



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Overview of draft Regulations

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Registry of Credit Unions - December 2014



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Background

- CP 76 proposed requirements for a two tier approach
 - *Category 1 and Category 2*
- Proposals for each category took account of
 - *recommendations of Commission on Credit Unions*
 - *services and activities undertaken by credit unions*
- Draft Regulations in CP88 apply to all credit unions
 - *similar to proposals for category 2 credit unions in CP76*
 - *developed in line with Feedback Statement on CP76*
- Based on existing requirements and guidance, some amended requirements, a number of new requirements



Background (cont.)

- Remaining sections of 2012 Act and draft regulations commenced at same time

- For each prudential area will consider
 - **Legislation** - new sections introduced into 1997 Act

 - **Draft Regulations** – compare against existing framework
 - (N) – indicates new requirement
 - (A) – indicates amended requirement



Reserves – Legislation

New Section 45

- Contains new requirements
 - maintain adequate reserves
 - maintain operational risk reserve
 - approval required from Central Bank if don't meet reserve requirements and seeking to pay dividend/loan interest rebate
- Introduces Central Bank regulation making powers on reserves
- Removes references to statutory reserve (including transfer of 10% of surplus)



Reserves – draft Regulations

Existing requirements and guidance	Requirements in draft regulations
<p>Minimum Regulatory Reserve of 10% of total assets</p> <p>Notifications to the Central Bank</p>	<p>Minimum Regulatory Reserve of 10% of total assets</p> <p>Notifications to the Central Bank</p> <p>Initial reserve requirement for newly registered credit unions (N)</p>



Liquidity – Legislation

New Sections 85A & 85B

- New sections 85A and 85B will be introduced after existing section 85

- Section 85A provides additional Central Bank regulation making powers on liquidity
 - e.g. liquidity requirements based on maturity mismatches

- Under section 85B Central Bank can require credit unions to undertake stress tests on their liquidity
 - consequences of certain scenarios on liquidity
 - terms set by Central Bank



Liquidity – draft Regulations

Existing requirements and guidance	Requirements in draft regulations
Minimum liquidity ratio of 20%	Minimum liquidity ratio of 20%
	Definition of liquid assets expanded to include assets with guaranteed access (A)
Notification to Central Bank where fail to meet liquidity requirements	Notification to Central Bank where fail to meet liquidity requirements
Longer term lending liquidity requirements (*)	Short term liquidity ratio of 10% (N)

(*) Section 35 Regulatory Requirements for credit unions remain in place – not part of consultation



Liquidity – draft Regulations (cont.)

Short term liquidity ratio: 10% of unattached savings in cash and investments available in less than **8** days

- Expanded definition of liquid assets also applies for short term liquidity ratio
- Cash and investments that fall within the
 - short term liquidity ratio of 10% (available in less than 8 days)will also be included within the
 - minimum liquidity ratio of 20% (available in less than 3 months)



Lending – Legislation

New Section 35

- Contains new requirements
 - manage and control lending to ensure the making of loans does not involve undue risk to members' savings
 - the ability of the loan applicant to repay must be primary consideration in underwriting process
- Removes certain limits from legislation
 - large exposure
 - maturity
 - lending to non-qualifying members
- Introduces Central Bank regulation making powers on lending



Lending – draft Regulations

Existing requirements and guidance

Large exposure limit – greater of €39,000 or 1.5% of total assets

Limit on lending over

- 5 years – 30% of loan book
- 10 years – 10% of loan book

Central Bank approval for additional longer term lending

- 5 years – 40% of loan book
- 10 years – 15% of loan book

Requirements in draft regulations

Large exposure limit – greater of €39,000 or **10% of Regulatory Reserve (A)**

Limit on lending over

- 5 years – 30% of loan book
- 10 years – 10% of loan book

Central Bank approval for additional longer term lending(*)

