2018

CUAC REPORT IMPLEMENTATION GROUP

FINAL REPORT

DECEMBER 2018

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Foreword

Chairing the Implementation Group has run in parallel with my role as Head of Credit Union Policy, both commencing in January 2017. While the Implementation Group had a relatively tight terms of reference it has served as an extremely useful forum to discuss other matters of importance to the credit union movement and will be continued as a stakeholder group under the secretariat of my team.

Given the transformational change in the movement in many ways since 2012 it has not always been easy to reach consensus on all matters, but it is clear that the introduction of a balanced set of lending regulations in 2019, continued embedding of tiering in regulations and improved processes for engagement with the sector are core to closing out the work of this Implementation Group. Some matters on which consensus was not reached will be a matter for further debate and challenge.

Good policy always relies on good data and in this respect I would like to thank Elaine Byrne and the team in the Registry of Credit Unions for their responsiveness in fulfilling many data requests for the Implementation Group. In a similar fashion Ed, Kevin, Tim and Joe and their colleagues from the representative bodies played an important role in understanding the views of credit union directors, managers and members. Joe O'Toole provided an invaluable link to the CUAC, providing clarity on the rationale for the recommendations made. Lastly I would like to thank my own team – Cian, Tom, Joan – and their former colleagues – Deirdre and Scline – who worked so diligently over the last two years in supporting the Implementation Group.

On a personal note I have been impressed by the level of serious endeavour being undertaken in the credit union movement at this time to deliver more services to their communities. I also believe that the relationship with the Central Bank, as regulator, has improved and that there is reason to believe it can improve further.

While this is the Final Report of the Implementation Group it is just another staging post for the movement as a whole, as the sector looks to continue to develop, modernise and strengthen in order to provide for their members and to meet the needs of the communities in their common bonds.

Brian Corr
Head of Credit Union Policy
Shareholding & Financial Advisory Division
Department of Finance

1. Credit Union Advisory Committee (CUAC)

Function of CUAC

Under Section 180 of the Credit Union Act 1997 the function of CUAC is to advise the Minister in relation to:

1. the improvement of the management of credit unions;
2. the protection of the interests of members and creditors of credit unions; and
3. other matters relating to credit unions upon which the Minister, the Central Bank or such other persons, as may be specified by the Minister, may from time to time seek the advice of the Committee.

CUAC Report

The CUAC report of June 2016 entitled *"Review of the Recommendations in the Commission on Credit Unions Report"* formed the basis for the work of the Implementation Group described in Section 2.

The purpose of this report was to identify recommendations made by the Commission on Credit Unions and to examine their implementation, having regard to their impact on credit unions, and environmental changes that had occurred following publication of the Commission on Credit Unions Report. The report also took account of the spirit/intention of the Commission, the not-for-profit mandate of credit unions and their volunteer ethos and community focus, while giving due regard to the need to fully protect members' savings and financial stability. The need for credit unions to develop their business models and grow income in a prudent manner was also considered.

Membership

The establishment of the CUAC which issued the 2016 Report and the three policy papers[1] received Ministerial approval on 22nd September 2014. The members were Professor Donal McKillop, Ms Denise O'Connell and Mr Joe O'Toole.

The appointment of an additional two members, Ms Claire Byrne and Mr John Doyle, both senior credit union managers, were made in December 2017. The term of those three members appointed in September 2014 expired in September 2018, at which time new members were appointed.

The CUAC currently comprises the following members whose terms of appointment will expire from January 2020 to September 2021:

Member	Term	Current Role
Lorraine Corcoran, Chair	Sept 2018-Sept 2021	Consultant (Afinite), Member of Personal Microcredit Committee
Claire Byrne	Dec 2017-Dec 2020	CEO, St Raphaels Credit Union
John Doyle	Dec 2017-Dec 2020	Operations Manager, St Jarlaths, former CEO of ReBo
Olive McCarthy	Sept 2018-Sept 2021	Senior Lecturer in Cooperative Studies, UCC
Seamus Newcombe	Sept 2018-Sept 2021	CEO, Payac; former CEO Link Credit Union
Diarmuid O'Keefe	Sept 2018-Sept 2021	Head of Financial Services, Eisner Amper

[1] CUAC Policy Papers December 2017

Ministerial Direction

On appointment in September 2018 the current members of CUAC were requested by the Minister to focus on business model development as the biggest issue facing the sector and specifically review (1) barriers to and supports for collaborative efforts (2) SME lending, linking with the outcomes of the Local Public Banking report.

SME lending was chosen as an area of focus for CUAC because many of the other aspects of what proponents of Local Public Banking are calling for are already either well provided by the Credit Union sector, or progress in delivering them is well advanced. This includes a community focus and a not for profit ethos, nationwide branch footprint ensuring local provision of financial services, provision of personal unsecured lending, as well as advanced progress towards providing current accounts, including debit cards, and an expansion of mortgage offerings from Credit Unions.

Given the history of the sector and the high level of volunteers involved the Minister also asked the Committee to look at “people issues”, including the varied issues impacting directors, managers, staff and volunteers. This is an area which wasn't focussed on in the CUAC report in 2016 as the new governance regime, introduced in 2013, had not yet bedded down at that time.

2. Implementation Group

Establishment

Following the completion of the CUAC report the Department of Finance wrote to all of the key stakeholders seeking nominations for an implementation group. Following confirmation of the last of the nominees in November 2016 the 1st meeting was scheduled for February 2017. The Implementation Group was established under the following Terms of Reference.

Terms of Reference

The Implementation Group is tasked with:

i. Implementing each recommendation within CUAC's Report in a cohesive manner;

ii. Monitoring progress of implementation of those recommendations; and

iii. Providing regular updates to the Minister for Finance.

In carrying out these tasks, the Implementation Group will have regard to the impact of the recommendations on credit unions.

The Implementation Group was established for one year but its term was extended for an additional year at the discretion of the Minister for Finance.

The Implementation Group was not tasked with addressing legislative or regulatory issues facing the sector other than those recommended in CUAC's Report, namely:

1. Tiered Regulation
2. Lending
3. Consultation and Engagement
4. Governance
5. Restructuring
6. Business Model Development
7. CUAC Reports on Interest Rate Ceiling, AGM Voting and Common Bond.

Membership

The Implementation Group is chaired by the Department of Finance and consists of one member from each of the credit union representative bodies and the Central Bank and CUAC. There are seven official members of the Implementation Group which can be supplemented if required. The Department of Finance provides secretariat.

Member	Current Role
Brian Corr, Chair	Head of Credit Union Policy, Department of Finance
Elaine Byrne	Deputy Registrar, Registry of Credit Unions, Central Bank of Ireland
Ed Farrell	CEO, Irish League of Credit Unions (ILCU)
Kevin Johnson	CEO, Credit Union Development Association (CUDA)
Tim Molan	Chairman, Credit Union Managers Association (CUMA)
Joe Tobin	National Supervisors Forum (NSF), Treasurer
Joe O'Toole	CUAC representative[2]

[2] Until September 2018 when he resigned from CUAC

Work of the Implementation Group

The Implementation Group has met 18 times during 2017 and 2018 and has worked through each of the CUAC recommendations, prioritising work on Recommendation 2 (Lending) and Recommendation 3(a) (Consultation and Engagement) during 2017.

In addition to this Report three papers were completed by the Implementation Group on Lending, Consultation and Tiered Regulation, all of which were submitted to the Central Bank.

While not part of the Terms of Reference, the Implementation Group has served as a very useful forum to discuss other emerging issues in the credit union sector as they arise. As such, following the completion of the Implementation Group, the members of the Implementation Group would intend that they continue to meet under a different name approximately 5 times a year from Q1, 2019.

3. Important Notice

This document is not intended to bind the Department of Finance, the Central Bank or any other members of the Implementation Group in advance of any public consultation carried out by the Central Bank in accordance with its statutory mandate or any legislative process commenced by Government. The independent status of the Central Bank is recognised.

This document should not be taken in isolation of other issues under consideration by the Implementation Group, the Central Bank, CUAC and other stakeholders.

Not all credit union related issues were considered within the terms of reference of the Implementation Group, with focus rather primarily on the Recommendations from the CUAC's report.

4. Status of CUAC Recommendations

The status of each of the recommendations of CUAC is set out below, noting where possible what further work is required. A more detailed discussion of each recommendation is set out in Section 7.

1	Tiered Regulation — Progressing
CUAC Recommendation	CUAC recognises that there are significant challenges in the introduction of a tiered system and that the approach adopted can be expected to have a profound long-term effect on the sector. On balance, CUAC considers a two-tier model of regulation would be appropriate for credit unions at this time.
Status	• Detailed scoping paper submitted to the Central Bank by the Implementation Group for consideration which includes a number of proposals based on the principles of not restricting any Credit Union from services, or limits, they can currently provide, automatic inclusion in higher tier for Credit Unions of a certain size and risk profile, and clarity in the approval process. • On balance, the Implementation Group felt that the Credit Union landscape has changed considerably since the Commission and CUAC Reports and as a result, elements of tiering within Regulations may now be more appropriate than a formal division of the sector into two tiers. • The Implementation Group proposes that all new Regulations contain an element of tiering, and that tiered regulation be revisited if Regulations fail to provided sufficient tiering for the sector.
Next Steps:	All new Regulations should contain an element of tiering. Tiered regulation to be revisited if Regulations fail to provide sufficient tiering for the sector.
Priority	Of lesser priority to progress on (1) lending regulations and (2) consultation and engagement for consideration by the Central Bank and business model development by the credit union sector itself.

2	Lending — Completion expected by Q3, 2019
CUAC Recommendation	CUAC recommends a full review of lending limits and concentration limits, including the basis of the calculation of the limits together with the liquidity requirements attaching to same.
Status	Detailed scoping paper submitted to the Central Bank in November 2017 by the Implementation Group, supported by the Minister, for consideration. Central Bank requested credit unions to complete a detailed questionnaire and commenced a public consultation in October 2018.
Next Steps:	Requires formal consultation by Central Bank, which commenced on 24 October 2018. Consultation period closes on 9 January 2019.
Priority	Considered highest priority of all CUAC recommendations by the Implementation Group.

3(a)	Consultation & Engagement — Progressing but no clarity on implementation
CUAC Recommendation	Clarity, certainty and transparency are essential for a meaningful engagement process. CUAC recommends the introduction of Service Level Agreements to aid this process.
Status	Detailed scoping paper submitted to the Central Bank in November 2017 by the Implementation Group for consideration, supported by the Minister. Tangible actions have been undertaken by the Central Bank including a CEO Forum and Credit union Workshops, though without the inclusion of representative bodies. Notwithstanding this an SLA (or equivalent) has not been introduced, as was recommended by the CUAC.
Next Steps:	Remains a matter for consideration by the Central Bank, within its statutory remit.
Priority	Considered high priority by CUAC and IG.

3(b)	Consultation & Engagement Satisfactory Progress
CUAC Recommendation	CUAC recommends that a meaningful Regulatory Impact Analysis should be part of any consultation process.
Status	Central Bank processes for public consultation include detailing the impacts. Public consultation since the CUAC report have included CP109 (Investment Regulations) CP113 (Fitness and Probity) and CP125 (Lending) which all have included comprehensive regulatory impact analysis. Feedback was given by stakeholders which will assist the Central Bank in refining future consultations.
Next Steps:	Remains a matter for consideration by the Central Bank, within its statutory remit. Feedback from stakeholders should allow for continued improvement in consultation processes.
Priority	IG believes progress has been made and hopes that this progress will continue, especially in terms of more practical consideration of the impact on costs and income of individual credit unions, not just the credit union sector.

4	Governance No action required
CUAC Recommendation	CUAC recommends that proportionality be exercised in the implementation of governance requirements. CUAC also recommends that both the Central Bank and credit unions guard against excessive focus on governance to the detriment of service delivery and business growth.
Status	IG believes satisfactory progress has and will be made and that governance should be a focus of the next CUAC.
Next Steps:	Remains a matter for consideration by the Central Bank, within its statutory remit.
Priority	Low priority for Implementation Group given lack of tangible action required.

5	Restructuring No current action required
CUAC Recommendation	CUAC considers that those credit unions that have restructured and those that restructure in the future will need additional support, which in certain cases may be technical in form. CUAC recommends that a mechanism be established to provide such support.
Status	Since ReBo has ceased operating restructuring has continued but at a much slower pace. Lessons have been learned from the mergers undertaken. ReBo published its final report in July 2017 which included a range of recommendations for the sector to progress.
Next Steps:	• Department of Finance to progress a review in 2020-2021, to allow for time to incorporate several years of post-merger data. This review should allow for informed understanding of those specific areas where additional support is required and tailoring of options to provide such support. • Central Bank to publish a thematic review on transfers of engagements undertaken.
Priority	Department of Finance led review to be scheduled for 2020-2021 to allow for sufficient post-merger data to be utilised in the review.

6	Business Model Development Some progress
CUAC Recommendation	CUAC recommends that credit unions prioritise business model development and consider investing significantly in the development of their business models either individually or collectively.
Status	Since the CUAC report significant progress has been made in a range of areas including notably payment services, current accounts, including debit cards, agri-lending, mortgage lending shared services, IT development, digital marketing and wider roll out of Revolving Credit. The CEO Forum is also to focus on this area and the new CUAC will include this as a priority item.

Next Steps:	• Credit unions and Representative Bodies to accelerate shared services initiatives. • Central Bank to continue to support the CEO Forum and other business model development initiatives. • CUAC to prioritise.
Priority	High priority for all stakeholders.

