, manage and control the risks to which the credit union may be exposed including, but not limited to, the specific risks described in this section. Policies and limits for risk undertakings should be clearly established and periodically reviewed. The risk management system should be commensurate with the size and complexity of the credit union and its activities. Credit union board members should be provided with regular, accurate, management information and be capable (as a group) of interpreting that information and of challenging senior management on the application of the credit union's strategy.

Overall Rating: Largely Compliant

Summary Assessment

The 1997 Act requires credit unions to develop, implement, document, and maintain a risk management system with governance arrangements, systems, and controls to allow it to identify, assess, measure, monitor, report and manage the risk which it is, or might reasonably be, exposed to. The board of directors is required to review and approve all elements of the risk management policy at least annually, including the appropriateness of the risk management system, ensuring any changes to the strategic plan and the external environment are considered, and addressing any deficiencies identified in the risk management system.

To strengthen the risk management area, the 1997 Act requires the board of directors to appoint a risk management officer (RMO) with the necessary authority and resources to manage the risk management function with the credit union and with reporting lines to the board. The RMO is responsible for identifying, assessing, reporting, and monitoring all internal and external risks that could affect the credit union. The RMO is a Controlled Function (CF) in all credit unions. As of July 2018, the risk management officer has been designated a PCF which requires pre-approval from the Central Bank before appointment, for all credit unions \geq €100m in assets.

The guidance provided by the Central Bank in the Credit Union Handbook, Risk Management and Compliance Chapter indicates a credit union should document its risk tolerance, documenting the amount of risk it is willing to accept and that its strategic goals should align



with this risk tolerance. Risks identified by the credit union's risk management system should also be managed and mitigated to ensure that they are consistent with the credit union's risk tolerance and commensurate with its sound operation, financial strength, and strategic objectives.

In 2021, the Registry undertook a Thematic Review of Risk Management Maturity in credit unions (the thematic review). The objective of the thematic review was to assess the level of maturity and the embeddedness of risk management and to identify actions for credit unions to improve the level of risk management maturity. The thematic review identified that there was still a low level of risk management embeddedness, especially among board members and their ownership, training, and engagement in risk management. The Registry found that risk management was "siloed" in many of the credit unions in the sample with little engagement from front line staff or boards and often relegated to just the RMO and the CEO. Boards of credit unions had relatively little exposure to the activities and findings of risk management officers. There were examples of the RMO being involved in operational duties in the credit union (e.g. operational management, teller duties) which may impact on their independence and result in potential conflicts of interest. The thematic review identified that there were areas for improvements to risk reporting (e.g. quality and timing of risk reporting) as well as training and the culture of risk management.

Undertaking this baseline thematic review of risk management by the Registry is an important step towards supporting credit unions in the further development of their risk management frameworks. On-going dialogue with the sector regarding regulatory expectations for risk management practices should continue to be a focus of prudential meetings and communications with the sector.

4.1. The supervisor determines that credit unions have appropriate risk management strategies that have been approved by the credit unions' boards and that the boards set a suitable risk appetite to define the level of risk the credit unions are willing to assume or tolerate. The supervisor also determines that the board ensures that: (a) a sound risk management culture is established throughout the credit union; (b) policies and processes are developed for risk-taking that are consistent with the risk management strategy and the established risk appetite; (c) uncertainties attached to risk measurement are recognized; and (d) appropriate limits are established, that are consistent with the credit union's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff.

Legal & Regulatory Compliance

The regulatory framework for credit unions includes several requirements in the area of risk management. Section 76B of the 1997 Act sets out that credit unions are required to develop, implement, document, and maintain a risk management system with governance arrangements, systems, and controls to allow it to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to. This risk management system must be



clearly set out and documented and must clearly set out the related tasks and responsibilities in the credit union.

The board of directors under Section 55 (5) of the 1997 Act are required to implement a risk management process that ensures all risks are identified and mitigated to a level consistent with the risk tolerance of the credit union. The board of directors is also required to review and approve all elements of the risk management system on a regular basis and at least annually.

(a) A sound risk management culture is established throughout the credit union

The Central Bank has issued guidance in the Risk Management and Compliance Chapter of the Credit Union Handbook which outlines that the board of directors should promote a strong risk management culture within the credit union, including communicating policies, roles and responsibilities relating to risk management to all officers of the credit union. Regulation 46(2) of the 2016 Regulations on systems, controls, and reporting arrangements for credit unions, includes a requirement for credit unions to ensure that the risk management policy is communicated to all officers in the credit union following any updates made.

(b) Policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite

Under Section 55 of the 1997 Act, credit unions are required to have a risk management system, including a risk management policy and process, which should be reviewed and updated regularly (at least annually) by the board of directors. The board of directors is also required to implement a risk management process that ensures that all risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.

The Central Bank's guidance indicates that risks identified by the credit union's risk management system should be managed and mitigated to ensure that they are consistent with the credit union's risk tolerance and commensurate with its sound operation, financial strength, and strategic objectives.

(c) Uncertainties attached to risk measurement are recognized

Under Section 55 of the 1997 Act, the board of directors is required to review and approve all elements of the risk management system on a regular basis, but at least annually, and, in particular:

- Assessing the appropriateness of the risk management system;
- Taking account of any changes to the strategic plan including the credit union's resources or the external environment; and
- Taking measures necessary to address any deficiencies identified in the risk management system.

This ensures that any uncertainties relating to risk management are recognized and may be addressed by the board of directors and the risk management officer of the credit union.



(d) Appropriate limits are established that are consistent with the credit union's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff

The Central Bank has indicated in guidance that a credit union should document its risk tolerance statement, setting out the quantified level of risk that the credit union is willing to accept in various risk areas in pursuit of its strategic objectives. The guidance also indicates that the board of directors should promote a strong risk management culture within the credit union, including communication of policies, roles and responsibilities relating to risk management to all officers of the credit union.

Practical Compliance

The Central Bank uses a consistent range of supervisory procedures and techniques when conducting onsite inspections (which are individually scoped) and desktop engagements. This allows supervisors to take account of distinctive risk issues which may arise in credit unions. It also facilitates a proportionate approach to inspections considering factors such as nature, scale, and complexity.

Methods used by the Central Bank to assess risk management in credit unions can include a review of risk management policies and procedures including but not limited to an assessment of the risk management system and framework which is in place and a review of issues raised by internal or external auditors' functions. Meeting with the RMO and assessing the implementation of key risk policies through onsite testing may form part of an inspection, if within scope.

Improvements in risk management have been made since the introduction in 2013 of legal requirements for risk management in credit unions. During the review there were some instances identified of the risk management function being combined with other functions in credit unions that may create conflicts of interest. Where the Registry has been made aware of these conflicts, required changes were required to be made in a timely manner.

To understand the level of embeddedness of risk management frameworks in credit unions the Registry conducted a Thematic Review of risk management practices in 2021. The review included 12 credit unions which were a representative sample based on different asset sizes, urban and rural locations, a mix of internal and outsourced risk management frameworks and common bond profiles. The review included a review of documentation requested, including board minutes, policies, risk registers, trainings plans and risk management reports. The review also included interviews with 36 CEOs, boards and RMOs among the sample credit unions. The review period encompassed 24 months leading up to May 2021 thus accounting for activities pre and during the COVID lockdowns.

The review focused on four key areas: (1) Board Ownership and Oversight; (2) Risk Management Function – Structure and Framework; (3) Risk Management Reporting; and (4) Training and Culture.



The review identified that, aside from the RMO and CEO, a limited number of staff or board members in credit unions were actively engaged in development or risk registers. There was limited communication between RMOs and board members and generally infrequent discussions by boards in risk management issues or active monitoring. While the Registry continues to support the improvement of risk management practices and culture within credit unions, more work is needed in this area going forward and credit union inspections should look for evidence that boards and non-RMOs are monitoring risks, and if not, the potential for corrective actions.

4.2. The supervisor requires credit unions to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate: (a) to provide a comprehensive “credit union-wide” view of risk across all material risk types; (b) for the risk profile and systemic importance of the credit union; and (c) to assess risks arising from the macroeconomic environment affecting the markets in which the credit union operates and to incorporate such assessments into the credit union’s risk management process.

Legal & Regulatory Compliance

Under the 1997 Act credit unions are required to put risk management systems in place to allow them to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to.

(a) to provide a comprehensive “credit union-wide” view of risk

The Central Bank has outlined in its guidance that risk identification should provide a comprehensive “credit union-wide” view of risk across all material risk types relevant to a credit union and sets out areas of risk which should be considered.

(b) for the risk profile and systemic importance of the credit union

The Central Bank has outlined in guidance that credit unions should take the nature, scale and complexity of the business being conducted by the credit union into consideration when establishing governance arrangements, including arrangements in relation to, inter alia, risk management systems, systems and control, the risk management officer, the compliance officer, and the internal audit function.

(c) to assess risks arising from the macroeconomic environment

Regulation 45 of the 2016 Regulations includes a requirement for credit unions to establish and maintain a written risk register that documents the risks that the credit union is or may be exposed to and the systems and controls that the credit union has established to manage and mitigate those risks.

Guidance indicates that a credit union’s risk management system should include policies, processes and controls that provide adequate, timely and continuous identification, assessment,



measurement, monitoring, management and reporting of risks that the credit union is, or might reasonably be exposed to, through its current activities and the external environment.

Credit unions are expected to consider environmental risk as part of the risk management process including risks arising from the macro-economy and credit union sector specific risks, and changes to the external environment.

Practical Compliance

The Registry assesses risk management processes through onsite, thematic and desktop inspections. In determining the appropriateness of risk management strategies, supervisors expect to see risk profile considerations including thresholds and limits, reflected in periodically updated, board-agreed policies, demonstrated through functional operational processes and subject to independent assessment by internal audit.

In addition to the traditional areas of credit / investment and liquidity risks in credit unions, risk management frameworks should include cybersecurity and climate-related financial risks and should be incorporated to the strategic plans in credit unions. In addition, the business model risks of credit unions need to be considered as more financial services providers seek to meet the broader financial needs of credit union members and provide member current accounts, debit / credit cards, mobile banking, longer term lending including house loans, etc.

4.3. The supervisor determines that risk management strategies, policies, processes and limits are: (a) properly documented; (b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and (c) communicated within the credit union. The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the credit union's board where necessary.

Legal & Regulatory Compliance

(a) Properly documented

Section 76B of the 1997 Act states that the risk management system should be clearly set out and documented including the related tasks and responsibilities within the credit union. Credit unions are also to develop, adopt, implement, monitor, document and maintain systems and controls to manage and mitigate the risks identified by the risk management system.

Furthermore, pursuant to regulation 45 of the 2016 Regulations credit unions are required to establish and maintain a written risk register that documents the risks that the credit union is or may be exposed to and the systems and controls that the credit union has established to manage and mitigate those risks.



(b) Regular review

Section 55 of the 1997 Act sets out that the board of directors of a credit union are required to review and approve all elements of the risk management system on a regular basis, but at least annually and assess the appropriateness of the risk management system, take account of any changes to the strategic plan, including the credit union's resources or the external environment, and take measures necessary to address any deficiencies identified in the risk management system.

As per regulation 45(2) of the 2016 Regulations, the board of directors is required to conduct a review of, and approve, the risk register (at least annually), to ensure that the risks that the credit union is, or may be, exposed to are contained on the risk register and that the systems and controls are appropriate to manage and mitigate these risks.

The board of directors are expected to implement in adherence with Section 55 (3) of the 1997 Act a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.

(c) Communicated within credit unions

Regulation 46 of the 2016 Regulations, requires credit unions to ensure that updates to the risk management policy are communicated to all officers of the credit union. The Central Bank has indicated, in its guidance, that the risk management officer should provide reports on a monthly basis to the board of directors (or risk committee where one exists), and immediately when a significant risk event occurs, with copies to the manager. Any deviations from the risk management policy, are also to be reported by the risk management officer, with reasons for the deviation and an action plan to address it.

Practical Compliance

Risk management is a dynamic area that requires on-going risk identification, risk assessment and risk mitigation activities across the range of areas that credit unions are exposed to. As credit unions continue to expand their digital offerings they will naturally be more exposed to cybersecurity risks and third-party risks. The Registry will need to ensure that it remains appropriately resourced to supervise these risks.

To improve compliance in this area, the Central Bank may wish to consider increased focus on risk management practices throughout the credit union structure during its on-site and off-site inspections. It could also provide additional examples of good practice, as it did in the thematic review, trainings and / or engagements with the sector.

Guiding Principle 5: Management of Operational Risk

Credit unions should have in place risk management policies and processes to identify, assess, monitor and control and mitigate operational risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.



Overall Rating: Largely Compliant

Summary Assessment

The 1997 Act requires all credit unions to have a risk management system which includes risk management policies and processes, a risk register, and systems and controls. Credit unions must identify the operational risks they are exposed to, or likely to be exposed to, and provide for the management and mitigation of those risks in the credit union's risk management system to a level consistent with the risk tolerance of the credit union. Credit unions are required to hold additional capital reserves in respect of operational risk that are separate from the regulatory reserve requirements.

In response to the COVID pandemic, the status of credit union operational resilience was continuously assessed. The importance of ensuring that practical business continuity arrangements, including appropriate resourcing measures, were in place to help ensure the maintenance of member access to essential services, including cash, credit and payment services was assessed. The supervisory engagement with all credit unions included the issuance of circulars, completion of surveys by credit unions and structured telephone calls to assess operational preparedness, including specific issues such as remote access functionality for staff and member access to critical services. It is acknowledged that all credit unions demonstrated operational resilience in maintaining the continuity of critical services during the pandemic.

Strengthening of operational resilience is a strategic objective of the Central Bank. The Central Bank has established a separate Governance and Operational Resilience (GOR) Division which includes specialist expertise on IT and operational resilience. In 2020 and 2022, the Central Bank issued an Operational Resilience Maturity Assessment (MA) information gathering exercise to regulated financial services providers, including Medium Low and Medium High impact credit unions. The scope of the 2020 MA was widened in the 2022 MA to include ICT and cyber resilience, scenario testing and continuous improvements.

Responses from the 2022 MA are due to be used in developing the Central Bank's holistic framework to inform the future supervisory approach.

In summary, improvements have been noted over the period since the ICURN review in 2019, including the publication of additional guidance on outsourcing and operational resilience by the Central Bank in December 2021. However, due to the pace of change of IT risks and security, the Central Bank has concluded that greater focus is required by credit unions in managing their IT risks and integrating IT risk management into their overall risk management frameworks. There is an expectation that the Operational Resilience guidance should be implemented by credit unions at the latest by end 2023.

The extent to which the Registry has self-identified that there is further work to be done on operational resilience is indicative of this guiding principle being considered "Largely compliant".



Areas for further consideration:

- We understand that the Minister for Finance is considering whether to exercise a national discretion to exclude credit unions from the scope of the Digital Operational Resilience Act (DORA) on grounds of proportionality. DORA aims to consolidate and upgrade ICT risk requirements for the EU financial sector. Given the reliance of credit unions on increasing complex IT systems, some level of digital operational resilience will be needed in credit unions depending on their level of digitalization.
- We understand that the Central Bank has published Principles for third parties – the Central Bank may like to consider whether to seek legislative support to increase its powers here similar to some jurisdictions such as the [United Kingdom](#) and United States which have additional powers to examine and require corrective actions from third-party vendors which provide mission critical services to their supervised institutions.

5.1. Law, regulations or the supervisor require credit unions to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the credit union's strategy, policies and processes are consistent with the credit union's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the credit union on a credit union-wide basis (including periods when operational risk could increase).

Legal & Regulatory Compliance

Section 76E of the 1997 Act sets out the legal requirements for credit unions in relation to operational risk. A credit union is required to identify the operational risks it is exposed to, or is likely to be exposed to, and provide for the management and mitigation of those risks in a credit union's risk management system. Under Sections 76B, and 76E-J of the 1997 Act, credit unions are required to develop, implement, document, and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks to which it is, or might reasonably be, exposed to. This includes operational risk related to business continuity, records management, information systems, management information and outsourcing.

Under 76G of the 1997 Act credit unions are required to develop, prepare, implement, and maintain secure and reliable information systems to enable the board of directors and those involved in the management of the credit union to control, direct and manage its affairs. This is supplemented by the 2016 Regulations. Regulation 45 of the 2016 Regulations requires credit unions to establish and maintain a written risk register. The risk register identifies the risks that the credit union is, or may be, exposed to and the systems and controls that the credit union has established to manage and mitigate those risks. The 2016 Regulations also require the review, approval, and update by the board of directors at least annually of a) the risk management policy; b) the business continuity plan; c) the conflicts of interest policy; and d) the standards of conduct and ethical behavior of officers.



The Central Bank has provided guidance for credit unions in the Operational Risk Chapter of the Credit Union Handbook which includes guidance in relation to the identification, assessment, measurement, management and reporting of operational risk. It should be noted that this chapter of the Credit Union Handbook was last updated in 2016. Likewise, there is an Outsourcing Chapter of the Credit Union Handbook which was last updated in 2013. Given the Central Bank has subsequently published guidance for all regulated financial service providers on Outsourcing and Operational Resilience it would be good practice to update the Credit Union Handbook so all relevant guidance is accessible in a single place.

The Reserves Chapter of the Credit Union Handbook sets out capital requirements, specifically that capital for operational risk should be in addition to those held under the regulatory reserve requirement.

Since the 2019 review the Central Bank has issued the following:

Cross Industry Guidance on Outsourcing published in December 2021

The guidance is designed to assist regulated financial service providers (RSFPs), including credit unions, in developing their outsourcing risk management frameworks to effectively identify, monitor and manage their outsourcing risks. Outsourcing arrangements may include the outsourcing of key activities such as core IT which create a dependency on a third party which has the potential to impact the operational resilience of credit unions. Credit unions are expected to have effective governance, risk management and business continuity processes in place in relation to outsourcing.

The Central Bank expects that each credit union will establish and maintain an outsourcing register to facilitate centralized oversight and management of related risks appropriately. The Credit Union News – Issue 17 – October 2022 publication included an article on Outsourcing Registers. The publication advised credit unions that an outsourcing register template was available on the Central Bank website to assist credit unions to record all relevant outsourcing arrangements.

Cross Industry Guidance on Operational Resilience published in December 2021

The guidance is designed to help RSFPs, including credit unions, prepare for, respond to, recover from, and learn from an operational disruption that affects the delivery of critical or important business services. The guidance is built around the pillars of: Prepare, Respond, Adapt, Recover and Learn. The purpose of the guidance was to: communicate to boards the Central Bank's expectations around the design and management of operational resilience; emphasize board and senior management responsibilities; require boards and senior management to take appropriate action to ensure operational resilience frameworks are well designed, operating effectively and are sufficiently robust.

The guidance includes a specific section on ICT and Cyber resilience. Technology and information are key drivers and enablers of most firms' business models and, as such, the resilience of the technology infrastructure and the protection of information assets should be



integral to any operational resilience framework. For example, credit unions in Ireland provide electronic funds transfer (EFT) services to members through agents who provide access to the clearing system. As at March 2023, 94.1% of credit unions provided EFT services. Credit unions must ensure they have strong and robust systems of control in place to maintain ongoing compliance with Section 76G of the 1997 Act concerning information systems.

On 14 December 2021, a circular was issued to all credit unions reminding them to be continuously vigilant regarding the potential vulnerabilities in their IT systems given the increasing number of IT and cybersecurity incidents. Credit unions were advised that they should ensure that they monitor the National Cyber Security Centre of Ireland website for any alerts and advisories on IT cybersecurity risks.

Capital Buffer for Operational Risks

In accordance with the 2016 Regulations, credit unions are required to hold reserves in relation to operational risk. These are separate, distinct and in addition to the reserves that the credit union is required to hold under the regulatory reserve requirement. The level of operational risk reserves held by the credit union is a matter for the individual credit union to determine. In determining this level, the Central Bank expects credit unions to assess the level of operational risk they are exposed to, and that the amount would be based, at a minimum, on the predicted impact of operational risk events that may have a material impact on the credit union's business. As part of the year end process the level of reserves including operational risk reserves held by credit unions is reviewed.

Practical Compliance

Credit unions are required to submit an annual compliance statement to the Central Bank related to Part IV of the 1997 Act, which includes provisions relating to operational risk. Where a credit union (self) identifies material non-compliance with the requirements of Part IV, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified.

Supervision

Operational risk is assessed by the Registry reviewing reports provided to it regarding: the annual compliance statement related to operational risks, internal audit reports, external audit reports, the auditor's management letter, and the prudential returns. In addition, an assessment of operational risk or a particular aspect of it may be undertaken as part of a program of PRISM inspections / targeted risk assessments for credit unions. As set out in GP 19, Medium High Impact Credit Unions, defined as those with assets in excess of €350m, are subject to an inspection on a three-year cycle. Medium Low Impact and Low Impact credit unions are subject to a trigger-based targeted risk assessment. Findings in relation to deficiencies in operational risk and the management of operational risk are communicated to the credit union and its board of directors through the issuance of an RMP setting out any deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.



