

10/11

Financial Services Authority

A review of the  
Credit Union  
sourcebook (CRED)

Feedback on CP09/27 and  
near final rules

July 2010



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This Policy Statement reports on the main issues arising from Consultation Paper 09/27 *A review of the Credit Union sourcebook (CRED)* and publishes near final rules.

Please address any comments or enquiries to:

Kate Healy  
Mutuals and Small Firms  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

Telephone: 020 7066 7524

Fax: 020 7066 7525

Email: [cp09\\_27@fsa.gov.uk](mailto:cp09_27@fsa.gov.uk)

Copies of this Consultation Paper are available to download from our website – [www.fsa.gov.uk](http://www.fsa.gov.uk). Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

# List of acronyms used in this Policy Statement

CRED	Credit Union sourcebook
CREDS	New Credit Union sourcebook
CURG	Credit Unions Regulatory Guide
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
LRO	Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010
MP	Member of Parliament



# 1 Overview

- 1.1 In *CP09/27 Review of the Credit Union Sourcebook (CRED)*, we proposed replacing CRED with a new Credit Union Sourcebook (CREDS), in part to reflect the new provisions of the Credit Unions Act 1979, to be introduced by a Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010 (the LRO). We also proposed that CREDS should include amendments designed to strengthen prudential standards for credit unions, and should contain the remaining CRED material, streamlined to make it more user-friendly.
- 1.2 The consultation closed on 10 February 2010 and we received 37 responses. Three of the responses were from trade bodies, whose members constitute approximately 80% of the sector. Eight were from auditors and two were from MPs. We also conducted seven credit union roadshows in various locations to discuss the changes with credit unions. There was a broad measure of support for most of the proposals in the Consultation Paper, but some concerns were raised, particularly about increased initial capital and liquidity requirements, the transitional periods, and shortening the annual return submission period.
- 1.3 As requested, respondents provided information on the costs that some of the proposals would impose. Given this information and external factors (particularly the Government's and Northern Ireland Assembly's decision to transfer the responsibility for the regulation of Northern Ireland credit unions to us), we have made revisions to some of the proposals on which we consulted. These revisions take account of all the representations received from stakeholders.

## **Structure of the paper**

- 1.4 Each chapter of this paper summarises the comments we received on questions asked during consultation. We provide our response and describe any significant changes that we will make to the Handbook text that we published as part of the Consultation Paper.

- 1.5 Many respondents addressed several questions together, particularly answering questions on the cost benefit analysis when responding to other questions. Where applicable, we have addressed these responses in the most appropriate chapter rather than repeating the discussion several times.
- 1.6 We have addressed issues in the same order as they were presented in CP09/27, as follows:
- Chapter 2 sets out changes to the prudential requirements for credit unions, focusing on capital, liquidity, transitional arrangements and financial reporting;
  - Chapter 3 explains changes that are reliant upon the LRO;
  - Chapter 4 outlines the restructuring of the remaining CRED material;
  - Annex 1 contains a cost benefit analysis of our revised proposals;
  - Annex 2 is a table of policy changes that we have made since consultation;
  - Annex 3 provides a list of non-confidential respondents to CP09/27; and
  - Appendix 1 contains the Handbook text.

## **Timing of Handbook changes**

- 1.7 There remains some uncertainty around the timing of parliamentary processes and the commencement date of the LRO. We do not expect this to affect the content of the CREDS rules at Appendix 1.
- 1.8 Consequently, the FSA Board cannot yet make the final CREDS instrument. Instead, in order to provide sufficient notice to the credit union sector of the new regulatory framework set out in CREDS, we are publishing this policy statement and near final CREDS rules. Once the LRO has been made and its commencement date is known, the Board will make the final CREDS instrument, to commence on the same date as the LRO.

## **Who should read this Policy Statement?**

- 1.9 This Policy Statement will be of interest to credit unions, their members, officers and volunteers, their trade associations and those planning to set up new credit unions.

### **Consumers:**

We did not receive comments on our proposals from consumers or consumer bodies. No issues of significant relevance to consumers have arisen since we published CP09/27.



# 2 Raising prudential standards

- 2.1 In Chapter 2 of CP09/27 we explained our proposals to raise prudential standards for credit unions, particularly in relation to capital, liquidity, financial reporting, governance and provisioning. The main objective was to improve the financial soundness of the credit union sector and reduce the number of credit union failures. Respondents broadly supported the proposals but highlighted concerns with some of the detail, focusing in particular on the additional costs that would be imposed.
- 2.2 We set out below the questions we asked in Chapter 2 of CP09/27 and related questions on the cost benefit analysis, the key issues raised by respondents and our policy decisions.

## Capital

### *Initial capital*

- Q1: Do you agree with our proposed initial capital requirements?
- Q14: Do you agree that the costs of the initial capital requirements are likely to be minimal?
- 2.3 Many respondents agreed that our proposals to raise initial capital (to £10,000 for version 1<sup>1</sup> credit unions and £50,000 for version 2 credit unions) would strengthen credit unions, providing a solid financial base and ensuring that they are better equipped to survive the first years of operation. However, there was concern that the requirements would prevent the future establishment of small community-based credit unions that might be viable with less start-up funding.

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<sup>1</sup> The Part IV permission of a version 1 credit union includes a requirement that it must not lend more than £15,000 in excess of a member's shareholding. Credit unions whose permissions are not so restricted are version 2 credit unions.

**Our response:** Our intention was to signal to new credit unions the amount of initial capital that they are likely to need at a minimum to meet the costs of starting a viable financial business and maintain ongoing prudential requirements. In most circumstances, the current requirements of £1,000 for version 1 credit unions and £5,000 for version 2 credit unions would be inadequate. However, we would not wish to prevent a credit union from starting where it can demonstrate that it will be able to operate successfully on a small scale and, therefore, will require less initial capital than was proposed.

Additional information on the costs of this proposal is provided in the cost benefit analysis of the revised proposals (at Annex 1). Most credit unions already start with initial capital well above the levels proposed. However, we acknowledge that the proposed amendments may have some minor market entry costs.

Therefore, we confirm that we have revised the proposed rules on initial capital. The rule will require all credit unions to have adequate initial capital, taking into account the nature, scale and complexity of their business and expected early expenses, but will not specify mandatory levels. Instead, we have set out in evidential provisions that contravention of this high-level rule would tend to be established where a version 1 credit union does not hold £10,000 initial capital, or a version 2 credit union does not hold £50,000 initial capital. Therefore, this leaves it open to small credit unions to demonstrate to us during the authorisation process that a lower level of initial capital would be appropriate in their particular circumstances.

### *Capital-to-assets ratio*

Q2: Do you agree with our proposed minimum capital-to-assets ratio?

- 2.4 Almost all respondents welcomed the proposed introduction of a 3% capital-to-assets ratio, noting that it would provide a valuable buffer against insolvency, and would strengthen individual credit unions and the movement. However, some respondents argued that the requirement should be implemented flexibly and that credit unions should be able to dip below the ratio during periods of asset growth. One respondent queried whether the proposal adequately targeted the causes of credit union failure.

**Our response:** We confirm that version 1 credit unions will be required to maintain a capital-to-assets ratio of at least 3%.

We acknowledge that a lack of capital may not be the sole cause of credit union failure. However, where a credit union maintains only bare solvency, it has no protection when it gets into financial difficulty. If it experiences losses on the loan book, for example, it will immediately find itself in a situation where its liabilities exceed its assets, and we may have little option but to refer the case to the Financial Services Compensation Scheme (FSCS) for it to consider a declaration of default and payment of compensation for financial loss of up to £50,000 per depositor. Maintaining a capital-to-assets ratio is intended to ensure that the credit union has a buffer that can absorb losses, at least for a period, allowing the credit union time to address the cause of its problems and perhaps trade out of difficulty.

We will not provide an exception from the rule during periods of asset growth. This would potentially create risks for credit unions, by allowing them to increase their assets without having the supporting capital to absorb the increased risk of potential losses on loans. This risk arises as, when a credit union accepts deposits, it needs to earn a return on the funds to cover expenses and pay a dividend. Therefore, when deposits increase, a credit union will come under increased pressure to get money out on loan. It is more likely that, in these circumstances, the quality of the loan portfolio will fall, resulting in a higher likelihood of delinquency and loan losses.

## Liquidity

Q3: Do you agree with our proposed minimum liquidity requirements?

- 2.5 While most respondents supported the proposed increase in the liquidity ratio to 10%, many noted that the impact would be felt by a small minority of credit unions who do not currently meet that requirement. It was argued that restricting the income-earning capacity for these credit unions would be inappropriate in the current economic climate.
- 2.6 Many respondents noted that the flexibility in the current liquidity rule for version 1 credit unions (which requires them to hold liquid assets of at least 5% of total relevant liabilities, but not falling below 10% on two consecutive quarters) is helpful as it allows credit unions to manage liquidity over time and adjust for seasonal pressures.

**Our response:** We confirm that we have revised this proposal and will require all credit unions to hold liquid assets of at least 5% of total relevant liabilities, but not falling below 10% on two consecutive quarters, consistent with the current requirement for version 1 credit unions. This is an interim measure and we are likely to re-consult on liquidity requirements when the responsibility for the regulation of Northern Ireland credit unions transfers to us.

This revision represents no change for version 1 credit unions, and a modest and achievable increase for version 2 credit unions (as outlined in the cost benefit analysis of the revised proposals at Annex 1). There is little justification for the existing lower liquidity requirement for version 2 credit unions as they are perhaps more likely to take up the new activities permitted by the LRO, which could create additional liquidity stresses (e.g. payment of interest on shares).

## Transitional provisions

Q4: Do you consider that our proposed transitional provisions for capital and liquidity give credit unions sufficient time to adjust?

- 2.7 Most respondents opposed a two-year phased transitional period for capital and liquidity requirements, and argued that more time is needed. Respondents suggested anywhere between three to five years as being more appropriate in the current economic climate.

**Our response:** Given the economic climate and the fact that increased prudential requirements for banks and building societies have been introduced with generous transitionals, it seems appropriate to extend the time available to credit unions.

We consider that a four or five-year transitional period would be excessive. Credit unions have already received ample warning that prudential standards will be raised and should have been planning accordingly. An analysis of credit union returns also suggests that the revised liquidity requirements are very achievable for version 2 credit unions.

We therefore confirm that we will provide a three-year phased introduction, as follows:

### Ongoing capital requirement for version 1 credit unions:

From 30 September 2011 – 1% capital-to-assets ratio.

From 30 September 2012 – 2% capital-to-assets ratio.

From 30 September 2013 – 3% capital-to-assets ratio.

### Liquidity requirements for version 2 credit unions:

From 30 September 2011 – 5% liquid assets and on no two consecutive quarters must liquid assets be below 6% of total relevant liabilities.

From 30 September 2012 – 5% liquid assets and on no two consecutive quarters must liquid assets be below 8% of total relevant liabilities.

From 30 September 2013 – 5% liquid assets and on no two consecutive quarters must liquid assets be below 10% of total relevant liabilities.

## Governance

Q5: Do you agree with our approach to raising standards of governance?

- 2.8 The majority of respondents agreed with our approach to raising standards of governance: namely not to amend rules but to focus our supervisory action on securing compliance with governance, prudential and reporting requirements. Some respondents were concerned that we lack the resources to effectively supervise and enforce standards of governance. Others emphasised the importance of implementing governance requirements in a proportionate manner. A number questioned what action would be taken against credit unions that do not meet requirements.

**Our response:** We will increase our supervisory emphasis on securing compliance with governance, prudential and reporting requirements in a more timely fashion.

### Reporting

We have already advised credit unions, through the most recent credit union newsletter (which was sent to all credit unions on 11 June 2010 and is available on the FSA website), that we will change how we deal with overdue returns. For the year ended 2008, 38% of annual returns (CY forms) were submitted late. For year ended 2007, 33% of CY forms were late and for the year ended 2006, 32% of CY forms were late.

We outlined that, until now, our process has involved sending letters, including formal requirements to produce returns. Although we have always suggested we may charge fees when credit unions do not submit returns on time, we have never done so.

This is now changing. Starting with the December 2009 CY – due end of July 2010 – letters will be sent, reminding credit unions that their CY is due. Credit unions that do not send in their CY on time will be issued a £250 late return administration fee. Failure to pay the fee, or continued failure to submit the return, could result in us taking enforcement against the credit union, including removing permissions.

### Prudential

We intend to take swifter action in cases where credit unions have a serious and persistent capital deficit and where there is no realistic prospect of recovery.

### Governance

We intend to use supervisory processes to assess the quality of credit union management. In cases where we find that the quality of governance is inadequate (even if the credit union is solvent), we will look to take action to address the risk that poor governance poses to the credit union.

## Submission period for annual returns and accounts

Q6: Do you agree that the submission period for the annual returns and accounts should be reduced to four months for annual returns for years ending after 6 April 2010?

Q15: Do you agree that the costs of shortening the reporting period are likely to be minimal?

- 2.9 Almost all respondents opposed this proposal, highlighting that it would be impractical and would increase costs for credit unions. Respondents noted that because the majority of credit unions choose to have a September year-end, most annual returns fall due at the same time. Therefore, shortening the submission period to four months would place increased pressure on the limited pool of credit union auditors, with the likely result being an increase in fees.
- 2.10 Some respondents also suggested that rather than shortening the submission period, the FSA should gain access to more reliable and timely financial information by working with credit unions to improve the quality of quarterly returns submitted.

**Our response:** We continue to believe that shortening the submission period for annual financial returns will provide more timely information to assist credit unions and our supervisory work. However, having considered the additional information provided by respondents, we note that a move to four months would be likely to impose significant costs on some credit unions (as outlined in the cost benefit analysis of the revised proposals at Annex 1).

We have therefore revised this proposal to require credit unions to submit their annual returns within six months of the year-end. This is an interim measure and we will conduct a wholesale review of reporting for credit unions, including a reconsideration of: the submission period for annual returns; the staggering of financial year ends; and the quality of quarterly returns. This review is likely to take place when the responsibility for the regulation of Northern Ireland credit unions is transferred to us.

We originally proposed a transitional provision to the effect that the shorter reporting period would not apply to annual returns for financial years ending on or before 5 April 2010. However, given the delay to the passage of the LRO, we have revised this date so that the shorter period does not apply to annual returns for financial years ending on or before 31 July 2011.

## Provisioning

Q7: Do you agree with our proposal for guidance that credit unions should consider additional provisioning, and with the percentage and timing of the stages we recommend?

- 2.11 Most respondents supported this proposal, with a number noting that it should be a rule rather than guidance.

**Our response:** We will introduce guidance that credit unions should (in addition to requirements to make provision for 35% of a member's net liability when a loan is more than three months in arrears, and 100% when it is more than 12 months in arrears) also make provision for 60% when the loan is six months in arrears and 80% when it is nine months in arrears. We will review the effectiveness of this guidance and consider whether it should become a rule, most likely when we review reporting by credit unions.

# 3 Changes arising from the reform of credit union legislation

- 3.1 In Chapter 3 of CP09/27, we outlined a number of proposed technical rule changes that are reliant upon changes the LRO will introduce to the Credit Unions Act 1979. As CRED relies on definitions and concepts set out under the Act, some of which will be amended by the LRO, the LRO will render CRED out-of-date and in need of replacement by CREDS. Respondents were broadly supportive, but expressed concern about a lack of clarity around some of the proposals, including attachment.
- 3.2 We set out below the questions we asked in Chapter 3 of CP09/27 and related questions on the cost benefit analysis, the key issues raised by respondents, and our policy decisions.

## Deferred shares

Q8: Do you agree with our proposal that deferred shares should not be covered by the Financial Services Compensation Scheme (FSCS)?

- 3.3 The majority of respondents that addressed this issue accepted the proposal. Some respondents were opposed, arguing that lack of FSCS cover would reduce the incentive to take-up deferred shares. Others suggested that further clarity and information on deferred shares should be provided.

**Our response:** We confirm that as deferred shares are not designed to have the character of deposits, but are intended to contribute to a credit union's capital by being available to repay creditors, they should not be covered by the FSCS.

It is a matter for credit unions to consider the terms on which they offer deferred shares, which may in turn affect take-up.

The LRO introduces deferred shares as a new category of shares for credit unions. We propose providing further guidance on deferred shares in our forthcoming Credit Unions Regulatory Guide (CURG).

## Other consequential amendments

Q9: Do you agree with the way we have redefined terms for the purpose of our prudential limits?

- 3.4 While a majority of respondents broadly supported the redefinition of terms, almost all expressed concern regarding any variation to current practices around the concept of attachment.

**Our response:** As part of its consultation on the LRO, the Treasury recently clarified the legislative concept of attachment of shares, the result of which has implications for some of our prudential rules, as set out in CREDS – particularly liquidity. Since we published our Consultation Paper, the Treasury has provided further clarification, confirming that it will be possible to vary the term of a standard loan agreement that states – in accordance with the LRO – that shares cannot be withdrawn for the duration of the loan.

This will preserve a measure of flexibility for credit unions in the way attachment operates. However, our consultation process also revealed a variety of practices around the attachment of shares. It appears that in many cases credit unions classify shares as attached (including for the purposes of our rules), but still allow the shares to be withdrawn, sometimes under a blanket policy and sometimes on a case-by-case basis. Therefore, it is difficult to be confident that our rules are applied against a clear base and in a consistent way, particularly in relation to liquidity.

The risk, in our view, is that since liquidity needs to be provided against unattached shares only, allowing attached shares to be withdrawn on a regular basis may mean that a credit union is providing insufficient liquidity. We will reflect further on this issue, and plan to re-consult on the interaction between our prudential rules and the concept of attachment. In the meantime, however, we recommend that, as a matter of good practice, credit unions should consider carefully their approach to attachment and assess whether their holdings of liquid assets are sufficient to cover circumstances in which they permit attached shares to be withdrawn.

## Supervisory returns and guidance

Q10: Do you agree with our proposed interim approach to supervisory returns, their content and structure, and the content of the guidance notes?

Q16: Do you agree that the costs of incorporating an additional sheet of analysis in the regulatory returns are likely to be minimal?

- 3.5 Most respondents supported this proposal and did not object to our contention that costs are likely to be minimal.



**Our response:** We confirm that where a credit union takes up any of the activities that will be permitted by the LRO, it should complete the supplementary sheet in its annual and quarterly returns. This is an interim solution and will be reconsidered as part of the future review of credit union reporting.

## Variation of permissions

Q11: Do you agree that we should exercise the power to vary credit unions' permissions by adding the customer-type 'professional' as soon as the notice period for opting-out has ended?

- 3.6 Where respondents addressed this issue they largely accepted the proposal. However, a number of respondents noted that there was some confusion and misunderstanding and that further explanation was required.

**Our response:** We confirm that we plan to pursue this approach and we provided further explanation in the most recent credit union newsletter (which was sent to all credit unions on 11 June 2010 and is available on the FSA website). We explained that the LRO gives us power to automatically vary all credit unions' permissions so that credit unions can admit the full range of corporate members, if they so wish and if their rules so provide. Individual credit unions may opt out of this process by giving us notice up to the date on which the LRO comes into effect.

In detail, when credit unions have previously been authorised to do business by us, we have sent out permission to carry out the regulated activity of accepting deposits (under Part IV of the Financial Services and Markets Act 2000 (FSMA)). But this permission has been limited and credit unions have only been able to accept deposits from 'retail (investment) customers'.

Retail (investment) customers are limited in scope and may not include every corporate member that a credit union may now want to admit under the LRO. To ensure that credit unions can take on corporate members, it is necessary that their permission is varied to accept deposits from both retail (investment) customers and 'professional clients' (defined in the FSA Handbook at COBS 3.5.2). Including the professional client category should ensure all corporate members are covered by the credit union's permission.

Rather than requiring all credit unions that wish to vary their permission to complete a form, the LRO will allow us to automatically vary the permission for all credit unions. We will aim to complete all variations as soon as practicable after the LRO effective date. Even if credit unions do not want to take on corporate members immediately, they may decide not to opt out of having their permission varied so that they have the appropriate permission to accept corporate members in future. This will ensure they do not have to complete the full application process to vary their permission later on.

We do not expect that many credit unions will want to opt out, as the automatic variation is intended to remove the technical obstacle to accepting corporate members, and to do so as efficiently as possible. However, if a credit union wishes, it can give us written

notice before the LRO effective date (to be advised) that it does not want us to vary its permission. We ask that credit unions that wish to opt out of the process for automatic variation email us at [cpu\\_vop@fsa.gov.uk](mailto:cpu_vop@fsa.gov.uk) before that date in the following terms:  
'[Insert credit union name] with Firm Reference Number [insert credit union FRN], does not wish to have its permission varied to allow it to deal with professional clients. The credit union does not intend to accept professional clients as members.'

# 4 Restructuring CRED

## A regulatory guide for credit unions and reducing duplication

- 4.1 In Chapter 4 of CP09/27, we outlined our proposals to include existing CRED material in CREDS, restructuring it to make it more user-friendly.
- 4.2 We set out below the questions we asked in Chapter 4 of CP09/27 and related questions on the cost benefit analysis, the key issues raised by respondents, and our policy decisions.
- Q12: Do you agree with our proposal to remove guidance on legislation to a separate guide that stands outside CREDS?
- Q13: Do you agree with our proposal to reduce the extent to which CRED duplicates provisions in the main FSA Handbook?
- Q17: Do you agree that the costs of applying the complaints-handling rules in DISP 1 and removing the separate complaints-handling rules in CRED are likely to be minimal?
- 4.3 Most respondents were supportive of the proposals to restructure CRED, but recommended that we provide clear cross-references to relevant legislative guidance material and other parts of the FSA Handbook that apply to credit unions.

**Our response:** We confirm that we will replace CRED with a new, simplified CREDS. CREDS will not contain legislative guidance material, which currently exists in CRED. Instead, legislative guidance will be found in a Credit Unions Regulatory Guide (CURG), which we are currently drafting. We plan to consult with trade bodies on the contents of CURG. Where appropriate, CURG will contain cross-references to CREDS.

In addition, CREDS will not contain existing CRED material that duplicates other parts of the FSA Handbook. CREDS 10 provides clear cross-references to this Handbook material as it applies to credit unions and to which they should refer. The complaints-handling rules in DISP 1 will be applied to credit unions (as explained in CREDS), although separate complaints-reporting rules will be set out in CREDS.



# Cost benefit analysis of the revised proposals

1. Section 155 of the Financial Services and Markets Act 2000 (FSMA) requires us to publish an estimate of the costs, together with an analysis of the benefits that would arise from the making of rules. As part of CP09/27, we published a thorough cost benefit analysis and asked respondents to estimate the costs of some of our proposed amendments.
2. The information provided, and further analysis of credit union data, prompted us to re-examine the proposals on initial capital, liquidity, transitional arrangements and shortening the submission period for annual returns. We also reconsidered the costs and benefits, as set out below. We believe that the revised proposals more appropriately balance these costs and benefits.

## Initial capital

### *Costs*

3. As confirmed by respondents, the minimum initial capital proposals set out in CP09/27 may have some market entry costs. Since 2006, two credit unions have been established with initial capital of less than £10,000, and so would have been prevented from starting under the rules as proposed.
4. However, these market entry costs are unlikely to be significant. Since 2006, a total of 13 new credit unions have been established, with 11 holding initial capital well above £10,000. Of these, five held initial capital above £50,000. The average amount of initial capital held was £50,000. This suggests that for most new credit unions, an initial capital requirement of £10,000 would not present a barrier to market entry.
5. In light of these minor market entry costs, we considered the costs of a revised requirement that credit unions must set up with adequate initial capital, combined with evidential provisions rather than mandatory levels. This revision would leave it open to small credit unions to demonstrate to us that a lower level of initial capital would be appropriate in their circumstances.

