Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Implementation of the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2018 for Credit Unions

Frequently Asked Questions

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Introduction

This document (the FAQs) is drawn up by the Central Bank of Ireland (the Central Bank) to address questions which credit unions may have in relation to the implementation of the changes to the investment and liquidity framework for credit unions outlined in the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2018 (the 2018 Regulations).

Where a reference is made to a specific section of the Credit Union Act, 1997 (the 1997 Act) in the FAQs, this relates to the 1997 Act as amended by Part 2 or Schedule 1 of the Credit Union and Co-operation with Overseas Regulators Act 2012 (the 2012 Act).

The FAQs have no legal status. Credit unions should consult their legal advisers concerning any matter of legal interpretation of the 1997 Act or Regulations issued thereunder.

Where extracts from the 1997 Act and the 2018 Regulations are included in the FAQs these are shown in quotes and italics. Appendix 1 provides a comparison of the investment and liquidity requirements contained in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations) and the 2018 Regulations.

The FAQs are updated as necessary. Please see version history below which sets out amendments made from time to time to the FAQs to reflect additional common questions that arise.

Version	Date	Amendments
1.0	February 2018	Initial version

Application of the Regulations

1. When will the 2018 Regulations come into effect?

The 2018 Regulations will come into effect on the 1st of March 2018.

The 2018 Regulations contain Transitional Arrangements for certain areas (see the FAQ section on transitional arrangements for further details).

The Central Bank has updated the investment and liquidity chapters of the Credit Union Handbook to reflect the commencement of the 2018 Regulations. This will be published on 1 March 2018.

2. How do the 2018 Regulations interact with the 2016 Regulations?

The investments and liquidity parts of the 2016 Regulations have been replaced by the 2018 Regulations. The 2018 Regulations contain a new 'Part 3- Liquidity' and a new 'Part 5-Investments' which contain the updated requirements for liquidity and investments. In addition, new definitions have been introduced and certain definitions have been removed or replaced as appropriate. The investments and liquidity chapters of the Credit Union Handbook have been updated, for example the handbook chapter on investments now contains the 2018 investment regulations.

A consolidated version of all regulations applying to credit unions under the Credit Union Act, 1997 will be provided to credit unions in due course.

3. What are the main updates in the 2018 Regulations under the Investment and Liquidity framework?

The main updates in the new Regulations are set out below by prudential area (see Appendix 1 for a full comparison of the investments and liquidity requirements applying in the 2016 Regulations along with the 2018 Regulations):

Investments (Regulations 25-33)

Classes of Investments

Regulation 25 defines the classes of investment in which a credit union may invest. The following EUR denominated classes of investments have been added to the investment framework:

- Supranational bonds;
- Corporate bonds;
- Investment in Tier 3 Approved Housing bodies through a regulated investment vehicle;
- Undertakings for Collective Investment in Transferrable Securities (UCITS)*.

**Investment in a UCITS is dependent upon the underlying assets being comprised of Irish and EEA state securities, supranational bonds, accounts in credit institutions, bank bonds and corporate bonds. The minimum asset size of the UCITS must be at least €150 million.*

Counterparty Limits

Regulation 26 sets out the counterparty limit for investments which has been reduced from 25% to 20% of total investments in the 2018 Regulations.

This regulation now also includes a counterparty limit for direct investment in a corporate bond, set at 5% of the total value of a credit union's regulatory reserve for direct investment in a single corporate bond issuer.

Concentration Limits

Regulation 27 has been expanded to provide a concentration limit for all new classes of investments. The concentration limits are as follows:

- The combined investments in Irish and EEA state securities and supranational bonds must not exceed 70% of the total value of the credit union's investments;
- Corporate bond investment must not exceed 50% of the credit union's regulatory reserves;
- Investment in a Tier 3 Approved Housing Body through a regulated investment vehicle must not exceed the following limits:
    - 50% of the credit union's regulatory reserve, where the credit union has assets of at least €100 million;
    - 25% of the credit union's regulatory reserve, where the credit union has assets of less than €100 million.

Maturity Limits

Regulation 28 introduces a maturity limit of 25 years for investments in Tier 3 Approved Housing Bodies through a regulated vehicle, this maturity limit of 25 years will be applicable to each individual investment within the regulated investment vehicle.

The 10 year maturity limit remains for all other investments.

