

*‘Ensuring that the foundations  
are in place to safeguard the long  
term wellbeing of credit unions’*

*Registry of Credit Unions*



Banc Ceannais na hÉireann  
Central Bank of Ireland

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# **Credit Union Information Seminars – 2017**

*7 November – 21 November 2017*



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# Introduction – Opening Remarks



## **Information Seminars - Agenda**

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- **Introduction – Opening Remarks**
  - **Regulatory Framework – Updates and Developments**
    - Anna Marie Finnegan
  - **Supervisory Overview – Richard Malone/Pearse O’Sullivan**
  - **Business Model – Responsive Risk Based Transformation**
    - Bill Hobbs
  - **Questions and Answers**
  - **Central Credit Register – Nuala Shaw/Susan Robertson**
  - **Anti-Money Laundering & Countering the Financing of Terrorism (AML/CFT) – Deirdre Lowry/Suzanne Geraghty/Orna McNamara**
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# Regulatory Framework – Updates and Developments

*Anna Marie Finnegan*



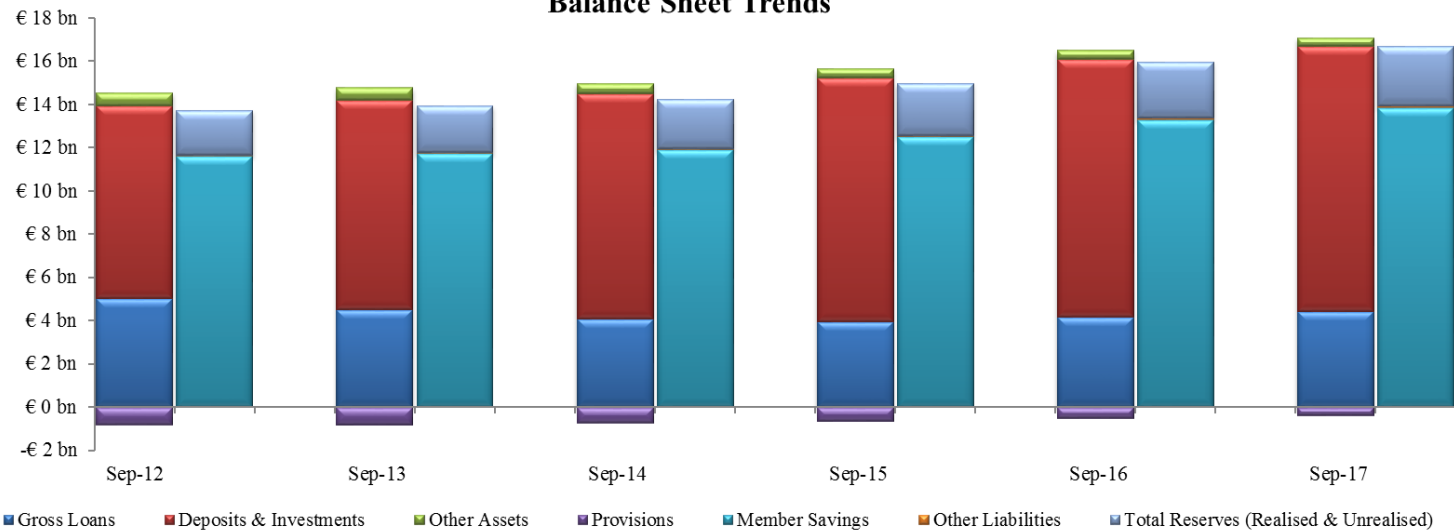
## Contents

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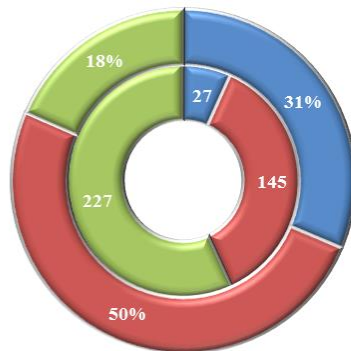
- Sector overview
  - Review of the Investment Framework for Credit Unions
  - Review of the F & P Regime for Credit Unions
  - CUAC Implementation Group
  - Supporting Material for Credit Unions – updated Central Bank website
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### Balance Sheet Trends