One example was provided from 2021 of a PRISM Risk assessment of a Medium High Impact credit union that identified weaknesses in the business continuity plan. Any deficiencies identified would be documented by way of an RMP, with the required action to be taken within a specified timeframe.

5.2. The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the credit union's overall risk management process.

Legal & Regulatory Compliance

Under Section 76E of the 1997 Act a credit union is required to identify the operational risks it is exposed to, or is likely to be exposed to, and provide for the management and mitigation of those risks in a credit union's risk management system. Section 55(3) of the 1997 Act requires that the board of directors implement a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union. The 1997 Act requires credit unions to have a risk management policy and to have the following policies, plans and documents in place to support the management of operational risk:

- Standards of conduct and ethical behaviour for officers;
- Conflicts of interest policy;
- Records management policies;
- Information systems and management information policies;
- Business continuity plan; and
- Outsourcing policies.

These policies, plans and documents must be reviewed, approved, and updated, where necessary, at least annually by the board of directors.

Section 55 of the 1997 Act requires that the board of directors of a credit union review and approve all elements of the risk management system on a regular basis, but at least annually and, in particular; assess the appropriateness of the risk management system; take account of any changes to the strategic plan including the credit union's resources or the external environment; and take measures necessary to address any deficiencies identified in the risk management system.

Practical Compliance

In addition to the ongoing supervision set out in GP 5.1, an assessment of the implementation of policies and processes for the management of operational risk may be undertaken for credit unions. Supervisors may review operational risk management policy and process documents in advance of on-site engagements and assess the robustness and effectiveness of the implementation of such policies and process and the operational risk culture within the credit union when on-site. Meetings held as part of the assessment allow supervisors to challenge the credit union on any risk areas identified or any potential vulnerabilities. Findings in relation to



deficiencies in operational risk and the management of operational risk are communicated to the credit union and its' board of directors through the issuance of an RMP setting out any deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.

5.3. The supervisor reviews the quality and comprehensiveness of the credit union's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the credit union. In so doing, the supervisor determines that the credit union is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.

Legal & Regulatory Compliance

Section 76I of the 1997 Act requires credit unions to have a business continuity plan in place, to ensure that its essential functions can continue during and after the occurrence of one or more abnormal events which could cause a material interruption to the business of the credit union, and that the plan includes comprehensive testing at regular intervals of recovery procedures and backup facilities. The Central Bank has indicated in guidance that the business continuity plan should be tested on a regular basis to determine whether the credit union can recover to the extent envisaged in the continuity plan within the timeframe set out in the plan. Guidance also indicates that the business continuity plan should include details of any insurance arrangements in place and insurance notifications procedures to be followed in the event of loss from material interruptions.

The Central Bank's guidance on operational risk indicates that its review should cover the following at a minimum:

- Assessing the scope and adequacy of the business continuity plan;
- Evaluating the testing of the business continuity plan;
- Ensuring that, following testing, appropriate follow-up and corrective actions have been taken; and
- Ensuring the business continuity plan is updated as a result of the review.

The operational risk chapter of the Credit Union Handbook provides that credit unions should undertake a business impact analysis to consider the likelihood, impact, and result of an interruption to the continuity of its operations from abnormal events. At a minimum, this should cover:

- Identification of critical business activities;
- Undertaking a risk assessment to assess the risk and impact of various interruptions on the credit union's operations;
- Defining the maximum allowable downtime for critical business activities and acceptable levels of loss;
- Establishing planned recovery levels and timeframes; and



- Identifying key internal and external dependencies.

In addition, Central Bank guidance provides that the board of directors of a credit union should develop recovery strategies which should cover, at a minimum, the following:

- Emergency reaction and recovery procedures;
- Communication arrangements including escalation plans;
- Information systems, continuity plans and recovery processes and data back-up and storage strategies; and
- Processes to validate the integrity of the information affected by the interruption.

Practical Compliance

As part of the supervisor's assessment of operational risk a review of a credit union's disaster recovery and business continuity plans may be completed, including the date it was last reviewed / tested. The supervision team will discuss the disaster recovery and business continuity plan with the credit union and challenge them on areas such as the appropriateness of the plan, roles and responsibilities, the detail of the plan, dependencies on IT providers, the regular testing of the plan etc. Where operational risk issues are identified, an RMP may be issued to the credit union setting out deficiencies found, the mitigating action to be taken and the timeframe for implementation of the mitigating action.

A PRISM Risk Assessment was conducted of a Medium-High Impact credit union in September 2021. Weaknesses were identified with the board-approved business continuity plan and an RMP was issued. The credit union subsequently submitted an updated business continuity plan which addressed the weaknesses.

5.4. The supervisor determines that credit unions have appropriate and effective information systems to: (a) monitor operational risk; (b) compile and analyze operational risk data; and (c) facilitate appropriate reporting mechanisms at the credit unions' board of directors, management and business line levels that support proactive management of operational risk.

Legal & Regulatory Compliance

Under 76G of the 1997 Act credit unions are required to develop, prepare, implement, and maintain secure and reliable information systems to enable the board of directors and those involved in the management of the credit union to control, direct, and manage its affairs.

Monitor Operational Risk

The Central Bank has provided guidance on credit union information systems in the operational risk chapter of the Credit Union Handbook. This guidance indicates that credit union information systems should have the capability to; provide accurate, reliable, consistent, timely and comprehensive information to enable the board of directors and the management team to monitor and analyze the financial position and performance of the credit union against the financial projections, targets and criteria contained in the strategic plan; and support the



credit union in monitoring compliance with all legal and regulatory requirements and guidance.

Compile and Analyze Operational Risk Data

The operational risks identified by a credit union's risk management system should be included in the credit union's risk register and be assessed, measured, and monitored in accordance with the credit union's overall risk management process.

Facilitate Appropriate Reporting Mechanisms

Under Section 76H of the 1997 Act a credit union must ensure that its information systems produce management information and other reports that are accurate, reliable, consistent, and timely to enable the board of directors and management team to; direct, control and manage the credit union's business efficiently and effectively, make informed strategic and operational decisions, and provide accurate information to the Central Bank on a timely basis, as and when required. The Central Bank has indicated in guidance that to ensure that operational risks are adequately monitored, the risk management officer should include the following in its monthly reports to the board of directors (or risk committee where one exists):

- Any operational risk exposures and losses;
- Likely or actual deviations from risk tolerance levels;
- Significant operational risk events and losses;
- Relevant external events; and
- Significant increase in operational risk exposure.

The guidance also indicates that where a significant operational risk event occurs, the risk management officer should bring this to the attention of the board of directors (or risk committee where one exists) immediately.

Practical Compliance

The increased frequency and intensity of climate-related events²⁰ makes the management of operational risks increasingly relevant for all firms, including credit unions. To assess the credit union sector exposure to, and management of, climate-related and environmental risks, the Registry issued a climate survey to all credit unions in late December 2022. Analysis of the survey responses is under way to assess the following:

- Level of awareness of the risks amongst credit unions;
- Exposure of credit unions to the risks; and
- Actions being taken by credit unions to manage / mitigate the risks.

The analysis of the survey information will be used to inform the Registry's future supervisory strategy and engagement with credit unions and should continue to be an area that is

²⁰ Climate-related financial risks are also likely to present credit risks for credit unions and as such is also mentioned under Guiding Principle 14.



monitored and assessed as an emerging risk. Further updates to the Credit Union Handbook as it relates to operational risk would aid in compliance in this area.

Guiding Principle 6: Management of Currency Risk

Credit unions which are permitted to invest in deposits or securities that are denominated in the currency of another state should have a clear risk appetite and specific policies and practices designed to monitor and manage currency risk.

Overall Rating: This guiding principle is Not Applicable in the context of Irish credit unions as it is not an approved or occurring activity.

Guiding Principle 7: Management of Interest Rate Risk and Market Risk

Credit unions should have policies and processes in place to manage any interest rate risk to which they may be exposed. In particular, they should be attuned to the interest rate risk of fixed rate lending portfolios.

Overall Rating: Compliant

Summary Assessment

The cost of funds in credit unions is almost entirely variable with no wholesale funding received by the sector. Credit unions' declaration of annual dividends on shares (96% of funding as at March 2023) gives them a high degree of flexibility. In addition, the predominantly variable rate nature of credit union lending currently mitigates against interest rate risk, though the duration of lending has increased substantially over the past four years. In September 2018, 18% of loans were in excess of five years, whereas by 2022 this had increased to 32%. However, credit unions do not currently have significant fixed rate loans.

This analysis of the balance sheet of the sector does not provide a full picture of risks as in September 2022 credit unions were only 28.4% lent out relative to assets – close to historically low levels. While the rapid pace of savings inflows which was observed during COVID-19 has subsided, savings continued to increase during 2022-2023.

Funds are predominantly invested in accounts with authorized credit institutions and bank bonds which expose credit unions to interest rate risk and basis risk (in this case divergence between the basis of the rate paid by the credit institution, likely to be based on bank rate, and the basis of the “dividend”). Based on March 2023 Prudential Return data credit unions placed 68% of their surplus funds in accounts in authorized credit institutions and 25% in bank bonds, with total investments with maturity of less than one year representing 30% of investments and investments between one and five years representing 44% of investments.



Historic assumptions made in a low interest rate environment, that credit union balance sheets are relatively immune to interest rate risk because there is flexibility on the dividend (if any) paid on savings balances, and where many credit unions have capped the level of savings balances (beyond that specified in regulations) due to concerns about excessive inflows, may cease to be applicable in a rising and higher rate environment. With rising rates savers might seek a higher return on their funds and withdraw deposits more readily if there are alternatives available and the thin margins in credit unions prohibit them from being competitive.

Whereas in previous periods of higher interest rates the main competition were current accounts at high street banks that did not pay much, there may now be more competition from new entrants and banks are also under pressure to pay higher rates on savings.

If regulations were in future to permit, for example, a greater percentage of mortgage lending, then credit unions would require appropriate tools to manage the risks of longer term and fixed rate products. Any such change in permissible activity would also have to be accompanied by appropriate systems, controls and procedures to manage the resulting risks, including, for example, risks arising from the fact that such instruments are likely to have a different interest basis from the funding. It is also unlikely that exposures can be perfectly hedged, which may lead to a different accounting treatment for any unhedged element.

The Registry's approach to interest rate risk, and liquidity management, has been requiring higher levels of liquid assets to be held when credit unions undertake higher proportions of longer-term lending, cognizant of the on-demand funding profile of credit unions. However, a greater focus on "marketable assets" that can be reliably liquidated rather than assets with a short maturity would be useful, provided that risks from any variation in the market value of those assets is appropriately managed.

Legal & Regulatory Compliance:

Limits

Section 30 of the 1997 Act impose a maximum on the dividend payable (10%) and a requirement that a dividend may only be paid out of the surplus funds generated in the previous years or a reserve set aside to provide for dividends.

Section 31(3) of the 1997 Act states that the interest that may be paid on deposits shall not exceed the rate of return received by the credit union from the employment of its funds, whether in the form of loans or investments.

Section 38 of the 1997 Act restricts the maximum interest rate a credit union can charge a member for a loan to 1% per month of the loan. In December 2017, CUAC published a policy paper on the interest rate cap, which cited international studies that found that interest rate ceilings may result in institutions choosing not to lend to some higher risk borrowers, many of whom will have limited access to alternative sources of credit. Once enacted, the Amendment Bill of 2022 will replace this cap with a rate to be determined by the Ministry of Finance by



way of Order, following consultation with CUAC and such other body as the Minister considers appropriate in the circumstances.

The 2016 Regulations place restrictions on the proportion of savings that can be held as deposits, set lending concentration limits and limits on the maturity of investments, which serve to control elements of interest rate risk.

Regulation 14 of the 2016 Regulations contains limits on the amount of longer term lending a credit union may undertake. A credit union may have up to 30% of the loan book outstanding for more than five years and up to 10% of the loan book can be outstanding for more than 10 years. Subject to approval by the Central Bank these limits can be increased to 40% and 15% respectively. While these changes have led to an increase in the percentage of loans at longer maturities, with 32% of loans for the sector now having a duration greater than five years, longer term balances are still relatively modest – as at end September 2022, 5.8% of the sector's lending was in excess of 10 years and only 1% in excess of 25 years.

These limits are being reviewed as part of a review of the lending framework in CP125. Regulations 15 and 16 of the 2016 Regulations contain limits on the total amount outstanding in relation to house loans and business loans as a percentage of a credit union's assets.

Regulation 14 of the 2016 Regulations sets a maximum maturity limit for unsecured loans of 10 years.

Regulation 28 of the 2016 Regulations outlines limits on the maturities of investments made by credit union as follows:

- With the exception of an investment in a regulated investment vehicle where the underlying investments of the regulated investment vehicle are investments in Tier 3 Approved Housing Bodies (AHBs), a credit union shall not make an investment, either directly or through a UCITS, which has a maturity date which exceeds 10 years or for certain investments 10 years and six months from the date of the investment.
- A credit union shall not make an investment in a regulated investment vehicle where the underlying investments of the regulated investment vehicle are investments in Tier 3 AHBs where those underlying investments have a maturity date which exceeds 25 years from the date of the investment.
- A credit union shall not make an investment which would cause the credit union to have more than 30% of its investments maturing after seven years.
- A credit union shall not make an investment which would cause the credit union to have more than 50% of its investments maturing after five years.

Governance

Section 55 of the 1997 Act sets out functions of the board in relation to policies and the risk management process.



Credit unions are required to have asset and liability management policies. The board of directors is required to approve, review, and update these policies at least annually.

The Central Bank has issued guidance on what the asset and liability management policy should cover at a minimum:

- Objectives of the credit union's asset and liability management policy;
- Organizational arrangements setting out the roles and responsibilities of officers involved in managing and monitoring the asset liability position of the credit union;
- Strategy for the management of assets and liabilities taking account of:
 - Legal and regulatory requirements and guidance including those relating to liquidity, lending, savings, borrowings, and investments;
 - The strategic plan of the credit union taking account of the funding strategy proposed to support the projected balance sheet structure;
 - The current economic climate and business operating environment;
 - The nature, scale, and complexity of the credit union;
 - The risk profile of the credit union including, the level of credit and market risk in the credit union;
 - The risk tolerance of the credit union; and
 - The credit union's policy in relation to the type, maturity and limits for lending, borrowings, savings and investments and pricing strategies for lending and savings;
- The process for measuring and monitoring risks arising from asset and liability mismatches;
- Procedures on how the credit union responds to changes in the economic climate and business operating environment including stress testing;
- The credit union's policy in relation to members' savings (shares and deposits) including the setting of a maximum number of shares a member can hold and a maximum amount that a member may deposit;
- The credit union's policy in relation to borrowings;
- Reporting arrangements, including the frequency, form and content of reporting on asset and liability management to the board of directors; and
- The process for the approval, review and update of the asset and liability management policy by board of directors.

There is no requirement for credit unions to have a specific Asset and Liability Committee (ALCO) as it is considered these risks can be handled through the overall risk management framework. The Central Bank might want to consider a requirement, or guidance, for ALCO on a proportionate basis, (e.g., larger credit unions, and / or to the extent certain credit union business models expose them to greater levels of interest rate risk) to engage in more dynamic analysis and stress testing of the credit union's exposure to interest rate and liquidity risk.

Practical Compliance

Supervisors assess the maturity profile of investments and loans regularly based on information provided in the Quarterly Prudential Returns. As part of the year-end process, all



credit unions submit financial statements to the Central Bank, which are reviewed by the relevant supervisor in line with an impact category and risk based supervisory approach.

Credit unions are required to submit an annual statement on compliance with the requirements of Part IV of the 1997 Act, which includes the provisions relating to the requirement to review, approve and update policies (such as asset and liability management policies) at least annually. Where a credit union identified material non-compliance it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified.

In cases where credit unions apply to use the higher 15% combined concentration limit for house and business lending, supervisors will review how the credit union is proposing to manage any interest rate risk, regarding the possible exposure of the credit union in the event of interest rates increasing materially, arising from proposals to offer fixed rate mortgages. In the event of any issues arising, appropriate follow-up action is undertaken by the supervisor as part of the progression of the application

The Registry may review the dividends that credit unions intend to pay at the end of the financial year but it does not approve them. Where a credit union has recorded a deficit in its annual accounts and is proposing to pay a dividend and / or a loan interest rebate, the credit union shall inform the Central Bank in writing at least three weeks before it gives notice of its Annual General Meeting. Supervisors engage with individual credit unions on proposed dividend payments as appropriate.

Guiding Principle 8: Management of Market Conduct Risk

Where credit unions in a jurisdiction are permitted to engage in business that may expose them to market conduct risk they should have in place risk management policies and processes to identify, assess, monitor and control, and mitigate such risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Overall Rating: Compliant

Summary Assessment

The Consumer Protection Directorate of the Central Bank adopts a risk and evidence-based approach to prioritizing work within its consumer protection mandate. It examines each of the retail sectors regulated by the Central Bank to identify current and emerging Consumer Protection Risks. While credit unions operate on a not-for profit nature with volunteer boards coming from their communities/industries, credit unions are nonetheless subject to a variety of consumer protection requirements related to disclosure, capacity to repay analysis and consumer complaints mechanisms. In addition to these legal and regulatory requirements, the cooperative nature of credit unions and high level of trust that Irish consumers continue to have in credit unions provides structural elements which align with consumers' interests.



There have been isolated cases of where credit unions compliance with consumer protection practices or transparency could be improved and these have been addressed and changes implemented. Credit unions that offer mortgages or insurance brokerage are subject to additional consumer protection requirements but are still considered low-impact institutions from a market conduct perspective.

Legal & Regulatory Compliance

Numerous consumer protection laws and regulations affecting credit unions emanate from both Ireland and the European Union. An overview of these laws and regulations is as follows:

Consumer Credit Agreements

Under the 1997 Act, credit unions are subject to consumer protection requirements on consumer credit agreements. Where a credit union provides a loan between €200 and €75,000, they must comply with:

- Sections 37A and 37B of the 1997 Act; and
- The European Communities (Consumer Credit Agreements) Regulations 2010 (S.I. 281/2010) (CCAR).

This covers the majority of loans made by credit unions and these requirements cover “information and practices preliminary to conclusion of credit agreements” and “Information and rights concerning credit agreements”.

Where a credit union provides a loan in excess of €75,000, it must comply with Section 37A to Section 37E of the 1997 Act. These sections of the 1997 Act set out requirements relating to credit agreements including contents of credit agreements and the definition and calculation of APR.

Disputes and Complaints

Part VIII of the 1997 Act sets out provisions relating to handling disputes with and complaints from credit union members. The [EBA Guidelines on Complaints Handling for the Securities and Banking Sectors](#) also apply to the Central Bank in respect of credit unions. The Central Bank has confirmed its intention to the EBA to comply with the Guidelines and communicated its expectation to the sector that credit unions incorporate them into their policies, procedures, and practices.

Advertising

Section 86 of the 1997 Act sets out provisions relating to the “control of advertising”. Under Section 86, the Central Bank may give directions relating to the content or form of advertising. The CCAR also sets out requirements relating to the advertising of credit.

Conduct of Business Requirements under the Payment Services Regulations

Where a credit union provides payment services under the European Communities (Payment Services) Regulations 2018 (S.I. No. 6 of 2018), the following provisions of the Payment Services Regulations apply, from a conduct of business perspective:



- Part 3 – Transparency of Conditions and Information Requirements for Payment Services; and
- Part 4 – Rights and Obligations in Relation to the Provision and Use of Payment Services.

Mortgage Credit Directive

The European Union (Consumer Mortgage Credit Agreements) Regulations 2016, which transposed Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property (the Mortgage Credit Directive) into Irish law, applies to credit unions who are involved in the provision of mortgages to their members. These Regulations include requirements relating to:

- Information and practices preliminary to the conclusion of the credit agreement, including conduct of business obligations when providing credit to consumers;
- Creditworthiness assessment; and
- Sound execution of credit agreements and related rights.

Consumer Protection Requirements

The Consumer Protection Code 2012 (CPC), the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)), Minimum Competency Regulations 2017 (MCR) and Minimum Competency Code 2017 (MCC) currently apply to those credit unions authorized as insurance intermediaries²¹, with respect to their insurance intermediary business. The MCR / MCC also apply to credit unions when providing mortgages. The Central Bank has recently extended the MCC and MCR to the core lending and term deposit business.

Conduct Supervision by the Central Bank

Although the financial conduct and prudential supervision pillars are separate within the Central Bank there is coordination between them. Where supervisors in the Registry become aware of specific conduct issues during their supervisory engagements, they liaise with the Consumer Protection Directorate and take appropriate follow-up actions with the credit union.

