



# Credit Unions New sourcebook

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# Chapter 1

## Introduction

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## 1.1 Application and purpose

### Application

- 1.1.1 G (1) The Credit Unions New Sourcebook, *CREDS* for short, is the specialist sourcebook for *credit unions*.  
  
(2) [deleted]
- 1.1.2 G (1) *CREDS* covers only the requirements associated with a *Part IV permission to accept deposits*. The Conduct of Business sourcebook (*COBS*) sets out additional requirements for *credit unions* that are *CTF providers* in relation to *cash deposit CTFs*.  
  
(2) Other *permissions* are covered elsewhere in the *Handbook*. So, for example, a *credit union* seeking a *permission* to undertake a *regulated mortgage activity* would need to comply with the requirements in the Mortgages and Home Finance: Conduct of Business sourcebook (*MCOB*), and a *credit union* seeking a *permission* to undertake *insurance mediation activity* in relation to *non-investment insurance contracts* would need to comply with the requirements in the Insurance: Conduct of Business sourcebook (*ICOBS*).  
  
(3) The provisions of the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (*MIPRU*) and the Interim Prudential sourcebook for Investment Businesses (*IPRU(INV)*) may also be relevant to a *credit union* whose *Part IV permission* includes *insurance mediation activity* or *mortgage mediation activity* or which is a *CTF provider* with permission to carry on *designated investment business*.
- 1.1.3 G Every *credit union* is either a *version 1 credit union* or a *version 2 credit union*. The *rules* relating to, for example, borrowing, the payment of dividends on shares, capital and lending to members are different depending on whether a *credit union* is a *version 1 credit union* or a *version 2 credit union*.

### Purpose

- 1.1.4 G *CREDS* sets out *rules* and *guidance* that are specific to *credit unions*. ■ *CREDS 10* refers to other more generally applicable provisions of the *Handbook* that are likely to be relevant to *credit unions* with *Part IV permission to accept deposits*. For details of these provisions, we would expect *credit unions* to access the full text in the *Handbook*.

1.1.5

**G**

The status of the provisions in *CREDS* is indicated by icons containing the letters R, G or E. Please refer to chapter six of the Reader's Guide for further explanation about the significance of these icons. The Reader's Guide can be found at [http://www.fsa.gov.uk/pages/Handbook/readers\\_guide.pdf](http://www.fsa.gov.uk/pages/Handbook/readers_guide.pdf)

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## Chapter 2

# Senior management arrangements, systems and controls

## 2.1 Application and purpose

### Application

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

### Purpose

2.1.2 **G** The purpose of this chapter is to provide *rules* and *guidance* relating to senior management arrangements, systems and controls that are specific to *credit unions* with a *permission to accept deposits*.

2.1.3 **G** This chapter is also intended to remind *credit unions* that the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) also contains a number of high level *rules* relating to senior management arrangements, systems and controls designed to have general application to all *firms*, including *credit unions*. ■ SYSC 1 and ■ SYSC 4 to ■ SYSC 10 apply to all *credit unions* in respect of the carrying on of their *regulated activities* and unregulated activities in a *prudential context*. ■ SYSC 18 applies to all *credit unions* without restriction. This chapter does not seek to repeat the requirements of SYSC that are relevant to *firms* more generally.

2.1.4 **G** The purposes of SYSC, which applies to all *credit unions*, are:

- (1) to encourage *directors* and *senior managers* to take appropriate practical responsibility for the arrangements that all *firms* must put in place on matters likely to be of interest to the FSA because they impinge on the FSA's function under the *Act*;
- (2) to reinforce *Principle 3*, under which all *firms* must take reasonable care to organise and control their affairs responsibly and effectively with adequate risk management systems;
- (3) to encourage all *firms* to vest responsibility for effective and responsible organisation in specific *directors* and *senior managers*.



## 2.2 General provisions

### Appropriate systems and controls

**2.2.1** **G** ■ SYSC 4.1.1 R requires every *firm*, including a *credit union*, to have robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.

**2.2.2** **G** For *credit unions*, the arrangements, processes and mechanisms referred to in ■ SYSC 4.1.1 R should be comprehensive and proportionate to the nature, scale, and complexity of the *credit union's* activities. That is the effect of ■ SYSC 4.1.2 R and ■ SYSC 4.1.2A G.

**2.2.3** **G** A small *version 1 credit union* will not be expected to have the same systems and controls as a large *version 2 credit union*.

### Business plan

**2.2.4** **R** **A *credit union* must establish, maintain and implement an up-to-date business plan approved by the committee of management and supply a copy on request to the FSA.**

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

**2.2.5** **G** *Guidance* on business planning is given in ■ CREDS 2.2.51 G to ■ CREDS 2.2.58 G.

### Policies and procedures manual

**2.2.6** **R** **A *credit union* must establish, maintain, and implement an up-to-date and fully documented policies and procedures manual, and supply a copy on request to the FSA.**

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

**2.2.7** **G** *Guidance* on documentation of policies and procedures is given in ■ CREDS 2.2.59 G to ■ CREDS 2.2.61 G.

**System of control**

2.2.8 **R** A *credit union* must establish, maintain and implement a fully documented system of control.

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

2.2.9 **G** Guidance on the documentation of systems of control is given in ■ CREDS 2.2.20 G to ■ CREDS 2.2.23 G.

**Internal audit function**

2.2.10 **A** (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 4.1.1 R (see ■ CREDS 2.2.1 G).

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

(2) Guidance on internal audit is given in ■ CREDS 2.2.40 G to ■ CREDS 2.2.50 G.

**Segregation of duties**

2.2.12 **G** A *credit union* should ensure appropriate segregation of duties in order to minimise the risk of *financial crime* or contravention of requirements and standards under the *regulatory system*.

2.2.13 **G** Guidance on segregation of duties is given in ■ CREDS 2.2.18 G and ■ CREDS 2.2.19 G.

**Committee of management**

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. The committee of management should be competent to control the affairs of a *credit union*, and have an appropriate range of skills and experience relevant to the activities carried on by the *credit union*.

2.2.15 **G** In accordance with *Statement of Principle 7* of the *Statements of Principle for Approved Persons*, it is the responsibility of each individual member of the committee of management to understand, and ensure that the *credit union* complies with, the requirements of all the relevant Acts, secondary legislation and *rules*.

2.2.16 **G** (1) As the *credit union's governing body*, the committee of management has responsibility for ensuring that the *credit union* complies with the

requirements of ■ SYSC 4.1.1 R (see ■ CREDS 2.2.1 G and ■ CREDS 2.2.2 G). So, the committee of management has overall responsibility for:

- (a) establishing objectives and formulating a business plan;
- (b) monitoring the financial position of the *credit union*;
- (c) determining and documenting policies and procedures;
- (d) directing and coordinating the work of all *employees* and volunteers, and ensuring that they are capable and properly trained;
- (e) maintaining adequate reserves;
- (f) making provision for bad and doubtful debts;
- (g) recommending a dividend on shares to members subject to the *credit union's* financial position;
- (h) ensuring that the *credit union* complies with all statutory and regulatory requirements; and
- (i) ensuring that the *credit union* complies with the requirements of its registered rules.

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

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

**Organisation**

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

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

**Documentation of systems of control**

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

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

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

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

2.2.22

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

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

2.2.23

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

### Accounting records and systems

2.2.24

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■ SYSC 9.1.1 R requires that a *credit union* takes reasonable care to make and retain adequate records of all matters governed by the *Act*, secondary legislation under the *Act*, or *rules* (including accounting records). These records should be capable of being reproduced in the English language and on paper.

- 2.2.25** **G** A *credit union* should have appropriate systems in place to fulfil its obligations with respect to adequacy, access, periods of retention, and security of records.
- 2.2.26** **G** The main reasons why a *credit union* should maintain adequate accounting and other records are:
- (1) to provide the committee of management with adequate financial and other information to enable it to conduct its business in a prudent manner on a day-to-day basis;
  - (2) to safeguard the assets of the *credit union* and the interests of members and *persons* too young to be members;
  - (3) to assist *officers* of the *credit union* to fulfil their regulatory and statutory duties in relation to the preparation of annual accounts;
  - (4) to provide the committee of management with sufficient timely and accurate information to assist them to submit the information required or requested by the *FSA*.
- 2.2.27** **G** When forming their opinion of whether the accounting and other records are adequate, the committee of management should satisfy itself that they capture and record on a timely basis, and in an orderly fashion, every transaction. The accounting and other records should provide sufficient information in respect of each transaction to explain:
- (1) its nature and purpose;
  - (2) the asset or liability, actual and contingent, which arises (or may arise) from it;
  - (3) the income or expenditure, current and deferred, which arises from it.
- 2.2.28** **G** The committee of management 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.
- The compliance function**
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- 2.2.29** **G**
- (1) Depending on the nature, scale and complexity of its business, it may be appropriate for a *credit union* to have a separate compliance function.
  - (2) The organisation and responsibilities of a compliance function should be documented.
  - (3) A compliance function should be staffed by an appropriate number of competent staff who are sufficiently independent to perform their duties objectively. It should be adequately resourced and should have unrestricted access to the *credit union's* relevant records as well as ultimate recourse to its *governing body*.
- 2.2.30** **G** *Guidance* on compliance is located in ■ SYSC 6.1.3R.