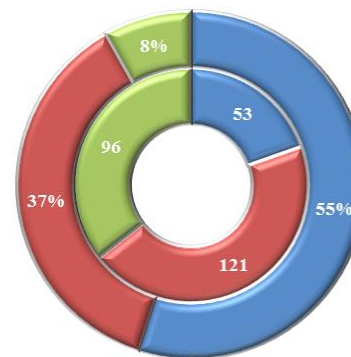


### Sector Asset Buckets Sep-12



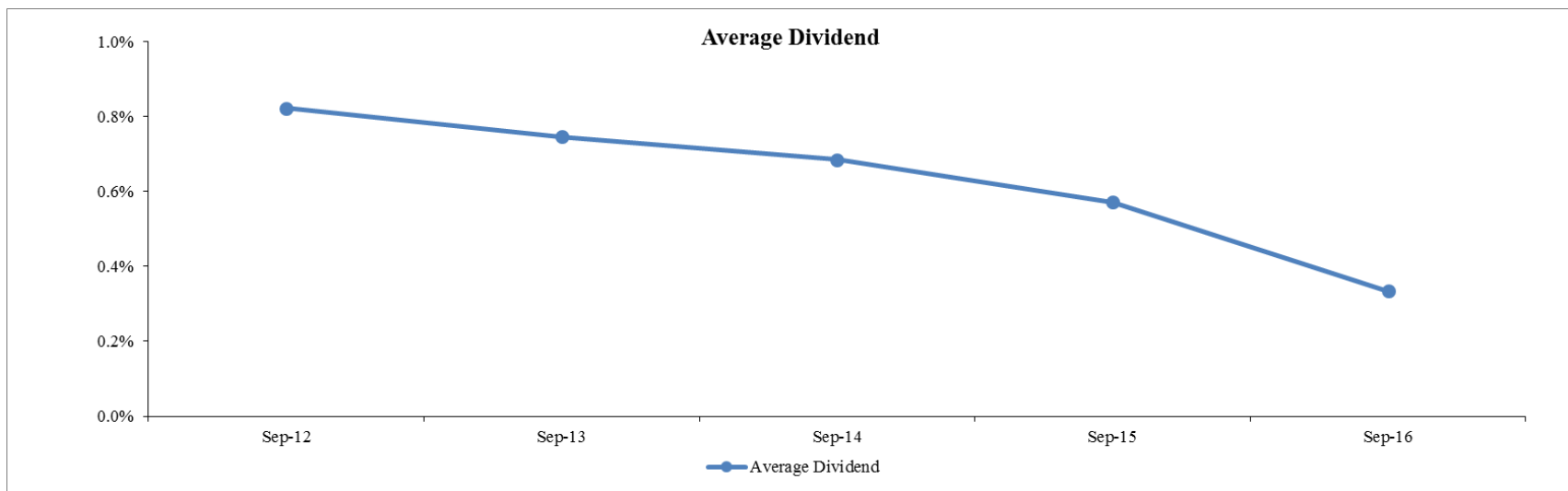
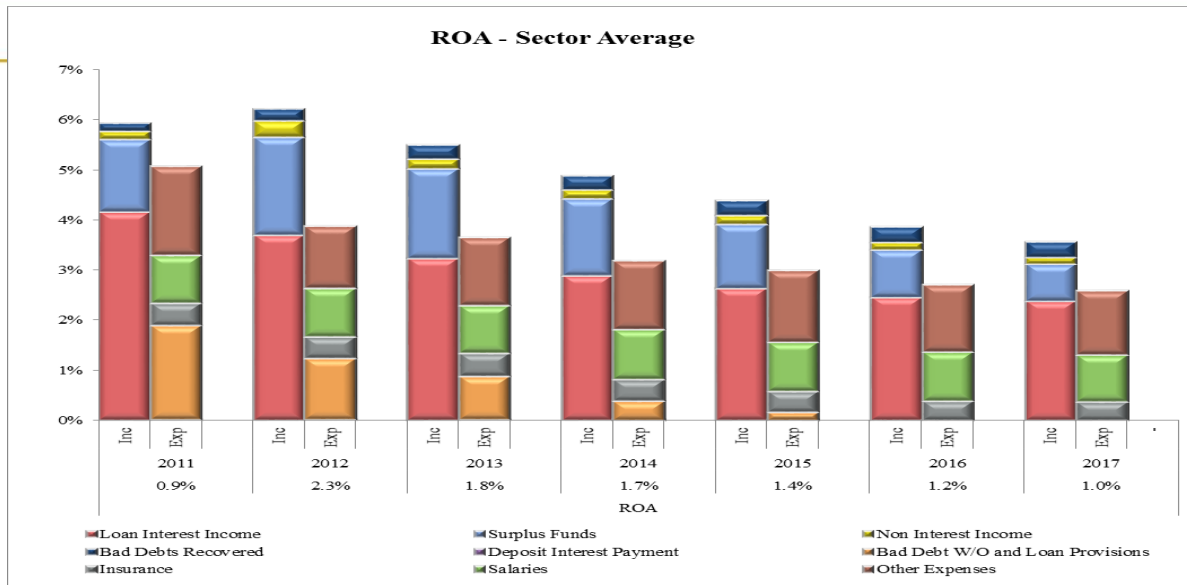
■ ≥€100M ■ €25M to €100M ■ <€25M

