



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



Consultation Paper | PRA CP22/15
| FCA CP15/21

Reform of the legacy Credit Unions sourcebook

June 2015

Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



Consultation Paper | PRA CP22/15
| FCA CP15/21

Reform of the legacy Credit Unions sourcebook

June 2015

The Bank of England and the Prudential Regulation Authority (PRA) reserve the right to publish any information which it may receive as part of this consultation.

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure, in accordance with access to information regimes under the Freedom of Information Act 2000 or the Data Protection Act 1998 or otherwise as required by law or in discharge of our statutory functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank of England or the PRA receives a request for disclosure of this information, the Bank of England or the PRA will take your indication(s) into account, but cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system on emails will not, of itself, be regarded as binding on the Bank of England and the PRA.

The Financial Conduct Authority (FCA) makes all responses to formal consultation available for public inspection unless the respondent requests otherwise. The FCA will not regard a standard confidentiality statement in an email message as a request for non-disclosure. Despite this, the FCA may be asked to disclose a confidential response under the Freedom of Information Act 2000. The FCA may consult you if it receives such a request. Any decision the FCA makes not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

Responses are requested by Wednesday 30 September 2015. All responses, whether for the PRA, FCA or both, should be sent to the PRA only, which will forward them to the FCA as necessary.

Please address any comments or enquiries to:

Roger Marsh and Chris Donald
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Email: CP22_15@bankofengland.co.uk

You can download this Consultation Paper from the FCA website: www.fca.org.uk.

You can download this Consultation Paper from the Bank of England website:
www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp2215.aspx.

Contents

1	Introduction	5
2	New Credit Unions Part of the PRA Rulebook	5
3	Changes to the FCA Handbook	8
	Appendices	11

1 Introduction

1.1 This is a joint consultation by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on the reform of the legacy Credit Unions Sourcebook (CREDS), one of the modules of the Handbook inherited by the two new regulators from the Financial Services Authority (FSA). When the FSA's powers passed to the PRA and FCA on 1 April 2013, each of the new regulators adopted its own version of CREDS, by designating its provisions as 'PRA only', 'FCA only' or 'shared'. The PRA now proposes to delete CREDS in its entirety and to replace it with a new Credit Unions Rulebook Part while the FCA proposes retaining those parts of CREDS that relate to its statutory responsibilities. The PRA's proposals deal exclusively with matters affecting the financial safety and soundness of credit unions and the FCA's proposals concern the ways in which credit unions conduct business.

1.2 The PRA's review has taken into account feedback on the regulatory approach received by HM Treasury in response to its 'Call for Evidence: British Credit Unions at 50'⁽¹⁾ and also the impact on Northern Ireland credit unions of the restrictions on investment in CREDS. Beyond this, the PRA has drawn on its experience of supervising credit unions to revise its rules in a way that takes account of significant developments in the sector which are leading to increased diversification in credit union business models.

1.3 The PRA is rewriting its Handbook to create a PRA Rulebook which is consistent with its objectives, clear in intent, straightforward in its presentation and as concise as possible. This consultation sets out proposals that will deliver content into the Rulebook, resulting in the replacement of the PRA version of CREDS with a new Credit Unions Rulebook Part.

1.4 At this stage, the FCA is not proposing to make significant changes to its version of CREDS. Its changes are mainly consequential on those being made by the PRA.

1.5 Details of the changes proposed by the PRA are set out in Section 2 and those proposed by the FCA in Section 3.

Responses and next steps

1.6 This consultation closes on Wednesday 30 September 2015. The PRA and FCA invites feedback on the proposals set out in this consultation. Please address any comments or enquires to CP22_15@bankofengland.co.uk.

2 New Credit Unions Part of the PRA Rulebook

The following are the most significant differences between the rules in CREDS and those proposed for the new Credit Unions Rulebook Part.

Limit on shares and deposits

2.1 No credit union will be permitted to allow a member or depositor to be exposed to risk of loss of deposits. This is achieved by limiting a person's aggregate shares or deposits to the compensation limit in force. This restriction is intended to secure the orderly resolution of a failed credit union.

Framework for additional activities

2.2 The historical 'version 1 and version 2' models for credit union activities are replaced with a flexible framework based on a credit union's specific business model. Under CREDS, version 2 credit unions have less restrictive borrowing, lending and investment limits. At present, categorisation as a version 2 credit union is voluntary and requires the credit union concerned to demonstrate that it has the requisite financial and management capabilities to engage in relatively more complex business than otherwise permitted. Version 2 status is based on a one-time 'snapshot' assessment of a credit union, before the change in status, with no additional responsibilities being placed upon the governing body of the credit union, nor additional reporting requirements to ensure that the version 2 credit union maintains its capability to operate with enhanced powers.

2.3 To permit credit unions to have more flexibility in core activities, including investment, the PRA is now proposing the introduction of a revised approach to their supervision. This will introduce a minimum prudential standard currently absent in areas such as payment services, while allowing credit unions greater flexibility to manage their businesses in areas such as investments where, for example, they are presently unable adequately to mitigate the combined effects of very low investment returns and low demand for credit.

2.4 The new Rulebook Part requires credit unions carrying on such specified additional activities to maintain a 10% capital requirement (apart from those providing payment services only) and to comply with particular ratios depending on the activity undertaken. The following categories of credit union must comply:

2.4.1 Mortgage lender — a credit union with an outstanding 'regulated mortgage contract' as defined in the current PRA Rulebook Glossary;⁽²⁾

(1) www.gov.uk/government/consultations/british-credit-unions-at-50-call-for-evidence.

(2) <https://fshandbook.info/FS/glossary-html/handbook/Glossary/R?definition=G1321>.

2.4.2 Additional investor — a credit union that holds investments in a wider range of (capital-protected) products, and for a longer term;

2.4.3 Additional lender — a credit union that has outstanding loans of larger amounts or for longer periods; and

2.4.4 Payment service provider — a credit union that is carrying out a 'payment service' as defined in the current PRA Rulebook Glossary.⁽¹⁾

2.5 The prescribed ratios are similar to those already in widespread use by UK credit unions, and PRA discussions with leading credit unions and with the Trade Bodies have shown that they are regarded as a valuable management tool.

2.6 The governing body of a credit union is required to report to its members at the annual general meeting about the specified additional activities it is carrying on. A similar disclosure is required in a credit union's supervisory returns.

2.7 A wider range of products is available to a credit union that decides to act as an additional investor (complying with the ratios relating to that activity).

2.8 Appendix 3 sets out the instrument containing the proposed PRA rules for credit unions.

Detail of proposed changes

The following paragraphs examine the proposed changes to the legacy approach in CREDS and other provisions of the Handbook in more detail, with reference to each section of the new Credit Unions Rulebook Part.

Application and definitions

2.9 Defined terms appear in italics in the PRA Rulebook.

Shares and deposits

2.10 The term 'share' is defined in Credit Unions Rulebook Part 1.2 to include all money paid into a credit union share account.

2.11 The amount of money that a credit union may accept as shares from a member (whether an individual or a corporate) or as deposits from a person too young to be a member (whether or not the money is paid into a Child Trust Fund) is capped at the maximum amount of compensation that is generally available from official sources if the credit union fails (Credit Unions Rulebook Part 2.2(2), 2.5(2) and 2.6. The limit applies whether or not the particular member or depositor is actually eligible for compensation. The maximum amount available may vary over time. Transitional provisions (in Credit Unions Rulebook Part 18) mean that credit unions will not be forced to repay holdings of shares or deposits that

already exceed the relevant limit, or excess holdings that result from any subsequent reduction in the maximum amount of compensation available. However, such holdings cannot be added to. The intention behind the cap is to secure the prompt and efficient resolution of a failed credit union. This calls for the complete pay-out of deposits within the target seven days in all but the most exceptional cases, which requires the default position to be that 100% of deposits are guaranteed.

Lending

2.12 The amount of money in a jointly-held share account in a Great Britain credit union that can be 'attached' (made unavailable for withdrawal) by the terms of a loan to one of the joint account-holders is the total amount in the account divided by the number of joint account holders. This is implicit in CREDS, but the new Credit Unions Rulebook Part 3.1 makes it explicit.

2.13 With the abolition of version 2 status, credit unions wanting to make larger loans over longer periods will instead have to satisfy the additional requirements in Credit Unions Rulebook Part 3.3. These are tailored to the additional risks of the extended lending. Existing loans are not affected by the new requirements.

2.14 A credit union must not make a subordinated loan (repayable on liquidation after other debts have been paid), unless it is to another credit union, and forms part of that credit union's capital under Credit Unions Rulebook Part 8.2. Before making such a loan, a credit union's governing body must make an assessment of the financial implications of that loan, and retain a written record of that assessment.

2.15 A credit union must not lend more than £15,000 (or £7,500 if its capital-to-total assets ratio is less than 5%) to another credit union that is not one of its members (Credit Unions Rulebook Part 3.4). This maintains the longstanding practice of lending between credit unions, but removes the anomaly that a loan to a member credit union is capped, whereas a loan to a non-member credit union is uncapped.

2.16 The sliding-scale that applied to larger loans (1.5% of total holdings of non-deferred shares) remains in Credit Unions Rulebook Part 3.5, but is now subject to a cap of £500,000, a straightforward limit that supplements the large exposure rules.

2.17 The requirement to maintain a general provision for bad debts is abolished, but the guidance to make a specific provision of 60% when a loan is more than six months in arrears, and 80% when it is more than nine months in arrears, is converted into a rule. This ensures a consistent approach to

(1) <https://fshandbook.info/FS/glossary-html/handbook/Glossary/P?definition=G2617>.

provisioning by credit unions, and makes comparisons more meaningful.

Mortgages

2.18 The only mortgages that a credit union may enter into are ones that are the subject of a 'regulated mortgage contract' as defined in the current PRA glossary (Credit Unions Rulebook Part 4.1). Mortgage lending carries particular risks, and this makes sure that the activity is subject to appropriate regulation.

2.19 Credit unions carrying on mortgage lending are subject to additional requirements (in Credit Unions Rulebook Part 4.3) that are tailored to that activity.

Borrowing

2.20 The amount outstanding on a credit union's borrowing must not be more than 20% of its non-deferred shares at the end of more than two quarters (Credit Unions Rulebook Part 5.2). This is substantially the same as the provision that currently applies only to version 1 credit unions. Version 2 credit unions were permitted a higher percentage, but they did not take on the burden of using it, so it is being abolished along with version 2 status.

Investment

2.21 A credit union must only invest in capital-protected products that it intends to hold to maturity (Credit Unions Rulebook Part 6.1). It must not trade securities for profit, putting the credit union's capital at risk. It must make and maintain a written record whether investments satisfy the requirements specified in Credit Unions Rulebook Part 6.5.

2.22 The range and duration of investments formerly available to a version 1 credit union remain available to all credit unions (Credit Unions Rulebook Part 6.2) but the range and duration of investments formerly available to version 2 credit unions now become available to credit unions fulfilling the additional requirements in Credit Unions Rulebook Part 6.4. These requirements are tailored to the extended investment activity.

2.23 There is an addition to the range of investments available (Credit Unions Rulebook Part 6.3(7)). Credit unions fulfilling the requirements in Credit Unions Rulebook Part 6.4 are permitted to invest in other products provided by the specified firms (not just deposits and loans).

Payment services

2.24 Any credit union providing payment services (as defined in the Payment Services Regulations 2009) must satisfy the additional requirements tailored to that activity (in Credit Unions Rulebook Part 7.1). This is intended to ensure that credit union governing bodies fully understand the implications of offering payment services to their members

and that they monitor their businesses appropriately at all times.

Capital

2.25 A credit union must have adequate capital for the particular activities it undertakes (Credit Unions Rulebook Part 8.1). This overarching rule makes clear that it is the responsibility of the credit union to decide how much capital it needs over time, rather than relying on the minimum levels specified in rules.