7(a)	**Interest Rate Ceiling** — **Proposed legislative change made to Minister**
CUAC Recommendation	CUAC's view is that credit unions should be permitted to charge an interest rate on loans greater than the present ceiling of 1 percent per month. CUAC believes that the loan interest rate ceiling should be raised to 2 percent per month. To increase the interest rate ceiling on loans, legislative change to Section 38 1(a) of the Credit Union Act is required.
Status	IG reviewed the recommendation and agreed in principle to propose legislative change. IG proposal is to raise the interest rate cap to 2% per month and for the flexibility to be introduced to allow the interest rate to be amended in future by Statutory Instrument following consultation with the Central Bank and CUAC.
Next Steps:	Minister to consider the proposed legislative amendment for introduction at the earliest opportunity.
Priority	Medium Priority.

7(b)	**AGM Voting** — **Proposed legislative change made to Minister**
CUAC Recommendation	CUAC recommends that, as an alternative to in-person attendance at AGM, credit unions should also offer members the option of voting electronically. CUAC notes that the introduction of electronic voting by members will require changes to the Credit Union Act, 1997. If legislation is to be amended, CUAC recommends that the amendments should be sufficiently flexible to enable credit unions to provide for means of electronic voting in their rules should they so wish.
Status	IG reviewed the recommendation. Credit union representatives were cautious about proxy voting and felt it wasn't a priority issue. Legislative changes to give Credit Unions the option of using electronic voting could be considered by the Minister if other legislative amendments were being made. The IG also felt that an assessment of the different legislative requirements for voting (e.g. Special Resolutions) should be undertaken to ensure that they are appropriate.
Next Steps:	Minister to consider the proposed legislative amendment for introduction, taking into consideration the cautious stance of credit union representatives.
Priority	Low priority.

7(c)	Common Bond	Targeted proposed legislative change made to Minister
CUAC Recommendation	The outcome of the survey suggests that it would be timely to now consider some change to the current common bond arrangements. Based on responses from credit unions and taking account of recent developments in the sector, including developments in other jurisdictions, a number of options have emerged for consideration. These options should be considered in tandem with options identified in relation to CUAC policy papers on e-voting and the credit union interest rate. **Options** Based on the responses received to the CUAC survey and the view of the majority of respondents that the common bond should not be fully removed, the following options should be considered: 1. The opening up of the Common Bond to assist credit unions in developing their business models and growth potential. 2. The removal of the anomaly whereby credit unions are prohibited from introducing business to each other but can introduce business to other financial institutions. 3. Any changes to the common bond should occur within a 5 year time period. 4. The rules regarding the common bond should be made clearer with better communication as to the meaning/nature of the common bond. 5. Updating what the boundaries of the common bond are as in most cases these arrangements have been in place for a significant period of time.	
Status	IG reviewed the recommendation and options proposed. While Credit union representatives were cautious regarding changes to the Common Bond and the majority felt it wasn't a priority issue, others believed it is unintentionally preventing some members, or potential members, access to credit union services. It was also felt that proper consideration of the common bond (Option 5) would be costly given the range of expertise required in land law, geography and mapping. However the IG agreed that in principle Option 2, to allow credit unions to introduce business to other credit unions, should be addressed in some way. Further consideration is necessary however to ensure that any proposed changes respected the integrity of the current common bond. The IG also agreed that further research was required given the limited information available on current common bonds and the material changes arising from mergers.	
Next Steps:	Further consideration necessary. Minister to consider any proposed legislative amendment to address Option 2.	
Priority	Medium priority.	

5. Recent Legislative and Regulatory History

A considerable amount of work has been expended by credit union stakeholders in establishing more effective governance and regulatory requirements since 2011.

The Commission on Credit Unions, with extensive stakeholder involvement, produced a detailed review of the sector and proposed a wide range of legislative and regulatory reforms which were in the main introduced in legislation in 2012/2013 and in subsequent regulations issued by the Central Bank. Most of these regulations were introduced on 1st January 2016 following a detailed consultation process with the sector (Central Bank Consultation Paper 88).

Year	Legislative & Regulatory Action
31 May 2011	Establishment of Commission on Credit Unions
20 October 2011	Central Bank and Credit Institutions (Resolution) Act, 2011 enacted
30 March 2012	Commission on Credit Unions Report published
19 December 2012	Credit Union and Co-operation with Overseas Regulators Act 2012 enacted
28 May 2013	Central Bank regulations published bringing credit unions into Fitness & Probity regime
23 December 2013	The Central Bank published CP76 – Consultation on Tiered Regulation. Consultation was closed without action on 31 March 2014[3].
27 November 2014	The Central Bank published CP88 – Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act (CP88)[4]
1 January 2016	Entry into force of Central Bank regulations for CP88
5 July 2016	CUAC Report published "Review of the Recommendations in the Commission on Credit Unions Report"
11 May 2017	The Central Bank published CP109 - Consultation on Investment Regulations for Credit Unions
1 March 2018	Entry into force of revised Central Bank Investment Regulations (CP109)
19 April 2018	Provisioning Guidelines for Credit Unions issued by the Central Bank
31 May 2018	Central Bank regulations published updating Fitness & Probity regime for credit unions > €100 million assets. Regulations commenced on 1 July 2018.
24 October 2018	The Central Bank published CP125 – Consultation on Lending Regulations for Credit Unions. Consultation period is open until 9 January 2019.

[3] Guidance on provisioning in CP76 was extracted and separately progressed
[4] Reserves; Liquidity; Lending; Investments; Savings; Borrowing; Systems, Controls and Reporting arrangements; and Services Exempt from Additional Services Requirements.

6. Developments since the CUAC Report

6.1 Overview

There is no doubt that the period since 2010 has been one of transformational change in the credit union sector, beginning with the CUCOR Act 2012 (which followed the Commission on Credit Unions), multiple new regulations, large numbers of mergers, introduction of Fitness & Probity regime, and management of commercial challenges including failing investment income and arrears, to name but a few.

The credit union sector has managed this period of profound change well, but is now refocussing on improving and expanding the services to their members, recruiting new members and further embedding governance changes made since 2012. Notwithstanding the immense change undertaken, credit unions regularly top surveys regarding reputation and costumer experience. 2018 was no exception with the sector earning top spot in a survey of Ireland's most highly regarded organisations (2018 RepTrak report) as well as being voted number one for Customer Experience for the fourth consecutive year in the 2018 CXi Ireland Customer Experience Report. These results are in stark contrast to many other financial services providers.[5]

6.2 Financial Profile

In reviewing the financial profile of credit unions it is important to note the not-for-profit ethos and that returns to members can be provided both in dividends and by way of interest rebates. Since the issuance of the CUAC Report in July 2016 (referring to the financial year-end September 2015) much has changed in the credit union sector:

- The number of credit unions have declined from 343 active credit unions at September 2015 to 264 active credit unions at 31 March 2018, a decline of 23%. Credit unions with over €100 million in assets have grown from 37 in 2015 to 53 at 31 March 2018 controlling 55% of sector assets, up from 41% in 2015. Since September 2015 credit unions of < €20 million asset size have reduced by 55%.

- Assets have grown from €14.5 billion in March 2015 to €17.2 billion at 31 March 2018, an increase of 19%. Average asset size has grown from €43.7 million in 2015 to €65.4 million in March 2018, an increase of 50%

- Loans have grown from €3.95 billion in September 2015 to €4.5 billion at 31 March 2018, an increase of 15%. Despite loan growth the 27% average sector loan to asset ratio has remained broadly static since 2015, primarily as a result of continuing growth in member savings. Loan arrears have continued to fall from 13.5% in 2015 to 6.95% at 31 March 2018.

- Savings have grown from €12.49 billion in September 2015 to €14.34 billion at 31 March 2018, an increase of 15%. Total membership of credit unions has increased by 6% over this period while average members' savings has increased from €3.4k in September 2015 to €4.2k at 31 March 2018, an increase of 11%. The rise in savings, while a sign of confidence in the sector, has also been driven by the exit of certain banks and by the closure of bank branches of the

[5] http://thecxcompany.com/wp-content/uploads/2017/06/CXi-Report-2018.pdf

remaining banks. In comparison to Credit Unions the combined value of State Savings grew from €19.45 billion in 2015 to €20.42 at end 2017, an increase of 5% over a similar period.

- Costs have increased from €387 million in 2015 to €398 million for the year to September 2017, reflected in a cost income ratio of 72%. Total sector salaries are c 39% of total costs, which includes contributions to the Deposit Guarantee Scheme since 2016. As a result of continued reduction of arrears, provision write-backs occurred in 2015, 2016 and 2017 and could be considered non-recurring.

- Reserves averaged 16.5% in March 2018 and at that date only three credit unions had less than 10% reserves[6]. Reserves are calculated as a percentage of assets with no risk-weighting applied, in contrast to credit institutions.[7]

- Return on assets has fallen from 1.4% in 2015 to 0.7% in March 2018[8] impacted by a rising cost base combined with falling investment yields. 24 credit unions (9% of total at that time) reported a deficit for the six months to 31 March 2018.[9]

Given the weakening return on assets there will be further focus by credit unions to increase income, or increase interest-earning assets or reduce costs, at a time when all stakeholders agree that significant investment is required to address business model development.

The table below outlines some of the key metrics for the credit union sector. Further detail on the performance of the credit union sector is available in the Financial Conditions of Credit Unions statistical reports published twice yearly by the Central Bank[10].

	September 2015	September 2016	September 2017	March 2018
Loans €bn	3.95	4.15	4.45	4.54
Assets €bn	14.96	15.96	16.78	17.21
LTA %	27.8	27.4	27.2	27.0
Arrears %	13.5	9.7	7.4	7.0
Reserve ratio %	16.2	16.5	16.8	16.5
ROA[11] %	1.5	1.2	1.0	0.7
No. of credit unions	343	292	274	264
Savings €bn	12.49	13.29	13.92	14.34

Source: Central Bank

[6] These credit unions have since transferred to other credit unions under the transfer of engagement process
[7] Credit institutions are subject to the capital requirements contained in the Capital Requirements Regulation/Capital Requirements Directive IV. Minimum requirements as a percentage of an institutions risk weighted assets are 4.5% Common equity Tier, 1.5% Additional Tier 1 and 2 per cent Tier 2. Pillar 2 capital requirements may also be imposed reflective of the idiosyncratic risks of each institution. There are also a number of additional capital buffers which may be imposed - these include the capital conservation buffer, the countercyclical capital buffer, the systemically important institutions buffer and the systemic risk buffer.
[8] 6 months to 31 March 2018 annualised
[9] Seven subsequently became non-active, of which three have since been de-registered.
[10] https://www.centralbank.ie/Regulation/industry-market-sectors/credit-unions/communications
[11] Return on assets

6.3 Restructuring

Credit Union Restructuring Board (ReBo)

A core recommendation of the Commission in its March 2012 Report was that the sector should be restructured on a voluntary, incentivised and time-bound basis. It further recommended that a new body should be established on a short-term basis – called the Credit Union Restructuring Board (ReBo) – to engage with credit unions and to facilitate the restructuring process. ReBo was established on an administrative basis in August 2012 and was put on a statutory footing on enactment of section 42 of the 2012 Act on 1 January 2013. In 2012 €250 million of Exchequer Funds was provided in order to facilitate ReBo's restructuring work. However only c. €11.6 million of Exchequer funding was required, a fraction of what was provided.

The 2012 Act provided that when the Minister for Finance (the Minister) was satisfied that ReBo has completed the performance of its functions under Part 3 of the 2012 Act, the Minister may dissolve ReBo. Taking account each aspect of ReBo's functions and following due consideration, examination and a detailed analysis of its work, the final review of ReBo under section 43(2)(b), concluded that ReBo has completed the performance of its functions to the highest standards and the orderly wind down of ReBo's operations was recommended. As a result ReBo ceased restructuring at 31 March 2017 and ceased operations from 31 July 2017 at which date the board of ReBo published their own report. [12]

The Section 43 report demonstrates that ReBo has worked methodically and diligently throughout its time-bound lifetime to maximise its potential in facilitating and overseeing restructuring of the credit union sector in Ireland. Additionally, it completed its restructuring work with minimum call on Exchequer resources.

ReBo completed 82 restructuring projects involving 156 credit unions across 24 counties, with assets totalling circa €6 billion.

Post ReBo

Restructuring has continued post-ReBo, with a further forty projects having commenced under the Central Bank. As at 30 June 2018, 28 projects were progressing, of which seven were originally ReBo projects.

6.4 Credit Union Initiatives

Since the CUAC Report in July 2016 there has been a considerable acceleration in initiatives being progressed by the credit union sector at many different levels. A selection of the initiatives are outlined below. As some of the initiatives are at an early stage of implementation or have not yet commenced it is too early to judge their performance.

[12] ReBo Final Report – July 2017

Initiative	Comment
Current Accounts, Debit Cards (MPCAS)	MPCAS service allows approved credit unions to offer personal current accounts, and a range of payment services including debit cards, overdrafts within an appropriate risk framework. A shared service company (PAYAC), owned by member credit unions, has designed the standardised product features, IT technical specifications, and built the shared services infrastructure to deliver the MPCAS for a large number of credit unions. Due to launch in early 2019. A similar initiative is being undertaken by CUSOP which is a credit union owned shared services company set up in 2013 by the ILCU and credit unions to develop a standardised payment services operating model. The service allows credit unions to extend their product suite by enabling them to offer payment services to credit union members.
Mortgage Lending	Credit Union Development Association (CUDA) has developed a mortgage lending process, SAM, to assist its members in meeting the complex regulatory requirements in mortgage lending. Irish League of Credit Unions (ILCU) is developing a shared service type initiative to provide credit unions with a standardised, structured and disciplined framework for the processing and fulfilment of mortgage lending, based on best practice, and in a manner that meets all regulatory requirements. Home Loans CUSO has successfully piloted in a number of credit unions with a national roll-out now taking place.
Digital Transformation	CUDA, through the Solution Centre, has focused on promoting the adoption of digital financial services by credit unions. Firstly, a series of three White Papers were produced, setting out for credit unions the background to FinTech, how it's adoption will be beneficial and explaining the requirements for achieving the automation of core processes. This work has resulted in the scoping of a Digital Transformation Programme, which seeks to implement the recommendations of the third FinTech White Paper. The immediate focus of the digital transformation programme is on the automation of core processes, both lending and new Member sign-up, so as to increase lending and improve Member experience. Digital marketing is the key driver of loan origination in digital transformation, and is now successfully being used by credit unions to target the different member cohorts through the various delivery channels.
Agri-lending	Cultivate, an agri-lending initiative started by four credit unions in County Galway, to provide short and medium term financing solutions built specifically around the growing needs of their farming members which has since expanded to 20 credit unions with a small farming base in their common bond. There are now twenty credit unions involved and approximately 600 farmers availing of credit facilities through these Credit Unions using the Cultivate brand.
AML	ILCU, CUDA and CUMA have worked collaboratively to develop their response to Anti Money Laundering Legislation for their collective membership base.
Revolving Credit	Revolving Credit is an initiative that forms part of CUDA's digital transformation platform. 'Revolving Credit product solutions' is also one of the workstreams that has been commenced by the Steering Group of the CEO Forum.

