TITHE AN OIREACHTAIS

An Comhchoiste um Airgeadas, Caiteachas Poibli agus Athchóiriú, agus Taoiseach

Tuarascáil maidir leis an Athbhreithniú ar Earnáil na gComhar Creidmheasa le tagairt shonrach d'Athbhreithniú an Choiste Chomhairligh um Chomhar Creidmheasa ar Chur i nGníomh na Moltaí i dTuarascáil an Choimisiúin um Chomhair Chreidmheasa (Meitheamh 2016)

Deireadh Fómhair 2017

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)

October 2017

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CHAIRMAN'S PREFACE

The Irish credit union movement has a long and distinguished record of service dating back to its formation in the 1950's. For decades, credit unions, both urban and rural, have made a significant contribution to the financial well-being of its members. Credit unions have become part of the fabric of the Irish financial sector. The voluntary, cooperative, not-for-profit and community based ethos that characterises the credit union movement has served this country well.

The unique factor is that credit unions are owned and organised for people. They exist only to serve their members – not to profit from their needs. Credit unions facilitate members to save and lend to each other at a fair and reasonable rate of interest.

Credit unions, as with other financial service providers, were affected by the major financial crisis of 2008. As part of the system wide response to the crisis, the overarching objective was to ensure that the sector was robust enough to withstand any further financial shocks. The basic premise motivating actions was to protect depositors, minimise the risk of exposure to non-performing loans and ensure the viability of the credit union network. Major concerns were expressed at the time with a statement to the Seanad in October 2011 that a potential "blackhole" amounting to €1billion possibly arising as a liability[1].

Time has demonstrated this forecast to be unfounded. Now, in a post-crisis period of recovery, where the economy is performing strongly and the key economic indicators such as unemployment and consumer spending are on a positive trajectory, the time is ripe to assess the well-being of the credit union

1 http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/seanad2011100600006?opendocument

sector and to review whether the measures put in place in the aftermath of the economic crisis remain appropriate.

The sector has undergone significant change in recent times. The Commission on Credit Union Report (2012)[2] and the recommendations arising, introduced wholesale changes particularly with regard to regulation and lending restrictions. As a result, credit unions have had to "reboot" and adapt to the new legislative and regulatory requirements implementing a major programme of restructuring, professionalisation and increased resourcing.

On their own, these measures are important. However, credit unions have experienced a reduction in their core business operations. The reason for Committee engagement at this time is to review the status of the sector particularly in light of the publication of the Credit Union Advisory Committee (CUAC) Report[3] in June 2016. The Committee is of the opinion that it is now timely to review the existing legislation and regulations to ensure they remain fit-for-purpose.

In addition, the Credit Union Restructuring Board (ReBo)[4] – the body established in the aftermath of the financial crisis to assist and facilitate the restructuring and consolidation of credit unions has completed its work. It is anticipated that ReBo will be dissolved in 2017. Such an event provides a natural watershed to review progress made to date and identify the key issues that will determine the future direction of credit union development.

A number of key themes emerged during the course of Committee meetings including lending limits, tiered regulation, restrictions in investment classes, the regulatory reserve and capital requirements, transparency and meaningful engagement, levies and ongoing contributions to multiple resolution funds and business model development.

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[2] https://www.creditunion.ie/files/News-Clippings/Report%20of%20the%20Commission%20on%20Credit%20Unions.pdf

[3] http://www.finance.gov.ie/sites/default/files/CUAC%20Review%20of%20Implementation%20of%20the%20Recommendations%20in%20the%20Commission%20on%20Credit%20Unions%20Report.pdf

[4] http://www.rebo.ie/

On the surface the credit union sector appears strong. Sector assets have increased by €2bn over the period 2011-2016 from €14bn to €16bn. The ability of credit unions to withstand additional financial stress, as measured by total capital, is strong with the average sector capital ratio standing at 16% which equates to circa €880m of surplus capital. Credit quality has improved with sector average arrears down from 18% of total loans in 2011 to 10% in 2016.[5]

A key challenge identified from the Committee hearings is that the sector needs to leverage its strong financial position to set out a clear vision for the future of the sector. The future strategy for credit unions must take into account its demographic profile, new products and marketing strategies. Also, the sector must attract and build new market share by developing new business streams.

However, the Committee also learned in its hearings that the loan-to-asset ratio (a key indicator of sector viability) currently stands at 26%. This position is unsustainable and requires immediate redress to boost the ratio to the 40-50% ratio that is necessary for long-term viability.

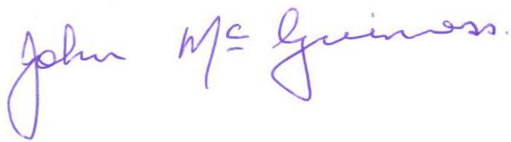
Whilst acknowledging and supporting the prerequisite objective of maintaining financial stability and safeguarding members' funds, the Committee is also of the opinion that minor changes and incentives can boost and contribute to the growth of the sector. A balance can be struck, although the ILCU believe moves such as the proposed changes to the Investment Framework make striking this balance more difficult. The Committee identified a greater need for meaningful engagement between the sector and the Regulator. The Committee calls on the credit union movement and the Registrar to recommit to constructively engaging in proposals that will lend support to a sustainable and reinvigorated credit union sector for the future benefit of Irish citizens.

The credit union movement has served generations of citizens of this State in the past and frequently at times of most trial. It is incumbent upon all parties to recognise the contribution made to date and pledge to support and allow the growth of the sector that ultimately will result in members taking control of their own finances and aid in fostering thriving communities. Noticeable successes

[5] https://www.centralbank.ie/docs/default-source/publications/financial-conditions-credit-unions-2011-2016.pdf?sfvrsn=4

have been achieved as evident from the "*It makes Sense*"[6] product offering and the approval of the members' payment current account service (MPCAS)[7] in 2016.

The Oireachtas through this Committee is determined to play its part in supporting and championing the success of the credit union network through continued engagement and monitoring and evaluating developments over the coming years.



John McGuinness TD
Chairman
26 October, 2017

[6] http://itmakessenseloan.ie/
[7] https://centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/applying-for-approvals/mpcas-application-process.pdf?sfvrsn=2

1. INTRODUCTION

The Oireachtas Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach (the Committee) held a series of meetings in 2017 focusing on matters relating to the financial sector. As part of its examination of financial matters, the Committee agreed it was both appropriate and opportune to also examine matters, in particular, pertaining to the credit union sector. Accordingly, the Committee held hearings with the main stakeholders on 21 and 23 March 2017.