### Sector Asset Buckets Sep-17

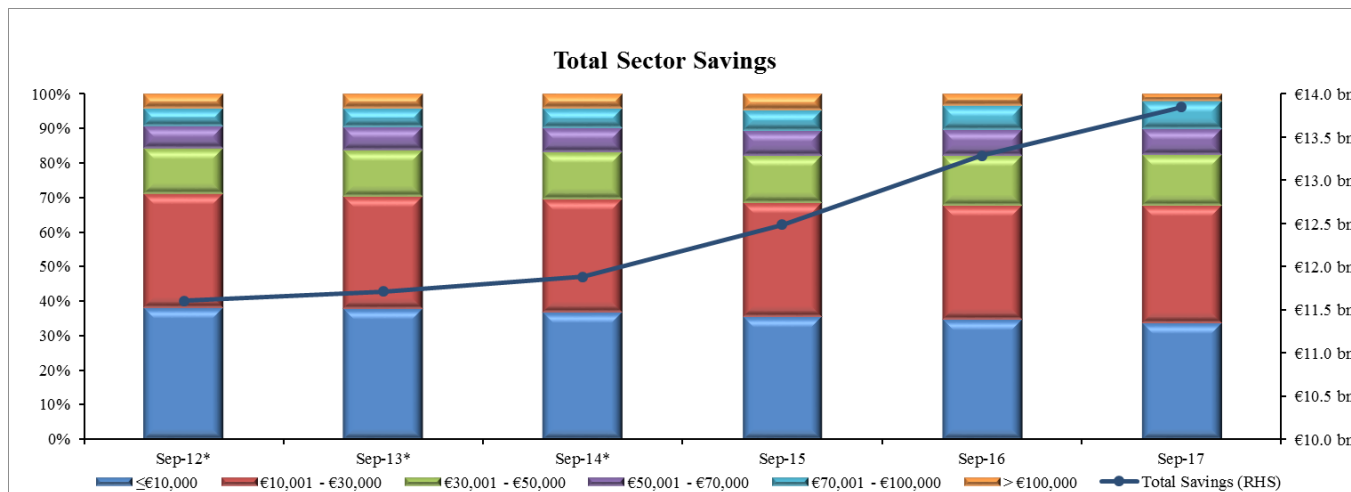
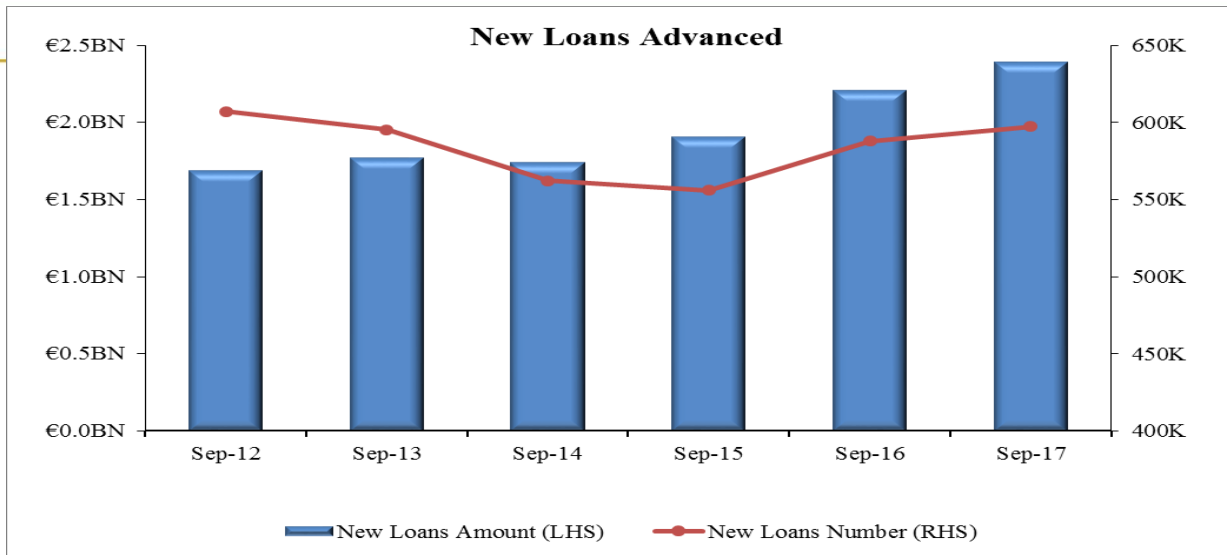