- 5 years – 40% of loan book
- 10 years – 15% of loan book

Maximum maturity limit – 25 years (N)

(*) conditions for approval under review



Lending – draft Regulations (loan categories)

- Introduction of categories of loans
 - Personal loans
 - Commercial loans
 - Community loans
 - House loans
 - Loans to other credit unions

- and concentration limits for certain categories of loans
 - Commercial loans – up to 50% of Regulatory Reserve
 - Community loans – up to 25% of Regulatory Reserve
 - Loans to other credit unions – up to 12.5% of Regulatory Reserve



Lending – draft Regulations (loan categories)

➤ **Personal loan**

- loan provided to an individual for personal, family or household use, once that use is for purposes unrelated to the person's trade, business, profession or the purchase of property

➤ **Commercial loan**

- loan, the primary objective of which is to fund an activity whose purpose is to generate a profit
- commercial loans **less than €25,000 not included** in concentration limit (50% of regulatory reserve) and certain other requirements

➤ **Community loan**

- loan provided to a community or voluntary organisation for the purpose of furthering the social, economic or environmental well-being of individuals in certain areas (e.g. sport, recreation, health, youth, welfare)



Lending – draft Regulations (loan categories)

➤ **House Loan**

- Loan for a principal residence secured(*) by property to
 - (a) buy a house that is already constructed on the property
 - (b) *have a house constructed on the property*
 - (c) *improve or renovate a house on the property*
 - (d) *refinance a loan referred to in (a), (b) or (c)*

- Decisions made on 'CP87 Macro-prudential policy for mortgage lending' will be considered

➤ **Loans to other credit unions**

(*) first legal charge



Lending – draft Regulations (related party)

- **Related party** is any of the following
 - (a) a member of the board of directors or the management team
 - (b) a member of the family of any person in (a)
 - (c) a business in which a person in (a) has a significant shareholding

- Definition of “member of the family” is not as wide as the definition that was proposed in CP76

- Requirements on governance of related party lending

- No limit on related party lending in draft regulations



Investments – Legislation

New Section 43

- Contains new requirements for credit unions
 - manage investments to ensure they do not involve undue risk to members' savings
 - assess potential impact on liquidity and financial position of credit union before making investments

- Permits investments in
 - Current accounts
 - Credit unions
 - Industrial and Provident Societies

- Introduces Central Bank regulation making powers on investments



Investments – draft Regulations (Classes)

Existing requirements and guidance

Classes of investments

- Irish and EMU State Securities
- Accounts in Authorised Credit Institutions (AACIs)
- Bank Bonds
- **Equities (A)**
- Collective Investment Schemes
- Other credit unions
- Industrial and Provident Societies

All investments in Euro

Requirements in draft regulations

Classes of investments

- Irish and EEA State Securities
- Accounts in Authorised Credit Institutions (AACIs)
- Bank Bonds
- Collective Investment Schemes
- Other credit unions
- Industrial and Provident Societies

All investments in Euro



Investments – draft Regulations (Limits)

Existing requirements and guidance

Counterparty limit

- Investments in single institution – 25% of investment portfolio

Concentration limits

- Investments in Irish and EMU State Securities – 70% of investment portfolio
- Investments in bank bonds – 70% of investment portfolio

Requirements in draft regulations

Counterparty limit

- Investments in single institution – 25% of investment portfolio

Concentration limits

- Investments in Irish and EEA State Securities – 70% of investment portfolio
- Investments in bank bonds – 70% of investment portfolio
- Investments in other credit unions – 12.5% of Regulatory Reserve (N)
- Investments in societies – 12.5% of Regulatory Reserves (N)



Investments – draft Regulations (Limits)

- Increased flexibility in maturity limits
 - will apply to investment portfolio instead of investment class