[Note: As explained in ■ SYSC 1 Annex 1.3.3G, ■ SYSC 6.1.3 R is to be read as *guidance* rather than as a *rule*, and as if "should" appeared in that provision instead of "must".]

2.2.31

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Some important compliance issues include:

- (1) insurance against fraud and dishonesty;
- (2) arrangements for the prevention, detection and reporting of *money laundering*;
- (3) establishing and maintaining a satisfactory system of control;
- (4) keeping proper books of account;
- (5) computation and application of profits;
- (6) investment of surplus funds;
- (7) capital requirements;
- (8) liquidity requirements;
- (9) limits on shares and loans;
- (10) maintenance of membership records;
- (11) submission of financial reports to the regulator;
- (12) *approved persons* regime;
- (13) payment of regulatory fees.

### Management information

2.2.32

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*Guidance* on management information is located in ■ SYSC 7.1.4 R.

[Note: As explained in ■ SYSC 1 Annex 1.3.3G, ■ SYSC 7.1.4 R is to be read as *guidance* rather than as a *rule*, and as if "should" appeared in that provision instead of "must".]

2.2.33

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A *credit union* should maintain information systems to enable the committee of management to direct and control the *credit union's* business effectively, and to provide the information required by the *FSA*.

2.2.34

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The committee of management should be satisfied that:

- (1) the information available is sufficient for the proper assessment of the potential risks for the *credit union*, and in order to determine its need for capital and liquidity;
- (2) the information available is sufficiently comprehensive to provide a clear statement of the performance and financial position of the *credit union*;
- (3) management information reports are prepared with sufficient frequency;



- (4) sufficient attention is focused on key factors affecting income and expenditure and that appropriate performance indicators are employed;
- (5) actual performance is compared with planned and previous performance.

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

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

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

**Information for the FSA**

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

**Personnel**

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

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

**Internal Audit**

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

**2.2.41** **G** *Guidance on internal audit and audit committees* (otherwise known as the supervisory committee) is located in **■ SYSC 6** and **■ SYSC 4.1.11 G**.

**2.2.42** **G** Depending upon the scale and nature of the *credit union's* activities, it may be appropriate for the audit committee to delegate the task of monitoring the effectiveness and appropriateness of its systems and controls to an *employee* or other third party.

**2.2.43** **G** The purposes of an internal audit are:

- (1) to ensure that the policies and procedures of the *credit union* are followed;

- (2) to provide the committee of management with a continuous appraisal of the overall effectiveness of the control systems, including proposed changes;
- (3) to recommend improvements where desirable or necessary;
- (4) to determine whether the *internal controls* established by the committee of management are being maintained properly and operated as laid down in the policy, and comply with relevant Acts, secondary legislation, *rules*, policies and procedures;
- (5) to ensure that accounting records are prepared promptly and accurately, and that they are in order;
- (6) to assess whether financial and operating information supplied to the committee of management is accurate, pertinent, timely, and complete.

**2.2.44** G The internal audit function (see ■ CREDS 2.2.11G) should develop an audit plan, covering all aspects of the *credit union's* business. The audit plan should identify the scope and frequency of work to be carried out in each area. Areas identified as higher risk should be covered more frequently. However, over a set timeframe (likely to be one year) all areas should be covered. Care should be taken to avoid obvious patterns in assessing the different areas of the *credit union's* business, so that the audit plan produces a representative snapshot of the operation and effectiveness of the credit union's internal systems and controls, procedures and policies.

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

- (1) verification of cash (counting and reconciliation) without prior notification;
- (2) *bank* reconciliation (checking records against *bank* statements);
- (3) verification of passbooks or account statements;
- (4) checking for compliance with policies and procedures;
- (5) checking for compliance with relevant Acts, secondary legislation and *rules*;
- (6) checking minutes and reports of the committee of management and other sub-committees for compliance, and assessing regularity and completeness;
- (7) checking loan applications;
- (8) verification of the *credit union's* assets and *investments*.

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

- (1) Terms of reference. These should be specified with precision and include, amongst other things, scope and objectives of the audit committee and the internal audit function (see ■ CREDS 2.2.11G), access to records, powers to obtain information and explanations for *officers*, and reporting requirements. These should be approved by the committee of management.

- (2) Risk analysis. Key risks in each area of the *credit union's* business should be identified. The adequacy of the specific controls put in place to address those risks should be assessed.
- (3) Internal audit plan. This should be developed on the basis of the risk analysis.
- (4) Detailed programmes. These should be based on the internal audit plan, together with the controls and their objectives specified in the control documentation. Each programme should be comprehensive, specifying the frequency with which the various parts of the programme are to be carried out and how the work is to be performed.
- (5) Working papers. These should be maintained to evidence who performed the work, how it was controlled and supervised, and to record the conclusions reached. They should be cross referenced to reports made and action taken.
- (6) System of reporting. Formal reports should be submitted at the completion of each aspect of programmed work, stating the areas covered together with any recommendations and conclusions reached.

**2.2.47** G The internal audit function (see ■ CREDS 2.2.11 G) should be independent of all of the functions it inspects.

**2.2.48** G The committee of management should be satisfied that the status and reporting relationship of the chairman of the audit committee is sufficient to maintain the independence and objectivity of the function.

**2.2.49** G The qualifications, experience and training of individuals performing the internal audit function (see ■ CREDS 2.2.11 G) should be adequate in relation to its objectives.

**2.2.50** G The committee of management should be satisfied that the internal audit function (see ■ CREDS 2.2.11 G) is being properly carried out. In order to review the overall effectiveness of the internal audit function it should consider the following:

- (1) the adequacy and scope of planning;
- (2) the adequacy and scope of work performed in relation to the plans and programmes;
- (3) the regularity and level of reporting on matters arising from the inspections;
- (4) the disposal of points and recommendations raised, and reasons for the rejection of any major points;
- (5) a review of the overall effectiveness of the internal audit function.

**Business planning**

**2.2.51** G ■ CREDS 2.2.4 R requires that a *credit union* maintains a current business plan.

- 2.2.52 G *Version 2 credit unions* should submit a copy of their business plan to the FSA. A *version 2 credit union* making any significant changes to the business plan should provide the FSA with a copy of the amended plan as soon as possible after it has been adopted.
  
- 2.2.53 G *Guidance* on business strategy is located in ■ SYSC 6.1.2 R and ■ SYSC 7.1.2 R.  
  
G [Note: As explained in ■ SYSC 1 Annex 1.3.3G, ■ SYSC 6.1.2 R and ■ SYSC 7.1.2 R are to be read as *guidance* rather than as *rules*, and as if "should" appeared in those provisions instead of "must".]
  
- 2.2.54 G The committee of management should have a satisfactory planning system to provide a framework for growth and development of the *credit union*, and to enable it to identify, measure, manage and control risks of regulatory concern.
  
- 2.2.55 G The business plan should cover a period of three years from the current financial year, in other words the remainder of the current financial year and the two following financial years.
  
- 2.2.56 G The planning system should be defined clearly, documented appropriately, and planning related tasks and decision-making responsibilities allocated clearly within the *credit union*.
  
- 2.2.57 G The conclusions, recommendations, projections and assumptions set out in the business plan should be supported by analysis, based on adequate data, and properly documented for comparison with actuals.
  
- 2.2.58 G The committee of management should consider the range of possible outcomes in relation to various risks. These risks are increased when a *credit union* provides ancillary services such as issuing and administering means of payment and money transmission, which result, in particular, in higher liquidity and operational risks.
  
- Documentation of policies and procedures**.....
  
- 2.2.59 G ■ CREDS 2.2.6 R requires that a *credit union* maintains a manual of its policies and procedures.
  
- 2.2.60 G *Version 2 credit unions* should submit a copy of their policy and procedures manual to the FSA. A *version 2 credit union* making any significant changes to their policies or procedures should provide the FSA with a copy of the amended manual as soon as possible after it has been adopted.
  