■ ≥€100M ■ €25M to €100M ■ <€25M

# Sector overview







\* Note that the percentage savings in each of the size buckets from 2016 onwards is inclusive of Other Member Funds while the percentages pre 2016 don't include this figure. The percentage total sector savings in Other Member funds for September 2012, 2013, 2014 and 2015 are 0.5%, 0.6%, 0.6% and 0.7% respectively.



## Review of Investment Framework

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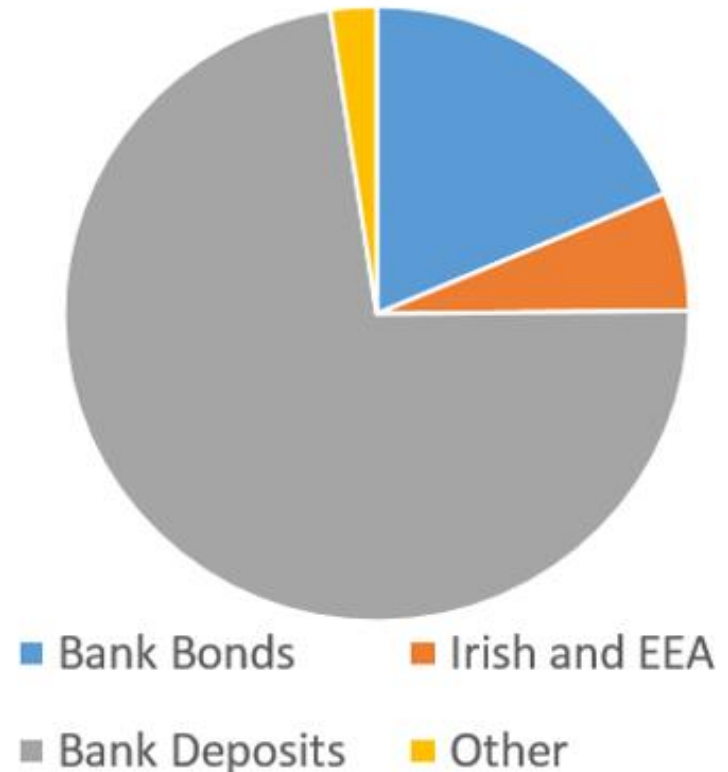
- To ensure that investment regulations remain appropriate, the Central Bank undertook to review the investment regulations in 2017.
  - The review has taken into account:
    - The objects of credit unions set out in the 1997 Act;
    - The Central Bank’s statutory mandate to regulate and supervise credit unions, 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;
    - Legislative requirements for credit unions to ensure investments do not involve undue risk to members’ savings;
    - Existing makeup of investments within the sector;
    - Proposals brought forward by the sector;
    - Changes to the investment environment arising from BRRD.
  - The above informs the appropriate level of investment risk that credit unions should be permitted to take.
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## Key Investment Trends 2012-2017