Existing requirements and guidance

Maturity limits

- Maximum maturity 10 years
- **AACIs** maturing after 5 years – 50% of this class of investment (A)
- **AACIs** maturing after 7 years – 20% of this class of investment (A)
- **Irish and EMU State Securities** maturing after 7 years – 30% of this class of investment (A)
- **Bank bonds** maturing after 7 years – 30% of this class of investment (A)

Requirements in draft regulations

Maturity limits

- Maximum maturity 10 years
- **Investments** maturing after 5 years – 50% of investment portfolio (A)
- **Investments** maturing after 7 years – 30% of investment portfolio (A)



Savings – Legislation

New Section 27

- Removes limits from legislation
 - total deposit to total share limit
 - maximum member savings limit
 - maximum deposit limit

- Introduces Central Bank regulation making powers on savings



Savings – draft Regulations

Existing requirements and guidance	Requirements in draft regulations
<p>Limits on total deposits as percentage of total shares – 100%</p> <p>Maximum member savings (shares and deposits) – greater of €200,000 or 1% of total assets (A)</p> <p>Maximum deposit - €100,000 (A)</p>	<p>Limit on total deposits as percentage of total shares 100%</p> <p>Maximum member savings (shares and deposits) – €100,000 (A)</p> <p>See maximum member savings above (A)</p>



Borrowing – Legislation

New Section 33

- Removes requirements from legislation
 - limit on maximum borrowing
 - notification to Central Bank

- Introduces Central Bank regulation making powers on borrowing



Borrowing – draft Regulations

Existing requirements and guidance	Requirements in draft regulations
<ul style="list-style-type: none">• Maximum borrowing – 50% of aggregate savings (A)• Notification to Central Bank	<ul style="list-style-type: none">• Maximum borrowing – 25% of aggregate savings (A)• Notification to Central Bank

- Overdraft not included when calculating credit union borrowing for maximum borrowing limit
- Borrowing policy, may be included as part of asset and liability management policy



Systems, Controls.... – draft Regulations

Existing requirements and guidance

- Requirement to maintain, approve and review a risk register and other documentation referred to in the 1997 Act
- Communication of certain policies to all officers of the credit union

Requirements in draft regulations

- Requirement to maintain, approve and review a risk register and other documentation referred to in the 1997 Act
- Communication of certain policies to all officers of the credit union
- Certain disclosure requirements in relation to the annual accounts (N)



Services – draft Regulations

- Regulations previously made by Minister for Finance set out services credit unions can provide subject to certain conditions
 - **includes** - *certain insurance services on an agency basis, third party payments, bill payment services, budget accounts, draws*
- Such services can be provided without requiring Central Bank approval
 - *exempt from additional services requirements in 1997 Act*
- Regulation making power transferred to Central Bank and previous Regulations not retained
- Regulations required to ensure credit unions can continue to provide these services



Services – draft Regulations

- Draft regulations contain the **services**¹ from existing regulations
- Consulting on any **changes** required to services including:
 - services no longer relevant/provided by credit unions
 - services/conditions that should be amended
 - other services that may be appropriate in regulations
- Considerations for **inclusion of other services**
 - not complex
 - do not involve undue risk
 - subject to appropriate conditions

¹and related conditions



Additional Services

- In addition to **services** exempted in regulations, credit unions can apply to Central Bank for approval of **additional services**
- Central Bank is supportive of credit unions developing new additional services
- Considerations in approving additional services include
 - *credit union understands nature of service and related risks*
 - *supported by a robust business case*
 - *not contrary to financial services legislation*
 - *systems and controls in place to manage and mitigate risks*



Conclusion

- CP88 published on 27 November 2014 - 3 month consultation

Date	
27 November / 10 December 2014	Conduct Information Seminars
27 February 2015	Consultation period closes
June 2015	Publish feedback statement and final regulations
July-December 2015	Transition period before final regulations are commenced
31 December 2015	Commencement of remaining sections of 2012 Act and final regulations

- CP88 on Central Bank website at following [link](#)
- Presentations will be made available at following [link](#)