- 2.2.61 G The policy and procedures manual should cover all aspects of the *credit union's* operations, including matters such as:
  - (1) cash handling and disbursements;
  - (2) collection procedures;

- (3) lending, including large *exposures* (see ■ CREDS 7.1 to ■ CREDS 7.5);
- (4) arrears management (see ■ CREDS 7.2.9 G to ■ CREDS 7.2.10 G);
- (5) provisioning (see ■ CREDS 7.5);
- (6) liquidity management (see ■ CREDS 6);
- (7) financial risk management (see ■ CREDS 3);
- (8) *money laundering* prevention (see ■ SYSC 6.3);
- (9) internal audit (see ■ CREDS 2.2.40 G to ■ CREDS 2.2.50 G);
- (10) information technology (see ■ CREDS 2.2.23 G);
- (11) business continuity, otherwise known as disaster recovery (see ■ CREDS 2.2.62 G to ■ CREDS 2.2.64 G);
- (12) marketing;
- (13) training;
- (14) connected *persons* and managing conflicts of interest (see ■ CREDS 2.2.19 G);
- (15) *complaints* handling (see ■ DISP 1).

**Business continuity**

2.2.62

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*Guidance* on business continuity is located in ■ SYSC 4.1.6R to ■ SYSC 4.1.8 G.

[Note: As explained in ■ SYSC 1 Annex 1.3.3G, ■ SYSC 4.1.6R is to be read as *guidance* rather than as a *rule*, and as if "should" appeared in that provision instead of "must".]

2.2.63

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A *credit union* should put in place contingency arrangements to ensure that it could continue to operate and meet its regulatory requirements in the event of an unforeseen interruption that may otherwise prevent the *credit union* from operating normally (for example, if there was a complete failure of IT systems or if the premises were destroyed by fire).

2.2.64

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Business continuity arrangements should be reviewed and tested regularly in order to ensure their effectiveness.



## Chapter 3

# Investment and borrowing



### 3.1 Application, purpose and interpretation

#### Application

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

#### Purpose

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

#### Interpretation

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



## 3.2 Investment

### Types of investment

3.2.1

**R**

Subject to the general limitations on its powers contained in the Credit Unions Act 1979 or the Credit Unions (Northern Ireland) Order 1985 (as appropriate) and to the limitations contained in ■ CREDS 3.2.2 R and ■ CREDS 3.2.3 R, a *credit union* may invest its surplus funds and funds serving liquidity purposes only in the following types of *investment*:

- (1) *deposits* or loans to a *UK domestic firm* with *Part IV permission to accept deposits*;
- (2) *deposits* or loans to an institution which is authorised in any other *EEA State* to *accept deposits*;
- (3) sterling-denominated *securities* issued by the government of any *EEA State*;
- (4) fixed-interest sterling-denominated *securities* guaranteed by the government of any *EEA State*, provided that any guarantee is unconditional in respect of the payment of both principal and interest on those *securities*.

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.7.]

### Maturity of investments

3.2.2

**R**

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

[Note: a transitional provision applies to this *rule*: see ■ CREDS TPs 1.8 and ■ 1.9.]

3.2.3

**R**

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

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.10.]

**Cash in custody of officers**

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

**Investment conditions no longer satisfied**

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

**Transactions between credit unions**

- 3.2.6 **G**
- (1) A *credit union* may accept a loan from another *credit union* (section 10(1) of the Credit Unions Act 1979) or article 27(1) of the Credit Unions (Northern Ireland) Order 1985 (as appropriate).
  - (2) ■ CREDS 3.2.2 R to ■ CREDS 3.2.3 R apply to loans between *credit unions*, except for subordinated loans qualifying as capital under ■ CREDS 5.2.1 R (4). (See ■ CREDS 3.2.1 R and ■ CREDS 5.2.8 R (2).)
  - (3) ■ CREDS 5.2.1 R to ■ CREDS 5.2.9 G apply to subordinated loans between *credit unions* qualifying as capital under ■ CREDS 5.2.1 R (4).
  - (4) ■ CREDS 7 (Lending) (which covers loans to members) does not apply to loans between *credit unions* (see ■ CREDS 7.1.1 R). However, in relation to those loans, *credit unions* should have regard to the principles outlined in ■ CREDS 7.4.6 G and ■ CREDS 7.5 (Provisioning).
  - (5) ■ CREDS 6.3.4 R (2) applies to loans between *credit unions* in relation to liquidity.
- 3.2.7 **G** Loans between *credit unions* should only be arranged after careful consideration by both parties. For example:
- (1) the borrower should consider the financial implications of relying on such borrowing in order to lend to members, or to finance share withdrawals; and
  - (2) the lender should assess the risk of late and non-repayment arising from the borrower's own liquidity and credit risks, and keep the aggregate of its loans to other *credit unions* to a very modest level.



### 3.3 Borrowing and financial risk management

#### Borrowing

- 3.3.1 **R** A *credit union* must not borrow from a natural person, except by subordinated loan qualifying as capital under ■ CREDS 5.2.1 R (4).
- 3.3.2 **G** ■ CREDS 3.3.1 R does not apply to borrowing from a *body corporate*. A loan made to a *credit union* by a *body corporate* can either be a subordinated loan (providing regulatory capital within ■ CREDS 5.2.1 R (1)(c)) or a senior loan (providing ordinary funding, but not constituting regulatory capital).
- 3.3.3 **R** The borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the *total non-deferred shares* in the *credit union*.
- 3.3.4 **E**
  - (1) The borrowing of a *version 1 credit union* must not exceed an amount equal to 20% of the *total non-deferred shares* in the *credit union* at the end of more than two consecutive quarters.
  - (2) Contravention of ■ CREDS 3.3.4 E (1) may be relied on as tending to indicate contravention of ■ CREDS 3.3.3 R.
- 3.3.5 **R** The borrowing of a *version 2 credit union* must not at any time exceed an amount equal to 50 per cent of the *total non-deferred shares* in the *credit union*.
- 3.3.6 **R** A *credit union* must not count subordinated debt obtained by the *credit union* and forming part of its capital (see ■ CREDS 5.2.1 R) towards the borrowing limits under ■ CREDS 3.3.3 R and ■ CREDS 3.3.5 R.

#### Financial risk management policy statement

- 3.3.7 **R** A *version 2 credit union* must establish, maintain and implement an up-to-date financial risk management policy statement approved by the committee of management.

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

- 3.3.8 **G** This policy should address both interest rate and funding risk. It should cover aggregate limits on holdings of *investments* and borrowings from sources other than members. It

should deal with avoidance of funding concentrations (both source and time-band concentrations) and should detail the organisational arrangements, systems and controls in respect of these matters.

3.3.9

**G**

*A credit union's* committee of management should review and approve its financial risk management policy at least once a year, and more frequently if necessary, especially in the light of significant changes in business.

3.3.10

**R**

***A version 2 credit union* must send to the FSA a copy of its financial risk management policy statement as soon as reasonably practicable after it has been approved by the committee of management.**

## Chapter 4

# Shares and deposits



## 4.1 Application and purpose

### Application

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

### Purpose

---

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



## 4.2 Shares

4

### Maximum shareholdings

4.2.1

R

- (1) A *Great Britain credit union* must not permit a member to have or claim any interest in the shares of the *Great Britain credit union*, other than *deferred shares*, exceeding the greater of:
- (a) £10,000; or
  - (b) 1.5 per cent of the *total non-deferred shares* in the *Great Britain credit union*.
- (2) A *Northern Ireland credit union* must not permit a member to have or claim any interest in the shares of the *Northern Ireland credit union* exceeding the greater of:
- (a) £15,000; or
  - (b) 1.5 per cent of the total shares in the *Northern Ireland credit union*.

4.2.2

R

Where:

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

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

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3

4.2.3

G

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

**Joint accounts**

- 4.2.4 **R** Shares in a *Great Britain credit union* must not be held in the joint names of more than two members.
- 4.2.4A **G** There is no restriction on the number of members who may jointly hold shares in a *Northern Ireland credit union*.
- 4.2.5 **R**
- (1) For the purpose only of the limit in **■ CREDS 4.2.1R (1)**, the interest of a member in a joint account must be treated as 50 per cent of the shareholding in that account.
  - (2) For the purpose only of the limit in **■ CREDS 4.2.1R (2)**, the interest of a member in a joint account must be treated as the percentage represented by that individual member as a percentage of the total number of members holding an interest in the joint account.

**Dividends on shares**

- 4.2.6 **R** A *version 1 credit union* must not:
- (1) pay different dividends on different accounts unless:
    - (a) at the time of the payment of any dividends it has a capital-to-total assets ratio of at least 5%; and
    - (b) the payment of any of those dividends does not reduce the capital-to-total assets ratio to below 5%; or
  - (2) pay dividends out of interim profits more than once a year.
- 4.2.7 **G** A *version 2 credit union* is permitted to:
- (1) pay different dividends on different accounts; and
  - (2) pay dividends out of interim profits more than once a year.



