credit union development association

RESPONSE FROM

THE CREDIT UNION DEVELOPMENT ASSOCIATION

IN RESPONSE TO

Submission Request
Draft Guidelines (revised) on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10.

31st October 2022

Introduction

CUDA (Credit Union Development Association (CUDA) is grateful for the opportunity to provide comments to the EBA on its Consultation Paper on the Draft Guidelines (revised) on methods for calculating contributions to deposit guarantee schemes under Directive 2014/49/EU repealing and replacing Guidelines EBA/GL/2015/10.

CUDA is a leading credit union representative body, proud to serve 50 of Ireland's more progressive credit unions. Incorporated in 2003, CUDA has a track record of success in representation, training, digital and lending solutions. CUDA provides credit unions with a range of modular solutions and delivers using collaborative, not-for-profit shared services which create economies of scope and scale. Being member owned, benefits flow to credit unions and their members, not vested interests.

Response to Questions

Question 1: Do you have any comments on the proposed changes to the addressees or definitions in the Guidelines?

We agree with the EBA is of the view that the guidelines should also be directly addressed to the DGSs.

Question 2: Do you have comments concerning the proposed allocation of responsibilities to the DGS, competent authority and designated authority in the Guidelines?

We note the EBA observation that not all failures of covered institutions automatically lead to the use of DGS funds while other forms of DGS interventions using DGS funds might be necessary to stabilise a failing institution. However, we also note that in arriving at its conclusion the EBA has not provided any insights to its assessment as to how, effectively and/or efficiently, such available interventions were utilised. We would therefore welcome greater clarity of definition of "DGS intervention" and, where possible, the promptness of utilising such intervention to protect covered deposits in accordance with Article 11 of the DGSD.

Question 3: Do you have any comments on changing the reference from the 'annual' calculation of contributions to the 'periodic' calculation of contributions and on the clarification to set the periodic target level in section 4.2 of the Guidelines?

We note and appreciate the intention of the EBA's proposal to amend timing reference to 'periodic' calculation of contributions. However, it is unclear how the balance will be achieved between permitting the DGS to have the ability to move from calculating contributions annually to periodically (and thereby allow them to potentially seek several instalments over a period that may be within any year) with the EBA proposal that a DGS 'should' set the level of contributions as evenly as possible across time. We would welcome clear guidance for the DGSs on how they will achieve that balance if such a proposal is to advance.

Question 4: Do you have comments on the proposed approach to account for covered deposits held in beneficiary accounts or other deposits where there is uncertainty to the coverage, as set out in section 4.3 of the Guidelines?

The issues raised in this section of the CP are not arising as an issue for our member credit unions, however, we do agree that the proposed approach is prudent.

Question 5: Do you have comments on the proposed changes to the core indicators and additional indicators as set out in section 4.5 (i)?

Question 6: Do you have comments on the definition or calculation of the core indicators?

The CP refers to the harmonisation of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are now applied throughout the EU. It should be noted that credit unions in Ireland are subject to very stringent liquidity requirements, therefore, EBA may wish to reconsider the proposed deletion of the indicator "liquidity ratio" as it continues to apply to credit unions.[1]

Question 7: Do you have comments on the proposed changes to the minimum weights of core indicators and the maximum weight of any indicator, as set out in section 4.5 (ii) of the Guidelines?

While not all the core indicators are applicable to credit unions in Ireland, e.g. their assets are not risk weighted for compliance with required regulatory reserve ratio of 10% of total assets, (which results in them being required higher levels than other financial institutions), we have no objection to the proposed weightings.

Question 8: Do you have comments on the proposed changes to the formula to calculate minimum contributions, as set out in section 4.6 (i) the Guidelines?

The current may be flawed and overly complex, however, it is operationalised and would appear to be working. The CP states that "a very limited impact on the minimum contributions but would make calculations simpler", we have no reason to challenge that but would ask that before a final

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[1] Regulation 8 of the 2018 Regulations states that *(1) Subject to paragraph (2), a credit union shall establish and maintain a **liquidity ratio** of at least **20** per cent (2) A credit union shall establish and maintain a **liquidity ratio** of:*

> *(a) at least **25** per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date exceeds 20 per cent but is less than 25 per cent of the total gross amount outstanding in relation to all loans,*
> *(b) greater than **25** per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 25 per cent but is less than 29 per cent of the total gross amount outstanding in relation to all loans, or*
> *(c) at least **30** per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 29 per cent of the total gross amount outstanding in relation to all loans.'*
> *(**Emphasis added**)*

Liquidity ratio is defined in the regulations as '*relevant liquid assets as a percentage of unattached savings'.* Relevant liquid assets are defined as:

1. Cash;
2. Investments with a maturity of less than 3 months, excluding any amount held in the credit union's–
   (i) minimum reserve deposit account for the purpose of complying with its reserve requirement under the minimum reserve requirement regulation;
   (ii) deposit protection account;
3. Irish and EEA State Securities, bank bonds and supranational bonds with a maturity of greater than 3 months, held either directly or through a UCITS, provided that all such Irish and EEA State Securities and supranational bonds comply with the minimum rating requirements specified in Regulation 29(1) or 29(3).

determination is reached that the competent authority be asked to run the figures and demonstrate the view of the EBA to be accurate.