### *Benefits*

6. Both the original proposal and revised requirement would strengthen credit unions, providing a solid financial base and ensuring that they are better equipped to survive the first years of operation. Through the more flexible revised approach, potential market entry barriers created by the initial capital requirement can be mitigated.

### *Conclusion*

7. The revised requirement minimises any market entry costs and more appropriately balances costs and benefits.

## **Ongoing capital-to-assets ratio**

### *Costs*

8. We are not revising the original proposal that version 1 credit unions will be required to maintain a capital-to-assets ratio of 3%. So the estimation of the long run cost of capital will remain as stated in the cost benefit analysis in CP09/27. Approximately 85 existing small credit unions that hold less than 3% capital-to-assets will face costs in raising approximately £470,000 in total additional capital across the sector, noting that capital-raising for credit unions is limited to such sources as retained earnings, gifts, subordinated debt and, under the LRO, deferred shares. Applying a 5% cost of capital, this implies a long-run cost increase of around £23,500 per year for the sector.
9. Respondents suggested that the two-year transitional period proposed in CP09/27 would not allow credit unions sufficient time to plan, adjust and raise the required amounts of capital and that, therefore, unreasonable costs would accrue. By extending the transitional period from two to three years, we have taken account of the limited sources of funding for credit unions and the challenges of raising capital in a difficult financial environment. So the costs of raising capital will be considerably reduced, accruing over a longer period and not having to be incurred when funding is most expensive.

### *Benefits*

10. As set out in CP09/27, we estimate that, combined with changes to the liquidity rules, the requirement to hold 3% capital-to-assets will prevent approximately three credit union failures a year. However, extending the transitional period from two to three years may result in this benefit taking slightly longer to achieve.

### *Conclusion*

11. On balance, we consider that requiring credit unions to move towards holding 3% capital-to-assets over the next three years will minimise costs while strengthening the financial resilience of the credit union sector, by reducing the incidence of failure, albeit at a gradual pace.

## Liquidity

### *Costs*

12. Respondents suggested that the liquidity rule proposed in CP09/27 would impose unreasonable costs on a small minority of credit unions. We estimate that the revision of this rule, requiring all credit unions to meet the current liquidity rule for version 1 credit unions will not impose significant costs. Version 1 credit unions will face zero additional costs as the revision represents no change to their current requirement. Data from recent annual returns suggests that version 2 credit unions already meet the revised requirement and so any costs will be minor.
13. As credit unions already meet the revised liquidity requirement, the extension of the transitional period from two to three years will not impact costs.

### *Benefits*

14. This revision of the liquidity requirement does not represent a dramatic departure from the rule proposed in CP09/27. The effect of the amendment is to allow credit unions to reduce their holding of liquid assets to below the original proposal of 10% of total relevant liabilities, but not for consecutive quarters. Therefore, we estimate that, combined with the new capital requirements, the likely benefits are unchanged. Approximately three credit union failures will be prevented each year.
15. As credit unions already meet the revised liquidity requirement, the extension of the transitional period will not impact on the time taken for benefits to accrue.

### *Conclusion*

16. We consider that the revised liquidity requirement more appropriately balances costs and benefits, at least in the short term.

## Submission period for annual returns and accounts

### *Costs*

17. As requested, respondents provided additional information to inform our cost benefit analysis in CP09/27, noting that a four-month submission period for annual returns and accounts would likely impose more than minimal costs on credit unions. Eight auditors, who serve a total of 157 credit unions, confirmed that a four-month submission period would significantly increase the workload for auditors. Six of the auditors estimated that fees charged to credit unions would rise as a result, and that the increase would range from 10% to 50%, which on the basis of the current fees charged by these auditors, would range from £50 to £750. In addition, as outlined in paragraph 1.17, we intend to charge fees when credit unions do not submit returns on time.<sup>1</sup>

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<sup>1</sup> Paragraph 1.17 states that, in recent years, over 30% of annual returns have been submitted late.

18. In light of these costs, we considered the costs of a revised six-month submission period. Six of the auditors confirmed that there would be no fee increase if the submission period was six months. One suggested that fees might rise by 5%, or based on fees charged, approximately £75.

### *Benefits*

19. Shortening the submission period from seven to six months, combined with our intention to encourage credit unions to submit returns on time, will result in benefits accruing to credit unions and the FSA through more timely access to financial information. These benefits will not be as high as if the submission period was reduced to four months, as originally proposed, but we consider that the revised proposal will still ensure that any financial problems are identified and responded to more quickly, and that the decision-making of credit unions and supervisors will be better informed from an earlier date.

### *Conclusions*

20. We consider that the revised six-month reporting requirement more appropriately balances costs and benefits, at least in the short term. It should be possible to further shorten the reporting period in a less costly and more balanced way over the longer term by encouraging credit unions to stagger their year-ends.



# Table of policy changes since consultation

	<b>Proposal put forward in CP09/27</b>	<b>Policy as stated in PS10/11</b>
<b>Initial capital</b>	A new version 1 credit union must have initial capital of at least £10,000 and a new version 2 credit union must have initial capital of at least £50,000.	A new credit union must have adequate initial capital, taking into account the nature, scale and complexity of its business and expected early expenses. Evidential provisions state that contravening this high-level rule is usually established when a version 1 credit union does not hold at least £10,000 in initial capital or a version 2 credit union does not hold at least £50,000 in initial capital.
<b>Liquidity</b>	Credit unions must hold 10% of total relevant liabilities as liquid assets at all times.	Credit unions must hold 5% of total relevant liabilities as liquid assets at all times, but not below 10% on two consecutive quarters.
<b>Transitional provisions</b>	The capital-to-assets and liquidity requirements will be phased in and will take full effect on 30 September 2012.	The capital-to-assets and liquidity requirements will be phased in and will take full effect on 30 September 2013.
<b>Submission period for annual returns and accounts</b>	A credit union must submit its annual return to us within four months of its financial year-end. This rule does not apply to annual returns for financial years ending on or before 5 April 2010.	A credit union must submit its annual return to us within six months of its financial year-end. This rule does not apply to annual returns for financial years ending on or before 31 July 2011.



# List of non-confidential respondents to CP09/27

ACE Credit Union Services	Hugh Henry MSP
Alexander Sloan	Johnstone Credit Union Ltd
Association of British Credit Unions Ltd (ABCUL)	Leeds City Credit Union
Blackburn Seafield & District Credit Union	Lewisham Plus Credit Union Ltd
Barrie Scott Ltd	Lodge Lane and District (Liverpool) Credit Union Ltd
Basildon Credit Union Ltd	NHS (Scotland & North England) Credit Union Ltd
Bristol Credit Union Ltd	Norman, Downie & Kerr Ltd
Burnley Area Community Credit Union	North East Fife Credit Union Ltd
Business Focus & Systems	Nottingham Credit Union
Capital Credit Union	Oxford Credit Union
Crowfoot and Company	Peel Walker
Castle & Crystal Credit Union	Robert Brown MSP
David Severn	Scotwest Credit Union Ltd
FireSave Credit Union Ltd	The Transport Credit Union
Forres Area Credit Union	UKCreditUnions Ltd
Glasgow City Council	Walter Dawson & Son
Glasgow Credit Union	Watford Credit Union Ltd
Halton Credit Union	Williams Ross Limited
	1st Class Credit Union



'Near final'  
Handbook text

## CREDIT UNIONS NEW SOURCEBOOK INSTRUMENT 2010

### Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 138 (General rule-making power);
    - (b) section 149 (Evidential provisions);
    - (c) section 156 (General supplementary powers);
    - (d) section 157(1) (Guidance);
    - (e) section 213 (The compensation scheme);
    - (f) section 214 (General);
    - (g) section 226 (Compulsory jurisdiction); and
  - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FSA’s Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

### Commencement

- C. This instrument comes into force on [*date*].

### Revocation of the Credit Unions sourcebook (CRED)

- D. The provisions of the Credit Unions sourcebook (CRED) are revoked.

### Making the Credit Unions New sourcebook (CREDS)

- E. The Financial Services Authority makes the rules and gives the guidance in the Annex to this instrument.

### Notes

- F. In the Annex to this instrument, the “notes” (indicated by “**Note:**”) are intended for the convenience of readers but do not form part of the legislative text.

### Citation

- G. This instrument may be cited as the Credit Unions New Sourcebook Instrument 2010.

- H. The sourcebook in the Annex to this instrument may be cited as the Credit Unions New sourcebook (or CREDS).

By order of the Board  
[*date*]

## Annex

### Credit Unions New sourcebook (CREDS)

Insert the following new sourcebook before the Electronic Money sourcebook (ELM) in the block of the Handbook titled “Specialist sourcebooks”.

In this Annex, the text is all new and is not underlined.

#### Credit Unions New sourcebook

### 1 Introduction

#### 1.1 Application and purpose

##### Application

- 1.1.1 G (1) The Credit Unions New Sourcebook, *CREDS* for short, is the specialist sourcebook for *credit unions*.
- (2) Northern Ireland credit unions are not covered by the *Handbook* or by *CREDS*. They are exempt from the *general prohibition* in respect of *accepting deposits*. They do not, therefore, need to be *authorised persons* if they do not carry on any *regulated activity* other than *accepting deposits* in the United Kingdom.
- 1.1.2 G (1) *CREDS* covers only the requirements associated with a *Part IV permission* to *accept deposits*. The Conduct of Business sourcebook (*COBS*) sets out additional requirements for *credit unions* that are *CTF providers* in relation to *cash deposit CTFs*.
- (2) Other *permissions* are covered elsewhere in the *Handbook*. So, for example, a *credit union* seeking a *permission* to undertake a *regulated mortgage activity* would need to comply with the requirements in *MCOB*, and a *credit union* seeking a *permission* to undertake *insurance mediation activity* in relation to *non-investment insurance contracts* would need to comply with the requirements in *ICOBS*.
- (3) The provisions of the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) and the Interim Prudential sourcebook for Investment Businesses (IPRU(INV)) may also be relevant to a *credit union* whose *Part IV permission* includes *insurance mediation activity* or *mortgage mediation activity* or which is a *CTF provider* with permission to carry on *designated investment business*.
- 1.1.3 G Every *credit union* is either a *version 1 credit union* or a *version 2 credit union*. The *rules* relating to, for example, borrowing, the payment of dividends on shares, capital and lending to members are different depending on whether a *credit union* is a *version 1 credit union* or a *version 2 credit union*.

##### Purpose



- 1.1.4 G *CREDS* sets out *rules* and *guidance* that are specific to *credit unions*. *CREDS* 10 refers to other more generally applicable provisions of the *Handbook* that are likely to be relevant to *credit unions* with *Part IV permission to accept deposits*. For details of these provisions, we would expect *credit unions* to access the full text in the *Handbook*.
- 1.1.5 G The status of the provisions in *CREDS* is indicated by icons containing the letters R, G or E. Please refer to chapter six of the Reader's Guide for further explanation about the significance of these icons. The Reader's Guide can be found at <http://fsahandbook.info/FSA/pdf/rguide.pdf>

## 2 Senior management arrangements, systems and controls

### 2.1 Application and purpose

#### Application

- 2.1.1 R This chapter applies to all *credit unions*.

#### Purpose

- 2.1.2 G The purpose of this chapter is to provide *rules* and *guidance* relating to senior management arrangements, systems and controls that are specific to *credit unions* with a *permission to accept deposits*.
- 2.1.3 G This chapter is also intended to remind *credit unions* that the Senior Management Arrangements, Systems and Controls sourcebook (*SYSC*) also contains a number of high level *rules* relating to senior management arrangements, systems and controls designed to have general application to all *firms*, including *credit unions*. *SYSC* 1 and *SYSC* 4 to 10 apply to all *credit unions* in respect of the carrying on of their *regulated activities* and unregulated activities in a *prudential context*. *SYSC* 18 applies to all *credit unions* without restriction. This chapter does not seek to repeat the requirements of *SYSC* that are relevant to *firms* more generally.
- 2.1.4 G The purposes of *SYSC*, which applies to all *credit unions*, are:
- (1) to encourage *directors* and *senior managers* to take appropriate practical responsibility for the arrangements that all *firms* must put in place on matters likely to be of interest to the *FSA* because they impinge on the *FSA's* function under the *Act*;
  - (2) to reinforce *Principle 3*, under which all *firms* must take reasonable care to organise and control their affairs responsibly and effectively with adequate risk management systems;
  - (3) to encourage all *firms* to vest responsibility for effective and responsible organisation in specific *directors* and *senior managers*.

## 2.2 General provisions

### Appropriate systems and controls

- 2.2.1 G SYSC 4.1.1R requires every *firm*, including a *credit union*, to take reasonable care to establish and maintain such systems and controls as are appropriate to its business.
- 2.2.2 G SYSC 4.1.1R is a high level *rule* which requires *firms* to put in place the systems and controls that are appropriate and effective for their particular circumstances. What is appropriate for a particular *credit union* will depend upon such matters as the nature, scale, and complexity of its business, the volume and size of its *transactions*, and the level of risk associated with its operations.
- 2.2.3 G A small *version 1 credit union* will not be expected to have the same systems and controls as a large *version 2 credit union*.

### Business plan

- 2.2.4 R A *credit union* must establish, maintain and implement an up-to-date business plan approved by the committee of management and supply a copy on request to the *FSA*.
- 2.2.5 G *Guidance* on business planning is given in *CREDS 2.2.51G to CREDS 2.2.58G*.

### Policies and procedures manual

- 2.2.6 R A *credit union* must establish, maintain, and implement an up-to-date and fully documented policies and procedures manual, and supply a copy on request to the *FSA*.
- 2.2.7 G *Guidance* on documentation of policies and procedures is given in *CREDS 2.2.59G to CREDS 2.2.61G*.

### System of control

- 2.2.8 R A *credit union* must establish, maintain and implement a fully documented system of control.
- 2.2.9 G *Guidance* on the documentation of systems of control is given in *CREDS 2.2.20G to CREDS 2.2.23G*.

### Internal audit function

- 2.2.10 E (1) A *credit union* must have an internal audit function (this may be either in-house or outsourced to a third party).

- (2) Contravention of *CREDS* 2.2.10E(1) may be relied on as tending to establish contravention of *SYSC* 4.1.1R (see *CREDS* 2.2.1G).

- 2.2.11 G (1) The term 'internal audit function' in *CREDS* 2.2.10E refers to the generally understood concept of internal audit within a *firm*, in other words the function of assessing adherence to and the effectiveness of internal systems and controls, procedures and policies. The internal audit function is not a *controlled function* itself, but is part of the *systems and controls function* (CF28).
- (2) *Guidance* on internal audit is given in *CREDS* 2.2.40G to *CREDS* 2.2.50G.

#### Segregation of duties

- 2.2.12 G A *credit union* should ensure appropriate segregation of duties in order to minimise the risk of *financial crime* or contravention of requirements and standards under the *regulatory system*.
- 2.2.13 G *Guidance* on segregation of duties is given in *CREDS* 2.2.18G and *CREDS* 2.2.19G.

#### Committee of management

- 2.2.14 G Under section 4(1) of, and Schedule 1 to, the Credit Unions Act 1979, a *credit union* is required to have a committee of management. The committee of management should be competent to control the affairs of a *credit union*, and have an appropriate range of skills and experience relevant to the activities carried on by the *credit union*.
- 2.2.15 G In accordance with *Statement of Principle 7* of the *Statements of Principle for Approved Persons*, it is the responsibility of each individual member of the committee of management to understand, and ensure that the *credit union* complies with, the requirements of all the relevant Acts, secondary legislation and *rules*.
- 2.2.16 G (1) As the *credit union's governing body*, the committee of management has responsibility for ensuring that the *credit union* complies with the requirements of *SYSC* 4.1.1R (see *CREDS* 2.2.1G and *CREDS* 2.2.2G). So, the committee of management has overall responsibility for:
- (a) establishing objectives and formulating a business plan;
  - (b) monitoring the financial position of the *credit union*;
  - (c) determining and documenting policies and procedures;
  - (d) directing and coordinating the work of all *employees* and volunteers, and ensuring that they are capable and properly trained;

- (e) maintaining adequate reserves;
- (f) making provision for bad and doubtful debts;
- (g) recommending a dividend on shares to members subject to the *credit union's* financial position;
- (h) ensuring that the *credit union* complies with all statutory and regulatory requirements; and
- (i) ensuring that the *credit union* complies with the requirements of its registered rules.

(2) Where a committee of management has responsibility for these matters on a day-to-day basis (that is, they are not delegated to a *chief executive* or *manager*) it seems highly likely that each member of the committee would be performing the *apportionment and oversight function*, and would therefore require individual approval.

2.2.17 G The committee of management should meet at least monthly.

#### Organisation

2.2.18 G *CREDS* 2.2.12G states that all *credit unions* should ensure appropriate segregation of duties. Duties should be segregated to prevent one individual from initiating, controlling, and processing a transaction (for example, both the approval and the payment of an invoice).

2.2.19 G Responsibilities of connected *persons* (for example, relatives and other close relationships) should be kept entirely separate. They should not hold key posts at the same time as each other. Where this is unavoidable, a *credit union* should have a written policy for ensuring complete segregation of duties and responsibilities.

#### Documentation of systems of control

2.2.20 G *CREDS* 2.2.8R requires a *credit union's* system of control to be fully documented. The documentation helps the committee of management to assess if systems are maintained and controls are operating effectively. It also helps those reviewing the systems to verify that the controls in place are those that have been authorised, and that they are adequate for their purpose.

2.2.21 G (1) The committee of management should decide what form this documentation should take, but the committee should have in mind the following points.

- (a) Documents should be comprehensive: they should cover all material aspects of the operations of the *credit union*.
- (b) Documents should be integrated: separate elements of the system should be cross-referred so that the system can be viewed as a

whole.

- (c) Documents should identify risks and the controls established to manage those risks. The controls should be identified and their purpose defined so that their effectiveness can be evaluated.
- (d) There should be named *persons* or posts for each control function and alternatives in case of absence.
- (e) Documents should state how the operation of the control is evidenced. Evidence might include signatures, records and registers. Documents should also state for how long that evidence is to be retained, taking account of SYSC 9.1.
- (f) Documents should be unambiguous. Instructions should be clear and precise, avoiding expressions such as "normally" and "if possible".
- (g) Documents should be practical and easy to consult and use when operating and reviewing systems.
- (h) Documents should be up to date. There should be an accurate description of the function that the control is to address. When changes are made to the function, the appropriate systems of control need to be updated and documented at the same time.

- (2) The committee of management should, from time to time, seek confirmation that the systems of control are being complied with.

2.2.22 G Documentation should not be restricted to "lower level" controls applied in processing transactions, but should also cover "high level" controls including:

- (1) identifying those powers to be exercised only by the committee of management, and the powers delegated to others;
- (2) the purpose, composition and reporting lines of sub-committees, and *senior managers* to whom responsibilities are delegated;
- (3) the specific roles and responsibilities of individual *officers*;
- (4) the timing, form and purpose of meetings of the committee of management and sub-committees, and the way in which policies and decisions are recorded and their implementation monitored.

2.2.23 G The documentation of IT controls should be integrated within the overall documentation of a *credit union's* system of control.

Accounting records and systems

2.2.24 G SYSC 9.1.1R requires that a *credit union* takes reasonable care to make and retain adequate records of all matters governed by the *Act*, secondary legislation under the *Act*, or *rules* (including accounting records). These

records must be capable of being reproduced in the English language and on paper.

- 2.2.25 G A *credit union* should have appropriate systems in place to fulfil its obligations with respect to adequacy, access, periods of retention, and security of records.
- 2.2.26 G The main reasons why a *credit union* should maintain adequate accounting and other records are:
- (1) to provide the committee of management with adequate financial and other information to enable it to conduct its business in a prudent manner on a day-to-day basis;
  - (2) to safeguard the assets of the *credit union* and the interests of members and *persons* too young to be members;
  - (3) to assist *officers* of the *credit union* to fulfil their regulatory and statutory duties in relation to the preparation of annual accounts;
  - (4) to provide the committee of management with sufficient timely and accurate information to assist them to submit the information required or requested by the *FSA*.
- 2.2.27 G When forming their opinion of whether the accounting and other records are adequate, the committee of management should satisfy itself that they capture and record on a timely basis, and in an orderly fashion, every transaction. The accounting and other records should provide sufficient information in respect of each transaction to explain:
- (1) its nature and purpose;
  - (2) the asset or liability, actual and contingent, which arises (or may arise) from it;
  - (3) the income or expenditure, current and deferred, which arises from it.
- 2.2.28 G The committee of management must be satisfied that the records are maintained in an integrated and orderly manner to disclose, with reasonable accuracy and promptness, the state of the business at any time.

#### The compliance function

- 2.2.29 G
- (1) Depending on the nature, scale and complexity of its business, it may be appropriate for a *credit union* to have a separate compliance function.
  - (2) The organisation and responsibilities of a compliance function should be documented.
  - (3) A compliance function should be staffed by an appropriate number of competent staff who are sufficiently independent to perform their

duties objectively. It should be adequately resourced and should have unrestricted access to the *credit union's* relevant records as well as ultimate recourse to its *governing body*.

- 2.2.30 G *Guidance* on compliance is located in SYSC 6.1.3R.
- [**Note:** As explained in SYSC 1 Annex 1.3.3G, SYSC 6.1.3R is to be read as *guidance* rather than as a *rule*, and as if "should" appeared in that provision instead of "must".]
- 2.2.31 G Some important compliance issues include:
- (1) insurance against fraud and dishonesty;
  - (2) arrangements for the prevention, detection and reporting of *money laundering*;
  - (3) establishing and maintaining a satisfactory system of control;
  - (4) keeping proper books of account;
  - (5) computation and application of profits;
  - (6) investment of surplus funds;
  - (7) capital requirements;
  - (8) liquidity requirements;
  - (9) limits on shares and loans;
  - (10) maintenance of membership records;
  - (11) submission of financial reports to the regulator;
  - (12) *approved persons* regime;
  - (13) payment of regulatory fees.

#### Management information

- 2.2.32 G *Guidance* on management information is located in SYSC 7.1.4R.
- [**Note:** As explained in SYSC 1 Annex 1.3.3G, SYSC 7.1.4R is to be read as *guidance* rather than as a *rule*, and as if "should" appeared in that provision instead of "must".]
- 2.2.33 G A *credit union* should maintain information systems to enable the committee of management to direct and control the *credit union's* business effectively, and to provide the information required by the *FSA*.
- 2.2.34 G The committee of management should be satisfied that:

- (1) the information available is sufficient for the proper assessment of the potential risks for the *credit union*, and in order to determine its need for capital and liquidity;
- (2) the information available is sufficiently comprehensive to provide a clear statement of the performance and financial position of the *credit union*;
- (3) management information reports are prepared with sufficient frequency;
- (4) sufficient attention is focused on key factors affecting income and expenditure and that appropriate performance indicators are employed;
- (5) actual performance is compared with planned and previous performance.

2.2.35 G In forming a view on whether the management information system is sufficiently comprehensive, the committee of management should consider whether, where relevant, the substance of reports provides a clear statement of:

- (1) the capital position;
- (2) the liquidity position;
- (3) profits and losses, assets and liabilities, and flow of funds;
- (4) loans, arrears, and provisions.

2.2.36 G The matters listed in *CREDS* 2.2.35G should be compared against limits, ratios and other parameters set by the committee of management, as well as regulatory requirements.

#### Information for the FSA

2.2.37 G *Credit unions* should ensure that quarterly and annual returns required by *SUP* are reviewed at a sufficiently senior level before they are submitted to the *FSA*. The review should check for consistency between different returns, between various tables on the same return, and between information prepared for the committee of management.

#### Personnel

2.2.38 G *Guidance on employees* and agents is located in *SYSC* 5.1.2G.

2.2.39 G A *credit union* should identify present and future staffing requirements (including volunteers and paid staff) and make appropriate plans for their recruitment and training.