## 4.3 Deposits

4.3.1

**R**

- (1) A *credit union* must not accept *deposits* except:
- (a) by way of subscription for its shares from *persons* who may lawfully be admitted to membership of the *credit union* under the Credit Unions Act 1979 or the Credit Union (Northern Ireland) Order 1985 (as appropriate) and the rules of the *credit union*; or
  - (b) from *persons* too young to be members under (2); or
  - (c) as loans from *persons* under ■ CREDS 3.3.1 R to ■ CREDS 3.3.2 G.
- (2) A *credit union* must not accept *deposits* exceeding the greater of £10,000 or 1.5 per cent of the *total non-deferred shares* in the *credit union* from a person who is under the age at which, by virtue of (for *Great Britain credit unions*) any provision of the *credit union's* rules, (for *Northern Ireland credit unions*) under article 15 of the Credit Unions (Northern Ireland) Order 1985 or any provision of the *credit union's* rules, or otherwise, he may lawfully become a member of the *credit union*, unless the *deposits* are held in a *CTF* in which case the *credit union* may accept a larger *deposit*.

4.3.2

**G**

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

4.3.3

**G**

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



## 4.4 Insurance against fraud or other dishonesty

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

[Note: a transitional provision applies to this rule: see ■ CREDS TP 1.11.]

4.4.2 **R** In order to comply with ■ CREDS 4.4.1 R, a policy of insurance (subject to the exception in ■ CREDS 4.4.3 R):

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

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

4.4.4 **R** The "aggregate value" in ■ CREDS 4 Annex 1 R comprises the shares and deposits (including those held in a *CTF*) referred to in ■ CREDS 4.3.1 R (1)(a) and ■ (b).

4.4.5 **G** The tables in ■ CREDS 4 Annex 1 R set out the minimum levels of insurance cover required by a *credit union*. It is prudent for a *credit union* to consider whether additional cover:

- (1) is needed for its own particular circumstances; and

- 
- (2) should be obtained to cater for actual or projected growth in the "aggregate value" (see paragraph 1 of ■ CREDS 4 Annex 1 R) between "relevant dates" (see paragraph 3 of ■ CREDS 4 Annex 1 R).



**Insurance against fraud or other dishonesty (see CREDS 4.4.1R)**

	Column (1)	Column (2)	Column (3)
	Aggregate value of share subscriptions and other deposits received and not repaid (the "aggregate value")	Cover required in respect of any one claim	Cover required in respect of total claims made in any one year
Row (A)	Less than £10,000	The higher of £500 or 50 per cent of the aggregate value	The higher of £1,000 or 100 per cent of the aggregate value
Row (B)	£10,000 to £100,000	The higher of £5,000 or 20 per cent of the aggregate value	100 per cent of the aggregate value
Row (C)	More than £100,000	The higher of £20,000 or 15 per cent of the aggregate value	The higher of £100,000 or 75 per cent of the aggregate value
Row (D)	More than £1,000,000	£150,000 plus 5 per cent of the aggregate value over £1,000,000, subject to a maximum of £2,000,000	£750,000 plus 5 per cent of the aggregate value over £1,000,000, subject to a maximum of £4,000,000

**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 Annex, the limit in respect of any one claim is the amount appearing in the corresponding part of column (2); and the amount in respect of the total of claims made in any one year is the amount appearing in the corresponding part of column (3).

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



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# Chapter 5

# Capital

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## 5.1 Application and purpose

### Application

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

### Purpose

- 5.1.2 **G** This chapter amplifies *Principle 4*, under which a *firm* must maintain adequate financial resources, and the *threshold condition* that a *firm's* resources must be adequate in relation to the *regulated activities* that it carries on (see ■ COND 2.4).
- 5.1.3 **G** The purpose of setting capital requirements is to ensure that a *credit union* has an appropriate level of capital available to absorb unexpected losses.
- 5.1.4 **G** The capital and net worth requirements set out in this chapter represent the minimum requirements that a *credit union* must comply with. A *credit union* should decide for itself the amount of capital that it needs to hold over and above these minimum standards proportionate to its scale of operations and its risk profile.
- 5.1.5 **G** The *FSA* may require a *credit union* to hold minimum amounts of capital greater than those set out in this chapter where it considers that particular circumstances make that appropriate.
- 5.1.6 **G** In addition to the capital requirements set out in this chapter, section 7A of the Credit Unions Act 1979 provides that a *Great Britain credit union* may issue interest-bearing shares only if, among other things, its most recent year end balance sheet shows that it holds reserves of at least £50,000 or 5% of its total assets, whichever is greater.
- 5.1.7 **G** The Credit Unions (Northern Ireland) Order 1985 does not provide for a *Northern Ireland credit union* to issue interest-bearing shares or deferred shares.



## 5.2 Components of capital

### 5.2.1

**R**

- (1) The following are included in the meaning of 'capital' for the purposes of this chapter:
  - (a) audited reserves;
  - (b) interim net profits;
  - (c) *deferred shares*;
  - (d) subordinated debt meeting the requirements set out at (4);
  - (e) initial capital; and
  - (f) revaluation reserves, arising from the differences between book values and the current market values of property fixed assets which:
    - (i) meet the requirements in (6) to (7); and
    - (ii) are subject to the limit in (8).
- (2) Audited reserves are audited accumulated profits or losses, or both, retained by a *credit union* after payment of tax, dividends and interest on *deposits*. Reserves also include other realised gains and gifts of capital, for example from a sponsoring organisation. *Deferred shares* are included in the meaning of 'capital' but must not be counted twice in the calculation of capital. Where a *credit union's* audited reserves include sums, equal to the amount paid on *deferred shares* subscribed for in full, and transferred to the reserves in accordance with section 7(6) of the Credit Unions Act 1979, that amount must not also be counted separately under (1)(c).
- (3) Interim net profits are interim profits net of tax and anticipated dividends.
- (4) To be included in the calculation of capital, subordinated debt must meet the following conditions:
  - (a) the maturity of the loan must be more than five years from the date on which the loan is made;

- (b) the subordination provisions provide that the claims of the subordinated creditors rank behind those of all unsubordinated creditors including the *credit union's* shareholders;
  - (c) to the fullest extent possible, creditors waive their rights to set off amounts they owe the *credit union* against subordinated amounts owed to them by the *credit union*;
  - (d) the only events of default are non-payment of any interest or principal under the debt agreement or the winding-up of the *credit union*;
  - (e) the remedies available to the subordinated creditor in the event of default in respect of the subordinated debt are limited to petitioning for the winding up of the *credit union* or proving for and claiming in the liquidation of the *credit union*;
  - (f) the subordinated debt must not become due and payable before its stated final maturity date except on an event of default complying with (d);
  - (g) the terms of the subordinated debt must be set out in a written agreement or instrument that contains terms that provide for the above conditions;
  - (h) the debt must be unsecured and fully paid up.
- (5) Initial capital is a *credit union's* capital at the time it is given *Part IV permission to accept deposits*, but this does not apply in cases where the *credit union* is treated as having such a *permission on credit unions day*. Initial capital consists of a *credit union's* assets less its liabilities. For this purpose, liabilities do not include the items set out in (1)(a) to (c).
- (6) To be included in the calculation of capital, revaluation reserves must meet the following conditions:
- (a) the *credit union* must apply the revaluation method to all of its property fixed assets and not selectively;
  - (b) the values must result from regular professional valuations of each property;
  - (c) if professional valuations are not carried out annually, there must be:
    - (i) a rolling programme such that no professional valuation of a property is more than five years old;
    - (ii) in the intervening year(s) in which a property is not professionally valued, an interpolation of value by the Board which takes into account any decline in property

values disclosed by valuations of other properties in that year;

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

(7) Subject to the conditions in (6), and the limit in (8), the amount of revaluation reserve used for the calculation of capital must be:

(a) the amount standing to the credit of any such reserve in the balance sheet in the most recent annual return to have been sent to the *FSA* under ■ SUP 16.7.62 R or ■ SUP 16.12.5 R (see ■ CREDS 8.2.3 G); or

(b) the amount of any such reserve in the accounting records of the *credit union*, for the time being, whichever is the lesser amount.

(8) The amount of revaluation reserve included in the calculation of capital must not represent more than 25 per cent of the total of capital resources in (1)(a) to (e).

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

5.2.3 **G** Subordinated debt is due and payable only in accordance with ■ CREDS 5.2.1 R (4). However, this *rule* does not prevent the debt from being issued on terms which permit the *credit union*, in accordance with a board resolution, to repay the debt. The decision to repay the debt should be genuinely at the instance of the *credit union's* board. The *credit union* should satisfy itself that the remaining capital would be adequate for the *credit union's* present and future foreseeable needs. The *credit union* should notify the *FSA* at least one *month* in advance of its intention to repay the debt (thereby giving the *FSA* the opportunity to raise objections to the proposed repayment). If repayment is proposed within the first five years, and the *FSA* considers that the remaining capital may not be adequate, then the *FSA* is likely to consider exercising its *own-initiative powers* to ensure that the *credit union* continues to satisfy the *threshold conditions*.

5.2.4 **G** The effect of ■ CREDS 5.2.1 R (8) is that no more than 25 per cent of a *credit union's* regulatory capital may consist of amounts deriving from the revaluation of property, however large the amount standing to the credit of the *credit union's* revaluation reserve.

