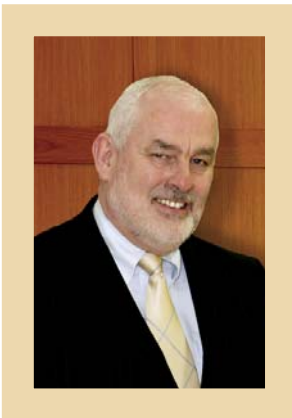




## Changing Times



Credit unions have always thrived and prospered in challenging economic times. The current economic changes could be viewed as a chance for the restoration of the sense of shared commitment that has been the hallmark of the

movement in the past. There is no reason why credit unions should not emerge from the present changed economic environment with a new vision of their lending and investing functions that conforms more closely to their original values and ethos.

In the current era which has seen a tightening of credit availability generally, new lending opportunities may arise for credit unions. Therefore, it is important that care be exercised by credit committees to verify the creditworthiness of new members before issuing loans. Equally, enhanced oversight of any existing loans will be necessary to ensure that members' savings are adequately protected.

Brendan F. Logue  
Registrar of Credit Unions

### **Congratulations to the New CEO of the ILCU.**

Our congratulations to Mr. Kieron Brennan on his appointment as Chief Executive of the Irish League of Credit Unions.

We look forward to working with Kieron in the service of credit unions and their members.

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## REGULATORY DEVELOPMENTS UPDATE

### Proposed Guidance Note on matters relating to Accounting for Investments and Distribution Policy

The board of each credit union should ensure that they comply with the Accounts and Audit requirements set out in Sections 110-124 of the Credit Union Act, 1997 as amended (the Act). In particular proper accounting records should be kept to disclose the financial position of the credit union at any time and give a true and fair view of the state of affairs of the credit union. Accounting policies should be applied on a consistent basis and the amount of any item in the accounts shall be determined on a prudent basis.

The value of investments held by credit unions has increased significantly over recent years. As some credit unions seek to maximise the return on investments, the range and type of such investments has become more complex. Credit unions have adopted varying accounting treatments in valuing investments held in their portfolios and in the recognition of accruing income on such investments.

It is important that practices which have been applied by credit unions for the purposes of valuation of investments and recognition of investment income are in accordance with the requirements of the Act. Accordingly, a Guidance Note is being developed in co-operation with the accountancy profession to assist credit unions in ensuring that the accounting treatment which they adopt for investments and their distribution policy is appropriate and in accordance with the provisions of the Act. Once we have prepared a draft of such guidance we will issue this for consultation with a view to finalising it in advance of the 30 September 2008 year-end.

### Requirements for Operation of the Supervisory Committee

Sections 59 - 62 of the Act outlines the provisions for the operation of the Supervisory committee. Some of the key functions of the Supervisors detailed in the Act include; the examination of the books and documents of the credit union; ascertaining that all actions and decisions made by officers of the credit union are in accordance with the law; the verification of 10% of members passbooks and furnishing the members with a written report on its findings at the AGM.

Section 59 of "the Act" provides that the Supervisory Committee may attend all meetings of the board and committees and notify the Financial Regulator of any concern they may have as to the proper conduct of the credit union, a provision which the Financial Regulator views as very important.

The role of the Supervisors should be to support and advise the board on the performance of its functions in the interests of the members. This obligation should be carried out in a constructive and supportive manner. The Supervisory function is extremely important and should be treated as such by both the Supervisors and the Board.

Supervisors should familiarise themselves with their statutory obligations under the Act and where necessary should seek appropriate training to enable them to discharge their responsibilities (as permitted under section 62(6)). Supervisors should ensure they are familiar with the contents of the guidance notes issued by the Registrar of Credit Unions. In particular, the Investment Guidance Note (issued in October 2006) and the Credit and Credit Control Guidance Note (issued in October 2007).

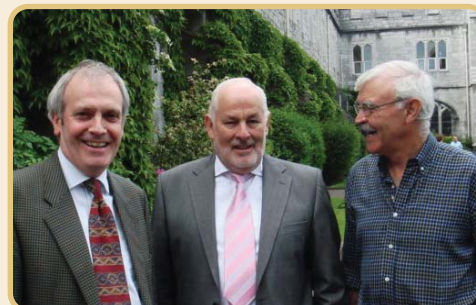
Supervisors should seek outside professional help in cases where they feel that external expertise are required for a particular task. Section 62(6) of the Act also provides that a credit union shall meet all expenses as may be reasonably incurred by its Supervisory Committee in carrying out its function.

All Guidance Notes and other relevant publications are available under the credit union section "Publications and Relevant Legislation" of our website [www.financialregulator.ie](http://www.financialregulator.ie)

## ANNUAL REPORT

The 2007 Annual Report of the Financial Regulator was published on 28 April 2008. Chapter 3 in the report, Promoting a Stable Credit Union Sector, highlights the regulatory developments relating to credit unions in 2007 and the Statement from the Registrar reviews the regulatory developments in the credit union sector during the five-year period since May 2003.