The following representative bodies/organisations attended and gave evidence:

- Credit Union Manager's Association [CUMA];
- Credit Union Development Association [CUDA];
- Irish League of Credit Unions [ILCU];
- MABS National Development Limited [NDL];
- Officials from the Department of Finance [the Department]; and
- Registrar of Credit Unions [the Registrar].

On behalf of the Committee, I wish to thank all those witnesses for attending and contributing to the Committee's review of the credit union sector. The supplementary information provided to the Committee arising from the meetings is also welcome and assisted in the drafting of this Report.

The purpose of the Committee's hearings was to review the current status of the credit union movement with a particular emphasis on identifying the significant issues which require attention for both the Registrar and the movement.

Prior to the financial crash in 2008, the primary legislation underpinning and providing statutory footing for the functioning and operations of credit unions was the Credit Union Act 1997[8].

In the aftermath of the financial crisis, the then Government established the Commission on Credit Unions ["the Commission"] on 31 May 2011. The Commission had two main objectives;

[8] http://www.irishstatutebook.ie/eli/1997/act/15/enacted/en/pdf

(i) Review the future of the credit union movement; and

(ii) Make recommendations as to the most effective regulatory structure for credit unions.

The final report of the Commission was presented to the Minister for Finance, Mr. Michael Noonan TD, on 31 March 2012.

The recommendations contained in the Commission report were wide-ranging and transformative for the sector as it then existed. Amongst others, the Commission made recommendations on:

- Resolution mechanisms;
- Stabilisation;
- Liquidity ratios;
- Deposit protection rules;
- Sector restructuring;
- A new legislative and regulatory framework; and
- New governance requirements.

The predecessor to this Committee, in the 31st Dáil, examined the proposals in depth both through engagement with the Commission on Credit Unions and subsequently through consideration of the legislation that, on enactment, implemented many of the Commission's recommendations. That Committee also undertook a series of hearings as part of the pre-legislative scrutiny process on the draft legislation that culminated in the publication of the Report on hearings in relation to the Credit Union Bill 2012 in November 2012.[9] The Committee also forwarded a copy of the report to the Minister for Finance for consideration in advance of the formal publication of the Bill.

Subsequently, Mr. Michael Noonan TD, Minister for Finance, invited the Credit Union Advisory Committee [CUAC] to carry out a review of implementation of the recommendations of the Commission on Credit Unions. CUAC published its report on 30 June 2016. The Committee commends the review undertaken by CUAC and welcomes the publication of the report. The report provides an insight

[9] https://www.oireachtas.ie/parliament/media/committees/finance/01-Report-on-Credit-Union-Bill---final.docx.pdf

into progress made and is an important reference point in the context of the Committee's recent engagement on credit union matters.

The CUAC report confirmed that most Commission recommendations have been implemented, either by legislation or regulation. However, the report also highlighted certain areas where progress has been slow or minimal at best.

The CUAC report made recommendations in seven key areas. Many of these issues were addressed in the Committee's deliberations. The issues referred to are addressed in more detail under the "*Themes*" section of this report.

Theme 3.1 refers to Section 35 of the Credit Union Act 1997 and the lending limits placed and subsequently upgraded for credit unions. Theme 3.2 addresses the issue of tiered regulation and the key recommendation arising from the publication of the Report of the Commission on Credit Unions. Theme 3.3 incorporates matters relating to investment classes, the regulatory reserve and capital requirements that affect the operations of credit unions. Theme 3.4 focuses specifically on the efforts by credit unions to become involved in providing funding for social housing. Theme 3.5 reviews the evidence presented to the Committee on the issue of levies and contributions to the various resolution and stabilisation funds that credit unions contribute to. Finally, Theme 3.6 addresses the significant challenges facing the credit union sector in terms of promoting business model development and securing the future sustainability of the movement.

It is clear from the evidence presented to the Committee that there has been significant strides made by the credit union sector generally in implementing and adhering to the new requirements. The outcome of this process is a more slimmed down credit union movement with restructuring and mergers resulting in fewer but larger credit unions.

The representative bodies raised serious concerns about the existing regulatory environment. Their view is that the current framework is disproportionate, is too costly and burdensome, stymies innovation, restricts the opportunities for credit unions to lend and to support members and communities and prevents the sector from receiving a fair return on its investments. Mr. Kevin Johnson from the Credit Union Development Association [CUDA] expressed the view when he

stated that "…*the effect of the new regulatory rules without proportionality relegates credit unions to compete in less than 10% of the Irish credit market.*"[10]

The Department of Finance and the Registrar focused their contributions on the overarching statutory requirements to safeguard members' funds and protect financial stability. According to the Registrar, there remains scope for improvement from within the sector both in terms of compliance and governance requirements.

The Registrar referred in evidence to the need for "sectoral leadership"[11] and clarity on the issue of business model development within the credit union movement and that the "*absence of any coherent and well-conceived strategy or future vision for the sector is perhaps the most significant obstacle to future progress.*"[12] The Committee notes however that the ILCU published the Six Strategic Steps Plan for the credit union movement in 2015. This plan focused on credit for the most vulnerable, transparency by greater Oireachtas engagement with the Registrar, easing lending restrictions, developing small business, supporting credit unions develop electronic financial services and investment in social housing.

Throughout the Committee hearings, much of the discussion centred on what was labelled an "expectations gap" between what the movement deems is possible and what the Registrar considers is realistic or more appropriate.

This Committee believes, after the evidence presented, that a balance can be struck between both perspectives.

The Committee is acutely aware of the necessity to safeguard members' funds and to generally protect wider financial stability. However, the evidence presented to the Committee dispels the contention that credit unions pose a serious risk to the stability of the financial sector. The net cost to the State arising from credit unions emerging from the financial crisis is circa €5 million.

[10] Official Meeting Transcript of 21 March 2017 pg. 8
[11] Official Meeting Transcript of 23 March 2017 pg. 38
[12] Official Meeting Transcript of 23 March 2017 pg. 30

Above all, the Committee through the publication of this Report, requests that the credit union sector and those charged with regulating and supervising it engage in meaningful consultation with the objective of securing the sustainability of credit unions into the future for the benefit of Irish citizens.