5.2.5 **R** Negative reserves and any interim net losses must be deducted from capital.

5.2.6 **R** The amount of any subordinated loan counting towards a *credit union's* regulatory capital must, over its final four years to maturity, be written down by 20% of the amount of the loan per year (see Table at ■ CREDS 5.2.7 R.)

5.2.7 **R** Writing down subordinated loans over final four years

This table belongs to ■ CREDS 5.2.6 R

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

- 5.2.8 **R**
- (1) When a *credit union* makes a subordinated loan to another *credit union* qualifying as capital under ■ CREDS 5.2.1 R (4)(a), the full amount of the loan (not the amount counting towards the borrower's capital under ■ CREDS 5.2.7 R) must be deducted from the lender's capital.
  - (2) A subordinated loan within ■ CREDS 5.2.1 R (4)(a) is not an investment under ■ CREDS 3.2.1 R.

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

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## 5.3 Version 1 credit unions

### Requirement to maintain capital assets ratio

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

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.1.]

### Building reserves

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

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

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.12.]

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

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

[Note: a transitional provision applies to this *rule*: see ■ CREDS TP 1.12.]

### Minimum initial capital

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

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

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

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

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

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

5.3.10 **R** (1) A *version 1 credit union* must not lend to a member more than £7,500 in excess of the *attached shares* held by that member, unless it has a capital-to-total assets ratio of at least 5%.

(2) A *credit union* which is owed by a member a total amount greater than £7,500 in excess of the *attached shares* held by that member must maintain at all times, while such an amount is outstanding, a capital-to-total assets ratio of at least 5%.

5.3.11 **G** ■ CREDS 5.3.10 R (2) does not have the effect of invalidating existing loans if the capital-to-assets ratio falls below 5%.

5.3.12 **G** ■ CREDS 7.5.1 R and ■ CREDS 7.5.2 R mean that bad and doubtful debts must be taken into account in establishing the capital-to-assets ratio.

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

5.3.13 **R** A *version 1 credit union* with total assets of more than £5 million or a total number of members of more than 5,000, or both, must maintain at all times a capital-to-total assets ratio of at least 5%.

5.3.14 **G** ■ CREDS 7.5.1 R and ■ CREDS 7.5.2 R mean that bad and doubtful debts must be taken into account in establishing the capital-to-assets ratio.

5.3.15 **R** (1) A *version 1 credit union* with total assets of more than £10 million or a total number of members of more than 10,000, or both, must maintain at all times a risk-adjusted capital-to-total assets ratio of at least 8%.

(2) 'Risk-adjusted capital' has the same meaning as in ■ CREDS 5.4.1 R and ■ CREDS 5.4.2 R (Risk-adjusted capital requirements for *version 2 credit unions*).



## 5.4 Version 2 credit unions

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

- 5.4.2 **R** In calculating risk-adjusted capital:
- (1) the maximum net figure for provisions (after deduction of the stipulated amounts for loans in arrears) that can be included is 1% of total assets;
- (2) 'provisions' includes specific provisions and general provisions; and
- (3) mortgage loans and provisions in respect of mortgage loans must not be included in calculating the loan balances to be deducted from, and the provisions to be added to, the amount of capital.

### Minimum initial capital

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

- 5.4.4 **A** (1) A *version 2 credit union* should have initial capital of at least £50,000.
- (2) Contravention of (1) may be relied on as tending to establish contravention of **■** CREDS 5.4.3 R.

- PAGE 9 5.4.5 **G** For the meaning of 'initial capital' see **■** CREDS 5.2.1 R (5).

- 5.4.6 **G** It should be noted that the requirement in **■** CREDS 5.4.3 R does not affect a *credit union's* obligations to meet the other capital requirements that apply to it. The ability of a *credit union* to comply on a continuing basis with the other capital requirements that apply to it will be a central factor for consideration in any application for *authorisation*.





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# Chapter 6

## Liquidity

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## 6.1 Application and purpose

### Application

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

### Purpose

6.1.2 **G** This chapter amplifies *Principle 4*, under which a *credit union* must maintain adequate financial resources, and the *threshold condition for permission* that a *credit union's* resources must be adequate in relation to the *regulated activities* that it carries on (see **COND 2.4**).

6.1.3 **G** A central feature of *credit union* business is maturity transformation, in other words taking short-term *deposits* (in the form of share accounts) from members and making comparatively long-term loans. It is important, in order to maintain confidence and protect members, that a *credit union* has adequate liquid assets (liquidity) to enable it to fulfil members' withdrawal requests within expected timeframes.



## 6.2 General requirements

### Liquid assets

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

### Liquid management policy statement

- 6.2.4 **R** *A credit union must establish, maintain and implement an up-to-date liquidity management policy statement approved by the committee of management and designed to ensure its compliance with ■ CREDS 6.2.1 R.*  
  
[Note: a transitional provision applies to this rule: see ■ CREDS TP 1.6.]
- 6.2.5 **R** *A version 2 credit union must send to the FSA a copy of its liquidity management policy statement as soon as reasonably practicable after it has been approved by the committee of management.*
- 6.2.6 **G** *A credit union should be able to satisfy the FSA on a continuing basis that it has a prudent liquidity management policy and adequate management systems in place to ensure that the policy is adhered to.*
- 6.2.7 **G** The liquidity management policy statement of a *credit union* should set out the *credit union's* objectives for liquidity, the limits within which liquidity should be maintained, and the types of liquid assets which the *credit union* should hold.
- 6.2.8 **G** *A credit union's* committee of management should review and approve its liquidity management policy statement at least once a year, and more frequently if necessary, especially in the light of significant changes in business.

- 6.2.9 G Where a *version 2 credit union* has borrowed wholesale funds, the maturity of such funds and the risk of their not being able to be refinanced should be taken into account in the formulation of the *credit union's* liquidity management policy statement.
- 6.2.10 G When a *credit union* provides ancillary services such as issuing and administering means of payment and money transmission, it should take into account the potentially greater volatility of its funds when deciding what amount and composition of liquid assets is necessary to comply with ■ CREDS 6.2.1 R.

## 6.3 Minimum liquidity requirements

- 6.3.1** **R** A *credit union* must at all times hold liquid assets of a value equal to at least 5% of its *total relevant liabilities*.
- 6.3.2** **R** A *credit union* must further hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the *credit union's* liquid assets below 10% of its *total relevant liabilities*.
- [Note: a transitional provision applies to this rule: see ■ CREDS TP 1.2.]
- 6.3.3** **G** The liquidity requirements set out in ■ CREDS 6.3.1 R and ■ CREDS 6.3.2 R are minimum requirements and are subject to the overarching requirement of ■ CREDS 6.2.1 R.
- 6.3.4** **R**
- (1) For the purposes of ■ CREDS 6.3.1 R and ■ CREDS 6.3.2 R, only those assets will count as liquid which can be realised for cash at short notice, and within at most eight *days*.
  - (2) Amounts loaned by one *credit union* to another must not be counted as liquid by the lender.
- 6.3.5** **R** For the purposes of calculating the ratio of a *credit union's* liquid assets to its *total relevant liabilities* (in ■ CREDS 6.3.1 R and ■ CREDS 6.3.2 R), assets must be valued at the amount for which they could be realised within eight *days*.
- 6.3.6** **A**
- (1) For the purposes of calculating the ratio of a *credit union's* liquid assets to its *total relevant liabilities* (in ■ CREDS 6.3.1 R and ■ CREDS 6.3.2 R), the *securities* referred to in ■ CREDS 3.2.1 R to ■ CREDS 3.2.3 R must be valued on the basis that they could be realised at market value minus the following discounts (whether or not this is the case in fact):
    - (a) maturity less than 1 year - zero;
    - (b) maturity 1 to 5 years - 5%.

(2) Compliance with ■ CREDS 6.3.6E (1) may be relied on as tending to establish compliance with ■ CREDS 6.3.5 R (the 8-day realisation-value rule).

6.3.7 **G** An asset maturing on a non-business *day* should be regarded as maturing on the succeeding *business day*.

6.3.8 **G** For the purposes of clarity, funds serving liquidity purposes may be invested in the manner set out in ■ CREDS 3.2.1 R provided that the resulting assets satisfy the relevant requirements of this chapter.

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

## Chapter 7

# Lending to members

## 7.1 Application, purpose and interpretation

### Application

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

### Purpose

- 7.1.2 **G**
- (1) This chapter seeks to protect the interests of *credit unions*' members in respect of loans to members under section 11 of the Credit Unions Act 1979 or article 28 of the Credit Unions (Northern Ireland) Order 1985. *Principle 4* requires *credit unions* to maintain adequate financial resources and **■** CREDS 5 sets out the *FSA*'s detailed capital adequacy requirements in respect of *credit unions*.
  - (2) This chapter is not relevant to loans between *credit unions*, except as indicated in **■** CREDS 3.2.6 G (4).