6.5 Regulation & Supervision

Backdrop

In March 2012 the Report of the Commission on Credit Unions recommended a new regulatory framework specific to credit unions built around the principles of responsibility, accountability, prudence, compliance and transparency.

The legislation which introduced this new legal and regulatory framework, the Credit Union and Co-operation with Overseas Regulators Act 2012, provides for the delegation of regulation making powers[13] to the Central Bank in respect of specific matters, including savings, borrowing, lending, investments, reserves, liquidity, systems of controls and reporting arrangements. The legislative measures were commenced on 1st January 2016, in tandem with commencement by the Central Bank of specific regulations.

Recent Developments

Since July 2016 there have been several important regulatory and supervisory developments regarding credit unions:

- **Supervisory approach**: there has been significant revision to the supervisory approach for credit unions which includes the application of the PRISM[14] framework for supervision. This means that the supervisory approach is now tailored to the size, complexity and risk profile of each credit union with an enhanced supervisory approach for those credit unions with assets greater than €100 million. This is considered a positive development by the credit union members of the Implementation Group, who believe the process would be further enhanced with greater transparency.

- **Investment Regulations**: following a consultation process which commenced in May 2017 the Central Bank announced changes to the investment regulations for credit unions which came into force on 1 March 2018. Three new investment classes were introduced, accompanied by the introduction of specified credit quality, maturity and concentration limits. The new classes are (1) Bonds issued by Supranational Entities; (2) Corporate Bonds; and (3) Investments in Tier 3 Approved Housing Bodies (AHBs). The Central Bank also restricted credit unions from investing in subordinated bank bonds, though allowed current holdings to remain until maturity. They also introduced changes to the liquidity framework, allowing certain bonds to qualify as liquid. While the credit union members of the Implementation Group were unhappy with the changes in relation to bank bonds, they considered other changes broadly positive and that the consultation process itself had improved since CP76 and CP88.

- **Fitness & Probity**: Following consultation which commenced in September 2017 the Central Bank issued additional regulations for credit unions with total assets of at least €100 million. From 1 July 2018, 3 additional roles are designated Pre-Approval Controlled Functions (PCFs) in such credit unions: Risk Management Officer, Head of Internal Audit, and Head of Finance.

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[13]Under Section 84A of the Credit Union Act, 1997 before making regulations the Bank must consult with the Minister and the Credit Union Advisory Committee and other bodies including those with expertise or knowledge of credit unions generally.

14 The Probability Risk and Impact System (PRISM) is the Central Bank's risk-based framework for the supervision of regulated firms

The changes were considered proportionate in the context of proposals for Tiered Regulation made by the credit union members of the Implementation Group.

- **Thematic Reviews**: Since the CUAC report the Central Bank has issued five thematic reviews in relation to (1) Prize Draws (March 2018), (2) House Loans (January 2018), (3) IT Risk (January 2018), (4) Outsourcing Inspections (April 2017) and (5) Fitness & Probity (February 2017). While the thematic reviews are considered potentially useful by credit union representatives, they believe the process of distribution and language used could be refined to avoid sensationalist and damaging reporting.

- **Supervisory Commentary**: the Central Bank issued an update to its 2014 report in March 2018 which highlighted positives in terms of some examples of credit unions having successfully addressed risks identified previously but also noted that c 60% of risks identified in the course of supervisory engagements over the period January to October 2017 related to governance or operational risk.

- **Long Term Lending**: as part of the focus on long-term lending the Central Bank issued Guidance and a revised Application Form in December 2017 and issued a detailed questionnaire on lending in April 2018 in advance of the consultation on potential changes to the lending framework and regulations set out in the Consultation Paper published on 24 October 2018. The consultation is open until 9 January 2019.

- **Enforcement Activity**: The Central Bank has completed a small number of enforcement cases against individual credit unions since 2014 which have resulted in regulatory actions including fines. Issues triggering such cases included timeliness and accuracy of information submitted to the Central Bank, governance and systems and controls (including AML/CTF).

Since July 2016 credit unions have also had to respond to legislative and regulatory changes not specific to credit unions, the most significant of which was General Data Protection Regulation (GDPR).

6.6 Resolution

Since the July 2016 CUAC Report there have been two resolution cases, both of which involved the appointment of a liquidator and repayments of eligible deposits by the Deposit Guarantee Scheme. The credit unions involved were Rush and Charleville. The Credit Institutions Resolution Fund (CIRF) was not used to facilitate a transfer order in either case.

6.7 Levies and Charges

Credit unions are subject to a number of levies and charges for different purposes, the majority of which are administered by the Central Bank. The levies administered by the Central Bank are as follows in order of amount of payment:

- Deposit Guarantee Scheme (“DGS”)
- Resolution Fund levy
- Stabilisation Scheme Levy

- Industry Funding Levy[15]

Charges related to the DGS, which is an industry-wide guarantee scheme established under Irish and EU law for all deposits of banks and credit unions authorised by the Central Bank account for approximately 50% of the levies and charges administered by the Central Bank on the credit union sector.

Levies such as the Financial Services & Pensions Ombudsman Levy and the Investor Compensation Scheme Levy are not collected by the Central Bank. In July 2018 the Financial Services & Pensions Ombudsman launched a public consultation on levies within its remit.

Levies and charges have generally risen in absolute terms as the credit union sector has grown and as income has fallen. Each of these charges are an expense in the credit union's accounts.

In addition to the levies, credit unions affiliated to ILCU also pay fees to the Savings Protection Scheme ("SPS").

In June 2018 the Department of Finance published an Information Note on Levies & Charges[16] to provide details on the purpose of individual levies and charges for the credit union sector and the statutory basis for each, where relevant.

6.8 Competitive Landscape

In the unsecured personal lending space, the traditional market for credit unions and 95% of their current lending, retail banks in Ireland have in recent times begun to compete much more aggressively particularly for customers with current accounts who can have a personal loan approved and drawn down within a few hours. The retail banks are focussed primarily on delivering consumer lending digitally.

In a separate part of the consumer lending space, motor finance, credit unions have met strong growth from Personal Contract Plan (PCP) lending since 2013, which is not subject to the same regulatory burden as the Credit Union sector. The Competition and Consumer Protection Commission recently issued a report with recommendations which could, in time, lead to greater regulation of the PCP market. A further report, commissioned by the Minister of Finance, has also set out a number of recommendations to tackle potential future problems and to improve consumer protection in relation to PCPs.[17]

Increased competition has arisen from niche financial service providers, often described as FinTechs, which are growing market share in some profitable niches of the financial services landscape. While little data is available so far, anecdotal evidence would suggest that these firms are growing market share in areas such as mobile current accounts (e.g. N26, Revolut), currency transactions (e.g. Currency Fair) and micro SME lending (e.g. crowdfunding). In terms of crowdfunding, Linked Finance, Ireland's largest Peer to Peer lending platform has lent over €50 million to over 1,400 SMEs (as of April

[15] The Central Bank recently signalled that it is minded to seek approval from the Minister for Finance to increase the recovery rate to 20% for the 2019 levy cycle (to be levied in 2020), 35% for 2020 costs (to be levied in 2021) and 50% for 2021 costs (to be levied in 2022). See: Funding Strategy and Guide to the 2018 Funding Regulations.

[16] https://www.finance.gov.ie/wp-content/uploads/2018/06/Information-Note-on-Levies-for-website-FINAL.pdf

[17] Review of Regulation of Personal Contract Plans

2018)[18]. Crowdfunding is currently unregulated in Ireland, however in March 2018 the European Commission published a legislative proposal for an EU framework on crowd and peer to peer finance[19].

In contrast to the increased competition in lending and payments, there has been much less competition for deposits as firms have withdrawn from Ireland (Danske, Rabobank, Nationwide) or retail banks have closed branches. This is part of the reason for increasing savings in credit unions and the State Savings Scheme, with this increase putting pressure on Credit Union reserve requirements (which are not risk weighted)[20].

6.9 Community Banking

The Programme for a Partnership Government committed the Government to:

> "… thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions."

The Department of Rural and Community Development (formerly the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs) and the Department of Finance jointly issued a report in July 2018 which outlines the findings of the investigation of the German Sparkassen model and its potential in Ireland.

The results of the investigation into local public banking indicate that, given the current demand for and supply of credit, there is not a compelling business case for the State to establish a new local public banking system based on either the Sparkassen or Kiwibank model by drawing on Exchequer funding.

However, there is no impediment to Irish Rural Link and Savings Banks Foundation for International Cooperation (SBFIC) engaging with the Central Bank of Ireland, the credit union sector, An Post or any other private sector entity/investor in relation to their proposal. It is open to them to progress their proposal on this basis in a manner that does not involve State funding.

The Department of Finance will also continue to consider whether existing or new policy measures and initiatives could better serve the needs of Irish SMEs, including rural and regional businesses, and retail customers generally. Additional developments and emerging trends, such as FinTech will be kept under review for their potential to develop initiatives that could deliver credit in a more effective and less costly manner. Furthermore, the Department of Finance will commission an independent external evaluation of other possible ways in which the local public banking concept could possibly be promoted in Ireland. This could, for example, be by means of an online platform, through leveraging the SBCI, through the credit union movement or other means.

The credit union sector currently or will shortly deliver on a widespread basis most of the services expected of a Local Public Bank including savings products, current accounts, consumer lending and mortgages combined with a small volume of micro-SME lending. The terms of reference for the independent evaluation specifically include review of whether credit unions can deliver local community banking, as envisaged by the promoters of Local Public Banking.

[18] https://linkedfinance.com/about-us
[19] https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5288649_en
[20] Credit unions are required to hold minimum regulatory reserves of 10% of total assets.

7. Discussion of Recommendations

7.1 Tiered Regulation

Discussion

The Credit Union Advisory Committee (CUAC) felt that the opportunity has not yet been taken to implement the full spirit of the Commission on Credit Unions Report; this is most apparent in the Central Bank's decision not to introduce tiered regulation at that time. Given that the new requirements under the Credit Union and Co-Operation with Overseas Regulators Act 2012 (CUCOR Act) are fully embedded, CUAC felt that it was an appropriate time to implement a tiered regulatory approach.

In 2016 in expressing its views to CUAC as part of its review of the Implementation of the Recommendations in the Commission on Credit Unions Report, the Central Bank stated that it would examine the issue of tiered regulation again post restructuring.

In light of the CUAC recommendation and the Central Bank commitment to examine tiered regulation post restructuring, the Implementation Group prepared a paper reviewing the various recommendations of the Commission on Credit Unions, the CUAC and the Central Bank on tiered regulation for credit unions and considering the current position in relation to the credit union sector.

On balance, however, the Implementation Group felt that at this stage pursuing tiering within Regulations (rather than a formal tiered regulatory structure which would divide the sector into two tiers) may better serve to meet the needs of evolving credit union business model demands. Such a view is dependent on sufficient tiering being incorporated into all new Regulations, the most important of which is the consultation on the Credit Union Lending Framework (CP125) underway. The paper included a number of proposals for consideration, which were based on the principles that no credit union should be restricted from any service, or limits, they can provide currently, and that credit unions of a certain asset size and risk profile automatically qualify for elements of tiering within Regulations (with such tiering still available for smaller credit unions to apply for). Also essential is clarity in the approval process, and in cases where the Central Bank is minded to refuse an application that detailed reasoning and feedback is provided to the credit union applying for approval.

The Implementation Group agreed that failing sufficient tiering within Regulations and a satisfactory approval process, Tiered Regulation should be revisited.

7.2 Lending

Discussion

Section 35 of the Credit Union Act 1997 as amended by the Central Bank Reform Act 2010 provided for the making of loans by a credit union and provided the Central Bank with certain regulation making powers. The legislation set out limits on lending over 5 years and over 10 years. Following commencement of the Credit Union and Co-operation with Overseas Regulators Act 2012 (2012 Act) these "Section 35" restrictions in relation to long-term lending are set out in Central Bank regulations which commenced on 1 January 2016.

The Credit Union Advisory Committee (CUAC) considered it a missed opportunity that the prudential regulations commenced in January 2016 did not include a review of lending limits. This was raised as a key issue in its report which recommended a full review of lending limits and concentration limits, including the basis of the calculation of the limits together with the liquidity requirements attaching to same. It was acknowledged that any changes arising would need to be assessed in conjunction with the risk profile of credit unions together with an assessment of skills, capabilities and asset and liability management.

The Implementation Group issued a Scoping Document in November 2017 to assist the Central Bank in preparing for any proposals for changes to the Section 35 (Lending Regulations) that it develops for consultation in accordance with its statutory mandate.