2.26 A credit union must maintain a capital to total assets ratio of 10% if it has total assets of £10 million, or more than 10,000 members (Credit Unions Rulebook Part 8.8(b)). The increase in the ratio from 8% risk-adjusted brings it into line with internationally-accepted standards and removes the complication of a risk-adjustment that does not align with those standards. The current rule anomalously gives credit for provisioning above minimum levels even where such additional provisioning is, in fact, necessary for prudential reasons. There is a transitional provision in Credit Unions Rulebook Part 18 allowing affected credit unions until 1 October 2018 to reach the new level of 10%.

2.27 If its capital to total assets ratio is less than 10% at the year-end, a credit union must transfer 20% of its profits for that year to general reserve (Credit Unions Rulebook Part 8.9). It may not transfer money from its general reserve for as long as its capital to total assets ratio is less than 10% (Credit Unions Rulebook Part 8.10). The percentages remain unchanged from CREDS, but the transfers in and out are now dictated by the level of the capital to total assets ratio, which is the standard measure of capital adequacy, rather than by the general reserve ratio.

Liquidity

2.28 A credit union must maintain a liquidity ratio of at least 10% at all times (Credit Unions Rulebook Part 9.3). Formerly, to allow for seasonal outflows, it was permissible for the ratio to fall to 5% for a single quarter-end. The PRA does not consider seasonal fluctuations to be so significant now, and credit unions should maintain a level of 10%, rather than 5%, as the level below which the ratio should not fall.

Governance

2.29 A credit union's governing body (committee or board) must report to the members at the Annual General Meeting whether the credit union has complied with the Single Customer View requirements for depositor protection; compliance with these requirements is a fundamental obligation for all credit unions and it is essential that all governing bodies ensure that this is met at all times. The governing body must also report that the credit union has maintained the required insurance against fraud and dishonesty (Credit Unions Rulebook Part 10.1). It must also

report which specified activities the credit union is carrying on, and whether or not it is complying with the ratios and other requirements applying to those activities. The intention of these rules is to impress on governing bodies the fundamental need fully to understand the implications of their strategic decisions before they commit their credit unions to long-term courses of action or non-standard business activities.

2.30 A financial risk management policy statement must be maintained by a credit union carrying on any of the specified activities (additional lending, mortgages, additional investment or payment services). This requirement (in Credit Unions Rulebook Part 10.3) takes account of the greater risks involved in those activities. Formerly, the statement was necessary for version 2 credit unions. Policy statements on liquidity management and lending must still be produced by all credit unions.

General organisational requirements

2.31 A credit union must comply with the general organisational requirements (Credit Unions Rulebook Part 11).

Whistleblowing

2.32 A credit union with total assets of over £25 million must comply with the whistleblowing requirements. These are currently being finalised, following public consultation (CP6/15),⁽¹⁾ which closed on 22 May 2015.

Employees, agents and other relevant staff

2.33 A credit union must comply with the rules on employees, agents and other relevant staff (Credit Unions Rulebook Part 13). These are substantially derived from existing requirements applying to credit unions.

Outsourcing

2.34 A credit union must comply with the rules on outsourcing. For convenience, these are set out separately in Credit Unions Rulebook Part 14.

Internal audit

2.35 A credit union must comply with the rules on internal audit (Credit Unions Rulebook Part 15). These are substantially derived from existing requirements.

Record keeping and information management

2.36 A credit union must comply with the rules on record keeping and information management (Credit Unions Rulebook Part 16). These are substantially derived from existing requirements applying to credit unions.

Business continuity and exit management

2.37 A credit union must comply with the rules on business continuity and exit management (Credit Unions Rulebook Part 17). These are substantially derived from existing requirements applying to credit unions.

Transitionals

2.38 The minimum capital to total assets ratio of 10% will not apply until 1 October 2018 (Credit Unions Rulebook Part 8.1). The ratio will rise to 9% on 1 October 2017 and to 10% on 1 October 2018. This means that no credit union should be put into immediate breach, but should have enough time to adjust to the new ratio.

2.39 Transitional rules in CREDS applying to investments and loans of Northern Ireland credit unions are still considered relevant and will be transposed into the new Rulebook Part.

3 Changes to the FCA Handbook

3.1 The changes to the FCA credit union sourcebook (CREDS) proposed now are primarily to facilitate the proposed PRA changes, and to make some improvements to CREDS. The FCA does not expect these changes to have a material impact on credit unions, as outlined in the Cost Benefit Analysis below.

3.2 The proposed changes are to:

3.2.1 Clarify the responsibilities of the FCA (as distinct from those of the PRA) within the FCA CREDS;

3.2.2 Change some current guidance provisions into rules;

3.2.3 Adjust credit unions' regulatory reporting arrangements; and

3.2.4 Correct oversights, omissions, inconsistencies and outdated provisions.

3.3 The FCA expects to make further changes to CREDS in relation to the recent consultation on the Senior Managers and Certification Regime.⁽²⁾ These have not been incorporated in Appendix 4 as they have not yet formally become part of the FCA Handbook. None of the proposals below conflict with said consultation.

3.4 The proposed changes are discussed further below. The proposed amendments, and the statutory powers under which they will be made, are set out in Appendix 4.

Clarifying responsibilities

3.5 The Financial Services Act 2012⁽³⁾ separated prudential and conduct regulation, dividing responsibilities between the PRA and the FCA respectively. As a result, the prudential

(1) *PRA Consultation Paper CP6/15*, 'Whistleblowing in deposit-takers, PRA-designated investment firms and insurers', February 2015; www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp615.aspx.

(2) *FCA CP14/31/PRA CP28/14*, 'Strengthening accountability in banking: forms, consequential and transitional aspects', December 2014; www.fca.org.uk/your-fca/documents/consultation-papers/cp14-31.

(3) www.legislation.gov.uk/ukpga/2012/21/contents/enacted.

soundness (including capital, liquidity, and associated risk) of credit unions is regulated by the PRA, and their conduct (interaction with their customers) is regulated by the FCA. Both regulators have an interest in credit unions' governance and systems and controls, as well as in competition generally.

3.6 The PRA and the FCA are each obliged to act in a way that furthers their individual objectives. The FCA's three operational objectives are to:

- 3.6.1 Secure an appropriate degree of protection for consumers;
- 3.6.2 Protect and enhance the integrity of the UK financial system; and
- 3.6.3 Promote effective competition in the interests of consumers.

3.7 The PRA and the FCA both currently have responsibility for many of the rules and guidance in CREDS, and these are duplicated in the PRA and FCA Handbooks. The FCA has identified rules and guidance provisions which do not relate specifically to the FCA's objectives, and proposes to revoke these from the FCA Handbook.

3.8 The FCA proposes the changes to clarify its focus in regulating credit unions and to remove unnecessary duplication and potential inconsistency with the PRA's future rulebook.

3.9 The rules and guidance which the FCA proposes to revoke are:

- 3.9.1 CREDS 3 (Investment and borrowing), except for the provisions on how individuals and corporations can lend to credit unions;
- 3.9.2 Elements of CREDS 4 (Shares and deposits), where no conduct impact could be identified; and
- 3.9.3 CREDS 5 (Capital) in its entirety, though one PRA-only requirement will be reinstated in the FCA Handbook (discussed below).

3.10 All of the rules and guidance retained from these chapters in the FCA Handbook will be moved into a new chapter, CREDS 3A (Shares, deposits and borrowing).

3.11 In addition, the FCA will revoke:

- 3.11.1 CREDS 7 (Lending to members) where provisions do not relate to governance, systems and controls, conflicts of interest or interactions with customers; and

3.11.2 Other guidance provisions in CREDS 1 (Introduction) and CREDS 2 (Senior management arrangements, systems and controls), if they relate largely to prudential issues such as capital, liquidity and financial risk.

Question 1 Do you agree with the FCA's proposed changes to revoke rules and guidance in CREDS which do not relate specifically to its objectives, or may be inconsistent with PRA rules?

3.12 The FCA has identified one PRA-only rule (CREDS 5.2.1A) which has significant conduct implications and should be included in the FCA Handbook. This rule requires that credit union subordinated debt agreements must prominently state that the debt is not covered by any compensation scheme. Given the risks to consumers of investing in subordinated debt, the FCA proposes to include this rule in CREDS 3A (Shares, deposits and borrowing).

Question 2 Do you agree with the FCA's proposed rule addressing disclosure on subordinated debt?

Changing guidance on senior management arrangements, systems and controls into rules

3.13 The FCA proposes not to disapply the Senior Management Arrangements, Systems and Controls (SYSC) Sourcebook for credit unions at this stage, but to join the PRA in making rules from some provisions currently contained as guidance in CREDS 2 (where this is consistent with current SYSC provisions). This alignment is intended to help credit unions interpret both Regulators' priorities and should also help harmonise the FCA and PRA's requirements as far as possible.

Question 3 Do you agree with the FCA's proposed changes in CREDS 2?

Adjusting reporting arrangements

3.14 At present, the FCA does not receive credit unions' audited accounts directly. To assist the FCA's supervision of credit unions, it proposes to require that these accounts be provided to the FCA at the same time as to the PRA.

3.15 As the FCA acts as public registrar for mutual societies, it already receives accounts for other mutual societies and makes those available online. The FCA therefore proposes to also make available to the public the accounts that credit unions submit. A number of alternative methods for doing so are included in the proposed amendments in Appendix 4.

Question 4 Do you agree with the FCA’s proposals on receipt and publication of credit unions’ audited accounts?

3.16 Additionally, both the FCA and the PRA currently require credit unions to submit both a quarterly return (CQ) and an annual return (CY) to the PRA, with data on their business and finances.⁽¹⁾ The forms are maintained only in the PRA Handbook at SUP 16 Annex 14. Under SUP 16.12.3R, the FCA requires that these returns be provided only to the PRA.

3.17 Given that the FCA does not normally need to view all regulatory returns that credit unions submit, and that the publicly available Memorandum of Understanding between the FCA and the PRA covers the sharing of data, the FCA does not believe that it is necessary for both regulators to require the CQ and CY returns. Therefore the FCA proposes to remove the guidance in CREDS that refers to these returns and also expects to remove the SUP requirements during a future review of that Sourcebook.

Question 5 Do you agree with the proposed changes to the requirements for submitting the quarterly and annual return?

Corrections and updates

3.18 During its review the FCA has identified areas for improvement to CREDS, and plans to:

3.18.1 Correct errors, such as missing words and outdated links;

3.18.2 Update CREDS 10 ('Application of other parts of the Handbook to credit unions') to correct inconsistencies and duplication with other areas of the Handbook; and

3.18.3 Update transitional provisions and remove references to PRA-only rules, the PRA, and the 'appropriate regulator', given that the FCA's CREDS will now stand alone from the PRA's rules.

Question 6 Do you have any comments on the corrections and updates included in the draft Board Instrument?

(1) This is required in SUP 16.12.5R, as referenced in CREDS 8.2.1G-8.2.4G.

Appendices

-
- 1 PRA Compatibility Statement and cost benefit analysis

 - 2 FCA Compatibility Statement and cost benefit analysis

 - 3 PRA Instruments

 - 4 FCA Instrument

PRA Compatibility Statement and cost benefit analysis

1 PRA Compatibility statement

1.1 The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have different objectives. While both look to meet their own objectives, the PRA and FCA are aware of each other's objectives.

Compatibility with PRA's general duties and regulatory principles

1.2 This appendix sets out how the proposals in this Consultation Paper (CP) are compatible with the general duties and regulatory principles of the PRA.

1.3 The PRA is required, by section 138J(2)(d) of the Financial Services and Markets Act 2000 (FSMA), to explain its reasons for believing that making the proposed rules is compatible with (i) its duty to act in a way which advances its general objective (ie to promote the safety and soundness of PRA-authorized persons), and (ii) its duty to act, so far as is reasonably possible, in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorized persons in carrying on regulated activities.

1.4 The PRA believes these proposals will advance its general objective, as the proposed rules would introduce a flexible framework for raising standards in credit unions, and require enhanced prudential standards where credit unions are engaged in riskier lines of business.