- Growth in sector assets
- Decline in sector loan to asset ratio
- Increasing exposure to accounts in authorised credit institutions and bank bonds
- Falling investment income
- Increasing maturity profile of investments
- Counterparty exposures – large proportion of investments to a small number of counterparties

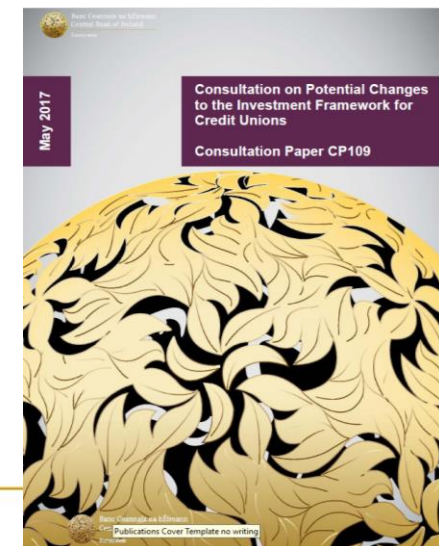
Sector Investments as at  
Sept 2017





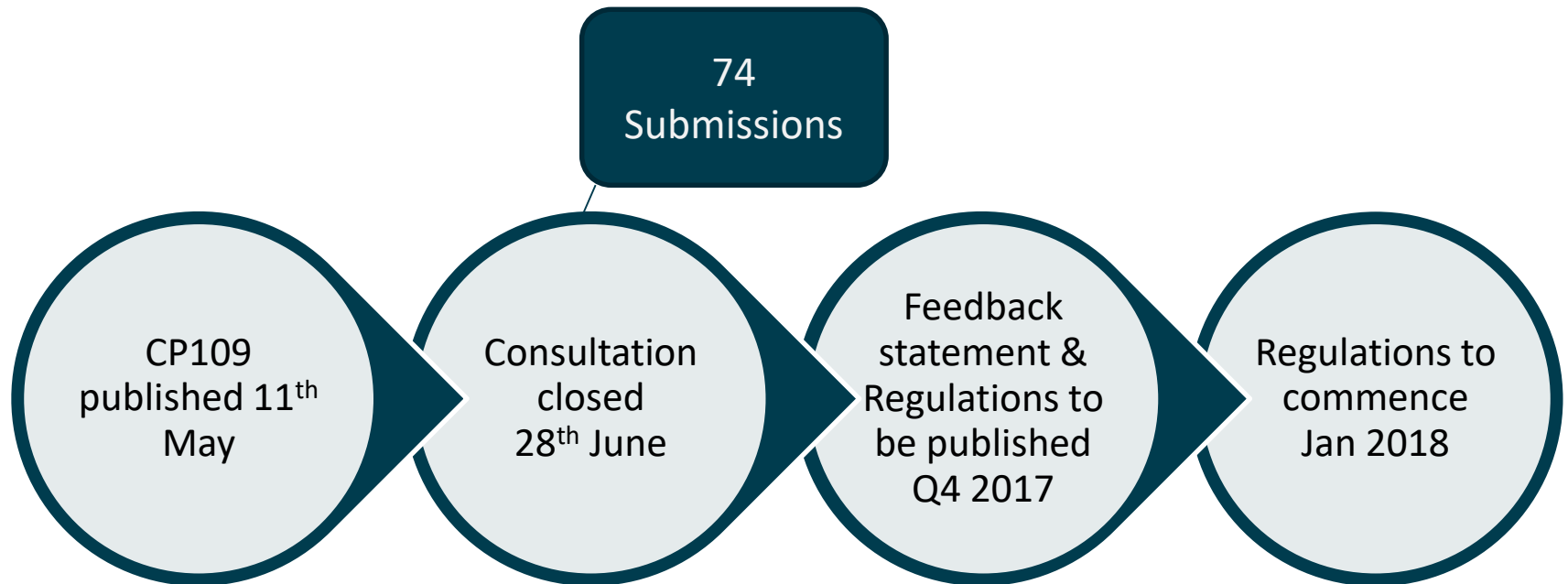
## CP109 Potential Additional Investment Classes