In March 2018 the Central Bank informed Credit Unions that a review of credit union lending limits had commenced, noting that the matter had been highlighted for review in various fora, including through the Implementation Group. A questionnaire was issued in April 2018 seeking information to inform an in-depth examination of the lending limits, and the Consultation Paper was published on the 24th October 2018. The final Regulations are likely to commence in Q3 of 2019.

Responsibility for assessing the commercial viability of long-term lending, within the proposed limits, would rest with individual credit unions.

Potential Actions

The Implementation Group has set out below a range of potential actions for consideration which do not require any change in legislation and/or to regulations and which could materially benefit the credit union sector:

No	Proposals	Comment
1	Increasing capacity through loan book growth.	There are no current restrictions on credit unions increasing their loan book, particularly in the 5-10 year category, which would expand both the maturity of the loan book and increase capacity for > 10 year lending. Even if the rules didn't change, significant long-term lending capacity could be added. We would encourage credit unions to expand their loan product offering and to increase marketing efforts using lessons learned from credit unions that have grown lending strongly.
2	Increasing use of exemption	There are 20 credit unions with approval for increased limits (as at December 2018). There are currently 6 applications in progress (as at December 2018). The Central Bank published an updated application form for credit unions seeking approval to avail of increased longer term lending limits in December 2017.We would encourage pro-active engagement between the Central Bank and the representative bodies with a targeted list of credit unions that they believe could avail of the exemptions. It is also important that where the Central Bank is minded to refuse an application that clarity is provided to a credit union in question as to the reasons and what needs to be resolved.
3	Reducing quantum of lending restrictions.	The work undertaken by individual credit unions and the Central Bank to reduce the number of credit unions restricted is commendable but there are still a number of credit unions restricted representing 14% of all active credit unions. Further reductions in this number through pro-active engagement by credit unions (addressing matters which gave rise to the restriction), ILCU, CUDA and the Central Bank would allow a greater number of credit unions to engage in 5-10 year lending particularly.

4	That ILCU continue to assess the feasibility of proposals for a long-term lending fund/platform	Recognising that a large proportion of credit unions would not be in a position to access the extended limits and may not have the scale or risk appetite to do long-term lending themselves, the League has worked with its affiliated credit unions to develop a shared-service, centralised residential mortgage solution. The centralised support structure helps to manage and address the administrative burden associated with mortgage lending. The new shared service, entitled the Home Loans CUSO (Credit Union Service Organisation), is providing credit unions with a standardised, structured and disciplined framework for the processing and fulfilment of mortgage lending, based on best practice, and in a manner that meets all regulatory requirements. Home Loans CUSO has successfully piloted in a number of credit unions with a national roll-out now taking place.
5	That credit unions collaborate on shared services to assist long-term lending.	In line with experiences in Canada we believe that shared services and/or collaboration is required between credit unions to ensure the costs of providing more complex products are minimised and economies of scale are realised. The CUDA Mortgage Support Framework (SAM) initiative is helpful in this regard as is the ILCU proposal for a mortgage lending platform. We would recommend that CUDA continues to develop the SAM initiative on mortgage lending, building on the positive experience to date.

Proposals

The proposals of the Implementation Group from the Scoping Paper submitted to the Central Bank in November 2017 are set out below, with additional detail and context included in the Lending Scoping Paper. The proposals appear to have been considered in the consultation paper recently issued (CP125).

No	Proposals	Comment
1	That the maturity limit cohorts be reviewed.	Personal unsecured lending and to a large extent micro SME lending is not necessarily long-term lending. To avoid any conflation between 5-10 year lending and the core personal unsecured lending market we would propose that the categorisation of loans be reviewed and that consideration be given to amending the categories up to 7-10 years (from 5 years) and 7-10 years and above or eliminating the 5-10 year maturity limit entirely.
2	That the criteria required to apply for an exemption are as clear as possible.	We would propose that the application process for the exemption be as clear as possible and available at a minimum to all credit unions above defined criteria. Consideration should be given to defining quantitative criteria which would be a standard requirement for a range of approvals (lending, savings, and complex additional services) in addition to qualitative criteria. The application process should be available on the Central Bank website and timelines for review of applications should be consistent and swift.
3	That the maturity limits be increased for approved credit unions.	We would propose that the maturity limits be increased materially from 15% of loan book for those credit unions approved for an exemption. We would propose that consideration be given to increasing the > 10 year limit to 25-30% of the loan book or 10-15% of assets, whichever is higher, with an expectation that these limits could be reviewed as the long-term

		loan book matures and the credit union sector demonstrates its capability (see Proposal 9). Further work would be required to develop options for credit unions not capable of benefitting from the increased limits to service members.
4	That consideration be given to transition to higher limits.	We would propose that credit unions phase in long-term lending over a period of years with capacity available every year rather than over a short period. This would allow for the book to be originated over the cycle, allow for the book to mature and allow time for credit unions to increase resources required over time. We would prefer any consideration to be provided in the approval process and/or PRISM process rather than by way of annual limit in the regulations as individual credit unions could have very different circumstances.
5	Exemption from long-term lending.	Given the lack of any meaningful capacity for long-term lending in many smaller credit unions we would propose that such credit unions would be allowed to exempt themselves from long-term lending totally for a period of time in return for reduced regulatory oversight and/or less regulatory burden than those Credit Unions engaged meaningfully in long-term lending.
6	That the maturity limit be reviewed to assess its appropriateness.	While the 25 year maturity limit included in the regulations is unlikely to restrict long-term lending materially it should be reviewed to determine whether it could restrict product availability to members compared to the range of products available in the mortgage market generally.
7	That the definition of a Commercial Loan be reviewed in combination with the Concentration Limit.	While there does not appear to be any restriction on the capacity of credit unions to issue Commercial Loans a review of the definition and the requirement for Commercial Loan greater than €25,000 to be classified as such until repaid could be reviewed to ensure it is appropriate.
8	That the Central Bank compares credit union funding and liquidity to that required in other credit institutions in advance of any review of liquidity requirements relating to lending	In order to properly assess any proposals made in relation to funding and liquidity in response to increased maturity profile of the loan book it would be useful to undertake an exercise comparing the current profile of credit unions and the current credit union liquidity rules with those required for other credit institutions, particularly the Liquidity Coverage Ratio and the Net Stable Funding Ratio, which require credit institutions to take a more sophisticated approach to liquidity management than credit unions. Such an exercise may require additional data from credit unions that is not currently provided to the Central Bank and as a result may need to be a targeted exercise. Consideration should also be given to requiring asset and liability management (incorporating liquidity requirements) to be managed on an entity basis rather than specifically tied to lending or investments.
9	That the regulations, if amended, be reviewed 3 years after implementation.	To ensure clarity for the sector including those to whom the increased limits apply and those who don't currently qualify, it is further proposed that a timeline for the next review be confirmed as early as possible. We consider that three years of data would be sufficient to conduct the review and would therefore propose a formal review in 2022, if not completed earlier.

7.3 Consultation & Engagement

Discussion

Credit unions are individually authorised firms with independent governance who interact on a range of regulatory matters with the Central Bank, primarily through the Registry of Credit Unions (RCU). Credit unions are often assisted in their actions by professional advisers and representative bodies which include the Irish League of Credit Unions (ILCU), Credit Union Development Association (CUDA), Credit Union Managers' Association (CUMA) and National Supervisors Forum (NSF).

CUAC recommended the introduction of Service Level Agreements to aid engagement between credit unions and the Central Bank. In December 2017 a document was issued by the Implementation Group to the Central Bank which set out some of the principle issues which the Implementation Group recommend for consideration by the Central Bank in engaging with the sector, preferably in the form of a written document, as recommended by the CUAC.

Since the document was issued the Central Bank has increased its engagement with the sector, details of which are set out below. Notwithstanding the increased engagement the Implementation Group considers that the recommendation of CUAC has not yet been implemented.

The Implementation Group is aware that the Central Bank has an engagement process in place with a number of the Credit Union representative bodies which commits to clear, open and transparent engagement as well as scheduled meetings with members of the Central Bank's senior team. These arrangements do not impose legally binding obligations on the Central Bank and its Statutory Mandate is clearly set out. The Implementation Group believes that these arrangements should be periodically reviewed to ensure they are appropriate, and consideration should be given as to whether they should be extended to other Credit Union stakeholders.

Central Bank Engagement

Since the publication of the CUAC Report in July 2016 Central Bank engagement with the sector has improved, both formally and informally. There have been several notable improvements.

No	Engagement Type	Comment
1	Information Seminars	Annual events. The 2018 information seminars were held in five locations - Dublin (2), Athlone, Kilkenny and Cork. 140 credit unions were represented amongst the 450 attendees which included board members, volunteers and management.
2	Financial Conditions of Credit Unions statistical Report	Issued twice yearly to provide stakeholders with more regular information on key financial metrics with commentary. Commenced in February 2017.
3	CEO Forum[21]	Forum, with an independent chair appointed by the Central Bank, to assist in developing business model development initiatives. Commenced in July 2018. It was noted that the Representative Bodies were not included in this forum.

[21] The role of the Central Bank in the CEO Forum, which is CEO-led under the independent Chair of Professor Donal McKillop, is to provide secretariat support to the Steering Group and, as regulator, to engage constructively on regulatory aspects.

4	Sector Publications	Central Bank has published a number of papers throughout 2018 to assist credit unions including the 2018 supervisory commentary, reports on thematic reviews undertaken by the Central Bank and provisioning guidelines for credit unions.
5	Workshops	Workshops for directors of credit unions of differing sizes on key topics commenced in July 2018. 1st topic was Governance.
6	Expansion of Stakeholder Events	Expanded stakeholder events to include specific events for external auditors and internal auditors separately. Commenced in 2017.
7	Dedicated Business Model Unit	The Business Model Unit was established in 2016 to support oversight of business model risk profile and engage with the sector on facilitating prudent business model development.
8	MPCAS Approval Process	Detailed guidance was given on the approval process for the members personal current account service.

7.4 Governance

Discussion

In its report in July 2016 CUAC considered that governance requirements on Irish credit unions are on a par with international best practice with further additional governance requirements unnecessary.

CUAC again emphasises the importance of the Central Bank:

> *'having regard to the need to ensure that the requirements imposed by the regulations made by it are effective and proportionate having regard to the nature, scale and complexity of credit unions'.*

CUAC believed that proportionality is currently not evident for those credit unions that operate a simple savings and loan model. CUAC is also cognisant that new governance arrangements take time to bed down. While credit unions generally have embraced new governance measures, CUAC is of the view that some credit unions may consider governance as merely a box-ticking exercise.

CUAC recommended that:

- all credit unions implement governance requirements in the manner in which they were intended.
- proportionality be exercised in the implementation of governance requirements.
- both the Central Bank and credit unions guard against excessive focus on governance to the detriment of service delivery and business growth.

The Implementation Group acknowledges that strong governance standards are a fundamental requirement to support strong viable credit unions and are a pre-requisite for credit unions seeking to expand their existing business models. Feedback from the CUAC Report and the Central Bank suggests that more work is needed to embed governance requirements in credit unions and to improve governance standards across the sector. Feedback from sector representatives suggests that governance has improved and that this has taken significant time and effort. However the time required of board members has also risen significantly and there are a large volume of matters which cannot progress without board review and approval. Further work is required to ensure a clear division of roles with an appropriate balance between board, board committee and management responsibilities and to ensure individuals in key positions possess appropriate skill-sets and resources. The Implementation Group would propose that the Department of Finance review the CUCOR Act to ensure that the requirements imposed on boards are appropriately balanced.

Conclusion

As there is no specific recommendation to be implemented the Implementation Group has no further role. However the Implementation Group would recommend that the Central Bank be clear in public and private with credit unions and the sector how proportionality is being exercised and how strong governance can lead to greater flexibility in supervisory engagements. In short, compliance with best practice should be of benefit to credit unions.

In addition to the CUAC recommendations, the Implementation Group would propose that the Department of Finance review the CUCOR Act to ensure that the requirements imposed on boards are appropriately balanced between board, board committee and management responsibilities. This could include looking at the frequency of reporting for the Board Oversight Committee (BOC), addressing potential anomalies regarding election eligibility and voting, and ensuring the provisions are appropriate and up to date in light of advances in Data Protection rights etc. It is also important that members of the Board and the BOC have the appropriate skill-sets and training and have clarity on their roles.

The Implementation Group also acknowledges that the Minister for Finance has asked the CUAC commencing in September 2018 to review "people issues", which encompasses some of the Governance issues noted, particularly in relation to volunteer directors.

7.5 Restructuring

Discussion

CUAC considered that those credit unions that have restructured and those that restructure in the future will need additional support, which in certain cases may be technical in form. CUAC recommended that a mechanism be established to provide such support.

Since the Credit Union Restructuring Board (ReBo) has ceased operating in March 2017 restructuring has continued but at a much slower pace. Lessons have been learned from the mergers undertaken. ReBo published its final report in July 2017 which included a range of recommendations for the sector to progress. The key findings and recommendations from the final report are set out in Appendix 2. The Recommendations are largely consistent with those of the CUAC Report and those included in this report by the Implementation Group under the relevant topic headings.

Conclusions

The Department of Finance will progress a review of restructuring in 2020-2021, to allow for time to incorporate several years of post-merger data. This review will involve both quantitative and qualitative analysis and will recommend mechanisms to provide support, in the areas where the review determines that such support is necessary.

In addition the Central Bank will publish a thematic review on transfers of engagements undertaken since 2013.

7.6 Business Model Development

Discussion

As trusted financial services providers with an unrivalled reputation in the financial sector and a footprint which encompasses more than 500 locations nationwide, Credit Unions have a strong foundation on which to build their business models into the future. Business model development is a key focus for the sector as it seeks to capitalise on these ingredients for the benefit of their members and the movement as a whole.