1.5 The PRA has given due weight to the interests of effective competition in evaluating and developing the proposals in this CP, both within the credit union sector and with other deposit-takers.

1.6 The PRA has a statutory requirement under section 138K(2) of FSMA to state whether the impact on mutual societies will be significantly different from the impact on other firms. Although the proposals in this CP are limited to credit unions, which are mutual societies, they are designed to accommodate the development of the sector, alongside other firms carrying on deposit-taking.

1.7 In developing the proposals in this CP, the PRA has had regard to the eight Regulatory Principles which are set out in section 3B of FSMA. Of these, the proportionality principle and the transparency principle are of particular relevance to the current proposals. With regard to these two principles:

1.7.1 The principle of proportionality requires that the burden or restriction imposed by a measure should be proportionate to the benefits which are expected as a result. The PRA has followed this principle when developing the rules outlined in this CP, and has indicated in the CP the key elements of its thinking.

1.7.2 The principle of transparency requires that the PRA should exercise its functions transparently. In this CP, the PRA sets out all the key information relevant to its proposals, and gives respondents the opportunity to comment on the proposals, and the specific rules reflecting those proposals.

2 Cost benefit analysis

2.1 The new prudential credit union rulebook will provide additional clarity on the regulatory framework applicable to credit unions. Most credit unions already operate in line with the requirements proposed and the PRA expects costs of only minimal significance, and no material changes in the effectiveness of competition. Nevertheless, the PRA expects the new requirements to support the resilience of credit unions and their resolvability.

3 Equality and diversity

3.1 The PRA may not act in an unlawfully discriminatory manner. It is also required under the Equality Act 2010 to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions. As part of this the PRA assesses the equality and diversity implications of any new policy proposals. It is our assessment that the proposals in this CP do not give rise to equality and diversity implications, but comments on this are welcomed nonetheless.

2 FCA Compatibility Statement and cost benefit analysis

1 FCA Compatibility Statement

1.1 The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have different objectives. While both look to meet individual objectives, both are aware of the other's.

Compatibility with the FCA's general duties

1.2 This appendix sets out how the proposals in this Consultation Paper (CP) are compatible with the general duties and regulatory principles of the FCA.

1.3 The FCA is required, by section 138I of the Financial Services and Markets Act 2000 (FSMA), to explain why making the proposed rules is compatible with its strategic objective, advances its operational objectives, and has regard to the regulatory principles in section 3B of FSMA.

The FCA's objectives and regulatory principles

1.4 In discharging its general functions, the FCA's duty is, as far as is reasonably possible, to:

1.4.1 Act in a way that is compatible with its strategic objective of ensuring that the relevant markets function well; and

1.4.2 Advance one or more of its operational objectives.

1.5 The proposals are intended to advance the strategic objective of ensuring that the relevant markets function well by:

1.5.1 Bringing the FCA CREDS up-to-date;

1.5.2 Ensuring that it will not conflict with the PRA Rulebook; and

1.5.3 Providing the FCA with relevant information so that it can supervise credit unions effectively.

1.6 The increased ability to supervise effectively advances the operational objectives of protecting both consumers and market integrity.

1.7 The FCA has given due weight to the interests of effective competition in evaluating and developing the proposals in this CP. The FCA does not consider that these proposals — which are limited in scope and do not provide significant extra freedoms or limits on credit unions — are likely to have any adverse impact on effective competition.

1.8 In preparing the proposals in this chapter, the FCA has had regard to the importance of taking action intended to minimise financial crime as part of section 1B(5)(b) of FSMA and the regulatory principles set out in section 3B of FSMA:

Regulatory principle	Compatibility
Proportionality A burden or restriction should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction.	The FCA does not believe that there are great burdens imposed by the proposals in this document. However, it does believe that these changes will assist supervision, and will help managers within credit unions take responsibility for their systems and controls.
Senior management responsibility The responsibilities of senior management of persons subject to requirements imposed by or under FSMA, including those affecting consumers, in relation to compliance with those requirements.	These proposals' increased requirements for credit unions' senior managers to review and understand processes should, in a proportionate manner, encourage responsibility by senior managers within credit unions for their systems and controls.
Recognising the differences in the businesses carried on by different regulated persons The desirability of exercising its function that recognises differences in the nature of the businesses carried on by different persons it regulate.	The FCA has kept in mind throughout its work on CREDS that the credit union movement is distinct from other areas of the financial sector.

2 Equality and diversity

2.1 Neither the PRA nor the FCA may act in an unlawfully discriminatory manner. The FCA is also required under the Equality Act 2010 to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions. As part of this the PRA and the FCA assess the equality and diversity implications of any new policy proposals. The FCA has assessed that the proposals in this CP do not adversely impact any of the groups with protected characteristics ie age, disability, gender, pregnancy and maternity, race, religion and belief, sexual orientation and transgender. The FCA will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when publishing the final rules. In the interim the FCA welcomes any input to this consultation on such matters.

3 Cost benefit analysis

3.1 The FCA is required under sections 138I of FSMA to carry out and publish a cost benefit analysis when proposing draft rules.

3.2 The FCA is proposing to make only minimal changes. These do not impose any significant additional obligations on firms given that they largely replicate existing requirements. The only costs likely to be incurred as a result are from:

3.2.1 Increased expectations on credit unions' governing bodies to review relevant policies and procedures;

3.2.2 Submission of two sets of accounts (to the FCA and the PRA) rather than one set; and

3.2.3 Updating compliance and policies and procedures manuals as appropriate.

3.3 The FCA considers these costs to be of minimal significance; therefore no detailed cost benefit analysis has been conducted.

3.4 The FCA will consider any evidence provided, regarding the costs to firms or benefits to consumers or the market, that may result from the changes set out in this CP as part of this consultation.

PRA RULEBOOK: NON-CRR FIRMS: CREDIT UNIONS INSTRUMENT [YEAR]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Non-CRR Firms: Credit Unions Instrument [YEAR]

- D. The PRA makes the rules in Annexes A to F to this instrument.

Commencement

- E. This instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: Non-CRR Firms: Credit Unions Instrument [YEAR].

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex A

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

Part

CREDIT UNIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. SHARES AND DEPOSITS
3. LENDING
4. MORTGAGES
5. BORROWING
6. INVESTMENT
7. PAYMENT SERVICES
8. CAPITAL
9. LIQUIDITY
10. GOVERNANCE
11. GENERAL ORGANISATIONAL REQUIREMENTS
12. WHISTLEBLOWING
13. EMPLOYEES, AGENTS AND OTHER RELEVANT STAFF
14. OUTSOURCING
15. INTERNAL AUDIT
16. RECORD KEEPING AND INFORMATION MANAGEMENT
17. BUSINESS CONTINUITY AND EXIT MANAGEMENT
18. TRANSITIONALS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *credit union*.

1.2 In this Part, the following definitions shall apply:

additional activity

means an additional activity carried out or additional service provided by a *credit union* as described in Chapters 3, 4, 6 or 7.

authorisation

means authorisation as an *authorised person* for the purposes of *FSMA*.

attached shares

means *shares* in the *credit union*, other than *deferred shares*:

- (a) in relation to a *Great Britain credit union*, the withdrawal of which is not permitted by section 7(5) of the Credit Unions Act 1979; or
- (b) in relation to a *Great Britain credit union*, the withdrawal of which is not permitted by the terms of a loan made to a *member*; or
- (c) in relation to a *Northern Ireland credit union* the withdrawal of which is not permitted by article 23(4) of the Credit Unions (Northern Ireland) Order 1985; or
- (d) the withdrawal of which is not permitted without seeking and obtaining the permission of the *governing body* of the *credit union*.

In relation to a *Great Britain credit union*, paragraph (d) 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 2011 came into force.

bad debt

refers to a loan to a member of a *credit union* where the loan is more than three months in arrears.

borrowings

means the total closing balances of all loans received by a *credit union* (excluding any subordinated loans) and overdrafts and committed lines of credit available to a *credit union*.

capital

has the meaning given in Chapter 8.

Chief Executive function

means the function of having responsibility, under the immediate authority of the governing body, alone or jointly with others, for carrying out the management of the conduct of the whole of the business of a credit union.

CTF

means a child trust fund as defined in section 1(2) of the Child Trust Funds Act 2004.

deferred share

has the meaning given by section 31A of the Credit Unions Act 1979.

deposit

has the meaning given by section 5(2) of the *Regulated Activities Order*.

exposure

means the aggregate *net liability* of a person to a *credit union*.

Great Britain credit union

means a *credit union* within the scope of the Co-operative and Community Benefit Societies Act 2014.

juvenile deposit

a *deposit* received by a *credit union* from someone under the age at which an individual may lawfully become a *member* of that *credit union*.

large exposure

means an aggregate *net liability* of a person to a *credit union* that meets both the following criteria:

- (1) it is at least £7,500; and
- (2) it is at least 10% of the value of the *credit union's* capital.

maturity

means, in relation to a security or loan, the last or only date on which it will be repayable by or under its terms.

member

means a person that is a member within the scope of section 5(2) of the Credit Unions Act 1979 and article 14(2) Credit Unions (Northern Ireland) Order 1985.

net liability

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

net liquid assets

means liquid assets within the meaning given by Chapter 9 less any liabilities payable within 30 days.

net loans

means the total amount outstanding at the quarter-end on all loans to *members*, less provision for *bad debt*.

net zero cost funds

means the sum of *capital* and liabilities excluding any items that are subject to interest or charges.

non-deferred shares

means *shares* that are not *deferred shares*.

non-earning assets

means cash, current account balances (excluding any balances earning interest), pre-paid expenses and fixed assets.

Northern Ireland credit union

means a body corporate registered under the Credit Unions (Northern Ireland) Order 1985.

payment service

has the meaning given in regulation 2 of the Payment Services Regulations 2009.

protected disclosure

a qualifying disclosure, as defined in section 43B of the Employment Rights Act 1996, made by a *worker* in accordance with any of sections 43C to 43H of the Employment Rights Act 1996.

regulated mortgage contract

has the meaning given in article 61(3)(a) of the *Regulated Activities Order*, but excludes a re-mortgage contract with no change to the principal sum outstanding by the same *credit union* that was a party to the original mortgage contract.

relevant staff

means any of the following:

- (1) a *director* or manager of the *credit union*;
- (2) personnel (whether *remunerated* or not) of the *credit union*; as well as any other natural person whose services are placed at the disposal and under the control of the *credit union* and who is involved in the provision by the *credit union* of *regulated activities*; or
- (3) a natural person who is directly involved in the provision of services to the *credit union* under an *outsourcing* arrangement, for the purpose of the provision by the *credit union* of *regulated activities*.

reportable concern

means a concern held by any *person* in relation to the activities of a *firm*, including:

- (1) anything that would be the subject-matter of a *protected disclosure*, including a breach of any *rule*;
- (2) a failure to comply with the *firm's* policy and procedures; and
- (3) behaviour that has or is likely to have an adverse effect on the *firm's* reputation or financial well-being.

secured loan

means a loan that is secured by a readily-realizable asset whose market value is ascertainable and verifiable.

share

means any amount received and not repaid by a *credit union* by way of subscription, including partial subscription, for a share in a *credit union*.

single customer view

has the meaning given in Depositor Protection 1.4.

small credit union

means a *credit union* which has average total gross assets of £25 million or less, determined on the basis of the annual average amount of gross assets calculated across a rolling period of five years or, if it has been in existence for less than five years, across the period during which it has existed (in each case, calculated with reference to the *firm's* annual accounting reference date).

surplus funds

means funds not immediately required for a *credit union's* acceptance of *deposits*, lending and ancillary purposes.

total assets

means the sum of all assets that appear on the balance sheet of the relevant monthly financial statement.

total loans

means the amount outstanding at the quarter-end on all loans to *members*, net of any loans written off during the period.

total relevant liabilities

means the sum of:

- (a) *unattached shares* and *deposits* by persons too young to be *members*; and
- (b) liabilities, other than liabilities for *shares*, with an original or remaining *maturity* of less than three months.