A copy of the Annual Report is available under the Publications section of our website <http://www.financialregulator.ie>.



*Pictured at the UCC Summer School which was addressed by the Registrar of Credit Unions, Brendan Logue in June are left to right - Professor Michael Ward, Director Centre for Co-operative Studies, Brendan Logue, Registrar of Credit Unions and Kevin Helferty, ILCU Board Director.*

# BUILDING COMPLIANCE

## Themed Inspections

### *Investments*

In January 2008, we commenced a programme of themed inspections on the investment function in a number of credit unions. The primary objectives of these inspections are to establish:

- o Compliance with the Investment Guidance Note, which was issued by the office of the Registrar of Credit Unions in October 2006;
- o The level of expertise within credit unions in the management of the investment function;
- o The investment policies, procedures and practices in credit unions to ensure that investments made by credit unions do not pose undue risk to the members' savings;
- o The accounting treatment of capital and income gains on investment products in the financial statements of credit unions.

The themed inspections on-site work was completed in June 2008.

### *Prudential Return*

The rollout of the web-based Prudential Return Reporting System was completed in August 2006. Since then, all credit unions are required to submit a Prudential Return electronically on a quarterly or six-monthly basis. The Prudential Return facilitates the submission of key information to us in a timely manner and is an important tool in directing our risk-based approach to the supervision of credit unions. As the Prudential Return has been part of all credit unions reporting requirements for more than 18 months, it was decided to commence a themed inspection focussing on the Prudential Return in May. These inspections will assist us in verifying the accuracy of the information that is submitted on the Prudential Return, identifying any issues that credit unions may be encountering with the Prudential Return and assessing whether any amendments should be made to the Prudential Return.

## Prudential Return - Re-interpretation of Analysis of Members' Gross Loans Outstanding

Following consultation with the Registrar of Credit Unions and the representative bodies, on the 1 November 2007 the Minister for Finance amended Section 35 (2) of the Act. This amendment, which was contained in the Markets in Financial Instruments and Miscellaneous Provisions Act 2007, changes the basis of calculation of the total amount of loans outstanding for loans over 5 and 10 years. This amount is now calculated based on the time remaining to the final repayment date and not the original loan duration. As outlined in our circular to credit unions in December 2007, credit unions are required to make the necessary changes to their systems in order to ensure that all loans advanced are in compliance with the limits set out in the amended legislation. Starting with the period ending 30 June 2008, the Analysis of Members' Gross Loans Outstanding in the Loan Analysis Section of the Prudential Return should be completed on the basis of the amended legislation. In June, the Registry of Credit Unions issued revised Guidance Notes for the Prudential Return to all credit unions outlining this updated reporting requirement. These Guidance Notes are also available on the prudential reporting website.

Credit unions should be aware that it may also be necessary to amend their rules to reflect this change in legislation.

If you have any queries on the completion of the Prudential Return, help is available on lo-call number 1890 252080 (Monday to Friday 9.30am - 5.00 pm) or at [rcuprudentialadmin@financialregulator.ie](mailto:rcuprudentialadmin@financialregulator.ie).

## Annual Return

The Credit Union Annual Return (CUAR) was due to be submitted to the Registry of Credit Unions by 31 March 2008. Where CUARs were not fully and accurately completed in the correct format or were not accompanied by the required supporting documents, they have been returned to the credit union for revision and resubmission.

The CUARs have been processed and where queries exist, direct contact has been made with the credit unions.

DATE	ITEM
21 July	Prudential Return for Quarter Ending 30 June 2008
30 Sept	Credit Unions Year End
Between 7 & 21 days before each credit unions AGM	AGM Notifications
21 October	Prudential Return for Quarter Ending 30 September 2008

## NEWS & EVENTS

### Industry Funding Levy

The draft regulations for the 2008 industry funding levy were submitted to the Minister for Finance for approval on 12 June. The basis for the levy for credit unions remains unchanged from previous years and is calculated by reference to the total assets for the sector. Each credit union will be liable to pay a levy of 0.01% of total assets as at 30 September 2007, as reported in their annual return.

The Financial Regulator will issue the 2008 levy notices to credit unions following approval from the Minister for Finance. The levy will be payable within 35 days of the date of the levy notice.

In addition, any credit union that holds an authorisation under the Investment Intermediaries Act, 1995 (IIA), is required to pay a separate levy amount in respect of this business based on the submission of a self-declaration of income form to the Financial Regulator for this purpose (Category C). The levy rates for 2008 will be set out in the Guide to Industry Funding Levy 2008 which will be published in the Publications section of our website prior to the issue of the 2008 levy notices. Where the required self-declaration income form information has not been submitted, a credit union may be assessed under Category L and required to pay a default levy of €3,600 in respect of its investment business.