Minimum Rating Requirement

Regulation 29 introduces a minimum credit rating requirement for the following investment types:

- Direct investment in Irish and EEA State Securities and supranational bonds must have a credit rating of investment grade or higher assigned by at least two recognised rating agencies.
- Direct investment in corporate bonds must have a credit rating of at least equivalent to an A3 on the Moody's Investor Service Rating Scale assigned by at least two recognised rating agencies.

UCITS investments must have at least one recognised rating agency assigning a credit rating of investment grade or higher to certain underlying investments in the UCITS, (supranational bonds, Irish and EEA state securities and corporate bonds).

Liquidity (Regulation 7 – 9)

Interpretation of Part 3 Liquidity

Regulation 7 introduces a new definition for relevant liquid assets, which specifies that relevant liquid assets includes:

- Cash and Investments with less than 3 months to maturity (excluding the minimum reserve deposit account and the deposit protection account);
- Irish and EEA State Securities, bank bonds and supranational bonds with more than 3 months to maturity subject to the following discounts being applied to the market value:
    - Bonds with an outstanding maturity of greater than 3 months and less than 1 year will require a discount of 10% to market value;
    - Bonds with an outstanding maturity of at least 1 year and less than 5 years will require a discount of 30% to market value;
    - Bonds with an outstanding maturity of at least 5 years and less than 10 years will require a discount of 50% to market value.

Regulation 8 specifies that a credit union must maintain a minimum liquidity ratio of 20%. The short term liquidity ratio has been reduced to 2.5% of unattached savings, and is now included within the minimum liquidity ratio. This regulation also specifies that the minimum liquidity ratio shall be comprised of the following:

- At least 2.5% of unattached savings must be comprised of cash and investments with a maturity of less than 8 days. Taking for example a 7-day term deposit, this investment would be considered eligible for this requirement.
- No more than 10% of unattached savings may be comprised of certain liquid bonds as defined in regulation 7 of the 2018 Regulations, where the relevant discounts have been applied to the current market value.
- The remaining proportion of the liquidity requirement may be comprised of investments with a remaining maturity of less than 3 months or cash. Relevant liquid investments with less than 3 months to maturity includes all classes of investments as set out in the 2018 Regulations.

Supranational Bonds

4. How will the combined concentration limit for Irish and EEA state securities and supranational bonds work?

Under the 2016 Regulations, credit unions were permitted to invest in Irish and EEA state securities within a prescribed concentration limit of 70% of total credit union investments. The new investment class of supranational bonds will share a combined investment concentration limit with Irish and EEA State Securities of 70% of total credit union investments.

As with existing classes of investments, credit unions will be permitted to gain exposure to supranational bonds through direct holdings or also through a UCITS. The inclusion of supranational bonds in the concentration limit currently applying to government bonds provides additional flexibility for credit unions to invest in these bonds due to the larger concentration limit. The combined value of the investment in Irish and EEA state securities and supranational bonds must be no more than 70% of total credit union investments.

Irish and EEA state Securities

5. How will the minimum credit rating requirement apply to Irish and EEA state securities?

The 2018 Regulations introduce a minimum credit rating requirement for investment in Irish and EEA State Securities. Regulation 29 requires that at least two recognised rating agencies assign a minimum credit rating of investment grade or higher where a direct investment is being made in these bonds. Where an investment in Irish and EEA State Securities is made through a UCITS, Regulation 29 requires that at least one recognised rating agency assigns a minimum credit rating of investment grade or higher.

For the purpose of assessing compliance with the minimum credit rating requirement, the credit union should complete a look-through to the underlying investments within the UCITS. Each underlying investment of Irish and EEA state securities should comply with the minimum credit rating requirement of investment grade or higher.

Bank Bonds

6. Which bank bonds are credit unions permitted to invest in?

The 2016 Regulations provided that credit unions are permitted to invest in a senior bond issued by a credit institution that is traded on a regulated market where the capital amount invested is guaranteed by the issuer.

The 2018 Regulations have introduced a change to the definition of bank bonds, which are now defined as: "*a senior bond issued by a credit institution and traded on a regulated market where the capital amount invested is guaranteed by the issuer and, for the avoidance of doubt, does not include any bond that is subordinated to any other liability of that credit institution*".

This definition defines a bank bond as a senior bond with certain characteristics. Any bond that is subordinated to any other debt liability of that credit institution is not a permitted investment under the 2018 Regulations. This is based upon the complexity, risk profile of such investment and the potential implications for credit unions, should the instrument be written down or converted into equity.