UK domestic firm

means a *firm* that has its registered office or, if it has no registered office, its head office, in the *UK*.

unattached shares

means *shares* that are not *attached shares* or *deferred shares*.

unsecured loan

means a loan that is not a *secured loan*.

worker

has the meaning as defined by section 230(3) of the Employment Rights Act 1996 and as extended under section 43K of the Employment Rights Act 1996.

- 1.3 A reference in this Part to a provision of the Employment Rights Act 1996 includes a reference to the corresponding provision of the Employment Rights (Northern Ireland) Order 1996.

2 SHARES AND DEPOSITS

- 2.1 For the purposes of this Chapter, in relation to a joint account:
- (a) the *shares* attributable to a *member* must be treated by a *credit union* as the amount arrived at by dividing the balance in the joint account by the number of *members* with an interest in that account; and
 - (b) the *juvenile deposits* attributable to an individual must be treated by a *credit union* as the amount arrived at by dividing the balance in the joint account by the number of juvenile depositors with an interest in that account.
- 2.2 Subject to 2.3, a *credit union* must ensure that a *member* does not have *non-deferred shares* in the *credit union* which in aggregate exceed the greater of:
- (1) £15,000; and
 - (2) the lesser of:
 - (a) 1.5% cent of *total non-deferred shares* in the *credit union*; and
 - (b) the limit on the maximum compensation sum payable by the *FSCS* in relation to an *eligible deposit* as set out in Depositor Protection 4, excluding any compensation sum payable for a *temporary high balance*.
- 2.3 In the event of an increase in the percentage of *non-deferred shares* held by a *member* as a result of a reduction in the total *non-deferred shares* occurring after the time at which that *member* last acquired *non-deferred shares* in the *credit union* that would, but for this rule, result in a breach of the limits in 2.2:
- (1) the increase in the percentage of the *non-deferred shares* held by that *member* is disregarded for the purposes of the limits in 2.2; and
 - (2) the *credit union* must not accept subscriptions from that *member*.
- 2.4 A *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.
- 2.5 Subject to 2.6, a *credit union* must ensure that an individual does not have *juvenile deposits* which in aggregate exceed the greater of:
- (1) £10,000; or
 - (2) the lesser of:
 - (a) 1.5% of the *total non-deferred shares* in the *credit union*; and
 - (b) the limit on the maximum compensation sum payable by the *FSCS* relating to an *eligible deposit* as set out in Depositor Protection 4 excluding any compensation sum payable for a *temporary high balance*.
- 2.6 In the event of an increase in an individual's *juvenile deposits* expressed as a percentage of *total non-deferred shares* as a result of a reduction in the *total non-deferred shares* in the *credit union* occurring after the time at which that *individual* last made a *deposit* in the *credit union* that would, but for this rule, result in a breach of the limits in 2.5:
- (1) the increase in *juvenile deposits* expressed as a percentage of the *total non-deferred shares* held by that individual is disregarded for the purposes of the limits in 2.5; and
 - (2) the *credit union* must not accept *deposits* from that *individual*.
- 2.7 A *credit union* must at all times maintain in force a policy of insurance that complies with the requirements in 2.8.
- 2.8 A policy of insurance must, subject to the exception in 2.9:
- (1) 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) insure the *credit union* up to the limits set out in 2.10 in respect of any one claim, except that the liability of the insurer may be restricted to the amounts set out in 2.10 in respect of the total of the claims made in any one year; and
 - (3) not, in relation to a claim, provide for an amount greater than 1% of the limits on any one claim set out in 2.10, to be met by the *credit union*.
- 2.9 From the losses and liabilities against which a policy that complies with the requirements of 2.8 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.

2.10	Column (1)	Column (2)	Column (3)
	Aggregate value of <i>shares</i> and <i>juvenile deposits</i> , including those held in a <i>CTF</i> (for the purposes of this table, "aggregate value")	Cover required in respect of any one claim	Cover required in respect of total claims made in any one year
Row (A)	Less than £10,000	The higher of £500 or 50% of the aggregate value	The higher of £1,000 or 100% of the aggregate value
Row (B)	£10,000 to £100,000	The higher of £5,000 or 20% of the aggregate value	100% of the aggregate value
Row (C)	£100,000 to £1,000,000	The higher of £20,000 or 15% of the aggregate value	The higher of £100,000 or 75% of the aggregate value
Row (D)	More than £1,000,000	£150,000 plus 5% of the amount by which the aggregate value exceeds £1,000,000, subject to a maximum cover of £2,000,000	£750,000 plus 5% of the amount by which the aggregate value exceeds £1,000,000, subject to a maximum cover of £4,000,000

Notes:

(1) In relation to a *credit union* 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 chapter, 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).

(2) For these purposes, "the relevant date" is either the date of inception or renewal of the policy of insurance, or such other date as the *credit union* 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.

3 LENDING

- 3.1 For the purposes of the limits set out in this Chapter, the *attached shares* attributable to a *member* in respect of that *member's* interest in a joint account must be treated by a *credit union* as no more than the amount arrived at by dividing the balance in the joint account by the number of members with an interest in that account.
- 3.2 Subject to 3.3, a *credit union* must not hold an *unsecured loan* that is repayable within more than five years from its provision or a *secured loan* that is repayable within more than ten years from its provision.
- 3.3 A *credit union* that satisfies the following additional requirements must not hold a loan that is repayable within more than ten years from its provision, in relation to an *unsecured loan*, and 25 years, in relation to a *secured loan*:
- (1) *bad debt* must be written off where it is more than twelve months in arrears;
 - (2) total *bad debt* written off over twelve months must not exceed 10% of *total loans*;
 - (3) *bad debt* must not exceed 20% of *total loans*;

- (4) *net assets* must equal or exceed 105% of the sum of subscriptions for *total shares* and *juvenile deposits*;
 - (5) *total shares* must equal or exceed 70% of *total assets* and must not exceed 90% of *total assets*;
 - (6) borrowings must not exceed 5% of *total assets*;
 - (7) *capital* must equal or exceed 10% of *total assets*;

 - (8) *non-earning assets* must not exceed 10% of *total assets*;
 - (9) *net zero cost funds* must equal or exceed 200% of *non-earning assets*;
 - (10) loan income over twelve months must equal or exceed 6% of *total loans*; and
 - (11) *net liquid assets* must equal or exceed 15% of *total shares*.
- 3.4 Subject to 3.5 and 3.6, the outstanding balance of a loan:
- (1) to a *member*, must not exceed £15,000 in excess of that *member's attached shares*;
 - (2) to another *credit union* that is not a *member*, must not exceed £15,000.
- 3.5 The outstanding balance of a loan by a *credit union* that satisfies the requirements in 3.2 to a member must not exceed the greater of:
- (1) £15,000 in excess of that *member's attached shares*; and
 - (2) the lesser of:
 - (a) an amount equivalent to 1.5% of *total non-deferred shares* in excess of that *member's attached shares*; and
 - (b) £500,000.
- 3.6 A *large exposure* must not exceed 25% of the *credit union's capital*.
- 3.7 The aggregate of all *large exposures* must not exceed 500% of the *credit union's capital*.
- 3.8 A *credit union* must not lend to a *member* more than £7,500 in excess of the *attached shares* held by that *member*, or to another *credit union* more than £7,500, unless it has a capital-to-assets ratio of at least 5%.
- 3.9 A *credit union* that is owed by a *member* a total amount greater than £7,500 in excess of the *attached shares* held by that *member*, or by another *credit union* an amount greater than £7,500, must maintain a capital-to-total-assets ratio of at least 5%.
- 3.10 A *credit union* must make adequate provision for *bad debts*.

- 3.11 A *credit union* must make specific provision in its accounts for *bad 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;
 - (2) 60% of the *net liability* to the *credit union* of borrowers where the amount is more than six months in arrears;
 - (3) 80% of the *net liability* to the *credit union* of borrowers where the amount is more than nine months in arrears;
 - (4) 100% of the *net liability* to the *credit union* of borrowers where the amount is more than twelve months in arrears;
- 3.12 Where a delinquent loan is rescheduled or the arrears capitalised, the provision a *credit union* is required to make immediately prior to the rescheduling or recapitalisation must be maintained until the loan has performed for six months.
- 3.13 A *credit union* must not make a subordinated loan unless it:
- (1) is provided to a *credit union*; and
 - (2) qualifies as capital within the meaning of 8.2.
- 3.14 Prior to the provision of a subordinated loan, a *credit union* must carry out an assessment of the financial implications of making the loan.
- 3.15 A *credit union* must retain, for a period of five years following the date of a subordinated loan, a written record of the assessment in 3.14.

4 MORTGAGES

- 4.1 A *credit union* must not enter into a mortgage contract unless the mortgage that is the subject of the contract is a *regulated mortgage*.
- 4.2 A *credit union* must not enter into a *regulated mortgage* for a term of more than 25 years.
- 4.3 A *credit union* must not be a party to a *regulated mortgage contract* unless it satisfies at all times while it remains a party to that contract the following requirements:
- (1) *bad debt* must be written off where it is more than twelve months in arrears;
 - (2) total *bad debt* written off over twelve months must not exceed 10% of *total loans*;
 - (3) *net assets* must equal or exceed 105% of the sum of total *shares* and *juvenile deposits*;
 - (4) total *shares* must equal or exceed 70% of *total assets* and must not exceed 90% of *total assets*;
 - (5) borrowings must not exceed 5% of *total assets*;

- (6) capital must equal or exceed 10% of *total assets*;
- (7) *bad debt* that is more than three months in arrears must not exceed 20% of *total loans*;
- (8) *non-earning assets* must not exceed 10% of *total assets*;
- (9) *net zero cost funds* must equal or exceed 200% of *non-earning assets*;
- (10) loan income over twelve months must equal or exceed 6% of *total loans*;
- (11) *net liquid assets* must equal or exceed 15% of *total shares*; and
- (12) *net loans* must equal or exceed 40% of *total assets* and must not exceed 80% of *total assets*.

5 BORROWING

- 5.1 A *credit union* must not borrow from a natural person other than by subordinated loan qualifying as capital within the meaning given in 8.2.
- 5.2 A *credit union's borrowings* must not exceed 20% of the total *non-deferred shares* in the *credit union* at the end of more than two consecutive regulatory reporting quarters.
- 5.3 A *credit union* must not count subordinated debt obtained by that *credit union* and forming part of its capital within the meaning given in 8.2 towards the borrowing limit in 5.2.

6 INVESTMENT

- 6.1 For the purposes of this Chapter, a loan is not an investment if it is provided by a *credit union* on subordinated terms.
- 6.2 *Surplus funds* must be invested in capital-protected products in accordance with this Chapter or held as cash in the custody of *officers* of a *credit union*.
- 6.3 Subject to 6.4, a *credit union* must not hold investments, save that it may hold an investment that is:
 - (1) a *deposit* placed with an institution which is authorised in an *EEA State* to *accept deposits* on terms that the *deposit* shall be repayable within at most twelve months from the date on which the *deposit* is made;
 - (2) a loan, other than a subordinated loan qualifying as capital within the meaning given in 8.2, to an institution which is authorised in an *EEA State* to *accept deposits*, with a *maturity* of up to twelve months from the date on which the *investment* is made;
 - (3) a sterling-denominated security issued by the government of an *EEA State*, with a *maturity* of up to twelve months from the date on which the *investment* is made; or
 - (4) a fixed-interest sterling-denominated security guaranteed by the government of an *EEA State*, with a *maturity* of up to twelve months from the date on which the *investment* is made, provided that such guarantee is unconditional in respect of the payment of both principal and interest on the security.