### Interpretation

- 7.1.3 **G** The *rules* and *guidance* in this chapter are in addition to the provisions of (in relation to *Great Britain credit unions*) section 11 of the Credit Unions Act 1979 and (in relation to *Northern Ireland credit unions*) article 28 of the Credit Unions (Northern Ireland) Order 1985 in relation to loans made by *credit unions*. Under these provisions
- (1) a *Great Britain credit union* may make a loan only to:
    - (a) a member of the *credit union* who is an individual; and
    - (b) a corporate member of the *credit union*, if the *credit union's* rules provide that it may make loans to corporate members and making the loan would not result in the aggregate of the outstanding balances on loans made by the *credit union* to corporate members exceeding the percentage of the aggregate of the outstanding balances on all loans made by the *credit union* specified by or under section 11 of the Credit Unions Act 1979;
    - (c) other *credit unions*;
  - (1A) a *Northern Ireland credit union* may make a loan only to:
    - (a) a member of the *credit union* who is an individual; and
    - (b) other *credit unions*;



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

7.1.4

G

"Corporate member" has the same meaning as in section 5A of the Credit Unions Act 1979.

7

## 7.2 General requirements concerning lending policy

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

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

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

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

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

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

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

**7.2.7** **R**

- (1) *A credit union* must not make a loan to:
  - (a) one of its officers or *approved persons* on terms more favourable than those available to other members of the *credit union* unless:
    - (i) that person is a paid employee (other than a *director*) of the *credit union*; and
    - (ii) the registered rules of the *credit union* provide explicitly for the making of loans to paid employees on such terms;

- (b) (in the case of a *Great Britain credit union*) a relative of, or any person otherwise connected with, an officer, *approved person* or paid employee of the *credit union* on terms more favourable than those available to other members of the *credit union*;
- (c) (in the case of a *Northern Ireland credit union*) a member of the family of, or any person otherwise connected with, an officer, *approved person* or paid employee of the *credit union* on terms more favourable than those available to other members of the *credit union*.

(2) "Relative" has the same meaning as in section 31 of the Credit Unions Act 1979.

(3) "Member of the family" has the same meaning as in article 2 of the Credit Unions (Northern Ireland) Order 1985.

7.2.8

G

- (1) To prevent conflicts of interest, a *credit union* should have clear arrangements for dealing with loans to the persons specified in ■ CREDS 7.2.7 R.
- (2) In relation to staff, the prohibition in ■ CREDS 7.2.7 R applies only to those who are officers or *approved persons*.
- (3) "Connected" in ■ CREDS 7.2.7 R includes any close business or personal relationship.

7.2.9

G

A *credit union* should have a documented arrears management policy, setting out the procedures and process for dealing with borrowers who fall into arrears. This should be reviewed regularly and promptly in the light of experience.

7.2.10

G

A *credit union* should have a clear, robust and effective approach to handling arrears and be able to satisfy the FSA on a continuing basis that it has adequate management and control systems in place to monitor arrears.

7.2.11

G

A *credit union* should ensure that loan assets are valued correctly in their accounts. A provisioning policy relating to problem loans and arrears cases should be clearly defined and documented covering the circumstances in which provisions are to be made.

7.2.12

G

- (1) A *credit union* may make a loan to a member for a business purpose. However, this does not mean that a *credit union* may make a loan to a member who merely intends to transmit that loan to another body that will actually carry out the purpose.
- (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.



## 7.3 Lending limits

**7.3.1** **R** Subject to ■ CREDS 7.3.8 R, a *version 1 credit union* must not lend for a period of more than five years where unsecured and ten years where secured.

[Note: a transitional provision applies to this rule: see ■ CREDS TP 1.13.]

**7.3.2** **R** The outstanding balance of a loan by a *version 1 credit union* to a member must not at any time be more than £15,000 in excess of the *attached shares* held by that member, but this rule is subject to the additional requirement in ■ CREDS 5.3.10 R (1).

**7.3.3** **G** The effect of ■ CREDS 5.3.10 R (1) is to prevent a *version 1 credit union* from lending more than £7,500 in excess of the *attached shares* held by that member unless it has a capital-to-total assets ratio of at least 5%.

**7.3.4** **R** Subject to ■ CREDS 7.3.8 R, a *version 2 credit union* must not lend for a period of more than ten years where unsecured and 25 years where secured.

[Note: a transitional provision applies to this rule: see ■ CREDS TP 1.14.]

**7.3.5** **G** A *credit union* should not attempt to evade the limits in ■ CREDS 7.3.1 R and ■ CREDS 7.3.4 R by making loans in the expectation that they will not be fully repaid by the end of the period, but will be automatically extended or rescheduled.

**7.3.6** **R** The outstanding balance of a loan by a *version 2 credit union* to a member must not at any time be more than:

- (1) £15,000 in excess of the *attached shares* held by that member;  
or
- (2) an amount equivalent to 1.5% of *total non-deferred shares* in the *credit union* in excess of the *attached shares* held by that member;

whichever is the greater.

- 7.3.7 **G** The lending limit requirements set out above are maxima. A *credit union* should have adequate systems for recording and controlling all potential *exposures*. The capital requirements for *version 1 credit unions* and *version 2 credit unions* in respect of lending are set out in ■ CREDS 5.3 and ■ CREDS 5.4, including the FSA's requirements in respect of calculating risk-adjusted capital.
- 7.3.8 **R** A *credit union with permission for entering into a regulated mortgage contract* must not enter into such a contract for a term of more than 25 years.

## 7.4 Large exposures

- 7.4.1** **R** For the purposes of this section, a large *exposure* is defined as an individual *net liability* to the *credit union* which meets both of the following criteria:
- (1) it is at least £7,500;
  - (2) it is at least 10% of the value of the *credit union's* total capital.
- 7.4.2** **R** An individual large *exposure* must not exceed 25% of the *credit union's* capital. In no circumstances may the aggregate total of all large *exposures* exceed 500% of the *credit union's* capital.
- [Note: a transitional provision applies to this rule: see ■ CREDS TP 1.15.]
- 7.4.3** **R** A *credit union* must not permit the aggregate total of all large *exposures* to exceed 300% of capital unless the *credit union* notifies the FSA in advance.
- 7.4.4** **G** For the purposes of large *exposures* the maximum *net liability* of a *credit union* with assets of £500,000 and 8% capital would be £10,000, subject to ■ CREDS 7.4.2 R and ■ CREDS 7.3.6 R.
- 7.4.5** **G** For a *credit union* with assets of £1million and 10% capital the maximum *net liability* would be £25,000.
- 7.4.6** **G** Excessive *exposure* (large loans to an individual borrower and in aggregate) by a *credit union* can create a concentration of risk on the balance sheet and increase a *credit union's* vulnerability to bad debt. This can lead to a strain on capital and solvency. While this risk cannot be eliminated, it can be contained by limits and controlling the extent to which *credit unions* commit themselves to large *exposures*. Therefore the large *exposure* limits set the maximum sum that may be loaned to any one member as a percentage of reserves to prevent concentration. All *credit unions* should set and document their own large *exposure* policy limits to avoid concentration of risk.
- 7.4.7** **G** It is the committee of management's responsibility to monitor large *exposures*. The large *exposures* limits policy should be reviewed on an annual basis (or more frequently where required).

## 7.5 Provisioning

7.5.1 **R** A *credit union* must make adequate provision for bad and doubtful debt.

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

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

7.5.3 **G** In addition to the requirements of **■** CREDS 7.5.2 R, a *credit union* should consider making the following specific provisions in its accounts for bad and doubtful debts:

- (1) 60% of the *net liability* to the *credit union* of borrowers where the amount is more than six *months* in arrears; and
- (2) 80% of the *net liability* to the *credit union* of borrowers where the amount is more than nine *months* in arrears.

7.5.4 **A** (1) A *credit union* should maintain a general provision for bad and doubtful debts of at least 2% of the *net liability* to the *credit union* of borrowers not covered by the specific provisions in **■** CREDS 7.5.2 R.

- (2) Contravention of (1) may be relied on as tending to establish contravention of **■** CREDS 7.5.1 R.

7.5.5 **G** In order to comply with the requirements of **■** CREDS 7.5.1 R to **■** CREDS 7.5.4 E a *credit union* should review its provisioning requirements frequently. The *FSA* recommends that this is done at least quarterly.

7.5.6 **G** A *credit union* should make it its business to know its *customers* and, in conjunction with its auditor, make a judgment on the degree of risk of non-payment attached to loans that are in arrears. Provisioning should reflect that judgment.

7.5.7

G

Where a delinquent loan is rescheduled and the arrears capitalised, the loan should be regarded as remaining impaired until there is sufficient evidence that it is performing on the rescheduled terms. In the meantime, any provision made in relation to that loan should be maintained, not released.