Corporate Bonds

7. How will the minimum credit rating requirement apply to corporate bond investments?

Corporate bonds are a new class of investment added to the credit union investment framework set out in the 2018 Regulations. Credit unions are permitted to hold direct investment in corporate bonds or invest through a UCITS.

The minimum credit rating requirement for a direct investment in a corporate bond requires that the rating must be at least equivalent to an A3 rating on the rating scale issued by Moody's Investor Services. This rating must be assigned by at least two recognised rating agencies; Appendix 2 provides an illustrative comparison of three recognised rating agency scales.

The minimum credit rating requirement for a corporate bond investment through a UCITS is 'investment grade' or higher. This rating must be assigned by at least one recognised rating agency to each corporate bond held within a UCITS. Under the 2018 Regulations, credit unions are required to monitor compliance with the minimum credit rating requirement on an ongoing basis. Any credit union holding an investment in corporate bonds which no longer meets the minimum rating requirement must divest of the bond as soon as possible to ensure compliance with the 2018 Regulations.

8. How will the new counterparty limit apply to corporate bond investments?

A direct investment in corporate bonds falls under the scope of Regulation 26(2) for the purposes of assessing counterparty exposures; whereby a credit union shall not make an investment with a counterparty (or issuer of a corporate bond) where all direct investments in corporate bonds held with that counterparty/issuer would exceed 5% of the total value of the credit union's regulatory reserves.

For example if a credit union invests up to the maximum of 50% of regulatory reserves directly in corporate bonds, this limit will ensure that the overall corporate bond exposure is spread over a minimum of 10 counterparties.

Undertakings for Collective Investment in Transferable Securities (UCITS)

9. Where a credit union invests in a UCITS, what investments can be comprised in that UCITS?

UCITS are open-ended investment funds, which are regulated at a European Union level and may be established as:

- Unit trusts;
- Common contractual funds;
- Variable or fixed capital companies; or
- Irish Collective Asset-management Vehicles (ICAVs).

Credit unions are permitted to invest in UCITS where the UCITS holds investments which fall within the limits specified in the 2018 Regulations and are comprised of:

- Irish and EEA state securities;
- Supranational bonds;
- Accounts in authorised credit institutions;
- Bank bonds;
- Corporate bonds; or
- Cash.

10. How will a UCITS be treated for the purposes of assessing compliance with investment concentration and counterparty limits?

Credit unions are permitted to invest in UCITS which provide exposure to a number of underlying investments as specified in the 2018 Regulations. For the purpose of assessing compliance with investment concentration and counterparty limits, the credit union should complete a look-through to the underlying investments within the UCITS. For example, where the UCITS contains Irish and EEA state securities, the credit union should aggregate the total investment in this investment class within the UCITS fund structure and all individual investments in Irish and EEA State securities to calculate its total exposure to Irish and EEA State securities in order to assess compliance with the concentration limit for Irish and EEA State Securities.

11. Does each individual investment within a UCITS need to have a maturity of 10 years or less or can a UCITS have an average maturity of 10 years?

All individual underlying investments contained within the UCITS fund structure must comply with the maturity limit of 10 years. For the purpose of assessing compliance with the maturity limit, the credit union should complete a look-through to the underlying investments within the UCITS. For example, where the UCITS contains corporate bonds, the credit union should assess the remaining time to maturity for each individual holding to ensure it complies with the 10 year maturity limit applicable to corporate bonds.

12. What should I consider when undertaking a UCITS investment?

Credit unions cannot outsource the judgement regarding investment risk to an external party such as an investment advisor, the credit union remains responsible for both the investment decisions and the funds of its members. Section 76J(9) of the 1997 Act requires that where a credit union has outsourced activities, the credit union remains legally responsible for compliance with requirements imposed under financial services legislation in respect of those activities.

Credit unions are reminded of the new Markets in Financial Instruments Directive II (MiFID II) regulations, which commenced on 3 Jan 2018 and provide additional protections and transparency requirements around transaction reporting, incentives and fees and aligning transparency reporting for retail and institutional clients.

Tier 3 Approved Housing Bodies (AHBs)

13. What classifies an AHB as a Tier 3?

The Housing Agency currently has responsibility for regulating Approved Housing Bodies (AHBs). Regulation of the sector is based on a Voluntary Regulation Code (the Code). The Code sets out organisational classifications for AHBs: these are defined having regard to the level of risk within an organisation.

