



EUROPEAN CENTRAL BANK

EUROSYSTEM

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ECB-PUBLIC

## OPINION OF THE EUROPEAN CENTRAL BANK

of 4 December 2017

on limiting the number of central credit unions

(CON/2017/54)

### Introduction and legal basis

On 12 October 2017 the European Central Bank (ECB) received a request from the Lithuanian Parliament for an opinion on a draft law amending the Law on central credit unions (hereinafter the 'draft law'). 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 sixth indent of Article 2(1) of Council Decision 98/415/EC<sup>1</sup>, as the draft law relates to rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets and the ECB's specific tasks concerning the prudential supervision of credit institutions pursuant to Article 127(6) of the Treaty. 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 draft law amends the Law on central credit unions by limiting the number of central credit unions to one. The aim of the draft law is to prevent regulatory arbitrage within, and the fragmentation of, the Lithuanian credit union system.
- 1.2 More particularly, central credit unions have regulatory and supervisory powers over credit unions, which are their members under the existing legislation. The authors of the draft law argue that the existence of several central credit unions may lead to a situation where they compete against each other, by easing their regulatory or supervisory requirements, with a view to gaining credit unions as members, and that this will result in a general lowering of regulatory and supervisory standards in the sector. The authors of the draft law consider that this may increase the likelihood of credit unions and central credit unions becoming bankrupt, and ultimately harm the stability of the entire sector.

### **2. General observations**

- 2.1 The ECB notes that Lietuvos bankas is the supervisory authority for credit unions. Although they are exempted from Union prudential regulation pursuant to Article 2(5)(14) of Directive 2013/36/EU

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<sup>1</sup> Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

of the European Parliament and of the Council<sup>2</sup>, credit unions are required to follow, on an individual basis, the minimum prudential requirements established by Lietuvos bankas. Considering that central credit unions may only set additional requirements for affiliated credit unions that are compatible with legal acts and the mandatory instructions issued by Lietuvos bankas, the ECB takes the view that the risk of a potential 'race to the bottom' in respect of the regulatory and supervisory standards to be applied by central credit unions is immaterial.

- 2.2 In addition, the ECB considers that the existence of different central credit unions will possibly also have positive effects, as it would foster more efficient organisation of the credit union sector by not forcing credit unions with very different operating business models and policies to be members of the same central credit union.
- 2.3 The ECB further notes that credit unions have a very small market share in the national banking sector, accounting for approximately for 2 % of its total assets, so the risk that the credit union sector poses to the stability of financial institutions and markets in Lithuania is rather limited.

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

Done at Frankfurt am Main, 4 December 2017.

[signed]

*The President of the ECB*

Mario DRAGHI

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<sup>2</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).