All Committee members acknowledged the unique role credit unions have occupied and continue to occupy throughout Irish society. Credit unions are a valued brand with a branch network throughout the length and breadth of the country. Their voluntary, co-operative, not-for-profit and community based ethos means many Irish citizens can identify with and trust their local credit union to mind their deposits whilst at the same time support them with loans at key moments in their lives.

For many, a local credit union is an essential element of the make-up of any community. The history of credit unions demonstrates the positive role the sector can play and does exert as regards boosting community development.

The Committee is of the opinion that the sector faces significant challenges and requires renewed vigour less it become irrelevant. The time to act is now. The sector has substantial assets, the goal is to grow and develop the movement in line with wider socio-economic transformation. As Mr. Brian McCrory, President of the ILCU said: *"Credit unions are a vibrant, innovative movement that do a lot now, but critically are positioned to do a lot more for communities and our country. But there is a mismatch between our capacity, and willingness on one hand and the willingness and capacity of those with policy and regulatory responsibility to partner with us."* This Committee is determined to play its role and assist in whichever way it can by continuing to engage, monitor and evaluate the implementation of the CUAC recommendations at regular intervals.

2. RECOMMENDATIONS

The Committee makes the following recommendations:

2.1 LEGISLATIVE FRAMEWORK AND REGULATORY REQUIREMENTS

(i) 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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;

(viii) 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;

(ix) 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;

(x) 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;

2.2 TIERED REGULATION

(xi) 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 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

(xii) 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;

(xiii) 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;

(xiv) 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;

(xv) 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;

(xvi) That responsibility for assessing business model proposals be removed entirely from the Registrar and given to the Shareholder Management Unit for assessment;

2.4 ENGAGEMENT BETWEEN THE REGISTRAR AND THE CREDIT UNION MOVEMENT

(xvii) 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;

(xviii) 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;

(xix) 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;

(xx) The International Credit Union Regulators' Network (ICURN) Credit Union Peer Review, July 2015[13] 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;

2.5 INVESTMENT MATTERS

(xxi) 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;

(xxii) 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;

(xxiii) 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

[13] ICURN Review, July 2015 Page 10

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;

(xxiv) 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;

2.6 CONTRIBUTIONS AND LEVIES TO VARIOUS FUNDS

(xxv) 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;

2.7 FINANCIAL INCLUSION

(xxvi) 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;

(xxvii) 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.

3. KEY THEMES

3.1 SECTION 35 OF THE CREDIT UNION ACT 1997 – LENDING LIMITS

Section 35[14] of the 1997 Act, as amended in 2010, provides for the making of loans by credit unions and provides the Central Bank with certain regulation making powers.

The 2012 legislation now stipulates that requirements for loans that the Central Bank may prescribe limits as it considers appropriate. The requirements that came into effect on 1 January 2016 through secondary legislation increased the limitations by adding to the existing limits in the form of linking exposure limits to the regulatory reserve, the imposition of a maximum maturity limit of 25 years and increased classification of categories of loans and concentration limits.

Section 35 of the Credit Union Act 1997 and the revised restrictions on lending limits subsequently introduced by further regulation continues to draw criticism from credit unions operating within the sector. The credit union representative bodies have particular concerns regarding the lending limits. These are considered inappropriate and to act as a brake on overall business development. One consequence highlighted in the CUAC report is a significant shift away from larger value, longer duration loans to smaller value, shorter duration loans.

This situation has another important and significant impact for the credit union sector as a whole. As the overall asset base of the sector has increased at approximately €16 billion, the scope and opportunities to lend these assets has diminished. The net result is that the average loan-to-asset ratio of the Irish credit union sector is currently 26%.

[14] https://centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/credit-union-handbook/section-35-regulatory-requirements-for-credit-unions-(october-2013).pdf?sfvrsn=2

The CUAC report stated this figure "*is a cause of deep concern*" and fears arose in the course of hearings that the present position is unsustainable and threatens the very viability of the sector. As the CUAC report stated: "*There are only five countries out of 105 with credit union movements, which have a loan to asset ratio inferior to that in Ireland.*" [15] This statement of fact illustrates the starkness of the situation confronting the sector.

In her opening statement, the Registrar acknowledged the challenge that lies ahead and stated that "*the biggest challenge is how to grow lending responsibly, following falls of over 40% in both loan income and volume in the last decade*"[16]. The Registrar disputed the evidence that the Central Bank holds back the development of the sector vis a vis lending capacity. She referred to a miscalculation of the credit union sector in how they have approached modifying long-term lending. The Registrar stated "*it is worrying that sectoral engagement on changing lending limits appears to have polarised to mortgages, rather than on a diverse lending portfolio*".[17] However the Committee recognises that the ILCU has proposed lending initiatives in social housing, lending to businesses, micro-lending to the excluded as well as mortgage lending.

In evidence, the Registrar referred to the available "*headroom*" within the existing lending restrictions and the reluctance of credit unions to take advantage of it. The Registrar drew attention to the facility whereby current limits allow credit unions to lend potentially up to 15% of their loan book beyond ten years and up to 40% of the loan book for between five and ten years. Current usage of the 15% facility is at 2% and 11 credit unions have applied to the Central Bank for discretion to apply the higher limit of 15% in long-term lending, only three credit unions use it.

When calculating the "headroom" in relation to lending limits, there will always appear to be headroom when credit unions are taken collectively, but for the bigger credit unions that have reached, and almost reached, lending limits, there is a serious concern. The concern here is twofold:

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[15] Executive Summary of CUAC Report pg.iii
[16] Official Meeting Transcript of 23 March 2017 pg. 29
[17] Official Meeting Transcript of 23 March 2017 pg. 31

i. The need for lending limits (i.e. the old Section 35 limits) to be amended is urgent for large, progressive credit unions and,
ii. The need for the criteria to change under the existing requirements which allows a credit union extend their current lending from 10% of the loan book over 10 years to 15%, and 30% of the loan book over 5 years to 40%. The criteria were introduced in 2007 by the Central Bank, at an era when arrears were low. Very few credit unions could now meet the arrears requirements set out in the criteria.

The suggestion that credit unions simply have no interest in applying is inaccurate.

The Registrar in evidence confirmed a willingness to consider amending long-term lending limits but only following clarification on credit unions' plans for prudently developing longer-term lending. The credit union representative bodies argued for a more flexible approach and one that enables credit unions to respond to and provide loans that their members want, subject to having the capability and controls in place to do so.