Question 9: Do you have comments on the proposed minimum thresholds for the IRS of some core indicators, as set out in section 4.5 (iii) of the Guidelines?

As stated in questions 8, some of the core indicators do not apply to credit unions on Ireland. We support the appropriateness of granting flexibility to the national authorities to decide how best to calibrate this indicator for their banking market. This should ensure greater recognition of the nature scale and complexity within the diverse range of institutions covered by the DGSs.

Question 10: Do you have comments on the proposed changes to the formula for translating the ARS into the ARW, as set out in section 4.5 (v) of the Guidelines?

Appreciating the desire to eliminate / reduce the need for constantly reviewing the calibration of the ARS to ensure consistency of contributions, we hold a concern that the use of the enhanced sliding scale formula will necessitate determination of lower and upper thresholds without any clarity of the impact of the degree of change that may be inherent on such a determination. This is particularly concerning for low-risk institutions as the impact of moving bucket carries a disproportionate impact.

Question 11: Do you have comments on the proposed regular review and recalibration, as set out in section 4.7 of the Guidelines?

The revised draft guidelines contained in sections 76 to 82 inclusive are supported by CUDA, we would suggest that consideration be given to reduce the review period of at least every five years.

Question 12: Do you have any further comments regarding the proposed revised Guidelines?

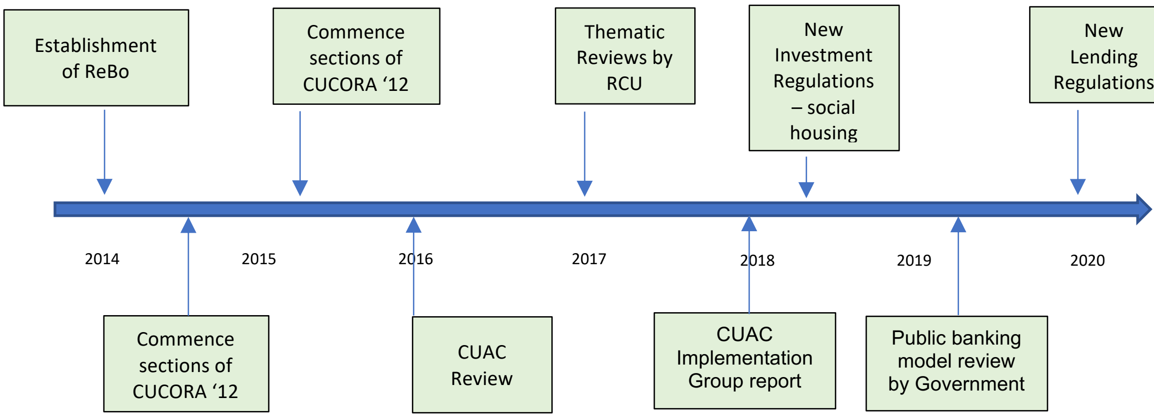
In the CP and related documents the EBA make observations regarding credit unions benefitting from reduced contributions under the risk-based contributions. The EBA, in our opinion, correctly concluded in their assessment of credit unions that no changes are necessary to this situation.

Credit unions are member-owned not-for-profit financial intermediaries. The members have the dual role of owners of the credit union and consumers of the products and services it provides. In Ireland, their objects, institutional structure, their governance and their market (common bond) are all determined by specific credit union legislation, while the prudential limits that significantly determine their business model of credit unions.

It should be noted that in 2011, as part of the conditions imposed under the terms of the bailout by the Troika the Irish Government established the Commission on Credit Unions (CCU) (comprising regulators, academics and representatives of the credit union sector) to review the structural and regulatory landscape within which credit unions in Ireland operate. The final report of CCU, published March, 2012, contained a raft of recommendations for legislation, regulation, governance, business models and industry restructuring. Many of these recommendations were included in the Credit Union and Co-operation with Overseas Regulators Act (CUCORA 2012) and via new regulations overseen by the Registry of Credit Unions (within the Central Bank of Ireland – the national DGS competent authority). A Credit Union Restructuring Board (ReBo) was also established, by the Minister for Finance, to facilitate industry consolidation via credit union mergers and amalgamations. This resulted in significant consolidation in the sector which saw the transfer of engagements from smaller credit unions to their larger counterparts.

Additional prudential related regulations commenced, starting with new investment permissions (2018) then moving to an overhaul of categorisations of permitted lending and related limits (2020). This period also saw a review of the Commission on Credit Unions' (2012) recommendations by the Credit Union Advisory Committee (CUAC) (2016) with an implementation group then established to operationalise the findings (2018).

Fig. 1 Summary of Key Credit Union Legislative and Regulatory Events since 2014



The financial position of credit unions remains strong with capital and liquidity levels considerably in excess of regulatory requirements - full details are published by the credit union Regulator at the Central Bank of Ireland (the DGS competent authority)[2].

As always, CUDA is happy to discuss any of the points raised in this Response.

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[2] Report published annually by the Central Bank of Ireland, see https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/financial-conditions-of-credit-unions/financial-conditions-of-credit-unions-2021-i.pdf?sfvrsn=108f921d_4