#### Internal Audit



- 2.2.40 G *CREDS* 2.2.10E states that a *credit union* should have an internal audit function.
- 2.2.41 G *Guidance* on internal audit and audit committees (otherwise known as the supervisory committee) is located in *SYSC* 6 and *SYSC* 4.1.11G.
- 2.2.42 G Depending upon the scale and nature of the *credit union's* activities, it may be appropriate for the audit committee to delegate the task of monitoring the effectiveness and appropriateness of its systems and controls to an *employee* or other third party.
- 2.2.43 G The purposes of an internal audit are:
- (1) to ensure that the policies and procedures of the *credit union* are followed;
  - (2) to provide the committee of management with a continuous appraisal of the overall effectiveness of the control systems, including proposed changes;
  - (3) to recommend improvements where desirable or necessary;
  - (4) to determine whether the *internal controls* established by the committee of management are being maintained properly and operated as laid down in the policy, and comply with relevant Acts, secondary legislation, *rules*, policies and procedures;
  - (5) to ensure that accounting records are prepared promptly and accurately, and that they are in order;
  - (6) to assess whether financial and operating information supplied to the committee of management is accurate, pertinent, timely, and complete.
- 2.2.44 G The internal audit function (see *CREDS* 2.2.11G) should develop an audit plan, covering all aspects of the *credit union's* business. The audit plan should identify the scope and frequency of work to be carried out in each area. Areas identified as higher risk should be covered more frequently. However, over a set time frame (likely to be one year) all areas should be covered. Care should be taken to avoid obvious patterns in assessing the different areas of the *credit union's* business, so that the audit plan produces a representative snapshot of the operation and effectiveness of the credit union's internal systems and controls, procedures and policies.
- 2.2.45 G The internal audit work programme should include items such as:
- (1) verification of cash (counting and reconciliation) without prior notification;
  - (2) *bank* reconciliation (checking records against *bank* statements);
  - (3) verification of passbooks or account statements;

- (4) checking for compliance with policies and procedures;
  - (5) checking for compliance with relevant Acts, secondary legislation and *rules*;
  - (6) checking minutes and reports of the committee of management and other sub-committees for compliance, and assessing regularity and completeness;
  - (7) checking loan applications;
  - (8) verification of the *credit union's* assets and *investments*.
- 2.2.46 G The key elements of a satisfactory system of internal audit include the following:
- (1) Terms of reference. These should be specified with precision and include, amongst other things, scope and objectives of the audit committee and the internal audit function (see *CREDS 2.2.11G*), access to records, powers to obtain information and explanations for *officers*, and reporting requirements. These should be approved by the committee of management.
  - (2) Risk analysis. Key risks in each area of the *credit union's* business should be identified. The adequacy of the specific controls put in place to address those risks should be assessed.
  - (3) Internal audit plan. This should be developed on the basis of the risk analysis.
  - (4) Detailed programmes. These should be based on the internal audit plan, together with the controls and their objectives specified in the control documentation. Each programme should be comprehensive, specifying the frequency with which the various parts of the programme are to be carried out and how the work is to be performed.
  - (5) Working papers. These should be maintained to evidence who performed the work, how it was controlled and supervised, and to record the conclusions reached. They should be cross referenced to reports made and action taken.
  - (6) System of reporting. Formal reports should be submitted at the completion of each aspect of programmed work, stating the areas covered together with any recommendations and conclusions reached.
- 2.2.47 G The internal audit function (see *CREDS 2.2.11G*) should be independent of all of the functions it inspects.
- 2.2.48 G The committee of management should be satisfied that the status and reporting relationship of the chairman of the audit committee is sufficient to maintain the independence and objectivity of the function.

- 2.2.49 G The qualifications, experience and training of individuals performing the internal audit function (see *CREDS* 2.2.11G) should be adequate in relation to its objectives.
- 2.2.50 G The committee of management should be satisfied that the internal audit function (see *CREDS* 2.2.11G) is being properly carried out. In order to review the overall effectiveness of the internal audit function it should consider the following:
- (1) the adequacy and scope of planning;
  - (2) the adequacy and scope of work performed in relation to the plans and programmes;
  - (3) the regularity and level of reporting on matters arising from the inspections;
  - (4) the disposal of points and recommendations raised, and reasons for the rejection of any major points;
  - (5) a review of the overall effectiveness of the internal audit function.

#### Business planning

- 2.2.51 G *CREDS* 2.2.4R requires that a *credit union* maintains a current business plan.
- 2.2.52 G *Version 2 credit unions* should submit a copy of their business plan to the *FSA*. A *version 2 credit union* making any significant changes to the business plan should provide the *FSA* with a copy of the amended plan as soon as possible after it has been adopted.
- 2.2.53 G *Guidance* on business strategy is located in *SYSC* 6.1.2R and *SYSC* 7.1.2R.
- [**Note:** As explained in *SYSC* 1 Annex 1.3.3G, *SYSC* 6.1.2R and *SYSC* 7.1.2R are to be read as *guidance* rather than as *rules*, and as if "should" appeared in those provisions instead of "must".]
- 2.2.54 G The committee of management should have a satisfactory planning system to provide a framework for growth and development of the *credit union*, and to enable it to identify, measure, manage and control risks of regulatory concern.
- 2.2.55 G The business plan should cover a period of three years from the current financial year, in other words the remainder of the current financial year and the two following financial years.
- 2.2.56 G The planning system should be defined clearly, documented appropriately, and planning related tasks and decision-making responsibilities allocated clearly within the *credit union*.
- 2.2.57 G The conclusions, recommendations, projections and assumptions set out in the business plan should be supported by analysis, based on adequate data,

and properly documented for comparison with actuals.

- 2.2.58 G The committee of management should consider the range of possible outcomes in relation to various risks. These risks are increased when a *credit union* provides ancillary services such as issuing and administering means of payment and money transmission, which result, in particular, in higher liquidity and operational risks.

Documentation of policies and procedures

- 2.2.59 G *CREDS 2.2.6R* requires that a *credit union* maintains a manual of its policies and procedures.
- 2.2.60 G *Version 2 credit unions* should submit a copy of their policy and procedures manual to the *FSA*. A *version 2 credit union* making any significant changes to their policies or procedures should provide the *FSA* with a copy of the amended manual as soon as possible after it has been adopted.
- 2.2.61 G The policy and procedures manual should cover all aspects of the *credit union's* operations, including matters such as:
- (1) cash handling and disbursements;
  - (2) collection procedures;
  - (3) lending, including large *exposures* (see *CREDS 7.1* to *CREDS 7.5*);
  - (4) arrears management (see *CREDS 7.2.9G* to *CREDS 7.2.10G*);
  - (5) provisioning (see *CREDS 7.5*);
  - (6) liquidity management (see *CREDS 6*);
  - (7) financial risk management (see *CREDS 3*);
  - (8) *money laundering* prevention (see *SYSC 6.3*);
  - (9) internal audit (see *CREDS 2.2.40G* to *CREDS 2.2.50G*);
  - (10) information technology (see *CREDS 2.2.23G*);
  - (11) business continuity, otherwise known as disaster recovery (see *CREDS 2.2.62G* to *CREDS 2.2.64G*);
  - (12) marketing;
  - (13) training;
  - (14) connected *persons* and managing conflicts of interest (see *CREDS 2.2.19G*);
  - (15) *complaints* handling (see *DISP 1*).

## Business continuity

- 2.2.62 G *Guidance* on business continuity is located in SYSC 4.1.6R to SYSC 4.1.8G.
- [**Note:** As explained in SYSC 1 Annex 1.3.3G, SYSC 4.1.6R is to be read as *guidance* rather than as a *rule*, and as if "should" appeared in that provision instead of "must".]
- 2.2.63 G A *credit union* should put in place contingency arrangements to ensure that it could continue to operate and meet its regulatory requirements in the event of an unforeseen interruption that may otherwise prevent the *credit union* from operating normally (for example, if there was a complete failure of IT systems or if the premises were destroyed by fire).
- 2.2.64 G Business continuity arrangements should be reviewed and tested regularly in order to ensure their effectiveness.

### 3 Investment and borrowing

#### 3.1 Application, purpose and interpretation

##### Application

- 3.1.1 R This chapter applies to all *credit unions*.

##### Purpose

- 3.1.2 G (1) The *rules* and *guidance* contained in this chapter are designed to address risks that can arise from the structure of a *credit union's* balance sheet.
- (2) These risks include the risk that a *credit union's* income is not sufficiently large to cover its funding, operational and other costs, and the risk that a *credit union* may not be able to renew or replace wholesale funding at an affordable rate.

##### Interpretation

- 3.1.3 R For the purposes of this chapter:
- (1) the maturity of a *security* or loan is the last or only date on which it shall be repayable by or under its terms; and
- (2) surplus funds means funds not immediately required for a *credit union's* *accepting deposits*, lending and ancillary purposes.

## 3.2 Investment

### Types of investment

- 3.2.1 R Subject to the general limitations on its powers contained in the Credit Unions Act 1979 and to the limitations contained in *CREDS* 3.2.2R and *CREDS* 3.2.3R, a *credit union* may invest its surplus funds and funds serving liquidity purposes only in the following types of *investment*:
- (1) *deposits* or loans to a *UK domestic firm* with *Part IV permission* to accept *deposits*;
  - (2) *deposits* or loans to an institution which is authorised in any other *EEA State* to accept *deposits*;
  - (3) Sterling-denominated *securities* issued by the government of any *EEA State*;
  - (4) fixed-interest sterling-denominated *securities* guaranteed by the government of any *EEA State*, provided that any guarantee is unconditional in respect of the payment of both principal and interest on those *securities*.

### Maturity of investments

- 3.2.2 R Any *securities* invested in, or loans made, in accordance with *CREDS* 3.2.1R by a *version 1 credit union* must have a maturity date of not more than 12 *months* from the date on which the *investment* is made.
- 3.2.3 R Any *securities* invested in, or loans made, in accordance with *CREDS* 3.2.1R by a *version 2 credit union* must have a maturity date of not more than five years from the date on which the *investment* is made.

### Cash in custody of officers

- 3.2.4 R Surplus funds not invested by a *credit union* in accordance with *CREDS* 3.2.1R to *CREDS* 3.2.3R must be held as cash in the custody of *officers* of the *credit union*.

### Investment conditions no longer satisfied

- 3.2.5 R Where under *CREDS* 3.2.1R to *CREDS* 3.2.3R above, a *firm* or another institution ceases to satisfy the conditions necessary for a *credit union* to invest with it or lend to it, and any funds of a *credit union* are with that *firm* or other institution, the *credit union* must take all practicable steps to call in and realise that investment or loan within three *months* of that cessation, or, if that is not possible, as soon after the end of that period as possible.

### Transactions between credit unions

- 3.2.6 G (1) A *credit union* may accept a loan from another *credit union* (section

10(1) of the Credit Unions Act 1979).

- (2) *CREDS 3.2.2R to CREDS 3.2.3R* apply to loans between *credit unions*, except for subordinated loans qualifying as capital under *CREDS 5.2.1R(4)*. (See *CREDS 3.2.1R* and *CREDS 5.2.8R(2)*.)
- (3) *CREDS 5.2.1R to CREDS 5.2.9G* apply to subordinated loans between *credit unions* qualifying as capital under *CREDS 5.2.1R(4)*.
- (4) *CREDS 7 (Lending)* (which covers loans to members) does not apply to loans between *credit unions* (see *CREDS 7.1.1R*). However, in relation to those loans, *credit unions* should have regard to the principles outlined in *CREDS 7.4.6G* and *CREDS 7.5 (Provisioning)*.
- (5) *CREDS 6.3.4 R(2)* applies to loans between *credit unions* in relation to liquidity.

- 3.2.7 G Loans between *credit unions* should only be arranged after careful consideration by both parties. For example:
- (1) the borrower should consider the financial implications of relying on such borrowing in order to lend to members, or to finance share withdrawals; and
  - (2) the lender should assess the risk of late and non-repayment arising from the borrower's own liquidity and credit risks, and keep the aggregate of its loans to other *credit unions* to a very modest level.

### 3.3 Borrowing and Financial risk management

#### Borrowing

- 3.3.1 R A *credit union* must not borrow from a natural person, except by subordinated loan qualifying as capital under *CREDS 5.2.1R(4)*.
- 3.3.2 G *CREDS 3.3.1R* does not apply to borrowing from a *body corporate*. A loan made to a *credit union* by a *body corporate* can either be a subordinated loan (providing regulatory capital within *CREDS 5.2.1R(1)(c)*) or a senior loan (providing ordinary funding, but not constituting regulatory capital).
- 3.3.3 R The borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the *total non-deferred shares* in the *credit union*.
- 3.3.4 E (1) The borrowing of a *version 1 credit union* must not exceed an amount equal to 20% of the *total non-deferred shares* in the *credit union* at the end of more than two consecutive quarters.
- (2) Contravention of *CREDS 3.3.4E(1)* may be relied on as tending to indicate contravention of *CREDS 3.3.3R*.

- 3.3.5 R The borrowing of a *version 2 credit union* must not at any time exceed an amount equal to 50 per cent of the *total non-deferred shares* in the *credit union*.
- 3.3.6 R A *credit union* must not count subordinated debt obtained by the *credit union* and forming part of its capital (see *CREDS 5.2.1R*) towards the borrowing limits under *CREDS 3.3.3R* and *CREDS 3.3.5R*.

#### Financial risk management policy statement

- 3.3.7 R A *version 2 credit union* must establish, maintain and implement an up-to-date financial risk management policy statement approved by the committee of management.
- 3.3.8 G This policy should address both interest rate and funding risk. It should cover aggregate limits on holdings of *investments* and borrowings from sources other than members. It should deal with avoidance of funding concentrations (both source and time-band concentrations) and should detail the organisational arrangements, systems and controls in respect of these matters.
- 3.3.9 G A *credit union's* committee of management should review and approve its financial risk management policy at least once a year, and more frequently if necessary, especially in the light of significant changes in business.
- 3.3.10 R A *version 2 credit union* must send to the *FSA* a copy of its financial risk management policy statement as soon as reasonably practicable after it has been approved by the committee of management.

## 4 Shares and deposits

### 4.1 Application and purpose

#### Application

- 4.1.1 R This chapter applies to all *credit unions*.

#### Purpose

- 4.1.2 G The purpose of this chapter is to provide for limits on holdings of shares and deposits, joint accounts, dividends and insurance cover (based on the aggregate value of shares and deposits).



## 4.2 Shares

### Maximum shareholdings

4.2.1 R A *credit union* must not permit a member to have or claim any interest in the shares of the *credit union*, other than *deferred shares*, exceeding the greater of:

- (1) £ 10,000; or
- (2) 1.5 per cent of the *total non-deferred shares* in the *credit union*.

4.2.2 R Where:

- (1) there is an increase in the percentage of the *total non-deferred shares* in the *credit union* held by a member; and
- (2) this is the result of a reduction in the *total non-deferred shares* in the *credit union* occurring after the time at which that member last acquired shares, or an interest in the shares, of the *credit union*, other than *deferred shares*;

that increase in the percentage of the *total non-deferred shares* in the *credit union* held by that member must be disregarded for the purposes of the limits in *CREDS* 4.2.1R(2) and 4.2.5R.

4.2.3 G *CREDS* 4.2.2R makes it unnecessary for a member to reduce his shareholding merely because of a reduction in the *total non-deferred shares* in the *credit union*.

### Joint accounts

4.2.4 R Shares in a *credit union* must not be held in the joint names of more than two members.

4.2.5 R For the purpose only of the limit in *CREDS* 4.2.1R, the interest of a member in a joint account must be treated as 50 per cent of the shareholding in that account.

### Dividends on shares

4.2.6 R A *version 1 credit union* must not:

- (1) pay different dividends on different accounts unless:
  - (a) at the time of the payment of any dividends it has a capital-to-total assets ratio of at least 5%; and
  - (b) the payment of any of those dividends does not reduce the capital-to-total assets ratio to below 5%; or

(2) pay dividends out of interim profits more than once a year.

4.2.7 G A *version 2 credit union* is permitted to:

(1) pay different dividends on different accounts; and

(2) pay dividends out of interim profits more than once a year.

### 4.3 Deposits

4.3.1 R (1) A *credit union* must not accept *deposits* except:

(a) by way of subscription for its shares from *persons* who may lawfully be admitted to membership of the *credit union* under the Credit Unions Act 1979 and the rules of the *credit union*; or

(b) from *persons* too young to be members under (2); or

(c) as loans from *persons* under *CREDS* 3.3.1R to *CREDS* 3.3.2R.

(2) A *credit union* must not accept *deposits* exceeding the greater of £10,000 or 1.5 per cent of the *total non-deferred shares* in the *credit union* from a person who is under the age at which, by virtue of any provision of the *credit union's* rules or otherwise, he may lawfully become a member of the *credit union*, unless the *deposits* are held in a *CTF* in which case the *credit union* may accept a larger *deposit*.

4.3.2 G *Credit unions* that provide *CTFs* should ensure that under their rules depositors under the age of 18 whose *deposits* are held within a *CTF* continue to be treated as juvenile depositors until the age of 18. This will provide for the fact that *CTF* account holders may not withdraw any money from the *CTF* until they reach the age of 18 in contrast to the position in relation to other *deposits* which become shares and may be withdrawn earlier.

4.3.3 G *CREDS* 3.3.1R and *CREDS* 4.3.1R are intended to ensure that the liberalisation of *credit union* borrowing (*CREDS* 3.3.2R) does not have the unintended effect of undermining the common bond concept by allowing *credit unions* to operate deposit accounts for natural *persons* who do not qualify for membership.

### 4.4 Insurance against fraud or other dishonesty

4.4.1 R A *credit union* must at all times maintain in force a policy of insurance complying with *CREDS* 4.4.2R.

4.4.2 R In order to comply with *CREDS* 4.4.1R, a policy of insurance (subject to the

exception in *CREDS* 4.4.3R):

- (1) must insure the *credit union* in respect of every description of loss suffered or liability incurred by reason of the fraud or other dishonesty of any of its officers or employees;
- (2) must so insure the *credit union* up to the limits set out in *CREDS* 4 Annex 1R in respect of any one claim, except that the liability of the insurer may be restricted to the amounts set out in *CREDS* 4 Annex 1R in respect of the total of the claims made in any one year; and
- (3) must not provide, in relation to any claim, for any amount greater than one per cent of the limits on any one claim set out in *CREDS* 4 Annex 1R to be met by the *credit union*.

4.4.3 R From the losses and liabilities against which a policy complying with *CREDS* 4.4.2R must insure, there must be excepted all loss suffered or liability incurred by a *credit union* other than direct pecuniary loss discovered during the currency of the policy of insurance or within 18 months of the date on which either the policy of insurance lapses, or the duties of the officer or employee concerned are terminated, whichever occurs first.

- 4.4.4 G
- (1) The “aggregate value” in *CREDS* 4 Annex 1R comprises the shares and *deposits* (including those held in a *CTF*) referred to in *CREDS* 4.3.1R(1)(a) and (b).
  - (2) The tables in *CREDS* 4 Annex 1R set out the minimum levels of insurance cover required by a *credit union*. It is prudent for a *credit union* to consider whether additional cover:
    - (a) is needed for its own particular circumstances; and
    - (b) should be obtained to cater for actual or projected growth in the “aggregate value” (see paragraph 1 of *CREDS* 4 Annex 1R) between “relevant dates” (see paragraph 3 of *CREDS* 4 Annex 1R).

#### **4 Annex 1R Insurance against fraud or other dishonesty** (see *CREDS* 4.4.1R)

	<b>Column (1)</b>	<b>Column (2)</b>	<b>Column (3)</b>
	Aggregate value of share subscriptions and other deposits received and not repaid (the “aggregate value”)	Cover required in respect of any one claim	Cover required in respect of total claims made in any one year

<b>Row (A)</b>	Less than £10,000	The higher of £500 or 50 per cent of the aggregate value	The higher of £1,000 or 100 per cent of the aggregate value
<b>Row (B)</b>	£10,000 to £100,000	The higher of £5,000 or 20 per cent of the aggregate value	100 per cent of the aggregate value
<b>Row (C)</b>	More than £100,000	The higher of £20,000 or 15 per cent of the aggregate value	The higher of £100,000 or 75 per cent of the aggregate value
<b>Row (D)</b>	More than £1,000,000	£150,000 plus 5 per cent of the aggregate value over £1,000,000, subject to a maximum of £2,000,000	£750,000 plus 5 per cent of the aggregate value over £1,000,000, subject to a maximum of £4,000,000
<p>Notes:</p> <p>(1) In relation to a <i>credit union</i> which, at the relevant date, has accepted and not repaid share subscriptions and other deposits of the aggregate value stipulated in column (1) of the table in this Annex, the limit in respect of any one claim is the amount appearing in the corresponding part of column (2); and the amount in respect of the total of claims made in any one year is the amount appearing in the corresponding part of column (3).</p> <p>(2) For the purposes of this Annex, “the relevant date” is either the date of inception or renewal of the policy of insurance, or such other date as the <i>credit union</i> determines, provided that the relevant date in each year subsequent to the first must be not more than one year after the relevant date in the preceding year.</p>			

## 5 Capital

### 5.1 Application and purpose

#### Application

- 5.1.1 R This chapter applies to all *credit unions* except for *CREDS 5.3*, which applies only to *version 1 credit unions*, and *CREDS 5.4*, which applies only to *version 2 credit unions*.

## Purpose

- 5.1.2 G It amplifies *Principle 4*, under which a *firm* must maintain adequate financial resources, and the *threshold condition* that a *firm's* resources must be adequate in relation to the *regulated activities* that it carries on (see *COND 2.4*).
- 5.1.3 G The purpose of setting capital requirements is to ensure that a *credit union* has an appropriate level of capital available to absorb unexpected losses.
- 5.1.4 G The capital and net worth requirements set out in this chapter represent the minimum requirements that a *credit union* must comply with. A *credit union* should decide for itself the amount of capital that it needs to hold over and above these minimum standards proportionate to its scale of operations and its risk profile.
- 5.1.5 G The *FSA* may require a *credit union* to hold minimum amounts of capital greater than those set out in this chapter where it considers that particular circumstances make that appropriate.
- 5.1.6 G In addition to the capital requirements set out in this chapter, section 7A of the Credit Unions Act 1979 provides that a *credit union* may issue interest-bearing shares only if, among other things, its most recent year end balance sheet shows that it holds reserves of at least £50,000 or 5% of its total assets, whichever is greater.

**5.2 Components of capital**

- 5.2.1 R (1) The following are included in the meaning of 'capital' for the purposes of this chapter:
- (a) audited reserves;
  - (b) interim net profits;
  - (c) *deferred shares*;
  - (d) subordinated debt meeting the requirements set out at (4);
  - (e) initial capital; and
  - (f) revaluation reserves, arising from the differences between book values and the current market values of property fixed assets which:
    - (i) meet the requirements in (6) to (7); and
    - (ii) are subject to the limit in (8).