MABs National Development Ltd representatives introduced another dimension to the debate on lending restrictions that centred on tailoring appropriate lending products to low-income families. The representatives stated there is a clear marketing opportunity for the credit union sector to specifically target this cohort of borrowers who continue to rely on licenced money-lenders and who pay prohibitive interest rates.

MABs ndl cited the recent rollout and success of the "*It Makes Sense*" product in partnership between the credit union sector and the Department of Social Protection. The overwhelming success of this initiative provides a template for the credit union sector to diversify its lending model and design appropriate products that have the capacity to serve communities and citizens whilst at the same time providing an alternative lending platform to credit unions.

The Committee notes the Registrar's statement to it that: "*We have not received a structured proposal from the sector for a new higher limit than that currently in place on how the sector would adapt its current business models to meet such*

a higher limit."[18] Whilst the onus may reside with the credit union sector to develop such proposals, the Committee recommends that the Registrar actively critique such proposals and in instances where proposals are deemed inadequate, to clarity and to provide constructive feedback as to how such a proposal may satisfy the expectations of the Regulator.

One of the key recommendations contained in the CUAC report is for a full review of Section 35 lending limits and concentration limits, including the basis of the calculation of the limits together with the liquidity requirements attaching to same. The Committee endorses this recommendation, notes that this is the first item to be considered by the implementation group and commits to monitor progress with regard to Section 35 lending limits.

Furthermore, the Committee notes the evidence of the Registrar that "*Lending restrictions were initially imposed at the height of the crisis to stop excess dangerous lending and the potential larger losses. They largely achieved that aim.*"[19] The Committee views this statement as a de facto acknowledgement that the restrictions that were imposed and then used as a basis for regulatory limits implemented post-crisis have served their purpose. Therefore, the Committee is of the opinion that the lending limits put in place should be reviewed in light of the original goal being largely accomplished and the changing economic environment.

3.2 TIERED REGULATION

The issue of tiered regulation featured prominently in the course of the Committee's hearings. Tiered Regulation is arguably the single most contentious point of difference between the sector representatives and the Registrar. Originally, the Commission report recommended three tiers of regulation for the credit union sector. The three tiers would be based on asset size with:

[18] Official Meeting Transcript of 23 March 2017 pg. 33
[19] Official Meeting Transcript of 23 March 2017 pg. 49

- Type 1 including credit unions with assets of less than €10 million,
- Type 2 including credit unions with assets ranging between €10 million and €100 million, and
- Type 3 that would incorporate credit unions with assets in excess of €100 million.

The purpose of a three tier model was to ensure that *'regulatory requirements in place for credit unions are proportionate to the scale of the credit union.'* The three tier approach also provided for greater flexibility within the sector in that credit unions belonging to the Tier 1 category would operate a simple business model and those in Type 2 and Type 3 could employ more sophisticated business models.

Credit unions in Type 2 and 3 categories would be assessed and supervised in accordance with the higher risk profile attached to their more sophisticated business models. Enhanced supervision would take various forms including prior approval from the Central Bank to undertake various activities, additional prudential requirements and systems, expertise and risks controls expected of a more complex business model.

Two separate consultation processes on Tiered Regulation have occurred since the publication of the Commission recommendation. Consultation Paper 76 (CP76) proposed a two-tier approach which the sector rejected because the proposal deviated from the Commission proposal for a simple regulatory approach for smaller credit unions. Consultation Paper 88 did not provide for Tiered Regulation and, therefore, the issue of regulation and specifically proportionate regulation based on risk remains to the fore in any analysis of the credit union sector.

In evidence to the Committee, the credit union representative bodies criticised the failure to implement tiered regulation as provided for in the Commission on Credit Union Report in 2012. Mr. Molan from the Credit Union Managers Association (CUMA) stated that *"Tiered Regulation, proportionate to the scale of risk in each credit union, has not been delivered."*[20]

[20] Official Meeting Transcript of 21 March 2017 pg. 6

He further added that the "*one-size fits-all*" model impacts adversely on credit unions and disproportionately penalises smaller credit unions which have to make significant investments to match the same standards that apply to much larger and more complex entities. It is also clear from contributions from credit unions that the continued failure to introduce tiered regulation sustains a perception within the movement that cherry-picking is at play in the context of the implementation of the overall Commission recommendations.

From their perspective, credit unions strive to comply and adhere to ever more stringent prudential requirements, but they are increasingly frustrated that the same commitment and determination to introduce tiered regulation has not been reciprocated.

Representative groups also stressed the diversity and differences that prevail within the credit union movement. The point was made in hearings that the credit union sector is not homogenous but is made up of separate legal entities and should be regulated accordingly. The 1997 Act compels the Central Bank, when making regulations to have regard to the nature, scale and complexity of credit unions or a category or categories of credit unions. Recognition of this in implementing regulations has not occurred in the eyes of the credit union movement. Committee members also raised the issue of Regulatory Impact Assessments [RIAs] with the regulators.

Mr. Des Carville from the Department of Finance stated that regulation was primarily a matter for the Registrar. However, he did refer to the consultation process on tiered regulation that occurred in the aftermath of the publication of the Commission on Credit Union Report. Mr. Carville referenced that a wide range of views emerged as part of the consultation process and that "*…tiered regulation means different things to different stakeholders. There is no consensus view on the issue. We agree with the Central Bank that business model development is not linked to tiered regulation*".[21]

Mr. Carville suggested though that positive action on regulation is a possibility and that "*there is the ability to perhaps find common ground between the two*

[21] Official Meeting Transcript of 23 March 2017 pg. 5

concepts that balances the need for appropriate regulation but also protects members' savings on the other side.[22]

The Registrar's stance on tiered regulation is clear. In her interaction with members, she stated: "*On regulation and regulatory burden, we have one framework but we do not apply it with a one-size-fits-all approach*".[23] Although a three tiered system does not exist, the Registrar said that the Central Bank operated in a tiered way within the existing regulatory framework but it is unclear to the Committee how a tiered system is in place or has in any way been reflected in the Central Bank's regulations.

The Committee notes that tiered supervision, with large credit unions encountering a very stringent supervisory regime (through the PRISM process) is not the same as tiered and proportionate regulation which aims to allow progressive credit unions the scope for growth as was recommended by the Commission on Credit Unions.

Proportionality does apply and smaller credit unions with simple business models are treated differently to the more complex operations typically found in larger credit unions.