7.5.8

G

- (1) ■ CREDS 7.5.2 R requires a *credit union* to maintain minimum levels of specific provision. However, a *credit union* that only maintains the minimum levels does not necessarily comply with ■ CREDS 7.5.1 R. This will depend on the assessment and judgment referred to in ■ CREDS 7.5.6 G.
- (2) (a) Failure to maintain a general provision of the level indicated in ■ CREDS 7.5.4 E creates a presumption that the *credit union* is not complying with ■ CREDS 7.5.1 R, though that presumption can be rebutted by the *credit union*: for example, it may be able to demonstrate that the occurrence of impaired loans that are either below the threshold for specific provision (that is, they are less than three *months* in arrears) or are unidentified at the time, is very low.
- (b) If, on the other hand, a *credit union* does maintain the indicative level in ■ CREDS 7.5.4 E, that does not necessarily mean that it complies with ■ CREDS 7.5.1 R.

7.5.9

G

If a *credit union* needs to make higher provisions, beyond the levels in ■ CREDS 7.5.2 R and ■ CREDS 7.5.4 E, in order to meet ■ CREDS 7.5.1 R, then it should do so.



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## Chapter 8

# Supervision

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## 8.1 Application and purpose

### Application

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

### Purpose

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



## 8.2 Reporting requirements

### Quarterly return

8.2.1



■ SUP 16.12.5 R 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 8.2.2 G. The form can be found at ■ SUP 16 Annex 14(1)R.

[Note: a transitional provision applies to ■ SUP 16.12.5 R: see ■ .]

[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



This table belongs to ■ CREDS 8.2.1 G

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

### Annual return

8.2.3



■ SUP 16.12.5 R 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 8.2.4 G. The form can be found at ■ SUP 16 Annex 14(2) R.

[Note: transitional provisions apply to the requirement in ■ SUP 16.12.5 R (see ) and in respect of the form to be used at ■ SUP 16 Annex 14(2)R (see ■ CREDS TP 1.4).]

[Note: a transitional provision applies to ■ SUP 16.12.5 R: see ■ .]

8.2.4



This table belongs to ■ CREDS 8.2.3 G

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

8.2.5



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

### Accounts and audit

8.2.6

**R**

- (1) Every *credit union* must send to the *FSA* a copy of its audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order 1985.
- (2) The accounts must:
  - (a) be made up for the period beginning with the date of the *credit union's* registration or with the date to which the *credit union's* last annual accounts were made up, whichever is the later, and ending on the *credit union's* most recent financial year end; and
  - (b) accompany the annual return submitted to the *FSA* under **■ SUP 16.12.5 R** (see **■ CREDS 8.2.3 G**), unless they have been submitted already.

8.2.7

**R**

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

### 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 16.12.5 R**; and
  - (b) the audited accounts referred to in **■ CREDS 8.2.6 R**.
- (2) Details of the *FSA's* policy and procedures on financial penalties are given in *DEPP*.



## 8.3 Approved persons

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

### Introduction

**8.3.2** **G** The effect of section 59 of the *Act* and **■ SUP 10** is that a *credit union* must apply to the *FSA* for the approval of one or more individuals to perform the functions which are known as *controlled functions*. *Controlled functions* fall within two groups:

- (1) The *significant influence functions* describe the roles performed by the *governing body* and *senior managers* of the *firm* who exert a significant influence over the *regulated activities* of the *firm*.
- (2) The *customer functions* describe the roles of individuals who deal with *customers* or with the property of *customers*. These *customer functions* do not extend to activities in relation to accepting *deposits* or general insurance and therefore will not be relevant to *credit unions* with *permission* for *accepting deposits* only.

### Controlled functions

**8.3.3** **G** The complete list of all *controlled functions* is located in **■ SUP 10.4.5 R**. *Guidance* on those *controlled functions* most likely to be relevant to *credit unions* is provided below.

**8.3.4** **G** **■ SUP 10.6:** the *governing functions*:

- (1) **■ SUP 10.6.4 R:** the *director function*, This is the function of acting in the capacity of a *director* of a *credit union*.
- (2) **■ SUP 10.6.8 R:** the *non-executive director function*. It is unusual for a *credit union* to appoint *non-executive directors* as such. But this function would include membership of a *credit union's* supervisory committee and any other committee which scrutinises the approach of executive management, the *credit union's* performance, and its standards of conduct.
- (3) **■ SUP 10.6.11 R:** the *chief executive function*. Acting in the capacity of *chief executive*, whether or not using that title. This role includes anyone having the responsibility, alone or jointly with one or more others, under the immediate authority of the committee of management, for the conduct of the whole of the business.

8.3.5

G

■ SUP 10.7: the *required functions*:

- (1) ■ SUP 10.7.1 R: the *apportionment and oversight function*. This is the function of dealing with apportionment of responsibilities under ■ SYSC 4.4.3 R, and of overseeing the establishment and maintenance of systems and controls under ■ SYSC 4.1.1 R.
- (2) ■ SUP 10.7.13 R: the *money laundering reporting function*. This is the function of acting in the capacity of the *money laundering reporting officer* of a *credit union*.

8.3.6

G

■ SUP 10.8: the *systems and controls function*. This is the function of acting as an employee with responsibility for reporting to the committee of management in relation to:

- (1) the *credit union's* financial affairs; or
- (2) setting and controlling its risk exposure; or
- (3) adherence to internal systems and controls, procedures and policies.

8.3.7

G

Where an *employee* performs the *systems and controls function* the FSA would expect the *credit union* to ensure that the *employee* had sufficient expertise and authority to perform that function effectively, for example by occupying the role of a *director* or *senior manager*.

8.3.8

G

■ SUP 10.9: the *significant management functions*: This *controlled function* will only apply to the *credit union* if the function is not being performed by a member of the committee of management and the *credit union* has followed the *guidance* in ■ SUP 10.9.3 G.

## Chapter 9

# Complaints reporting rules for credit unions



## 9.1 Application and purpose

### Application

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

### Purpose

9.1.2 **G** This chapter sets out *rules* and *guidance* for *credit unions* on completing reports concerning *complaints* received from *eligible complainants*. It replaces **DISP 1.10** (Complaints reporting rules) and **DISP 1.10A** (Complaints data publication rules), which do not apply to *credit unions* (**DISP 1.1.5A R**).

9.1.3 **G** The other elements of **DISP 1** (**DISP 1.2** (Consumer awareness rules), **DISP 1.3** (Complaints handling rules), **DISP 1.4** to **DISP 1.8** (Complaints resolution rules etc.) and **DISP 1.9** (Complaints record rule)) apply to *credit unions*.

9.1.4 **G** **DISP 2** to **DISP 4** (which cover jurisdiction and procedures of the *Financial Ombudsman Service*) and **FEES 5** (which covers funding of the *Financial Ombudsman Service*) apply to *credit unions*.





## 9.2 Reporting

- 9.2.1** **R** A *credit union* must provide the FSA, once a year, with a report in the format set out in **■ CREDS 9 Annex 1 R** (Credit Union complaints return) which contains (for the relevant reporting period) information about:
- (1) the total number of *complaints* received by the *credit union*;
  - (2) the number of *complaints* closed by the *credit union*:
    - (a) within eight weeks of receipt; and
    - (b) more than eight weeks after receipt;
  - (3) the total number of *complaints*:
    - (a) upheld by the *credit union* in the reporting period;
    - (b) outstanding at the start of the reporting period; and
  - (4) the total amount of redress paid in respect of *complaints* during the reporting period.

[Note: a transitional provision applies to this rule: see **■ .16**.]

- 9.2.2** **R** A *credit union* must not include in the report a *complaint* that has been forwarded in its entirety to another *respondent* under **■ DISP 1.7** (the complaints forwarding rules).

- 9.2.3** **G** Where a *credit union* has forwarded to another *respondent* only part of a *complaint* or where two *respondents* may be jointly responsible for a *complaint*, then the *complaint* should be reported by both *firms*.

- 9.2.4** **R** **■ CREDS 9.2.1 R** does not apply to a *complaint* that is resolved by close of business on the *business day* following its receipt.