CCPC

The Competition and Consumer Protection Commission (CCPC) has a statutory mandate to enforce competition and consumer protection law by:

- Protecting and strengthening competition;
- Empowering consumers to make informed decisions; and
- Protecting consumers from harmful business practices.

The CCPC and the Central Bank hold concurrent functions under:

- i. Consumer Protection Act 2007 (No. 19 of 2007); and

²¹ 162 Credit unions are authorized as intermediaries.



- ii. The European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 (S.I. No. 27 of 1995), as amended by the European Communities (Unfair Terms in Consumer Contracts) (Amendment) Regulations 2013 (S.I. No. 160 of 2013).

Practical Compliance

The Registry coordinates with the Consumer Protection Directorate in relation to consumer protection supervision of credit unions. The Registry conducts market conduct supervision on a responsive approach as there are traditionally few issues of concern. There are approximately 150 credit unions that are insurance brokers and subject to the MCR and MCC. The Central Bank held extensive consultations with the sector regarding expanding the core services of credit unions to be subject to the MCR and MCC which became effective in September 2023. The advance notice and cooperative process with industry appears to have been appreciated by the credit union sector.

Members of credit unions are informed by the credit union of how they can contact the Financial Services and Pensions Ombudsman (FSPO) if they are dissatisfied with the initial resolution from the credit union on issues of concern. While not directly required by this GP, the Registry may find it useful to have regular communication with the FSPO regarding the number type, nature and scope of complaints that the FSPO receives from credit unions members. These complaints may be signs of deeper areas of concern for the Central Bank.

Guiding Principle 9: Internal Controls

Credit unions should have in place an appropriate level of internal controls commensurate with the size and complexity of the credit union and its activities. This should include arrangements around delegations of responsibilities, authorizations, segregation of duties, reconciliations and accounting for assets and liabilities.

Overall Rating: Compliant

Summary Assessment

Internal controls are an essential part of any successful business or operation. The basic components of internal controls include:

- Environment-culture of testing controls internally to maintain consistency and control risk;
- Risk Assessment-identifying current and potential risks to the business;
- Control Activities-utilizing policies and procedures;
- Information and Communication-clear structure on sharing information; and
- Monitoring-oversight.

The specific structure of an internal control system depends on a credit union's size, the sophistication of its operations, number of employees, and risk profile. The focus of a



supervisor is to determine if the internal control system is adequate to ensure safe and sound credit union operations.

In Ireland, all credit unions are required to have internal audits, external audits, compliance, and risk management officers. The annual audited accounts and management letter must be submitted to the Registry annually. Credit unions also must have information systems and management information policies and the Registry has issued guidance on internal controls and physical control of assets. Quarterly prudential returns and a risk-based supervisory approach tests and checks that internal controls are in place. The Central Bank has a separate unit within the Central Bank which receives whistle-blower concerns and these are sent to the Registry in a redacted manner to protect the person making the disclosure.

Section 66A of the 1997 Act requires credit unions to have governance arrangements which:

- Ensure effective oversight of the activities of the credit union, taking account of the nature, scale and complexity of the business being conducted;
- Include a clear organizational structure with well-defined, transparent and consistent reporting lines (including the internal audit function, risk management officer and compliance officer);
- Set out the roles, responsibilities and accountabilities of the officers;
- Are communicated in writing to all officers in the credit union; and
- Are subject to regular internal review by the board of directors, at least annually.

Internal controls help to minimize the risk of fraud and help to discover errors or fraudulent situations in the credit union.

During 2020-2022, onsite examinations substantially decreased or ceased completely due to the COVID epidemic. Generally, fraud cases are more likely to be discovered when onsite and in person examinations occur. The Central Bank has resumed in-person examinations to credit unions prioritized on a risk profile. In general, smaller institutions should be considered as higher risk, but lower impact, due to a lack of segregation of duties and other factors that make them more vulnerable to such fraudulent activity.

Required timely reporting by the credit union to the Registry on fraud events within a credit union should be required when such an event occurs. In addition, identifying individuals or groups of individuals, internal or external who have committed fraud should be shared confidentially within the system to prevent repeat offenders, assuming it is legally permissible. Section 72 of the 1997 Act prohibits an individual from being an officer of a credit union if they are bankrupt or have been convicted of an offence involving fraud or dishonesty in relation to a credit union. It currently states that this information is shared only if a bad actor has committed a crime at a credit union. The expansion of information identifying these individuals is advised to mitigate risk at a system level.

The credit union handbook references applicable legislation and the requirements of the board of directors and of the manager.



The supervision of credit union internal controls by the Central Bank is a continual process. Concerns are identified through various measures. Credit unions submit a “Statutory Duty Confirmation” by the auditor one month after the auditor’s report. A management letter submitted by an external auditor is also reviewed annually and may include governance and systems reviews and assessments. In addition, internal auditor identified concerns and issues are considered as well as the outcome of an RMP where a credit union was required to submit updates to the Registry.

Guiding Principle 10: Abuse of Financial Services

Credit unions should have policies and procedures in place that will prevent them from being used for criminal activities, including money laundering. This should include having “know-your-customer” rules.

Overall Rating: Compliant

Summary Assessment

The Central Bank’s supervision of credit unions concerning the prevention of Money Laundering (ML) / Terrorist Financing (TF) is effective, underpinned by a robust and proportionate regulatory approach. There appears to be good levels of awareness of relevant issues in credit union board of directors. The Central Bank takes a sector wide approach under which ML / TF risk of all credit unions is assessed to be Medium-Low. This approach would appear consistent with the fact that the activities of the sector are broadly similar, and the Central Bank has an appropriate monitoring tool in place to quickly identify any outliers.

International standards and recommendations with respect to Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) are set by the Financial Action Task Force (FATF). Ireland’s compliance with the FATF standards was reviewed by a team of international experts and members of the FATF Secretariat over the course of 2016-2017. The review considered all aspects of Ireland’s compliance, including having an appropriate legal framework to combat ML / TF and having an effective system of AML / CFT supervision. It concluded that supervisors were aware of the relevant ML / TF risks and were able to demonstrate that they were taking a risk-based approach to supervision. The Central Bank’s AML / CFT supervision, which was assessed under Immediate Outcome 3 (IO3) was rated “Substantially Effective” in the 2017 Mutual Evaluation Report (the 2017 MER).

The FATF published two follow-up reports in November 2019 and February 2022, which reflected Ireland’s further improvement in terms of enhanced compliance with FATF Recommendations, mainly due to Ireland’s transposition of the EU’s Fourth Anti-Money Laundering Directive. In the February 2022 report, the FATF provided the following ratings on the 40 Recommendations – 17 were rated as compliant, 17 were rated as largely compliant and six were rated as partially compliant. To reflect Ireland’s progress, the FATF re-rated Recommendation 22 (Designated non-financial businesses and professionals (DNFBPs)), from



partially compliant to largely compliant. Ireland will continue to inform the FATF on progress achieved on improving its implementation of AML / CFT measures.

Legal / Regulatory basis

The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended (CJA 2010), which came into force on 15 July 2010, transposed the EU's Third Anti Money Laundering Directive and its implementing directive into Irish Law.

The CJA 2010 has been amended by:

- the Criminal Justice Act (Money Laundering and Terrorist Financing) 2013;
- the Criminal Justice Act (Money Laundering and Terrorist Financing) (Amendment) Act 2018, which transposed the EU's Fourth Anti Money Laundering Directive into Irish law and;
- the Criminal Justice Act (Money Laundering and Terrorist Financing) (Amendment) Act 2021 which transposed the EU's Fifth Anti Money Laundering Directive into Irish law.

The key obligations of the CJA 2010 with which, among others, credit unions must comply with are set out in Part 4 of the CJA 2010, and are summarized as follows:

- Risk assessment by designated persons, Customer Due Diligence (CDD);
- Reporting of suspicious transactions;
- Tipping off by designated persons;
- Internal Policies and Procedures; and
- Special provisions applying to credit and financial institutions, including credit unions.

Reports of suspicious transactions are made by credit unions directly to the financial intelligence units of the Irish police force (An Garda Síochána) and the Irish Tax Authorities (Revenue Commissioners), who have responsibility for the investigation and disposition of those reports.

The Central Bank is a competent authority, under the CJA 2010, for supervision of compliance by credit and financial institutions (including credit unions) with obligations imposed by the CJA 2010. This responsibility is discharged by the Central Bank's Anti-Money Laundering Division (AML/D).

Section 33AN of the Central Bank Act 1942 provides for certain prescribed contraventions, which includes contraventions of Part 4 of the CJA 2010, to be subject to Administrative Sanctions Procedures (enforcement powers) of the Central Bank.

The Central Bank published the Anti Money Laundering and Countering the Financing of Terrorism Guidelines for the Financial Sector on 6 September 2019. The Guidelines were revised on 23 June 2021 inter alia due to amendments following the enactment of the Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2021, and to provide



further clarity to firms on the implementation of the internal governance measures set out in the CJA 2010.

Practical Compliance

Since 2016, the annual returns submitted by credit unions have required credit unions to confirm that they have read, and implemented as appropriate, measures to address the expectations of the Central Bank as set out in the “Report on Anti-Money Laundering / Countering the Financing of Terrorism and Financial Sanctions Compliance in the Irish Credit Union Sector” (2015).

Supervisory Engagement

The Central Bank’s AMLD adopts a risk-based supervisory engagement model for Irish financial institutions. The Central Bank has assessed the ML / TF risk associated with credit unions as Medium-Low; similarly, the ML / TF National Risk Assessment has concluded that overall ML / TF risk in the credit union sector is Medium-Low. In assessing the AML / CFT risk of a firm, AMLD assesses both the inherent risk and control risk, to arrive at a residual rating.

Based on that assessment, the AMLD undertakes the following Supervisory Engagements:

- Inspection cycle – Strategic, spot check and responsive;
- AML / CFT review meetings – Strategic, spot check and responsive; and
- AML / CFT Risk Evaluation Questionnaires (REQ) – Annually.

The summary of engagements undertaken during 2020-2022 and planned for 2023 indicate the main supervisory tool is the REQ although these can be supplemented by Inspections and review meetings.

Risk Evaluation Questionnaires

A comprehensive AML / CFT REQ has been developed to collect AML / CFT specific risk data. The REQ’s design seeks information relating to:

- The inherent ML / TF risks faced by the credit union covering such areas as customer type, products offered, distribution channels and geographic location;
- The credit union’s AML / CFT control framework covering areas such as risk assessment, CDD on-going monitoring, training, policies and procedures, financial sanctions, and suspicious transactions; and
- Compliance with the credit union’s AML / CFT obligations under law. If there are areas of material non-compliance, then such non-compliance must be declared by the credit union and details provided.

System-based functionality is in place which automatically scans incoming REQs against a list of predefined flags to immediately highlight REQs which require manual review by supervisors. Supervisors also have system optionality to place credit unions on a review / watchlist following the REQ review to assist in the planning of future supervisory engagement



with the sector. REQ data is analyzed and MI generated which assists in the identification of trends in the credit union sector and credit unions that may be outliers from their peers. This information assists AMLD in assessing the ML / TF risk in the credit union sector and in devising its credit union supervisory strategy. Information gathered is also used as an input into the National ML / TF Risk Assessment. The frequency of the submission has increased from a three-yearly cycle observed during the 2019 ICURN review to an annual cycle now.

On-site inspections

The inspections include interviews with the Compliance Officer (CO) and other relevant personnel. In addition, information is gathered and reviewed as part of the inspection. This includes, but is not limited to:

- Organization chart, including the names of directors and senior managers, together with a breakdown of those with day-to-day management of AML / CFT responsibilities;
- Details on the credit union's business e.g., product and service lines offered, member base, geographical reach;
- A copy of the credit union's AML / CFT policies and procedures;
- A copy of the credit union's current AML / CFT Risk Management Strategy, including details of the risk-based approach employed;
- Copies of board meeting minutes since the enactment of the CJA 2010 (where they relate to AML / CFT);
- A copy of the credit union's suspicious transaction reporting procedures;
- An outline of the credit union's transaction monitoring procedure / system;
- Details and results of any AML / CFT testing and / or internal or external audits carried out;
- Details of the number of suspicious transactions received by the MLRO together with details of how many Suspicious Transaction Reports (STRs) were submitted to An Garda Síochána and the Revenue Commissioners; and
- Copies of AML / CFT training provided to staff.

As part of supervisory engagements, AMLD review the appropriateness and adequacy of credit unions' approach to CDD including their governance, risk assessment, risk management and control and the operational procedures in place for CDD.

As part of the on-site inspection process, supervisors identify RMPs, where there are deficiencies in AML / CFT compliance within the credit union, or areas where the supervisor believes enhancements are required. A post inspection letter is issued to the credit union outlining RMPs identified by the Central Bank. The RMPs will outline the issue identified, the action required by the credit union to remediate these issues and the timeframe for this action.

Supervisors engage with the credit union and monitor progress made against the inspection findings until all actions have been closed out. At this time, a notification will be sent to the credit union confirming the inspection is closed out. Where appropriate a referral may be made (where appropriate) to the Central Bank's Enforcement Division to take enforcement action



against the credit union for the identified breaches of compliance. There have not been any credit union enforcement actions regarding AML / CFT in the last four years.

Where the Registry identifies AML / CFT issues during on site-meetings these are notified to and discussed with AMLD, which may investigate if appropriate.

Non-supervisory engagement

The Central Bank also discharges its responsibilities through:

- Communication and Outreach Activity; through a combination of industry presentations, briefings and publications on its website, the Central Bank engages with credit unions to set out the role, approach, and expectations of the Central Bank in supervising compliance with the CJA 2010. Recent examples of publications include:
 - In October 2020, a bulletin on transaction monitoring.
 - In November 2021, a bulletin on funds and fund management companies.
 - In 2021, the Central Bank delivered four Outreach sessions to credit unions in conjunction with the credit union industry representative bodies, attended by approximately 673 staff from credit unions across the country.
 - The Central Bank website also reminds all credit and financial institutions that they must achieve compliance with their obligations under the CJA 2010; and
 - Liaison with other relevant authorities, both domestically and internationally, as required or as required by the Central Bank's legal obligations:
 - Membership of the Anti-Money Laundering Steering Committee (AMLSC), a co-ordination committee of government departments / agencies dealing with AML / CFT issues;
 - Bilateral meetings with the Department of Finance, the Financial Intelligence Unit of An Garda Síochána, the Revenue Commissioners, Department of Justice, and the Criminal Assets Bureau on relevant issues as they arise; ~~and~~
 - Enforcement subgroup comprising representatives of the above organizations;-
 - International co-operation, as a member of the EBA's AML CFT Standing Committee (AMLSC).

The AMLSC was set up according to the requirements of Article 9a of the Regulation (EU) 2019/2175 of the European Parliament and of the Council of 18 December 2019 and brings together senior representatives from 57 AML / CFT competent authorities across all financial services sectors to coordinate measures to prevent and counter the use of the financial system for the purposes of money laundering and terrorist financing in the EU.

In addition, AMLD has attended and hosted several "Best Practice" visits with other AML / CFT regulators, to share supervisory practices.



Guiding Principle 11: Accounting and Disclosure

Credit unions should maintain adequate records that have been prepared in accordance with the relevant accounting laws in its jurisdiction. Credit unions' records must be independently professionally audited and the full annual report prepared in accordance with the relevant accounting standards must be freely available to all members.

Overall Rating: Compliant

Summary Assessment

Legislation and accounting standards require credit unions to maintain adequate and reliable records, prepare financial statements in accordance with Irish Generally Accepted Accounting Principles (GAAP) and to have an independent external auditor's opinion. The preparation and maintenance of accurate records and financial statements by credit unions remains subject to oversight by the Registry. Provisioning and the valuation of investments has been a particular focus in recent years. The Central Bank articulates and explains its expectations for both credit unions and their auditors. These communications and other engagements are complemented by a proportionate, risk-based supervisory approach, directed at raising standards and securing viability.

The Central Bank sets expectations around auditor rotation in the Credit Union Handbook to ensure ongoing independence, and has powers to remove an auditor under Section 116 of the 1997 Act, though the latter has been used rarely.

In addition to the published statements, auditors provide credit unions with a private "management letter".

Legal / Regulatory Compliance:

The 1997 Act requires a credit union to:

- Maintain proper accounting records;
- Establish and maintain systems of control and safe custody;
- Adhere to certain accounting principles; and
- Prepare annual accounts which provide a "true and fair view" of its income and expenditure for the year and of the state of its affairs at year-end, signed by certain officers of the credit union and containing an external auditor's report. The requirement for annual accounts to give a true and fair view entails compliance with relevant accounting standards and the 1997 Act.

The Central Bank has issued guidance in the Accounts and Audit Chapter of the Credit Union Handbook.

Practical compliance

Irish credit unions prepare their annual accounts in accordance with the 1997 Act and with GAAP comprising Financial Reporting Standards (FRS) issued by the Financial Reporting Council in the UK. FRS102 was issued by the Financial Reporting Council (FRC) in March 2013.



The 2016 Regulations include disclosure and reporting requirements related to credit union annual accounts. Under Part 8 – Systems, Controls and Reporting Arrangements, the 2016 Regulations include a reporting requirement for a credit union to ensure that its directors shall prepare the prescribed supplementary information to be contained in its annual accounts. This includes information on the regulatory reserve requirement, the total amount of loans outstanding to related parties and a requirement to separately analyse investment income and investment gains.

The credit union financial year runs from 1 October to 30 September. Under Section 124 of the 1997 Act, credit unions are required, not later than 31 March in each year, to send to the Central Bank a return relating to its affairs for the most recent financial year, along with a copy of its annual accounts and a copy of the report of the auditor on the credit union's annual accounts for that financial year. The auditor's report should state that the audit was conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Section 120(3) of the 1997 Act sets out matters which must be addressed in the auditor's report, including his or her opinion on whether proper accounting records have been kept by the credit union and whether the annual accounts have been properly prepared to conform with any requirements made by, or under, the 1997 Act and give a true and fair view.

Section 111(5) of the 1997 Act, provides that if a member of the board of directors fails to take all reasonable steps to secure compliance with the provisions for true and fair accounts, the member may be guilty of a criminal offence.

Central Bank Powers

The Central Bank has powers in respect of auditors of credit unions which are outlined in Part VII of the 1997 Act and Part IV of the Central Bank Act 1997.

Under Section 113 of the 1997 Act, credit unions are required to appoint / reappoint an auditor at each AGM. Under Section 116 of the 1997 Act, the Central Bank has the power to remove the auditor of a credit union where the Central Bank considers it necessary in the interests of members or of the "orderly and proper" regulation of the credit union. The Central Bank also has the power to veto the appointment or re-appointment of an auditor of a credit union. Having identified potential issues in relation to the independence of a credit union's auditor the Registry has, on occasion, required the credit union to appoint a new auditor.

The Registry takes the view that, to enhance the independence and objectivity of the audit process, consideration should be given to appropriate levels of audit partner and audit firm rotation. The Central Bank has provided guidance in this regard in the Accounts and Audit Chapter of the Credit Union Handbook. Supervisory concerns that auditor independence had been effectively impaired by lack of rotation have been outlined in RMPs issued to individual credit unions.



The Central Bank also has the right under Part 2 of the Central Bank (Supervision and Enforcement) Act 2013, for the purposes of the proper and effective regulation of a credit union, to request a report on any matter as required by the Central Bank (Skilled Persons Reports). The person preparing the report must be sufficiently skilled to prepare such reports and must be nominated or approved by the Central Bank, and therefore the Central Bank is not limited to only using the external auditor of the credit union in question to provide the report. Section 33AK(5)(x) of the Central Bank Act 1942 provides that the Central Bank can disclose confidential information to anybody established under law for the purposes of overseeing auditors, in accordance with the terms of the supervisory EU legal acts, where applicable.

The Central Bank Act 1942 provides a statutory gateway to lodge complaints regarding auditors to the Recognized Accountancy Bodies for assessment in accordance with their own monitoring and disciplinary procedures.

Requirement on Auditors

Certain reporting requirements are also imposed on external auditors by Section 122 of the 1997 Act to make a written report to the Central Bank where at any time the auditor has reason to believe that:

- The credit union may not be able to fulfil its obligations to its members or to meet its obligations under the 1997 Act;
- There are material defects in the accounting records or systems of control of the business and records of the credit union (including systems for ensuring safe custody of all documents of title, deeds, and accounting records of the credit union);
- There are material inaccuracies in, or omissions from, any returns made by the credit union to the Central Bank;
- The board of directors have failed to respond to any recommendations made by them; or
- If the auditor proposes to qualify any report which he is to provide under the 1997 Act. Section 118(2) of the 1997 Act requires the auditor to notify the Central Bank if he / she intends resigning as auditor of a credit union.