There are three tiers under this classification[1]:

Tier 1: AHBs with up to 50 units and no development plans.

Tier 2: AHBs with between 50 and up to 300 units, and/or with development plans to increase stock size (up to 300 units), and/or, are applying for, or are in receipt of loans from the Housing Finance Agency, private finance or other sources (for stock levels up to 300 units).

Tier 3: AHBs with more than 300 units or with development plans to increase stock size (over 300 units), and/or, are applying for, or are in receipt of loans from the Housing Finance Agency, private finance or other sources (for stock levels over 300 units). Tier 3 AHBs are subject to more onerous requirements under the voluntary regulation code.

14. Does each individual Tier 3 AHB investment within a regulated investment vehicle need to have a maturity of 25 years or less or can the regulated investment vehicle have an average maturity?

Under the 2018 Regulations, all individual underlying investments in Tier 3 AHBs contained within the regulated investment vehicle must comply with the maturity limit of 25 years or less.

Counterparty Limit

15. How will the new counterparty limit apply to the investment classes permitted under the 2018 Regulations?

Under the 2018 Regulations, a credit union shall not make an investment with a counterparty where that investment would exceed 20% of the credit union's total investments. In order to comply with this change in the counterparty limit, a transitional arrangement of 24 months will apply post commencement of the 2018 Regulations.

[1] The housing agency website defines the regulatory tier level and updates on the voluntary regulation code: https://www.housingagency.ie/regulation/ahbs-signed-up-to-voluntary-regulation.aspx

Credit unions will be required to complete a look-through for UCITS investments in order to ensure compliance with the new counterparty limit.

The 2018 Regulations also introduce a new counterparty limit for direct investment in corporate bonds where a credit union shall not make a direct investment in a corporate bond issued by a particular counterparty which would cause the total direct investment in corporate bonds held with that issuer to exceed 5% of the regulatory reserves of the credit union. For example if a credit union invests to the maximum of 50% of regulatory reserves directly in corporate bonds, this limit will ensure that the overall corporate bond exposure is spread over a minimum of 10 counterparties.

Liquidity

16. Which bond holdings will qualify as liquid assets? How will the discounts be applied to the bond holdings which qualify as liquid assets?

The 2018 Regulations include Irish and EEA state securities, bank bonds and supranational bonds which have a maturity of greater than three months within the definition of relevant liquid assets. The following discounts apply to the current market value of these investments when counting them towards liquidity:

- Where the remaining maturity is greater than 3 months and less than one year, a discount of 10% is applied to the market value;
- Where the remaining maturity is greater than 1 year and less than 5 years, a discount of 30% is applied to the market value;
- Where the remaining maturity is greater than 5 years and less than 10 years, a discount of 50% is applied to the market value.

Examples of these liquid assets and the calculation of applicable discounts are included in Appendix 3.

All investments with a remaining maturity of less than 3 months, excluding the minimum reserve deposit account and the deposit protection account, are considered liquid assets and are not subject to a discount to market value.

17. Has the short term liquidity requirement been removed from the framework?

The short term liquidity requirement has been incorporated in the minimum liquidity requirement. As set out in Regulation 8 of the 2018 Regulations, the minimum liquidity requirement contains a short-term element which requires that at least 2.5% of unattached savings shall be comprised of cash and investments with a maturity of less than 8 days. This is a reduction from the 5% of unattached savings short-term liquidity requirement as set out in the 2016 Regulations.

18. How will the minimum liquidity requirement be calculated?

The 2018 Regulations continue to require that 20% of unattached savings are held in liquid assets. It is now required that this minimum liquidity ratio shall be comprised of the following:

- At least 2.5% of unattached savings must be comprised of cash and investments with a maturity of less than 8 days. For example a 7-day term deposit would be considered eligible for this requirement.
- No more than 10% of unattached savings may be comprised of certain liquid bonds as defined in the 2018 Regulations, where the relevant discounts have been applied to the current market value.
- The remaining proportion of the liquidity requirement may be comprised of investments with a remaining maturity of less than 3 months. Relevant liquid investments with less than 3 months to maturity include all classes of investments as set out in the 2018 Regulations.

Please see appendix 3 for illustrative examples of how the liquidity ratio should be calculated under the 2018 Regulations.

19. Has the option been removed whereby an investment with greater than 3 months to maturity can qualify as a liquid asset where a written guarantee is provided to the effect that funds are available to the credit union in less than 3 months?