- (2) Audited reserves are audited accumulated profits or losses, or both, retained by a *credit union* after payment of tax, dividends and interest on *deposits*. Reserves also include other realised gains and gifts of capital, for example from a sponsoring organisation. *Deferred shares* are included in the meaning of 'capital' but must not be counted twice in the calculation of capital. Where a *credit union's* audited reserves include sums, equal to the amount paid on *deferred shares* subscribed for in full, and transferred to the reserves in accordance with section 7(6) of the Credit Unions Act 1979, that amount must not also be counted separately under (1)(c).
- (3) Interim net profits are interim profits net of tax and anticipated dividends.
- (4) To be included in the calculation of capital, subordinated debt must meet the following conditions:
  - (a) the maturity of the loan must be more than five years from the date on which the loan is made;
  - (b) the subordination provisions provide that the claims of the subordinated creditors rank behind those of all unsubordinated creditors including the *credit union's* shareholders;
  - (c) to the fullest extent possible, creditors waive their rights to set off amounts they owe the *credit union* against subordinated amounts owed to them by the *credit union*;
  - (d) the only events of default are non-payment of any interest or principal under the debt agreement or the winding-up of the *credit union*;
  - (e) the remedies available to the subordinated creditor in the event of default in respect of the subordinated debt are limited to petitioning for the winding up of the *credit union* or proving for and claiming in the liquidation of the *credit union*;
  - (f) the subordinated debt must not become due and payable before its stated final maturity date except on an event of default complying with (d);
  - (g) the terms of the subordinated debt must be set out in a written agreement or instrument that contains terms that provide for the above conditions;
  - (h) the debt must be unsecured and fully paid up.
- (5) Initial capital is a *credit union's* capital at the time it is given *Part*

*IV permission to accept deposits*, but this does not apply in cases where the *credit union* is treated as having such a *permission on credit unions day*. Initial capital consists of a *credit union's* assets less its liabilities. For this purpose, liabilities do not include the items set out in (1)(a) to (c).

- (6) To be included in the calculation of capital, revaluation reserves must meet the following conditions:
- (a) the *credit union* must apply the revaluation method to all of its property fixed assets and not selectively;
  - (b) the values must result from regular professional valuations of each property;
  - (c) if professional valuations are not carried out annually, there must be:
    - (i) a rolling programme such that no professional valuation of a property is more than five years old;
    - (ii) in the intervening year(s) in which a property is not professionally valued, an interpolation of value by the Board which takes into account any decline in property values disclosed by valuations of other properties in that year;
  - (d) any increase of revaluation reserve must be supported by a professional valuation.
- (7) Subject to the conditions in (6), and the limit in (8), the amount of revaluation reserve used for the calculation of capital must be:
- (a) the amount standing to the credit of any such reserve in the balance sheet in the most recent annual return to have been sent to the *FSA* under *SUP* 16.7.62R or *SUP* 16.12.5R (see *CREDS* 8.2.3G); or
  - (b) the amount of any such reserve in the accounting records of the *credit union*, for the time being; whichever is the lesser amount.
- (8) The amount of revaluation reserve included in the calculation of capital must not represent more than 25 per cent of the total of capital resources in (1)(a) to (e).

5.2.2 G The effect of *CREDS* 5.2.1R(4)(a) is that the shortest permissible period for a subordinated loan qualifying as capital under *CREDS* 5.2.1R(4)(a) is five years and one day.

- 5.2.3 G Subordinated debt is due and payable only in accordance with *CREDS* 5.2.1R(4). However, this *rule* does not prevent the debt from being issued on terms which permit the *credit union*, in accordance with a board resolution, to repay the debt. The decision to repay the debt should be genuinely at the instance of the *credit union's* board. The *credit union* should satisfy itself that the remaining capital would be adequate for the *credit union's* present, and future foreseeable needs. The *credit union* should notify the *FSA* at least one month in advance of its intention to repay the debt (thereby giving the *FSA* the opportunity to raise objections to the proposed repayment). If repayment is proposed within the first five years, and the *FSA* considers that the remaining capital may not be adequate, then the *FSA* is likely to consider exercising its *own-initiative powers* to ensure that the *credit union* continues to satisfy the *threshold conditions*.
- 5.2.4 G The effect of *CREDS* 5.2.1R(8) is that no more than 25 per cent of a *credit union's* regulatory capital may consist of amounts deriving from the revaluation of property, however large the amount standing to the credit of the *credit union's* revaluation reserve.
- 5.2.5 R Negative reserves and any interim net losses must be deducted from capital.
- 5.2.6 R The amount of any subordinated loan counting towards a *credit union's* regulatory capital must, over its final four years to maturity, be written down by 20% of the amount of the loan per year (see Table at *CREDS* 5.2.7R.)
- 5.2.7 R Writing down subordinated loans over final four years

This table belongs to *CREDS* 5.2.6R

Years to maturity	Amount of loan counting towards capital
More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

- 5.2.8 R (1) When a *credit union* makes a subordinated loan to another *credit union* qualifying as capital under *CREDS* 5.2.1R(4)(a), the full amount of the loan (not the amount counting towards the borrower's capital under *CREDS* 5.2.7R) must be deducted from the lender's capital.



(2) A subordinated loan within *CREDS* 5.2.1R(4)(a) is not an investment under *CREDS* 3.2.1R.

5.2.9 G The effect of *CREDS* 5.2.8R is that the maturity limits in *CREDS* 3.2.2R and *CREDS* 3.2.3R do not apply to subordinated loans made by a *credit union*.

### 5.3 Version 1 credit unions

#### Requirement to maintain capital assets ratio

5.3.1 R A *version 1 credit union* must at all times maintain a capital-to-total assets ratio of at least 3%.

#### Building reserves

5.3.2 R A *version 1 credit union* must establish and maintain a general reserve.

5.3.3 R If, at the end of any year of account, the amount in its general reserve stands at less than 10% of its total assets, a *version 1 credit union* must transfer to its general reserve at least 20% of its profits for that year (or such lesser sum as is required to bring the amount in its general reserve up to 10% of its total assets).

5.3.4 R For the purposes of *CREDS* 5.3.3R 'profits' means the profits resulting from the operations of a *credit union* in the year of account in question after deduction of all operating expenses (including payment of interest) and after making provision for the depreciation of assets, for tax liabilities and for bad and doubtful debts, but before the payment of any dividend.

5.3.5 R A *version 1 credit union* may not transfer from its general reserve where its general reserve stands at less than 10% of its total assets.

#### Minimum initial capital

5.3.6 R A *credit union* must have adequate initial capital taking into account the nature, scale and complexity of its business and expected early expenses.

5.3.7 E (1) A *version 1 credit union* should have initial capital of at least £10,000.

(2) Contravention of (1) may be relied on as tending to establish contravention of *CREDS* 5.3.6R.

5.3.8 G For the meaning of 'initial capital' see *CREDS* 5.2.1R(5).

5.3.9 G It should be noted that the requirement in *CREDS* 5.3.6R does not affect a *credit union's* obligations to meet the other capital requirements that apply to it. The ability of a *credit union* to comply on a continuing basis with the other capital requirements that apply to it will be a central factor

for consideration in any application for *authorisation*.

#### Capital requirement for certain version 1 credit unions

- 5.3.10 R (1) A *version 1 credit union* must not lend to a member more than £7,500 in excess of the *attached shares* held by that member, unless it has a capital-to-total assets ratio of at least 5%.
- (2) A *credit union* which is owed by a member a total amount greater than £7,500 in excess of the *attached shares* held by that member must maintain at all times, while such an amount is outstanding, a capital-to-total assets ratio of at least 5%.
- 5.3.11 G *CREDS* 5.3.10R(2) does not have the effect of invalidating existing loans if the capital-to-assets ratio falls below 5%.
- 5.3.12 G *CREDS* 7.5.1R and *CREDS* 7.5.2R mean that bad and doubtful debts must be taken into account in establishing the capital-to-assets ratio.

#### Capital requirements for large version 1 credit unions

- 5.3.13 R A *version 1 credit union* with total assets of more than £5 million or a total number of members of more than 5,000, or both, must maintain at all times a capital-to-total assets ratio of at least 5%.
- 5.3.14 G *CREDS* 7.5.1R and *CREDS* 7.5.2R mean that bad and doubtful debts must be taken into account in establishing the capital-to-assets ratio.
- 5.3.15 R (1) A *version 1 credit union* with total assets of more than £10 million or a total number of members of more than 10,000, or both, must maintain at all times a risk-adjusted capital-to-total assets ratio of at least 8%.
- (2) 'Risk-adjusted capital' has the same meaning as in *CREDS* 5.4.1R and *CREDS* 5.4.2R (Risk-adjusted capital requirements for *version 2 credit unions*).

## 5.4 Version 2 credit unions

- 5.4.1 R (1) A *version 2 credit union* must maintain at all times a risk-adjusted capital-to-total assets ratio of at least 8%.
- (2) Risk-adjusted capital is calculated as follows: Capital + (provisions - balance of the *net liability* of borrowers where their loans are 12 *months* or more in arrears - 35% of the *net liability* of borrowers where their loans are 3-12 *months* in arrears).
- 5.4.2 R In calculating risk-adjusted capital:
- (1) the maximum net figure for provisions (after deduction of the

stipulated amounts for loans in arrears) that can be included is 1% of total assets;

- (2) 'provisions' includes specific provisions and general provisions; and
- (3) mortgage loans and provisions in respect of mortgage loans must not be included in calculating the loan balances to be deducted from, and the provisions to be added to, the amount of capital.

#### Minimum initial capital

- 5.4.3 R *A credit union* must have adequate initial capital taking into account the nature, scale and complexity of its business and expected early expenses.
- 5.4.4 E
  - (1) *A version 2 credit union* should have initial capital of at least £50,000.
  - (2) Contravention of (1) may be relied on as tending to establish contravention of *CREDS* 5.4.3R.
- 5.4.5 G For the meaning of 'initial capital' see *CREDS* 5.2.1R(5).
- 5.4.6 G It should be noted that the requirement in *CREDS* 5.4.3R does not affect a *credit union's* obligations to meet the other capital requirements that apply to it. The ability of a *credit union* to comply on a continuing basis with the other capital requirements that apply to it will be a central factor for consideration in any application for *authorisation*.

## 6 Liquidity

### 6.1 Application and purpose

#### Application

- 6.1.1 R This chapter applies to all *credit unions*.

#### Purpose

- 6.1.2 G This chapter amplifies *Principle 4*, under which a *credit union* must maintain adequate financial resources, and the *threshold condition* for *permission* that a *credit union's* resources must be adequate in relation to the *regulated activities* that it carries on (see *COND* 2.4).
- 6.1.3 G A central feature of *credit union* business is maturity transformation, in other words taking short term *deposits* (in the form of share accounts) from members and making comparatively long-term loans. It is important, in order to maintain confidence and protect members, that a *credit union*

has adequate liquid assets (liquidity) to enable it to fulfil members' withdrawal requests within expected timeframes.

## 6.2 General requirements

### Liquid assets

- 6.2.1 R A *credit union* must hold liquid assets of an amount and composition that is prudent and appropriate to the scale and nature of its business, having regard to material risks, including the risk of a sudden adverse cash flow, with a view to enabling it to meet its objectives.
- 6.2.2 G The liquid assets held by a *credit union* should be sufficient to meet its day-to-day business needs and to provide an appropriate cushion in the event of pressure arising from unexpected events.
- 6.2.3 G The responsibility for ensuring that a *credit union* can meet its obligations as they fall due rests with the *credit union's* management.

### Liquid management policy statement

- 6.2.4 R A *credit union* must establish, maintain and implement an up-to-date liquidity management policy statement approved by the committee of management and designed to ensure its compliance with CREDS 6.2.1R.
- 6.2.5 R A *version 2 credit union* must send to the FSA a copy of its liquidity management policy statement as soon as reasonably practicable after it has been approved by the committee of management.
- 6.2.6 G A *credit union* should be able to satisfy the FSA on a continuing basis that it has a prudent liquidity management policy and adequate management systems in place to ensure that the policy is adhered to.
- 6.2.7 G The liquidity management policy statement of a *credit union* should set out the *credit union's* objectives for liquidity, the limits within which liquidity should be maintained, and the types of liquid assets which the *credit union* should hold.
- 6.2.8 G A *credit union's* committee of management should review and approve its liquidity management policy statement at least once a year, and more frequently if necessary, especially in the light of significant changes in business.
- 6.2.9 G Where a *version 2 credit union* has borrowed wholesale funds, the maturity of such funds and the risk of their not being able to be refinanced should be taken into account in the formulation of the *credit union's* liquidity management policy statement.
- 6.2.10 G When a *credit union* provides ancillary services such as issuing and administering means of payment and money transmission, it should take

into account the potentially greater volatility of its funds when deciding what amount and composition of liquid assets is necessary to comply with *CREDS* 6.2.1R.

### 6.3 Minimum liquidity requirements

- 6.3.1 R A *credit union* must at all times hold liquid assets of a value equal to at least 5% of its *total relevant liabilities*.
- 6.3.2 R A *credit union* must further hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the *credit union's* liquid assets below 10% of its *total relevant liabilities*.
- 6.3.3 G The liquidity requirements set out in *CREDS* 6.3.1R and *CREDS* 6.3.2 R are minimum requirements and are subject to the overarching requirement of *CREDS* 6.2.1R.
- 6.3.4 R (1) For the purposes of *CREDS* 6.3.1R and *CREDS* 6.3.2R, only those assets shall count as liquid which can be realised for cash at short notice, and within at most eight *days*.
- (2) Amounts loaned by one *credit union* to another must not be counted as liquid by the lender.
- 6.3.5 R For the purposes of calculating the ratio of a *credit union's* liquid assets to its *total relevant liabilities* (in *CREDS* 6.3.1R and *CREDS* 6.3.2R), assets shall be valued at the amount for which they could be realised within eight *days*.
- 6.3.6 E (1) For the purposes of calculating the ratio of a *credit union's* liquid assets to its *total relevant liabilities* (in *CREDS* 6.3.1R and *CREDS* 6.3.2R), the *securities* referred to in *CREDS* 3.2.1R to *CREDS* 3.2.3R must be valued on the basis that they could be realised at market value minus the following discounts (whether or not this is the case in fact):
- (a) maturity less than 1 year – zero;
- (b) maturity 1 to 5 years – 5%.
- (2) Compliance with *CREDS* 6.3.6E(1) may be relied on as tending to establish compliance with *CREDS* 6.3.5R (the 8-*day* realisation-value rule).
- 6.3.7 G An asset maturing on a non-business *day* should be regarded as maturing on the succeeding *business day*.
- 6.3.8 G For the purposes of clarity, funds serving liquidity purposes may be invested in the manner set out in *CREDS* 3.2.1R provided that the

resulting assets satisfy the relevant requirements of this chapter.

- 6.3.9 G Where a *credit union* buys or holds property as premises from which to conduct its business, the *credit union* should not count those premises as liquid assets for the purposes of *CREDS* 6.3.4R.

## 7 Lending to members

### 7.1 Application, purpose and interpretation

#### Application

- 7.1.1 R This chapter applies to all *credit unions*.

#### Purpose

- 7.1.2 G (1) This chapter seeks to protect the interests of *credit unions'* members in respect of loans to members under section 11 of the Credit Unions Act 1979. *Principle 4* requires *credit unions* to maintain adequate financial resources and *CREDS 5* sets out the *FSA's* detailed capital adequacy requirements in respect of *credit unions*.
- (2) This chapter is not relevant to loans between *credit unions*, except as indicated in *CREDS* 3.2.6G(4).

#### Interpretation

- 7.1.3 G The *rules* and *guidance* in this chapter are in addition to the provisions of section 11 of the Credit Unions Act 1979 in relation to loans made by *credit unions*. Under these provisions
- (1) a *credit union* may make a loan only to:
- (a) a member of the *credit union* who is an individual; and
  - (b) a corporate member of the *credit union*, if the *credit union's* rules provide that it may make loans to corporate members and making the loan would not result in the aggregate of the outstanding balances on loans made by the *credit union* to corporate members exceeding the percentage of the aggregate of the outstanding balances on all loans made by the *credit union* specified by or under section 11 of the Credit Unions Act 1979;
  - (c) other *credit unions*;

(2) a *credit union* may not make a loan to a member of the *credit union* holding only *deferred shares*.

7.1.4 G “Corporate member” has the same meaning as in section 5A of the Credit Unions Act 1979.

## 7.2 General requirements concerning lending policy

7.2.1 R A *credit union* must establish, maintain, and implement an up-to-date lending policy statement approved by the committee of management that is prudent and appropriate to the scale and nature of its business, having regard to the limits outlined in *CREDS 7.3* to *CREDS 7.4*.

7.2.2 R A *version 2 credit union* must provide the *FSA* with a copy of its lending policy statement as soon as reasonably practicable after it has been approved by the committee of management.

7.2.3 G A principal purpose of *credit unions'* business is the accumulation of members' savings to provide a fund out of which loans are provided for the benefit of the members. *Credit unions* may often in practice have less scope to minimise credit risk through the exercise of discretion than some other lenders. It is therefore important that a *credit union* has a carefully considered and effective lending policy statement.

7.2.4 G *CREDS 2.2.6R* requires a *credit union* to maintain a manual of its policies and procedures. This should include the policy and procedure for making loans.

7.2.5 G The *credit union's* committee of management should review and approve its lending policy at least once a year, and more frequently if necessary (for example if there is an escalating arrears problem), especially in the light of significant changes in business.

7.2.6 G The lending policy should consider the conditions for and amounts of loans to members, individual mandates, and the handling of loan applications.

7.2.7 R (1) A *credit union* must not make a loan to:

- (a) one of its officers or *approved persons* on terms more favourable than those available to other members of the *credit union* unless:
  - (i) that person is a paid employee (other than a *director*) of the *credit union*; and
  - (ii) the registered rules of the *credit union* provide explicitly for the making of loans to paid employees on such terms;

- (b) a relative of, or any person otherwise connected with, an officer, *approved person* or paid employee of the *credit union* on terms more favourable than those available to other members of the *credit union*.
- (2) "Relative" has the same meaning as in section 31 of the Credit Unions Act 1979.
- 7.2.8 G (1) To prevent conflicts of interest, a *credit union* should have clear arrangements for dealing with loans to the persons specified in *CREDS 7.2.7R*.
- (2) In relation to staff, the prohibition in *CREDS 7.2.7R* applies only to those who are officers or *approved persons*.
- (3) "Connected" in *CREDS 7.2.7R* includes any close business or personal relationship.
- 7.2.9 G A *credit union* should have a documented arrears management policy, setting out the procedures and process for dealing with borrowers who fall into arrears. This should be reviewed regularly and promptly in the light of experience.
- 7.2.10 G A *credit union* should have a clear, robust and effective approach to handling arrears and be able to satisfy the *FSA* on a continuing basis that it has adequate management and control systems in place to monitor arrears.
- 7.2.11 G A *credit union* should ensure that loan assets are valued correctly in their accounts. A provisioning policy relating to problem loans and arrears cases should be clearly defined and documented covering the circumstances in which provisions are to be made.
- 7.2.12 G A *credit union* may make a loan to a member for a business purpose. However, this does not mean that a *credit union* may make a loan to a member who merely intends to transmit that loan to another body that will actually carry out the purpose. A *credit union* should not make loans to members who are acting together to achieve an aggregate loan that exceeds the limits in *CREDS 7.3*.
- 7.3 Lending limits**
- 7.3.1 R Subject to *CREDS 7.3.8R*, a *version 1 credit union* must not lend for a period of more than five years where unsecured and ten years where secured.
- 7.3.2 R The outstanding balance of a loan by a *version 1 credit union* to a member must not at any time be more than £15,000 in excess of the *attached shares* held by that member, but this rule is subject to the additional



requirement in *CREDS 5.3.10R(1)*.

- 7.3.3 G The effect of *CREDS 5.3.10R(1)* is to prevent a *version 1 credit union* from lending more than £7,500 in excess of the *attached shares* held by that member unless it has a capital-to-total assets ratio of at least 5%.
- 7.3.4 R Subject to *CREDS 7.3.8R*, a *version 2 credit union* must not lend for a period of more than ten years where unsecured and 25 years where secured.
- 7.3.5 G A *credit union* should not attempt to evade the limits in *CREDS 7.3.1R* and *CREDS 7.3.4R* by making loans in the expectation that they will not be fully repaid by the end of the period, but will be automatically extended or rescheduled.
- 7.3.6 R The outstanding balance of a loan by a *version 2 credit union* to a member must not at any time be more than:
- (1) £15,000 in excess of the *attached shares* held by that member; or
  - (2) an amount equivalent to 1.5% of *total non-deferred shares* in the *credit union* in excess of the *attached shares* held by that member;
- whichever is the greater.
- 7.3.7 G The lending limit requirements set out above are maxima. A *credit union* should have adequate systems for recording and controlling all potential *exposures*. The capital requirements for *version 1 credit unions* and *version 2 credit unions* in respect of lending are set out in *CREDS 5.3* and *CREDS 5.4*, including the *FSA's* requirements in respect of calculating risk-adjusted capital.
- 7.3.8 R A *credit union* with *permission* for *entering into a regulated mortgage contract* must not enter into such a contract for a term of more than 25 years.

## 7.4 Large exposures

- 7.4.1 R For the purposes of this section, a large *exposure* is defined as an individual *net liability* to the *credit union* which meets both of the following criteria:
- (1) it is at least £7,500;
  - (2) it is at least 10% of the value of the *credit union's* total capital.
- 7.4.2 R An individual large *exposure* must not exceed 25% of the *credit union's* capital. In no circumstances may the aggregate total of all large *exposures* exceed 500% of the *credit union's* capital.

- 7.4.3 R A *credit union* must not permit the aggregate total of all large *exposures* to exceed 300% of capital unless the *credit union* notifies the *FSA* in advance.
- 7.4.4 G For the purposes of large *exposures* the maximum *net liability* of a *credit union* with assets of £500,000 and 8% capital would be £10,000, subject to *CREDS 7.4.2R* and *CREDS 7.3.6R*.
- 7.4.5 G For a *credit union* with assets of £1million and 10% capital the maximum *net liability* would be £25,000.
- 7.4.6 G Excessive *exposure* (large loans to an individual borrower and in aggregate) by a *credit union* can create a concentration of risk on the balance sheet and increase a *credit union's* vulnerability to bad debt. This can lead to a strain on capital and solvency. While this risk cannot be eliminated, it can be contained by limits and controlling the extent to which *credit unions* commit themselves to large *exposures*. Therefore the large *exposure* limits set the maximum sum that may be loaned to any one member as a percentage of reserves to prevent concentration. All *credit unions* should set and document their own large *exposure* policy limits to avoid concentration of risk.
- 7.4.7 G It is the committee of management's responsibility to monitor large *exposures*. The large *exposures* limits policy should be reviewed on an annual basis (or more frequently where required).

## 7.5 Provisioning

- 7.5.1 R A *credit union* must make adequate provision for bad and doubtful debt.
- 7.5.2 R A *credit union* must make specific provision in its accounts for bad and doubtful debts of at least the amounts set out below:
- (1) 35% of the *net liability* to the *credit union* of borrowers where the amount is more than three *months* in arrears; and
  - (2) 100% of the *net liability* to the *credit union* of borrowers where the amount is more than 12 *months* in arrears.
- 7.5.3 G In addition to the requirements of *CREDS 7.5.2R*, a *credit union* should consider making the following specific provisions in its accounts for bad and doubtful debts:
- (1) 60% of the *net liability* to the *credit union* of borrowers where the amount is more than six *months* in arrears; and
  - (2) 80% of the *net liability* to the *credit union* of borrowers where the amount is more than nine *months* in arrears.

- 7.5.4 E (1) A *credit union* should maintain a general provision for bad and doubtful debts of at least 2% of the *net liability* to the *credit union* of borrowers not covered by the specific provisions in *CREDS 7.5.2R*.
- (2) Contravention of (1) may be relied on as tending to establish contravention of *CREDS 7.5.1R*.
- 7.5.5 G In order to comply with the requirements of *CREDS 7.5.1R* to *CREDS 7.5.4E* a *credit union* should review its provisioning requirements frequently. The *FSA* recommends that this is done at least quarterly.
- 7.5.6 G A *credit union* should make it its business to know its *customers* and, in conjunction with its auditor, make a judgment on the degree of risk of non-payment attached to loans that are in arrears. Provisioning should reflect that judgment.
- 7.5.7 G Where a delinquent loan is rescheduled and the arrears capitalised, the loan should be regarded as remaining impaired until there is sufficient evidence that it is performing on the rescheduled terms. In the meantime, any provision made in relation to that loan should be maintained, not released.
- 7.5.8 G (1) *CREDS 7.5.2R* requires a *credit union* to maintain minimum levels of specific provision. However, a *credit union* that only maintains the minimum levels does not necessarily comply with *CREDS 7.5.1R*. This will depend on the assessment and judgment referred to in *CREDS 7.5.6G*.
- (2) (a) Failure to maintain a general provision of the level indicated in *CREDS 7.5.4E* creates a presumption that the *credit union* is not complying with *CREDS 7.5.1R*, though that presumption can be rebutted by the *credit union*: for example, it may be able to demonstrate that the occurrence of impaired loans that are either below the threshold for specific provision (that is, they are less than three *months* in arrears) or are unidentified at the time, is very low.
- (b) If, on the other hand, a *credit union* does maintain the indicative level in *CREDS 7.5.4E*, that does not necessarily mean that it complies with *CREDS 7.5.1R*.
- 7.5.9 G If a *credit union* needs to make higher provisions, beyond the levels in *CREDS 7.5.2R* and *CREDS 7.5.4E*, in order to meet *CREDS 7.5.1R*, then it should do so.