At the core of business model development is how credit unions react to low loan to asset ratios, falling investment income, increasing savings, short duration lending, membership profile and technological changes. At present the focus of the sector appears to be expanding membership to younger members with credit needs and increasing lending, through larger amounts for longer duration, and a focus on opportunities such as mortgage lending and social housing. Mergers in recent years should also allow for more economies of scale and greater investment in technology. Larger Credit Unions tend to have a better cost to income ratio, lower arrears and greater return on assets. There have been some positive examples of collaboration and sector led shared services in a few specific areas.

While there is understandable focus on lending and investments to ensure a sustainable business model, further review may be required in a number of areas outlined below to ensure all potential improvements to the business model are assessed and that services provided to members are not perpetually loss-making. It is also important to recognise that there will be investment required, both in technology, personnel and other areas, to deliver more complex services to members. ILCU and CUDA supplied documents to the Implementation Group to highlight how they positively assist members in Business Model Development.

Business Model Issues

The table below outlines in more detail some of the key areas which are, and could be, developed further by credit unions and representative bodies.

No	Challenge	Potential Solutions

1	Falling investment income – returns continuing to fall as higher yielding investments roll off	• Restricted ability to achieve higher yield (CP109)
		  ○ Revisions will add to range of investment types (all low yield) but restrict senior debt
		  ○ Social housing market small (c €356.51m at end 2017[22]) and low-yielding (2.75% for 25 years)
		• Focus could be on reducing or limiting increase in surplus funds:
		  ○ Increased lending (see below)
		  ○ Restricting deposits
		  ○ Pro-active management of savings into off-balance sheet structures (possibly via life assurance products)

2	Increasing lending income – loan book now growing	• Range of measures possible without change to rules and regulations
		  ○ Wider range of products & services. Focus on Home refurb and car finance loans. Personal Microcredit Scheme as alternative to moneylenders.
		  ○ Improved processing (to compete with banks)
		  ○ Improved targeting of new & existing members
		  ○ Online marketing
		  ○ Greater use of lending exemptions

[22] http://www.hfa.ie/hfa/Live/Release/WebSite/HomePage/documents/HFA%20AR%202017%20English.pdf

		○ Reduction in lending restrictions ○ Revolving Credit (to reduce cost of delivering small recurring loans) • Review of Section 35 underway will not provide short-term benefit but could in medium term
3	Non-interest income	• Greatest service to members is generally free but costs CUs a lot i.e. managing savings – consider higher value products • Review whether other areas of non-interest income could be delivered (i.e. home, car and travel insurance) • Review charging model to ensure death benefits are remunerated
4	Operating costs increasing including levies and regulatory costs	• Ensure IT investment sufficient (possibly in collaboration with others) • Review staffing costs (including pension costs) • Ensure branches being used efficiently while maintaining value proposition of the movement's branch footprint • Review costs of delivery of member's information (online v postage).
5	Collaboration/Shared service – core to the CUAC recommendation	• Positive examples of collaboration recently ○ MPCAS ○ Cultivate Agri-lending Initiative ○ CUDA SAM project & ILCU Compliance and Mortgage projects
6	Membership profile – older but deep potential given trust	• Continue to improve data management and mining to improve targeting • Develop wider service offering for older savers • Continue to target new members and to adapt to potential changing demographics of common bonds.
7	Membership Engagement	• Engage with Members, and reach out to non-members within common bond as well as dormant members • Continue to enhance digital offering as means of engaging more with members.

Shared Services

Credit Unions have been collaborating since the early days of the movement, most notably with the establishment of the Irish League of Credit Unions in 1960. While co-operation among credit unions may have receded for a while, collaborative projects and initiatives are once again becoming an important feature of the movement. In its "Future Models of Credit Unions" chapter, the Commission on Credit Unions recognised the benefits and opportunities that the sharing of services offers credit unions. It stated that the advantages provided via shared services could in the future become increasingly important given the increased complexity and running costs expected from a modernised regulatory framework and enhanced service offering. The Commission recommended that:

> "While sharing services is to be encouraged as a mechanism for increasing economies of scale and promoting cooperation between credit unions, this should not expose the credit union to undue risk. The Commission recommends that the establishment of shared service arrangements should be facilitated, by legislation where necessary."

In recent years there has been an acceleration of collaborative/shared services initiatives by the credit union sector, many of which are detailed in Section 6.4. These initiatives have differing ownership, take different legal forms and in certain cases are regulated by the Central Bank for specific services. Such collaboration between Credit Unions, including Credit Union Service Organisations (CUSOs) and cooperative/"Central" credit unions have all been important features of the United States and Canadian Credit Union landscape and have contributed in many ways to the development and strength of these respective sectors.

The Implementation Group believes that collaboration and shared services platforms and initiatives have been and will be an integral feature of business model development for the sector. It is hoped that such initiatives continue to grow and that Credit Unions embrace shared services and cooperation while cognisant of the risks involved. Barriers and supports to collaboration in the context of business model development is one of the topics which the Minister has asked the CUAC to focus on.

Conclusion

Significant efforts have been made by individual credit unions and the representative bodies to develop the business model to address current and emerging challenges. A CEO Forum has also been established to address issues relating to business model development. Separately the Minister has requested that the new CUAC specifically review (1) barriers to and supports for collaborative efforts (2) SME lending, linking with the outcomes of the Local Public Banking report.

The Implementation Group acknowledges that further work is required to ensure the CUAC recommendation is fully addressed, particularly in expanding best practice and delivering collaborative projects across the sector. Further research and guidance on the forms by which collaboration could be delivered most efficiently by the credit union sector would also be helpful.

A Central Bank consultation paper on long-term lending is required to address mortgage lending. The Central Bank published CP125 on 24 October 2018 which outlines proposals for amendments to the lending framework for credit unions. The revised Investment Regulations, in force from 1 March 2018, allow for investment in social housing through Tier 3 Approved Housing Bodies (AHBs). Legislative change would be required to allow for direct lending to AHBs which are not within a credit union's common bond.

7.7 Interest Rate Ceiling

Discussion

CUAC's view is that credit unions should be permitted to charge an interest rate on loans greater than the present ceiling of 1 percent per month. CUAC believes that the loan interest rate ceiling should be raised to 2 percent per month. To increase the interest rate ceiling on loans, legislative change to Section 38 1(a) of the Credit Union Act 1997 is required.

The Implementation Group reviewed the CUAC recommendation and agreed in principle to propose legislative change but include provision for the interest rate to be amended by Statutory Instrument, to provide better flexibility should interest rates rise.

The recommendation of CUAC and the Implementation Group is aligned with a similar recommendation that has been put forward recently in the "Interest Rate Restrictions on Credit for Low-income Borrowers" report, compiled by the Centre for Co-operative Studies University College Cork on behalf of the Social Finance Foundation[23].

Conclusion

The revised proposal of the Implementation Group is to raise the interest rate ceiling to 2% per month and for the flexibility to be introduced to allow the interest rate to be amended in future by Statutory Instrument following consultation with the Central Bank and CUAC. This would require a legislative amendment to the Credit Union Act 1997.

[23] https://sff.ie/wp-content/uploads/2018/11/irr.pdf

7.8 AGM Voting

Discussion

CUAC recommends that, as an alternative to in-person attendance at AGM, credit unions should also offer members the option of voting electronically. CUAC notes that the introduction of electronic voting by members will require changes to the Credit Union Act, 1997. If legislation is to be amended, CUAC recommends that the amendments should be sufficiently flexible to enable credit unions to provide for means of electronic voting in their rules.

When the Implementation Group reviewed the recommendation credit union representatives were cautious about proxy voting and felt it wasn't a priority issue and that there could be negative outcomes from introduction of such voting. However such legislative changes could be considered if other legislative amendments were being made. In this regard the Implementation Group also felt that an assessment of the different legislative requirements for voting (e.g. Special Resolutions) should also be undertaken to ensure that they are appropriate. The Department of Finance and/or CUAC will consider the recommendation further in the meantime.

Conclusion

Legislative changes in this regard could be considered if other legislative amendments were being made. In the meantime the Department of Finance and/or CUAC to consider the recommendation further.

7.9 Common Bond

Discussion

CUAC concluded that the outcome of the CUAC survey suggested that it would be timely to now consider some change to the current common bond arrangements. Based on responses from credit unions and taking account of recent developments in the sector, including developments in other jurisdictions, a number of options have emerged for consideration. These options should be considered in tandem with options identified in relation to CUAC policy papers on e-voting and the credit union interest rate.

Options

Based on the responses received to the CUAC survey and the view of the majority of respondents that the common bond should not be fully removed, the following options should be considered:

1. The opening up of the Common Bond to assist credit unions in developing their business models and growth potential.

2. The removal of the anomaly whereby credit unions are prohibited from introducing business to each other but can introduce business to other financial institutions.

3. Any changes to the common bond should occur within a 5 year time period.

4. The rules regarding the common bond should be made clearer with better communication as to the meaning/nature of the common bond

5. Updating what the boundaries of the common bond are, as in most cases these arrangements have been in place for a significant period of time.

CUAC felt their paper should be submitted to the CUAC Report Implementation Group for further consideration/research.

When the Implementation Group reviewed the recommendation and options proposed credit union representatives were cautious about changes to the Common Bond and felt it wasn't a priority issue. It was also felt that proper consideration of the common bond (Option 5) would be costly given the range of expertise required in land law, geography and mapping and that any funding required by the sector would be better focussed in other areas.

However the Implementation Group agreed that in principle Option 2, to allow credit unions to introduce business to other credit unions, should be addressed in some way. The removal of this anomaly seeks to ensure that more credit union members are potentially served from within the Credit Union sector rather than being referred to competitive financial services operators.

The Implementation Group believed, however, that further work and careful consideration was necessary in order to ensure that any proposal respected and maintained the integrity of the current common bond. While some members of the group were of the view that any changes to address this issue would be merely an enhancement to the current common bond, others felt it would be preferable if this anomaly was addressed in a different manner, such as providing a legislative and regulatory footing for Credit Union Services Organisations (CUSOs), as they were against changes to the current common bond structure.

The Implementation Group also agreed that further research was required given the limited information available on current common bonds and the material changes arising from mergers. The Implementation Group is aware of a research project by a PHD student commencing in September 2018 which might greatly enhance the information available to the relevant stakeholders to make informed policy decisions.

Conclusion

The Implementation Group agreed that in principle Option 2, to allow credit unions to introduce business to other credit unions while respecting and maintaining the integrity of the current common bond, should be addressed in some way so that credit union services, existing and new, could be potentially accessible to all members who wish to meet a greater extent of their financial services needs from within the credit union sector rather than through other providers. Further consideration is necessary however to ensure that any proposed changes respected the integrity of the current common bond.

The Implementation Group also agreed that in relation to Option 5 further research was required given the limited information available on current common bonds and the material changes arising from mergers.

8. Recommendations by Stakeholder

8.1 Department of Finance

No	Section	Action	Priority
4	Governance	Department of Finance review the CUCOR Act to ensure that the requirements imposed on boards are appropriately balanced between board, board committee and management responsibilities.	Medium
5	Restructuring	Department of Finance to progress a review in 2020-2021, to allow for time to incorporate several years of post-merger data.	Progress in 2020-2021
7(a)	Interest rate Ceiling	Minister to consider the recommendation to raise the interest rate to 2% per month and for the flexibility to be introduced to allow the interest rate to be amended in future by Statutory Instrument following consultation with the Central Bank and CUAC.	Medium
7(b)	AGM Voting	Minister to consider the proposed legislative amendment to allow for proxy voting, taking into consideration the cautious stance of credit union representatives. An assessment of the different legislative requirements for voting could also be undertaken.	Low
7(c)	Common Bond	Minister to consider any proposed legislative amendment for Option 2 (to allow credit unions to introduce business to other credit unions) while respecting the integrity of the current common bond.	Medium

8.2 Central Bank

No	Section	Action	Priority
1	Tiered Regulation	May require formal consultation process depending on the outcome of the consultation on lending regulations.	Depends on outcome of No 2
2	Lending	Consultation process commenced on 24 October 2018. Consultation period closes on 9 January 2019.	High
3(a)	Consultation & Engagement	Introduction of a Service Level Agreement (or equivalent) remains a matter for consideration by the Central Bank, within its statutory remit.	High
3(b)	Consultation & Engagement	Refinements to the consultation process to continue, specifically to respond to considered stakeholder feedback.	Medium
5	Restructuring	Central Bank to publish a thematic review on transfers of engagement undertaken since 2013.	Medium
6	Business Model Development	Central Bank to continue support for the CEO Forum and other Business Model Development initiatives	High

8.3 Credit Unions and their representatives

No	Section	Action	Priority
3(b)	Consultation & Engagement	To provide considered feedback on consultations to allow for continuous improvement over time	Medium
6	Business Model Development	To accelerate shared service initiatives underway and focus on areas where further collaboration can be achieved	High
6	Business Model Development	To accelerate policy proposals in the areas of revolving credit, SME Lending, wealth/savings management and digital services	High

8.4 CUAC

No	Section	Action	Priority
4	Governance	Review “People” issues in the sector (not considered in 2016 Report)	Medium
6	Business Model Development	As part of wider review of this area to specifically review (1) barriers to and supports for collaborative efforts (2) SME lending, linking with the outcomes of the Local Public Banking report	High
7(c)	Common Bond	To keep the matter under review, particularly the options not agreed by the credit union representatives at this time	Low

9. Oireachtas Joint Committee Report on Credit Unions

9.1 Background

The Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach issued a Report on the Review of the Credit Union Sector[24] with specific reference to the Credit Union Advisory Committee Review of Implementation of the Recommendations in the Commission on Credit Unions Report in June 2016 and subsequently held Dáil and Seanad debates on the report.