Supervision

Supervisors assess the information reported in draft financial statements for compliance with key financial regulatory requirements. Should any issues of concern arise a supervisor will revert to the credit union and / or its auditors; the type of interaction with auditors is dependent on the circumstances and may, for example, be conducted before an onsite inspection or at any time where appropriate. The Central Bank's approach is that its expectations will be met if a board of directors has acted responsibly and the auditor has presented the accounts to the board of directors and clarified them as requested by directors. There has been no criminal prosecution against a credit union director for failing to take all reasonable steps to secure compliance with the provisions concerning true and fair accounts. However, persistent breaches of statutory obligations regarding record-keeping and reporting have resulted in enforcement actions though there have been no examples in the last four years.



Valuations

The 1997 Act requires credit unions in Ireland to prepare their financial statements in accordance with prescribed accounting principles and relevant accounting standards.

Valuations are subject to external audit by the statutory auditor and an independent assessment may be required by the Central Bank. Under FRS102, given the nature of a credit union's business, financial assets are classified for valuation purposes as "basic" or "complex". Most financial assets in credit unions are classified as basic instruments and measured at amortized cost using the effective interest rate method. Basic instruments include member's loans and investments such as certain bank bonds, Government bonds etc. and will normally be measured at amortized cost. Assets such as cash, cash equivalents and short-dated investment instruments (e.g., deposits) are generally measured at cost in the financial statements. Longer dated instruments, e.g., bonds with a maturity greater than one year are measured at amortized cost. Complex instruments are measured at net realizable value.

The Accounts and Audit Chapter of the Credit Union Handbook sets out guidance on the valuation of investments. The Central Bank has indicated in this guidance that in most cases the lower of cost and net realizable value will be the most appropriate valuation method for investments. The external auditor also reviews the investment valuations held at year-end during their year-end audit. Credit unions are required to have investment policies that are reviewed, updated, and approved by the board of directors at least annually. The Central Bank has also issued guidance, contained in the Investments Chapter of the Credit Union Handbook, on what investment policies should cover, including the process for monitoring the value of investments and the accounting treatment adopted for the valuation of investments.

A communication was issued in June 2022 reminding credit unions of their obligations in relation to investments and to set out information in relation to developments with certain asset classes, bank bond and investments in Tier 3 AHBs. The year-end communication also outlined the importance of reviewing investment valuations in the year-end accounts.

The Central Bank, during both on-site and off-site reviews, may assess whether the valuations are reliable and prudent. Where the Central Bank determines that valuations are not sufficiently prudent, the Central Bank requires the credit union to consider and adjust as appropriate.

Where significant inconsistencies between information reported in Year End Returns and key figures reported in the year-end Prudential Return (30 September) are identified supervisors follow up with credit unions as appropriate to ensure that these are adequately explained. Fixed asset impairments identified through the year end process have in some cases negatively impacted on a credit union's reserve position taking them below the regulatory minimum. In such cases the Registry has the power to issue a regulatory direction to a credit union to restore its reserve position.



Supervisory Engagement

The Registry issues a communication to credit unions annually setting out key areas for the board of directors of credit unions to focus on when considering their approach to the financial year-end. Supervisors also engage with external auditors of credit unions as necessary as part of the scoping process of an inspection.

The Registry makes presentations to external auditors to provide them with updates on changes to the regulatory framework for credit unions – for example a presentation was made to the Association of Chartered Certified Accountants (ACCA) in June 2018. The Central Bank engages with relevant stakeholders regarding issues of mutual interest and to assist auditors in the development of guidance to assist external auditors of regulated entities. The Central Bank engaged with the Institute of Chartered Accountants Ireland in 2017 and 2018 on the Provisioning Guidelines for Credit Unions, which were subsequently published in April 2018.

The Central Bank engages with the Consultative Committee of Accountancy Bodies – Ireland (CCAB-I) regarding issues of mutual interest. CCAB-I is comprised of the ACCA, the Chartered Institute of Management Accountants, the Institute of Certified Public Accountants in Ireland and the Institute of Chartered Accountants in Ireland.

Auditors are required to carry out statutory audits in accordance with the Irish Auditing and Accounting Supervisory Authority (IAASA) which is responsible for examining the level of compliance of certain entities annual and half-yearly financial reporting with applicable financial reporting standards.

Pillar III Prudential Requirements Guiding Principles 12 to 17

Guiding Principle 12: Capital Adequacy

The supervisor should establish and enforce the rules for an appropriate capital framework with which all credit unions must comply. The rules must balance cooperative principles and objectives with the need to protect depositors. Accordingly, supervisors will need to carefully consider what meets the criteria for capital and to ensure that capital instruments are able to absorb losses in the event of failure. When supervisors choose to align the capital requirements of credit unions to Basel standards, a simplified approach may be adopted for small or simple credit unions that are not allowed to hold complex financial instruments. For such credit unions, compliance with the most advanced risk measurement techniques may be beyond their resources. Therefore, the supervisor may require the credit union to have sufficient capital to support the limited information that may be available for supervisors.



Overall Rating: Compliant

Summary Assessment

Credit unions are required by regulations 3-6 of the 2016 Regulations to maintain a regulatory reserve requirement (i.e., capital adequacy) ratio of at least 10% of total assets. This requirement is on a non-risk weighted basis and their capital components are limited to the highest quality capital to absorb losses, i.e., retained earnings. Compliance with this requirement is monitored by the Central Bank via quarterly prudential returns, the year-end return, and annual audited financial statements. Credit unions are also required to continuously monitor their own compliance and notify the Registry if they are failing or are likely to fail to comply with their reserve requirement by no later than the next business day. Any credit union with pronounced viability challenges is supervised by the Intervention and Restructuring (I&R) team within the Registry. Credit unions are also required to hold additional reserves (determined by each credit union) in relation to their operational risk. The level of operational risk reserves a credit union is required to hold is not specified in the 2016 Regulations.

As of September 2022, there were no credit unions that had less than 10% regulatory reserves for the first time since the sector has been supervised by the Central Bank. The median realised reserves for the sector in September 2022 was a solid 15.5% which is down from 16.2% as at March 2019 reported in the last peer review report in 2019.

ICURN's supervisory benchmarking data from 2020 indicates that 40% of credit union supervisors globally have implemented a risk-based capital standard and 47% of supervisors have not, with those credit unions having a leverage-based ratio and the remainder having a combined approach. The majority of supervisors that have implemented risk-based capital have been in advanced economies with more complex credit unions. In addition, the most common minimum required capital ratio for credit unions is between 8% and 10% showing the current requirements in Ireland are well within the global norms for credit unions. During COVID, most jurisdictions saw savings initially increase significantly in credit unions which caused a reduction in capital ratios as asset values swelled.

The Registry is encouraged to consider the feasibility of analyzing regulatory reserves under the existing leverage ratio and the risk-weighted reserve approach. This analysis could take account of credit union resilience to cyclical and structural vulnerabilities, costs pressures and long-term demographic trends in the markets where credit unions generally operate.

Guiding Principle 13: Liquidity and Funding Risk

The supervisor should ensure that credit unions develop reasonable and prudent liquidity management strategies and contingency plans, including central bank borrowing, standby facilities and / or liquid reserves in a regulated central financial facility, which cover the funding of the credit union and the ongoing monitoring of the credit union's liquidity / funding position. Supervisors must have the ability to intervene when they believe a credit union has an excessively risky funding base or liquidity position. Liquidity risk must be addressed both



on a per-credit union and on a network-wide basis. Soundly managed network-wide liquidity and stability facilities are highly desirable.

Overall Rating: Compliant

Summary Assessment

The low level of borrowing by credit union members (average loan to assets ratio of 28%) and 65% of credit union assets being held in investments (of which 68% is in authorized credit institutions) has resulted in a relatively high level of liquidity in credit unions. Credit unions are required under the 2016 Regulations, to maintain at least 20% of unattached savings in relevant liquid assets, which is defined as cash, investments with a maturity of less than three months or Irish and EEA State Securities, bank bonds and supranational bonds with a maturity of greater than three months. Where credit unions propose to count investments greater than three months within the calculation of relevant liquid assets a haircut (as specified within the 2016 Regulations) must be applied to these investments. In practice, as of September 2022, the sector average liquidity ratio was 35%.

Globally, a few credit union supervisors have moved towards a liquidity coverage ratio to understand the net cumulative cash flow needs of credit unions in stress – this is especially important where credit unions provide current accounts which may behave differently in stress compared with instant access share accounts, or where members can more easily access funds via digital channels. More complex credit unions may also utilize ALCOs to ensure sufficient management of liquidity.

In addition to the liquidity requirement contained in the 2016 Regulations, if a credit union has more than 20%, but less than 25%, of its gross loans over five years it must maintain a liquidity ratio of at least 25%. This requirement has gradual increments whereby if 29% or more of a credit union's gross loans are over five years, a 30% liquidity ratio is required – this is high by global standards based on ICURN's observations of its members. For the few credit unions that are lending larger percentages of their assets, this additional liquidity requirement is constraining additional lending and therein returns and capital growth and has an overall effect of moderating lending and earnings in the sector. If the sector continues to expand its lending this should be taken into greater consideration in future.

Approximately 96% of all funding in credit unions comes in the form of fully withdrawable shares on which is paid a discretionary dividend, if any. These shares have proven to be “sticky” during the pandemic and during the prolonged low-rate environment. As interest rates and inflation rises there may be more pressure on credit unions to pay competitive dividends. The remainder of funding comes in the form of fixed term deposits and other member funds. Although credit unions are not required to have a specific assets / liability committee some credit unions do have these committees and the liquidity monitoring of credit unions is carried out by their boards which are required to have a liquidity policy reviewed and approved annually.



Eligible counterparties can use the marginal lending facility to obtain overnight liquidity from the European Central Bank (ECB) against eligible assets. The process of becoming an eligible counterparty involves an assessment of whether an applicant meets the eligibility criteria in the relevant act adopted by the Governing Council of the ECB – Guideline ECB/2014/60, as amended (the General Documentation). The provisions of the General Documentation has been implemented in Ireland through the Central Bank's Documentation on Monetary Policy Instruments and Procedures (the MPIPs). To be an eligible counterparty for open market operations, a credit institution must satisfy the eligibility criteria set out in Article 55 and 55a of the MPIPs. In addition, the ECB requires credit institutions established in the euro area to hold deposits on account with their National Central Bank. These are called minimum or required reserves. Credit unions hold minimum reserves with the Central Bank but they are not positioned to borrow from the Central Bank in monetary policy operations, as they do not satisfy the eligibility criteria set out in the MPIPs. This is an area that should be further addressed, but is outside of the complete control of the Central Bank.

The Credit Union Fund may also be used as an alternative stabilization measure in order to prevent the failure of a credit institution provided that certain conditions are met. Such back up facilities are an important part of supporting financial stability. Generally, these conditions include a credit union having less than 10% capital but more than 7.5% capital. This narrow band of eligibility and active engagement by the I&R team have resulted in the Credit Union Fund (which sits at c. €20m) not being used for stabilization purposes to date. Although not completely within the ability of the Central Bank to make the change, developing more flexible eligibility criteria which allows for sufficient supervisory judgement and the potential triggering of EU state aid rules, may prove to be useful in a rapidly occurring crisis scenario.

To ensure the protection of members' funds by credit unions and safeguarding the stability of the sector the Registry instituted a €100,000 cap on deposits per member in credit unions in 2016, but also provided an avenue for requesting a specific exemption to maintain savings >€100,000 which were held at commencement of the 2016 Regulations or to increase savings >€100,000 in the case of credit unions with total assets >€100m, which few credit unions have requested. Several credit unions have voluntarily gone a step further to stem the inflow of members' savings by instituting even lower cap limits ~~caps~~ as they were unable to lend out additional funds. However, unlike other recent global examples of rapid withdrawals by high-value savers with deposit balances well in excess of the deposit insurance limits, credit unions in Ireland do not have a similar concentration of high-value savers.

Guiding Principle 14: Credit Risk

The supervisor should ensure that credit unions have policies and systems that are designed to provide satisfactory management of its loan portfolio and the risks to which they are exposed. It is essential that a credit union is able to manage its credit portfolio effectively, monitors the performance of the portfolio and pursues loans in default. The supervisor should also ensure that credit unions engage only in types of lending that their board's understand and are capable of managing effectively, while avoiding areas that require expertise they do not possess.



Overall Rating: Compliant

Summary Assessment

There has been improvement in the overall credit risk and credit risk management as noted in the Central Bank reports below. Average loan arrears greater than nine weeks have improved significantly from 19.1% in 2013 to less than 5.7% at September 2018, to 3% at September 2022. Provisions for loan losses represents 6.6% of total loans and 68% of all investments by credit unions are in authorized credit institutions. The average provision coverage on gross loans in arrears has increased from approximately 200% at 30 September 2019 to 300% at 30 September 2022 which further demonstrates the improvement in credit risk management in the sector.

The core functions of credit unions are personal savings and lending. The credit union sector has a relatively low loan to asset ratio, and this is due to modest lending growth and higher rate of savings inflow. The majority of credit union lending is still personal unsecured lending. In terms of the concentration limits there have been changes introduced in January 2020, following CP125. This resulted in the changes in the lending framework. Currently credit unions may advance up to 7.5% of total assets which is a combination of house and business loans. However only 5% of total assets may be advanced for business loans.

The credit unions with €50m or more in total assets may by notification avail of an increased limit of 10% of total assets if they hold regulatory reserves of at least 12.5% for at least two quarters prior to notification. For credit unions with €100m or more in total assets, they may apply for an increased limit of 15% of total assets.

Of the 29 credit unions with at least €100m in total assets, 27 were found to have credit issues. This related to overall application of policy and process. These included: A lack of clarity around methodologies used to oversee and report on credit risk, a lack of clarity around the assessment process for applications from self-employed members, underwriting requirements for commercial and community loans not being aligned to the Credit Union Handbook, as well as failures to reflect current legislative requirements and regulations in credit policies.

In terms of the recently issued Financial Conditions as at 9 March 2023, the report indicated that the sector average rate of arrears has fallen to a seven-year low of 3.0% at 30 September 2022. A note was made that the sector should still be cognizant of ever changing macro-economic conditions. The outstanding loans increased in 2022 to €5.6bn, reflecting continued recovery in credit demand as COVID restrictions were further eased in Q1 2022. This then showed an overall loan to asset ratio at 28.4% which is still close to historically low levels.

The report still indicates that the vast majority of credit union lending continues to be unsecured personal lending with no significant change in previously observed sectoral trends with respect to house and business lending during 2022. A worthy highlight was the fact that there remains significant unutilized capacity across the sector for house and business lending (with €1.06bn of unutilized capacity on 30 September 2022, which increases to €2.1bn if all



credit unions with total assets greater than €100m applied for and were approved to avail of the increased concentration limits for house and business lending).

14.1 The supervisor determines that a credit union's board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming, identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the board. The supervisor also determines that management implements the credit risk strategy approved by the board and develops the aforementioned policies and processes.

Legal & Regulatory Compliance

The 1997 Act and the 2016 Regulations reference risk management policies, processes, and systems which would include credit risk management as noted below.

The 1997 Act and the 2016 Regulations require the board of directors to:

- Implement a risk management process that ensures all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union, as per Section 55(3) of the 1997 Act;
- Approve, review and update risk management plans, policies, and procedures, as least annually, as per Section 46(2) of the 2016 Regulations;
- Review, approve, and assess all elements, and the appropriateness of, the risk management system at least annually, as per Section 55(1)(l) of the 1997 Act; and
- approve, review and update, at least annually, all plans, policies and procedures including; lending policies including lending limits, investment policies, and risk management policy, as per Section 55(1)(o) of the 1997 Act.

The 1997 Act and the 2016 Regulations require credit unions to:

- Develop, implement, document, and maintain a risk management system to identify, assess, measure, monitor, report and manage the risks that it is or might reasonably be exposed to, as per Section 76B of the 1997 Act;
- Ensure the risk management system is clearly set out and documented and clearly sets out the related tasks and responsibilities, as per Section 76B of the 1997 Act; and
- Report on the performance of loans to the board of directors monthly as per Part 4 of the 2016 Regulations.

The 1997 Act as per Section 63A sets out the requirements of the manager of the credit union to implement the strategies agreed by the board of directors to the standards set out in the strategic plan or as otherwise required by the board of directors.

Section 35 and 36 of the 1997 Act detail the requirements for making of loans and approval of loans.



The Central Bank has also issued additional guidance to credit unions through its Credit Union Handbook chapters on Lending, Investments, and Risk Management and Compliance.

Practical Compliance

There is clear guidance on prudent lending practices, the need for lending policies, credit risk management and not taking undue risk. In 2020, following a review of the lending framework undertaken by the Registry, changes to the lending framework were commenced which provided credit unions with increased capacity to undertake house and business lending, however, activity in these areas of lending has been limited to date by credit unions. The lending limits on mortgages and small business lending has been an issue with some in the sector and a desire to change these in line with how business is evolving and the needs of members and businesses. The sector has a relatively low loan to asset ratio at 28%.

Following a review of the performance of the mortgages that credit unions have made in the past several years, we support a collaborative approach to a review of the impact of the changes in 2020 to the lending limits, as well as revising the limits themselves in the future, and that without some liberalization, the Amendment Bill of 2022 may not have the anticipated impact. As part of the review, loan to value and loan to income ratios should be considered as they are strong predictors of loan performance and risk. We also support separating limits for mortgages and SME lending as these two types of lending have very different risk-profiles and required skills.

It is important that allowable products are kept under review to ensure that they are kept up to date and reflect any new risks arising or weaknesses in lending, credit control or credit risk practices arising from on-site examinations. The guidance on the prescribed investments, the concentration limits and credit quality requirements are also clear.

The provisioning guidelines have been issued which are very specific. Non-performing loans continue to reduce, as another sign of improved credit conditions. However, as interest rates have risen rapidly borrowers could be affected by the higher interest payments and non-performing loans could continue to climb-again – as is common in other markets.

The Central Bank oversight includes ongoing supervision through scheduled returns, including but not limited to the Prudential Return, to assess the effectiveness of the credit risk management of the credit union. Through PRISM alerts, key risk indicators are flagged and required actions investigated by the supervisor to address identified risks which may result in implementing an RMP.

In advance of supervisory engagements, the supervisor may also request a level of documentation from the credit union including, but not limited to, reports from the risk, compliance and internal audit functions, key credit union credit risk policies and financial projections. Regular PRISM Engagement meetings with the Chair and CEO are deemed a key component of the desk-based approach along with other key minimum tasks such as regulatory



returns analysis and the year-end process which support this approach in the effective identification of risk.

For credit unions involved in a transfer of engagement, the process may involve the I&R team requesting the credit unions to engage an independent consultant to complete an asset review and due diligence review, which will include a review of the systems and controls and governance related to credit risk.

Where there are credit risk issues identified, the Central Bank may implement investment or lending restrictions for a credit union.

14.2 Laws, regulations or the supervisor require credit unions to have appropriate credit risk management processes that provide a comprehensive credit union-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the credit union, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.

Legal & Regulatory Compliance

The 1997 Act and the 2016 Regulations recorded in 14.1 are also applicable for this Section.

In addition, the board of directors is required to review and approve all elements of the risk management system on a regular basis to assess the appropriateness of the risk management system, taking account of any changes to the strategic plan including the credit union's resources or the external environment, and taking measures necessary to address any deficiencies identified in the risk management system, as per Section 55(1)(l) of the 1997 Act.

Practical Compliance

The Central Bank, as part of its supervisory approach may assesses the role of the board of directors and senior management in the approval, review and implementation of the credit risk management processes.

Climate-related financial risks are expected to affect the macroeconomic environment in the future through both physical and transition risks. Financial institutions, including credit unions, that have loans against assets (e.g., homes, business inventories) or even personal loans that are impacted by shore erosion, fires, floods, etc. are likely to incur credit losses. The Registry is encouraged to continue to explore this issue and its impact on credit unions.

Guiding Principle 15: Problem Assets, Provisions and Reserves

The supervisor should ensure that credit unions have adequate policies and processes for managing problem assets and make appropriate provision for such assets. It is essential for supervisory authorities to ensure that regulated institutions are adequately provisioned for



troubled / problem loans and other impaired assets. Provisions must also be considered for untroubled loans to reflect historical loss experience and changes in economic conditions that may affect the quality of the loan portfolio as a whole. Some provision may be required for contingent liabilities, depending on the probability of a corresponding cash outflow.

Overall Rating: Compliant

Summary Assessment

In terms of this aspect, the supervisor requires that the credit unions have processes in place. Regulation 23(1) of the 2016 Regulations requires credit unions to have a provisioning policy in place. In addition, Regulation 23(2) of the 2016 Regulations requires that credit unions assess the adequacy of its provisioning for bad and doubtful debts on a quarterly basis, having regard to its provisioning policy. FRS102, the applicable accounting standard for credit unions, permits credit unions to adopt an incurred loss approach to provisioning. Where it is deemed that the credit union does not have adequate provisions, and additional impairment charges are required that impact capital reserves ~~capital~~, the Central Bank has the authority under Section 87 of the 1997 Act to issue a regulatory direction to restore the reserve position of the credit union.