The CUAC report recommended that on balance a two-tier model of regulation would be appropriate for credit unions at this time [June 2016]. Members' contributions in the hearings centred on the spirit of the original Commission recommendation providing for a clearly defined tiered approach. Not all credit unions are the same and service provision and membership profile differs markedly across the sector.

There is a clear view within the Committee that regulation needs to be applied in a proportionate manner to take into account the differences between individual credit unions. Smaller credit unions with simple models should be permitted to operate a savings and loans type business. The Committee noted that tiered regulation and restructuring went "hand-in-hand" to some extent.

[22] Official Meeting Transcript of 23 March 2017 pg. 21
[23] Official Meeting Transcript of 23 March 2017 pg. 29

Those credit unions that have restructured and invested and become more professional should be subject to higher regulatory standards but, crucially, they should also be allowed to develop a more sophisticated business model that provides the services and meets the expectations of their members. Mr. Johnson of CUDA relayed the extent of the impact of the failure to implement a tiered regulation model on credit unions when he said: "*…the effect of the new regulatory rules without proportionality relegates credit unions to compete in less than 10% of the Irish credit market.*"[24]

3.3 INVESTMENT RESTRICTIONS, THE REGULATORY RESERVE AND CAPITAL REQUIREMENTS

In the course of Committee hearings, particular reference was made to Statutory Instrument (SI) No.1 of 2016. The credit union representative bodies referred in evidence to the fact that the Regulation effectively amounted to '*the hard-coding of a 10% minimum regulatory reserve requirement*'[25] that applies to credit unions. The sector views this requirement as particularly onerous and disadvantageous in terms of competing against other financial service providers.

In practice, the 10% reserve requirement means that credit unions must reserve €100 for every €1000 that credit unions take in on deposit or invest in. In the course of discussion, recent media reports[26] were referred to which highlighted the unusual situation where it appears that credit unions are refusing to accept deposits over and beyond a certain threshold from members.

Committee members raised this matter with the witnesses who confirmed that "*a number of credit unions would be in that space*". The credit union representative bodies classified the practice as a "*self-imposed savings cap*"[27] instead of a blanket refusal of credit unions to accept deposits. In effect, the 10% regulatory reserve coupled with the few investment opportunities available

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[24] Official Meeting Transcript of 21 March 2017 pg. 8
[25] Mr. Tim Molan, CUMA, page 6 transcript, Committee proceedings 21 March 2017
[26] Article, Irish Independent, 13 March 2017
[27] Mr. Kevin Johnson, CUDA, page 10 transcript, Committee proceedings 21 March 2017

mean that credit unions are typically placing a significant amount of "cash" on deposit in banks.

The prevailing and exceptional low interest rate environment means that credit unions are in effect being charged to deposit funds with banks. Therefore, the prudential requirements and investment restrictions are having a negative impact on the wherewithal of credit unions to make a reasonable return on their investments. Credit unions at present are limited to specified investment classes which include government securities, bank deposits, bank bonds and collective investment schemes made up of these instruments.

The situation is complicated further in that the regulatory capital requirements demanded of credit unions are stricter than other financial providers. Credit unions have to set aside capital from their total funds. Capital for banks, in comparison, is determined on a risk weighted basis and therefore the capital thresholds are less demanding.

Witnesses representing the sector informed the Committee that the average savings held in credit union accounts was "*€8,000*" and that the sector had approximately €8bn deposited with banks. One Committee member characterised the existing situation as analogous to the credit unions acting as debt collecting agencies for the banking sector.

The representative bodies expressed a clear preference for a review of the restrictions in investment classes.

The Registrar, in evidence to the Committee, stated that the 10% regulatory reserve acts as an important loss absorbing layer to cushion and protect credit unions in the event of losses being incurred. The ILCU's view is that the Regulatory Reserve Ratio is a crude and blunt instrument which does not take any account of the risks faced by credit unions, i.e. it is a one size fits all approach. A credit union with a higher risk profile does not have to hold higher level of reserves than a credit union with a low risk profile. The ILCU has previously advocated an alternative League capital policy which is based on Basel and designed to promote risk aversion as credit unions with riskier assets would have to reserve more. It is arguable that the Regulatory Reserve Ratio can promote risk as credit unions are forced to chase income/return in order to

build up and maintain large regulatory reserves. The Registrar added that it was introduced in 2009 and significant support came from sector respondents at the time. Moreover, the 10% reserve ratio is "*generally considered to be a minimum capital adequacy ratio as recommended by the World Council of Credit Unions*"[28]. The ILCU contend that the developed, sophisticated nature of the movement in Ireland the WCOCU have said that risk weighted reserving is appropriate.

The Registrar further explained that the primary reason credit unions' capital requirements differed from banks' capital requirements was due to the less complex business model that typically characterises the credit union sector. Banks generally operate more complex systems and are also subject to the capital requirements as set out under Pillar 1 of the Basel III framework. Credit unions do not operate within the same "space" and therefore, in the Registrar's opinion, a non-risk weighted approach is fully reasonable for credit unions in the circumstances.

The Registrar confirmed that the average capital ratio across the sector stands in excess of the 10% minimum requirement at 16% at present. She referred to the fact that major improvements have been achieved in bolstering the overall resilience of the sector as evident that in 2017 only three credit unions do not meet the 10% regulatory requirement, as opposed to 52 credit unions in 2011.

The Committee welcomes the announcement by the Central Bank of Ireland on 11 May 2017 of the publication of a consultation paper on the investment framework for credit unions. The Committee supports the review to ensure the investment regulations remain appropriate for the sector. A specific proposal relating to investment by credit unions in social housing is addressed at section 3.4.

3.4 PROPOSAL FOR INVESTMENT IN SOCIAL HOUSING

This proposal relates to the possibility of the credit union movement collectively lending to approved housing bodies and to local authorities to assist in the

[28] Ms. Anne Marie McKiernan, Registrar of Credit Unions, page 36 transcript, Committee meeting 23 March 2017

provision of social housing. This issue arose in the context of exchanges on investment classes and the various restrictions in situ in that regard.

The credit union representative bodies informed the Committee that the proposal dates from the formation talks of the current government. Informing that process was a detailed policy paper published by the sector in 2015.[29] Mr. Brian McCrory, President ILCU in evidence stated "*that would allow all credit unions to contribute via a centralised vehicle that underpins the credit union ethos and ensures effective regulatory oversight. The response has been very positive. Regrettably, delivery to date has been nil.*"[30]

The credit union representatives confirmed that the proposal had not been implemented or at least progressed further to date. They also called on multiple Departments and various "*arms of the state*" – including the Department of Communications, Climate Action and Environment, the Department of Housing, Planning, Community and Local Government, the Central Bank and the Department of Finance "*to figure out a way to get this social housing proposal done*"[31].