The Minister for Finance wrote to the Committee to welcome their report, acknowledge that both its report and the CUAC Report are important contributions to the debate on credit union reform and highlight that much of what the Committee is recommending is already underway in terms of the work of CUAC, the CUAC Report Implementation Group, the Central Bank and the Department to date in progressing the recommendations contained in the CUAC Report.

9.2 Issues raised under review

In addressing the matters raised by the CUAC Report the Implementation Group has addressed a large proportion of the recommendations of the Committee. The Implementation Group's work on each of the particular Committee recommendations is cross-referenced in Appendix 3. The Implementation Group's recommendations in each of the matters addressed does not necessarily align with the Committee recommendations.

The Implementation Group documents on 'Principles of Engagement between the Central Bank and Credit Unions' and Section 35 (Longer Term Lending) were provided to the Committee for information in December 2017. The Central Bank has recently issued a consultation on Lending Regulations (CP125) which is open for submissions until 9 January 2019. The consultation considers each of the recommendations outlined in the Implementation Group paper on Longer Term Lending.

The Committee's report was placed on the agendas for meetings of the CUAC and the CUAC Report Implementation Group for consideration.

9.3 Issues raised not under review

There are a range of recommendations made by the Committee which are more properly addressed by other parties, particularly the Department of Finance and the Central Bank. These are noted in Appendix 3.

While not addressed by the Implementation Group certain specific actions should be noted:

- The Central Bank completed the consultation on its Investment Regulations (CP109) and the updated regulations have been in place since 1 March 2018

- To address any lack of clarity around levies, an Information Note was published by the Department of Finance in June 2018. The Stabilisation Levy review was also published by the Department of Finance.

[24] https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/joint_committee_on_finance_public_expenditure_and_reform_and_taoiseach/reports/2017/2017-11-06_report-on-the-review-of-the-credit-union-sector_en.pdf

10. 2019 Roadmap

2019 could prove to be an important year for the sector as regulatory changes take effect. A new regulatory framework for lending, expected by Q3, 2019, will allow a large number of credit unions expand their home-loan offerings materially, particularly those 54 credit unions with more than €100 million assets[25] who can demonstrate sufficient financial strength, competence and capability, to undertake additional longer term lending through a new regulatory approval process being developed. Thorough work has been undertaken by credit unions and the respective shared service offerings of ILCU and CUDA to allow credit unions to benefit from the proposed changes when they are introduced in 2019.

These changes follow material changes made in 2018 on the regulatory framework for investments which could allow up to €740 million investment in Tier 3 Approved Housing Bodies via a regulated vehicle.

2019 will also see up to 52 larger credit unions, encompassing almost half of sector assets[26], in a position to provide the Member Personal Current Account Service (MPCAS), an additional service, which enables them to offer personal current accounts, a range of payment services including debit cards, and overdrafts. More and more credit unions will also be expanding their digital and online offerings.

Other initiatives such as the agri-lending initiative, Cultivate, are likely to expand further. Following the example set by Cultivate there is potential for increased lending to micro and small enterprises on the horizon. Output from the CEO Forum could see Revolving Credit becoming a feature of more Credit Unions.

An independent external evaluation, including a public stakeholder engagement forum will also take place in the first half of 2019 on Local Public Banking in Ireland. The Credit Union sector is one of the possible delivery mechanisms for local public banking to be considered by the external evaluation.

Restructuring is expected to continue, albeit likely at a slower pace than for the period 2017-2018 during which there were 35 transfers bringing the total number of active credit unions to 253 at 1 November 2018.

Work will be advanced to implement the outstanding recommendations of the CUAC Implementation Group. For those recommendations which require legislation, including the increase in the interest rate cap, the timetable will be a matter for the Oireachtas.

[25] Proposals put forward in CP125 would immediately provide for a combined sectoral capacity of almost €1.3bn for house and commercial loans, with this figure rising as credit unions are approved for the higher limits. In the case where all credit unions with assets greater than €100m were approved for these higher limits, sectoral capacity would rise to around €2bn. (Figures based on 53 Credit Unions at time of CP125)

[26] To date 47 CUs with total assets of €8.5bn have been approved for MPCAs by the Central Bank

Headline Developments 2019

Project	Timing	Details	Credit Unions Impacted
Current Accounts, Debit Cards	H1-H2	> 52 Credit Unions in process to deliver current accounts and debit cards in 2019 with PAYAC and CUSOP	> 52 (holding > 50% of sector assets)
Mortgage Lending	H2	Expansion of mortgage lending following review of Lending Framework with expansion of ILCU CU Home pilot and CUDA SAM initiatives.	All but especially for 54 with > €100m assets (> 50% of sector assets)
Agri-lending	H1-H2	Expansion of Cultivate agri-lending initiative. 20 Credit Unions involved, 8 more expected.	20-30, focus on rural regions
Social Housing	H1-H2	Possible investments in SPV for AHBs	All
Local Public Banking	H1	Local Public Banking External Evaluation – Terms of Reference identify Credit Unions as one possible delivery mechanism to be examined.	All
CEO Forum	H1-H2	Potential output from CEO forum on Revolving Credit (and other projects)	All
Legislation	H1-H2	Legislative changes, if committed to by Minister for Finance following this report, to be progressed (subject to Oireachtas timetable)	All
Levies & Charges	H1	Review of Resolution Fund levies	All

The roadmap above does not include many individual credit union projects, additional projects being developed by ILCU and CUDA, additional projects by the teams involved in PAYAC, CUSOP or Cultivate, or other collaborative efforts in train.

Roadmap supported…

The 2019 Roadmap is in the first instance projects implemented by credit unions. In certain instances, there is strong support from representative bodies or other shared service ventures. The roadmap is also enabled in part by regulatory changes made by the Central Bank and supported by the Business Model team in the Registry of Credit Unions in the Central Bank, legislative change being supported by the Department of Finance and the advisory function of CUAC. The Local Public Banking evaluation will be supported by the Banking Policy team in the Department of Finance.

So where does this lead to…

By end 2019 it is possible that the credit union sector will itself have expanded the range of products and services materially across a wide number of credit unions, providing a strong base on which to expand the products and services across more of the credit union network in 2020 and further expansion opportunities for those credit unions delivering new products and services in 2019. During 2019, further work on Local Public Banking should clarify the potential role of the credit union movement. However, it is possible that delivery of projects already in progress now will deliver for the public many of the requirements outlined by those supportive of the Local Public Banking concept.

11. Emerging Issues and Future Challenges

Since the CUAC Report of 2016 several issues have emerged and others have been reinforced which will challenge the sector in the future.

Savings growth: while savings growth is a major drag on returns at present, effectively being reinvested into a limited pool of extremely low yielding investments which are subject to a 10% Regulatory Reserve Requirement, the sector will require stable savings in the future and needs to be conscious of the demographic profile of its savers. While savings caps may in the short-term reduce savings growth the Implementation Group would encourage more work on holistic solutions for member savings, which could involve deposits but may also include pensions or other savings products. It should also be ensured that regulatory framework is appropriate and does not unduly dis-incentivise Credit Unions from providing for its many members who wish to save. Regulations should avoid credit unions being forced to reduce deposits to the potential detriment of members, while still recognising that all investments do carry some degree of risk.

Social and affordable housing: A lot of work, from many different stakeholders, went into progressing Credit Union proposals to provide funding for social housing. This work has led to new enabling Investment Regulations being introduced by the Central Bank in March 2018 which could facilitate a combined sector investment of up to €740 million in Tier 3 AHBs via a regulated entity. Credit Unions should continue to progress their proposals for funding models to facilitate such investments in AHBs as well as continuing to explore other avenues for assisting in social and affordable housing recognising that the market is currently small – c. €356 million lending from the Housing Finance Agency (HFA) to AHBs at end 2017 – and that the funding environment for AHBs has changed as they are classed as on-balance sheet of the Government.

Asset and liability management: while loan growth is key to delivering sustainable returns in the future, credit unions are conscious that savings are generally on demand whereas some new lending opportunities may be in areas which have longer maturity profile, which will generate much lower interest income than is currently generated by unsecured lending and which in certain cases could involve fixed rate lending. As credit unions expand their lending books they will need to carefully assess the implications and manage them appropriately.

Increasingly complex products and services: credit unions are currently delivering relatively straight-forward products and services to their members. However there are advanced plans to introduce current accounts and debit cards from 2019 and for credit unions to significantly grow their mortgage loan books when the consultation on lending regulations completes in mid-2019. In addition a small group of credit unions are expanding their agri-lending, through the Cultivate product, and many credit unions have begun offering online channels for the delivery of products and services. When delivered, the expansion of these products and services will increase the complexity of each credit union involved and will require stronger governance, risk management and operational capacity.

Consolidation and the common bond: consolidation has changed the dynamic of the common bond which in certain cases has been expanded beyond a tight geographical area, utilising branch structures to serve members, and even expanded to have hybrid credit unions which are a combination of industrial and community credit unions. The full impact of the consolidation which occurred in recent years on the common bond, is uncertain.

Consolidation to larger credit unions: consolidation has led to 53/19% credit unions holding c 53% of sector assets with a further 130/48% of credit unions holding 15.5% of assets. The legislative and regulatory framework will need to be able to accommodate such a diverse sector.

Central Bank levies: Credit Unions are subject to a number of levies, which are seen by the sector as a disproportionate amount. However in terms of contributing towards the cost of supervision, the current cap of Credit Union Contributions at 0.01% of total assets (which is an effective recovery rate of c. 9%) is more favourable than levies applied to other parts of the financial services industry[27]. The Central Bank has recently signalled that it is minded to seek approval from the Minister for Finance to increase the recovery rate to 20% for the 2019 levy cycle (to be levied in 2020), 35% for 2020 costs (to be levied in 2021) and 50% for 2021 costs (to be levied in 2022).[28] This intention to move to 50% sector funding was originally signalled by the Central Bank in the feedback statement to Consultation Paper 61 in 2013. Any increase in this levy is subject to consideration and approval by the Minister of Finance.

Competitive landscape evolving rapidly: Credit unions have already seen the impact of new entrants in the car finance market (PCP) and are likely to see more competition from digital offerings in the unsecured lending space. As credit unions develop additional services these services are likely to lead to further competition with banks and FinTech providers. Some competitors to banks and credit unions are subject to lesser or no regulatory burden. Investment in technology solutions, collaboratively, will become more important as will maintenance of the uniqueness of credit unions, which continually marks them out as different to banks. Work on Local Public Banking could accelerate and provide a more direct and local competitive threat to community credit unions. Lastly, credit unions have seen limited/no competition for deposits in recent years which may not continue in the medium term.

Liquidity: Individual credit unions do not currently have routine access to a liquidity mechanism to address temporary liquidity requirements and rely on ad-hoc arrangements such as bi-lateral support from other credit unions (limited by restrictions in intra-credit union borrowing) or short-term unsecured loans and lines of credit from banks. It is also open to credit unions to liquidate longer-term investments to meet short-term liquidity requirements. While these arrangements are satisfactory at present, consideration should be given to allowing a more appropriate mechanism for such liquidity management which may involve legislative or regulatory changes to the restrictions on intra Credit Union borrowing. However any such changes would have to be carefully considered to avoid undue interconnectedness of the sector. Consideration could also be given to a centralised liquidity mechanism for credit unions, as has been introduced in Canada. Any centralised liquidity mechanism would require the necessary governance, risk management capabilities and expertise as well as appropriate regulatory oversight and a strictly framed legislative mandate. Previous work by the sector on such a central liquidity mechanism could be revisited.

Brexit: At a broad level, arising from the exposure of the Irish economy to the UK, Brexit could have a negative impact on growth, employment and income. This in turn could potentially impact on the business of credit unions, including loan growth and capacity of members to repay. In addition, certain credit unions could be further affected depending on their specific business and location.

[27] Indirect supervisory costs should also be considered when looking at the overall cost of supervision borne by the sector.
[28] Funding Strategy and Guide to the 2018 Funding Regulations.

12. Concluding Remarks

- The credit union sector has evolved significantly since the last CUAC Report, finalised in June 2016, with a larger and much more concentrated sector, challenged to deliver positive returns due primarily to low loan to asset ratios and low yields on investments.

- Work of CUAC is instrumental to the sector, considered impartial and honest broker. The Implementation Group would urge the current CUAC to engage proactively with the sector in a similar fashion and to produce regular publications on key issues.

- The work of ReBo was positive. Despite initial challenges the credit union sector accepted the concept of ReBo which was considered impartial but assisted in execution of operational plans, as distinct from CUAC which is advisory only. While the CEO Forum should assist further in business model development, all stakeholders need to consider how further support for the implementation of operational plans might be delivered.

- Since the 2016 CUAC Report collaborative activities have accelerated and have led to definitive positive outcomes and more projects in the pipeline. However the financial challenges are now much more acute as investment returns continue to fall and lending growth, while positive, is struggling to keep up with savings growth.

- The relationship between credit unions and the Central Bank has improved since the CUAC Report of 2016 and communication is much improved. Notwithstanding the progress, more work needs to be done on communication and engagement, highlighted by ill-informed and negative media coverage of recent Central Bank communications.

- The most immediate priority for credit unions is the delivery of material change to lending regulations in line with Implementation Group recommendations as soon as possible. A consultation paper (CP125) consulting on changes to the lending framework was published on 24 October 2018. This paper follows a CUAC recommendation of June 2016 and a Section 35 Scoping Paper produced by the Implementation Group. Other recommended changes, while important, are of lesser priority and are being progressed satisfactorily.