In 2018 the Central Bank issued Provisioning Guidelines for Credit Unions that allow for usage of FRS 102 and provided clear guidance on aspects of provisions, recognition of collateral, write offs and methodology for calculating an impairment on either an individual assessment of each loan or collective assessment where common characteristics are in place. The guidelines also reference the policies and procedures which credit unions should have in place for an appropriate provisioning framework and ensuring an adequate level of provisions is held for the loan book and other impaired assets. The guidelines reinforce recognizing loan losses as early as possible within the accounting standards, adoption of a sufficiently conservative and comparable approach to the measurement and recognition of provisions, and appropriate disclosures to members. These guidelines also provide guidance on approaches to the calculation of provisions for the collective assessment of loans. Guidance also notes directors should take into consideration the level of risk inherent in the loan book, being mindful of the current economic and financial environment and historical loss experience. The impairment provision as part of this collective assessment will include provisions for currently performing loans based on probability that they will become nonperforming.

The reporting of provisions is adequately stated and guidance intact e.g., adequate provisioning, the segmentation on performing, nonperforming, defaulted, and cured loans for better reporting. The supervision of this is also clear in the submission of quarterly prudential returns, and in internal and external reports.

Independent third parties also provide additional assurance in this regard. The quality of underwriting will also be checked, and an assessment of provisioning adequacy will be performed. There is also reliance on auditors on valuations and the current recognition model.



The sector is very well provided as per the Financial Conditions paper which showed a coverage ratio of 301% as of September 2022, up significantly from the last ICURN review.

Guiding Principle 16: Large Exposures

The supervisor should set rules that define and limit the large exposures to which credit unions can be exposed to and must have the power to intervene should these be breached. Credit unions must have appropriate and adequate policies and processes concerning large exposures (concentration risk).

Overall Rating: Compliant

Summary Assessment

The Central Bank has specific regulations in place for defining and limiting large exposures in both lending and investments of credit unions. The Central Bank has the authority to restrict the size and type of lending and / or restrict investments where there are concerns with the lending and / or investment practices of a credit union. Credit unions are required to have lending and investment policies in place which set out the lending limits, concentration limits for categories of lending and investments, and counterparty risk.

Lending

The Central Bank considers it appropriate that a credit union should consider any exposure greater than 2.5% of the regulatory reserve to be an individual large exposure. (Section 3.11.2 of the Credit Union Handbook – Lending).

Investments

The regulatory framework for investments contained within Part 5 of the 2016 Regulations includes: a definition of a “counterparty”, classes of permissible investments, limits on the percentage of total investments which can be invested in a counterparty (20% of the total value of investments), limits on direct investment in corporate bonds issued by a counterparty (5% of regulatory reserves) and concentration limits for certain classes of investments including investments in bank bonds, corporate bonds and supranational bonds.

There is sufficient guidance on the lending and investments. There are clear definitions of what a large exposure relates to, and the treatment thereof, and the amounts that exceed the threshold are specified and the treatment thereof. Concentration limits are also given for housing and business loans under the lending framework.

There are clear quarterly reporting requirements and the monitoring thereof for large exposers. The frequency is acceptable as it allows for timely identification should there be issues. There is a sufficient framework for enforcement actions should large exposure thresholds be breached.



Guiding Principle 17: Major Acquisitions

The supervisor should have the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and to impose prudential conditions on, major acquisitions or investments by a credit union, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the credit union to undue risks or hinder effective supervision.

Overall Rating: Compliant

Summary Assessment

Where credit unions wish to merge / acquire other credit unions there are two options under the 1997 Act. Credit unions may amalgamate or a credit union may transfer its engagements to another credit union. Where one credit union transfers its engagements to another credit union, this can be classified as a “major acquisition” in the context of this guiding principle. To date, all mergers / acquisitions have been by way of transfer of engagements. The 1997 Act sets out the powers of the Central Bank to approve credit union mergers / acquisitions. From January 2008 to January 2023, 207 individual transferor credit unions completed transfer of engagements to another credit union, with 157 of these transfers occurring since 2013. At 31 January 2023, there were 199 active credit unions.

In February 2019, the Central Bank published a Thematic Review of Restructuring report in the Credit Union Sector. The report analyzed the transformational impact of restructuring on the sector generally, as well as on membership, business locations, financial position and performance. The report concluded that restructuring can help credit unions to realize cost savings by eliminating duplicated costs and achieving scale economies.

The Central Bank has published clear guidance on the transfer of engagements process which sets out details on the legislative process and the steps required to be taken as part of same, including due diligence as part of the process.

The Central Bank assesses individual proposals submitted by credit unions proposing to undertake a transfer of engagements. Before the legal transfer process commences, the Central Bank requires the following to be carried out:

- Each credit union is required to submit a High-Level Business Case to the Central Bank for review and consideration.
- Following the outcome of review, each credit union is informed that either:
 - the proposed transfer of engagements should not proceed any further; or
 - it is to proceed on a “no objections” basis with formal due diligence (including asset review) and terms of reference for the review being provided.
- It is expected that due diligence be completed by an independent firm or consultant and it must strictly adhere to the terms of reference provided by the Central Bank. A meeting or meetings may need to be held with either or all credit unions at this stage.



- There are two stages of due diligence, the first being an asset review, and then a due diligence review is carried out on the other areas of the credit union such as Legal, HR and IT.

Pillar IV Supervisory Powers, Responsibilities & Approach Guiding Principles 18 to 23

Guiding Principle 18: Supervisory Powers & Responsibilities

The supervisor should have:

- clearly-defined responsibilities and objectives;
- operational independence, transparent processes, sound governance, adequate resources and legal protection for its staff;
- all financial, human, and technological resources necessary fully to discharge its responsibilities;
- complete and unfettered access to credit unions, their premises, and records, (and any subsidiaries) as it considers necessary;
- the power and the resources to guarantee access to credit unions where this is not provided; and
- the legal capacity to share information while protecting the confidentiality of such information.

The supervisor should be publicly accountable in the discharge of its duties.

Overall Rating: Compliant

Summary Assessment

As a statutory body, the Central Bank has a defined mandate for its supervision of credit unions; this is a matter of public record, as is the approach and objectives that apply. Although the Central Bank is obliged to operate independently, by international standards its supervision of credit unions is subject to a high degree of scrutiny at all levels, to which it responds with a strong level of engagement and transparency. The Central Bank engages with the Irish Government, the Legislature, the sector, and the public on matters of concern.

Since the last review, the Central Bank (Individual Accountability Framework) Act 2023 (IAF Act) has passed-which contains an amendment to Section 25 of the 2010 Act to allow an investigation be brought under Section 25 of the 2010 Act to a person who has performed a controlled function in a regulated financial services provider or holding company within the period of six years immediately preceding the commencement date of the investigation. This addresses an issue identified in the last peer review in 2019 that existed by allowing individuals to resign from positions without being held accountable for their actions.

The Central Bank has appropriately qualified, well-trained, and sufficiently supported staff with resources required to discharge its responsibilities for credit union supervision. This is complemented by an appropriate and useful suite of statutory powers and resources that ensure



that it has all necessary access to entities, individuals, and records, together with the ability to make confidential disclosures of information where required or otherwise appropriate. Some external stakeholders have suggested that the position of the Registry should be further separated and elevated within the Central Bank's structure. We believe the existing structure allows the Registry to call upon additional expertise within the Central Bank while still ensuring sufficient independence to allow for differentiated supervision relative to other credit institutions.

The Central Bank is an independent statutory body and is the single competent authority responsible for credit union supervision. Supervisory responsibility is clearly defined in Section 84 of the 1997 Act which gives the Central Bank the objective to "administer the system of regulation and supervision of credit unions provided for by or under this Act with a view to:

- the protection by each credit union of the funds of its members, and
- the maintenance of the financial stability and well-being of credit unions generally".

The performance and exercise of the functions and powers of the Central Bank under the 1997 Act have been delegated to the Registrar under Section 33AA of the Central Bank Act, 1942. The responsibilities and objectives of the Central Bank are clearly set out in legislation (in particular the 1997 Act in respect of credit unions) and are also published in the Central Bank's Annual Report and Strategic Plan. The Central Bank also has broader responsibilities, including, among other things, monetary policy (as part of the European System of Central Banks (ESCB)), financial market operations, payments and settlements, and other financial services supervision. The Central Bank is also a competent authority, under the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, for Anti-Money Laundering and Terrorist Financing. Credit union supervision is not subordinate to any of these, or to the other responsibilities of the Central Bank. In particular, the Central Bank's stated objective – the proper and effective regulation of financial institutions and markets, while ensuring that the best interests of consumers of financial services are protected – is not in conflict. The protection of members is firstly and most effectively provided through safe and sound credit unions.

The Central Bank and its employees have statutory protection from being liable in damages for acts or omissions carried out while performing the functions of the Central Bank provided that they have not acted in bad faith.

The Central Bank has powers to inspect the books, records, and management of credit unions. In addition, the Central Bank (Supervision and Enforcement) Act 2013 provides the Central Bank with powers of inspection for authorised officers. The Central Bank also has the power to appoint an authorised officer to carry out and report on an inspection of a credit union (under Section 90 of the 1997 Act) and exercise any of the powers of an authorised officer under Part 3 of the Central Bank (Supervision and Enforcement) Act 2013. The Central Bank can also require a credit union to instruct a third party, "a skilled person" to prepare a report



into one or more issues and processes under provisions of the Central Bank (Supervision and Enforcement) Act 2013.

The Central Bank has powers to take action against credit unions in breach of regulatory requirements, including where it is necessary to undertake timely corrective actions to address safety and soundness concerns. The Central Bank may give regulatory directions to a credit union under Section 87 of the 1997 Act and Section 45 of the Central Bank (Supervision and Enforcement) Act 2013 in certain circumstances, including where the Central Bank is satisfied that the credit union has failed to comply with the requirements imposed under financial services legislation. The 2011 Act established an effective resolution and liquidation regime for dealing with credit unions that are failing or likely to fail, and for protecting financial stability of the credit union sector.

The 1997 Act, together with the 2016 Regulations, set out the framework for the registration, regulation, supervision, and operation of credit unions. Section 182A of the 1997 Act provides the Central Bank with a general power to make regulations which can be made for all credit unions, a category of credit unions or categories of credit unions. Furthermore, pursuant to the 1997 Act, the Central Bank has the power to issue regulations on prudential areas including: lending, savings, investments, borrowings, liquidity, and reserves. This is in addition to the general regulation making powers which the Central Bank has under Section 27A of the 1997 Act regarding the protection of members' savings and Part 8 of the Central Bank (Supervision and Enforcement) Act 2013.

The Central Bank's aim is to promote a financially stable credit union sector that operates in a transparent and fair manner and safeguards its members' funds.

The Central Bank is held accountable in several ways, for example by the requirement to prepare a three-year strategic plan for submission to the Minister for Finance. The Central Bank also regularly participates in events of the credit union sector and every four years has been having a peer review conducted with the results published – something that few supervisors regularly do.

The Central Bank has sufficiently transparent supervisory processes while still allowing for sufficient professional judgement that is internally challenged through its own internal governance processes. The Central Bank annually publishes its objectives and the extent of achievement of those objectives. The Central Bank has a clearly defined Governance Framework. The Governance Framework takes account of the requirements of the Central Bank Acts and the EU Treaties (the Treaties) (including the requirement for the Central Bank to be independent), the Code of Practice for the Governance of State Bodies 2016 and other internal governance arrangements in the Central Bank.

Resources within the Central Bank continue to be shared to aid with a data driven approach to supervision and bringing expert resources to bear with the Registry receiving support from several areas within the Central Bank. The sharing of resources and information is undertaken



through a well-structured process and the Registry receives support from Risk Analysis and Data Analytics and Reporting Division (RADAR), Financial Risks Division (FRD), Enforcement Division (ENF), Legal Division (LEG), Consumer Protection Division (CPD), Anti Money Laundering Division (AMLD), the Supervisory Risk Division (SRD) and the Resolution and Crisis Management Division (RES).

The Central Bank provides confidential information to other supervisors and Irish authorities, in specified circumstances and in accordance with appropriate legal and confidentiality safeguards, in accordance with Section 33AK of the Central Bank Act, 1942.

Guiding Principle 19: Supervisory Approach, Techniques and Resources

The supervisor should develop and maintain a thorough understanding of the operations of individual credit unions, the risks to which they are exposed and the management of such risks, and must deploy an effective and ongoing combination of offsite and onsite supervisory techniques. Where the supervisor does not have the responsibility for oversight of a credit union's compliance with its licence conditions, for the prevention of criminal activities including money laundering, or other obligations covered by these GPs, it must have the power to refer its concerns to the appropriate authority and memoranda of understanding must be agreed and maintained accordingly.

Overall Rating: Compliant

Summary Assessment

The Central Bank's regulatory framework for credit unions provides a risk-based, proportionate, and clearly-articulated approach to supervision. The PRISM system is central to supervisory activity and since 2019 the Registry has continued the evolution of its supervisory strategy / approach. The Registry continues to apply a risk-based approach to supervision with supervisory effort focused on the greater risks – in line with the objective of safeguarding member's interests in accordance with its statutory mandate. The Central Bank has a coherent process for planning and executing on-site and off-site activities and there is effective coordination of these activities.

The PRISM methodology demands that supervisors understand and evaluate a comprehensive suite of prudential risks and supports a structured and proportionate approach to supervision. The framework for engagement is routinely reviewed and refined as appropriate. The Registry's approach allocates resources based on both impact and risk albeit with a minimum engagement threshold. This overall approach reflects the constraint that resources are limited and engagement must be directed to the risks in credit unions that have the greatest potential for harm, both to the individual entities and more generally.

The Central Bank's risk-based framework to determine supervisory programmes and allocate resources, "PRISM", takes into account the risk profile and systemic importance of individual



credit unions and the different mitigation approaches available. PRISM assigns entities to one of four possible impact categories which are subject to ongoing review:

- High;
- Medium High;
- Medium Low; and
- Low

based on a quantitative assessment of the impact of their failure upon, inter alia, the economy / financial stability and the consumer. However, in addition to these four impact categories, an additional category encompasses credit unions that are closely followed by the I&R team within the Registry. A programme of supervisory engagement has been developed for each of the impact categories.

Each active credit union is currently assigned to one of four potential impact categories:

- Low Impact,
- Medium Low Impact,
- Medium High Impact, and
- High Impact.

To date there are no such credit unions in the high impact category.

Credit unions that are in breach of the minimum regulatory reserve requirements and / or have other significant issues of prudential concern (e.g., significant governance concerns, liquidity issues, valuation of asset issues, credit issues, breaches of other regulatory requirements) are included in the I&R portfolio and are supervised by a team with a focussed supervisory engagement model tailored to reflect the individual circumstances of these credit unions. Even as de-risking of the sector has made considerable progress, we believe that the I&R team is an essential resource that should be maintained to ensure that prompt correct action is taken when necessary.

Where significant AML / CTF issues are identified through supervisory engagement, these are escalated to AMLD for consideration and necessary action where appropriate.

The PRISM methodology supports a structured and proportionate approach to supervision that has a strong linkage between impact, risk, and supervisory intensity.

The Central Bank uses a variety of tools and information to regularly review and assess the safety and soundness of credit unions and the credit union sector. The tools used, which are determined by the impact and risk category of each institution, include:

- Onsite Inspections, which are scoped based on the risk profile of the credit unions. These may be trigger based or via a minimum engagement model. These inspections include substantive onsite testing supplemented by meetings with the key officers of the credit union which may include but not be limited to, the management team, members of the board of directors, risk management officer, internal auditor, compliance officer and where required the board oversight committee and the external auditor;



- Desktop Engagements which include a desk based, offsite review of requested credit union information including but not limited to financial information, reports completed by credit union's risk management officer, compliance officer and internal auditor, most recent board meeting minutes and board approved policies;
- Analysis of quarterly and annual returns submitted by credit unions;
- Analysis of internal and external reports; and
- Other tasks including meetings with the Chair and Manager.

The Central Bank regularly assesses its supervisory approach and engagement model to ensure it remains appropriate and effective. One such review occurred in 2022.

The Central Bank has adequate information systems which facilitate the processing, monitoring, and analysis of prudential and governance information. These systems (including PRISM and supervisory reporting tools for reviewing returns) aid the identification of areas requiring follow-up action. Support is provided to the Registry's supervision teams from several divisions within the Central Bank.

Credit union supervision employs a mix of on-site and off-site supervision. The Central Bank has a coherent process for planning and executing on-site and off-site activities and there is effective coordination of these activities.

Risk Governance Panels have been established to provide support, mainly in discussing key risk areas and agreeing a supervisory strategy for a credit union as determined by the nature of an onsite inspection. These are routinely used following the completion of a Full Risk Assessment of larger credit unions.

The Registry communicates its findings to credit unions as appropriate and in a timely way; it requires credit unions to take action to mitigate any particular vulnerabilities / risks that have the potential to affect their safety or soundness. Risks deemed to be higher must have an RMP created to address the risk.

The Registry also communicates with the sector in relation to supervisory findings through speeches and publications.

The Central Bank produces an annual report on the financial condition of the credit union sector as one of its regulatory supports to the sector. The primary focus of this annual publication, is to provide analysis of data to credit unions to support them in analysing their performance alongside the sector and peers. Since the last review in 2019 the Central Bank now publishes alongside the report the full chart pack of data to allow for greater analysis of information by the sector and other interested parties. This and the underlying data at a summary level should continue to be published.



Practical Compliance

The Registry has a logical, risk-based, and proportional supervisory approach for credit unions. Similar to most jurisdictions with many credit unions, the Registry needs to balance its resources extended to the oversight of more troubled small low impact credit unions with the oversight of medium high impact credit unions that represent 19% of the assets of the sector. In 2020 and 2021 on site engagements were replaced with virtual engagements and desk-top engagements given the COVID pandemic. The peer review team analyzed the frequency and cycle of on-site engagements in 2022-23. Post COVID, supervisory engagements utilize a hybrid model of on-site and virtual engagements. The peer review team believes that there is still significant value in on-site engagement when needed and with higher impact credit unions.

Guiding Principle 20: Supervisory Reporting

The supervisor should have the resources and ability to collect financial and statistical reports from credit unions in whatever form it requires. It must also have the ability to have such reports or forms independently verified where it considers this necessary. The supervisor should undertake appropriate reviews and analysis of all such material and to take relevant action where this is indicated.

Overall Rating: Compliant

Summary Assessment

The existence of the Central Bank institution engagement portal has a lot of benefits for the supervisor. Together with GP24, there is no doubt the supervisor has the necessary powers to collect information, the fact that they have a system in place and a platform for the information to be gathered via the portal. There are certain validations that the portal can also validate. Guidance notes have also been issued in this regard for ease of reporting and submission. External parties e.g., auditors can be requested to also confirm data if there is doubt.

Section 22 of the Central Bank (Supervision and Enforcement Act) 2013 contains powers to require information, records, plans etc. There is a clear administrative process on non-submissions as well as late submission of returns. Supervisors indicated there is about 99% of timely reporting of prudential returns by credit unions within 21 days at the end of each quarter.

What is also key is the ability for validations and cross checking on what is submitted. The Central Bank has dedicated analytics resources responsible for the collation and analysis of prudential reports. Training / guidance is provided to credit unions to enable them to utilize the reporting portal for submissions of reports and authorizations / approvals of activities.

A Key Risk Indicator (KRI) analysis is performed on all Prudential Returns and Year End Returns and KRI alerts are generated for review by supervisors. These alerts inform



supervisors of changes in KRIs above or below certain thresholds. These alerts can be calibrated by alert type and impact category and are subject to periodic review. The RADAR team and PRISM system provide additional analysis and peer group reports that assist supervisors in their review and analysis of returns. A more detailed review and analysis of Prudential Returns and Year End Returns is also carried out for Medium Low and Low Impact credit unions.

The Central Bank can require institutions to engage external experts, for a variety of tasks, including the verification of supervisory information, where deemed necessary.

Guiding Principle 21: Conflicts of Interest and Related Party Exposures

The supervisor should have the power to establish rules to control conflicts of interest and related party exposures and it must have powers that permit it to intervene where such rules are breached. Rules must require that related party-transactions be undertaken at arm's length and there must be rules requiring full disclosure and reporting of such transactions.

Overall Rating: Compliant

Summary Assessment

There are adequate rules to control conflicts of interest and related-party exposures and powers to address any breaches. There is an obligation on credit unions to review their conflicts of interest annually, submit an annual compliance statement to the Central Bank which provides information on a credit union's compliance with the requirements of Part IV of the 1997 Act, (which includes the provisions relating to conflicts of interest) and notify the Central Bank in case of non-compliance, including details of how the non-compliance was / will be rectified. There are legislative and regulatory requirements in terms of loans to related parties, and also requirements to report on these – monthly to the board of directors and quarterly to the Central Bank and to include them in financial statement (this is a requirement of the accounting standard FRS102). Internal Audit is required to assess compliance with related party lending requirements “at least annually”. Procedures are in place for supervisors to be able to review conflicts of interest and related party policies.