In evidence to the Committee, the representative bodies stated that approximately €800 million in funding would have been available for social housing investment in 2016. In written evidence, the Credit Union Development Association (CUDA) proposed a revision to the *Credit Union and Co-Operation with Overseas Regulators Act 2012* to enable credit unions to lend for social housing purposes - reference Appendix 1.

Department of Finance representatives stated, "*it is ultimately a matter for the regulator to approve change*" [with regard to moving the credit union business model into mortgages and housing]. It was confirmed that the Department had engaged with the credit union representative bodies in 2016 in regard to two proposals on social housing. It was clarified that one of the proposals discussed was not acceptable to it and the rationale for this position was set out in writing.

[29] A Proposal for Irish credit unions to fund the provision of social housing – prepared by the Irish League of Credit Unions [October 2015]
[30] Official Meeting Transcript of 21 March 2017 pg. 5
[31] Mr Ed Farrell, page 12 transcript Committee meeting 21 March 2017

It was stated that the Department is "… *encouraging a separate proposal, which is for individual credit unions to invest directly with approved housing bodies.*"[32]

The Department did not rule out the possibility of future progress on the prospect of credit unions investing in housing. The Committee was informed that ".. *if there is an opportunity to relax regulations on investment in approved housing bodies, for example, subject to the devil being in the detail, I believe this Department would be very supportive of that and we will make our views known in that respect*". However, the message from the Department was clear in that ultimately any change to the prescribed rules for investment would require the approval of the Regulator.

The Committee notes that the proposal to allow individual credit unions to invest directly with approved housing bodies outlined above and in Appendix 1 is primarily a legislative change and is therefore a matter for the Minister for Finance and not the Central Bank as regulator.

In evidence to the Committee, the Registrar did signal concerns regarding credit unions becoming actively involved in the mortgage market. The Registrar highlighted the high-volume, low-margin nature of the market and that it consisted of experienced players. The Registrar also added that the credit union sector would have to consider the impact of the changes on its business including loan durations, impact on balance sheets – particularly in the context of funding as well as additional legal and collateral requirements. The Registrar confirmed that she would favour a "*multi-step and appropriately-risk managed*" approach by credit unions in considering entering the mortgage market and also stated that "*sector wide solutions on shared services would be helpful*".

In addition, the Registrar referred to the common bond structure that is part of the movement and that changes to the structure would likely be necessary to advance the prospect of the social housing proposal. The Registrar stated that any change to the common bond is a matter for credit unions themselves.

[32] Official Meeting Transcript of 23 March 2017 pg. 17

3.5 CONTRIBUTIONS AND LEVIES TO VARIOUS FUNDS

The issue of levies and contributions by credit unions to various funds also featured in the Committee hearings. The credit union representative groups articulated its dissatisfaction at having to contribute for a fifth successive year to a fund, the duration of which was meant to cease after four years, in its understanding. Furthermore, the representative groups stated that uncertainty surrounding future contributions was unsatisfactory and needed clarification as it was adversely impacting on the ability of credit unions to plan ahead.

A number of funds exist that affect credit unions. The main elements of the funds are detailed below.

(i) Credit Institutions Resolution Fund

The "Resolution Fund" was established by Section 10(1) of the Central Bank and Credit Institutions (Resolution) Act 2011 (as amended). The purpose of the fund is to provide a source of funding for the resolution of financial instability, or an imminent serious threat to the financial stability of, an authorised credit institution. The Resolution Fund was originally intended to apply to all credit institutions including banks and credit unions. However, in practice, banks which had received and were receiving financial support from the State at that time, were excluded from the Resolution fund.

Subsequently, in July 2011, the EU Bank Recovery and Resolution Directive (the BRRD) was transposed into Irish law. As a result of the BRRD, banks no longer contribute to the Resolution Fund and instead pay contributions to the Single Resolution Fund (SRF). As credit unions do not come within the scope of the BRRD they remain within the Resolution Fund and are now the only contributors to the Resolution Fund.

The Department of Finance has confirmed in supplementary evidence to the Committee that "*there was an expectation in 2012 that the Resolution Fund would grow over four years to €100 million, assuming no resolution costs were incurred, and assuming all credit institutions in Ireland were funding the*

scheme." [33] However, the Department has also confirmed in written evidence to the Committee that the Resolution Fund was not established on a time-bound basis as has been suggested.

As regards the funds status, the Exchequer initially contributed €250 million to the fund. Credit unions have contributed €7 million per annum over five years totalling €35 million approximately. To date, €31 million has been paid out in resolution costs leaving a net surplus of €5 million.

The key issue of contention concerning the Resolution Fund is its duration and whether credit unions will continue to have to contribute annual levies indefinitely. The Department has reaffirmed to the Committee that while currently there is no target level for the Resolution Fund, the levies are reviewed by the Minister every year.

The Committee concurs with the views expressed by the credit unions that the current position vis a vis a annual review of the levies undermines the ability of credit unions to strategically plan ahead. Furthermore, that there was an initial expectation that the Resolution Fund would cease after four years and credit unions are and continue to be the sole contributor from the financial sector warrants clarification from the Minister as to the future requirements of the sector in respect of further contributions.

(ii) The Credit Union Fund

The Credit Union Fund was established under section 57 of the Credit Union and Co-Operation with Overseas Regulators Act 2012 primarily to provide a source of funding for the restructuring of credit unions under the Credit Union Restructuring Board (ReBo). The Government provided €250 million specifically for restructuring purposes. Levies collected since 2014 amount to circa €5 million and approximately €14 million has been drawn from the Credit Union Fund for restructuring purposes.

[33] Correspondence Item 2017/303 – Letter dated 13 April 2017 from Mr. Des Carville, Head of Shareholding and Financial Advisory Division providing supplementary information to the Committee on Resolution Levies.

It is expected that ReBo will conclude its work in 2017. In that context, credit union representatives in written evidence to the Committee have raised the issue of the future of the Credit Union Fund.