6.4 A *credit union* which at all times while holding such investment satisfies the additional requirements at 6.5 may hold an investment that is:

- (1) a *deposit* placed with an institution which is authorised in an *EEA State* to *accept deposits* on terms that the *deposit* shall be repayable within at most twelve months from the date on which the *deposit* is made;
- (2) a loan with a *maturity* of up to five years, other than a subordinated loan qualifying as capital within the meaning given in 8.2, to an institution which is authorised in an *EEA State* to *accept deposits*;
- (3) a sterling-denominated security issued by the government of an *EEA State*, with a *maturity* of up to five years from the date on which the *investment* is made;
- (4) a fixed-interest sterling-denominated security guaranteed by the government of an *EEA State*, with a *maturity* of up to five years from the date on which the *investment* is made, provided that such guarantee is unconditional in respect of the payment of both principal and interest on the security; or
- (5) any other product provided by an institution authorised in an *EEA State* to *accept deposits*, with a *maturity* of up to five years from the date on which the *investment* is made.

6.5 The additional requirements referred to at 6.4 are the following:

- (1) total *shares* must equal or exceed 70% of *total assets* and must not exceed 90% of *total assets*;
- (2) borrowings must not exceed an amount that is equal to 5% of *total assets*;
- (3) *capital* must equal or exceed an amount that is equal to 10% of *total assets*;
- (4) *bad debt* must not exceed 20% of *total loans*;
- (5) *non-earning assets* must not exceed an amount that is equal to 10% of *total assets*;
- (6) *net zero cost funds* must equal or exceed 200% of *non-earning assets*; and
- (7) *net liquid assets* must equal or exceed 15% of total *shares*.

6.6 Prior to making an investment decision, a *credit union* must carry out an assessment to satisfy itself that:

- (1) it has sufficient liquidity to tie-up the relevant funds for the life of the product;
- (2) it can afford to sacrifice any haircut on early redemption;
- (3) by comparison with other possible uses of the funds in question, the potential return merits the risk of investment for the period to *maturity* of the *investment*, including the risk of no positive return; and
- (4) the investment would not create source or time band concentrations.

6.7 A *credit union* must retain, for a period of five years following the date of the investment, a written record of the assessment in 6.6.

7 PAYMENT SERVICES

- 7.1 A *credit union* that provides *payment services* must at all times while providing such services satisfy the following additional requirements:
- (1) *bad debt* must be written off where it is more than twelve months in arrears;
 - (2) total *bad debt* written off over twelve months must not exceed 10% of *total loans*;
 - (3) *bad debt* must not exceed 20% of *total loans*;
 - (4) *net assets* must equal or exceed 105% of the sum of *shares* and *juvenile deposits*;
 - (5) total *shares* must equal or exceed 70% of *total assets* and must not exceed 90% of *total assets*;
 - (6) borrowings must not exceed 5% of *total assets*;
 - (7) *non-earning assets* must not exceed 10% of *total assets*;
 - (8) *net zero cost funds* must equal or exceed 200% of *non-earning assets*;
 - (9) loan income over twelve months must equal or exceed 6% of *total loans*;
 - (10) *net liquid assets* must equal or exceed 15% of total shares; and
 - (11) *net loans* must equal or exceed 40% of *total assets* and must not exceed 80% of *total assets*.

8 CAPITAL

- 8.1 A *credit union* must have adequate capital taking into account the nature, scale and complexity of its business.
- 8.2 For the purposes of this Chapter,
- (1) capital comprises the following items:
- (a) audited reserves;
 - (b) interim net profits;
 - (c) *deferred shares*;
 - (d) subordinated debt that meets the requirements set out at (5); and
 - (e) revaluation reserves, arising from the differences between book values and the current market values of property fixed assets that meet the requirements in (6) and (7) and are subject to the limit in 8.3.

(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* and include other realised gains and gifts of capital. *Deferred shares* are included in the definition, 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 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) 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, tax liabilities and *bad debt*, but before the payment of any dividend.

(4) interim net profits are interim profits net of tax and anticipated dividends (any interim losses must be deducted from capital).

(5) 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; and
- (h) the debt must be unsecured and fully paid up.

(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 professional valuations of each property;
- (c) no professional valuation of a property can be more than five years old and, in the intervening year or years in which a property is not professionally valued,

the *governing body* must have undertaken an interpolation of value which takes into account any decline in property values disclosed by valuations of other properties in that year or those years; and

- (d) any increase of revaluation reserve must be supported by a professional valuation.

(7) subject to the conditions in (6), and the limit in 8.3, the amount of revaluation reserve used for the calculation of capital must be the lesser of:

- (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 PRA as may be required by the PRA under *rules*; and
- (b) the amount of any such reserve in the accounting records of the *credit union*.

8.3 The amount of revaluation reserve that a *credit union* is permitted to include in the calculation of its capital must not exceed 25% of the *credit union's* capital.

8.4 The amount of any subordinated loan that qualifies as capital must, over its final four years to *maturity* or, where the subordinated loan requires repayment in tranches, over the final four years to *maturity* of each tranche, be written down by a *credit union* by 20% of the amount of the loan or tranche per year.

8.5 The capital of a *credit union* must equal or exceed 3% of total assets.

8.6 The capital of a *credit union* must equal or exceed:

- (a) 5% of total assets if that *credit union* has total assets of more than £5 million or more than 5,000 *members*; and
- (b) 10% of total assets if that *credit union* has total assets of more than £10 million or more than 10,000 *members*.

8.7 If, at the end of any year of account, the amount of its capital is less than 10% of its *total assets*, a *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 capital up to 10% of its *total assets*).

8.8 A *credit union* must not make a transfer from its general reserve if its capital is equal to an amount that is less than 10% of *total assets* or if as a result of such a transfer its capital would be reduced to an amount that is less than 10% of *total assets*.

9 LIQUIDITY

9.1 For the purposes of this Part, and subject to 9.2, a *credit union* must not count an asset as a liquid asset unless it is cash or can be realised for cash within eight *days*.

9.2 A *credit union* must not count:

- (1) an amount loaned to another *credit union*; or
- (2) a property purchased, or held by it, as premises from which to conduct its business, as a liquid asset.

- 9.3 The amount and composition of liquid assets held by a *credit union* must be prudent and appropriate to the nature, scale and complexity of its business, having regard to material risks, including the risk of a sudden adverse cash flow.
- 9.4 A *credit union* must hold liquid assets equal to at least 10% of its *total relevant liabilities*.
- 9.5 When calculating the ratio of its liquid assets to its *total relevant liabilities*, a *credit union* must value a security with a maturity of one to five years on the basis that it could be realised at market value minus a discount of 5%.
- 9.6 An asset maturing on a day that is not a *business day* must be treated by a *credit union* as maturing on the next *business day*.

10 GOVERNANCE

- 10.1 A *credit union* must ensure that the *governing body* reports to the *members* at the annual general meeting of the *credit union* on the following matters:
- (1) the *credit union's* compliance, or non-compliance, with any requirement relating to the *single customer view* in the Depositor Protection Part, including any relevant transitional provision in the Depositor Protection Part;
 - (2) whether the *credit union* has maintained at all times a policy of insurance complying with 2.7; and
 - (3) any *additional activities* the *credit union* is carrying out and whether or not it is in compliance with any requirement in this Part applicable to those *additional activities*.
- 10.2 A *credit union* must:
- (1) establish, maintain and implement an up-to-date lending policy statement approved by the *governing body* that is designed to protect the viability and sustainability of the *credit union*;
 - (2) ensure that its lending policy statement is prudent and appropriate to the scale and nature of the its business; and
 - (3) review and approve its lending policy whenever there is a change in circumstances of the *credit union* and, in the absence of any such change, on an annual basis.
- 10.3 A *credit union* carrying out any *additional activity* must:
- (1) establish, maintain and implement an up-to-date financial risk management policy statement approved by the *governing body*; and
 - (2) ensure that the financial risk management policy:
 - (a) addresses both interest rate and funding risk;
 - (b) covers aggregate limits on holdings of investments and borrowings from sources other than *members*;
 - (c) deals with avoidance of funding concentrations (both source and time-band concentrations); and
 - (d) details the organisational arrangements, systems and controls in respect of these matters.

- 10.4 A *credit union* referred to in 10.3 must ensure that the *governing body* reviews and approves its financial risk management policy whenever there is a change in circumstances of the *credit union* and, in the absence of any such change, on an annual basis.
- 10.5 A *credit union* must:
- (1) establish, maintain and implement an up-to-date liquidity management policy statement approved by the *governing body*; and
 - (2) ensure that the *governing body* reviews and approves its liquidity management policy statement whenever there is a change in circumstances of the *credit union* and, in the absence of any such change, on an annual basis.
- 10.6 A *credit union* must ensure that:
- (1) it sets and documents large *exposure* limits in a large *exposure* limits policy to avoid concentration of risk;
 - (2) the *governing body's* responsibilities include the monitoring of large *exposures* and the review of the *credit union's* compliance with the large *exposures* policy; and
 - (3) the *governing body* reviews the large *exposures* limits policy whenever there is a change in circumstances of the *credit union* and, in the absence of any such change, on an annual basis.
- 10.7 (1) A *credit union* must send to the *PRA* a copy of its audited accounts published in accordance with section 82 of the Co-operative and Community Benefit Societies Act 2014 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order 1985.
- (2) The accounts referred to in (1) 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 *PRA* as may be required by the *PRA* under *rules*, unless they have been submitted already.

11 GENERAL ORGANISATIONAL REQUIREMENTS

- 11.1 A *credit union* must establish, maintain and implement:
- (1) robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility;
 - (2) effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and
 - (3) adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the *credit union*, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.

- 11.2 A *credit union* must ensure that the arrangements, processes and mechanisms referred to in 11.1 are comprehensive and proportionate to the nature, scale and complexity of the risks inherent in its business model and activities.
- 11.3 A *credit union* must establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.
- 11.4 A *credit union* must establish, maintain and implement a fully documented system of control, including documenting the system of control it is required to establish and maintain under section 75 of the Co-operative and Community Benefit Societies Act 2014 or under article 40 of the Credit Unions (Northern Ireland) Order 1985.
- 11.5 A *credit union* must ensure that the *governing body* defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the *credit union*, including the segregation of duties in the organisation and the prevention of conflicts of interest. The *credit union* must ensure that the *governing body*:
- (1) has overall responsibility for the *credit union*;
 - (2) approves and oversees implementation of the *credit union's* strategic objectives, risk strategy and internal governance;
 - (3) ensures the integrity of the *credit union's* accounting and financial reporting systems, including financial and operational controls and compliance with the *regulatory system*;
 - (4) oversees the process of disclosure and communications;
 - (5) has responsibility for providing effective oversight of individuals who effectively direct the business of the *credit union*; and
 - (6) monitors and periodically assesses the effectiveness of the *credit union's* governance arrangements and takes appropriate steps to address any deficiencies.
- 11.6 A *credit union* must ensure that the chairman of the *governing body* does not exercise simultaneously the *Chief Executive function* within the *credit union*, where there is such a function within the *credit union*.
- 11.7 A *credit union* must establish, maintain and implement an up-to-date business plan approved by the *governing body*.
- 11.8 A *credit union* must establish, maintain, and implement an up-to-date and fully documented policies and procedures manual.

12 WHISTLEBLOWING

- 12.1 A *credit union* other than a *small credit union* must establish, maintain and implement appropriate and effective arrangements for the disclosure of *reportable concerns* by a person, including a *firm's employees*, internally through a specific, independent and autonomous channel.
- 12.2 The channel in 12.1 may be provided through arrangements with third parties, including social partners, subject to any applicable requirement under Chapter 14.

- 12.3 A *credit union* other than a *small credit union* must inform all *workers* of the channel referred to in 12.1.
- 12.4 A *credit union* other than a *small credit union* must inform all *workers*:
- (1) that they may disclose directly to the *PRA* or to *the FCA* anything that would be the subject-matter of a *protected disclosure*;
 - (2) of what would constitute a *protected disclosure*;
 - (3) that the *PRA* or *the FCA* are prescribed persons under the Employment Rights Act 1996 and the effect of making a *protected disclosure* to the *PRA* or to *the FCA*; and
 - (4) of the means available to make a protected disclosure to the *PRA* or *the FCA*.
- 12.5 A *credit union* other than a *small credit union* must ensure that nothing in any employment contract or settlement agreement between the *credit union* and a *worker* in relation to the *worker's* employment, entered into after the date on which these *rules* come into force, discourages the *worker* from:
- (1) making a *protected disclosure*, including to the *PRA*; and
 - (2) making a further *protected disclosure* connected to a *protected disclosure* already made under (1).