Legal / Regulatory basis

The 1997 Act contains several provisions to control conflicts of interest in a credit union:

Loan approval

- Section 36(3) requires that loans to officers be approved by a special committee which consists of the majority of the board of directors and at least one member of the credit committee, but cannot include the applicant for the loan. Individuals on the credit committee or credit control committee with conflicts of interest are excluded from the related party lending approval process.



Governance obligations

- Section 54(8) requires the board of directors to record all discussions relating to conflicts of interest in meeting minutes;
- Section 55A(3)(h) requires the Chair of the board of directors to ensure that conflicts of interest are appropriately managed by the board;
- Sections 55A(4), 53(10 and 76N(4) contain restrictions preventing certain persons becoming a member of the board of directors, the board oversight committee or the chair of the board of directors, arising from potential conflicts of interest;
- Under Section 56(B)(8) the nominations committee of a credit union is required to have regard to potential conflicts of interest in considering the proposing of candidates for the board of directors.
- Section 69(4) requires that officers of a credit union (including members of the board of directors) are required at all times to ensure they act in a manner free from conflicts of interest;

All credit unions are required to have a conflicts of interest policy, to manage and resolve conflicts of interest, which is required to be reviewed and updated, at least annually, by the board of directors. The Central Bank guidance in relation to conflicts of interest indicates credit unions should consider at a minimum:

- Whether an officer is likely to make a financial gain, or avoid a loss as a result of their position in the credit union;
- Any interest that the officer may have in the outcome of a contract, transaction, and / or arrangement;
- The business or body that the officer is involved in or connected with and whether conflicts of interest may arise from that involvement; and
- The receipt of any inducement by the officer.

The guidance also provides that “every officer of a credit union shall identify all potential conflicts between his or her own interests and the interests of the credit union and shall take all necessary steps to ensure his or her role in the credit union is not influenced by any other interest.”

The 1997 Act and the Central Bank (Supervision and Enforcement) Act 2013 provide the Central Bank with the power to prescribe regulations in relation to related party exposures. The 2016 Regulations define a related party as: a member of the board of directors or the management team of a credit union; a member of their family; or a business in which a member of the board of directors or the management team of a credit union has a significant shareholding. “Member of the family” is defined as “a person’s father, mother, spouse or civil partner, cohabitant, son, daughter, brother, or sister”.

Where the total credit union exposure to the related party is greater than €2,000, Regulations 18-22 of the 2016 Regulations outline the following additional requirements:

- A credit union shall not make or manage a loan to a related party on more favourable terms than a loan to a non-related party;



- Related party lending is subject to additional oversight including individual prior approval in writing by the credit committee and actions in relation to the management of a loan are subject to individual prior approval in writing by the credit committee or the credit control committee of the credit union as appropriate; and
- A credit union must record and monitor loans made to related parties and report, in writing, on related party loans to the board of directors on a monthly basis. Such a report shall include details of loans advanced to related parties during the month, total loans outstanding to related parties, the performance of loans to related parties and actions in respect of the management of loans to related parties.

Under the 2016 Regulations, a credit union must ensure that the internal audit function assesses, at least annually, the compliance or otherwise by the credit union with the related party lending requirements. Furthermore, after each assessment, the internal audit function to submit a written report to the board of directors indicating their findings and conclusions and making recommendations on any changes required. Regulation 22 of the 2016 Regulations requires a credit union to include the process in relation to lending to a related party in its credit policy.

Section 33 of Financial Reporting Standard 102 (FRS102) sets out requirements in relation to related party disclosures for credit unions' audited accounts.

Practical Compliance

Credit unions report on the number and amount of loans to officers (including board members) of the credit union, as well as any loans to officers which are in arrears as part of the quarterly Prudential Return.

The Central Bank requires credit unions to submit an annual compliance statement which includes information on a credit union's compliance with the conflicts of interest provisions. Where a credit union identifies material non-compliance with the requirements of Part IV of the 1997 Act, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified. Credit unions are required to report on loans to officers on the quarterly Prudential Return.

Supervision

In addition to on-going supervision, an assessment of conflicts of interest and related party exposures may be undertaken as part of an inspection or targeted risk assessment. The frequency and duration of an inspection is determined by the risk profile of the credit union. Risks are scoped pre-inspection by the supervision team which will determine the level of onsite work conducted. Methods used by the Central Bank in assessing conflicts of interest and related party exposures in credit unions can include a review of credit policies and procedure, the conflicts of interest policy and the conflicts of interest register. Meeting with the credit unions' board members and officers and assessing the implementation of key risk policies through onsite testing may form part of an inspection, if within scope.



Supervisors require credit unions to correct deficiencies identified during supervisory engagements in a timely manner. Where a credit union breaches requirements in relation to conflicts of interest or loans to officers, the Central Bank may take action including issuing an RMP, the imposition of administrative sanctions or the issuance of regulatory directions. The Central Bank has its own policy on Managing Staff Conflicts of Interest regarding supervisors and the credit unions in their portfolio. All staff at the Registry are required to complete an online Code of Ethics module and complete a log of Conflicts of Interests maintained by the Registry.

Guiding Principle 22: Internal Audit

The supervisor should consider the need for a credit union to have an appropriately qualified, independent and adequately resourced internal audit function. The credit union's internal audit function must focus on ensuring that the internal control function operates effectively. Where there is an internal audit function, it must report to an appropriate level within the credit union and must have direct access to the board where it considers this necessary. The scope of internal auditing within a credit union may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring, and investigating fraud, safeguarding assets and compliance with policies, laws, and regulations.

Overall Assessment: Compliant

Summary Assessment

Legal & Regulatory Compliance The 1997 Act requires credit unions to separate the internal audit function from other functions and activities of the credit union, and to ensure that the internal audit function can operate independently of management and without undue influence over its activities. All credit unions are required to provide information on their internal audit function as part of their Year End Return. This provides a means of identifying any credit unions that do not currently have an internal audit function.

In 2018, the Central Bank issued regulations for credit unions with total assets of at least €100m, whereby the role of Head of Internal Audit is a PCF, requiring the pre-approval of the Central Bank before an individual can take up the position. The Internal Audit Chapter of the Credit Union Handbook contains guidance, in relation to the minimum evaluation to be undertaken by the internal audit function, to assess the effectiveness of a credit union's risk management, internal controls and governance process, which should include:

- Evaluating whether the risk management system identifies and assesses significant risks in the credit union including the identification of operational risks;
- Ensuring appropriate risk controls are selected that manage risks within the credit union's risk tolerance;
- Ensuring that relevant risk information is captured and communicated in a timely manner across the credit union enabling officers of the credit union to carry out their responsibilities;



- Evaluating the effectiveness of the credit union's information systems;
- Evaluating the accuracy, consistency, comprehensiveness, accessibility, timeliness, and security of management information;
- Reviewing methods employed by the credit union to safeguard assets (including inspection and verification of cash, passbooks or statements, bank reconciliations, securities, cash accounts and all records relating to loans and investments);
- Assessing the effectiveness of the compliance programme, in ensuring compliance with legal and regulatory requirements and guidance; and
- Evaluating the effectiveness of the credit union's governance arrangements required under the 1997 Act.

The Central Bank has provided guidance to credit unions via the Credit Union Handbook (Internal Audit Chapter) which outlines the following eight parameters in summary:

1. Internal audit function
2. Outsourcing and sharing arrangements
3. Relationship with the auditor
4. Internal audit charter
5. Internal audit plan
6. Independence of the internal audit function
7. Internal audit reporting
8. Review by the board of directors

Practical Compliance

The 1997 Act requires credit unions to have an internal audit function to:

- Provide for independent internal oversight; and
- Evaluate and improve the effectiveness of the credit union's risk management, internal controls, and governance process.

Internal controls minimize the risk of errors and fraud, and increase the chances of detecting errors or fraud if they do occur. The internal audit function must prepare both an internal audit charter and internal audit plan which must be reviewed and approved by the board of directors. The internal audit function must report the outcome of its evaluations and recommendations to the board of directors regularly.

Through inspections, including engagement with the internal audit function, supervisors review a credit union's compliance with the requirements set out in Section 76K of the 1997 Act and associated guidance. Supervisors review whether the internal audit function is consistent with regulatory controls to ensure the minimization of risk in regards to internal controls.

Credit unions are also required to submit an annual compliance statement to the Central Bank which includes information on a credit union's compliance with its obligations relating to the internal audit function. Where a credit union identifies material non-compliance with the



requirements of Part IV of the 1997 Act, it must submit a Report of Material Non-Compliance to the Central Bank, including details of how and when the non-compliance will be rectified. In addition to on-going supervision, a review of the internal audit function may be undertaken as part of a programme of inspections and targeted risk assessments. The frequency and duration of an inspection is determined by the risk profile of the credit union. Risks are scoped pre-inspection by the supervision team which will determine the level of onsite work to be conducted.

Methods used by the Central Bank in reviewing the internal audit function in credit unions can include:

- An assessment of the effectiveness of the function with regards to the scale and complexity of the credit union;
- A review of the internal audit plan and a review of the internal audit reports to assess that the reports provide objective assurance on the effectiveness of the credit union's risk management; and
- Internal control and governance processes.

Meeting with the internal auditor may be part of an inspection. Supervisors require credit unions to correct deficiencies identified during on-site inspections in a timely manner. These issues are set out in an RMP, which sets out the issue(s) identified, the mitigating action to be taken and the deadline by which each action is to be implemented. The statutory requirement that a credit union have an internal audit function with status and responsibilities defined by law is an important safeguard and protection.

As with many regulators across the globe, the Central Bank severely limited on-site inspections during COVID lockdowns. The Central Bank reports currently using a hybrid model of onsite and offsite examination. The Central Bank reports that it is expected to increase the level of onsite activities.

Insider abuse and fraud committed by credit union employees can be difficult to detect with offsite or onsite supervision. Fraud schemes are often ongoing crimes that can go undetected for months or even years. However, there is often a correlation between onsite supervisory engagements and the discovery of fraud. Insider abuse and internal fraud often contribute to financial institution failures and should be considered a significant risk. Currently, there is no requirement for credit unions to report fraudulent issues and situations to the Central Bank.

Guiding Principle 23: Corrective and Remedial Powers

The supervisor should have an adequate range of enforcement tools to facilitate timely corrective action including the power and resources to issue appropriate legal orders, to revoke licenses, force liquidation, removal of officer or board members or to recommend revocation. This includes the power and resources to impose restrictions on a credit union's activities and operations.



Overall Rating: Compliant

Summary Assessment

The Central Bank has a comprehensive range of powers that allow it to intervene at an early stage to require a credit union to take timely corrective action in respect to regulatory breaches and to address concerns as to solvency. Where the circumstances warrant, it may issue directions and take enforcement action under its Administrative Sanctions Procedure (ASP), with the power to take criminal action by way of summary proceedings in the District Court in certain circumstances. It also has available the ultimate sanctions of suspending or revoking a credit union's registration.

Individuals may be suspended or prohibited under the Fitness & Probity regime and sanctioned under the ASP in given circumstances. The Central Bank is appropriately resourced to facilitate the use of these various powers as necessary.

The Central Bank has a broad range of enforcement tools available to facilitate timely corrective action when, in its judgement, a credit union is not complying with laws, regulations or required actions and enforcement action is justified. The Central Bank has several enforcement powers to ensure that credit unions and individuals are held to account:

- Sanctions for breaches of regulations: Part IIIC of the Central Bank Act, 1942 (as amended) provides the Central Bank with the power to administer sanctions in respect of the breaches of regulatory requirements (referred to as "prescribed contraventions") by credit unions and the participation in the prescribed contravention(s) by individuals and to take action in relation to individuals' conduct. In addition, the Central Bank has the power to publish details of sanctions imposed.

The Central Bank (Supervision and Enforcement) Act 2013 further strengthened enforcement powers by introducing additional sanctions under the Administrative Sanctions Procedure (ASP), and substantially increasing the fines available thereunder. In addition, the IAF Act commenced on 19/04/2023 and introduced enhancements to the ASP including the power to take direct action in respect of individuals who commit prescribed contraventions.

The ASP is how the Central Bank investigates and sanctions "prescribed contraventions" by credit unions and individuals. In investigating under the ASP, the Central Bank may interview persons it suspects to have knowledge of matters pertaining to the suspected prescribed contravention(s). It may also use compulsory powers to compel the production of documents and conduct on-site inspections. If, having investigated, the Central Bank has reasonable grounds to suspect a prescribed contravention, it may: decide to take no further action; resolve the matter by taking supervisory action; agree a settlement; or refer the case to Inquiry for determination and sanction. Sanctions (as part of a settlement or following an Inquiry) may include a caution or reprimand; the imposition of a monetary penalty; and / or a direction disqualifying an individual from being concerned in the



management of a credit union.

- **Fitness and Probity Regime:** This ensures that individuals in designated positions within credit unions are competent and capable, honest, ethical and of integrity, and financially sound. Credit unions must be satisfied on reasonable grounds and on a continuing basis that an individual performing a certain function (a controlled function) meets the standards of fitness and probity. Certain controlled functions (known as “pre-approval controlled functions”) require prior approval from the Central Bank, which acts as a gatekeeper, before the individual can perform the function in the credit union. The Central Bank may investigate persons if there is “reason to suspect” a person’s fitness and probity and such an investigation is “warranted in the circumstances”. An investigation under Section 25 of the 2010 Act may give rise to: a suspension (up to six months²², which can be extended by a further six months by Order of the High Court of Ireland); or a prohibition (for a specified period or indefinitely). The Central Bank has powers to prohibit the person from performing “the controlled function, the specified part of a controlled function or any controlled function as the case requires ... either for a specified period or indefinitely.”
- **Revocations of Registration:** Where the Registry is not satisfied that an applicant or credit union complies with the on-going requirements for registration, it engages with the Enforcement Division to establish if available evidence supports grounds set out within the 1997 Act to revoke registration.
- **Resolution:** The 2011 Act established a resolution and liquidation regime for dealing with credit unions that are failing or likely to fail. If specified intervention conditions (relating to the serious concerns for the financial stability of the credit union concerned) are met, the resolution regime allows the Central Bank to seek a High Court order to transfer the assets and liabilities of a credit union to a third party and an order imposing a special manager regime on a credit union. The Central Bank may also petition the High Court for the winding up of a failing credit union in certain circumstances.

Section 87 of the 1997 Act permits the Central Bank to give “regulatory directions” to individual credit unions in specified circumstances. For example, where the credit union is unable to meet its obligations to its creditors or its members or the credit union has breached a regulatory requirement or it is expedient to do so for public interest reasons (such as protection of members’ savings and to ensure the orderly conduct of business). Regulatory directions under the 1997 Act can relate to one or more activities or matters such as prohibiting the credit union, for up to six months, from raising funds, making payments, or acquiring or disposing of assets, making or releasing investments or specifying a maximum threshold for secured and unsecured loans to members. The Central Bank can also require a credit union to provide a

²² Since the commencement of the Central Bank Reform Act 2010 (Procedures Governing the Conduct of Investigations) Regulations 2023 on 25 April 2023.



statement in writing to the Central Bank on the steps it will take to comply with a regulatory direction under Section 87 or with any other requirement under the 1997 Act.

Section 45 of the Central Bank (Supervision and Enforcement) Act 2013 also provides the Central Bank with the power to give directions to credit unions in certain circumstances, for example, if a credit union is unable to meet obligations to creditors or members, is not maintaining adequate capital or other financial resources or has breached a regulatory requirement. A Section 45 direction can cover suspension, for up to 12 months, of certain activities, disposal of assets, raising and maintaining capital, modifying systems and controls, and / or complying with requirements of financial services law.

The Central Bank's available measures facilitate taking timely corrective action and sanctioning, according to the gravity of the situation. The Central Bank may consider it to be more effective to resolve a matter by requiring credit unions to implement remedial programs or issuing regulatory directions, rather than imposing sanctions or taking resolution actions. When a matter is referred to the Central Bank's Enforcement Division, it will consider on a case-by-case basis whether the gravity of the situation warrants enforcement action, the potential nature of such action and if an enforcement referral is acceptable. If the matter proceeds to Settlement or Inquiry, the Central Bank has further discretion as to the quantum and nature of the sanction it may seek to impose such as a caution or reprimand, imposition of a monetary penalty or revocation of a registration.

As an alternative approach in enforcement proceedings, the ASP provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement. This is a written agreement which binds the Central Bank and the credit union and / or individuals.

Importantly, the fact of mutuality is not a bar to the imposition of a financial penalty. The Central Bank will take all the circumstances of the case into account in determining sanctions including a credit union's turnover, among other things and in doing so, may have regard to the factors set out in its *Outline of the Administrative Sanctions Procedure 2018*. Consolidated Guidelines in respect of the Central Bank's Administrative Sanctions Procedure (the "Guidelines") are the subject of public consultation and contain updated provisions regarding sanctions, sanctioning factors, and calculation of monetary penalties²³. The sanctions imposed at Inquiry or under a settlement agreement are subject to an overriding requirement that any monetary penalty imposed will not cause the credit union to cease business or cause an individual to be adjudicated bankrupt. Since commencement of the IAF Act, the Central Bank is required to have regard to any matter relevant to the financial position of the person when considering whether to impose a sanction upon an individual²⁴.

²³ https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp154/consultation-paper-154.pdf?sfvrsn=cbe9e1d_3

²⁴ Section 33 ARA (1) (f) of the Central Bank Act 1942 as amended.



Where the Central Bank has reasonable cause to suspect that a “prescribed contravention” has been committed, but where it is considered that an administrative sanction under the ASP in respect of the prescribed contravention is not warranted a non-formal approach may be employed.

The provisions of the IAF Act, commenced on 19/04/2023 by way of commencement order issued by the Minister for Finance. The main changes to the ASP relate to the investigation and settlement processes, and credit unions remain in scope.

A key change will be the Central Bank’s ability to take enforcement action under the ASP directly in respect of individuals for breaches of their obligations, rather than only for their participation in breaches committed by a credit union, which has been the case to date. The Central Bank launched a public consultation on the changes to the ASP and is in the process of reviewing submissions received from stakeholders. This consultation package includes revisions to the external guidance listed above.

The Central Bank issues public statements at the conclusion of enforcement actions. These statements are an integral part of the enforcement mission and play a crucial role in promoting compliance and increasing public trust in the system of regulation.

In 2022 and 2023, the Registry took necessary enforcement actions on two different credit unions in the form of supervisory warning letter and administrative sanctions procedure. In addition, a credit union was liquidated in 2020 via the depositor guarantee scheme and no depositor lost funds.

In Ireland and elsewhere, transfers of engagements (i.e., mergers) have been utilized as part of a toolbox of resolution activities. The Registry reports that transfers of engagements have become more strategic in nature and self-directed as opposed to the Registry trying to seek partners for weak credit unions. Figure 4 below shows the on-going pace of these transfers.

Figure 4: Transfers of Engagements Over Time

Year	2019	2020	2021	2022	April 2023
No. Credit Unions	241	228	213	205	196
No. ToEs Completed	12	13	14	9	7
Other	-	1	1	-	-



Supplemental Guiding Principle 24: Governance²⁵

The supervisor determines that credit unions have robust governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the credit unions' boards and management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the credit union.

Overall Rating: Compliant

Summary Assessment

There are extensive, and proportional requirements for the fitness and probity of credit union board of directors and staff within the context of the Irish financial services sector. The Registry has also established clear expectations in regulations and the Credit Union Handbook for the policy and control environment in credit unions. A credit union is also statutorily obliged to maintain appropriate oversight, policies, procedures, processes, practices, systems, controls, skills, expertise, and reporting arrangements to ensure the protection of members' savings and that the credit union complies with requirements imposed under financial services legislation. Credit unions are obligated to report to the Central Bank for non-compliance with legislative and regulatory requirements.

The Central Bank has issued Standards of Fitness and Probity for Credit Unions that apply to all persons performing CFs or PCFs in credit unions. The Central Bank also has powers to appoint a person as director of a credit union, to appoint additional directors of a credit union and to remove or suspend directors and members of the board.

