

Comments Received on the Consultation Paper on the Credit Union’s Guidelines

Section of the Consultation Paper being referred to/affected	Comment Received	Central Bank’s Response
N/A	<p>1. What is the process for reviewing the Credit Union Guidelines on an ongoing basis?</p>	<p>To ensure that all issued guidelines are aligned with best practices and standards set by the World Council of Credit Unions (“WOCCU”), the Policy Unit would first consult the WOCCU standards and guidance on the topic under review. Thereafter, the Policy Unit would conduct a benchmark of the issue by reviewing the policy/legal framework of other countries on the topic to guide amendment to existing guidelines or the development of new guidelines. The initial draft guidelines undergo internal reviews at various levels before being issued for public consultation.</p>
N/A	<p>2. What penalties will be assigned to Credit Unions if they fail to meet the established guidelines?</p>	<p>The Central Bank expects full compliance with all issued directives and guidelines which are aligned with best practices and standards set by the WOCCU. In this regard, the Central Bank, in the course of its reviews of credit unions, will assess the letter/spirit of implementation of these guidelines and their effectiveness. However, where necessary, credit unions will be provided sufficient time to become compliant and, thereafter, Central Bank would intervene and apply its supervisory intervention powers as outlined in the Guide to the Central Bank’s Ladder of Supervisory Intervention, which has been amended to include credit unions and soon will be issued for public consultation. Depending on the severity and duration of any breach, ultimately, the Central Bank</p>

		may suspend or cancel the registration of a credit union.
Section 5.5/6.1- <i>Guidelines for the Corporate Governance of Credit Unions</i>	3. What is the role of Senior Management versus the role of the Board of Directors? In several instances throughout the guidelines, the roles appear to be the same.	As stated in paragraphs 5.5 and 6.1 of the Guidelines for the Corporate Governance of Credit Unions, the role of the Board is “to establish the strategic direction, approve policies and monitor management’s implementation of these policies and achievement of targets. The Board should ensure that the credit union adheres to these guidelines and meets or exceeds the International Credit Union Safety and Soundness Principles”; and Senior Management “is responsible for the management oversight for the day-to-day operations of the credit union. They are responsible for carrying out the strategic plans approved by the Board and reporting to the Board on the business and the controls as well as making recommendations for new or changes to policies”.
Section 7.3 - Guidelines for the Management of Liquidity Risk for Credit Unions.	4. It is recommended that the document details the Liquidity requirements at the Bahamas Co-operative League and the Liquidity Requirements required at other Commercial Banks.	Regulation 15 of the draft Bahamas Credit Unions Regulations provides that credit unions shall maintain funds of no less than ten percent of members’ deposits in a liquidity deposit fund administered by the Apex Body, which shall be a part of the credit union’s assets. Credit unions must also maintain operational liquidity of 15 - 20 %, in easily accessible instruments and accounts in compliance with the requirements under PEARLS and the WOCCU Safety and Soundness principles. These prudential standards will be included in the guidelines.
Section 7.4- <i>Guidelines for the Management of Liquidity Risk for Credit Unions.</i>	5. It is recommended that the ratio detailed be adjusted to expand the definition of “liquid Assets” from deposits with a maturity of 30 days to deposits with an expiration of one (1) year or less.	The liquidity ratio calculation was taken directly from the WOCCU’s Model Regulations for Credit Unions. While we appreciate that components of liquid assets include deposits of one year or less, for the purposes of this ratio, only those with no maturity or a maturity of less than 30 days are factored into this calculation.