13 EMPLOYEES, AGENTS AND OTHER RELEVANT STAFF

- 13.1 A *credit union* must ensure that the *governing body*:
- (1) is competent to control the affairs of a *credit union*; and
 - (2) has an appropriate range of skills and experience relevant to the activities carried on by the *credit union*.
- 13.2 A *credit union* must employ personnel (whether or not they are *remunerated*) with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
- 13.3 A *credit union* must ensure that:
- (1) the performance of multiple functions by its *relevant staff* does not and is not likely to prevent those staff from discharging any particular functions soundly, honestly and professionally; and
 - (2) its *senior personnel* define arrangements concerning the segregation of duties within the *credit union* and the prevention of conflicts of interests.
- 13.4 A *credit union* must ensure appropriate segregation of duties in order to minimise the risk of contravention of requirements and standards under the *regulatory system*.

14 OUTSOURCING

- 14.1 For the purposes of this Chapter, an operational function is regarded as critical or important if a defect or failure in its performance would materially impair the continuing compliance of a *credit union* with the conditions and obligations of its *authorisation* or its other obligations under the *regulatory system*, or its financial performance, or the soundness or the continuity of its *relevant services and activities*.

- 14.2 Without prejudice to the status of any other function, the following functions will not be considered critical or important for the purposes of this Chapter:
- (1) the provision to the *credit union* of advisory services, and other services which do not form part of the *regulated activities* of the *credit union*, including the provision of legal advice to the *credit union*, the training of personnel of the *credit union*, billing services and the security of the *credit union's* premises and personnel; and
 - (2) the purchase of standardised services, including market information services and the provision of price feeds.
- 14.3 If a *credit union outsources* critical or important operational functions or any *regulated activities*, it remains fully responsible for discharging all of its obligations under the *regulatory system* and must comply, in particular, with the following conditions:
- (1) the *outsourcing* must not result in the delegation by *senior personnel* of their responsibility;
 - (2) the relationship and obligations of the *credit union* towards its *members* under the *regulatory system* must not be affected;
 - (3) the conditions with which the *credit union* must comply in order to be *authorised*, and to remain so, must not be undermined; and
 - (4) none of the other conditions subject to which the *credit union's authorisation* was granted must be removed or modified.
- 14.4 A *credit union* must exercise due skill and care and diligence when entering into, managing or terminating any arrangement for the *outsourcing* to a service provider of critical or important operational functions or of any *regulated activities*.
- 14.5 A *credit union* must in particular take the necessary steps to ensure that the following conditions are satisfied:
- (1) the service provider must have the ability, capacity, and any *authorisation* required by law to perform the *outsourced* functions, services or activities reliably and professionally;
 - (2) the service provider must carry out the *outsourced* services effectively, and to this end the *credit union* must establish methods for assessing the standard of performance of the service provider;
 - (3) the service provider must properly supervise the carrying out of the *outsourced* functions, and adequately manage the risks associated with the *outsourcing*;
 - (4) appropriate action must be taken if it appears that the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;
 - (5) the *credit union* must retain the necessary expertise to supervise the *outsourced* functions effectively and to manage the risks associated with the *outsourcing*, and must supervise those functions and manage those risks;
 - (6) the service provider must disclose to the *credit union* any development that may have a material impact on its ability to carry out the *outsourced* functions effectively and in compliance with applicable laws and regulatory requirements;

- (7) the *credit union* must be able to terminate the arrangement for the *outsourcing* where necessary without detriment to the continuity and quality of its provision of services to *members*;
 - (8) the service provider must co-operate with the *PRA* in connection with the *outsourced* activities;
 - (9) the *credit union*, its auditors and the *PRA* must have effective access to data related to the *outsourced* activities, as well as to the business premises of the service provider; and the *PRA* must be able to exercise those rights of access;
 - (10) the service provider must protect any confidential information relating to the *credit union* and its *members*; and
 - (11) the *credit union* and the service provider must establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities where that is necessary having regard to the function, service or activity that has been *outsourced*.
- 14.6 A *credit union* must ensure that the respective rights and obligations of the *credit union* and of the service provider are clearly allocated and set out in a written agreement.

15 INTERNAL AUDIT

- 15.1 A *credit union* must establish and maintain an internal audit function.
- 15.2 The internal audit function referred to in 15.1 may either be:
- (1) in-house; or
 - (2) subject to any applicable requirement in this Part relating to *outsourcing*, *outsourced* to a third party.

16 RECORD-KEEPING AND INFORMATION MANAGEMENT

- 16.1 A *credit union* must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable the *PRA* to monitor the *credit union's* compliance with the requirements under the *regulatory system*, and in particular to ascertain that the *credit union* has complied with all obligations with respect to *members*.
- 16.2 A *credit union* must maintain information systems to:
- (1) enable the *governing body* to direct and control the *credit union's* business effectively; and
 - (2) enable the *credit union* to provide the information required by the *PRA*.
- 16.3 A *credit union* must ensure that the *governing body* satisfies itself that:
- (1) the information 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 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; and
- (5) actual performance is compared with planned and previous performance.

16.4 A *credit union* must ensure that any quarterly and annual returns that may be required by the *PRA* under *rules* are reviewed at a sufficiently senior level before they are submitted to the *PRA*. The review must check for consistency between:

- (1) different returns;
- (2) various tables on the same return; and
- (3) the returns and information prepared for the *governing body*.

17 BUSINESS CONTINUITY

- 17.1 A *credit union* must put in place contingency arrangements to ensure it could continue to operate and comply with its regulatory obligations in the event of an unforeseen interruption, such as a complete failure of IT systems or a destruction of premises by fire, which would otherwise prevent the normal operation of the *credit union*.
- 17.2 Business continuity arrangements must be reviewed and tested regularly in order to ensure their effectiveness.

18 TRANSITIONALS

- 18.1 For the period from 1 October 2016 to 30 September 2017, the reference to “10%” in 3.3(7), 4.3(6), 6.5(3) and 8.6(b) is replaced by “8%”.
- 18.2 For the period from 1 October 2017 to 30 September 2018, the reference to “10%” in 3.3(7), 4.3(6), 6.5(3) and 8.6(b) is replaced by “9%”.
- 18.3 A *Northern Ireland credit union* need not comply with Chapter 6 with respect to any security invested in, or loan made, prior to 31 March 2012 provided that the security or loan matures in accordance with the terms of the relevant agreement in effect on 31 March 2012.
- 18.4 A *Northern Ireland credit union* need not comply with Chapter 3 with respect to any loan outstanding on 31 March 2012 provided that the loan remains repayable in accordance with the terms of the relevant loan agreement in effect on 31 March 2012.

Annex B

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definitions:

...

depositor

means the holder or, in the case of a *joint account*, each of the holders, of a *deposit*.

...

eligible deposit

has the meaning given in Depositor Protection 2.

...

temporary high balance

means, in relation to a *depositor* who is an individual, that part of an *eligible deposit* in excess of the coverage level set out in Depositor Protection 4.2 which meets the additional criteria set out in Depositor Protection 10.2.

...

Annex C

Amendments to the Auditors Part

In this Annex, deleted text is struck through and new text is underlined.

1 APPLICATION

1.1 This Part applies to:

(1) every *firm*, except for: ~~an incoming firm that does not have a top-up permission; and~~
a. a credit union; and

b. an incoming firm that does not have a top-up permission; and

(2) the external auditor of such a *firm* (if appointed under 2 or appointed under or as a result of a statutory provision other than in *FSMA*).

...

Annex D

Amendments to the Information Gathering Part

In this Annex, new text is underlined.

1. APPLICATION

1.1 This Part applies to every *firm* except a credit union.

...

Annex E

Amendments to Management Expenses in the Relevant Schemes Part

In this Annex, new text is underlined.

1. APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) the *FSCS*;
- (2) a *firm other than a credit union*;
- (3) a *dormant account fund operator*, and
- (4) the *Society*.

...

Annex F

Amendments to the Depositor Protection Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 Unless otherwise stated, this Part applies to:

...

~~depositor~~

~~means the holder or, in the case of a joint account, each of the holders, of a deposit.~~

...

~~eligible deposit~~

~~has the meaning given in Depositor Protection 2.~~

...

~~temporary high balance~~

~~means, in relation to a depositor who is an individual, that part of an eligible deposit in excess of the coverage level set out in 4.2 which meets the additional criteria set out in 10.2.~~

...

HANDBOOK (CREDIT UNIONS) CONSEQUENTIALS INSTRUMENT [YEAR]**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Commencement

- D. This instrument comes into force on [DATE].

Amendments to the PRA Handbook

- E. The modules of the PRA’s Handbook 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 1
Senior Management Arrangements, Systems and Controls manual (SYSC)	Annex 2
Credit Unions sourcebook (CREDS)	Annex 3
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex 4

Citation

- F. This instrument may be cited as the Handbook (Credit Unions) Consequential Instrument [YEAR].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex 1
Amendments to the Glossary

In this Annex, deleted text is struck through.

...

CREDS

~~———— means the Credit Unions sourcebook in the PRA Handbook~~

...

Annex 2

Amendments to the Senior Management Arrangements, Systems and Controls manual (SYSC)

In this Annex, underlining indicates new text.

...

SYSC 1.1A.1 G

The application of this sourcebook is summarised at a high level in the following table. The detailed application is cut back in SYSC 1 Annex 1 and in the text of each chapter.

Type of firm	Applicable chapters
<i>Insurer</i>	Chapters 2, 3, 11 to 18, 21
<i>Managing agent</i>	Chapters 2, 3, 11, 12, 18, 21
<i>Society</i>	Chapters 2, 3, 12, 18, 21
Every other <i>firm</i> , <u>other than a <i>credit union</i></u>	Chapters 4 to 12, 18, 19A, 21

...

SYSC 1.4 – Application of SYSC 11 to SYSC 21

- 1.4.1 G The application of each of chapters SYSC 11 to SYSC 21 is set out in those chapters and in SYSC 1.4.1A R and SYSC 1.4.1C R.
- 1.4.1A R SYSC 12, SYSC 19A, SYSC 20 and SYSC 21 do not apply to a *firm* in relation to its carrying on of *auction regulation bidding*.
- 1.4.1B G Apart from SYSC 12, SYSC 19A, SYSC 20 and SYSC 21 which are disapplied by SYSC 1.4.1A R, the other chapters of SYSC 11 to SYSC 17 do not apply in relation to a *firm's* carrying on of *auction regulation bidding* because they only apply to an *insurer*. SYSC 18 provides guidance on the Public Interest Disclosure Act.
- 1.4.1C R SYSC 11 to SYSC 21 do not apply to a *credit union*.

...

SYSC 1 Annex 1 – Detailed application of SYSC

Part 2	Application of the common platform requirements (SYSC 4 to 10)	
	Who?	
2.1A	R	The <i>common platform organisational requirements</i> apply to every <i>firm</i> apart from a <u><i>credit union</i></u> , a <i>CRR firm</i> , an <i>insurer</i> , a <i>managing agent</i> and <i>the Society</i> unless provided otherwise in a specific <i>rule</i> .

...

Annex 3

Amendments to the Credit Unions sourcebook (CREDS)

The Credit Unions sourcebook (CREDS) is deleted in its entirety.

Annex 4

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

In this Annex, new text is underlined and deleted text is struck through.

...

Application: credit unions

4.1.8R This chapter does not apply to a credit union.