- CP109 indicated Central Bank considering the following potential additional investment classes for credit unions:
  - Bonds issued by Supranational Entities;
  - Corporate Bonds; and
  - Investments in Tier 3 Approved Housing Bodies, accompanied by credit quality, maturity and concentration limits.
- CP109 also proposed amendment to the counterparty exposure limit for credit unions.





## Review of Investment Framework





## Review of Investment Framework

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- The Central Bank is supportive of credit unions increasing their investment options, including through potentially playing a role in the provision of funding for social housing.
    - Credit union investment portfolios should reflect the objects of credit unions and the fact that it is members' savings that are being invested by credit unions.
  - MiFID imposes certain obligations on investment firms when providing investment services to clients.
  - MiFID classifies clients into two categories:
    - Retail Clients – **higher duty of care**;
    - Professional Clients.

Automatically categorised as Professional Clients under MiFID may opt to be treated as Retail Clients.
  - From 3 January 2018 MiFID is being replaced by MiFID II.
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# Review of the F&P Regime for Credit Unions

## Background

- Tailored F & P Regime for credit unions introduced on phased basis:
  - August 2013: credit unions with assets > €10 million;
  - August 2015: credit unions with assets ≤ €10 million, and additional requirements for credit unions also authorised as retail intermediaries.
- Introduced 2 **Controlled Functions (CFs)**:
  - A function in relation to the provision of a financial service which is likely to enable the person responsible for its performance to exercise a significant influence on the conduct of affairs of a credit union (**CUCF-1**); and
  - A function in relation to the provision of a financial service which is related to ensuring controlling or monitoring compliance by a credit union with its relevant obligations (**CUCF-2**).
- Introduced 2 **Pre-Approval Controlled Functions (PCFs)**:
  - Chair of Board of Directors (**CUPCF-1**);
  - Manager (**CUPCF-2**).