Section 8- <i>Guidelines for the Management of Liquidity Risk for Credit Unions.</i>	6. Please provide a format for the report required for Asset Liability Reporting	The asset liability reporting form is incorporated in the suite of Electronic Reporting System (“ERS”) forms provided to credit unions earlier in the year.
Section 11.1.1- <i>Guidelines for the Management of Liquidity Risk for Credit Unions.</i>	7. What is the deadline for the Liquidity Risk Management Strategy?	No hard deadline has been set; however, subsequent to the finalization and posting of the guidelines to the website, each credit union is expected to submit a copy of its liquidity risk management strategy to the Central Bank. Thereafter, credit unions should provide a revised copy, where any change to its risk management strategy has been approved by its Board of Directors.
Section 5.16- <i>Guidance for the Management of Operational Risk for Credit Unions.</i>	8. Internal Auditors – It should be reflected that the Internal Auditor of a Co-operative Credit Union reports to the Supervisory Committee in accordance with the Bahamas Co-operative Credit Union Act, 2015.	Agreed, section 82(4) of the Bahamas Co-Operative Credit Unions Act, 2015 (“BCCUA”) says in part “...the internal auditor shall report to the supervisory committee.” The guidelines will be amended to reflect this position.
Section 5.1- <i>Guidelines for the Management of Credit Risk for Credit Unions</i>	9. Credit Committee of a Credit Union can be elected and or appointed in accordance with the bye-laws of the Co-operative Credit Union.	Agreed, as per sections 48 and 73 of the BCCUA.
N/A	10. The group would also ask that the Central Bank of The Bahamas seeks to intervene with assisting Credit Unions with taking matters valued between B\$5,000.00 to B\$20,000 to the Magistrates Court.	Central Bank’s role is not that of an arbitrator in such matters. Credit unions should seek the assistance of a legal counsel in matters of this nature.
<i>Guidelines for the</i>	11. “Loan Add Ons” have been a part of how we do	Notwithstanding the past (legacy) practices, the Central Bank will remain

<i>Management of Credit Risk for Credit Unions</i>	business for a very long time and it is important that the feature remains as a part of our offerings.	focused on adherence by credit unions to industry best practices, commensurate with our jurisdiction’s market realities (i.e., high-level of loan impairments, absence of credit bureau, high level of consumer indebtedness) – maintaining asset quality by timely recognition of loan impairment, arrears, appropriate restructuring, provisioning and recoveries. While the loan add-ons may be conventional practice, the credit risk management and its mitigation, and the governance/oversight by the Board and Senior Management, would remain the Central Bank’s core expectations of the industry.
Section 8.2- <i>Guidelines for the Management of Credit Risk for Credit Unions</i>	12. Personal loans” should be changed to “Consumer Loans”. These loans should have a maximum term of 10 years.	Central Bank has no objection to this recommendation.
Section 8.2- <i>Guidelines for the Management of Credit Risk for Credit Unions</i>	13. Small & Micro Enterprise Loans should also be added as a Loan Type - Maximum Term of 7 years.	No objection provided the borrower is a member of that co-operative credit union.
Section 10.3- <i>Guidelines for the Management of Credit Risk for Credit Unions</i>	14. Clarification is required on section (10.3). It appears to be implying that loans cannot be restructured.	The section speaks to granting new loans to delinquent borrowers which goes against the Safety & Soundness Principles of the WOCCU. It does not prevent a credit union from restructuring a loan to allow a borrower, experiencing financial difficulties, to better meet the monthly payments.
Section 13- <i>Guidelines for the Management of Credit Risk for Credit Unions</i>	15. Will the Central Bank of The Bahamas be providing us with a listing of “Accepted Investments”?	No; however, a credit union may invest its funds in accordance with section 61 of the BCCUA. Where in doubt about an investment, credit unions are to seek the Central Bank’s prior approval.
Section 13 - <i>Guidelines for the Management of</i>	16. What happens in instances where a Credit Union has investments that are not in alignment	Central Bank will grant credit unions a specified time period within which to divest of the investments that are not in alignment with the

Credit Risk for Credit Unions	with the Guidelines? - Reference is made to investments held prior to the enactment of the Bahamas Co-operative Credit Union Act, 2015	BCCUA and guidelines. Where possible and prudent, Central Bank would also be prepared to consider specific exemptions to this requirement.
Section 17- Guidelines for the Management of Credit Risk for Credit Unions	17. What is the difference between the Audit Committee and the Supervisory Committee? We are unaware of the "Audit Committee" being referenced in the Bahamas Co-operative Credit Unions Act, 2015.	<p>The Audit Committee provides direct oversight of the organization's internal and external audit functions, supervising the quality and integrity of all external financial reporting, and assisting the Board in providing for independent review of the effectiveness of the reporting processes and internal control systems.</p> <p>While an Audit Committee is not mentioned in the BCCUA, an internal auditor, as referenced is under section 82, which provides that the internal auditor reports to the Supervisory Committee. Nevertheless, Central Bank will remove the reference to an Audit Committee from the guidelines.</p>