(iii) The Stabilisation Fund

Credit unions contribute annually to a statutory Stabilisation Fund. The stabilisation fund is contained within the Credit Union Fund and provides support to address short-term problems at credit unions that are viable but undercapitalised. To date levies collected amount to €6.4 million and there have been no drawdowns from the Stabilisation Fund, which raises the question of how much longer levies should continue to be collected.

On levies and contributions generally, sector representatives have called for them to be urgently and transparently reviewed to ensure that there is clear rationale and legal basis for any levies going forward and the Committee supports this position and notes the ILCU's Savings Protection Scheme has provided €73 million stabilisation funds to 64 credit unions without any resort to taxpayer funds.

3.6 BUSINESS MODEL DEVELOPMENT

Business model development for the credit union movement is arguably the single most pressing issue to be addressed at present. The Commission on Credit Unions Report (2012) stated that business model development was critical particularly for credit unions that want to achieve the scale necessary to move to a more efficient and sophisticated business model.[34]

Various proposals have been put forward in the interim including developing internal capabilities such as information and communications technology, greater harmonisation and interlinking of credit unions and the development of mortgage lending and lending to small businesses.

[34] Report of the Commission on Credit Unions, March 2012. 9.1.2

CUAC also addressed business model development in its report, published in June 2016. The relevant passage states the following:

'...*CUAC considers business model development a vital component in the health and viability of a restructured credit union sector. CUAC views that business model development is the most critical issue currently faced by credit unions with the pronounced decline in the loan to asset ratio and a noticeable shift away from longer duration, higher value loans to shorter duration, lower value loans testimony to the problem.*'[35]

CUAC further added that business model development cannot be looked at in isolation, has many facets and that step change is more likely to be achieved through credit unions acting together.

In evidence to the Committee, MABs ndl representatives also voiced their concerns about the absence of a coherent future vision for the credit union sector. In their words, considerable ambiguity remains and an element of stasis seems to have set in with regard to the vision for the credit union movement.

On this issue, CUMA stated that "*no other sector is as constrained from innovation as credit unions under sections 48-52 of the Act.*"[36] CUMA told the Committee that the Central Bank should have a clear framework available so development proposals from the sector are dealt with in a more structured and timely fashion. CUDA added that greater transparency is required from the Central Bank in assessing and adjudicating on business proposals. Credit unions need to know precisely the deficiencies in proposals deemed by the Central Bank to invalidate their approval.

The Registrar addressed the business model development challenge in the wider context of the need for transformation in the sector and to wider socio-economic trends. She noted that net lending by credit unions declined for seven successive years and has only now marginally recovered. Several post-crisis market factors contributed to the decline in the fortune of the sector including prolonged de-leveraging by households and small businesses and increased competitiveness in the short-term unsecured lending market.

[35] Credit Union Advisory Committee (CUAC) Report pg.78
[36] Official Meeting Transcript of 21 March. Pg.6

Sector-specific reasons were referred to such as the aging demographic profile that is synonymous with credit unions which poses a threat to the future growth of the movement. The Registrar emphasised, in particular that credit unions need to respond to this challenge by investing, tailoring and marketing products that are attractive to younger borrowers.

The Registrar also referred to the current ultra-low interest rate environment that means whereas once credit unions could accrue a decent return on investment bonds to cover market losses, this option is not available at present due to market conditions. A low-yield environment coupled with increasing cost-to-income ratios further amplifies the difficulties confronting credit unions.

The Registrar informed members that transformation is required in order to grow lending responsibly within the sector. This transformation entails four elements:

(i) a drive for younger active borrowers;
(ii) deriving benefits from restructuring;
(iii) developing the business model in a multi-step risk managed way and;
(iv) increasing sectoral leadership and co-operation on shared services.

The Registrar raised concerns about what she termed '*the absence of a coherent future path supported by appropriate proposals*'. She also called upon the sector to *"...set out its vision and plans"*.[37]

The Committee acknowledges the central role business model development has to play in instigating and buttressing a sustainable and flourishing credit union network.

The Committee acknowledges that credit union bodies must do more in terms of business model development but equally demands that the Registrar and its wider office commit to engaging directly with the sector to further business proposals. Specifically, in cases where proposals fall short of the expected standards, the Committee believes there is an onus on the Regulator to clearly set out any shortcomings and identify, in partnership with the credit union

[37] Ms. Anne Marie McKiernan, Registrar of Credit Unions, page 30 transcript, Committee meeting 23 March 2017

representative bodies, remedies or solutions that will assist them in formulating acceptable proposals.

APPENDIX 1

Proposed Amendment to the Credit Union and Co-Operation with Overseas Regulators Act 2012

AN ACT TO AMEND CERTAIN PROVISIONS OF THE CREDIT UNION AND CO-OPERATION WITH OVERSEAS REGULATORS ACT 2012 TO FACILITATE PARTICIPATION BY CREDIT UNIONS IN THE PROVISION OF SOCIAL AND AFFORDABLE HOUSING FINANCE BE IT ENACTED BY THE OIREACHTAS AS FOLLOWS:

1.(a) This Act may be cited as the Credit Union (Amendment) Act, 2017.

(b) This Act shall come into operation on such day as may be fixed by order made by the Minister.

2. In this Act, unless the context otherwise requires –
"Act of 2012" means the *Credit Union and Co-operation with Overseas Regulators Act, 2012*;

"Approved Housing Body" means a body approved for the purposes of section 6 of the *Housing (Miscellaneous Provisions) Act, 1992*.

"Local Authority" means multi-purpose bodies, as defined by The Department of the Environment, Community and Local Government, responsible for delivering a broad range of services in relation to roads; traffic; planning; housing; economic and community development; environment, recreation and amenity services; fire services and maintaining the register of electors.

3. Section 6 of the Act of 2012 is hereby amended by the insertion of the following section after section 6A:-

"6B Notwithstanding any provision to the contrary in this Act, [subject to approval by the Bank] a credit union may extend its common bond to provide membership to, make a loan to or invest in any Approved Housing Body and\or Local Authority.

6C Nothwithstanding any provision of section 14(1) the credit union shall by board resolution make such amendment to the rules of the credit union as are consequential on the provisions of this Act.

APPENDIX 2

Orders of Reference

a. Functions of the Committee – derived from Standing Orders [DSO 84A; SSO 70A]

(1) The Select Committee shall consider and report to the Dáil on—

(*a*) such aspects of the expenditure, administration and policy of a Government Department or Departments and associated public bodies as the Committee may select, and

(*b*) European Union matters within the remit of the relevant Department or Departments.

