



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

May 2016

Application to increase individual members' savings in excess of €100,000

Explanatory Note

On 1 January 2016 [the Credit Union Act 1997 \(Regulatory Requirements\) Regulations 2016 \(the Regulations\)](#) came into effect.

Introduction

Regulation 35 of the Regulations sets a maximum individual member savings limit of €100,000. Regulation 37 of the Regulations provides that credit unions, with a minimum asset size of €100 million, may apply to the Central Bank for approval to increase individual members' savings in excess of €100,000 where they can demonstrate that it is consistent with the adequate protection of the savings of members and effective and proportionate, having regard to the nature, scale and complexity of the credit union, for them to do so.

In order for credit unions with a minimum asset size of €100 million¹, to apply to the Central Bank for approval to increase individual members' savings in excess of €100,000, credit unions must complete this application form, have it approved by the board of directors and signed by the chair of the board on behalf of the board of directors and submit it to the Central Bank.

Financial Criteria and Considerations of the Central Bank

In deciding whether to grant approval for an application to increase individual members' savings in excess of €100,000 the Central Bank will give consideration to the following:

- (i) The level of total realised reserves held by the credit union, in excess of the regulatory reserves required to satisfy the minimum regulatory reserve requirement, relative to the credit union's total exposure to savings in excess of €100,000 (where such savings are held)²;

¹ Minimum asset size of €100 million is by reference to the most recently submitted Prudential Return of the credit union.

² In assessing applications to retain individual members' savings in excess of €100,000 which were held at commencement of the Regulations, the Central Bank considered an exposure amount of no greater than 50% of the excess realised reserves or excess relevant liquid assets, whichever is the lesser.

- (ii) The level of relevant liquid assets held by the credit union, in excess of the relevant liquid funds required to satisfy the minimum liquidity requirement, relative to the credit union's total exposure to savings in excess of €100,000 (where such savings are held)²;
- (iii) The business case and accompanying financial projections, submitted by the credit union to support its application to increase individual members' savings in excess of €100,000;
- (iv) Whether any other circumstances exist or are likely to arise which in the opinion of the Central Bank undermine the ability of the credit union to increase individual members' savings in excess of €100,000 in a manner consistent with Regulation 37(3) of the Regulations.

Where a credit union has submitted an application to retain individual members' savings in excess of €100,000 held at commencement of the Regulations, the outcome of that application will be considered as part of consideration of this application to increase individual members' savings in excess of €100,000.

When considering an application from a credit union to increase individual members' savings in excess of €100,000, the Central Bank will take cognisance of all relevant information which it has gathered through its supervisory interaction with the credit union including the outcome of any PRISM engagements undertaken.

The application form contains a number of sections as follows:

- Section 1: Business Case
- Section 2: Board Approval
- Appendix 1: Financial Templates
- Appendix 2: DGS Template Letter
- Appendix 3: Additional Notes

All sections are mandatory for completion and submission of application.

Section 1: Business Case

The application should set out details on the risk management systems and controls in operation in the credit union, along with evidence of the effectiveness of such systems. It should be clearly outlined how the risk management environment of the credit union is appropriate, for example how it contributes to ensuring the ongoing protection of the savings of members. The credit union's risk appetite in relation to holding individual members' savings in excess of €100,000 should also be provided. Knowledge on the risk management systems and controls which has been obtained by the Central Bank as part of ongoing supervisory interactions with individual credit unions (including through PRISM engagements undertaken) will also be considered in the review of the application.

The credit union should also include details of the measures that have been adopted by the credit union to meet its obligations in respect of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended by the Criminal Justice Act 2013 ("the CJA 2010").

A business case should also be submitted with this application form which outlines clearly the rationale for the credit union in seeking approval to increase individual members' savings in excess of €100,000. It should be clear from the rationale provided what the intended primary purpose is for the credit union in seeking approval to increase individual members' savings in excess of €100,000.

The business case should outline the projected additional individual members' savings in excess of €100,000 which the credit union estimates will be taken in over the next 3 financial years. The credit union should provide detail on the maximum individual member savings limit (if any) which the credit union will implement. The rationale provided by the credit union for seeking approval to increase individual members' savings in excess of €100,000 and the projections provided should take account of the credit union's total current exposure to individual members' savings in excess of €100,000 and the composition of its overall funding profile including such savings after the 3 years.

Financial projections, along with underlying assumptions and linked to the credit union's strategic plan, should accompany the business case for a period covering the next 3 financial years³. The financial projections should provide a detailed breakdown of projected income (split by asset category), costs of the credit union including the cost of funding and projected resulting surplus/deficit for each financial year. A projected balance sheet showing in detail the assets, liabilities and reserves of the credit union for each of the financial years should support the financial projections. Appendix 1 contains an example of how the financial projections should be provided. The individual line items included in the templates in Appendix 1 should be provided at a minimum but the credit union may include any additional line items or information in its financial projections which it deems relevant to support its business case to increase individual members' savings in excess of €100,000.