## 8 Supervision

### 8.1 Application and purpose

#### Application

8.1.1 G This section applies to all *credit unions*.

#### Purpose

8.1.2 G The purpose of this section is to provide additional *rules* and *guidance* relating to reporting requirements that are specific to *credit unions*. *Credit unions* also need to comply with the relevant provisions of *SUP* relating to reporting, including *SUP* 16.3 and *SUP* 16.12.

### 8.2 Reporting requirements

#### Quarterly return

8.2.1 G *SUP* 16.12.5R states that a *credit union* must submit a quarterly return. The content, form, reporting frequency and due date in relation to that report are shown in *CREDS* 8.2.2G.

8.2.2 G This table belongs to *CREDS* 8.2.1G

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Content of report	Form	Frequency	Due date
Key financial data	CQ	Quarterly	One <i>month</i> after quarter end

#### Annual return

8.2.3 G *SUP* 16.12.5R states that a *credit union* must submit an annual return. The content, form, reporting frequency and due date in relation to that report are shown in *CREDS* 8.2.4G.

8.2.4 G This table belongs to *CREDS* 8.2.3G

Content of report	Form	Frequency	Due date
Extended financial data	CY	Annually	Six <i>months</i> after financial year end

8.2.5 G The form may be updated from time to time. *Credit unions* should use the form in force at the end of the financial year on which they are reporting.

#### Accounts and audit

8.2.6 R (1) Every *credit union* must send to the *FSA* a copy of its audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968.

- (2) The accounts must:
- (a) be made up for the period beginning with the date of the *credit union's* registration or with the date to which the *credit union's* last annual accounts were made up, whichever is the later, and ending on the *credit union's* most recent financial year end; and
  - (b) accompany the annual return submitted to the *FSA* under *SUP* 16.12.5R (see *CREDS* 8.2.3G), unless they have been submitted already.

8.2.7 R Every *credit union* must supply free of charge, to every member or person interested in the funds of the *credit union* who applies for it, a copy of the latest audited accounts of the *credit union* sent to the *FSA* under *CREDS* 8.2.6R.

#### Financial penalties for late submission of reports

- 8.2.8 G (1) Financial penalties may be imposed for the late submission of:
- (a) the quarterly and annual returns referred to in *SUP* 16.12.5R; and
  - (b) the audited accounts referred to in *CREDS* 8.2.6R.
- (2) Details of the *FSA's* policy and procedures on financial penalties are given in *DEPP*.

### 8.3 Approved persons

8.3.1 G The purpose of this section is to set out further *guidance* relating to the *approved persons* regime that is specific to *credit unions*. *Credit unions* should also read Chapter 10 of the Supervision manual (*SUP*) concerning *approved persons*.

#### Introduction

- 8.3.2 G The effect of section 59 of the *Act* and *SUP* 10 is that a *credit union* must apply to the *FSA* for the approval of one or more individuals to perform the functions which are known as *controlled functions*. *Controlled functions* fall within two groups:
- (1) The *significant influence functions* describe the roles performed by the *governing body* and *senior managers* of the *firm* who exert a significant influence over the *regulated activities* of the *firm*.

- (2) The *customer functions* describe the roles of individuals who deal with *customers* or with the property of *customers*. These *customer functions* do not extend to activities in relation to accepting *deposits* or general insurance and therefore will not be relevant to *credit unions* with *permission for accepting deposits* only.

#### Controlled functions

- 8.3.3 G The complete list of all *controlled functions* is located in SUP 10.4.5R. *Guidance* on those *controlled functions* most likely to be relevant to *credit unions* is provided below.
- 8.3.4 G SUP 10.6 : the *governing functions*:
- (1) SUP 10.6.4R: the *director function*: This is the function of acting in the capacity of a *director* of a *credit union*.
- (2) SUP 10.6.8R: the *non-executive director function*: It is unusual for a *credit union* to appoint *non-executive directors* as such. But this function would include membership of a *credit union's* supervisory committee and any other committee which scrutinises the approach of executive management, the *credit union's* performance, and its standards of conduct.
- (3) SUP 10.6.11R: the *chief executive function*: Acting in the capacity of *chief executive*, whether or not using that title. This role includes anyone having the responsibility, alone or jointly with one or more others, under the immediate authority of the committee of management, for the conduct of the whole of the business.
- 8.3.5 G SUP 10.7: the *required functions*:
- (1) SUP 10.7.1R: the *apportionment and oversight function*: This is the function of dealing with apportionment of responsibilities under SYSC 4.4.3R, and of overseeing the establishment and maintenance of systems and controls under SYSC 4.1.1R.
- (2) SUP 10.7.13R: the *money laundering reporting function*: This is the function of acting in the capacity of the *money laundering reporting officer* of a *credit union*.
- 8.3.6 G SUP 10.8: the *systems and controls function*: This is the function of acting as an employee with responsibility for reporting to the committee of management in relation to:
- (1) the *credit union's* financial affairs;
- (2) setting and controlling its risk exposure; or
- (3) adherence to internal systems and controls, procedures and

policies.

- 8.3.7 G Where an *employee* performs the *systems and controls function* the *FSA* would expect the *credit union* to ensure that the *employee* had sufficient expertise and authority to perform that function effectively, for example by occupying the role of a *director* or *senior manager*.
- 8.3.8 G *SUP 10.9: the significant management functions*: This *controlled function* will only apply to the *credit union* if the function is not being performed by a member of the committee of management and the *credit union* has followed the *guidance* in *SUP 10.9.3G*.

## 9 Complaints reporting rules for credit unions

### 9.1 Application and purpose

Application

- 9.1.1 R This chapter applies to all *credit unions*.

Purpose

- 9.1.2 G This chapter sets out *rules* and *guidance* for *credit unions* on completing reports concerning *complaints* received from *eligible complainants*. It replaces *DISP 1.10* (Complaints reporting rules) and *DISP 1.10A* (Complaints data publication rules), which do not apply to *credit unions* (*DISP 1.1.5AR*).
- 9.1.3 G The other elements of *DISP 1* (*DISP 1.2* (Consumer awareness rules), *DISP 1.3* (Complaints handling rules), *DISP 1.4* to *1.8* (Complaints resolution rules etc.) and *DISP 1.9* (Complaints record rule)) apply to *credit unions*.
- 9.1.4 G *DISP 2* to *DISP 4* (which cover jurisdiction and procedures of the *Financial Ombudsman Service*) and *FEES 5* (which covers funding of the *Financial Ombudsman Service*) apply to *credit unions*.

### 9.2 Reporting

- 9.2.1 R A *credit union* must provide the *FSA*, once a year, with a report in the format set out in *CREDS 9 Annex 1R* (Credit Union complaints return) which contains (for the relevant reporting period) information about:
- (1) the total number of *complaints* received by the *credit union*;
  - (2) the number of *complaints* closed by the *credit union*:

- (a) within eight weeks of receipt; and
  - (b) more than eight weeks after receipt;
  - (3) the total number of *complaints*:
    - (a) Upheld by the *credit union* in the reporting period;
    - (b) outstanding at the start of the reporting period; and
  - (4) the total amount of redress paid in respect of *complaints* during the reporting period.
- 9.2.2 R A *credit union* must not include in the report a *complaint* that has been forwarded in its entirety to another *respondent* under *DISP 1.7* (the *complaints forwarding rules*).
- 9.2.3 G Where a *credit union* has forwarded to another *respondent* only part of a *complaint* or where two *respondents* may be jointly responsible for a *complaint*, then the *complaint* should be reported by both *firms*.
- 9.2.4 R *CREDS 9.2.1R* does not apply to a *complaint* that is resolved by close of business on the *business day* following its receipt.
- 9.2.5 G For the purposes of *CREDS 9.2.4R*:
- (1) a *complaint* received on any day other than a *business day*, or after close of business on a *business day*, may be treated as received on the next *business day*; and
  - (2) a *complaint* is resolved where the complainant has indicated acceptance of a response from the *credit union*, with neither the response nor acceptance having to be in writing.
- 9.2.6 G For the purpose of *CREDS 9.2.1R*, and upon completing the return, the *credit union* should note that:
- (1) where a *complaint* could fall into more than one category, the *complaint* should be recorded against the category that the *credit union* considers to form the main part of the *complaint*;
  - (2) where a *complaint* has been upheld under *CREDS 9.2.1R(3)(a)*, a *credit union* should report any *complaints* to which it has given a final response which accepts the *complaint* and, where appropriate, offers redress, even if the redress offered is disputed by the complainant. Where a *complaint* is upheld in part, or where the *credit union* does not have enough information to make a decision yet chooses to make a goodwill payment to the complainant, the *credit union* should treat the *complaint* as upheld for reporting purposes. Where a *credit union* rejects a *complaint*, yet chooses to make an ex-gratia payment to the complainant, the



*complaint* should be recorded as rejected;

- (3) where a *credit union* reports on the amount of redress paid under *CREDS* 9.2.1R(4), redress should be interpreted to include any amount paid, or cost borne, by the *credit union*, where a cash value can be readily identified, and should include:
- (a) amounts paid for distress and inconvenience;
  - (b) a free transfer out to another provider which transfer would normally be paid for;
  - (c) ex-gratia payments and goodwill gestures;
  - (d) interest on delayed settlements
  - (e) waiver of an excess on an insurance policy; and
  - (f) payments to put the consumer back into the position the consumer should have been in had the act or omission not occurred;
- (4) where a *credit union* reports on the amount of redress paid under *CREDS* 9.2.1R(4), such redress should not, however, include repayments or refunds of premiums which had been taken in error (for example where a *credit union* had been taking, by direct debit, twice the actual premium amount due under a policy). The refund of the overcharge would not count as redress.

- 9.2.7 R For the purposes of *CREDS* 9.2.1R:
- (1) the relevant reporting period is from 1 April to 31 March each year; and
  - (2) reports are to be submitted to the *FSA* within one *month* of the end of the relevant reporting period.
- 9.2.8 G Financial penalties may be imposed for the late submission of the complaints report required by *CREDS* 9.2.1R.
- 9.2.9 R For the purposes of making reports under *CREDS* 9.2.1R, a closed *complaint* is a *complaint*:
- (1) where the *credit union* has sent a *final response*; or
  - (2) where the complainant has positively indicated acceptance of the *credit union's* earlier response; or
  - (3) where the complainant has failed to revert to the *credit union* within eight weeks of the *credit union's* most recent letter.
- 9.2.10 R A report under this section must be given or addressed, and delivered, in

the way set out in *SUP 16.3.6R* to *SUP 16.3.16G* (General provisions on reporting), except that, instead of the *credit union's* usual supervisory contact, the report should be given to or addressed for the attention of the Central Analysis and Reporting department of the *FSA*.

- 9.2.11 R For the purpose of inclusion in the public record maintained by the *FSA*, a *credit union* must provide the *FSA*, at the time of its *authorisation*, with details of a single contact within the *credit union* for complainants, and in its quarterly return must notify the *FSA* of any subsequent change.
- 9.2.12 G The contact point in *CREDS 9.2.1R* and *CREDS 9.2.11R* can be by name or job title and may include, for example, a telephone number.

**9 Annex 1R Credit union complaints return**

**CREDS 9 Annex 1R**

(for FSA use only)

--

# Credit union complaints return

FSA Handbook Reference: *CREDS 9 Annex 1R*  
 This is the report referred to in *CREDS 9.2.1R*

Please read the notes on completion before completing this return

<b>Firm details and reporting period</b>	<b>Section 1</b>
--	------------------

<b>1.01</b>	FSA firm reference number									
<b>1.02</b>	Name of <i>credit union</i>									
<b>1.03</b>	Reporting period	From	mm	yyyy	To	mm	yyyy			

<b>Nil return declaration</b>	<b>Section 2</b>
-------------------------------	------------------

**SECTIONS 1 AND 6 MUST STILL BE COMPLETED.**

<b>2.01</b>	We wish to declare a Nil Return <i>(Tick the box if applicable)</i>	<b>Nil return</b>	<input type="checkbox"/>
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<b>Complaints outstanding</b>	<b>Section 3</b>
-------------------------------	------------------

<b>3.01</b>	Number of complaints outstanding as at reporting period start date	
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<b>Complaints opened during reporting period</b>	<b>Section 4</b>
--	------------------

Product/service grouping	Product/service	Advising, selling and arranging	Terms and disputed sums/charges	General admin/customer service	Arrears related	Other
Banking	Current accounts					
	Credit cards					
	Unregulated loans					
	Savings (inc. Cash ISA) and other banking					
Home finance	Equity release products					
	Impaired credit mortgages					
	Other regulated home finance products					
	Other unregulated home finance products					
General insurance and pure protection	Payment protection insurance					
	Other general insurance					
	Critical illness					
	Income protection					
	Other pure protection					
Decumulation, life and pensions	Personal pensions and FSAVCs					
	Investment linked annuities					
	Income drawdown products					
	Endowments					
	Other decumulation, life and pensions					
Investments	Investment bonds					
	PEPs/ISAs (exc. cash ISAs)					
	Unit trusts/OEICs					
	Investment trusts					
	Structured products					
	Other investment products/funds					
	Investment management/services (inc. platforms)					

Complaints closed during reporting period

Section 5

Product/service grouping	Number of complaints closed within 8 weeks	Number of complaints closed after more than 8 weeks	Number of complaints upheld by the <i>credit union</i> in the period	Total amount of redress paid to consumers in the period
Banking				
Home finance				
General insurance and pure protection				
Decumulation, life and pensions				
Investments				

## Declaration and signature

## Section 6

Knowingly or recklessly giving the *FSA* information which is false or misleading in a material particular may be a criminal offence (section 398 of the Financial Services and Markets Act 2000) and a breach of regulatory requirements.

In signing this form, the *credit union* acknowledges that the data supplied may be used by the *FSA* in a variety of different ways (including making it publicly available) in support of its principal functions and statutory objectives as provided for under the Financial Services and Markets Act 2000.

**I confirm that I have read the notes and that the information given in this return about complaints received by the *credit union* named at Section 1.02 is accurate and complete to the best of my knowledge and belief.**

6.01	Name of <i>person</i> completing on behalf of the <i>credit union</i>	
6.02	Job title	
6.03	Signature	
6.04	Date	

## Notes on completion of this return

### Completing this return

The return must be completed in black ink and (if in manuscript) in BLOCK LETTERS.

All dates must be provided in numeric form (for example: 29/02/2006 for 29 February 2006).

The *credit union* is responsible for the accuracy of the data and completion of the return.

## Section 2 – Nil Returns

If no *complaints* have been received during the reporting period, and no complaints were outstanding at the beginning of the period, the *credit union* may submit a **NIL RETURN** by ticking the relevant box on the front of the form.

**Sections 1 and 6 must still be completed.**

## Section 4 – Complaints opened during reporting period

Enter the number of *complaints* for each product according to the category of complaint.

**Leave blanks where no *complaints* have been received.**

All *credit unions* provide the products “Savings (inc Cash ISA) and other banking” (members’ shares) and “Unregulated loans” (members’ loans not secured on land), and may receive *complaints* for those products. The corresponding rows in the form have been left shaded to help *credit unions* with completion; all other rows are clear. Some categories of *complaint* (shown in the column headings) may not apply to those products.

Some *credit unions* may also provide other products (for which they may require further permission). If so they should enter the number of *complaints* received for these products in the relevant boxes, even though they are clear.

## Section 5 – Complaints closed during reporting period

Credit unions will usually receive *complaints* relating to the 'Banking' product/service grouping only and this row is shaded to help with completion. As above – some credit unions may also provide other products; if so they should also fill in the appropriate row even though it is not shaded.

## Section 6 – Declaration & signature

The declaration must be signed by an appropriate individual for the *credit union* submitting this return.

**If you have any questions or need help with this return, please approach your usual supervisory contact at the FSA.**

REPORTS SENT BY POST MUST BE ADDRESSED TO:

THE FINANCIAL SERVICES AUTHORITY  
P O BOX 35747  
LONDON E14 5WP  
UNITED KINGDOM

Hand delivered returns should be marked for **the attention of Central Analysis and Reporting Department** and be delivered to 25 The North Colonnade, Canary Wharf, London E14 5HS.

## 10 Application of other parts of the Handbook to Credit unions

### 10.1 Application and purpose

#### Application

10.1.1 G This chapter applies to all *credit unions*.

#### Purpose

10.1.2 G This chapter is intended to draw *credit unions*' attention to the application of other key parts of the Handbook to *credit unions* as set out in the table at *CREDS* 10.1.3G. That table refers only to the parts of the *Handbook* that apply with respect to *Part IV permission to accept deposits*.

#### Application of other parts of the Handbook to Credit Unions

10.1.3 G

Module	Relevance to Credit Unions
The Principles for Businesses ( <i>PRIN</i> )	The Principles for Businesses ( <i>PRIN</i> ) set out, in a small number of high-level requirements, the basic obligations of all regulated <i>firms</i> . They provide a general statement of regulatory requirements, and the <i>FSA</i> considers that the Principles are appropriate expressions of the standards of conduct to be expected of all financial <i>firms</i> including <i>credit unions</i> . In applying the Principles to <i>credit unions</i> , the <i>FSA</i> will be mindful of proportionality. In practice, the implications are likely to vary according to the size of the <i>credit union</i> .
Senior Management Arrangements, Systems and Controls ( <i>SYSC</i> )	<i>SYSC</i> 1 and <i>SYSC</i> 4 to 10 apply to all <i>credit unions</i> in respect of the carrying on of their <i>regulated activities</i> and unregulated activities in a <i>prudential context</i> . <i>SYSC</i> 18 applies to all <i>credit unions</i> without restriction.
Threshold Conditions ( <i>COND</i> )	In order to become <i>authorised</i> under the <i>Act</i> all <i>firms</i> must meet the <i>threshold conditions</i> . The <i>threshold conditions</i> must be met on a continuing basis by <i>credit unions</i> . Failure to meet one of the conditions is sufficient grounds for the exercise by the <i>FSA</i> of its powers (see <i>EG</i> ).
Statements of Principle and Code of Practice for Approved Persons ( <i>APER</i> )	The purpose of the <i>Statements of Principle</i> contained in <i>APER</i> 2 is to provide guidance to <i>approved persons</i> in relation to the conduct expected of them in the performance of a <i>controlled function</i> . The <i>Code of Practice for Approved Persons</i> sets out descriptions of

	conduct which, in the opinion of the <i>FSA</i> , do not comply with a <i>Statement of Principle</i> and, in the case of <i>Statement of Principle 3</i> , conduct which tends to show compliance within that statement.
The Fit and Proper test for Approved Persons ( <i>FIT</i> )	The purpose of <i>FIT</i> is to set out and describe the criteria that the <i>FSA</i> will consider when assessing the fitness and propriety of a person in respect of whom an application is being made for approval to undertake a <i>controlled function</i> under the approved persons regime. The criteria are also relevant in assessing the continuing fitness and propriety of persons who have already been approved.
General Provisions ( <i>GEN</i> )	<i>GEN</i> contains <i>rules</i> and <i>guidance</i> on general matters, including interpreting the <i>Handbook</i> , statutory status disclosure, the <i>FSA</i> logo and insurance against financial penalties.
Fees manual ( <i>FEES</i> )	This manual sets out the fees applying to <i>credit unions</i> .
Conduct of Business sourcebook ( <i>COBS</i> )	A <i>credit union</i> which acts as a <i>CTF provider</i> or provides a <i>cash-deposit ISA</i> will need to be aware of the relevant requirements in <i>COBS</i> . <i>COBS</i> 4.6 (Past, simulated past and future performance), <i>COBS</i> 4.7.1R (Direct offer financial promotions), <i>COBS</i> 4.10 (Systems and controls and approving and communicating financial promotions), <i>COBS</i> 13 (Preparing product information) and <i>COBS</i> 14 (Providing product information to clients) apply with respect to <i>accepting deposits</i> as set out in those provisions, <i>COBS</i> 4.1 and <i>BCOBS</i> .
Banking: Conduct of Business sourcebook ( <i>BCOBS</i> )	<i>BCOBS</i> sets out <i>rules</i> and <i>guidance</i> for <i>credit unions</i> on how they should conduct their business with their <i>customers</i> . In particular there are <i>rules</i> and <i>guidance</i> relating to communications with banking customers and <i>financial promotions</i> ( <i>BCOBS</i> 2), distance communications ( <i>BCOBS</i> 3), information to be communicated to banking customers ( <i>BCOBS</i> 4), post sale requirements ( <i>BCOBS</i> 5), and cancellation ( <i>BCOBS</i> 6). <i>BCOBS</i> 5.1.13R (Value dating) does not apply to <i>credit unions</i> . The <i>rules</i> in <i>BCOBS</i> 3.1 that relate to <i>distance contracts</i> for <i>accepting deposits</i> are likely to have limited application to a <i>credit union</i> . This is because the <i>Distance Marketing Directive</i> only applies where there is "an organised distance sales or service-provision scheme run by the supplier" (Article 2(a)). If, therefore, the <i>credit union</i> normally operates face to face and has not set up facilities to enable <i>customers</i> to deal with it at a distance, such as facilities for a <i>customer</i> to deal with it



	<p>purely by post, telephone, fax or the Internet, the provisions will not be relevant.</p>
Supervision manual ( <i>SUP</i> )	<p>The following provisions of <i>SUP</i> are relevant to <i>credit unions</i>: <i>SUP</i> 1 (The FSA's approach to supervision), <i>SUP</i> 2 (Information gathering by the FSA on its own initiative), <i>SUP</i> 3.1 to <i>SUP</i> 3.8 (Auditors), <i>SUP</i> 5 (Skilled persons), <i>SUP</i> 6 (Applications to vary or cancel Part IV permission), <i>SUP</i> 7 (Individual requirements), <i>SUP</i> 8 (Waiver and modification of rules), <i>SUP</i> 9 (Individual guidance), <i>SUP</i> 10 (Approved persons), <i>SUP</i> 11 (Controllers and Close links), <i>SUP</i> 15 (Notifications to the FSA) and <i>SUP</i> 16 (Reporting Requirements).</p> <p><i>Credit unions</i> are reminded that they are subject to the requirements of the <i>Act</i> and <i>SUP</i> 11 on <i>controllers</i> and <i>close links</i>, and are bound to notify the <i>FSA</i> of changes. It may be unlikely, in practice, that <i>credit unions</i> will develop such relationships. It is possible, however, that a <i>person</i> may acquire control of a credit union within the meaning of the <i>Act</i> by reason of holding the prescribed proportion of <i>deferred shares</i> in the <i>credit union</i>.</p> <p>In relation to <i>SUP</i> 16, <i>credit unions</i> are exempted from the requirement to submit annual reports of <i>controllers</i> and <i>close links</i>.</p>
Decision, Procedure and Penalties manual ( <i>DEPP</i> )	<p><i>DEPP</i> is relevant to <i>credit unions</i> because it sets out:</p> <p>(1) the <i>FSA</i>'s decision-making procedure for giving <i>statutory notices</i>. These are <i>warning notices</i>, <i>decision notices</i> and <i>supervisory notices</i> (<i>DEPP</i> 1.2 to <i>DEPP</i> 5); and</p> <p>(2) the <i>FSA</i>'s policy with respect to the imposition and amount of penalties under the <i>Act</i> (see <i>DEPP</i> 6).</p>
Dispute Resolution: Complaints ( <i>DISP</i> )	<p><i>DISP</i> sets out <i>rules</i> and <i>guidance</i> in relation to treating complainants fairly and the <i>Financial Ombudsman Service</i>.</p>
Compensation ( <i>COMP</i> )	<p><i>COMP</i> sets out <i>rules</i> relating to the scheme for compensating consumers when authorised <i>firms</i> are unable, or likely to be unable, to satisfy claims against them.</p>
Complaints against the FSA ( <i>COAF</i> )	<p>This relates to complaints against the <i>FSA</i>.</p>

The Enforcement Guide ( <i>EG</i> )	The Enforcement Guide ( <i>EG</i> ) describes the <i>FSA's</i> approach to exercising the main enforcement powers given to it by the <i>Act</i> and by regulation 12 of the <i>Unfair Terms Regulations</i> .
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## Appendix 1 Key Definitions

**Note:** The following key definitions relevant to CREDS are extracted from the *Glossary*.

### App 1.1

<i>attached shares</i>	<p>means any shares in the <i>credit union</i> (other than any <i>deferred shares</i>):</p> <ul style="list-style-type: none"> <li>(a) the withdrawal of which is not permitted by section 7 (5) of the Credit Unions Act 1979; or</li> <li>(b) the withdrawal of which is not permitted by the terms of a loan made to a member; or</li> <li>(c) the withdrawal of which is not permitted without seeking and obtaining the permission of the committee of management of the <i>credit union</i>.</li> </ul> <p>Paragraph (c) of this definition is relevant only where the <i>credit union</i> made a loan to the holder of the shares before the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010 came into force.</p>
<i>complaint</i>	<p>any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service, which:</p> <ul style="list-style-type: none"> <li>(a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience; and</li> <li>(b) relates to an activity of that <i>respondent</i>, or of any other <i>respondent</i> with whom that <i>respondent</i> has some connection in marketing or providing financial services or products, which comes under the jurisdiction of the <i>Financial Ombudsman Service</i>.</li> </ul>
<i>CREDS</i>	the Credit Unions New sourcebook.
<i>deferred shares</i>	in relation to a <i>credit union</i> , means any shares of a class defined as deferred shares by section 31A of the Credit Unions Act 1979.
<i>final response</i>	<p>a written response from a <i>respondent</i> which:</p> <ul style="list-style-type: none"> <li>(a) accepts the <i>complaint</i>, and, where appropriate, offers redress or remedial action; or</li> <li>(b) offers redress or remedial action without accepting the <i>complaint</i>; or</li> </ul>

(c) rejects the *complaint* and gives reasons for doing so;

and which:

(d) encloses a copy of the *Financial Ombudsman Service's* standard explanatory leaflet; and

(e) informs the complainant that, if he remains dissatisfied with the *respondent's* response, he may now refer his *complaint* to the *Financial Ombudsman Service* and must do so within six months.