The Registry has taken a risk-based approach in the implementation and monitoring of governance and the required control environment in credit unions. This is evident in the more extensive PCFs required for credit unions over €100m in total assets. A risk-based approach is adopted in deciding whether applicants for PCF roles are called for interview by the Central Bank. The Registry has also sought to provide guidance on the topic of governance to the sector through speeches at industry conferences, workshops provided by the Registry and a series of publications (e.g., thematic review of risk management maturity in credit unions (November 2021)). There are further opportunities to maintain and further develop the engagement with the sector through ongoing and open discussions and Q & A sessions. Since the 2019 review, the Registry has stepped away from the coordination / regulatory input role to the CEO forum to increase focus on prudential supervision – this is a welcomed change. The Registry, however, remains engaged with credit unions and the sector in relation to business

²⁵ ICURN's Guiding Principles for Effective Supervision of Financial Cooperative Institutions do not specifically include a principle on Governance. However, ICURN does have a set of Guiding Principles on Enhancing Governance of Cooperative Financial Institutions and specific expectations for the role of supervisors in ensuring good governance. It is these aspects of the ICURN Governance Principles that are included in this peer review given the importance of good governance in credit unions.



INTERNATIONAL CREDIT UNION REGULATORS' NETWORK

model developments and proposals and seeks to ensure that the regulatory framework evolves in a prudent and sustainable manner.



ANNEX 1: ICURN GUIDING PRINCIPLES

THE ICURN GUIDING PRINCIPLES FOR EFFECTIVE SUPERVISION²⁶

These 23 Guiding Principles (GPs) are recommended by the International Credit Union Regulators' Network (ICURN) as a framework for assessing the effectiveness of the supervisor of credit unions (however described), where the supervisor has statutory responsibility for their safety and soundness. They should be read in conjunction with the accompanying Guidance Notes.

The GPs form four Pillars, all of which must function adequately before a supervisor's activities are considered to be "effective" overall.

PILLAR I	PILLAR II	PILLAR III	PILLAR IV
Registration and licensing of credit unions	Credit union structures and organisation	Prudential requirements	Supervisory Powers, Responsibilities & Approach
GPs 1 to 3	GPs 4 to 11	GPs 12 to 17	GPs 18 to 23

The Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision" provide an internationally-accepted, well established, framework for assessing supervisors of international, national or regional / state banks, but they do not address certain of the unique characteristics that distinguish credit unions from other types of deposit-taker. The reader will note similarities between the Basel Guiding Principles and the ICURN Guiding Principles, which may facilitate comparisons between banks and credit unions, where this is useful. ICURN also hopes that these GPs will provide helpful guidance for credit union supervisors in jurisdictions where their powers are based on a system of self-regulation or other non-statutory arrangement.

The reader may find it helpful to read the relevant GPs in conjunction with the ICURN [Guiding Principles for Enhancing Governance of Cooperative Financial Institutions](#).

Definitions

In these GPs:

- *Credit union* means a credit union, co-operative, or financial mutual that accepts deposits from its members, (including, for example but not exclusively, caisses populaires and deposit-taking SACCOs) that has been registered and licensed (or authorised) as such in its county / region / state of operation and which is subject to the jurisdiction of a supervisor.
- *Supervisor* means the authority in a country / region / state with statutory responsibility for the safety and soundness of credit unions.

²⁶ <https://www.icurn.org/>



Guiding Principle 1

REGISTRATION, LICENSING or AUTHORISATION

Credit unions should be established by reference to distinct legal characteristics, which should be applied when registering and licensing (authorising) new credit unions. At a minimum, the registration and licensing processes, as appropriate, should consider: ownership (which must be a co-operative or mutual structure); governance; fitness and propriety, capability and competence, of board members and senior management; strategy; risk management and capital. This is not intended to be an exhaustive list and the relevant authorities should consider any additional criteria needed to facilitate effective supervision in their regimes. Where a country / region / state provides a deposit-protection scheme, registration and licensing must be requirement of a credit union's membership of the scheme.

Guiding Principle 2

OWNERSHIP

The structure of any proposed credit union must comply fully with internationally-recognised cooperative / mutual principles, taking account of circumstances where second-tier organizations have proportional voting for members. No individual or group of individuals may be permitted to exercise control from a minority position. Voting in credit union support organizations or associations may be proportional or representational.

Guiding Principle 3

PERMISSIBLE ACTIVITIES

The permissible activities of credit unions should be clearly defined, and the local terminology used to describe the entities undertaking these activities, such as *credit union*, *financial mutual*, *caisse populaire* and *SACCO*, should be restricted and controlled. There should be a power to enforce against the use of the restricted terminology by unlicensed entities. Business powers and permissible activities may be proportional to the credit union's size and ability to manage the risks inherent in such services and compatible with its business objectives.

Guiding Principle 4

RISK MANAGEMENT

Credit unions should have, and use, appropriate risk-management processes and systems. A risk management system should be able to identify, evaluate, monitor, manage and control the risks to which the credit union may be exposed including, but not limited to, the specific risks described in this section. Policies and limits for risk undertakings should be clearly established and periodically reviewed. The risk management system should be commensurate with the size and complexity of the credit union and its activities. Credit union board members should be provided with regular, accurate, management information and be capable (as a group) of interpreting that information and of challenging senior management on the application of the credit union's strategy.



Guiding Principle 5

MANAGEMENT OF OPERATIONAL RISK

Credit unions should have in place risk management policies and processes to identify, assess, monitor and control and mitigate operational risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Guiding Principle 6

MANAGEMENT OF CURRENCY RISK

Credit unions which are permitted to invest in deposits or securities that are denominated in the currency of another state should have a clear risk appetite and specific policies and practices designed to monitor and manage currency risk.

Guiding Principle 7

MANAGEMENT OF INTEREST RATE RISK AND MARKET RISK

Credit unions should have policies and processes in place to manage any interest rate risk to which they may be exposed. In particular, they should be attuned to the interest rate risk of fixed rate lending portfolios.

Guiding Principle 8

MANAGEMENT OF MARKET CONDUCT RISK

Where credit unions in a jurisdiction are permitted to engage in business that may expose them to market conduct risk, they should have in place risk management policies and processes to identify, assess, monitor and control, and mitigate such risk. These policies and processes must be commensurate with the size and complexity of the credit union and its activities.

Guiding Principle 9

INTERNAL CONTROLS

Credit unions should have in place an appropriate level of internal controls commensurate with the size and complexity of the credit union and its activities. This should include arrangements around delegations of responsibilities, authorizations, segregation of duties, reconciliations and accounting for assets and liabilities.

Guiding Principle 10

ABUSE OF FINANCIAL SERVICES

Credit unions should have policies and procedures in place that will prevent them from being used for criminal activities, including money laundering. This should include having “know-your-customer” rules.

Guiding Principle 11

ACCOUNTING AND DISCLOSURE

Credit unions should maintain adequate records that have been prepared in accordance with the relevant accounting laws in its jurisdiction. Credit unions' records must be independently professionally audited and the full annual report prepared in accordance with the relevant accounting standards must be freely available to all members.



Guiding Principle 12

CAPITAL ADEQUACY

The supervisor should establish and enforce the rules for an appropriate capital framework with which all credit unions must comply. The rules must balance cooperative principles and objectives with the need to protect depositors. Accordingly, supervisors will need to carefully consider what meets the criteria for capital and to ensure that capital instruments are able to absorb losses in the event of failure. When supervisors choose to align the capital requirements of credit unions to Basel standards, a simplified approach may be adopted for small or simple credit unions that are not allowed to hold complex financial instruments. For such credit unions, compliance with the most advanced risk measurement techniques may be beyond their resources. Therefore, the supervisor may require the credit union to have sufficient capital to support the limited information that may be available for supervisors.

Guiding Principle 13

LIQUIDITY AND FUNDING RISK

The supervisor should ensure that credit unions develop reasonable and prudent liquidity management strategies and contingency plans, including central bank borrowing, standby facilities and / or liquid reserves in a regulated central financial facility, which cover the funding of the credit union and the ongoing monitoring of the credit union's liquidity / funding position. Supervisors must have the ability to intervene when they believe a credit union has an excessively risky funding base or liquidity position. Liquidity risk must be addressed both on a per-credit union and on a network-wide basis. Soundly managed network-wide liquidity and stability facilities are highly desirable.

Guiding Principle 14

CREDIT RISK

The supervisor should ensure that credit unions have policies and systems that are designed to provide satisfactory management of its loan portfolio and the risks to which they are exposed. It is essential that a credit union is able to manage its credit portfolio effectively, monitors the performance of the portfolio and pursues loans in default. The supervisor should also ensure that credit unions engage only in types of lending that their board understands and are capable of managing effectively, while avoiding areas that require expertise they do not possess.

Guiding Principle 15

PROBLEM ASSETS, PROVISIONS AND RESERVES

The supervisor should ensure that credit unions have adequate policies and processes for managing problem assets and make appropriate provisions for such assets. It is essential that supervisors ensure that credit unions are adequately provisioned for troubled / problem loans and other impaired assets. Provisions must also be considered for untroubled loans to reflect historical loss experience and changes in economic conditions that may affect the quality of the loan portfolio as a whole. Some provisions may be required for contingent liabilities, depending on the probability of a corresponding cash outflow.



Guiding Principle 16

LARGE EXPOSURES

The supervisor should set rules that define and limit the large exposures to which credit unions can be exposed and must have the power to intervene should these be breached. Credit unions must have appropriate and adequate policies and processes concerning large exposures (concentration risk).

Guiding Principle 17

MAJOR ACQUISITIONS

The supervisor should have the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and to impose prudential conditions on, major acquisitions or investments by a credit union, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the credit union to undue risks or hinder effective supervision.

Guiding Principle 18

SUPERVISORY POWERS & RESPONSIBILITIES

The supervisor should have:

- clearly-defined responsibilities and objectives;
- operational independence, transparent processes, sound governance, adequate resources and legal protection for its staff;
- all financial, human and technological resources necessary fully to discharge its responsibilities;
- complete and unfettered access to credit unions, their premises and records, (and any subsidiaries) as it considers necessary;
- the power and the resources to guarantee access to credit unions where this is not provided; and
- the legal capacity to share information while protecting the confidentiality of such information.

The supervisor should be publicly accountable in the discharge of its duties.

Guiding Principle 19

SUPERVISORY APPROACH, TECHNIQUES AND RESOURCES

The supervisor should develop and maintain a thorough understanding of the operations of individual credit unions, the risks to which they are exposed and the management of such risks, and must deploy an effective and ongoing combination of offsite and onsite supervisory techniques. Where the supervisor does not have the responsibility for oversight of a credit union's compliance with its licence conditions, for the prevention of criminal activities including money laundering, or other obligations covered by these GPs, it must have the power to refer its concerns to the appropriate authority and memoranda of understanding must be agreed and maintained accordingly.



Guiding Principle 20

SUPERVISORY REPORTING

The supervisor should have the resources and ability to collect financial and statistical reports from credit unions in whatever form it requires. It must also have the ability to have such reports or forms independently verified where it considers this necessary. The supervisor should undertake appropriate reviews and analysis of all such material and to take relevant action where this is indicated.

Guiding Principle 21

CONFLICTS OF INTEREST & RELATED-PARTY EXPOSURES

The supervisor should have the power to establish rules to control conflicts of interest and related-party exposures and it must have powers that permit it to intervene where such rules are breached. Rules must require that related-party transactions be undertaken at arm's length and there must be rules requiring full disclosure and reporting of such transactions.

Guiding Principle 22

INTERNAL AUDIT

The supervisor should consider the need for a credit union to have an appropriately qualified, independent and adequately resourced internal audit function. The credit union's internal audit function must focus on ensuring that the internal control function operates effectively. Where there is an internal audit function, it must report to an appropriate level within the credit union and must have direct access to the board where it considers this necessary. The scope of internal auditing within a credit union may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets and compliance with policies, laws and regulations.

Guiding Principle 23

CORRECTIVE AND REMEDIAL POWERS

The supervisor should have an adequate range of enforcement tools to facilitate timely corrective action, including the power and resources to issue appropriate legal orders, to revoke licenses, force liquidation, removal of officer or board members or to recommend revocation. This includes the power and resources to impose restrictions on a credit union's activities and operations.

Guidance Notes

This document replaces ICURN's publication of 16 September 2011. It retains most of the underlying philosophy and concepts of the original and ICURN gratefully acknowledges the work of its authors and the guidance gained from reference to the Core Principles for Effective Banking Supervision issued by the Basel Committee of Banking Supervision²⁷. ICURN emphasises that this document has not been developed or endorsed by the Basel Committee, rather it has been prepared independently on behalf of ICURN's board as guidance for members

²⁷ The Table attached to these Notes shows how the Guiding Principles correspond to the Basel Core Principles.



in assisting them in establishing and supporting effective systems of prudential supervision. ICURN's members operate in jurisdictions in a large number of states in six continents, with the diversity and unique local circumstances that this implies. For that reason, this guidance is offered as a "high-level" approach to considering specific supervisory systems, composed as they may be of unitary authorities or those where responsibilities are separated or shared between authorities. Equally, the legislative basis for the establishment of a credit union or other financial co-operative is often not within the remit of the authorities responsible for overseeing those institutions and this fact may mean that supervisors do not have all the regulatory powers that they would wish or which ICURN regards as essential to the existence of an effective system of supervision.

ICURN's view is that the fundamental requirements for an effective system of supervision are:

- an effective legal framework, including the powers for licensing, authorisation, supervision, the enforcement of compliance with relevant laws and regulations;
- a clearly-defined and enforced safety-and-soundness regime;
- each supervisor involved in the supervision of the sector has clearly-defined responsibilities and objectives;
- each supervisor should have operational independence, transparent processes, sound governance and adequate resources, and legal protection for its staff;
- a supervisor should have the legal capacity to share information while protecting the confidentiality of such information; and
- a supervisor should be publicly accountable in the discharge of its duties.

The ICURN Steering Committee hopes that this document will allow supervisors to review their own effectiveness and to identify not only areas where valuable changes or improvements might be made but also any aspects of their work where their effectiveness is constrained for reasons not within their control. It may also form the basis of an independent review of a supervisor's effectiveness in certain circumstances. Where a credit union sector is mature and material to its local economy an independent review may call for a more detailed methodology and a tailored approach; in such circumstances ICURN would be happy to discuss specific circumstances and requirements with a view to preparing a review framework designed specifically to meet the supervisor's, or the state's, requirements.



Table of Equivalence between the ICURN Guiding Principles for Effective Supervision and the Basel Core Principles – the reader is asked to note that the general differences between banks and co-operative financial institutions mean that not all Principles correspond directly.

Basel Core Principle	ICURN Guiding Principle
CP 1 Responsibilities, objectives and powers	GP 18
CP 2 Independence, accountability, resourcing and legal protection for supervisors	GP 18
CP 3 Cooperation and collaboration	GP 18; GP 19
CP 4 Permissible activities	GP 3
CP 5 Licensing criteria	GP 1
CP 6 Transfer of significant ownership	GP 2
CP 7 Major acquisitions	GP 17
CP 8 Supervisory approach	GP 19
CP 9 Supervisory techniques and tools	GP 19
CP 10 Supervisory reporting	GP 20
CP 11 Corrective and sanctioning powers of supervisors	GP 23
CP 12 Consolidated supervision	Not applicable
CP 13 Home-host relationships	Not applicable
CP 14 Corporate governance	GP 2; GP 4; GP 9
CP 15 Risk management process	GP 4
CP 16 Capital adequacy	GP 12
CP 17 Credit risk	GP 14
CP 18 Problem assets, provisions and reserves	GP 15
CP 19 Concentration risk and large exposure limits	GP 16
CP 20 Transactions with related parties	GP 21
CP 21 Country and transfer risks	Not applicable
CP 22 Market risks	GP 7
CP 23 Interest rate risk in the banking book	GP 7
CP 24 Liquidity risk	GP 13
CP 25 Operational risk	GP 5
CP 26 Internal control and audit	GP 9; GP 22
CP 27 Financial reporting and external audit	GP 11
CP 28 Disclosure and transparency	GP 11
CP 29 Abuse of financial services	GP 10



ICURN Guiding Principles

Enhancing Governance of Cooperative Financial Institutions

These Guiding Principles²⁸ incorporate 17 elements considered desirable in facilitating effective governance of cooperative financial institutions. The principles are categorized into seven groups:

- GROUP 1 – Cooperative Principles
- GROUP 2 – Board Practices
- GROUP 3 – Senior Management
- GROUP 4 – Risk Management and Internal Controls
- GROUP 5 – Compensation
- GROUP 6 – Disclosure and transparency
- GROUP 7 – Role of Supervisors

COOPERATIVE PRINCIPLES

Guiding Principle 1²⁹ MEMBERS' RIGHTS AND OBLIGATIONS

The values of a cooperative financial institution (CFI) should be based on the following seven cooperative principles:

- 1. Voluntary and Open Membership** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- 2. Democratic Member Control** Cooperatives are democratic organizations controlled by their members, who, where applicable, actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner, which may provide for proportional voting based on investment / ownership. The board should oversee the development and implementation of strategies that will result in member attendance and participation in General Meetings. The meeting agenda and other relevant information, including any board candidates and the CEO where the members elect same, should provide for full disclosure and be readily available. In addition, election processes should be objective, transparent and consistent with the CFI's by-laws.
- 3. Member Economic Participation** Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members may receive limited compensation, if any, on capital

²⁸ While best efforts have been made to develop the Guiding Principles to recognize both the common law and civil law legal systems, the principles should be adapted to ensure they align appropriately with the legal system applicable in the jurisdiction.

²⁹ While Guiding Principle 1 is a restatement of The International Cooperative Alliance revised Rochdale principles, clarification has been provided regarding these principles in the Cooperative Financial Institution context.



subscribed as a condition of membership and, in order to build capital reserves, a dividend may be paid in the form of patronage or bonus shares. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public and opinion leaders – particularly young people - about the nature and benefits of cooperation.

6. Cooperation among Cooperatives Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures. 7. Concern for Community Cooperatives work for the sustainable development of their communities through policies approved by their members that should additionally promote social responsibility and member education on cooperative and financial issues.

The board should ensure that these cooperative principles are incorporated into governance policies and practices.

BOARD PRACTICES

Guiding Principle 2 RESPONSIBILITIES OF THE BOARD

The board has overall responsibility for the cooperative financial institution (CFI), including approving and overseeing implementation of strategic objectives, risk strategies, adopting best corporate governance practices and values, and oversight of management. The board should approve and monitor the overall business strategy, taking into account long-term financial interests, and exposure to and ability to manage risk effectively. In discharging these responsibilities, the board should take into account the interests of members, other relevant stakeholders and, where permitted, non-member depositors and borrowers, and ensure an effective relationship is maintained with its supervisor.

Corporate Values and Code of Conduct. The board should lead in establishing the “tone at the top” and in setting professional and ethical standards and corporate values that promote integrity for itself, senior management and other employees. The officers and board committee members owe a duty to the CFI to operate the institution with reasonable prudence and in the best interests of the CFI and its members. The directors owe the members a duty of fair dealing with respect to issues of membership, ownership and corporate governance. In addition, the board should ensure transactions with related parties are subject to appropriate restrictions. In discharging these duties, directors may rely on reports, advice, and other information provided by the CFI’s



employees, lawyers, consultants and committees of the board of which the director is not a member, unless the director has knowledge which would make such reliance unreasonable or in bad faith. These corporate values are communicated through a code of conduct that articulates acceptable and unacceptable behaviors.

Oversight of Senior Management The board or, where applicable, members should select and, when necessary, replace senior management and have in place an appropriate succession plan. In carrying out its role of oversight, the board should:

- Meet regularly with senior management
- Monitor actions to ensure they are consistent with the strategy and policies approved by the board, including the risk tolerance / appetite;
- Question and review critically explanations and information provided;
- Set performance standards consistent with long term objectives, strategy and financial soundness of the CFI and monitor performance against the standards; and
- Ensure management's knowledge and expertise remains appropriate for the nature of the business and the CFI's risk profile.

The board should ensure the organizational structure facilitates effective decision making and good governance. This includes regularly reviewing policies and internal controls to determine areas needing improvement, as well as identifying and addressing significant risks and issues.

Guiding Principle 3 BOARD QUALIFICATIONS

The CFI should set out expectations desired regarding qualifications, for example, work experience, education, business-oriented degrees and professional designation and training requirements for directors. Where appropriate, each director should conduct an annual self-assessment to confirm competency and identify potential areas for growth and development. Board members should be and remain qualified, when appropriate for their positions, including through training. They should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of the CFI.

Qualifications The board should possess, individually and collectively, appropriate experience, competencies and personal qualities, including professionalism and personal integrity.

Training The board should ensure board members have access to programs of tailored initial and ongoing education on relevant issues. The board should dedicate sufficient time, budget and other resources.

Composition The CFI should have an appropriate composition of board members, for example, taking into consideration demographics, geography, and professional qualifications. This is achieved by identifying and nominating candidates to ensure appropriate succession planning and strengthening itself to meet the CFI's long-term oversight needs. Recruiting members from a broad population of candidates helps to enhance board perspective and ability to exercise objective judgment independent of senior management and personal interests. In identifying potential board members, the board should ensure candidates are qualified to serve as board



members and are able to commit the necessary time and effort to fulfil their responsibilities and to undertake any required training requirements within the timeframes established by the CFI.

