TO: EBA

FROM: Registry of Credit Unions Division, Central Bank of Ireland

DATE: 11 February 2015

SUBJECT: Submission re. Irish Credit Unions on EBA Consultation paper: Draft Guidelines on methods for calculating contributions to Deposit Guarantee Schemes (EBA/CP/2014/35)

Introduction

This document sets out the views of the Registry of Credit Unions Division in the Central Bank of Ireland on the EBA's Consultation Paper on Draft Guidelines for calculating contributions to Deposit Guarantee Schemes (EBA/CP/2014/35) ("the consultation paper") in the context of Irish credit unions.

Background

There are in the region of 380 credit unions in Ireland which range in asset size from under €1 million to c. €300 million. The total assets of the credit union sector are in the region of €14 billion.

Irish credit unions fall within the definition of credit institution contained in point (1) of Article 4(1) of Regulation (EU) No 575/2013 ("the CRR") as they are "*an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account*". However, under Article 2(5)(8) of Directive 2013/36/EU ("CRD IV"), credit unions are excluded from the scope of the regulatory regime that is contained in CRD IV and the CRR.

Credit unions are subject to national legislation in Ireland and have a separate regulatory framework to banks. The primary legislation for the registration, regulation and supervision of credit unions is the Credit Union Act, 1997. The regulatory framework for credit unions contains detailed governance and prudential requirements for credit unions, including requirements on capital[1], liquidity, investments, lending, savings and borrowings[2].

[1] Capital is referred to as reserves in the legal and regulatory framework for Irish credit unions.
[2] Further information on the regulatory requirements for credit unions is provided in the Credit Union Handbook, available on the Central Bank website at the following link.

Credit unions in Ireland operate a homogeneous business model. Irish credit unions accept deposits[3] from members and use these deposits to make loans to their members. Where surplus funds are available credit unions invest these funds, currently primarily in bank deposits. Funding for credit unions is based on member deposits and capital in credit unions consists of retained earnings.

Credit unions contribute to the current Irish Deposit Guarantee Scheme and will be subject to the new Deposit Guarantee Scheme Directive (DGSD) when it comes into effect.

Responses to questions contained in the Draft Guidelines:

Q1	Do you have any general comments on the draft Guidelines on methods for calculating contributions to DGSs?

The consultation paper refers to Guidelines for the calculation of contributions to the DGS by member institutions. The definition of member institution is based on the definition of a credit institution in the CRR. Credit unions fall within this definition. However, as referred to above credit unions are exempt from the scope of CRD IV/CRR and they are regulated under national legislation.

The Guidelines appear to have been drafted for member institutions that are subject CRD IV/CRR. For example, Table 1 of the consultation paper, which sets out the proposed core risk indicators, contains indicators that are requirements under CRR (e.g. CET1 ratio, LCR and NSFR). These requirements do not apply to credit unions and are not applicable to the credit union business model and balance sheet structure.

Separate Calculation Method for Credit Unions

As set out in Article 13(2) of the DGSD, and referred to in the consultation paper, DGSs may develop their own calculation methods in order to tailor contributions to market circumstances and risk profile. While the guidelines in the consultation paper may be appropriate for member institutions that are subject to CRD IV/CRR, a separate calculation method could be developed, at a national competent authority level, to take account of the distinct nature of credit unions, in line with the provisions contained in Article 13(2).

[3] The term deposit is used in this document to refer to all members' savings (members' shares and deposits) that are held in credit unions.

Homogeneous Nature and Systemic Importance of Credit Unions

The consultation paper also indicates that member states with a homogeneous banking sector should use simpler calculation methods (principle 4, page 13) and that risk based contributions systems should ensure that deposit taking institutions with similar characteristics (in particular in terms of risk, systemic importance and business model) are categorised similarly (principle 5, page 13).

As referred to above the c. 380 credit unions in Ireland have similar characteristics as they operate a homogenous business model. In addition, in terms of systemic importance, the covered deposits held by all credit unions in Ireland currently represent c. 14% of total covered deposits of credit institutions[4] in Ireland, with no individual credit union representing more than 0.5% of total covered deposits. The significant majority of credit union assets are unencumbered which, as referred to in the consultation paper, will have a particular impact on potential losses for the DGS as encumbrance lowers the recovery prospect of the DGS in claiming back the pay-out amount from an institution's bankruptcy estate.

Given the similar characteristics in individual credit unions' business models, the nature of credit unions' assets and the smaller size of both individual credit unions and the credit union sector as a whole when compared to other credit institutions in Ireland, a simpler risk weighting approach, that applies to the credit union sector rather than individual credit unions, should be considered in line with the principle of proportionality.

Q5	Do you agree with the core risk indicators proposed in these Guidelines? If not, please specify your reasons and suggest alternative indicators that can be applied to institutions in all Member States. Do you foresee any unintended consequences that could stem from the suggested indicators?
Q6	Do you agree with the option to use either capital coverage ratio or Common Equity Tier 1 ratio as a measure of capital? Would you favour one of these indicators rather than the other, and why?
Q7	Are there any particular types of institutions for which the core risk indicators specified in these Guidelines are not available due to the legal characteristics or supervisory regime of these institutions? Please describe the reasons why these core indicators are not available.

Credit unions are regulated under national legislation and have regulatory requirements that are different to those that banks are subject to under the CRR. The regulatory requirements for credit

[4] Banks and credit unions.

unions have been designed to take account of the distinct nature of the credit union business model and balance sheet structure.

The core risk indicators proposed in the consultation paper are not considered suitable for credit unions as they are largely based on indicators that have been developed for a banking model rather than a credit union model. A number of the core risk indicators are based on ratios that banks are subject to under the CRR which, as referred to above, does not apply to credit unions.

Q9	Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

When the DGSD comes into effect, based on current coverage statistics, the Irish DGS will contain contributions from c. 380 credit unions (representing c. 14% of covered deposits) and less than 20 banks (representing c. 86% of covered deposits).

As referred to above, the core risk indicators proposed in the consultation paper are not considered suitable for credit unions as they are based on a banking model and the CRR. The cost and resources that would be required to develop and adopt an approach in line with that proposed in the consultation paper for c. 380 individual credit unions on an ongoing basis would be significant. Taking into consideration the size, nature and homogeneity of credit unions in Ireland it is considered that the approach set out in the consultation paper would not provide significant benefit over an approach that applies to the credit union sector as a whole. A sector wide approach would be considered proportionate and pragmatic.

Registry of Credit Unions

Central Bank of Ireland

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