- ~~(1) a 'small 'credit union' (see Credit Unions 1.2); or that is one with:~~
- ~~(a) assets of £5 million or less; and~~
 - ~~(b) a total number of members of 5,000 or less (see CREDS 5.3.13 R); or~~
- ~~(2) a credit union whose Part 4A permission includes mortgage lending or mortgage administration (or both) but not insurance mediation activity or mortgage mediation activity.~~

4.1.9G

- ~~(1) For credit unions to which this chapter applies and which are not CTF providers, the capital requirements will be the higher of the requirements in this chapter and in the Credit Unions sourcebook (see ■ MIPRU 4.2.6 R).~~
- ~~(2) For credit unions to which this chapter applies and which are CTF providers with permission to carry on designated investment business, the capital requirements will be the highest of the requirements in this chapter, those in the Credit Unions sourcebook and in the Interim Prudential sourcebook for investment businesses (see ■ MIPRU 4.2.6 R).~~
- ~~(3) A credit union cannot carry on home purchase activities or reversion activities because the Credit Unions Act 1979 (in relation to Great Britain credit unions) and the Credit Unions (Northern Ireland) Order 1985 (in relation to Northern Ireland credit unions) restricts the circumstances whereby credit unions can hold land.~~

...

Capital resources requirement: credit unions

~~4.2.6 The capital resources requirement for a credit union to which this chapter applies is the highest of:~~

- ~~(1) the requirement which is applied to firms carrying on mediation activities only (see ■ MIPRU 4.2.11 R) treating that rule as applying to the credit union by disregarding activities which are not insurance mediation activity or mortgage mediation activity;~~
- ~~(2) the amount which is applied by the Credit Unions sourcebook; and~~

...

~~(3) if the credit union is a CTF provider that has a permission to carry on designated investment business, the amount which is applied by Chapter 8 of the Interim Prudential sourcebook for investment businesses.~~

...

~~4.2.9 Unless any of the rules on capital resources for firms carrying on designated investment business, for credit unions or for social housing firms apply, the capital resources requirement for a firm varies according to the regulated activity or activities it carries on.~~

...

The calculation of a firm's capital resources

4.4.1

(2) If the *firm* is subject to the Interim Prudential sourcebook for investment businesses, the Prudential sourcebook for Investment Firms and the EU CRR, the General Prudential sourcebook, or the Prudential sourcebook for Banks, Building Societies and Investment Firms or the Credit Unions sourcebook, the capital resources are the higher of:

- (a) the amount calculated under (1); and
- (b) the financial resources calculated under those sourcebooks and regulations.

...

CREDIT UNIONS SOURCEBOOK (AMENDMENT NO 8) INSTRUMENT 2015

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in or under the following provisions of the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 138C (Evidential provisions); and
 - (4) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

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

Amendments to the FCA Handbook

- D. The Credit Unions sourcebook (CREDS) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Credit Unions Sourcebook (Amendment No 8) Instrument 2015.

By order of the Board of the Financial Conduct Authority
[*date*]

Annex

Amendments to the Credit Unions sourcebook (CREDS)

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

Part 1: Amended and deleted text

1 Introduction

1.1 Application and purpose

Application

...

1.1.2 G ...

(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 4A permission* includes *insurance mediation activity* or ~~*mortgage home finance 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*. [deleted]~~

Purpose

...

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 [...]~~ of the Reader's Guide for further explanation about the significance of these icons. The Reader's Guide can be found at <http://www.fca.org.uk/your-fca/documents/handbook/handbook-readers-guide>

2 Senior management arrangements, systems and controls

2.1 Application and purpose

...

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 and guidance* 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 *SYSC 10* and *SYSC 21* 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 in respect of both their regulated and their unregulated activities. 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 ~~appropriate regulator~~ *FCA* because they impinge on the ~~appropriate regulator's function~~ *FCA's functions* under the *Act*;

...

2.2 General provisions

Appropriate systems and controls

...

- 2.2.3 G A credit union's systems and controls should be proportionate to the nature, scale and complexity of the activities it undertakes. For instance, a small ~~version 1~~ credit union will not usually be expected to have the same systems and controls as a large ~~version 2~~ credit union one, and a credit union offering only basic savings accounts and loans will not be expected to have the same systems and controls as one offering a wider range of services or riskier products.

Business plan

- 2.2.4 R A *credit union* must establish, maintain and implement an up-to-date business plan approved by the ~~management~~ and supply a copy on request to the ~~appropriate regulator~~ *governing body*.

~~[Note: a transitional provision applies to this rule: see *CREDS TP 1.6*.]~~

...

- 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 appropriate regulator.

~~[Note: a transitional provision applies to this rule: see CREDS TP 1.6.]~~

...

System of control

- 2.2.8 R ...

~~[Note: a transitional provision applies to this rule: see CREDS TP 1.6.]~~

...

- 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 (1) may be relied on as tending to establish contravention of SYSC 4.1.1R (see CREDS 2.2.1G).~~

If a credit union does not have an internal audit function, this may be relied on as tending to establish contravention of SYSC 4.1.1R (see CREDS 2.2.1G).

...

Governing body

- 2.2.14 G Under section 4(1) of, and Schedule 1 to, the Credit Unions Act 1979 or article 8(1) of, and Schedule 1 to, the Credit Unions (Northern Ireland) Order 1985, as appropriate, a *credit union* is required to have a committee of management, managers or other officers, or a board of directors (a governing body). ~~The committee of management~~ This body 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~~ governing body 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~~ 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~~ governing

body has overall responsibility for:

...

- 2.2.17 G The ~~committee of management~~ governing body should meet at least monthly.

...

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~~ governing body to assess if systems are maintained and controls are operating effectively. ...

- 2.2.21 G (1) The ~~committee of management~~ governing body should decide...
- (2) The ~~committee of management~~ governing body should, from time to time, seek confirmation...

- 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~~ governing body, and the powers delegated to others;

...

- (4) the timing, form and purpose of meetings of the ~~committee of management~~ governing body and sub-committees...

...

Accounting records and systems

...

- 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~~ governing body with adequate financial and other information...

...

- (4) to provide the ~~committee of management~~ governing body with sufficient timely and accurate information to assist them to submit the information required or requested by the ~~appropriate regulator~~ FCA.

- 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.
[deleted]~~
- 2.2.28 G ~~The committee of management should satisfy itself 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. [deleted]~~
- 2.2.28A R The governing body must satisfy itself 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.
- ...
- Management information
- ...
- 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 appropriate regulator.
[deleted]~~
- 2.2.33A R A credit union must maintain information systems to enable the governing body to direct and control the credit union's business effectively, and to provide the information required by the FCA.
- 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. [deleted]~~

2.2.34A R The governing body must be satisfied that:

(1) the information available is sufficiently comprehensive 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~~ governing body should consider whether, where relevant, the substance of reports provides a clear statement of: loans, arrears and provisions. These matters should be compared against limits, ratios and other parameters set by the governing body, as well as regulatory requirements.

~~(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. [deleted]~~

Information for the PRA

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 appropriate regulator. 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. [deleted]~~

...

Internal Audit

2.2.40 G *CREDS 2.2.10E* states that a *credit union* ~~should~~ must have an internal audit function.

...

2.2.43 G The purposes of an internal audit are:

...

(2) to provide the ~~committee of management~~ governing body with a continuous appraisal ...

...

(4) to determine whether the *internal controls* established by the ~~committee of management~~ governing body are being maintained properly...

...

(6) to assess whether financial and operating information supplied to the ~~committee of management~~ governing body is accurate...

...

2.2.45 G The internal audit work programme should include items such as:

...

(6) checking minutes and reports of the ~~committee of management~~ governing body and other sub-committees...

...

2.2.46 G The key elements of a satisfactory system of internal audit include the following:

(1) Terms of reference... These should be approved by the ~~committee of management~~ governing body.

...

2.2.48 G The ~~committee of management~~ governing body should be satisfied...

...

2.2.50 G The ~~committee of management~~ governing body should be satisfied...

...

Business planning

...

- 2.2.52 G ~~Version 2 credit unions should submit a copy of their business plan to the PRA. A version 2 credit union making any significant changes to the business plan should provide the PRA with a copy of the amended plan as soon as possible after it has been adopted. [deleted]~~

...

- 2.2.54 G The ~~committee of management~~ *governing body* should have a satisfactory planning system...

...

- 2.2.58 G The ~~committee of management~~ *governing body* should consider the range of possible outcomes...

...

Documentation of policies and procedures

...

- 2.2.60 G ~~Version 2 credit unions should submit a copy of their policy and procedures manual to the PRA. A version 2 credit union making any significant changes to their policies and procedures should provide the PRA with a copy of the amended manual as soon as possible after it has been adopted. [deleted]~~

...

Business continuity

...

- 2.2.61 G The policy and procedures manual should cover all aspects of the *credit union's* operations, including matters such as:

...

- (3) ~~lending, including large exposures~~ (see *CREDS 7.1 to CREDS 7.5 7.2*);

...

- (5) ~~provisioning~~ (see *CREDS 7.5*);

- (6) ~~Liquidity management~~ (see *CREDS 6*);

(7) Financial risk management (~~see CREDS 3~~);

...

CREDS 3 (Investment and borrowing), CREDS 4 (Shares and deposits) and CREDS 5 (Capital) are deleted in their entirety. The deleted text is not shown.

...

7 Lending to members

7.1 Application, purpose and interpretation

...

Purpose

7.1.2 (1) ~~...Principle 4 requires credit unions to maintain adequate financial resources and CREDS 5 sets out the PRA'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). [deleted]~~

...

7.2 General requirements concerning lending policy

...

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

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

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. [deleted]~~

...

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.[deleted]~~

7.2.5A R The credit union's governing body must review and approve its lending policy whenever there is a material change in circumstances of the credit union or its membership or, in the absence of any such change, on an annual basis.

...

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

(a) one of its ~~officers~~ officers or approved persons on terms more favourable than those available to other members of the credit union unless:

...

...

...

7.2.10 G A credit union should have a clear, robust and effective approach to handling arrears and be able to satisfy the ~~appropriate regulator~~ FCA on a continuing basis...

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. [deleted]~~

7.2.12 G ...

(2) 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~~ the lending policy.

CREDS 7.3 (Lending limits), CREDS 7.4 (Large exposures) and CREDS 7.5 (Provisioning) are deleted in their entirety. The deleted text is not shown.

8 Supervision

...

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, reporting frequency and due date in relation to that report are shown in CREDS 8.2.2G. The form can be found at SUP 16 Annex 14(1)R. [deleted]~~

~~[Note: a transitional provision applies to SUP 16.12.5R: see CREDS TP 1.17.]~~

~~[Note: a transitional provision applies in respect of the form to be used at SUP 16 Annex 14(1)R (see CREDS TP 1.4).]~~

- 8.2.2 G This table belongs to CREDS 8.2.1G [deleted]

Content of report	Form	Frequency	Due date
Key financial data	CQ	Quarterly	One month 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, reporting frequency and due date in relation to that report are shown in CREDS 8.2.4G. The form can be found at SUP 16 Annex 14(2)R. [deleted]~~

~~[Note: transitional provisions apply to the requirement in SUP 16.12.5R (see) and in respect of the form to be used at SUP 16 Annex 14(2)R (see CREDS TP 1.14).]~~

~~[Note: a transitional provision applies to SUP 16.12.5R: see CREDS TP 1.18.]~~

- 8.2.4 G This table belongs to CREDS 8.2.3G [deleted]

Content of report	Form	Frequency	Due date
Extended financial data	CY	Annually	Six months 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. [deleted]~~

Accounts and audit

- 8.2.6 R (1) Every credit union must send to the *PRA FCA* a copy of its audited accounts ~~published~~ produced in accordance with ~~section 3A of the Friendly and Industrial and Provident Societies Act 1968~~ section 83 of the Industrial and Provident Societies Act 2014 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order 1985.
- (2) The accounts must:

...

- (b) ~~accompany the annual return submitted to the *PRA* under *SUP 16.12.5R* (see *CREDS 8.2.3G*), unless they have been submitted already be delivered to the *FCA* by one of the methods listed in *CREDS 8.2.6AR* no later than six months after the *credit union's* financial year end.~~

8.2.6A R The methods referred to in *CREDS 8.2.6R(2)(b)* are:

- (1) by e-mail to mutual.societies@fca.org.uk; or
- (2) by post to Mutuels Team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS.