Guiding Principle 4 BOARD'S OWN PRACTICES AND STRUCTURE

The board should define appropriate governance practices for its own work and have in place the means to ensure such practices are followed and periodically reviewed. The board should conduct an annual self-assessment to review and improve its performance, and the performance of Chairs and individual directors.

Organization and Functioning of the Board The board should maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organizations, rights, responsibilities and key activities. Taking into account its size, the frequency of meetings and use of committees, the board should structure itself in a way so as to promote efficiency, sufficiently deep review of matters, and, robust, critical challenge and discussion of issues. To support board performance, the board should carry out regular assessments of both the board as a whole and of individual board members.

Role of the Chair The chair should ensure board decisions are taken on a sound and well-informed basis and should encourage and promote critical discussion. This includes ensuring dissenting views can be expressed and discussed within the decision-making process.

Role of Directors The Directors provide an important service to the CFI and to fellow members, who have entrusted them to oversee the organization. To best carry out their duties, directors should:

- Undertake appropriate established training requirements
- Regularly attend board meetings and prepare for them by reviewing all material provided
- Actively participate at board meetings and question management so they fully understand their reports and actions
- Ensure that the best interest of the CFI is considered in all board decisions
- Ensure management has developed, and the board approved with member participation where appropriate, all policies and procedures required under applicable legislation
- Where appropriate, ensure an appropriate Enterprise Risk Management Framework has been established based on the size, complexity and risk profile of the CFI
- Fully understand the limits imposed on the CFI's business powers under applicable legislation and the CFI's by-laws, articles and policies
- Ensure controversial decisions involving conflicts of interest are carefully documented
- Review examination reports and other reports prepared by external parties and external auditors' reports to identify and correct deficiencies in the operation of the CFI and to ensure the best possible performance; and
- Develop a common view among board members before making a public comment regarding controversial issues that concern the CFI.



Board Committees The board should establish such committees as may be required in its jurisdiction and may establish other committees to have specialized responsibilities, for example, committees for compensation, nominations, human resources, governance, ethics, and compliance. Each committee should have a charter or other instrument setting out its mandate, scope and working procedures. Committees should maintain appropriate records of their deliberations and decisions. Where appropriate based on the size, complexity and risk profile of the CFI, board members may also have a seat on Executive Committees, for example, the Asset Liability Committee (ALCO).

Audit Committee The audit (or supervisory) committee is typically responsible for the financial reporting process; providing oversight of the CFI's internal and external auditors; approving or recommending to the board for their approval the appointment, compensation and dismissal of external auditors, reviewing and approving the audit scope and frequency; receiving key audit reports; and ensuring senior management is taking necessary corrective actions in a timely manner to address control weaknesses, noncompliance with policies, laws and regulations and other problems identified by auditors. In addition, the audit committee should oversee the establishment of accounting policies and practices.

Risk Committee It is appropriate for many CFIs, especially where warranted by their size, complexity or risk profile, to have a board-level risk committee or equivalent. The risk committee is typically responsible for advising the board on the CFI's overall current and future risk tolerance / appetite and strategy and for overseeing senior management's implementation of that strategy. This should include strategies for capital and liquidity management, as well as for credit, market, operational, compliance, reputational and other risks. To enhance the effectiveness of the risk committee, it should receive formal and informal communication from the CFI's risk management function and should, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and amalgamations.

Conflict of Interest The board should have a formal written conflict of interest policy and an objective compliance process for implementing the policy. The policy should include:

- A member's duty to avoid to the extent possible activities that could create conflicts of interest of the appearance of conflicts of interest;
- A review or approval process for members to follow before they engage in certain activities so as to ensure that such activity will not create a conflict of interest;
- A member's duty to disclose any matter that may result, or has already resulted, in a conflict of interest;
- A member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity of ability to properly fulfil duties to the CFI may be otherwise compromised;
- Adequate procedures for transactions with related parties to be made on an arms-length basis; and the way in which the board will deal with any non-compliance with the policy.

SENIOR MANAGEMENT



Guiding Principle 5 ACTIVITIES ALIGNED WITH BUSINESS STRATEGY

The Chief Executive Officer (CEO) / General Manager / Manager or, where applicable, senior management reports directly to the board and is responsible for the day to day operations of the CFI, implementing board-approved plans to achieve desired strategic objectives and reporting on results. The board, through the chair, typically communicates directly to the CEO who may be supported by a senior management team. Senior management is responsible for ensuring the management and staff of the CFI apply the processes, procedures and controls necessary to prudently manage the risk and for providing the board of directors with timely, relevant, accurate and complete information to enable it to assess that delegated responsibilities are being discharged effectively. Under the direction of the board, senior management should ensure the CFI's activities are consistent with the business strategy, risk tolerance / appetite and policies approved by the board. Senior management contributes to sound corporate governance through personal conduct and by providing adequate oversight of those they manage. Senior management is responsible for delegating duties to staff and should establish a management structure that promotes accountability and transparency. Senior management should implement, consistent with the direction given by the board, appropriate systems for managing the risks – both financial and non-financial – to which the CFI is exposed.

RISK MANAGEMENT AND INTERNAL CONTROLS

Guiding Principle 6 EFFECTIVE INTERNAL CONTROLS AND RISK MANAGEMENT FUNCTION

Cooperative financial institutions should have an effective internal controls system and a risk management function, such as a chief risk officer or equivalent, with appropriate qualification, expertise, sufficient authority, stature, independence, resources and access to the board. Risk management generally encompasses:

- Identifying key risks;
- Assessing these risks and measuring exposure to them;
- Monitoring the risk exposures and determining the corresponding capital needs on an ongoing basis;
- Monitoring and assessing decisions to accept particular risks, risk mitigation measures and whether risk decisions are in line with the board-approved risk tolerance / appetite and risk policy; and
- Reporting to senior management, and / or having unfettered access to the risk committee and / or board as appropriate, on all items noted above.

Guiding Principle 7 IDENTIFICATION AND MONITORING OF RISKS ON AN ONGOING BASIS

Risks should be identified and monitored on an ongoing basis, and the sophistication of the CFI's risk management and internal control infrastructures should keep pace with any changes to the CFI's risk profile (including its growth), and to the external risk landscape. Risk analysis should include both quantitative and qualitative elements. In addition to identifying and measuring risk exposures, the risk management function should evaluate possible ways to manage these exposures. Cooperative financial institutions should have an approval process for new products that includes an assessment of the risks.



As part of its quantitative and qualitative analysis, where appropriate, the CFI should also use forward-looking stress tests and scenario analysis to better understand potential risk exposures under a variety of adverse circumstances. In addition to these forward-looking tools, CFIs should also regularly review actual performance after the fact relative to risk estimates (i.e., back testing) to assist in gauging the accuracy and effectiveness of the risk management process and making necessary adjustments.

Guiding Principle 8 ROBUST INTERNAL COMMUNICATIONS

Effective risk management requires robust internal communication within the CFI about risk across the organization and through reporting to the board and senior management. Sound corporate governance is evidenced, among other things, by a culture where senior management and staff are expected and encouraged to identify risk issues. The CFI's risk exposures and strategy should be communicated throughout the CFI both horizontally and vertically with appropriate frequency. Information should be communicated to the board and senior management in a timely, complete, understandable and accurate manner so they are equipped to make informed decisions. Risk reporting systems should be dynamic, comprehensive and accurate, and board reports designed carefully to ensure information regarding risks is conveyed in a concise and meaningful manner.

Guiding Principle 9 EFFECTIVE USE OF AUDIT AND INTERNAL CONTROL FUNCTIONS

The board and senior management should use the work conducted by internal audit functions, external auditors and internal control functions in an effective manner. The board should recognize that independent, competent and qualified internal and external auditors, as well as other internal control functions, are vital to the corporate governance process. The board and senior management can enhance the ability of the internal audit function to identify problems with a CFI's governance, risk management and internal control systems by:

- Encouraging internal auditors to adhere to national and international professional standards;
- Requiring audit staff have skills commensurate with the business activities and risks of the CFI;
- Promoting the independence of the internal auditor;
- Recognizing the importance of the audit and internal control processes and communicating their importance throughout the CFI;
- Requiring the timely and effective correction of identified internal audit issues by senior management;
- Engaging internal auditors to judge the effectiveness of the risk management function and the compliance function, including the quality of risk reporting to the board and senior management, as well as the effectiveness of other key control functions; and
- Receiving appropriate assurances that risks are being effectively identified, monitored and managed, including non-compliance with applicable legislation. For example, that the CFI has developed and implemented effective processes to ensure compliance with anti-money laundering legislation including "know your customer" requirements.



The board and management are responsible for the preparation and fair presentation of financial statements in accordance with applicable accounting standards in each jurisdiction, as well as the establishment of effective internal controls related to financial reporting. The CFI should maintain sound control functions, including an effective compliance function that, among other things, routinely monitors compliance with laws, corporate governance rules, regulations, codes and policies to which the CFI is subject and to ensure deviations are reported to an appropriate level of management, and, in case of material deviations, to the board. Senior management should promote strong internal controls and should avoid activities and practices that undermine their effectiveness.

COMPENSATION

Guiding Principle 10 ACTIVE OVERSIGHT

Compensation should be a key component of a CFI's governance and risk management. The board should actively oversee the design and operation of the compensation system, and should monitor and review it to ensure it operates as intended. Board members who are actively involved in the design and operation of the compensation system should be independent with appropriate knowledge about compensation arrangements and the incentives and risks that can arise. The board should monitor and review outcomes to ensure the compensation scheme is operating as intended. Owing to the importance and sensitivity on the subject of compensation, where appropriate, the CFI may elect to establish a Compensation Committee. The committee board members who are most actively involved in the design and operation of the compensation system should be independent with substantial knowledge about compensation arrangements, including incentives and impact on performance behavior, and related risks.

Guiding Principle 11 ALIGNED WITH PRUDENT RISK TAKING

An employee's compensation should be effectively aligned with prudent risk taking. The CFI should ensure variable compensation is adjusted to take into account the risks an employee takes, considering all types of risk over a timeframe sufficient for risk outcomes to be revealed. An appropriate compensation program includes both quantitative risk measures and human judgment. Compensation should be symmetric with risk outcomes.

DISCLOSURE AND TRANSPARENCY

Guiding Principle 12 ADEQUATE TRANSPARENCY

Governance should be adequately transparent to members, depositors and other relevant stakeholders.

Transparency is essential for sound and effective corporate governance. It is challenging for members, depositors and other relevant stakeholders to hold the board and senior management accountable when there is insufficient transparency.

The CFI should disclose relevant and useful information that supports the key areas of governance identified in these guiding principles. The disclosure should be proportionate to the size, complexity, structure and risk profile of the CFI, and, at a minimum, meet any disclosure requirements applicable in its jurisdiction.



ROLE OF SUPERVISORS

Guiding Principle 13 GUIDANCE ON EXPECTATIONS

Supervisors should provide guidance to CFIs on expectations for sound governance by establishing guidance or rules consistent with the principles set forth in this document, and requiring CFIs to have robust governance strategies, policies and procedures. Where appropriate, supervisors should share industry best practices and emerging risks that are relevant to the CFI's business practices.

Guiding Principle 14 REGULAR EVALUATIONS

Supervisors should regularly perform a comprehensive evaluation of a CFI's governance policies, practices and procedures and implementation of the principles that are proportionate to the size, complexity and risk profile of the CFI. Supervisors should have supervisory processes and tools for evaluating governance policies and practices. Evaluations may be conducted through on-site inspections and off-site monitoring and should include regular communication with a CFI's senior management, board and those responsible for the internal control functions and external auditors

When evaluating individual CFIs, supervisors should consider the need to adopt different approaches to governance that are proportionate to the size, complexity, structure and risk profile of the CFI.

Supervisors should obtain information they deem necessary to evaluate the expertise and integrity of proposed board members and senior management. The fit and proper criteria should include, but may not be limited to: (1) the contributions that an individual's skills and experience can make to the safe and sound operation of the CFI, including general management skills and (2) any record of criminal activities or adverse regulatory judgments that in the supervisor's judgement make a person unfit to uphold key positions in the CFI. Moreover, supervisors should require CFIs to have in place processes to review how well the board, senior management and control functions are fulfilling their responsibilities as set out earlier in these principles.

Supervisors should evaluate whether the CFI has in place effective mechanisms through which the board and senior management execute their oversight responsibilities. In addition to policies and processes, such mechanisms include properly positioned and staffed control functions, such as internal audit, risk management and compliance. In this regard, supervisors should assess the effectiveness of oversight of these functions by the CFI's board and ensure that the internal audit function conducts independent, risk-based and effective audits, including periodic reviews of the CFI's control functions and of the overall internal controls. Supervisors should assess the adequacy of internal controls that foster sound governance and how well they are being implemented.

Guiding Principle 15 MONITORING

Supervisors should supplement their regular evaluation of a CFI's governance policies and practice by monitoring a combination of internal reports and prudential reports, including, as appropriate, reports from third parties such as internal auditors. Supervisors should obtain



information from CFIs on their governance policies and practices which should be updated at regular intervals and when significant changes have occurred. Supervisors should collect and analyze information from CFIs with a frequency commensurate with the nature of the information requested, and its size, complexity and risk profile. For monitoring and evaluation purposes, the supervisor should periodically review key internal reports of the CFI. To make meaningful comparisons between CFIs, the supervisor may also require a standardized supervisory reporting process, covering the data items the supervisor deems necessary.

Guiding Principle 16 EFFECTIVE AND TIMELY REMEDIAL ACTION

Supervisors should require effective and timely remedial action by a CFI to address material deficiencies in its governance policies and practices, and should have the appropriate tools for this. Supervisors should have a range of tools at their disposal to address material governance deficiencies of a CFI, including the authority to compel appropriate remedial action. The choice of tool and the timeframe for any remedial action should be proportionate to the level of risk the deficiency poses to the safety and soundness of the CFI. When the supervisor requires remedial action, a timetable should be established for completion. Supervisors should have escalation procedures in place to adequately address the deficiencies identified where further action is warranted.

Guiding Principle 17 COOPERATION WITH OTHER JURISDICTIONS

Supervisors should cooperate with other relevant supervisors in other jurisdictions regarding the supervision of governance policies and practices. The tools for cooperation can include memorandum of understanding, supervisory colleges and periodic meetings among supervisors. Information shared should be relevant for supervisory purposes and be provided within the constraints of applicable laws. Special arrangements, such as a memorandum of understanding, may be warranted to govern the sharing of information among supervisors or between supervisors and other authorities.

The INTERNATIONAL CREDIT UNION REGULATORS' NETWORK (ICURN) created this document in March 2013 as guidance for cooperative financial institutions to promote enhanced governance. Recognizing that CFIs operate in a wide range of systems, the guiding principles may not always be applicable or relevant in all circumstances; ICURN encourages CFIs to focus on the guiding principles' goals. These principles have been developed using the Basel Committee on Banking Supervision's Principles for Enhancing Corporate Governance. ICURN is grateful for the Basel Committee's ongoing support, although it wishes to emphasize that this document was developed independently by the ICURN steering committee and is not endorsed in any way by the Basel Committee.



ANNEX 2: PEER REVIEW TEAM

The ICURN peer review team has provided the Central Bank with a high level of experience, global perspective, and continuity from the 2019 review. Members of the ICURN team are regulatory representatives from United Kingdom, United States and South Africa as follows:

Dave Grace, Executive Director, ICURN & Team Lead

- Team-lead for the 2019 Peer Review of Ireland and has conducted six assessments of credit union supervisors globally using ICURN's Guiding Principles.
- 12 years of experience advising on credit union supervision for the IMF, World Bank and Asian Development Bank in dozens of countries.
- 14 years as SVP of Policy with the World Council of Credit Union including as its lead advocate in Brussels and co-founder of the European Network of Credit Unions.
- Six years with the Federal Reserve Bank of St. Louis.
- Co-founder of ICURN and seven years as Executive Director.

Alison Emblow, Senior Manager, Bank of England

- Senior Manager, Small Mutuals and Strategic Goals, UK Deposit Takers Directorate of the Prudential Regulation Authority.
- Eight years' experience leading supervision in building society, credit union and small bank sector. Policy-lead for building societies.
- 30-year career at the Bank of England, with senior roles in Market Infrastructure Supervision, Prudential Policy, Financial Sector Resilience.
- In-depth understanding of prudential regulatory requirements and engagement in development of risk-based approach to supervision of smaller firms, including implementation of the PRA Strategic Review, design of the supervisory approach to operational resilience for smaller firms, approach to supervision of credit and treasury risks at building societies.
- Track record of policy development, working currently on the Strong and Simple approach for small firms and Ease of Exit.
- Extensive experience of working with international colleagues, as a member of Basel Committee subgroups on Capital, Liquidity and Operational Risk and in oversight arrangements for internationally active Market Infrastructures.

Katie Averill, Superintendent of Credit Union, Iowa Division of Credit Unions, USA

- Six years as lead supervisor for all 80 state-chartered credit unions in Iowa with \$27bn in assets and 1.4m members.
- 10 years of experience as senior vice president with a large credit union in Iowa.
- Recently led the Iowa Division of Credit Unions in the process to be "peer reviewed" and re-certified by the National Association of State Credit Union Supervisors (NASCUS).
- Chair of State / Federal Credit Union Supervisory Task Force, Vice-Chair of NASCUS and ICURN member.



Lebogang Kgosiemang, Divisional Head, Banking Supervision Financial Cooperatives

- Four years as lead supervisor for financial cooperatives in South Africa.
- 12 years commercial banking experience as Head of Credit Risk for one the big three commercial banks in South Africa.
- South Africa was a recipient of an ICURN peer review in 2018 & ICURN Steering Committee Member.
- Four years at the Auditor General Office in South Africa.

In addition to the peer review team, findings from the on-site analysis have been reviewed and evaluated by a second group of regulatory experts which formed the quality control team:

Andrew (Andy) Poprawa, Chair of Quality Control Team, Independent Consultant

Andy is the former CEO of the Deposit Insurance Corporation of Ontario, an agency whose mandate included prudential oversight, the protection of depositors and the maintenance of confidence in Ontario's credit unions. He has also served as a senior regulator with OSFI Canada, with oversight responsibilities for federally regulated banks, trusts, insurance companies, and pension plans. He is an advisory board member of a SupTech firm in Canada, was a co-founder of ICURN and served as its first chairman for its first six years during his tenure the first peer review of the Central Bank of Ireland was conducted. Since his retirement as a regulator, he has continued to consult and advise on credit union supervision with regulators internationally and serve on a variety of boards in Canada. Andy is a certified public accountant, has a bachelor's degree in commerce and is a certified director in governance from McMaster University.

Vernon MacNeill, CEO, Deposit Guarantee Corp of Manitoba, Canada

Vernon has 32 years of experience as a supervisors and deposit insurer of credit unions in two different provinces of Canada (Nova Scotia and Manitoba). Prior to servicing as the CEO of the Deposit Guarantee Corporation in Manitoba he serviced in a similar capacity in Nova Scotia. He is the longest serving member of ICURN as is their most recent Treasurer for the past four years. Vernon serves as the board liaison for the 2023 Peer Review in Ireland. Vernon has a bachelor's degree in finance and an MBA from St. Mary's University.

Paul Veerhuis, Senior Manager, Banking Division at Australian Prudential Regulation Authority (APRA)

Paul is the lead regulator within APRA with responsibility for credit unions and mutual banking. Paul has 20 years of financial sector experience with 16 years within APRA and four years working in the commercial banking sector in Australia. He headed up APRA's COVID response team and has represented APRA on ICURN for the past two and a half years. Paul has bachelor's degree in economics and a Master's degree in Financial Mathematics from University of New South Wales.



ANNEX 3: GRADING FOR ASSESSMENT AGAINST GUIDING PRINCIPLES

<i>Grade</i>	<i>Criteria</i>
Compliant	An assessment of “compliant” is given when all criteria are met without any significant deficiencies, including instances where the principle has been achieved by other means.
Largely Compliant	A “largely compliant” assessment is given when there are only minor shortcomings, which do not raise serious concerns about the authority’s ability to achieve the objective of the principle and there is clear intent to achieve full compliance with the principle within a prescribed period of time (for instance, the regulatory framework is agreed but has not yet been fully implemented).
Materially Non-compliant	A principle is considered to be “materially noncompliant” in case of severe shortcomings, despite the existence of formal rules and procedures and there is evidence that supervision has clearly not been effective, the practical implementation is weak or that the shortcomings are sufficient to raise doubts about the authority’s ability to achieve compliance.
Non-Compliant	A principle is assessed “noncompliant” if it is not substantially implemented, several criteria are not complied with, or supervision is manifestly ineffective.
Non-Applicable	A category of “non-applicable” is reserved for those cases that the criteria would not relate the country’s circumstances. In addition, a Principle would be considered not applicable when, in the view of the assessor, the Principle does not apply given the structural, legal and institutional features of a country.