*net liability* means the outstanding balance of any loan made to the borrower and any interest or charges on that loan that are due but unpaid, less any *attached shares* held by the borrower.

*total non-deferred shares* means the total of members' share balances in a *credit union* shown in the most recent annual return to have been sent to the FSA under SUP 16.12.5R (see CREDS 8.2.3G), excluding any *deferred shares* in the *credit union*.

*total relevant liabilities* means the sum of:

(a) *unattached shares* in the *credit union*, and *deposits* by persons too young to be members of the *credit union*; and

(b) liabilities (other than liabilities for shares) with an original or remaining maturity of less than three *months* (including overdrafts and instalments of loans).

*unattached shares* means the total shares in the *credit union* other than any *attached shares* or *deferred shares*.

## TP 1 Transitional Provision

(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transitional provisions: dates in force	Handbook provisions: coming into force
1	CREDS 5.3.1R	R	<p>A <i>version 1 credit union</i> need not comply with CREDS 5.3.1R until midnight on 30 September 2013. CRED 8.3.1R, as it was in force on 31 July 2010, will apply from the beginning of this transitional period until midnight on 30 September 2011. From midnight on that day until midnight on 30 September 2012, the <i>version 1 credit union</i> must at all times maintain a capital-to-total assets ratio of at least 1%. From midnight on 30 September 2012 until the end of this transitional period at midnight on 30 September 2013, the <i>version 1 credit union</i> must at all times maintain a capital-to-total assets ratio of at least 2%.</p>	[date]	[date]
2	CREDS 6.3.2R	R	<p>A <i>version 2 credit union</i> need not comply with CREDS 6.3.2R until midnight on 30 September 2013. From midnight on 30 September 2011 until midnight on 30 September 2012, the <i>version 2 credit union</i> must hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the <i>credit union's</i> liquid assets below 6%</p>	[date]	[date]

			of its <i>total relevant liabilities</i> . From midnight on 30 September 2012, until the end of this transitional period at midnight on 30 September 2013, the <i>version 2 credit union</i> must hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the <i>credit union's</i> liquid assets below 8% of its <i>total relevant liabilities</i> .		
3	SUP 16.12.7R	R	The change in the applicable due date for the submission by a <i>credit union</i> of an annual return under SUP 16.12.5R from 7 months to 6 months does not apply to an annual return in respect of the financial year ending on or before 31 July 2011.	[date]	[date]
4	SUP 16 Annex 14R	R	SUP 16 Annex 14R, as it was in force on 31 July 2010, continues to apply to quarterly and annual returns for <i>credit unions</i> in respect of the financial year ending on or before 31 July 2011.	[date]	[date]

**Schedule 1 Record keeping requirements**

1.1 G There are no requirements relating to record keeping in *CREDS*.

**Schedule 2 Notification requirements**

2.1 G The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant record keeping requirements.

It is not a complete statement of those requirements and should not be relied on as if it were.

2.2 G

<b>Handbook reference</b>	<b>Matter to be notified</b>	<b>Contents of notification</b>	<b>Trigger event</b>	<b>Time allowed</b>
<i>CREDS</i> 2.2.4R  <i>CREDS</i> 2.2.52G	Business plan	Copy of business plan	Upon request  <i>Version 2 credit unions</i> should submit after adoption and / or amendment	As soon as reasonably practical
<i>CREDS</i> 2.2.6R  <i>CREDS</i> 2.2.60G	Policies and procedures manual	Copy of policies and procedures manual. Wide range of detail as specified as guidance in <i>CREDS 2</i>	Upon request  <i>Version 2 credit unions</i> should submit after adoption and / or amendment	As soon as reasonably practical
<i>CREDS</i> 3.3.10R	Financial risk Management Policy	Statement of financial risk management policy	<i>Version 2 credit unions</i> must submit after adoption and / or amendment	As soon as reasonably practicable
<i>CREDS</i> 5.2.3G	General notification	Any proposed repayment of subordinated debt	As soon as <i>credit union</i> aware	At least one month in advance of proposed repayment

<i>CREDS</i> 6.2.5R	Liquidity	Liquidity Management Policy Statement	<i>Version 2 credit unions</i> must submit after adoption and/or amendment	As soon as reasonably practical
<i>CREDS</i> 7.2.1R to <i>CREDS</i> 7.2.2R	Lending policy	Current lending policy statement	<i>Version 2 credit unions</i> must submit after adoption and/or amendment	As soon as reasonably practical
<i>CREDS</i> 7.4.6G	Large <i>exposures</i>	Limits on large <i>exposures</i> to avoid concentration of risk	Upon request	As soon as reasonably practical
<i>CREDS</i> 8.2.1G	Quarterly return	Key financial data	Quarter end	1 month after quarter end
<i>CREDS</i> 8.2.3G	Annual return	Extended financial data	Financial year end	6 <i>months</i> after financial year end
<i>CREDS</i> 8.2.6R	Audited accounts	Revenue account and balance sheet	Financial year end	Until submission of annual return
<i>CREDS</i> 9.2.1R	Complaints report	Analysis of complaints	31 March each year	1 <i>month</i> after period end

### Schedule 3 Fees and other required payments

3.1 G There are no requirements for fees or other payments in *CRED*.

The table below summarises the fee requirements for *credit unions* detailed elsewhere.

3.2 G

Description of fee	Reference
<i>FSA rules</i> relating to <i>authorisation fees</i>	<i>FEES 3</i>



Schedule of <i>authorisation</i> fees payable	<i>FEES</i> 3 Annex 1R
<i>FSA fees rules</i> relating to the periodic fee	<i>FEES</i> 4
Schedule of periodic fees payable	<i>FEES</i> 4 Annex 2R Part 1
<i>FOS funding rules</i>	<i>FEES</i> 5
<i>FSCS funding rules</i>	<i>FEES</i> 6

#### Schedule 4 Powers exercised

4.1 G The following powers and related provisions in or under the *Act* have been exercised by the *FSA* to make the rules in *CREDS*:

	Section 138 (General rule-making power)
	Section 149 (Evidential provisions)
	Section 156 (General supplementary powers)
	Section 213 (The compensation scheme)
	Section 214 (General)
	Section 226 (Compulsory jurisdiction)

4.2 G The following powers in or under the *Act* have been exercised by the *FSA* to give the *guidance* in *CREDS*:

	Section 157(1) (Guidance).
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#### Schedule 5 Rights of actions for damages

5.1 G The table below sets out the *rules* in *CREDS* contravention of which by an *authorised person* may be actionable under Section 150 of the *Act* (Actions for damages) by a *person* who suffers loss as a result of the contravention.

If a "Yes" appears in the column headed "For private person?", the *rule* may be actionable by a "*private person*" under section 150 (or, in certain circumstances, his fiduciary or representative). A "Yes" in the column headed "Removed" indicates that the *FSA* has removed the right of action under Section 150(2) of the *Act*. If so, a reference to the *rule* in which it is removed is also given.

The column headed "For other person?" indicates whether the *rule* is actionable by a *person* other than a *private person* (or his fiduciary or representative). If so,

an indication of the type of *person* by whom the *rule* is actionable is given.

5.2 G

			<b>Right of action under section 150</b>		
<b>Chapter / Appendix</b>	<b>Section / Annex</b>	<b>Paragraph</b>	<b>For private person?</b>	<b>Removed?</b>	<b>For other person?</b>
All <i>rules</i> in <i>CREDS</i> with the status letter 'E'.			No	No	No
All <i>rules</i> in <i>CREDS</i> that require a <i>credit union</i> to have or maintain financial resources.			No	No	No
All other <i>rules</i> in <i>CREDS</i> .			Yes	No	No

#### **Schedule 6 Rules that can be waived**

6.1 G The *rules* made in *CREDS* can be waived by the *FSA* under section 148 (Modification or waiver of rules) of the *Act*.

*CREDS* includes *guidance* on *rules* made in other parts of the *Handbook*. Reference should be made to those parts of the *Handbook* concerning *waiver* of those *rules*.

**CREDIT UNIONS NEW SOURCEBOOK (CONSEQUENTIAL AMENDMENTS)  
INSTRUMENT 2010**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 138 (General rule-making power);
    - (b) section 149 (Evidential provisions);
    - (c) section 156 (General supplementary powers);
    - (d) section 157(1) (Guidance);
    - (e) section 213 (The compensation scheme);
    - (f) section 214 (General);
    - (g) section 226 (Compulsory jurisdiction); and
  - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FSA’s Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. (1) Subject to (2), this instrument comes into force on [*date*].  
 (2) Part 2 of Annex A to this instrument comes into force on 1 October 2013.

**Amendments to the Handbook**

- D. The modules of the FSA Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex B
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex C
Supervision manual (SUP)	Annex D
Decision Procedure and Penalties manual (DEPP)	Annex E
Dispute Resolution: Complaints sourcebook (DISP)	Annex F

Compensation sourcebook (COMP)	Annex G
Electronic Money sourcebook (ELM)	Annex H

**Notes**

- E. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are intended for the convenience of readers but do not form part of the legislative text.

**Citation**

- F. This instrument may be cited as the Credit Unions New Sourcebook (Consequential Amendments) Instrument 2010.

By order of the Board  
[*date*]

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

**Part 1: Comes into force on [date].**

*attached shares* (in *CREDS*) means any shares in the *credit union* (other than any *deferred shares*):

- (a) the withdrawal of which is not permitted by section 7(5) of the Credit Unions Act 1979; or
- (b) the withdrawal of which is not permitted by the terms of a loan made to a member; or
- (c) the withdrawal of which is not permitted without seeking and obtaining the permission of the committee of management of the *credit union*.

Paragraph (c) of this definition is relevant only where the *credit union* made a loan to the holder of the shares before the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010 came into force.

*CREDS* the Credit Unions New sourcebook.

*deferred shares* (in *CREDS* and *COMP* 5.3.1R(2)(ca)) means any shares of a class defined as deferred shares by section 31A of the Credit Unions Act 1979.

*net liability* (in *CREDS*) means the outstanding balance of any loan made to the borrower and any interest on that loan that is due but unpaid, less any *attached shares* held by the borrower.

*total non-deferred shares* (in *CREDS*) means the total of members' share balances in a *credit union* shown in the most recent annual return to have been sent to the FSA under *SUP* 16.12.5R (see *CREDS* 8.2.3G), excluding any *deferred shares* in the *credit union*.

*total relevant liabilities* (in *CREDS*) means the sum of:

- (a) *unattached shares* in the *credit union*, and *deposits* by persons too young to be members of the *credit union*; and

- (b) liabilities (other than liabilities for shares) with an original or remaining maturity of less than three *months* (including overdrafts and instalments of loans).

*unattached shares* (in *CREDS*) means the total shares in the *credit union* other than any *attached shares* or *deferred shares*.

Amend the following definitions as shown:

*complaint* ...

- (2) (in *DISP*, except *DISP* 1.1 and the *complaints handling rules* and the *complaints record rule* in relation to *MiFID business*, and in *CREDS* 9) any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a *person* about the provision of, or failure to provide, a financial service, which:

- (a) ...

*final response* (1) ~~(in *CREC*) a written response from the *firm* which:~~

- (a) ~~accepts the complaint, and, where appropriate, offers redress; or~~
- (b) ~~offers redress without accepting the complaint; or~~
- (c) ~~rejects the complaint and gives reasons for doing so;~~

~~and which informs the complainant that, if he remains dissatisfied with the *firm's* response, he may now refer his complaint to the *Financial Ombudsman Service* and must do so within six months. [deleted]~~

- (2) (in *DISP* and *CREDS* 9) a written response from a *respondent* which:

- (a) accepts the *complaint*, and, where appropriate, offers redress; or

...

*own funds* ...

- (3) (in *IPRU(INV)* Chapter 8) capital, as defined in *CREC* 8.2.1R *CREDS* 5.2.1R.

...

*respondent*

- (1) (in *DISP* and *CREDS 9*) a *firm* (except a *UCITS* *qualifier*), *payment service provider*, licensee or *VJ* *participant* covered by the *Compulsory Jurisdiction*, *Consumer Credit Jurisdiction* or *Voluntary Jurisdiction* of the *Financial Ombudsman Service*.

...

**Part 2: Comes into force on 1 October 2013**

~~*CREU* the Credit Unions sourcebook.~~

## Annex B

### Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 4.1 Application and purpose

...

4.1.8 R This chapter does not apply to:

- (1) a ‘small *credit union*’, that is one with:
  - (a) assets of £5 million or less; and
  - (b) a total number of members of 5,000 or less (see ~~CRED~~ 8.3.14R CREDS 5.3.13R); or

...



## Annex C

### Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU(INV))

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 8 Requirements on credit unions which are CTF providers

##### 8.1 Application, general and professional indemnity insurance requirements

...

##### 8.1.2 R A *credit union* to which this chapter applies must:

- (1) have and maintain at all times financial resources of the kinds and amounts specified in, and calculated in accordance with, the *rules* of this chapter, in ~~CRE<sup>D</sup>~~ CRE<sup>D</sup>S and, where applicable, in *MIPRU* 4 (Capital Resources); and

...

##### 8.1.3 G The *rules* in this chapter should be read with the *rules* relating to capital in ~~CRE<sup>D</sup>~~ CRE<sup>D</sup>S and, where applicable, *MIPRU*.

...

##### 8.2 Capital requirements

##### 8.2.1 R 'Capital' in this chapter has the meaning described in ~~CRE<sup>D</sup> 8.2.1R~~ CRE<sup>D</sup>S 5.2.1R.

##### 8.2.2 R A *version 1 credit union* with total assets of more than £5 million or a total number of members of more than 5,000, or both, or a *version 2 credit union*, which acts as a *CTF provider* and whose *permissions* include *regulated activities* relating to *accepting deposits* and *making arrangements with a view to transactions in investments* other than *contracts of insurance* or *rights to or interests in a life policy* must maintain at all times capital which is equal to the higher of:

- (1) £10,000; and
- (2) the capital requirements for the credit union under ~~CRE<sup>D</sup>~~ CRE<sup>D</sup>S.

##### 8.2.3 R A *version 1 credit union* with total assets of more than £5 million or a total number of members of more than 5,000, or both, or a *version 2 credit union*, which acts as a *CTF provider* which *makes arrangements with a view to transactions in investments* including *contracts of insurance* or *rights to or interests in a life policy* must maintain at all times capital which is equal to the highest of:

...

- (2) the capital requirements for the *credit union* under ~~CRED~~ CREDS;  
and

...

## Annex D

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Amend the following provisions as shown.

#### 13A Annex 1G

#### Application of the Handbook to Incoming EEA Firms

...		
<b>(1) Module of Handbook</b>	<b>(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom</b>	<b>(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom</b>
...	...	...
<del>CRED</del> <u>CREDS</u>	Does not apply.	Does not apply.
...		

...

#### 16.12 Integrated Regulatory Reporting

...

- 16.12.6 R The applicable reporting frequencies for submission of *data items* and periods referred to in SUP 16.12.5R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

...	
Note 2	The annual report required from a <i>credit union</i> by SUP 16.12.5R must be made up for the same period as the audited accounts published by the <i>credit union</i> in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 (see <del>CRED 14 Annex 1G</del> ). <del>CRED 14.10.10R(2)(a)</del> <u>CREDS 8.2.6R(2)(a)</u> states that the audited accounts referred to in SUP 16.12.5R are to be made up for the period beginning with the date of the <i>credit union's</i> registration or with the date to which the <i>credit union's</i> last annual accounts were made up, and ending on

	the <i>credit union's</i> most recent financial year end.
...	

16.12.7 R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.6R.

<i>Data item</i>	Monthly submission	Quarterly submission	Half yearly submission	Annual submission
...				
CY				7 6 months
...				

...

Insert the following new text at the end of *SUP* 16 Annex 14(1)R (Quarterly Return (CQ)), after the section headed “Large version 1 and version 2 credit unions”. The text is not underlined.

## SUPPLEMENTARY ANALYSIS OF THE QUARTERLY RETURN

### Interest-bearing shares

#### Interest-bearing shares

	£	
Total shares <i>(transferred from 1A on CQ)</i>		10A
Interest-bearing shares		10B
Dividend-bearing shares		10C

### Deferred shares

#### Deferred shares

Total shares <i>(transferred from 1A on CQ)</i>		11A
Non-deferred shares		11B
Deferred shares		11C

#### Reserves - total

Audited reserves – General	_____	12A
<i>(transferred from 5A on CQ)</i>		
Audited reserves - Other	_____	12B
<i>(transferred from 5B on CQ)</i>		
Revaluation reserve – non-capital element	_____	12C
Deferred share reserves	_____	12D
Reserves	_____	12E

#### Reserves - percentage

Total assets	_____	12F
<i>(transferred from 4A on CQ)</i>		
Reserves as % of total assets	_____	12G

### Corporate membership

#### Corporate members

Number of members at the end of the quarter	_____	13A
<i>(transferred from 1a on CQ)</i>		
Individuals	_____	13B
Bodies corporate	_____	13C
Partnerships	_____	13D
Unincorporated associations	_____	13E

#### Corporate non-deferred shares

Non-deferred shares	_____	14A
<i>(transferred from 11B above)</i>		
Individual non-deferred shares	_____	14B
Body corporate non-deferred shares	_____	14C
Partnership non-deferred shares	_____	14D
Unincorporated association non-deferred shares	_____	14E

#### Corporate deferred shares

Deferred shares	_____	15A
<i>(transferred from 11C above)</i>		
Individual deferred shares	_____	15B
Body corporate deferred shares	_____	15C
Partnership deferred shares	_____	15D
Unincorporated deferred shares	_____	15E

#### Corporate loans

Total loans to members	_____	16A
<i>(transferred from 1B on CQ)</i>		
Individual loans	_____	16B
Body corporate loans	_____	16C
Partnership loans	_____	16D
Unincorporated association loans	_____	16E

Insert the following new text at the end of SUP 16 Annex 14(2)R (Annual Return (CY)) after the “Auditor’s statement”. The text is not underlined.

## SUPPLEMENTARY ANALYSIS OF THE ANNUAL RETURN

### Interest bearing shares

#### Interest-bearing shares

	£	
Members' share balances <i>(transferred from 2T on CY)</i>	_____	33A
Interest-bearing shares	_____	33B
Dividend-bearing shares	_____	33C

#### Interest expenditure

Expenditure – Other <i>(transferred from 4P on CY)</i>	_____	34A
Interest expenditure	_____	34B
Non-interest expenditure	_____	34C

### Deferred shares

#### Deferred shares

Members' share balances <i>(transferred from 2T on CY)</i>	_____	35A
Non-deferred shares	_____	35B
Deferred shares	_____	35C

#### Reserves - total

General reserve – Closing balance <i>(transferred from 10G on CY)</i>	_____	36A
Other reserve – Closing balance <i>(transferred from 11G on CY)</i>	_____	36B
Revaluation reserve – non-capital element	_____	36C
Deferred share reserve	_____	36D
Reserves	_____	36E

#### Reserves - percentage

Total assets <i>(transferred from 1P on CY)</i>	_____	36F
Reserves as % of total assets	_____	36G

### Corporate membership

## Corporate members

Total members <i>(transferred from 12D on CY)</i>	_____	37A
Individuals	_____	37B
Bodies corporate	_____	37C
Partnerships	_____	37D
Unincorporated associations	_____	37E

## Corporate non-deferred shares

	<b>£</b>	
Non-deferred shares <i>(transferred from 35B above)</i>	_____	38A
Individual non-deferred shares	_____	38B
Body corporate non-deferred shares	_____	38C
Partnership non-deferred shares	_____	38D
Unincorporated association non-deferred shares	_____	38E

## Corporate deferred shares

Deferred shares <i>(transferred from 35C above)</i>	_____	39A
Individual deferred shares	_____	39B
Body corporate deferred shares	_____	39C
Partnership deferred shares	_____	39D
Unincorporated deferred shares	_____	39E

## Corporate loans

Due from members for loans - Secured <i>(transferred from 1E on CY)</i>	_____	40A
Due from members for loans - Unsecured <i>(transferred from 1F on CY)</i>	_____	40B
Total loans outstanding	_____	40C
Individual loans	_____	40D
Body corporate loans	_____	40E
Partnership loans	_____	40F
Unincorporated association loans	_____	40G

## Non-qualifying membership

### Non-qualifying member percentage

Limit on the number of non-qualifying members (where stated in the rules of the credit union)	_____	41A
--	-------	-----

Amend SUP 16 Annex 15(1)G (Notes on completing the Quarterly Return (CQ) for credit unions) as shown:

## General information

...

Please read ~~CRED~~ "CREDS" in conjunction with these reporting instructions.