- Given the combination of low loan to asset ratios and increasing savings, consideration could be given to a lower regulatory reserve requirement for very low risk investments in order to ease the regulatory burden of members savings and to avoid credit unions being forced to move such member's savings to other providers.[29]

- A combination of regulatory changes, shared services initiatives going live and the further development of projects from Credit Unions and their representative bodies, points to 2019 being an important year for the sector. By end 2019 it is possible that the sector themselves will have materially expanded their offering, to include debit cards and current accounts for up to 50 of the larger credit unions, as well as the sector-wide potential expansion of the provision of mortgages, and the further roll out of agri-lending and other SME lending initiatives.

[29] Section 45(3) of the Credit Union Act 1997 allows the Central Bank to prescribe the application of risk weightings to assets for the purposes of calculating the regulatory reserve requirement.

- While there are undoubtedly challenges for Credit Unions – as there are for all financial services providers – the many positive initiatives in train combined with the unrivalled reputation of the sector give good reason for optimism. A potential increased appetite among consumers for ethical financial services and community orientated banking also points to the great potential of the credit union sector to continue its successes into the future. Key to realising this potential will be collaboration and harnessing the co-operative ethos of the movement through shared services, as well as an adaptability to react to the changing technological landscape, and the changing demographics of Credit Unions' individual common bonds.

Appendix 1: Reference Material (2017-2018)

Central Bank
Long Term Lending - Guidance for Credit Unions – December 2017
Financial Conditions of Credit Unions 2013 - 2018
Report on Findings of Thematic Fitness and Probity Inspections in Credit Unions - February 2017
Report on Thematic Outsourcing Inspections in Credit Unions - April 2017
House Loans in Credit Unions - Thematic Review Findings - January 2018
Prize Draws in Credit Unions – Thematic Findings – March 2018
Consultation on Potential Changes to the Lending Framework for Credit Unions CP125
Department of Finance/ReBo
Credit Union Restructuring Board Final Section 43 Review July 2017
ReBo Final Report: Restructuring of the Credit Union Sector in Ireland 2013-2017
Information Note – Credit Union Levies & Charges
Credit Union Stabilisation Scheme Review
Local Public Banking in Ireland
Review of Regulation of Personal Contract Plans
CUAC
Review of Implementation of the Recommendations in the Commission on Credit Unions Report
Policy paper on Loan Interest Rate Cap for Credit Unions
Policy paper on Alternative Means of Voting by Members
Policy paper on the Common Bond for Credit Unions
Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach
Report on the Review of the Credit Union Sector with specific reference to the Credit Union Advisory Committee Review of Implementation of the Recommendations in the Commission on Credit Unions Report

Appendix 2: ReBo Final Report[30]

Key Findings

Various key findings were noted in regard to the implementation of the steps involved in the restructuring process:

- The strength of a credit union's human resources, including those at the Board level, are critical factors for success.
- Factors including the need for close geographic proximity, the targeting of a traditional membership base and choice of partners with similar representative body affiliation, were proven not to be, in and of themselves, requirements for achieving a successful merger.
- Credit unions realised significant benefit in the use of a "fact finding" investigation at an early stage in the merger process as it helped to identify any significant issues, as well as satisfy each credit union party, prima facie, that there were no insurmountable impediments to the proposed merger.
- The due diligence phase of the merger process is critically important as its purpose is to ensure that a potential merger will be in the best interest of the credit union, and in turn, will benefit the credit union's members.
- Areas such as "cultural fit", human resource practices and operational practices required a more "hands on" due diligence process to be undertaken by the management of the transferee credit union.
- The question of determining the cultural fit between credit unions was a crucial one, and a key factor in the ultimate success of the merger

A comprehensive merger proposal business plan and budget is fundamental to the execution of a successful merger. Business plans should include sub-plans and related itemised budgets related to marketing, human resources ("HR"), training and development, and information technology ("IT") and capital. It is important to the overall credibility of the business plan that assumptions and projections be challenged by the Board and management. Assumptions need to be supported and justified with detailed action plans. Budgets need to be stress tested and demonstrate viability in both a best case and worst case scenario.

The importance of the HR plan and related blending of cultures within the merged entity was found to be of critical importance for the success of a merger. Management's role was critical in addressing cultural integration and typically involved: developing and implementing a communications plan that involved open and transparent communication and consultation with key stakeholders including the Board, management, staff, volunteers, members, external providers, etc.; building trust and co-operation amongst the stakeholders; and having clear processes in place to address stakeholder concerns. It was seen as important that the communications plan involve the development of a shared vision, set of values and member service charter for the merged entity, as well as forums for management and staff to collaborate on identifying synergies and implementing best practices across the merged entity.

It was also found that credit unions that had embraced the new governance measures introduced by the 2012 Act, were much better placed to successfully evaluate and execute a restructuring project. Having said that, it was found that for many boards, the decision to merge with another credit union was not just as a strategic or business decision, but was the most emotional decision they had had to face in regard to fulfilling their fiduciary duty to do what was in the best interest of their credit union. When faced with the prospect of a merger, credit union boards often found themselves challenged by their desire, on the one hand, to maintain their strong local community links, while on the other hand, having to make strategic decisions about the need for restructuring in order to ensure the long-term sustainability of credit union services for their members. Going forward, credit unions should not underestimate the time commitment and work load involved at all levels of the credit union (Board, Management, Staff, Volunteers) during the planning and integration phases of a merger.

Key Recommendations

Formalising the Planning Cycle

As the credit union mergers conducted to date represent only the initial steps toward sector restructuring, it will be important for credit unions to engage in the discipline of more formalised strategic planning processes on an annual basis, continually refining their medium and longer-term views, and reaching out to build relationships with potential merger partners going forward. Strategic and operational planning processes need to be more defined and imbedded in governance processes with detailed sub-plans being developed for IT, HR, Marketing, Service Delivery, Investments and Capital (Reserves). Merger proposals should be supported within the context of these strategic plans and prepared with careful

[30] ReBo Final Report: Restructuring of the Credit Union Sector in Ireland 2013-2017

analysis of the combined business and cultural fit of the prospective partners. Such proposals require stress testing and sensitivity analysis, with assumptions and projections being challenged by both Boards and management such that the merger proposal plans are "bought into", "owned" and committed to by Boards and management after thoughtful reflection and detailed discussion. Mergers will continue to require "hard" decisions concerning human resources, branch viability, replication of costs (e.g. IT) and operational efficiencies, with such decisions to be guided by the fiduciary duty to do what is in the best interest of the credit union.

Business Model Development

A credit union's strategic plan should include objectives and strategies related to the evolution of its business model. It is clear that the credit union business model will require continual updating in order to remain relevant and allow for the provision of new products/services/delivery channels in response to changing member needs and competitive conditions. It is the evolution of the business model that will be key to credit unions' competitive advantage and future sustainability. One of the benefits to be gained through the restructuring process is the ability to more effectively address business model development through the leveraging of scale and strengthening of balance sheets to allow for the acquisition of specialised resources to deliver new products/services. To ensure the relevance of ReBo's restructuring work is not diluted, a process is required to enable restructured credit unions to develop their business model. The recent initiative taken by the RCU to set up a new unit to engage with the sector on business model changes is a positive initial step in this regard. Where a credit union is compliant in all respects, and has the scale and expertise available, it should be permitted to develop its business model to access further cost efficiencies and provide additional services to suit its members' needs.

The following areas should be considered in relation to business model development:

<u>Lending Options:</u>

The expansion of loan offerings is a key priority in business model development. Credit unions need additional options for longer-term lending as well as a review of lending limits and loan categories.

Opportunities exist to expand credit union offerings related to micro lending and social lending, as well as small/medium-sized business lending. Expanded lending options may, in turn, present requirements for underwriting expertise, need for new savings product options and term lengths, as well as requirements for expertise related to asset/liability management. It should be noted that at the time of writing, a sector initiative has commenced to expand credit union lending potential, so the outcome of this initiative will need to be followed. Legislative/regulatory changes will be critical to enable expansion in this area of credit union operations.

<u>Other Income Sources:</u>

In addition to the expansion of loan offerings, there are also opportunities for credit unions to attract new sources of fee income to allow for greater diversification of income streams. Experience has shown that credit unions have been challenged by their return on assets not having kept pace with overhead costs. Credit unions recognise that loan book income (alone) cannot be relied on to fund growth strategies. Business model development in this area is also a priority for the future.

<u>Cost Efficiencies:</u>

To reduce replication of costs, credit unions should also consider business models which incorporate shared services strategies and back office outsourcing strategies as has been implemented in other international credit union movements. Credit unions should consider investments related to such initiatives, individually as well as collectively, in order to best leverage scale to create cost efficiencies or enable the offering of new services. One particular area impacting credit unions' cost base is IT, given the increasingly important role it plays, not only in banking systems, but in delivery channel infrastructure. The IT area should be a key focus for cost efficiency initiatives. Given IT's essential role in credit union operations and the relative lack of specialised IT skills at the credit union level, it is important that credit unions seek independent advice to ensure providers are thoroughly vetted and solutions meet credit union needs on an ongoing basis. It is also important that circumstances not arise wherein credit unions become "hostage" to providers. The Regulator's document regarding governance of IT provides useful guidance in this area. Business model development is also a useful process in which to address these issues.

Business Case for Change:

Credit unions will need to present the Regulator with a clear and comprehensive business case(s) in order to gain approval for new business powers or other legislative/regulatory provisions enabling evolution of their business models. Such business cases should be developed by management teams, under the direction and guidance of their respective boards, rather than credit unions relying solely on third party advisors to prepare proposals. The development of internal capacity and experience at the credit union level in regard to the development of strategic plans, merger proposals and business model enhancement plans are key to the future sustainability of the sector. It should also be noted that in order to expedite the above development of business cases, there is a need for clarity to be provided by RCU concerning the process required for an application for Additional Services (Section 48-52 of the Credit Union Act 1997).

Regulator Role & Approach

ReBo developed a very strong working relationship with the Central Bank/Registry of Credit Unions during its mandate. Going forward, the RCU, in its role as statutory regulator, will continue to play a key role in the evolution of the credit union sector. As such, the RCU will set the tone regarding credit union viability and solvency through its leadership on such matters. It will be important that RCU implement its full powers in an action-oriented, clear and consistent manner and do so on a timely basis, intervening as early as possible in any applicable situations. In instances where the RCU considers a credit union to be a weak nonviable institution, it should act on a timely basis to facilitate a merger or proceed with resolution as warranted in accordance with relevant legislation, so that further decline does not occur and contagious effects do not arise within the sector due to reputational or other risks. Further clarity regarding the RCU's definition of credit union viability would also be of benefit. Furthermore, consistency, clarity and transparency will be required in terms of guidance and rulings provided by RCU on issues related to due diligence, merger proposal plans, and/or business model development proposals. RCU guidance and messaging and related communications should be clear and consistent and should not be open to interpretation. The importance of RCU supervision will remain going forward, including the testing of fitness and probity, with such supervisory work requiring adaptation in keeping with the changing structure of the sector and increasing sophistication of the credit union business model.

Regulatory Framework

The current regulatory framework should represent the minimum standard for all credit unions. However, as the sector has now begun to evolve through the restructuring efforts conducted during ReBo's mandate, there is a need for regulation to adapt in keeping with the nature, scale and complexity of credit union operations.

<u>Risk-Based Regulatory Strategy:</u>

Tiered regulations should be developed using a risk-based approach and in consideration of the complexity of business model in use at the credit union level Risk-based capital requirements should be permitted, together with a risk-based lending model including related risk-based pricing on loans. A risk-based strategy will further support growth and business model development, provide opportunity for revenue enhancement and enable changing strategies to be implemented in a prudent manner.

<u>Common Bond:</u>

In keeping with facilitating growth and sustainability within the sector, it is also important that the regulations regarding the credit union common bond are revisited. Mergers completed during ReBo's mandate have led to the expansion of underlying credit union common bonds, with related issues and questions being raised as a result. Going forward, common bond regulations should be reconsidered so as to ensure that they do not impede the enhancement of credit union scale or business model development. Furthermore, there is need for a mechanism to be established to allow for credit unions to bid competitively in regard to gaining access to a common bond in situations where such a case is presented.

<u>Merger Process:</u>

Based on ReBo's experience over the past several years, there is a need for enhanced awareness of and focus on HR related issues in RCU's review of merger proposals. As noted previously, such issues can have significant implications for the success of the merger outcome and as such require detailed attention. There is also a need for clarity and a consistency of approach at the beginning of the merger process as to whether RCU will require a special general meeting and membership vote or, a Board resolution, in order to proceed with the merger at the conclusion of the merger process. There is a need for clarity concerning the notion of "expediency" in this matter. On a related issue, in regard to the required postal mailing of merger-related S130 information packs to credit union members, it is important that alternate delivery options be permitted to expedite this communications process (i.e. electronic delivery or in-branch delivery).

<u>Facilitating the Democratic Process:</u>

In regard to democratic processes in general, a variety of options should be permitted through legislation and/or regulation to allow for greater participation by members, including electronic on-line voting, in-branch voting and mail-in voting options. In order to enhance transparency within the sector, it is also important that credit unions be required to hold annual meetings in line with legislative requirements of the Credit Union Act 1997, regardless of their situation, in order to ensure accountability to members and promote timely action being taken to address issues as applicable.

Credit Union Board Governance:

There is a need for continued vigilance concerning requirements for and oversight of credit union board governance. Board and management competency is critical to the ongoing restructuring of the sector and development of enhanced business models. In this regard, there is a need for RCU to review the effectiveness of the recently established Nominations Committee process. Such a review should determine whether adequate assessments of skill gaps at the board level are being undertaken, along with corresponding targeted recruitment efforts being conducted to ensure the necessary breadth and depth of competencies are available at credit union board tables. This issue will be of ongoing concern on an annual basis, that is, not only when a credit union is involved in a merger process and considering the composition of the merged entity's board of directors. Mandatory comprehensive director training requirements should be considered by RCU for completion by directors during their first elected term of office, with ongoing professional development activities to be required thereafter on an annual basis. Specific plans and budgets for director training, based on individual director requirements, should be included in the credit union's annual operating plan/budget. As credit unions reach larger asset sizes and business models advance in sophistication, a review of appropriate governance level competencies and related training requirements will be critical and require ongoing advancement in keeping with the evolution of the sector.