#### Payment Options

The preferred method of payment is direct debit as this reduces the Financial Regulator's cost in administering the levy collection and generates savings which are then passed on to regulated firms. We would encourage those regulated entities not currently paying by direct debit to complete the direct debit mandate available [www.financialregulator.ie](http://www.financialregulator.ie) and return it to us as soon as possible. For entities paying by direct debit, the amount will be deducted from their account no sooner than 35 days after the date the levy notice is issued to them.

The Financial Regulator will also accept payment by Electronic Funds Transfer (EFT). Details are available in the Industry Funding Levy section of our website [www.financialregulator.ie](http://www.financialregulator.ie). To ensure that payments are dealt with efficiently, it is essential that all payments made by EFT include **details of the levy notice number and the account number**. Without these details we may not be in a position to identify the firm to which the payment is related and accordingly it may be necessary to return the payment. Cheques should be made payable to IFSRA No. 1 account.

For further information on 2008 Funding please email [funding.pfd@financialregulator.ie](mailto:funding.pfd@financialregulator.ie) or visit [www.financialregulator.ie](http://www.financialregulator.ie).

### Anti-Money Laundering Update

**Update on Implementation of the Third Directive on Prevention of the use of Financial Systems for the purpose of Money Laundering and Terrorist Financing.**

As outlined in previous issues of RCU News, Member States were required to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 15 December 2007. In Ireland it is expected that transposition will take place during 2008.

#### Events

So far in 2008, the Registrar has attended the following:

DATE	EVENTS
January	CUDA AGM
June	UCC Summer School

The following events will take place over the coming months:

DATE	EVENTS
12-13 July	Regulators Round Table, Hong Kong
13-14 July	World Credit Union Conference, Hong Kong

Work on the implementation process is continuing on three main fronts:

#### o Transposition of the Directive into Irish Law

The Department for Justice, Equality & Law Reform published on its website in February 2008 the General Scheme of a Bill to give effect to the third EU Money Laundering Directive.

#### o Industry Guidance Notes

The Working Group, comprising members and representative bodies from the financial services industry sectors, has continued its work on drafting Revised Industry Guidance Notes, 'Core' and 'Sectoral'.

The Financial Regulator will provide comments on the draft Guidance Notes and consult with stakeholders that have not been represented directly on the Working Group. This consultation process, which is expected to be open for a period of 6/8 weeks, will commence once the penultimate drafts of the Guidance Notes are available from the Industry Working Group.

#### Financial Sanctions

All financial institutions in Ireland and throughout the EU, including credit unions, are subject to various obligations in relation to terrorist financing and certain political regimes. A system of financial sanctions exist, which generally comprise of the freezing of funds and accounts, and prohibitions on the financing of the supply of certain goods, including military equipment.

The Central Bank and Financial Services Authority of Ireland is the competent authority, under both EU and domestic legislation, that administers and enforces the EU financial sanctions regulations here.

International financial sanctions vary depending on the targeted terrorists or political regimes. They generally comprise of (i) targeted asset-freezes which require the freezing of funds and economic resources of designated persons and entities and (ii) prohibitions on the financing of the supply of specific goods, such as military equipment, goods which might be used in the development of weapons of mass destruction or equipment for use in internal repression. In some cases, there are prohibitions on making financial loans or credits available to, or acquiring or extending participation in, state-owned enterprises. These sanctions, most of which stem from United Nations Resolutions, are agreed at EU level at which point they have the force of law in Ireland. They are then given further effect in Ireland under Regulations made by the Minister for Finance, which create an offence for breach of the sanctions and provide for penalties up to €10,000,000 or a term of imprisonment up to 20 years, or both.

All financial institutions in Ireland, including credit unions, are required to be aware of their obligations in this matter and to have systems in place to identify any persons or entities listed under the asset-freeze regulations in the event of such persons seeking to do business with them or to identify transactions which may relate to prohibited goods.

More information on International Financial Sanctions will be set out in the December RCU Newsletter. In the meantime, we recommend that all credit unions familiarise themselves with this area. The websites of the European Commission and Department of Finance are a useful place to start.

[http://ec.europa.eu/external\\_relations/cfsp/sanctions/list/consol-list.htm](http://ec.europa.eu/external_relations/cfsp/sanctions/list/consol-list.htm)

<http://www.finance.gov.ie/viewdoc.asp?fn=/documents/FinancialSanction2007/FinancialSanctions.htm>

Further information regarding best practice and guidance is available in the Guidance on the Offence of the Financing of Terrorism and the Financial Sanctions Regime agreed by the Money Laundering Steering Committee and also on the Department of Finance website ([www.finance.gov.ie](http://www.finance.gov.ie) and search for 'Guidance on the Offence of Financing of Terrorism').