## **Review of the F&P Regime for Credit Unions**

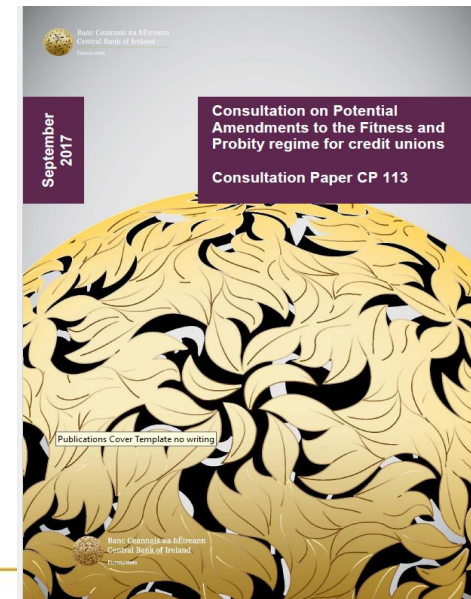
- Our objective is to ensure that the regime remains appropriate for the sector and to ensure that credit union members can have confidence that the persons holding key roles in credit unions are fit and proper to hold those roles.
- Review assessed whether a tailored F & P regime for credit unions remains appropriate - consideration given to whether it is appropriate to prescribe additional PCFs and/or additional CFs for credit unions.
- The review has taken account of:
  - recent developments, including sector restructuring and the potential for business model development;
  - findings of the themed inspection on Fitness and Probity in credit unions conducted in 2016; and
  - supervisory findings around governance and systems of control arising from on-site inspections conducted by the Central Bank in credit unions.





## Review of the F&P Regime for Credit Unions

- Following review, Central Bank considers that a tailored regime for credit unions remains appropriate.
- CP113 proposes to introduce 3 additional PCFs for credit unions with total assets of at least €100m:
  - Risk Management Officer (CUPCF-3)
  - Head of Internal Audit (CUPCF-4)
  - Head of Finance (CUPCF-5)





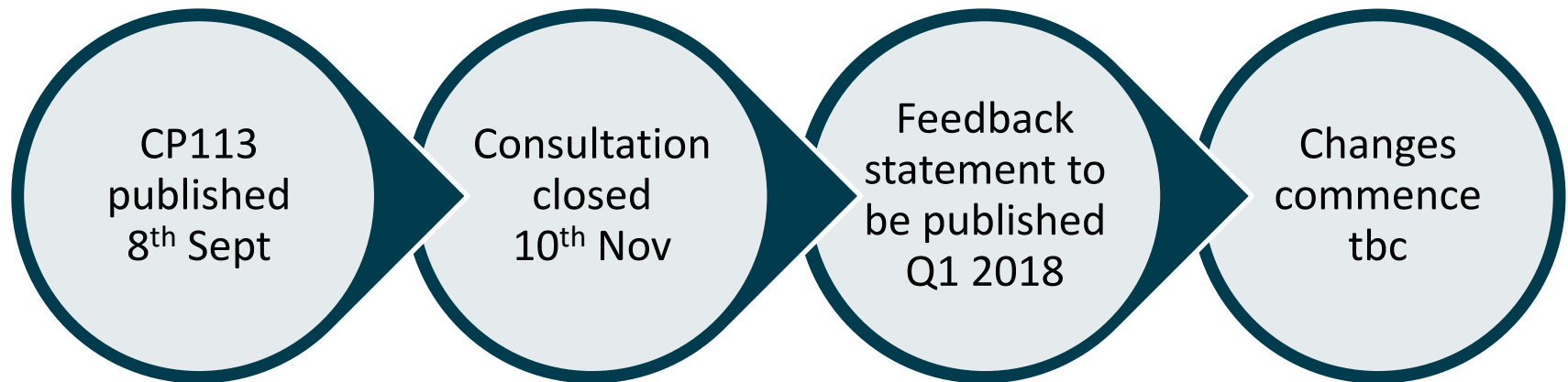
## Rationale for additional PCFs

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- Recent sector developments:
    - Restructuring across the sector and the resulting creation of larger credit unions with increased scale;
    - Effective integration of governance and systems and controls remains vital for credit unions to derive the benefits which transfers can present including strategic opportunities around business model development and growth.
  - Supervisory experience:
    - Weaknesses across a range of basic systems and controls in a number of credit unions;
    - Roles introduced as part of strengthened regulatory framework not yet fully effective in credit unions.
  - Business Model Development:
    - Sound governance and effective systems of control driven by these key role holders are an essential foundation to underpin development of the credit union sector;
    - Important that credit unions embed systems and controls to acceptable levels before considering significant business model development.
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## Review of the F&P Regime for Credit Unions – Next Steps





## F&P Reminders

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As AGMs approach:

- IQ for proposed Chair should take place within a 2-month period prior to AGM.
- Delays in processing due to insufficient information should be avoided.
  - Include credit union experience in Section 3 of IQ.
  - Demonstrate how the applicant will fulfil the role.
- Keep PCF data up to date (start and end dates) using the relevant PCF returns.