Analysis undertaken by the Central Bank supports feedback that has been provided to the Central Bank (outside of the consultation on CP109) that in practice, credit unions cannot obtain such written guarantees on their investments and therefore this provision cannot be used for the intended purpose by credit unions. Accordingly, reference to such guarantees has been removed from the definition of relevant liquid assets. However, if a credit union has a written guarantee that it can access funds within 3 months, these funds may be counted when calculating their liquidity ratio.

20. How will the composition of the minimum liquidity requirement be affected by an approval for longer term lending?

Credit unions who have more than 20% of their lending outstanding for a period of more than 5 years are subject to increased liquidity requirements as contained in the Section 35 Regulatory Requirements for Credit Unions (Section 35 Requirements). The composition of the minimum liquidity ratio is outlined in Regulation 8 of the 2018 Regulations. Any increased liquidity requirements specified in the Section 35

Requirements remain and have not been affected by the 2018 Regulations. The additional liquidity requirement for these credit unions (above the minimum 20% requirement) shall be comprised of investments with a remaining maturity of less than 3 months or cash.

Transitional Arrangements

21. What are the transitional arrangements for the 2018 Regulations?

The 2018 Regulations contain transitional arrangements in relation to the amended investment regulations which have been introduced. The transitional arrangements are as follows:

a) a credit union may hold to maturity all fixed term investments made in accordance with legislative requirements applicable at the time of investment and held on 1 March 2018;

b) a credit union shall divest of investments which are not in compliance with the 2018 Regulations as soon as possible without incurring a loss and no later than 2 years post the commencement of the 2018 Regulations;

c) a credit union shall only make additional investments which are in compliance with the 2018 Regulations or will not exacerbate a failure to comply existing on 1 March 2018.

With regard to the counterparty limit reduction, the transitional arrangements are as follows:

a) Fixed term investments made in line with legislative requirements applicable at the time of investment may be held to maturity;

b) For all other investments, the credit union should take action to comply with the 2018 Regulations as soon as possible without incurring a loss and no later than 1 March 2020.

22. Where a credit union holds an investment with a counterparty at commencement of the 2018 Regulations, which is in excess of 20% of overall total investments, what should the credit union do?

Credit unions will be permitted to hold investments in line with the transitional arrangements as below:

- Fixed term investments made in line with legislative requirements applicable at the time of investment may be held to maturity;

- For all other investments, the credit union should take action to comply with the 2018 Regulations as soon as possible without incurring a loss and no later than 1 March 2020.

General Investment Questions

23. Where a bond is held and is subsequently downgraded to below the minimum credit rating requirement by a recognised rating agency, what is the Central Bank's expectation?

The Central Bank requires that, where Irish and EEA state securities, supranational bonds or corporate bonds are held which no longer meet the minimum credit rating requirement, the credit union divest of the bond as soon as possible in order to ensure compliance with the Regulations and ultimately to ensure appropriate management of the risks of its investment portfolio.

Ultimately, the credit union remains responsible for its investment decisions including ensuring compliance with all Regulations when investing in a UCITS. Credit unions are required to ensure, prior to undertaking an investment in a UCITS that the fund mandate is in line with the rating requirements in the 2018 Regulations, which will ensure that the fund will divest of any bonds, which no longer meet the minimum credit rating requirement.

24. How should a credit union monitor compliance with the minimum credit rating requirement?

As set out in the 2018 Regulations, credit unions are required to monitor compliance with the minimum credit rating requirement for the following instrument classes:

- Irish and EEA state securities (Investment grade or higher);
- Supranational bonds (Investment grade or higher);
- Corporate bonds (A3 rating equivalent or higher);
- UCITS (Investment grade or higher for underlying investments in supranational bonds, Irish and EEA State Securities and corporate bonds).

To monitor a UCITS for compliance with the minimum credit rating requirement, the credit union must complete a look-through for all individual underlying investments to ensure that all relevant investments are captured and meet the minimum credit rating requirement. The credit union remains responsible for ensuring compliance with the regulations. In order to fully understand their investment exposures and to ensure investments are in line with the credit union's stated risk appetite and on-going compliance with the regulations, credit unions should obtain detailed analysis of the underlying holdings of UCITS at regular intervals.