Sector Analysis

The RCU is commended for establishing a new semi-annual publication in 2017 concerning a sector-wide analysis of credit unions' financial position. The full sector view of quantitative factors related to financial performance provide an important source of information for both credit unions and the public. The inclusion of the Regulator's viewpoint concerning current and future risks and opportunities for the sector, within the context of the economic environment, would augment the value of this publication and further inform credit unions of key issues to be addressed in their planning processes.

Appendix 3: Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach Report on credit unions

HOUSES OF THE OIREACHTAS

Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Report on the Review of the Credit Union Sector with specific reference to the Credit Union Advisory Committee Review of Implementation of the Recommendations in the Commission on Credit Unions Report (June 2016)

No.	Text	Comment
2.1 LEGISLATIVE FRAMEWORK AND REGULATORY REQUIREMENTS		
2.1.1	That the Implementation Group established following the publication of the Credit Union Advisory Committee (CUAC) report meet regularly and as necessary to oversee the implementation of the seven key recommendations contained in the CUAC report and that they present an implementation plan within 3 months of this date and that the implementation be carried out in a period of not less than 2 years;	Matter addressed in this Implementation Group Report
2.1.2	The Committee is of the opinion that the current average loans-to-assets ratio of 26% is an issue of serious concern in terms of the future viability of the credit union movement. The figure should be at a minimum in the 40-50% ratio range and on that basis the Committee recommends that the issue be addressed by all stakeholders as a matter of urgency, notes the work of the movement through training and advertising to grow its loan books and encourages this work;	Matter addressed in this Implementation Group Report under Lending and Business Model Development. Consultation on Lending Regulations (CP125) has been published by the Central Bank and is open for submissions until 9 January 2019.
2.1.3	That all credit unions adhere to standards of governance and compliance in proportion to the size, scale and complexity and in keeping with the primary objective of safeguarding members' funds, promoting financial stability and securing the future of credit unions;	Matter addressed in this Implementation Group Report under Governance
2.1.4	That a timely review of the legislative framework and regulatory requirements applicable to the credit union sector occurs to ensure that they are fit-for-purpose and proportionate in the context of the post economic-crisis period and believes that elements of the Central Bank's proposals on changes to the Investment Framework are a missed opportunity in this regard;	A full stakeholder led review of the legislative framework and governance requirements was undertaken by the Commission on Credit Unions in 2012 and led to the Credit Union and Co-operation with Overseas Regulators Act 2012 which provides for the delegation of regulation making power to the Central Bank in respect of specific matters. The legislative measures were commenced on 1st January 2016, in tandem with commencement by the Central Bank of specific regulations. A peer review of the Central Bank was undertaken in 2015. Based on the requirements of section 32M of the Central Bank Act, 1942 the Central Bank would be due to arrange for a peer review to be undertaken in 2019. It is their intention to commence planning for this peer review in 2018. The Department could consult with the Central Bank on same in advance.

		The Implementation Group has considered the matter of Tiered Regulation and Lending Regulations in this Report.
2.1.5	The Committee endorses the CUAC recommendation for a full review of the Section 35 lending limits and concentration limits, including the basis of the calculation of the limits together with the liquidity requirements attaching to same and should consider other criteria such as extent of shares available to lend, loan book performance, competence, capability, size, scale and complexity of credit unions. The Committee notes that this is the first item to be considered by the implementation group and commits to monitoring progress with regard to the Section 35 review. The Committee is of the opinion that the objective of this review is to ensure that a framework is delivered which will allow qualifying credit unions to develop and grow beyond the current permitted lending limits and concentration limits in a meaningful way and therefore allow qualifying credit unions to make the necessary infrastructure investment into new areas such as mortgages to facilitate this;	Matter addressed in this Implementation Group Report under Lending and Business Model Development. A Central Bank consultation on Lending Regulations (CP125) was published on 24 October 2018. A Scoping Paper on Section 35 lending regulations was finalised by the Implementation Group and issued to Central Bank in November 2017.
2.1.6	That a Regulatory Impact Assessment [RIA] be completed and published in advance of the drafting of new legislative and regulatory measures to assist any consultation process initiated for such a purpose. The RIA should take account of the financial impact on the sector and it should include financial forecasts that are then published by the Central Bank. These RIAs must take into account any hidden or side effects to the sector;	Matter addressed in this Implementation Group Report under Consultation & Engagement.
2.1.7	That the existing legislative and regulatory requirements be reviewed and benchmarked internationally against comparable countries with similar credit union structures/movements and membership networks to assess whether the statutory obligations placed on Irish credit unions meet the norm in an EU and international context and notes in this regard that the national liquidity rules are overly focussed on cash and that consideration should be given to counting investments in bonds as liquid assets. The Review should also include a comparison on the range of products and services offered in comparable countries with similar credit union structures;	See 2.1.4 above
2.1.8	That the Registrar publishes precise written guidance and an application template for requests for changes to regulations and within this clarifies the process and standards required to support a positive application process;	Matter addressed in this Implementation Group Report under Consultation & Engagement and Tiered Regulation.
2.1.9	That a new appeal mechanism is introduced which will allow credit unions to appeal all regulatory related decisions made by the Central Bank to an independent body. This appeals mechanism should extend to matters beyond the appealable decisions as currently prescribed within the 2012 Act and should also provide a forum under which a credit union or group of credit unions has the right to appeal decisions made by the regulator in respect of their new regulatory making powers;	Not a matter for the Implementation Group
2.1.10	An alternative dispute resolution mechanism to be made available to deal with unresolved disagreements and disputes between individual credit unions or groups of credit unions and the Central Bank. This dispute resolution mechanism should rest with the Minister for Finance and deal with matters other than those that are covered under the appeals mechanism;	Not a matter for the Implementation Group
2.2 TIERED REGULATION		
2.2.11	That the tiered regulation of credit unions, as recommended in the Commission on Credit Unions Report, is implemented to ensure a proportionate application of the regulations and to take into account the individuality and diversity of credit unions within the broader movement. The objective of introducing a	Matter addressed in this Implementation Group Report under Tiered Regulation

	tiered regulatory structure is to deliver a framework that will allow small and simpler credit unions to continue to operate with proportionate regulations as well as setting out the requirements to allow larger, more complex credit unions to avail of more permissive business models than they currently can avail of. These objectives should be borne in mind in the introduction of a new tiered regulatory structure;	
2.3 BUSINESS MODEL DEVELOPMENT		
2.3.12	That where future applications, proposals and plans and development proposals are presented by credit unions to the Registrar for approval, discussion or feedback, that the Registrar provide clear and extensive feedback, in particular for cases deemed unacceptable. The Committee is of the opinion that the language used in response by the Registrar must be specific and explicit in this regard;	Matter addressed in this Implementation Group Report under Consultation & Engagement and Tiered Regulation.
2.3.13	That the Department of Finance deal with any legislative changes and that the Registrar deal with any regulatory changes required to support business model development proposals of credit unions in a structured, timely and appropriate manner and that clear service level agreements are published by the Central Bank to support this;	Matter addressed in this Implementation Group Report under Lending, Tiered Regulation and Consultation & Engagement. The Department of Finance will review any proposals for legislative change submitted.
2.3.14	That the credit union movement should be empowered to contribute to alleviating the housing crisis in the State and the current regulations are not adequate to this imperative. Notes the organised nature of the credit union movement through representative bodies with mandates and programmes that assist the development of their members;	The Central Bank completed a consultation process for investment regulations (CP109) which allows for investment in AHBs. Legislative change to the Common Bond would be required to allow lending directly to AHBs outside a common bond. Note section of this Report on Common Bond, which proposes further consideration of limited and targeted legislative amendment while protecting the integrity of the common bond.
2.3.15	That the Department of Finance develop a policy for credit unions that sets out their current and future role and function, their position vis a vis other financial institutions in Ireland and the future vision for the sector. This will in turn assist the credit union sector in identifying and developing sound business models that will ensure the future sustainability of the sector;	Not a matter for the Implementation Group
2.3.16	That responsibility for assessing business model proposals be removed entirely from the Registrar and given to the Shareholder Management Unit for assessment;	Not a matter for the Implementation Group
2.4 ENGAGEMENT BETWEEN THE REGISTRAR AND THE CREDIT UNION MOVEMENT		
2.4.17	That the credit union movement, the Registrar and the Department recommit to engage in meaningful and transparent dialogue to address the seven significant matters/recommendations identified in the CUAC Report with a view to ensuring the viability and sustainability of the sector into the future. Published clarity on the roles and responsibilities of the Department of Finance and the Central Bank in relation to credit unions would be beneficial. In addition, detailed structure charts for credit union support areas with published regular data in relation to key communication and service level agreement metrics would be welcomed;	Matter addressed in this Implementation Group Report The Department of Finance will continue to work together with all stakeholders in making effective changes to the credit union sector. The roles and responsibilities of the Department of Finance and Central Bank are published on their respective websites.

		The Central Bank matters are covered within Consultation & Engagement section of this report.
2.4.18	That the credit union movement continue to engage with the Registrar in addressing key ongoing concerns including strategic understanding, good governance, financial skillsets, risk, compliance and audit functions and credit practices and that the Registrar reports no less than every six months to the Minister on the status of communication and engagement;	The Central Bank engagement with the sector is covered within Consultation & Engagement section of this report. The reporting to the Minister of Finance is not a matter for the Implementation Group
2.4.19	That in instances where mergers/transfers of credit unions are proposed, that the Registrar take into account the "Common Bond" structure of credit unions and also take cognisance of local geographical and environmental dynamics when considering proposed mergers in the future;	Not a matter for the Implementation Group. Other Common Bond issues area addressed in this report.
2.4.20	The International Credit Union Regulators' Network (ICURN) Credit Union Peer Review, July 2015 highlights how important communication is in light of the sheer volume and complexity of the many requirements with which credit unions must now apply and comply and how it must lie at the heart of the Central Bank's relationship with the sector. The Committee supports this view and believes that the sector would benefit from published measures in relation to communications between the Registrar and the credit union sector. The Central Bank is asked to consider how this might best be benchmarked and implemented and whether the use of market research surveys might help with this exercise;	The Central Bank matters are covered within Consultation & Engagement section of this report. How the Central Bank's performance in communication is measured is not a matter for the Implementation Group.
2.5 INVESTMENT MATTERS		
2.5.21	That consideration be given to the feasibility of enabling credit unions to utilise their finances to lend collectively to approved housing bodies to address the current housing crisis. The Committee acknowledges that legislative changes/amendments may be required in terms of the Credit Union Act 1997;	The Central Bank completed a consultation process for investment regulations (CP109) which allows for investment in AHBs. Legislative change to the Common Bond would be required to allow lending directly to AHBs or other borrowers outside a common bond. Note section of this Report on Common Bond, which proposes further consideration of limited and targeted legislative amendment while protecting the integrity of the common bond.
2.5.22	The Committee recognises that the 'Common Bond' structure is a unique and distinct characteristic of credit unions. It is considered essential in underpinning the community and democratic base of credit unions. For that reason, the Committee supports retention of the 'Common Bond', as any dilution of this feature would permanently damage the credit union movement;	Note section of this Report on Common Bond, which proposes further consideration limited and targeted legislative amendment protecting the integrity of the common bond.
2.5.23	The Committee notes the publication by the Central Bank of Ireland of the Consultation Paper on Credit Union Investment Framework. The Committee recommends that all parties constructively participate to identifying potential investment streams that enable the sector to diversify its investment portfolio whilst simultaneously maintaining the primary objective of safeguarding members' funds and financial stability but expresses grave concerns that some of the proposal will limit the potential investment yields for credit unions;	The Central Bank completed a consultation process for investment regulations (CP109) which was introduced in March 2018 following extensive and detailed feedback from credit union stakeholders.

2.5.24	That the current statutory provision stipulating that credit unions cannot charge interest on a loan that shall exceed 1% per month on the amount of the loan outstanding at that time be reviewed to assess whether this rate is adequate to provide an economic return to credit unions;	Note section of this Report on Interest Rate.
2.6 CONTRIBUTIONS AND LEVIES TO VARIOUS FUNDS		
2.6.25	That the Minister for Finance clarifies and communicates to the credit union sector as a matter of priority his intention surrounding future contributions and levies required of the movement towards the various resolution funds so that credit unions can plan accordingly in view of the uncertainty arising from the annual review process;	The Department of Finance issued an information note on levies and regulatory costs on its website in June 2018. Note section of this Report on Levies.
2.7 FINANCIAL INCLUSION		
2.7.26	That loans that have been successfully repaid to a licenced money lender and to providers of personal contract plans and hire purchase agreements be recorded in the new Credit Register due to be implemented in 2018;	Central Credit Register (CCR) being implemented on a phased basis. Licensed moneylenders due to commenced submitting data from 31 March 2018 and must provide monthly updates. Loans of €500 or greater fall to be reported. Hire purchase, Personal Contract Plans and some licenced moneylender activity connected with goods (e.g. catalogue lending) were originally out of scope due to a lacuna in the drafting of the Credit Reporting Act 2013. The Credit Reporting Act was amended on the 29th October 2018 to remedy this issue.
2.7.27	That greater emphasis be placed on the issue of financial inclusion. The Committee notes the absence of a body in Ireland to examine/research responsible credit. The Committee recommends the establishment of an independent body to examine and report to Government on an ongoing basis in regard to credit within the Irish financial services sector.	Not a matter for the Implementation Group.