## Minister's CUAC Review of Commission on Credit

### Unions

- The Credit Union Advisory Committee (CUAC) presented its Review on Implementation of the Recommendations in the Commission on Credit Unions Report to the Minister for Finance on 29 June 2016.
- Report sets out recommendations in relation to the following areas:
  - Tiered regulation
  - Longer term lending limits
  - Consultation and engagement
  - Governance
  - Restructuring
  - Business Model Development
- Implementation Group established, consisting of members from the credit union representative bodies, the Central Bank, the Department of Finance and a CUAC representative.



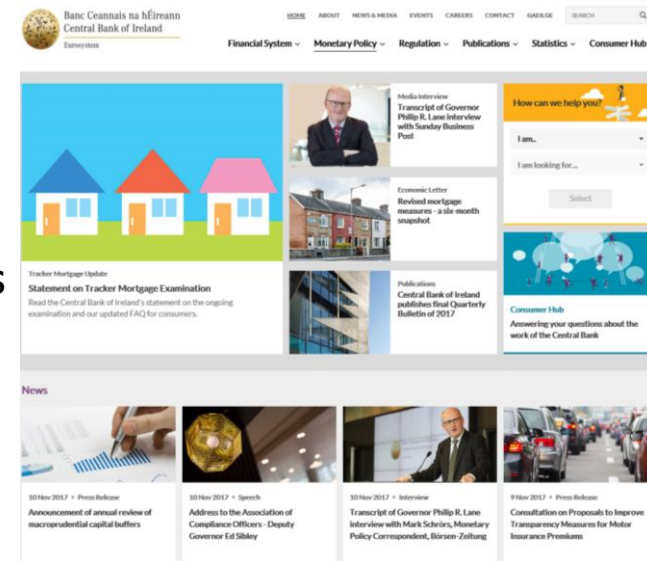


## Supporting Material for Credit Unions – updated Central Bank website

- Central Bank Website updated in 2017

### 2017 Documents Include:

- Credit Union News – two issues January & June 2017
- Financial Conditions of Credit Unions – February 2017
- Report on Thematic Fitness and Probity Inspections
- Report on Thematic Outsourcing Inspections
- CP109 – Consultation on Potential Changes to the Investment Framework for Credit Unions
- Sector Communication: Feedback on 2016 Annual Compliance Statement and Expectations for 2017
- CP113 – Consultation on Potential Amendments to the Fitness and Probity regime for credit unions
- Circular re Financial Year End 2017 – letter to auditors





# Supporting Material for Credit Unions – updated Central Bank website

## 2017 Speeches/Events

- Address by Deputy Registrar of Credit Unions, Elaine Byrne, to the CUDA AGM – January 2017
- Address by Anne Marie McKiernan, Registrar of Credit Unions to CUMA Spring Conference 2017 – March 2017
- Introductory statement by the Registrar of Credit Unions, Anne Marie McKiernan, at the Oireachtas Committee on Finance, Public Expenditure and Reform and Taoiseach
- The long-term well-being of Irish Credit Unions – turning aspiration into reality – address by Ed Sibley, Director of Credit Institutions Supervision, to ILCU AGM – April 2017
- Opening statement by Ed Sibley, Director of Credit Institutions Supervision & Acting Registrar of Credit Unions at the Joint Oireachtas Committee on Housing, Planning, Community & Local Government
- Auditor Roundtable – July 2017
- Address to the National Supervisors Forum – Frank Brosnan, Deputy Registrar of Credit Unions – November 2017
- Supporting material - **Credit Union Handbook** and **FAQs updated** on an a regular basis.