Appendix 1

Comparison of the 2016 Regulations and the 2018 Regulations

Indicates a change introduced from the 2018 Regulations

Investment Framework

Area	Requirements and guidance in the 2016 Regulations	Requirements in the 2018 Regulations
Irish and EEA state securities	**Maturity:** 10 years **Credit Rating:** n/a **Concentration Limit:** 70% of Investment portfolio	**Maturity:** 10 years **Credit Rating:** Investment Grade **Concentration Limit:** combined limit of 70% of Investment portfolio for Irish and EEA state securities and Supranational bonds
Supranational bonds	Not a permitted investment class	**Maturity:** 10 years **Credit Rating:** Investment Grade **Concentration Limit:** combined limit of 70% of Investment portfolio for Irish and EEA state securities and Supranational bonds
Senior bank bonds	**Maturity:** 10 years **Credit Rating:** n/a **Concentration Limit:** 70% of Investment portfolio	**Maturity:** 10 years **Credit Rating:** n/a **Concentration Limit:** 70% of Investment portfolio
Corporate bonds – Direct Investment	Not a permitted investment class	**Maturity:** 10 years **Credit Rating:** at least A3 Moody's rating or equivalent **Concentration Limit:** 50% of Regulatory Reserves **Direct Investment Counterparty Limit:** 5% of Regulatory Reserves
Tier 3 approved housing bodies - through a regulated investment vehicle	Not a permitted investment class	**Maturity:** 25 years **Concentration Limit:** 25% of Regulatory Reserves for credit unions with total assets of less than €100m 50% of Regulatory Reserves for credit unions with total assets of at least €100m
Accounts in authorised credit institutions	Permitted investment class	Permitted investment class

Area	Requirements and guidance in the 2016 Regulations	Requirements in the 2018 Regulations
Other credit unions	**Concentration Limit:** 12.5% of Regulatory Reserves	**Concentration Limit:** 12.5% of Regulatory Reserves
Industrial and Provident Societies	**Concentration Limit:** 12.5% of Regulatory Reserves	**Concentration Limit:** 12.5% of Regulatory Reserves
UCITS	The investment schemes comprise the following instrument types: a) Irish and EEA state securities b) Bank bonds c) Accounts in authorised credit institutions	The investment schemes comprise the following instrument types: a) Irish and EEA state securities b) Bank bonds c) Accounts in authorised credit institutions d) Supranational bonds e) Corporate bonds
Counterparty limit – investments in single institution	25% of total investments	20% of total investments
Currency Requirement	Investment limited to EURO investments	Investment limited to EURO investments
Maturity Limits	Maximum maturity of 10 years Investments maturing after 5 years – 50% of investment portfolio Investments maturity after 7 years – 30% of investment portfolio	Maximum maturity of 10 years, with exception of investment in Tier 3 AHBs which is 25 years Investments maturing after 5 years – 50% of investment portfolio Investments maturing after 7 years – 30% of investment portfolio

Liquidity Framework

Area	Requirements and guidance in the 2016 Regulations	Requirements in the 2018 Regulations
Short term liquidity ratio	Short term liquidity ratio of 5% of unattached savings	2.5% of unattached savings (now included in the minimum liquidity ratio)
Minimum liquidity ratio	Minimum liquidity ratio of 20% of unattached savings	Minimum liquidity ratio of 20% of unattached savings
Composition of minimum liquidity ratio	n/a	**(a)** at least 2.5% of unattached savings comprised of cash and investments with a maturity of less than 8 days **(b)** no more than 10% of unattached savings may be comprised of allowable liquid bonds (after application of required discounts)
Relevant liquid assets	1) Cash 2) Investments with a maturity of less than 3 months excluding the minimum reserve deposit account and the deposit protection account 3) Investments with a maturity of 3 months or more, excluding the minimum reserve deposit account and the deposit protection account, where a written guarantee exists to the effect that funds are available to the credit union in less than 3 months. 4) Notification to Central Bank where fail to meet liquidity requirements	1) Cash 2) Investments with a maturity of less than 3 months excluding the minimum reserve deposit account and the deposit protection account 3) Irish and EEA state securities, bank bonds and supranational bonds with greater than 3 months to maturity with the associated discount applied to the market value (this discount is dependent on the remaining time to maturity of the investment). 4) Notification to Central Bank where fail to meet liquidity requirements

Appendix 2

Major rating agencies rating guide for long and short term debt[2]