8.2.7 R Every *credit union* must ~~supply~~ make available 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 ~~*PRA*~~ *FCA* 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 policy and procedures on financial penalties are given in *DEPP*. [deleted]~~

...

9 Complaints reporting rules for credit unions

...

9.2.12 R For the purpose of inclusion in the public record maintained by the *FCA*, a *credit union* must provide the *FCA*, 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 *FCA* of any subsequent change.~~

...

10 Application of other parts of the Handbook to Credit unions

10.1 Application and 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 4A permission to accept deposits.~~

Application of other parts of the Handbook and of Regulatory Guides 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, high-level requirements, some of which are imposed by the <i>FCA</i> and some by the PRA . They provide a general statement of regulatory requirements. The <i>Principles</i> apply to all <i>credit unions</i> . In applying the <i>Principles</i> to <i>credit unions</i> , the appropriate regulator <i>FCA</i> will be mindful of proportionality. In practice, the implications are likely to vary according to the size and complexity of the <i>credit union</i> .
Senior Management Arrangements, Systems and Controls (<i>SYSC</i>)	SYSC 1 and <i>SYSC 4 to 10 and SYSC 21</i> 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 18</i> applies to all <i>credit unions</i> without restriction in respect of both their regulated and their unregulated activities .
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 appropriate regulator <i>FCA</i> of its powers.
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 2</i> 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 appropriate regulator <i>FCA</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 appropriate regulator <i>FCA</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> contains <i>rules and guidance</i> on general matters, including interpreting the <i>Handbook</i> , statutory status disclosure, the appropriate

(GEN)	<i>regulator's FCA's logo and insurance against financial penalties.</i>
...	
<u>Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)</u>	<i>MIPRU applies to any credit union carrying out insurance mediation activity or home finance mediation activity, or using these services. In particular, it sets out requirements for allocation of responsibility for the credit union's insurance mediation activity (MIPRU 2), for the use of home finance intermediaries (MIPRU 5) and for professional indemnity insurance (MIPRU 3).</i>
...	
<u>Insurance: Conduct of Business sourcebook (ICOBS)</u>	<i>ICOBS applies to any credit union carrying out non-investment insurance activities, such as arranging or advising on general insurance contracts to be taken out by members. But ICOBS does not apply to a credit union taking out an insurance policy for itself, such as a policy against default by members on their loans where the credit union is the beneficiary of the policy, since in this circumstance the credit union would not be acting as an insurance intermediary, but would itself be the customer.</i>
<u>Banking: Conduct of Business sourcebook (BCOBS)</u>	<i>BCOBS sets out rules and guidance for credit unions on how they should conduct their business with their customers. In particular there are rules and guidance relating to communications with banking customers banking customers and financial promotions (BCOBS 2), distance communications (BCOBS 3), information to be communicated to banking customers banking customers (BCOBS 4), post-sale requirements (BCOBS 5), and cancellation (BCOBS 6). BCOBS 5.1.13R (Value dating) does not apply to credit unions. The rules in BCOBS 3.1 that relate to distance contracts for accepting deposits are likely to have limited application may apply to a credit union. This is because the Distance Marketing Directive only applies where there is "an organised distance sales or service-provision scheme run by the supplier" (Article 2(a)), i.e. if the credit union routinely sells any of its services by post, telephone, fax or the internet. If, therefore, the credit union normally operates face to face and has not set up facilities to enable customers to deal with it at a distance, such as facilities for a customer to deal with it purely by post, telephone, fax or the Internet, the provisions will not be relevant.</i>
<u>Mortgages and Home Finance: Conduct of Business sourcebook (MCOB)</u>	<i>MCOB applies to any credit union that engages in any home finance activity, including any first charge residential mortgage lending or any other home finance activities. MCOB rules cover advising and selling standards, responsible lending (including affordability assessment), charges, and the fair treatment of customers in payment difficulties.</i>
<u>Supervision</u>	<i>The following provisions of SUP are relevant to credit unions: SUP 1A</i>

manual (SUP)	<p>(The appropriate regulator's FCA's approach to supervision), SUP 2 (Information gathering by the appropriate regulator FCA or PRA on its own initiative), SUP 3.1 to SUP 3.8 (Auditors), SUP 5 (Skilled persons), SUP 6 (Applications to vary or cancel Part 4A permission), SUP 7 (Individual requirements), SUP 8 (Waiver and modification of rules), SUP 9 (Individual guidance), SUP 10A and SUP 10B (Approved persons), SUP 11 (Controllers and Close links), SUP 15 (Notifications to the appropriate regulator FCA or PRA) and SUP 16 (Reporting Requirements).</p> <p><i>Credit unions</i> are reminded that they are subject to the requirements of the Act and SUP 11 on controllers and close links, and are bound to notify the appropriate regulator FCA 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 <u>close links with a credit union</u> <i>credit union</i> within the meaning of the Act by reason of holding the prescribed proportion of <i>deferred shares</i> in the <i>credit union</i>.</p> <p>In relation to SUP 16, <i>credit unions</i> are exempted from the requirement to submit annual reports of controllers and close links.</p>
Consumer Credit sourcebook (CONC)	<p><u>CONC contains conduct rules that apply to firms carrying on credit-related regulated activities. A borrower-lender agreement between a credit union and a member for which the total charge for credit does not exceed 42.6 per cent is not a credit-related regulated activity, so will be outside the scope of CONC. Most credit union lending is in this category. However, subject to the constraints in the Credit Unions Act 1979 or the Credit Unions (Northern Ireland) Order 1985 (as relevant), credit unions may undertake credit-related regulated activities to which CONC does apply if the activity is carried out by way of business, for example debt adjusting or debt counselling on loans for which the credit union is not the lender. Further information can be found on the FCA's website.</u></p>
...	

Appendix 1 Key Definitions

~~attached shares~~

~~means any shares in the credit union (other than deferred shares):~~

- (a) ~~(in relation to a Great Britain credit union) the withdrawal of which is not permitted by section 7(5) of the Credit Unions Act 1979 or (in relation to a Northern Ireland credit union) the withdrawal of which is not permitted by article 23(4) of the Credit Unions (Northern Ireland) Order 1985;~~
~~or~~

- (b) ~~(in relation to a *Great Britain credit union*) 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*.~~

~~In relation to a *Great Britain credit union*, paragraph (c) of this definition is relevant only where the *credit union* made a loan to the holder of shares before the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 came into force.~~

<i>governing body</i>	the board of <i>directors</i>, committee of management or other governing body of a <i>firm</i> or <i>recognised body</i>, including, in relation to a <i>sole trader</i>, the <i>sole trader</i>.
<i>net liability</i>	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 <i>attached shares</i> held by the borrower.
<i>total non-deferred shares</i>	Means the total of members' share balances in a <i>credit union</i> shown in the most recent annual return to have been sent to the PRA under SUP 16.12.5R (see CREDS 8.2.3 G), excluding any <i>deferred shares</i> in the <i>credit union</i>.
<i>total relevant liabilities</i>	means the sum of: <ul style="list-style-type: none"> (a) <i>unattached shares</i> in the <i>credit union</i>, and <i>deposits</i> by persons too young to be members of the <i>credit union</i>; and (b) liabilities (other than liabilities for shares) with an original or remaining maturity of less than three <i>months</i> (including overdrafts and instalments of loans).
<i>unattached shares</i>	means the total shares in the <i>credit union</i> other than any <i>attached shares</i> or <i>deferred shares</i>.

Transitional Provisions

With the exception of TP 18 (relating to SUP 16.12.5R for *Northern Ireland credit unions* only), all of the transitional provisions have expired and are deleted. The deleted text is not shown.

...

Schedule 2 Notification requirements

...

Sch 2.2G

...

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
<i>CREDS 2.2.4R</i> <i>CREDS 2.2.52G</i>	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 2.2.6R</i> <i>CREDS 2.2.60G</i>	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 3.3.10R</i>	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 practical
<i>CREDS 5.2.3G</i>	General notification	Any proposed repayment of subordinated debt	As soon as <i>credit union</i> aware	At least one <i>month</i> in advance of proposed repayment
<i>CREDS 6.2.5R</i>	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 7.2.1R</i> to <i>CREDS 7.2.2R</i>	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 7.4.3R</i>	Large <i>exposures</i>	The aggregate total of all large <i>exposures</i> will exceed 300% of capital	Prior to the aggregate total of all large <i>exposures</i> exceeding 300% of capital	As soon as reasonably practical
<i>CREDS 8.2.1G</i>	Quarterly return	Key financial data	Quarter end	1 <i>month</i> after quarter end
<i>CREDS 8.2.3G</i>	Annual return	Extended financial data	Financial year end	6 <i>months</i> after financial year end
<i>CREDS 8.2.6R</i>	Audited accounts	Revenue account	Financial year end	Until submission of

		and balance sheet		annual return <u>Until six months after financial year end</u>
...				

Schedule 3 Fees and other required payments

Description of fee	Reference
...	...
<i>CFEB levy</i>	<i>FEES 7</i>
<i>Pensions guidance levy</i>	<i>FEES 10</i>

...

Schedule 5 Rights of action for damages

...

Sch 5.2G

Chapter/ Appendix	Section/Annex	Paragraph	Right of action under section 138D		
			For private person?	Removed?	For other person?
All rules in CREDS with the status letter 'E'.			No	No	No
All rules in CREDS that require a credit union to have or maintain financial resources.			No	No	No
All other rules in CREDS.			Yes	No	No

Schedule 6 Rules that can be waived

Sch 6.1 G The rules made in CREDS can be waived by the ~~appropriate regulator~~ FCA under sections 138A and 138B (Modification or waiver of rules) of the Act.

...

Part 2: New chapters in CREDS

Insert the following new chapter after CREDS 2. This text is not underlined.

3A Shares, deposits and borrowing

3A.1 Application and purpose

Application

3A.1.1 R This chapter applies to all *credit unions*.

Purpose

3A.1.2 G The purpose of this chapter is to provide conduct rules and guidance on credit unions' holding of shares and deposits, joint accounts, borrowings and insurance cover.

3A.2 Shares and deposits

Joint accounts

3A.2.1 G There is no restriction on the number of members who may jointly hold shares in a *credit union*.

Deposits

3A.2.2 R A *credit union* must not accept deposits except:

- (1) 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 or the Credit Union (Northern Ireland) Order 1985 (as appropriate) and the rules of the *credit union*; or
- (2) from *persons* too young to be members under any provision of the *credit union's* rules or (for *Northern Ireland credit unions*) under article 15 of the Credit Unions (Northern Ireland) Order 1985; or
- (3) as loans from *persons* under CREDS 3A.3.1R.

3A.2.3 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.

3A.2.4 G *CREDS* 3A.2.2R and *CREDS* 3A.3.1R are intended to ensure that the liberalisation of *credit union* borrowing (*CREDS* 3A.3.3G) 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.

3A.3 Borrowing

- 3A.3.1 R A *credit union* must not borrow from a natural person, except by subordinated loan qualifying as capital under *PRA* rules.
- 3A.3.2 R The written agreement or instrument setting out the terms of the subordinated loan must contain a prominent statement that the subordinated loan is not covered by the *compensation scheme*.
- 3A.3.3 G *CREDS* 3A.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 *PRA* rules or a senior loan (providing ordinary funding, but not constituting regulatory capital).

3A.4 Insurance against fraud or other dishonesty

- 3A.4.1 R A *credit union* must at all times maintain in force a policy of insurance that complies with the requirements in [PRA rulebook reference].
- 3A.4.2 G The policy of insurance required by *CREDS* 3A.4.1R is intended to protect the *credit union* from loss suffered or liability incurred by reason of the fraud or other dishonesty of any of its *officers* or employees.
- 3A.4.3 R A *credit union* must ensure that the *governing body* reports to the *members* at the annual general meeting of the *credit union* on whether the *credit union* has maintained at all times the policy of insurance required by *CREDS* 3A.4.1R.