The business case, with supporting financial projections, should be provided in a separate document appended to this application form. The financial projections should also be provided in excel format and uploaded via the secure file upload facility available through the Online Reporting System.

³ Where appropriate the credit union may wish to provide the financial projections for a period exceeding 3 years.

Section 2: Board Approval

(This section must be reviewed and approved by the board of directors of the credit union and signed by the chair on behalf of the board of directors.)

_____ (insert credit union name) confirm that;

- i. The business case and financial projections provided as required by Section 1 of this application are prepared on the basis of reasonable and realistic assumptions based on the current business model and operating environment of the credit union.

If the credit union is successful in its application to increase individual members' savings in excess of €100,000:

- i. The credit union will use all reasonable endeavours to ensure that the it will remain in compliance on an ongoing basis with the financial criteria and conditions, on the basis of which the Central Bank has granted approval; and
- ii. Where the situation arises that the credit union ceases to meet one or all of the financial criteria or conditions, on the basis of which the Central Bank has granted approval, the credit union will notify the Central Bank immediately outlining the appropriate measures which the credit union will take to resume compliance with these criteria.

The credit union has and will use all reasonable endeavours to maintain on an ongoing basis, taking account of the level of savings held in excess of €100,000:

- An appropriate asset and liability management (ALM) policy to ensure appropriate ALM and to support the scale and complexity of the credit union's savings:
 - taking account of the strategic plan of the credit union;
 - taking account of the funding strategy proposed to support the projected balance sheet structure; and

- including a process for measuring and monitoring risks arising from asset and liability mismatches;
- Appropriate information systems and management information policies to ensure the maintenance of proper accounting records for the credit union's business;
- An appropriate liquidity management policy to ensure prudent levels of liquidity appropriate to the scale of savings held in the credit union; and
- An appropriate Money Laundering (ML), Terrorist Financing (TF) & Financial Sanctions Risk Assessment supplemented by robust policies and procedures to manage and mitigate the risk of the credit union being exposed ML/TF, incorporating comprehensive Customer Due Diligence (CDD) procedures including assessment of Source of Funds (SOF) and where warranted Source of Wealth (SOW) and the ongoing monitoring of member accounts.

Chair's Signature: _____
(on behalf of the board)

Date of Signature: _____

Any follow up questions in relation to the application form and supporting documentation can be addressed to the following contact in the credit union:

Name: _____

Role in the credit union: _____

Phone number: _____

Email: _____

Appendix 1

The following templates are provided for illustration only and to outline the format in which the financial projections, accompanying the credit union's business case to increase individual members' savings in excess of €100,000, may be provided. Each of the line items outlined in the below templates should be included in the credit unions financial projections at a minimum. The financial projections may include additional line items or information which the credit union considers relevant to support its business case.

As outlined in Section 1 of this application the business case, with supporting financial projections, should be provided in a separate document appended to this application. The financial projections should also be provided in excel format and uploaded via the secure file upload facility available through the Online Reporting System.

For the purpose of the templates below:

T1= the credit union's current financial position

T2= the credit union's projected financial position in 1 year

T3= the credit union's projected financial position in 2 years

T4= the credit union's projected financial position in 3 years

Where the rationale for the credit union in seeking additional funding in excess of €100,000 is related to business development the credit union may wish to provide the financial projections for a period exceeding 3 years.

Template Income and Expenditure Account

	T 1	T 2	T 3	T 4
Loan Interest Income				
Investment Income				
Other Income				
Other Gains				
Total Income				
Operating Expenses				
Deposit Interest Expense				
Provision for Bad Debts				
Bad Debts Written Off				
Bad Debts Recovered				
Other Losses				
Total Expenses				
Surplus/Deficit for the Year				
Dividend Payment				
Loan Interest Rebate Payment				
Surplus/Deficit for the Year post dividend and loan interest rebate payment				

Template Supplementary Information

	T 2	T 3	T 4
Projected Dividend Rate			
Projected Rate of Payment on Deposits			
Projected Loan Interest Rebate			
Projected increase in savings in excess of €100,000			
Projected <u>total savings in excess of €100,000</u> held by the credit union by maturity profile:			
≤ 3 months			
> 3 months and ≤ 1 year			
> 1 year and ≤ 3 years			
> 3 year and ≤ 5 years			
> 5 year and ≤ 10 years			
≥ 10 years			
Projected <u>total number of members with savings in excess of €100,000</u>			
Proposed maximum individual member savings limit			
Projected total relevant liquid assets			
Projected total unattached savings			