Investment Grade

Moody's Investors Service (MOODY'S)	**Aaa**	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**
Standard & Poor's (S&P)	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**
Fitch Ratings (FITCH)	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**
Dominion Bond Rating Service Ltd. (DBRS)	**AAA**	**AAH**	**AA**	**AAL**	**AH**	**A**	**AL**	**BBBH**	**BBB**	**BBBL**

Non-Investment Grade

Moody's Investors Service (MOODY'S)	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	
Standard & Poor's (S&P)	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
Fitch Ratings (FITCH)	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
Dominion Bond Rating Service Ltd. (DBRS)	BBH	BB	BBL	BH	B	BL	CCCH	CCC	CCCL	CC	C	D

[2] *Source: Bloomberg*

Appendix 3

Illustrative examples of how the liquidity ratio should be calculated under the 2018 Regulations

Extract from Credit Union Balance Sheet			
	Example (i) €	Example (ii) €	Example (iii) €
Assets:			
Cash and Current Accounts	900,000	900,000	900,000
Minimum Reserve Deposit Held	400,000	400,000	400,000
Deposit Protection Account	35,000	35,000	35,000
Investments:			
Irish and EEA State Securities	2,500,000	2,500,000	8,000,000
Bank Deposits	36,000,000	35,000,000	20,000,000
Bank Bonds	4,500,000	4,000,000	3,000,000
Supranational Bonds	-	-	7,500,000
Corporate Bonds	-	-	3,000,000
AHBs Tier 3 Investments	-	1,500,000	1,500,000
Other Investments	1,000,000	1,000,000	1,000,000
Total Investment	**44,000,000**	**44,000,000**	**44,000,000**
Liabilities:			
Unattached Savings	45,000,000	45,000,000	45,000,000
Reserves:			
Regulatory Reserves	6,700,000	6,700,000	6,700,000

The three example credit union balance sheet extracts are based on the average financial data submitted by individual credit unions on the 30 September 2017 Prudential Return (PR). 272 credit unions submitted a PR for this period.

The balance sheet extracts are intended for illustrative purposes only and set out 3 investment portfolios of varied composition. Credit unions are reminded that it is their responsibility to construct their investment portfolio in line with their investment risk appetite and in accordance with the applicable legislative and regulatory requirements.

Example (i)

Extract from Credit Union Balance Sheet		Investment Maturity Profile						
	Example (i) €	< 8 days	8 days – 3 months	3 months – 1 year	1 – 5 years	5 – 10 years	> 10 years	Total
Assets:								
Cash and Current Accounts	900,000	-	-	-	-	-	-	-
Investments:								
Irish and EEA State Securities	2,500,000	-	500,000	-	500,000	1,500,000	-	2,500,000
Bank Deposits	36,000,000	2,000,000	7,000,000	8,000,000	9,000,000	10,000,000	-	36,000,000
Bank Bonds	4,500,000	-	500,000	500,000	1,500,000	2,000,000	-	4,500,000
Supranational Bonds	-	-	-	-	-	-	-	-
Corporate Bonds	-	-	-	-	-	-	-	-
AHB Tier 3 Investment	-	-	-	-	-	-	-	-
Other Investments	1,000,000	-	-	-	1,000,000	-	-	1,000,000
Total Investments	**44,000,000**	**2,000,000**	**8,000,000**	**8,500,000**	**12,000,000**	**13,500,000**	**-**	**44,000,000**
Liquidity Pre-CP109:								
Allowable for Liquidity	900,000[3]	2,000,000	8,000,000	-	-	-	-	**10,900,000**
Liquidity:								
Discount on market value	-	-	-	10%	30%	50%	-	
Allowable for Liq after haircut	900,000[3]	2,000,000	8,000,000	450,000	1,400,000	1,750,000	-	

Liquidity Ratio Calculations:

	Requirement %	Requirement /Max €	Actual %	Actual €
Liquidity requirement	20% of unattached savings	€9,000,000	32.2% of unattached savings	€14,500,000
Cash and Investment < 8 days	2.5 % of unattached savings	€1,125,000	6.4% of unattached savings	€2,900,000
Maximum discounted allowable bonds (Irish and EEA state securities, bank bonds, supranational bonds)	10% of unattached savings	€4,500,000	8.0% of unattached savings	€3,600,000
Remaining liquidity	7.5% of unattached savings	€3,375,000	17.8% of unattached savings	€8,000,000

[3] Cash of €900,000

Example (ii)