Send the fully completed Quarterly Return (CQ) to **The Financial Services Authority** in accordance with SUP 16.3.6R – SUP 16.3.13R (~~See CRED 14.40.4G~~) **within one calendar month** after the quarter to which it relates. Failure to do so is a breach of your regulatory requirements, as laid down in ~~CRED~~ CREDS, and may result in your *credit union* being subject to FSA sanctions.

...

~~"CRED"~~ "CREDS" means the Credit Unions New sourcebook.

...

## Membership and complaints contact

page 2 of CQ

<b>Membership</b>	<p>Indicate in the appropriate boxes the number of <del>persons</del> <u>members that the credit union currently has</u> in each category of membership.</p> <p><b>"Member"</b> refers to a member (qualifying or non-qualifying) (<u>and over the age of 16 at which he may lawfully become a member of the credit union, under the credit union's rules</u>), who can save up to <del>£5,000</del> <u>£10,000</u> or 1.5 per cent of the assets of the <i>credit union</i>, which ever is the greater. [A qualifying member is a person who fulfils the membership <u>qualification requirements</u>: a non-qualifying member is a person who no longer fulfils the membership <u>qualification requirements</u>, having once done so.]</p> <p><b>"Juvenile depositor"</b> refers to a depositor <del>under the age of 16</del> (<u>who is a person too young to be a member of the credit union (under the credit union's rules)</u>), who can save up to a maximum of <del>£5,000</del> <u>£10,000</u>, but cannot take out a loan from the <i>credit union</i>.</p>
...	
1A	<p><b>Total shares</b></p> <p>The total amount of money held by your <i>credit union</i>, at the quarter end, relating to shares paid in by <del>adult</del> members.</p> <p>This figure should take account of all changes made during the quarter.</p>
...	
1B	<p><b>Total loans to members</b></p> <p>The total amount outstanding at the quarter-end on all loans to <del>adult</del> members (irrespective of when such loans were made). It will include any loans written off during the period.</p>
...	
<b>Provision for doubtful debts</b>	<p><b>Please note:</b> <del>CRED 10.5.4G</del> <u>CREDS 7.5.5G</u> states that in order to comply with <del>CRED</del> <u>CREDS</u> "it will be necessary for a <i>credit union</i> to <u>a credit union should review its provisioning requirements frequently. The FSA recommends that this is done at least quarterly (that is, at least monthly)</u>".</p>
...	
1F	<p><b>Specific</b></p> <p>Provision for doubtful debt – specific, refers to the provisions that your</p>



---

*credit union* has **actually** made to cover loans in arrears as laid down in ~~CRED CREDs~~. ~~CRED (10.5.2R)~~ states that your *credit union* should make the following specific provisions:

- ~~35% on all net liabilities on loans which are over 3 months and up to 12 months in arrears.~~
- ~~100% provision on all net liabilities on loans which are over 12 months in arrears~~

CREDs 7.5.2R states that a *credit union* must make specific provision in its accounts for bad and doubtful debts of at least the amounts set out below:

- 35% of the net liability to the credit union of borrowers where the amount is more than three months in arrears; and
- 100% of the net liability to the credit union of borrowers where the amount is more than 12 months in arrears.

The net liability on a loan is calculated as follows:

$$\text{(Total Balance of loan + outstanding interest) - Shares attached shares}$$

Where a member's shares exceed the net liabilities on the loan, there is no liability and it can be excluded from provisioning.

---

1G General

Provision for doubtful debt – general, refers to the provisions that your *credit union* has **actually** made to cover potential doubtful debts, in the future. As laid down in ~~CRED CREDs~~, these are loans which:

- are currently not in arrears; or
- are up to and including 3 months in arrears.

Your *credit union* should make a 2% provision for the net liabilities of all these loans – all loans which are not covered by the specific provisions above at **(1F)**.

The net liability on a loan is calculated as follows:

$$\text{(Total loan + outstanding interest) - Shares attached shareholding}$$

...

---

**Credit union liabilities**

**page 3 of CQ**

Chapter ~~7~~ 3 (~~Investments~~ Investment and borrowing) of ~~CRED CREDs~~ sets out the criteria for *credit unions*.

~~CRED 7.3.3R~~ CREDs 3.3.3R states that “the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the ~~shareholding~~ total non-deferred shares in the *credit union*”. ~~Short term is defined as not more than “the end of two consecutive quarters” (CRED 7.3.4E).~~

CREDs 3.3.4E provides that, if the borrowing of a version 1 credit union exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDs 3.3.3R.

---

...

...

3B Total expenditure

The total expenditure by your *credit union* during the financial year to date (YTD). We advise *credit unions* to make provision here for known expenses such as audit fees and other known fees payable by the *credit union* for the financial year. The purpose of this is to offset any fluctuation in your *credit union's* solvency/capital position, especially in the first quarter of the *credit union* financial year when many expenses fall due.

- Provisions for anticipated tax and dividends are required by ~~CRED 8.2.1R~~ CREDS 5.2.1R. Tax is usually payable on any interest received on *bank* accounts or investments (unless it clearly stipulates that the investment is exempt from taxation).
- Provisioning will be made pro rata on a monthly or quarterly basis.

If you have any questions regarding the tax your *credit union* will need to pay you should consult your local Inland Revenue office.

...

**Credit union capital**

~~CRED~~ CREDS states that the following is to be included in calculating Capital:

- audited reserves;
- interim net profits;
- subordinated debts; and
- initial capital.

Please refer to ~~CRED 8.2.4R~~ CREDS 5.2.1R.

**Please note:** "Negative reserves and any interim net losses must be deducted from capital" (~~CRED 8.2.2R~~ CREDS 5.2.5R). "When a *credit union* makes a subordinated loan to another *credit union* qualifying as capital under ~~CRED 8.2.1R(4)~~ CREDS 5.2.1R(4)(a), the full amount of the loan (not the amount counting towards the borrower's capital under ~~CRED 8.2.4R~~ CREDS 5.2.7R) must be deducted from the lender's capital" (~~CRED 8.2.5R(1)~~ CREDS 5.2.8R(1)).

5A Audited reserves – general

Amount held by your *credit union* in general reserve, as laid down at ~~CRED 8.3.5R~~ CREDS 5.3.2R.

...

5B Audited reserves - other

Money that your *credit union* has set aside out of net profits (in accordance with ~~CRED 8.3.5R~~ CREDS 5.3.2R) - for example, a "revenue reserve" for unforeseen circumstances.

This will include initial capital which has not yet been spent.

**Please note:**

Where a revaluation reserve is included within other reserves, this should only include revaluation reserves counting towards capital under CREDS 5.2.1R(6) to CREDS 5.2.1R(8).

If money is held in a deferred share reserve, it should not be included within other reserves, but reported separately in the supplementary analysis to the quarterly return.

...

5D Subordinated debt

Subordinated debts in **5D** are loans where the lender has agreed to the terms set out on ~~CRED 8.2.1R~~ CREDS 5.2.1R.

...

... To be included in the calculation of capital, subordinated debt has to meet the rules laid down in ~~CRED 8.2.1R~~ CREDS 5.2.1R. ...

...

Provided the subordinated debt meets the rules laid down in Chapter 8 5 (Capital requirements) of ~~CRED~~ CREDS, the following formula will need to be used in writing down your *credit union's* subordinated debt:

...

---

**Information for  
version 1 credit unions**

...

Whilst the Quarterly Return (CQ) asks your *credit union* for total capital (which includes reserves, interim net profit/ (loss), subordinated debts and initial capital) you will need to be aware that all *version 1 credit unions* "must at all times maintain a positive amount of capital a capital-to-total assets ratio of at least 3%", (~~CRED 8.3.1R~~ CREDS 5.3.1R) ~~in other words "a positive net worth"~~. This means that "bad and doubtful debts must be taken into account in establishing ~~whether a credit union is maintaining a positive amount of capital~~ the capital-to-assets ratio.", (~~CRED 8.3.4G~~ CREDS 5.3.12G ).

...

**Actual provision for doubtful debt - specific**

These are the provisions that your credit union has **actually** made to cover loans in arrears as laid down in ~~CRED~~ CREDS. It is the same figure that appears at **1F** on the Quarterly Return (CQ).

---

...

---

**Information for  
version 1 credit unions**

...

**Actual provision for doubtful debt - general**

(continued)

These are the provision for doubtful debt that your ~~credit union~~ *credit union* has **actually** made to cover potential doubtful debts, in the future, as laid down in ~~CRED~~ CREDS. It is the same figure that appears at **1G** on the Quarterly Return (CQ).

---

...

---

**How is total net worth calculated?**

From the above we have established how to work out how much money your *credit union* should be setting aside to adequately cover doubtful debts. ~~CRED 8.3.4G~~ CREDS 5.3.12G states that "bad and doubtful debts must be taken into account" when determining the *credit union's* total net worth.

...

...

---

On this example, your *credit union* would satisfy the requirements of *CRED CREDS*, since the *credit union* has a "positive net worth".

---

...

6A-C ...

Net liabilities

The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:

$$\text{Loan balance} + \text{interest owing} - \text{attached share balance} = \text{Net liability}$$

The table below is an example on how to work out net liability:

**Loans 3-12 months in arrears**

Loan No.	Loan balance	Interest owing	Share Attached share balance	Net liability
1	£390	£10	£200	£200
2	£580	£20	£500	£100
3	£4,050	£150	£2,200	£2,000
4	£720	£30	£1,000	£0
5	£115	£10	£50	£75
<b>Total</b>	<b>£5,855</b>	<b>£220</b>	<b>£3,950</b>	<b>£2,375</b>

...

## Liquidity ratio

page 4 of CQ

7A Cash and bank balance ...

**Please note** that this relates to money relating to ~~adult~~ members and juvenile depositors. ~~Following recent changes, credit Credit unions~~ no longer have to keep the *deposits* of juveniles separate from the shares of ~~adult~~ members. Grants that constitute part of the *bank* balance should be excluded from liquid assets, unless there are adequate funds in long-term investment to cover the amount of the grant used for this purpose.

7B Investments (less than 8 days to maturity)

~~CRED 9.3.8R~~ *CREDS 6.3.8R* states that only investments that could be realised within eight days can be included in calculating your *credit union's* liquidity ratio. ...

...

**IMPORTANT NOTICE: Version 1 credit unions should not hold investments with a maturity date of over 12 months (~~CRED 7.2.2R~~ *CREDS 3.2.2R*).**

...

~~CRED 9.3.9E(1)~~ CREDS 6.3.6E(1) reads: provides that "For for the purpose of calculating a *credit union's* liquidity ratio, the *securities* referred to in ~~CRED 7.2.2R – 7.2.3R~~ CREDS 3.2.1R to 3.2.3R should be valued on the basis that they could be realised at par, minus the following discounts:

...

7C Unused committed facilities

...

... We would like to draw your attention to ~~CRED (7.3.3R)~~ CREDS 3.3.3R. It states that "the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the ~~shareholding~~ total non-deferred shares in the *credit union*". ~~Short-term is defined as not more than "the end of two consecutive quarters"~~ (~~CRED 7.3.4E~~).

CREDS 3.3.4E provides that, if the borrowing of a *version 1 credit union* exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDS 3.3.3R.

...

7D Unused overdrafts

...

... Again, we would like to draw your attention to ~~CRED 7.3.3R~~ CREDS 3.3.3R. It states that "the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the ~~shareholding~~ total non-deferred shares in the *credit union*". ~~Short-term is defined as not more than "the end of two consecutive quarters"~~ (~~CRED 7.3.4E~~).

CREDS 3.3.4E provides that, if the borrowing of a *version 1 credit union* exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDS 3.3.3R.

...

7F Unattached shares/juvenile deposits

~~Total value of adult shares, which are not attached to a loan, and the total value of juvenile deposits held by your credit union.~~

~~Because juvenile depositors cannot have loans, all juvenile deposits will be unattached.~~

~~To assist you in working out the unattached shares for your credit union, we would like to draw your attention to the following three different classifications – which are for illustration purposes only. These are:~~

~~All members who have not got a loan and are not acting as guarantor for a loan;~~

~~Example:~~

~~Member number~~

~~Share balance~~

~~Loan balance + interest owing~~

~~Unattached shares~~

101

£750

£0

£750

102

£1,201

£0

£1,201

103

£254

£0

£254

104

£1,500

£0

£1,500

Totals

£3,705

£0

£3,705

All members with loans, but not part of a guarantor agreement;

Example:

Member number

Share balance

Loan balance + interest owing

Unattached shares

005

£600

£750

£nil

006

£1,470

£1,201

£269

007

£522

£254

£268

008

£900

£1,500

£nil

Totals

£3,492

£3,705

£537

All guarantors

Example:

~~Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:~~

Member number

Share balance

Loan balance + interest owing

Net liability

Unattached shares

200

£600

£750

£150

nil

300

£1,470

£1,201

nil

£269

~~The net liability for the loan of member 200 equals £150 and therefore member 200 has no unattached shares.~~

~~Member 300 has no net liability, but £269 in unattached shares. Since there is a charge on these shares to the value of the net liabilities of the loan of member 200, the total unattached shares for both members is as follows:~~

~~a~~

~~Unattached shares of member 300~~

~~£269~~

~~b~~

~~Net liability of member 200~~

~~£150~~

~~Combined unattached shares (a – b)~~

~~£119~~

~~Your *credit union* will need to closely monitor guaranteed loans when working out unattached shares. Total value of unattached shares and the total value of juvenile deposits held by your *credit union*.~~

~~“unattached shares” means the total shares in the credit union other than attached shares and deferred shares.~~

~~“attached shares” are shares that act as security for a loan, and shares that cannot be withdrawn under the terms of the loan.~~

~~...~~

...

---

8A	Largest net exposure	To work out your <i>credit union's</i> largest net <i>exposure</i> you will need to determine:  a) the net <i>exposure</i> on each loan and find the largest figure. The formula for this is: <b>(loan balance + interest owing) – attached share balance</b>  b) what is the total capital of your <i>credit union</i> ? This is defined at <b>5E</b> .  Say, for example your <i>credit union's</i> total capital is £40,000. We know from the above that only net liabilities over 10% of Capital are subject to the large <i>exposures</i> rule. Ten percent of £40,000 is £4,000.
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However, we further know from the above that only net liabilities over £7,500 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Example:

**Member number**  
**Share Attached share balance**  
**Loan balance + interest owing**  
**Net liabilities**  
**Is it a large *exposure*?**

...

---

8B	As % of capital	An individual large exposure should not exceed <b>25%</b> of your credit union's capital ( <del>CRED 10.4.2R</del> <u>CREDS 7.4.2R</u> ).  To determine this percentage, your <i>credit union</i> will need to use the following calculation:
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...

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8C	Aggregate total of large net exposures	This figure relates to the sum total of all net liabilities subject to the large <i>exposures</i> rule as defined in <b>8A</b> above.  Taking the example at <b>8A</b> above, this figure will be <b>£35,285</b> (see below).
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**Member number**  
**Share Attached share balance**  
**Loan balance + interest owing**  
**Net liabilities**

...

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8D	As % of capital	<del>CRED</del> <u>CREDS</u> states that the aggregate total of large net <i>exposures</i> should not exceed 500% of the total capital of the <i>credit union</i> , and should not exceed 300% of total capital without prior notifying the <i>FSA</i> . To see if the example satisfies the rules please use the following calculation:
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...

**Large version 1 and version 2 credit unions**

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Risk adjusted capital ratio	A risk adjusted capital ratio is a requirement for larger <i>version 1 credit unions</i> and <i>version 2 credit unions</i> under <del>CRED</del> <u>CREDS</u> .  <del>CRED 8.3.16R</del> <u>CREDS 5.3.15R</u> states "A <i>version 1 credit union</i> with total assets of more than £10 million <del>and/or</del> a total number of members of more than 10,000, <u>or both</u> , must maintain at all times a capital-to-total assets ratio of at least 8%"
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...

9B	Net provisions or 1% of total assets – whichever is the lower	Capital should be risk-adjusted for <i>version 2 credit unions</i> and large <i>version 1 credit unions</i> ( <del>CRED 8.4.1R</del> <u>CREDS 5.4.1R</u> and <del>CRED 8.3.16R</del> <u>CREDS 5.3.15R</u> ). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets ( <del>CRED 8.4.2R</del> <u>CREDS 5.4.2R</u> ).
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...

Insert the following new text at the end of SUP 16 Annex 15(1)G (Notes on completing the Quarterly Return (CQ) for credit unions). The text is not underlined.

## NOTES ON COMPLETING SUPPLEMENTARY ANALYSIS OF THE QUARTERLY RETURN

### General Information

The Supplementary Analysis of the Quarterly Return should be completed as part of the Quarterly Return by credit unions in Great Britain where they meet one or more of the following conditions at the end of the quarter:

- the credit union has issued interest-bearing shares under section 7A of the Credit Unions Act 1979 (the Act);
- the credit union has issued deferred shares in accordance with section 31A of the Act; or
- the credit union has admitted corporate members under section 5A of the Act.

The Supplementary Analysis of the Quarterly Return is intended to break down some of the information contained in the Quarterly Return in order to give a clearer picture of the financial position of credit unions that undertake the activities listed above.

## Interest-bearing shares

### Interest-bearing shares

10A	Total shares	<p>The total amount of money held by the <i>credit union</i> relating to shares paid in by members.</p> <p>The amount entered here should be transferred from <b>1A</b> on CQ for analysis. In the following sections, this amount should be broken down into interest-bearing and dividend-bearing shares so that:</p> <p><b>10A = 10B + 10C</b></p>
10B	Interest-bearing shares	<hr/> <p>The total amount of money held by the <i>credit union</i> in respect of shares that are interest-bearing.</p> <hr/>
10C	Dividend-bearing shares	<hr/> <p>The total amount of money held by the <i>credit union</i> in respect of shares that are dividend-bearing.</p> <hr/>

## Deferred shares

## Deferred shares

11A	Total shares	The total amount of money held by the <i>credit union</i> relating to shares paid in by members.
		The amount entered here should be transferred from <b>1A</b> on CQ for analysis. In the following sections, this amount should be broken down into non-deferred shares and deferred shares so that: <b>11A = 11B + 11C</b>
11B	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of non-deferred shares.
11C	Deferred shares	The total amount of money held by the <i>credit union</i> in respect to deferred shares.

## Reserves - total

12A	Audited reserves – General	The total amount held by the <i>credit union</i> in general reserve. The amount entered here should be transferred from <b>5A</b> on CQ.
12B	Audited reserves - Other	The total amount held by the <i>credit union</i> in other reserves. The amount entered here should be transferred from <b>5B</b> on CQ.
12C	Revaluation reserves – non-capital element	The amount of revaluation reserve that is not included in <b>5B</b> of CQ and <b>12B</b> (because it does not count towards a <i>credit union's</i> capital under CREDS 5.2.1R). See the note to <b>5B</b> on CQ.
12D	Deferred share reserves	The total amount held by the <i>credit union</i> in the deferred share reserve. Where subscribed for in full, <i>credit unions</i> must transfer a sum equal to the amount paid for deferred shares to its reserves.
12E	Reserves	The total amount of money held by the <i>credit union</i> in reserves (including deferred share reserves) at the end of the financial year, so that: <b>12E = 12A + 12B + 12C + 12D</b>

## Reserves - percentage

12F	Total assets	The amount entered here should be transferred from <b>4A</b> on CQ.
12G	Reserves as % of total assets	To determine this ratio your <i>credit union</i> will use the following formula:  $\frac{\text{Reserves (12E)}}{\text{Total assets (12F)}} \times 100$

## Corporate membership

### Corporate members

13A	Number of members at the end of the quarter	Total number of members of the <i>credit union</i> .
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The amount entered here should be transferred from **1a** on CQ for analysis. In the following sections, this amount should be broken down into different categories of member so that:

$$13A = 13B + 13C + 13D + 13E$$

13B	Individuals	The number of members of the <i>credit union</i> that are individuals.
13C	Bodies corporate	The number of members of the <i>credit union</i> that are bodies corporate.
13D	Partnerships	The number of members of the <i>credit union</i> that are partnerships.
		Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
13E	Unincorporated associations	The number of members of the <i>credit union</i> that are unincorporated associations.
		Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

#### Corporate non-deferred shares

14A	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of shares that are not deferred shares. The amount entered here should be equal to the amount at <b>11B</b> above.
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In the following sections, this amount should be broken down into non-deferred shares held by different categories of member so that:

$$14A = 14B + 14C + 14D + 14E$$

14B	Individual non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by individuals.
14C	Body corporate non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by bodies corporate.
14D	Partnership non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by partnerships.
		Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
14E	Unincorporated association non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by unincorporated associations.
		Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

#### Corporate deferred shares

15A	Deferred shares	The total amount of money held by the <i>credit union</i> in respect of deferred shares. This should be equal to the amount at <b>11C</b> .
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In the following sections, this amount should be broken down into deferred shares held by different categories of member so that:

$$15A = 15B + 15C + 15D + 15E$$

15B	Individual deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by individuals.
15C	Body corporate deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by bodies corporate.
15D	Partnership deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by partnerships.
		Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
15E	Unincorporated association deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by unincorporated associations.
		Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

#### Corporate loans

16A	Total loans to members	The total amount outstanding to the <i>credit union</i> on loans to members. The amount entered here should be transferred from <b>1B</b> on CQ for analysis.
		In the following sections, this amount should be broken down into loans to different categories of member so that:
		$16A = 16B + 16C + 16D + 16E$
16B	Individual loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to individuals.
16C	Body corporate loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to bodies corporate.
16D	Partnership loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to partnerships.
		Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
16E	Unincorporated association loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to unincorporated associations.
		Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

Amend SUP 16 Annex 15(2)G Notes on completing the Annual Return (CY) for credit unions as shown:

...

The Annual Return (CY) should be completed by all *credit unions* in Great Britain at the end of their financial year. ... It should be completed using the accruals-based accounting method.

Please read ~~CRED~~ CREDS in conjunction with these reporting instructions.

Send the fully completed Annual Return (CY) (including a completed auditor's statement) to the Financial Services Authority in accordance with SUP 16.3.6R – SUP 16.3.13R (~~see CRED 14.10.4G~~) by the date stated in the *credit union's* rules (which should be within 7 4 months of the financial year end). Failure to do so is a breach of your regulatory requirements, as laid down in ~~CRED~~ CREDS, and may result in your *credit union* being subject to FSA sanctions.

A copy of the audited annual accounts of the *credit union* (and the auditor's report on those accounts) should also be submitted (see ~~CRED 14.10.10R(1)~~ CREDS 8.2.6R).

...

~~"CRED"~~ "CREDS" means the Credit Unions New sourcebook.

...

## Accounting Policies

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<b>Provision for doubtful debts</b>	This is made in accordance with the rules and guidance set out in <del>CRED 10.5.3E</del> <u>CREDS 7.5.4E</u> .
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...

## Front page

...

<b>Financial year end</b>	Insert the date of the <i>credit union's</i> financial year end (See SUP 16.7.63BR and <del>CRED 14.10.10R(2)(a)</del> <u>CREDS 8.2.6R(2)(a)</u> ).
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...

A1	<b>Membership</b>	<p>Indicate in the appropriate boxes the number of members that the <i>credit union</i> currently has in each category of membership.</p> <p>A "non-qualifying" member is someone who no longer fulfils the membership <del>qualification</del> <u>requirements</u>, having once done so e.g. he or she no longer lives in the common bond area. <del>No more than 10% of the total membership of the credit union should be "non-qualifying".</del></p> <p>A "juvenile depositor" is a person who is too young to be a member = <del>someone under the age of 16 – who can save up to a maximum of £5,000, of the credit union (under the credit union's rules), who can save up to a maximum of £10,000,</del> but cannot take out a loan from the <i>credit union</i>.</p>
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<b>Audited accounts</b>	Delete "Yes or No" as appropriate. Audited annual accounts are required by the Friendly and Industrial and Provident Societies Act 1968. <del>CRED 14.10.9G and CRED 14 Ann 1G give guidance about the statutory accounts.</del> Attach a copy of the accounts before returning the Annual Return (CY). See <del>CRED 14.10.10R</del> <u>CREDS 8.2.6R</u> .
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...