Template Balance Sheet

	T 1	T 2	T 3	T 4
Cash and Current Accounts				
Fixed Assets				
Gross Loans by maturity profile:				
≤ 3 months				
> 3 months and ≤ 1 year				
> 1 year and ≤ 3 years				
> 3 year and ≤ 5 years				
> 5 year and ≤ 10 years				
≥ 10 years				
Provisions for Bad Debts				
Investments by maturity profile:				
≤ 3 months				
> 3 months and ≤ 1 year				
> 1 year and ≤ 3 years				
> 3 year and ≤ 5 years				
> 5 year and ≤ 10 years				
≥ 10 years				
Other Assets				
Total Assets				
Total Members Savings by maturity profile:				
≤ 3 months				
> 3 months and ≤ 1 year				
> 1 year and ≤ 3 years				
> 3 year and ≤ 5 years				
> 5 year and ≤ 10 years				
≥ 10 years				
Other Liabilities				
Total Liabilities				
Regulatory Reserve				
Operational Risk Reserve				
Other Realised Reserves				
Unrealised Reserves				
Total Reserves post dividend and loan interest rebate				

Appendix 2

This is a template letter which all credit unions who are approved to increase individual members' savings in excess of €100,000 will be required to circulate to each individual member who has savings with the credit union in excess of €100,000. (For further information see Additional Note 6 of Appendix 3).

Dear Member **X**,

Please be advised that **XYZ Credit Union Limited** is a member of the Deposit Guarantee Scheme (DGS) operated by the Central Bank of Ireland as the designated authority under the European Union (Deposit Guarantee Schemes) Regulations 2015.

The DGS provides protection which ensures that an individual member's total savings in any one particular credit institution is covered up to a maximum amount of €100,000⁴. Given that your current total savings with **XYZ Credit Union Limited** are in excess of €100,000 we would like to remind you that your savings will only be covered up to the amount of €100,000. The DGS is activated where it has been determined that the credit union is unable to repay its deposits and in that event your savings will be repaid up to the value of €100,000 by the DGS.

Yours sincerely,

XXX XXXXX

Chair of XYZ Credit Union Limited

⁴ In the case of joint accounts, the limit of €100,000 applies to each individual member. In general, all retail depositors and businesses are covered by the Deposit Guarantee Scheme. In some cases eligible deposits which are categorised as "temporary high balances" are protected above €100,000. More information relating to "temporary high balances" and exceptions from coverage can be obtained in the attached Depositor Information Sheet and at www.depositguarantee.ie

Appendix 3- Additional Notes

Application Process

1. In order to apply for approval to increase individual members' savings in excess of €100,000, a credit union must complete this application form and submit a signed hard copy to the following address:

Applications,
Registry of Credit Unions,
P.O. Box 559,
Dame Street,
Dublin 2.

2. Credit unions, with a minimum asset size of €100 million, will be permitted to submit an application to increase individual members' savings in excess of €100,000 at any time.
3. The timescale for considering applications will depend on the quality of information provided. Where the application form has been fully completed and contains or includes all of the information requested the Central Bank will endeavour to issue an approval letter or a letter indicating that the Central Bank is minded to refuse the application within two months of receipt of the complete application.
4. The Central Bank retains the right to request additional information from individual credit unions when reviewing their applications to increase individual members' savings in excess of €100,000. Notwithstanding paragraph 3 where further additional information is sought the Central Bank will endeavour to issue an approval letter or a letter indicating that the Central Bank is minded to refuse the application within two months of the receipt of the further additional information.

5. Where a credit union's application is not approved to increase individual members' savings in excess of €100,000, it will not be permitted to accept from an individual member additional savings (including interest and dividends accruing on savings up to and including €100,000) which would cause the individual member's total savings to increase above €100,000. A credit union who is not approved to increase individual members' savings in excess of €100,000 may have been approved to retain individual members' savings in excess of €100,000 which were held at commencement of the Regulations and may therefore retain the individual members' savings in excess of €100,000 for which approval has been granted.
6. Credit unions are reminded of their obligations under Part 9 of the European Union (Deposit Guarantee Schemes) Regulations 2015 and in particular regulation 29(2) which requires that they inform actual and intending depositors of the applicable exclusions from the deposit guarantee scheme in which the credit union participates. Appendix 2 contains a template letter which all credit unions who have been approved to increase individual members' savings in excess of €100,000 will be required to circulate along with a copy of the Deposit Information Sheet required under Regulation 29(2) to each individual member who has savings with the credit union in excess of €100,000. Any approval to increase individual members' savings in excess of €100,000 will be subject to this requirement as a condition of approval.
7. Unless the Registrar is satisfied in relation to all aspects set out in the application, approval cannot be granted.

Ongoing Monitoring

Where a credit union, with a minimum asset size of €100 million, is approved to increase individual members' savings in excess of €100,000, it must continue to comply with the conditions, on the basis of which the Central Bank has granted approval, on an ongoing basis.

The ongoing monitoring process will operate without prejudice to the Central Bank's right to exercise its power to give regulatory directions under section 87 of the Credit Union Act 1997 at any time that it is deemed appropriate.

T +353 1 224 6000 F +353 1 224 4209 www.centralbank.ie rcu@centralbank.ie



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Bosca OP 559, Sráid an Dáma, Baile Átha Cliath 2, Éire
PO. Box No 559, Dame Street, Dublin 2, Ireland