Extract from Credit Union Balance Sheet		Investment Maturity Profile						
	Example (ii) €	< 8 days	8 days – 3 months	3 months – 1 year	1 – 5 years	5 – 10 years	> 10 years	Total
Assets:								
Cash and Current Accounts	900,000	-	-	-	-	-	-	-
Investments:								
Irish and EEA State Securities	2,500,000		500,000	500,000	1,000,000	500,000	-	2,500,000
Bank Deposits	35,000,000	2,000,000	3,500,000	4,500,000	9,000,000	16,000,000	-	35,000,000
Bank Bonds	4,000,000	-	500,000	1,500,000	1,500,000	500,000	-	4,000,000
Supranational Bonds	-	-	-	-	-	-	-	-
Corporate Bonds	-	-	-	-	-	-	-	-
AHB Tier 3 Investment	1,500,000	-	500,000	-	-	-	1,000,000	1,500,000
Other Investments	1,000,000	-	-	-	1,000,000	-	-	1,000,000
Total Investments	**44,000,000**	**2,000,000**	**5,000,000**	**6,500,000**	**12,500,000**	**17,000,000**	**1,000,000**	**44,000,000**
Liquidity:								
Discount on market value	-	-	-	10%	30%	50%	-	
Allowable for Liq after haircut	900,000[4]	2,000,000	5,000,000	1,800,000	1,750,000	500,000	-	

Liquidity Ratio Calculations:

	Requirement %	Requirement /Max €	Actual %	Actual €
Liquidity requirement	20% of unattached savings	€9,000,000	26.6% of unattached savings	€11,950,000
Cash and Investment < 8 days	2.5 % of unattached savings	€1,125,000	6.4% of unattached savings	€2,900,000
Maximum discounted allowable bonds (Irish and EEA state securities, bank bonds, supranational bonds)	10% of unattached savings	€4,500,000	9.0% of unattached savings	€4,050,000
Remaining liquidity	7.5% of unattached savings	€3,375,000	11.1% of unattached savings	€5,000,000

[4] Cash of €900,000

Example (iii)

Extract from Credit Union Balance Sheet		Investment Maturity Profile						
	Example (iii) €	< 8 days	8 days – 3 months	3 months – 1 year	1 – 5 years	5 – 10 years	> 10 years	Total
Assets:								
Cash and Current Accounts	900,000	-	-	-	-	-	-	-
Investments:								
Irish and EEA State Securities	8,000,000	-	1,500,000	-	500,000	6,000,000	-	8,000,000
Bank Deposits	20,000,000	2,000,000	1,000,000	5,000,000	6,000,000	6,000,000	-	20,000,000
Bank Bonds	3,000,000	-	1,500,000	-	500,000	1,000,000	-	3,000,000
Supranational Bonds	7,500,000	-	-	-	-	7,500,000	-	7,500,000
Corporate Bonds	3,000,000	-	500,000	500,000	2,000,000	-	-	3,000,000
AHB Tier 3 Investment	1,500,000	-	-	-	-	-	1,500,000	1,500,000
Other Investments	1,000,000	-	-	-	1,000,000	-	-	1,000,000
Total Investments	**44,000,000**	**2,000,000**	**4,500,000**	**5,500,000**	**10,000,000**	**20,500,000**	**1,500,000**	**44,000,000**
Liquidity:								
Discount on market value	-	-	-	10%	30%	50%	-	
Allowable for Liq after haircut	900,000[5]	2,000,000	4,500,000	-	700,000	7,250,000	-	

Liquidity Ratio Calculations:

	Requirement %	Requirement /Max €	Actual %	Actual €
Liquidity requirement	20% of unattached savings	€9,000,000	26.4% of unattached savings	€15,350,000
Cash and Investment < 8 days	2.5 % of unattached savings	€1,125,000	6.4% of unattached savings	€2,900,000
Maximum discounted allowable bonds (Irish and EEA state securities, bank bonds, supranational bonds)	10% of unattached savings	€4,500,000	**10.0% of unattached savings[6]**	**€4,500,000**
Remaining liquidity	7.5% of unattached savings	€3,375,000	10.0% of unattached savings	€4,500,000

[5] Cash of €900,000

[6] As the discounted market value of allowable bonds is above the maximum amount of 10% of unattached savings, only €4,500,000 (10% of unattached savings) will be included in the overall liquidity calculation. This is the maximum amount allowable as per the 2018 Regulations.

Banc Ceannais na hÉireann
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