EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK

of 19 August 2013

on credit unions

(CON/2013/63)

Introduction and legal basis

On 26 July 2013, the European Central Bank (ECB) received a request from the Lithuanian Ministry of Finance for an opinion on a draft law on an amendment and a supplement to the law on credit unions (hereinafter the 'draft law'). On 30 July 2013 the ECB received an updated draft law, which forms the basis of this opinion.

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the third and sixth indents of Article 2(1) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions[1], as the draft law relates to Lietuvos bankas and to rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft law

1.1 The aim of the draft law is to ensure the sustainable growth of credit unions and to strengthen the regulatory framework for credit unions, including more effective governance, risk management, regulatory and resolution requirements.

1.2 More particularly, the draft law provides for: (a) a streamlined licencing process for credit unions; (b) enhanced capital requirements for credit unions, including the requirement to replenish capital if it falls below a specified threshold; (c) restrictions on risk-taking, including requirements in respect of borrowing, lending, investment and risk management; (d) more robust governance rules for credit unions, including more stringent requirements for managers and more active involvement of members in the management of credit unions; (e) an expansion of credit unions' potential membership base and of the customer base for the financial services that may be provided by credit unions; and (f) reinforced supervision of credit unions by Lietuvos bankas, including a new measure allowing Lietuvos bankas to require, in the event of distress, the transfer of a credit union's assets, rights and liabilities to another credit institution.

1 OJ L 189, 3.7.1998, p. 42.

2. General observations

2.1 Credit unions currently account for 2.2% of the total assets of the Lithuanian national financial system[2], and their activities and asset volume have expanded very rapidly over the past few years.

2.2 The ECB welcomes the substantial enhancement of the regulatory and supervisory framework for credit unions, which aims at improving the protection of credit union members and strengthening the safety net for the credit union system[3].

2.3 The ECB notes that the proposed amendments to the legislation on credit unions do not envisage the possibility of a credit union becoming a commercial bank. The ECB takes the view that the enactment of legal provisions designed to ensure the workability of such conversion may help enhance the stability and integration of the national financial system.

3. Minimum reserve requirements

3.1 The draft law does not address minimum reserve requirements applicable to credit unions, since such requirements have been laid down by Lietuvos bankas in its Rules on reserve requirements for credit institutions[4].

3.2 The ECB notes that, although Member States that have not adopted the euro retain competence in the field of monetary policy, it is nevertheless beneficial for them to achieve consistency with Eurosystem standards so that credit institutions in those Member States can become familiar with the reserve requirements that will apply to them once the euro is introduced.

3.3 In its Opinions CON/2005/8, CON/2008/66 and CON/2012/110 on the Lithuanian minimum reserves regime, the ECB emphasised the need for further harmonisation of the Lithuanian minimum reserves regime with Eurosystem standards. In particular, it noted that Lithuanian credit unions, as monetary financial institutions, will be subject to Eurosystem reserve requirements when Lithuania adopts the euro[5]. Consequently, the comments made by the ECB on previous occasions concerning the Lithuanian minimum reserves regime remain valid.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 19 August 2013.

[signed]

The Vice-President of the ECB
Vítor CONSTÂNCIO

2 Lietuvos bankas' Financial Stability Review for 2013, available on Lietuvos bankas' website at www.lb.lt.

3 See Opinion CON/2009/60, paragraph 7. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

4 Resolution No 38 of the Board of Lietuvos bankas of 14 March 2002 on the approval of rules on reserve requirements for credit institutions. *Valstybės žinios*, 2002, No 31-1201.

5 See Opinion CON/2005/8, paragraph 14; Opinion CON/2008/66, paragraph 2.2; Opinion CON/2012/110, paragraph 2.