A10	<b>Amount of cover</b>	<p>The amount of cover actually provided should be available from the bonding certificate or insurance policy.</p> <p><b>Table showing the amount of cover required (<del>CRED 7A.1.10R</del> <u>CREDS 4 Annex 1R</u>)</b></p>
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...

...

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### Current assets

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1B Investments – *Banks and Building Societies* The total of money held in a *bank* or *building society* investment account: this will be separate from the current account that the *credit union* holds and will usually pay more interest on the monies held.

*Credit unions* may only invest this money in *deposits* or loans to:

- (1) a *UK domestic firm* with *Part IV permission* to accept deposits;
- (2) an institution which is authorised in any other *EEA State* to accept deposits (See ~~CRED 7.2.1R~~ CREDS 3.2.1R)

---

1C Investments – securities The total of money held in *securities*.

A *credit union* may only invest this money in: sterling-denominated *securities* issued by the government of any *EEA State*; (2) and fixed-interest sterling-denominated *securities* guaranteed by the government of any *EEA State* (See ~~CRED 7.2.1R~~ CREDS 3.2.1R).

A *version 1 credit union's investments* should not have a maturity date exceeding 12 months from the date the *investment* was made. (~~CRED 7.2.2R~~ CREDS 3.2.2R).

A *version 2 credit union's investments* should not have a maturity date exceeding five years from the date the *investment* was made. (~~CRED 7.2.3R~~ CREDS 3.2.3R)

Further information can be found in ~~CRED~~ CREDS Chapter 7 3 (Investment and borrowing).

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...

1G General provision ~~CRED 10.5.3E~~ CREDS 7.5.4E sets out that *credit unions* should maintain a general provision for bad and doubtful debts of at least 2% of net liabilities not already covered by specific provisioning on loan arrears (1H). General provisions are provisions that your *credit union* has made to cover potential doubtful debts in the future. These are loans currently not in arrears or loans that are in arrears up to three months.

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1H Specific provision ~~CRED 10.5.2R~~ CREDS 7.5.2R states that a *credit union* must make specific provision in its accounts of at least:

- (1) 35% of the net liability to the *credit union* of borrowers where the amount is more than three months in arrears.
- (2) 100% of the net liability to the *credit union* of borrowers where the amount is more than 12 months in arrears.

Net liability on a loan can be calculated as follows:

**(Total Balance of loan + outstanding interest) – attached shares**

Where a member's attached shares exceed the amount held in loan there is no risk to the *credit union* and no provision needs to be made.

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...

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### Loans

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...

2C *Bank loan* The figure for the amount outstanding on any loan that the *credit union* may have received from a *bank*.

A version 1 credit union may not borrow more than 20% of the total shareholding (see box 13d) of the *credit union* except on a short-term basis. Subordinated debt does not form part of the later calculation. (See ~~CRED 7.3.3R — 7.3.6R~~ CREDS 3.3.3R to 3.3.6R for more information.)

...

**Credit union capital and reserves**

2N General reserves Amount held by the *credit union* in general reserve (See ~~CRED 8.3.5R~~ CREDS 5.3.2R.)

...

2P Other reserves Money that the *credit union* has set aside out of profits e.g. a revenue reserve to provide for unforeseen circumstances. Other reserves are entirely voluntary and do not have to be held by the *credit union*.

**Please note:**

Where a revaluation reserve is included within the other reserves, this should only include revaluation reserves counting towards capital under ~~CREDS 5.2.1R(6)~~ CREDS 5.2.1R(8).

If money is held in a deferred share reserve, it should not be included within other reserves, but reported separately in the supplementary analysis to the annual return.

2Q-R Subordinated debt Subordinated debts in **2Q-R** are loans where the lender has agreed to the terms set out on ~~CRED 8.2.4R~~ CREDS 5.2.1R. They are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loans should have an original term of over five years.

Whereas your *credit union* is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt should meet the rules laid down in ~~CRED 8.2.1R(4)~~ CREDS 5.2.1R(4). You will need to refer to this when calculating subordinated debt. Some of the main conditions are listed below:

...

To meet the subordinated debt rules laid down in Chapter 8 5 (Capital requirements) of ~~CRED~~ CREDS, the following formula should be used in writing down your *credit union's* subordinated debt (see ~~CRED 8.2.4R~~ CREDS 5.2.7R):

...

...

2T Members' share balances Total amount of money held by the *credit union* in respect of shares paid in by adult members.

...

8B Transfer to general reserve This transfer should be compliant with ~~CRED 8.3.6R — 8.3.8R~~ CREDS 5.3.3R to 5.3.5R. ...

...

9D Rate of dividend The percentage of dividend paid on members' accounts. ~~Credit unions cannot pay more than 8% dividend to members in any one financial year even if several dividends are paid.~~ If different rates are paid on



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different types of accounts these different rates should be shown.

...

13F Value of unattached shares Total value of adult shares and juvenile deposits, which are not attached to a loan.

This includes all shares:

that are not attached to any loan;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
101	£750	£0	£750
102	£1,201	£0	£1,201
103	£254	£0	£254
104	£1,500	£0	£1,500
Totals	£3,705	£0	£3,705

which exceed a member's loan balance;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
001	£600	£750	£nil
002	£1,470	£1,201	£269
003	£522	£254	£268
004	£900	£1,500	£nil
Totals	£3,492	£3,705	£537

which are not used to guarantee a loan;

Example:

Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:

Member number	Share balance	Loan balance + interest owing	Unattached shares
200	£600	£750	(£150)
300	£1,470	£1,201	£269

The net liability for the loan of member 200 equals £150. Member 300 has £269 in unattached shares. To work out the unattached shares of both members we should complete the following formula:

Unattached shares of member 300 — £269  
 Net liability of member 200 — (£150)  
 Combined unattached shares — £119

Your credit union will need to monitor closely guaranteed loans when working out unattached shares.

Total value of unattached shares and the total value of juvenile deposits held by your credit union.

“unattached shares” means the total shares in the credit union other than attached shares and deferred shares.

“attached shares” are shares that act as security for a loan, and shares that cannot be withdrawn under the terms of the loan.

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**Loans to Members**

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...

14H Total net liabilities The total amount of outstanding on loans (inclusive of interest owing). Net liabilities can be calculated by using the following formula:  
**Loan balance + interest owing – attached share balance = Net liabilities**

---

...

Net liabilities The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:

**Loan balance + interest owing – attached share balance = Net liability**

The table below is an example on how to work out net liability:

**Loans 3-12 months in arrears:**

[column headings]	<b>Loan No.</b> <b>Loan balance</b> <b>Interest owing</b> <b>Share <u>Attached share</u> balance</b> <b>Net liability</b>
-------------------	---

...

...

16E Balance at end of year The total general provision at the end of the year. Please note that ~~CRED 10.5.3E~~ CREDS 7.5.4R states that a *credit union* should have a general bad debt provision of 2% of total net liabilities on all loans not covered by the specific bad debt provisioning. This figure is the sum total of boxes **16A+16B-16C-16D** and should be the same as box **1G** on the balance sheet.

---

...

16K Balance at end of year The total amount in the specific general reserve at the end of the financial year. To comply with ~~CRED 10.5.2R~~ CREDS 7.5.2R, all net liabilities on loans over 12 months in arrears should be fully provided for and all loans between 3-12 months should be provided for on a 35% of net liabilities basis. This figure is the sum total of boxes **16F+16G-16H-16J** and should be the same as box **1H** on the balance sheet.

...

**Subordinated Debt**

Subordinated debts are any loans where the lender has agreed to the terms as set out in ~~CRED 8.2.1R~~ CREDS 5.2.1R. These terms include agreeing to rank behind other creditors including the *credit union's* members in the event of the *credit union* failing.

...

...

**Committed facilities**

A committed facility is a committed line of credit, other than an overdraft, from a bank. These are funds immediately available from a bank and constitute a loan.

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the bank with which your *credit union* holds its current account. Any unused committed facilities can be entered into this box. If your *credit union* does not have any committed facilities, enter "nil" in this box. We would like to draw your attention to ~~CRED (7.3.3R)~~ CREDS 3.3.3R. It states that "the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the ~~shareholding~~ total non-deferred shares in the *credit union*". ~~Short term is defined as not more than "the end of two consecutive quarters" (CRED 7.3.4E).~~

CREDS 3.3.4E provides that, if the borrowing of a version 1 credit union exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDS 3.3.3R.

...

...

29B Investments (less than eight days to maturity)

~~CRED 9.3.8R~~ CREDS 6.3.8R states that only investments that could be realised within eight days can be included in calculating your *credit union's* liquidity ratio.

...

**Version 1 credit unions should not hold any investments with a maturity date of over 12 months (~~CRED 7.2.2R~~ CREDS 3.2.2R).**

...

~~CRED 9.3.9E(1)~~ CREDS 6.3.6E(1) reads: provides that "For for the purpose of calculating a *credit union's* liquidity ratio, the *securities* referred to in ~~CRED 7.2.2R – 7.2.3R~~ CREDS 3.2.1R to 3.2.3R should be valued on the basis that they could be realised at par, minus the following discounts:

...

29C Unused committed facilities

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* or *building society* with which your *credit union* holds its current account. Any unused committed facilities may be entered into this box. If your *credit union* does not have any committed facilities, enter "nil" in this box. Please note that to comply with ~~CRED 7.3.4E~~ CREDS 3.3.4E, the total borrowings of a *version 1 credit union* should not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.

29D	Unused overdrafts	<p>...</p> <p>This relates to a <i>credit union</i> which has authorised overdrafts arrangement with an institution authorised to accept <i>deposits</i> within the <i>EEA</i>. Normally this will be the <i>bank</i> or <i>building society</i> with <del>whom</del> <u>which</u> your <i>credit union</i> holds its current account. Any surplus overdrafts which have not been used may be entered into this box. If your <i>credit union</i> does not have an authorised overdraft facility, enter "nil" in this box. Please note that as laid down in <del>CRED 7.3.4E</del> <u>CREDS 3.3.4E</u> the total borrowings of a <i>version 1 credit union</i> may not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.</p> <p>...</p>
30C	Other liabilities / borrowings	<p>...</p> <p>These are all liabilities, excluding unattached shares and authorised overdrafts (which are already covered in the relevant liabilities being calculated here). Included in these calculations are such things as:</p> <ul style="list-style-type: none"> <li>• loans from other <i>credit unions</i></li> <li>• loans from <i>banks</i></li> <li>• subordinated debt</li> <li>• committed facilities</li> </ul> <p>Chapter <del>seven (Investments and borrowing)</del> of <del>CRED 7 (Lending to members)</del> of <u>CREDS</u> sets out the sources of borrowing available to <i>credit unions</i>.</p>
30E	<b>Liquidity ratio</b>	<p>...</p> <p>Please note that your liquidity level should not fall below <del>5% at any time and that version 1 credit unions should ensure that on no two consecutive quarter ends is the level of the credit union's liquid assets below 10% of its total relevant liabilities</del> <u>the level set out in CREDS 6.3.1R, CREDS 6.3.2R and CREDS TP 1.</u></p>
31A	Largest net exposure	<p>To work out your <i>credit union's</i> largest net <i>exposure</i> you will need to determine:</p> <ol style="list-style-type: none"> <li>1. the net <i>exposure</i> on each loan and find the largest figure. The formula for this is:  <p style="text-align: center;"><b>(loan balance + interest owing) – attached share balance</b></p> </li> <li>2. what is the total capital of your <i>credit union</i>? This is defined at <b>2S</b>.</li> </ol> <p>...</p>
31B	As % of capital	<p>An individual large exposure should not exceed <b>25%</b> of your <i>credit union's</i> capital (<del>CRED 10.4.2R</del> <u>CREDS 7.4.2R</u>).</p> <p>...</p>
31D	As % of capital	<p><del>CRED</del> <u>CREDS</u> states that the aggregate total of large net <i>exposures</i> must not exceed 500% of the total capital of the <i>credit union</i>, and must</p>

not exceed 300% of total capital without prior notifying the FSA.

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...

<b>Risk adjusted capital ratio</b>	A risk adjusted capital ratio is a requirement for larger <i>version 1 and version 2 credit unions</i> under <del>CRED</del> <u>CREDS</u> . <del>CRED 8.3.16R</del> <u>CREDS 5.3.15R</u> states "A <i>version 1 credit union</i> with total assets of more than £10 million or a total number of members of more than 10,000, or both, must maintain at all times a risk-adjusted capital-to-total assets ratio of at least 8%".
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...

32B	Net excess provision or 1% of total assets whichever is the lower	Capital should be risk-adjusted for <i>version 2 credit unions</i> and large <i>version 1 credit unions</i> ( <del>CRED 8.4.1R</del> <u>CREDS 5.4.1R</u> and <del>CRED 8.3.16R</del> <u>CREDS 5.3.15R</u> ). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets ( <del>CRED 8.4.2R</del> <u>CREDS 5.4.2R</u> ).
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...

## Committee of Management

Please complete the relevant details for all *credit union* officers here. The details required are their full name, address, post held at the *credit union* (this should include what committee they sit on), whether they are an *approved person*, their approved person function, and their year of birth.

Whilst a brief list of the main controlled functions are given below, *credit unions* will need to refer to ~~CRED Chapter 4~~ CREDS Chapter 2 (Senior management arrangements, Systems and Controls) and SUP 10 Chapter 6 of (The Approved persons regime) of ~~CRED~~. Please note that only the controlled function number needs to be inserted; for example if you are on the *credit union's* committee of management the number would be CF1.

Insert the following new text at the end of SUP 16 Annex 15 (2)G (Notes on completing the Annual Return (CY) for credit unions) after the section headed "Committee of Management". The text is not underlined.

## NOTES ON COMPLETING SUPPLEMENTARY ANALYSIS OF THE ANNUAL RETURN

### General Information

The Supplementary Analysis of the Annual Return should be completed as part of the Annual Return by credit unions in Great Britain where they meet one or more of the following conditions at the end of the financial year:

- the credit union has issued interest-bearing shares under section 7A of the Credit Unions Act 1979 (the Act);
- the credit union has issued deferred shares in accordance with section 31A of the Act;
- the credit union has admitted corporate members under section 5A of the Act; or
- the rules of the credit union limit the number of non-qualifying members of the credit union,

in accordance with section 5(5) of the Act.

The Supplementary Analysis of the Annual Return is intended to break down some of the information contained in the Annual Return in order to give a clearer picture of the financial position of credit unions that undertake the activities listed above.

## Interest-bearing shares

### Interest-bearing shares

33A	Members' share balances	The total amount of money held by the <i>credit union</i> in respect of member shares.
		The amount entered here should be transferred from <b>2T</b> on CY for analysis. In the following sections, this amount should be broken down into interest-bearing and dividend-bearing shares so that: <b>33A = 33B + 33C</b>
33B	Interest-bearing shares	The total amount of money held by the <i>credit union</i> in respect of shares that are interest-bearing.
33C	Dividend-bearing shares	The total amount of money held by the <i>credit union</i> in respect of shares that are dividend-bearing.

### Interest expenditure

34A	Expenditure – Other	The credit union's expenditure that is not covered in the listed categories of expenditure at 4A-4N on the CY.
		The amount entered here should be transferred from <b>4P</b> on CY for analysis. In the following sections, this amount should be broken down into interest expenditure and non-interest expenditure so that: <b>34A = 34B + 34C.</b>
34B	Interest expenditure	The total amount of Expenditure – Other that is interest payable by the <i>credit union</i> on interest-bearing shares.
34C	Non-interest expenditure	The total amount of Expenditure – Other that is not interest payable by the <i>credit union</i> on interest-bearing shares.

## Deferred shares

### Deferred shares

35A	Members' share balances	The total amount of money held by the <i>credit union</i> in respect of member shares.
		The amount entered here should be transferred from <b>2T</b> on CY for analysis. In the following sections, this amount should be broken down into non-deferred shares and deferred shares so that: <b>35A = 35B + 35C</b>

35B	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of non-deferred shares.
35C	Deferred shares	The total amount of money held by the <i>credit union</i> in respect of deferred shares.

## Reserves

36A	General reserve – Closing balance	The total amount held by the <i>credit union</i> in general reserve at the end of the financial year. The amount entered here should be transferred from <b>10G</b> on CY.
36B	Other reserve – Closing balance	The total amount held by the <i>credit union</i> in other reserves at the end of the financial year. The amount entered here should be transferred from <b>11G</b> on CY.
36C	Revaluation reserves – non-capital element	The amount of revaluation reserve that is not included in <b>11G</b> on CY and <b>36B</b> (because it does not count towards a <i>credit union's</i> capital under CREDS 5.2.1R). See the note to <b>2P</b> on CY.
36D	Deferred share reserves	The total amount held by the <i>credit union</i> in the deferred share reserve. Where subscribed for in full, <i>credit unions</i> must transfer a sum equal to the amount paid for deferred shares to its reserves.
36E	Reserves	The total amount of money held by the <i>credit union</i> in reserves (including deferred share reserves) at the end of the financial year, so that: <b>36E = 36A + 36B + 36C + 36D</b>

## Reserves - percentage

36F	Total assets	The amount entered here should be transferred from <b>1P</b> on CQY
36G	Reserves as % of total assets	To determine this ratio your <i>credit union</i> will use the following formula:  $\frac{\text{Reserves (36E)}}{\text{Total assets (36F)}} \times 100$

## Corporate membership

### Corporate members

37A	Total members	Total number of members of the <i>credit union</i> at the end of the financial year.  The amount entered here should be transferred from <b>12D</b> on CY for analysis. In the following sections, this amount should be broken down into different categories of member so that: <b>37A = 37B + 37C + 37D + 37E</b>
37B	Individual members	The number of members of the <i>credit union</i> at the end of the financial year that are individuals.



37C	Body corporate members	The number of members of the <i>credit union</i> at the end of the financial year that are bodies corporate.
37D	Partnership members	The number of members of the <i>credit union</i> at the end of the financial year that are partnerships.  Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
37E	Unincorporated association members	The number of members of the <i>credit union</i> at the end of the financial year that are unincorporated associations.  Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

### Corporate non-deferred shares

38A	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of shares that are not deferred shares. The amount entered here should be equal to the amount at <b>35B</b> above.  In the following sections, this amount should be broken down into non-deferred shares held by different categories of member so that: <b>38A = 38B + 38C + 38D + 38E</b>
38B	Individual non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by individuals.
38C	Body corporate non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by bodies corporate.
38D	Partnership non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by partnerships.  Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
38E	Unincorporated association non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by unincorporated associations.  Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

### Corporate deferred shares

39A	Deferred shares	The total amount of money held by the <i>credit union</i> in respect of deferred shares. This should be equal to the amount at <b>35C</b> .  In the following sections, this amount should be broken down into deferred shares held by different categories of member so that: <b>39A = 39B + 39C + 39D + 39E</b>
39B	Individual deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by individuals.

39C	Body corporate deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by bodies corporate.
39D	Partnership deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by partnerships.  Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
39E	Unincorporated association deferred shares	The total amount held by the <i>credit union</i> in respect of deferred shares held by unincorporated associations.  Unincorporated associations are individuals who are members of a <i>credit union</i> in their capacity as trustees for an unincorporated association.

### Corporate loans

40A	Due from members for loans – Secured	The total amount outstanding to the <i>credit union</i> on secured loans to members e.g. loans secured on shares or property.  The amount entered here should be transferred from <b>1E</b> on CY for analysis.
40B	Due from members for loans – Unsecured	The total amount outstanding to the <i>credit union</i> on unsecured loans to members. This figure will exclude any loans written off during the financial year.  The amount entered here should be transferred from <b>1F</b> on CY for analysis.
40C	Total loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on all loans to members, whether secured or unsecured, so that: <b>40C = 40A + 40B</b>  In the following sections, this amount should be broken down into loans to different categories of member so that: <b>40C = 40D + 40E + 40F + 40G</b>
40D	Individual loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to individuals.
40E	Body corporate loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to bodies corporate.
40F	Partnership loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to partnerships.  Partnerships are individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
40G	Unincorporated association loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to unincorporated associations.  Unincorporated associations are individuals who

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are members of a *credit union* in their capacity as trustees for an unincorporated association.

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### **Non-qualifying membership**

41A	Limit on non-qualifying members	<p>If the rules of the <i>credit union</i> provide a limit on the number of non-qualifying members of a <i>credit union</i>, that amount should be entered here.</p> <p>Non-qualifying members are members who no longer fulfil the membership qualifications, having once done so e.g. he or she no longer lives in the common bond area.</p>
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Amend the following as shown.

### **App 1.3 Prudential categories and sub-categories**

1.3.1 G Prudential categories and sub-categories used in the Prudential sourcebooks and the Supervision manual

<i>Prudential categories</i> (Note 1)	<b>Applicable prudential requirements (Note 2)</b>	<b>Prudential sub-categories</b>
...	...	...
<i>Credit union</i>	<del>CRED 7, 8, 9 and 10</del> <u>CREDS 3</u> <u>5,6 and 7</u>	<i>Version 1 credit union</i> <i>Version 2 credit union</i>
...		
<p>Note 2 = Only the requirements in the Prudential sourcebooks, and <del>CRED</del> <u>CREDS</u> are listed in the column. Requirements in other parts of the <i>Handbook</i> will also apply.</p>		

## Annex E

### Amendments to the Decision Procedure and Penalties manual (DEPP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 2 Annex 1G Warning notices and decision notices under the Act and certain other enactments

...

Section of the Credit Unions Act 1979	Description	Handbook reference	Decision maker
20	where the <i>FSA</i> is proposing to cancel or suspend the registration of a <i>credit union</i> or to petition for the winding up of a <i>credit union</i>	<del><i>CRED 15</i></del> <del>Annex 1G</del>	<i>RDC</i>

## Annex F

### Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 1.1 Purpose and application

...

- 1.1.5 R This chapter does not apply to:
- (1) [deleted]
  - (2) ~~a credit union~~; and [deleted]
  - (3) an *authorised professional firm* in respect of expressions of dissatisfaction about its *non-mainstream regulated activities*
- 1.1.5A R The *complaints reporting rules* and the *complaints data publication rules* do not apply to a *credit union*.
- 1.1.6 G ~~Analogous obligations relevant to *credit unions* are set out in *CRED 17*. *CREDS 9* sets out *rules for credit unions* in relation to reporting *complaints*.~~
- 1.1.6A G In relation to a *credit union*, the nature, scale and complexity of the *credit union's* business should be taken into account when deciding the appropriate procedures to put in place for dealing with *complaints*.

## Annex G

### Amendments to the Compensation sourcebook (COMP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

5.3.1 R A *deposit* is a *protected deposit* only if:

...

(2) the *deposit* is not:

...

(c) a deferred share issued by a *building society*; or

(ca) a deferred share issued by a credit union; or

(d) ...

## Annex H

### Amendments to the Electronic Money sourcebook (ELM)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 1.5 Application of other parts of the Handbook to ELMIs

...

##### 1.5.2 G Application of other parts of the Handbook to ELMIs

Block	Module	Application
...		
Specialist sourcebooks other than <i>ELM</i>	Credit unions ( <del><i>CRED</i></del> <u><i>CREDS</i></u> ), Professional firms ( <i>PROF</i> ), Collective Investment Schemes ( <i>COLL</i> ) and Recognised Investment Exchanges and Recognised Clearing Houses ( <i>REC</i> ).	These sourcebooks do not apply to an <i>ELMI</i> .
...		

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The Financial Services Authority  
25 The North Colonnade Canary Wharf London E14 5HS  
Telephone: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099  
Website: <http://www.fsa.gov.uk>

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