(2) The Select Committee appointed pursuant to this Standing Order may be joined with a Select Committee appointed by Seanad Éireann for the purposes of the functions set out in this Standing Order, other than at paragraph (3), and to report thereon to both Houses of the Oireachtas.

(3) Without prejudice to the generality of paragraph (1), the Select Committee appointed pursuant to this Standing Order shall consider, in respect of the relevant Department or Departments, such—

(*a*) Bills,

(*b*) proposals contained in any motion, including any motion within the meaning of Standing Order 187,

(*c*) Estimates for Public Services, and

(*d*) other matters

as shall be referred to the Select Committee by the Dáil, and

(*e*) Annual Output Statements including performance, efficiency and effectiveness in the use of public monies, and

(*f*) such Value for Money and Policy Reviews as the Select Committee may select.

(4) The Joint Committee may consider the following matters in respect of the relevant Department or Departments and associated public bodies:

(*a*) matters of policy and governance for which the Minister is officially responsible,

(*b*) public affairs administered by the Department,

(*c*) policy issues arising from Value for Money and Policy Reviews conducted or commissioned by the Department,

(*d*) Government policy and governance in respect of bodies under the aegis of the Department,

(*e*) policy and governance issues concerning bodies which are

partly or wholly funded by the State or which are established or appointed by a member of the Government or the Oireachtas,

(*f*) the general scheme or draft heads of any Bill,

(*g*) any post-enactment report laid before either House or both Houses by a member of the Government or Minister of State on any Bill enacted by the Houses of the Oireachtas,

(*h*) statutory instruments, including those laid or laid in draft before either House or both Houses and those made under the European Communities Acts 1972 to 2009,

(*i*) strategy statements laid before either or both Houses of the Oireachtas pursuant to the Public Service Management Act 1997,

(*j*) annual reports or annual reports and accounts, required by law, and laid before either or both Houses of the Oireachtas, of the Department or bodies referred to in subparagraphs (*d*) and (*e*) and the overall performance and operational results, statements of strategy and corporate plans of such bodies, and

(*k*) such other matters as may be referred to it by the Dáil from time to time.

(5) Without prejudice to the generality of paragraph (1), the Joint Committee appointed pursuant to this Standing Order shall consider, in respect of the relevant Department or Departments—

(*a*) EU draft legislative acts standing referred to the Select Committee under Standing Order 114, including the compliance of such acts with the principle of subsidiarity,

(*b*) other proposals for EU legislation and related policy issues, including programmes and guidelines prepared by the European Commission as a basis of possible legislative action,

(*c*) non-legislative documents published by any EU institution in relation to EU policy matters, and

(*d*) matters listed for consideration on the agenda for meetings of the relevant EU Council of Ministers and the outcome of such meetings.

(6) Where a Select Committee appointed pursuant to this Standing Order has been joined with a Select Committee appointed by Seanad Éireann, the Chairman of the Dáil Select Committee shall also be the Chairman of the Joint Committee.

(7) The following may attend meetings of the Select or Joint Committee appointed pursuant to this Standing Order, for the purposes of the functions set out in paragraph (5) and may take part in proceedings without having a right to vote or to move motions and amendments:

(*a*) Members of the European Parliament elected from constituencies in Ireland, including Northern Ireland,

(*b*) Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and

(*c*) at the invitation of the Committee, other Members of the European Parliament.

(8) A Select Committee appointed pursuant to this Standing Order may, in respect of any Ombudsman charged with oversight of public services within the policy remit of the relevant Department or Departments, consider—

(*a*) such motions relating to the appointment of an Ombudsman as may be referred to the Committee, and

(*b*) such Ombudsman reports laid before either or both Houses of the Oireachtas as the Committee may select.

b. Scope and Context of Activities of Committees (as derived f Standing Orders) [DSO 84; SSO 70]

(1) The Joint Committee <u>may</u> only consider such matters, engage in such activities, exercise such powers and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders; and

(2) Such matters, activities, powers and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Dáil and/or Seanad.

(3) The Joint Committee <u>shall not</u> consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Committee of Public Accounts pursuant to Standing Order 186 and/or the Comptroller and Auditor General (Amendment) Act 1993; and

(4) any matter which is being considered, or of which notice has been given of a proposal to consider, by the Joint Committee on Public Petitions in the exercise of its functions under Standing Orders [DSO 111A and SSO 104A].

(5) The Joint Committee <u>shall refrain</u> from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by—

(a) a member of the Government or a Minister of State, or

(b) the principal office-holder of a body under the aegis of a Department or which is partly or wholly funded by the State or established or appointed by a member of the Government or by the Oireachtas:

Provided that the Chairman may appeal any such request made to the Ceann Comhairle / Cathaoirleach whose decision

shall be final.

(6) It shall be an instruction to all Select Committees to which Bills are referred that they shall ensure that not more than two Select Committees shall meet to consider a Bill on any given day, unless the Dáil, after due notice given by the Chairman of the Select Committee, waives this instruction on motion made by the Taoiseach pursuant to Dáil Standing Order 28. The Chairmen of Select Committees shall have responsibility for compliance with this instruction.

APPENDIX 3

Members of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Deputies:

John McGuinness T.D. (FF) (Chairman)

Peter Burke T.D. (FG)

Joan Burton T.D. (Lab)

John Deasy (FG)

Pearse Doherty T.D. (SF)

Michael McGrath T.D. (FF)

Paul Murphy T.D. (Ind)

Senators:

Gerry Horkan (FF) (Vice-Chairman)

Paddy Burke (FG)

Rose Conway-Walsh (SF)

Kieran O'Donnell (FG)

APPENDIX 4

List of witnesses

Department of Finance:

- Mr Des Carville
- Ms Deirdre Aherne

Central Bank of Ireland

- Ms Anne Marie McKiernan
- Ms Elaine Byrne
- Ms Frank Brosnan

Credit Union Manager's Association:

- Mr Tim Molan

Money Advice and Budgeting Service

- Ms Ann Marie O'Connor

Irish League of Credit Unions

- Mr Brian McCrory
- Mr Ed Farrell

Credit Union Development Association

- Mr Kevin Johnson

APPENDIX 5

Links to Official Meeting Transcripts

Transcripts of relevant Committee Meetings can be accessed at the following links:

21 March 2017 - Meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach:

http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FPJ2017032100002?opendocument

23 March 2017 - Meeting of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach:

http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FPJ2017032300002?opendocument