- 9.2.5** **G** For the purposes of **■ CREDS 9.2.4 R**:
- (1) a *complaint* received on any day other than a *business day*, or after close of business on a *business day*, may be treated as received on the next *business day*; and

**9.2.6**

**G**

For the purpose of ■ CREDS 9.2.1 R, and upon completing the return, the *credit union* should note that:

- (2) a *complaint* is resolved where the complainant has indicated acceptance of a response from the *credit union*, with neither the response nor acceptance having to be in writing.
- (1) where a *complaint* could fall into more than one category, the *complaint* should be recorded against the category that the *credit union* considers to form the main part of the *complaint*;
  - (2) where a *complaint* has been upheld under ■ CREDS 9.2.1R (3)(a), a *credit union* should report any *complaints* to which it has given a *final response* which accepts the *complaint* and, where appropriate, offers redress, even if the redress offered is disputed by the complainant. Where a *complaint* is upheld in part, or where the *credit union* does not have enough information to make a decision yet chooses to make a goodwill payment to the complainant, the *credit union* should treat the *complaint* as upheld for reporting purposes. Where a *credit union* rejects a *complaint*, yet chooses to make an ex-gratia payment to the complainant, the *complaint* should be recorded as rejected;
  - (3) where a *credit union* reports on the amount of redress paid under ■ CREDS 9.2.1R (4), redress should be interpreted to include any amount paid, or cost borne, by the *credit union*, where a cash value can be readily identified, and should include:
    - (a) amounts paid for distress and inconvenience;
    - (b) a free transfer out to another provider which transfer would normally be paid for;
    - (c) ex-gratia payments and goodwill gestures;
    - (d) interest on delayed settlements
    - (e) waiver of an excess on an insurance policy; and
    - (f) payments to put the consumer back into the position the consumer should have been in had the act or omission not occurred;
  - (4) where a *credit union* reports on the amount of redress paid under ■ CREDS 9.2.1R (4), such redress should not, however, include repayments or refunds of premiums which had been taken in error (for example where a *credit union* had been taking, by direct debit, twice the actual premium amount due under a policy). The refund of the overcharge would not count as redress.

**9.2.7**

**R**

For the purposes of ■ CREDS 9.2.1 R:

- (1) the relevant reporting period is from 1 April to 31 March each year; and
- (2) reports are to be submitted to the *FSA* within one *month* of the end of the relevant reporting period.

[Note: a transitional provision applies to this rule: see ■ .16.]

- 9.2.8 **G** Financial penalties may be imposed for the late submission of the complaints report required by ■ CREDS 9.2.1 R.
- 9.2.9 **R** For the purposes of making reports under ■ CREDS 9.2.1 R, a closed *complaint* is a *complaint*:
- (1) where the *credit union* has sent a *final response*; or
  - (2) where the complainant has positively indicated acceptance of the *credit union's* earlier response; or
  - (3) where the complainant has failed to revert to the *credit union* within eight weeks of the *credit union's* most recent letter.
- 9.2.10 **R** A report under this section must be given or addressed, and delivered, in the way set out in ■ SUP 16.3.6 R to ■ SUP 16.3.16 G (General provisions on reporting), except that, instead of the *credit union's* usual supervisory contact, the report must be given to or addressed for the attention of the Central Analysis and Reporting department of the *FSA*.
- 9.2.11 **G** ■ SUP 16.3.14 R applies to the *credit unions'* complaints returns.
- 9.2.12 **R** For the purpose of inclusion in the public record maintained by the *FSA*, a *credit union* must provide the *FSA*, at the time of its *authorisation*, with details of a single contact within the *credit union* for complainants, and in its quarterly return must notify the *FSA* of any subsequent change.
- 9.2.13 **G** The contact point in ■ CREDS 9.2.1 R and ■ CREDS 9.2.12 R can be by name or job title and may include, for example, a telephone number.



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## **Credit union complaints return**

This annex consists only of one or more forms.

*Credit union complaints return*



## Chapter 10

# Application of other parts of the Handbook to Credit unions



## 10.1 Application and purpose

### Application

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

### Purpose

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

### Application of other parts of the Handbook 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, in a small number of high-level requirements, the basic obligations of all regulated <i>firms</i> . They provide a general statement of regulatory requirements, and the <i>FSA</i> considers that the <i>Principles</i> are appropriate expressions of the standards of conduct to be expected of all financial <i>firms</i> including <i>credit unions</i> . In applying the <i>Principles</i> to <i>credit unions</i> , the <i>FSA</i> will be mindful of proportionality. In practice, the implications are likely to vary according to the size of the <i>credit union</i> .
Senior Management Arrangements, Systems and Controls ( <i>SYSC</i> )	<i>SYSC</i> 1 and <i>SYSC</i> 4 to 10 apply to all <i>credit unions</i> in respect of their <i>regulated activities</i> and unregulated activities in a <i>prudential context</i> . <i>SYSC</i> 18 applies to all <i>credit unions</i> without restriction.
Threshold Conditions ( <i>COND</i> )	In order to become <i>authorised</i> under the <i>Act</i> all <i>firms</i> must meet the <i>threshold conditions</i> . The <i>threshold conditions</i> must be met on a continuing basis by <i>credit unions</i> . Failure to meet one of the conditions is sufficient grounds for the exercise by the <i>FSA</i> of its powers (see <i>EG</i> ).
Statements of Principle and Code of Practice for Approved Persons ( <i>APER</i> )	The purpose of the <i>Statements of Principle</i> contained in <i>APER</i> 2 is to provide guidance to <i>approved persons</i> in relation to the conduct expected of them in the performance of a <i>controlled function</i> . The <i>Code of Practice for Approved Persons</i> sets out descriptions of conduct which, in the opinion of the <i>FSA</i> , do not comply with a <i>Statement of Principle</i> and, in the case of <i>Statement</i>



Module	Relevance to Credit Unions
The Fit and Proper test for Approved Persons ( <i>FIT</i> )	<p><i>of Principle 3</i>, conduct which tends to show compliance within that statement.</p> <p>The purpose of <i>FIT</i> is to set out and describe the criteria that the <i>FSA</i> will consider when assessing the fitness and propriety of a person in respect of whom an application is being made for approval to undertake a <i>controlled function</i> under the approved persons regime. The criteria are also relevant in assessing the continuing fitness and propriety of persons who have already been approved.</p>
General Provisions ( <i>GEN</i> )	<p><i>GEN</i> contains <i>rules</i> and <i>guidance</i> on general matters, including interpreting the <i>Handbook</i>, statutory status disclosure, the <i>FSA</i> logo and insurance against financial penalties.</p>
Fees manual ( <i>FEES</i> )	<p>This manual sets out the fees applying to <i>credit unions</i>.</p>
Conduct of Business sourcebook ( <i>COBS</i> )	<p>A <i>credit union</i> which acts as a <i>CTF provider</i> or provides a <i>cash-deposit ISA</i> will need to be aware of the relevant requirements in <i>COBS</i>. <i>COBS</i> 4.6 (Past, simulated past and future performance), <i>COBS</i> 4.7.1 R (Direct offer financial promotions), <i>COBS</i> 4.10 (Systems and controls and approving and communicating financial promotions), <i>COBS</i> 13 (Preparing product information) and <i>COBS</i> 14 (Providing product information to clients) apply with respect to <i>accepting deposits</i> as set out in those provisions, <i>COBS</i> 4.1 and <i>BCOBS</i>.</p>
Banking: Conduct of Business sourcebook ( <i>BCOBS</i> )	<p><i>BCOBS</i> sets out <i>rules</i> and <i>guidance</i> for <i>credit unions</i> on how they should conduct their business with their <i>customers</i>. In particular there are <i>rules</i> and <i>guidance</i> relating to communications with banking customers and <i>financial promotions</i> (<i>BCOBS</i> 2), distance communications (<i>BCOBS</i> 3), information to be communicated to banking customers (<i>BCOBS</i> 4), post sale requirements (<i>BCOBS</i> 5), and cancellation (<i>BCOBS</i> 6). <i>BCOBS</i> 5.1.13 R (Value dating) does not apply to <i>credit unions</i>. The <i>rules</i> in <i>BCOBS</i> 3.1 that relate to <i>distance contracts</i> for <i>accepting deposits</i> are likely to have limited application to a <i>credit union</i>. This is because the <i>Distance Marketing Directive</i> only applies where there is "an organised distance sales or service-provision scheme run by the supplier" (Article 2(a)). If, therefore, the <i>credit union</i> normally operates face to face and has not set up facilities to enable <i>customers</i> to deal with it at a distance, such as facilities for a <i>customer</i> to deal with it purely by post, telephone, fax or the Internet, the provisions will not be relevant.</p>
Supervision manual ( <i>SUP</i> )	<p>The following provisions of <i>SUP</i> are relevant to <i>credit unions</i>: <i>SUP</i> 1 (The <i>FSA</i>'s approach to supervision), <i>SUP</i> 2 (Information gathering by the <i>FSA</i> on its own initiative), <i>SUP</i> 3.1 to <i>SUP</i> 3.8 (Auditors), <i>SUP</i> 5 (Skilled persons), <i>SUP</i> 6 (Applications to vary or cancel Part IV permission), <i>SUP</i> 7 (Individual requirements), <i>SUP</i> 8 (Waiver and modification of rules), <i>SUP</i> 9 (Individual guidance), <i>SUP</i> 10 (Approved persons), <i>SUP</i> 11 (Controllers and Close links), <i>SUP</i> 15 (Notifications to the <i>FSA</i>) and <i>SUP</i> 16 (Reporting Requirements).</p>
	<p><i>Credit unions</i> are reminded that they are subject to the requirements of the <i>Act</i> and <i>SUP</i> 11 on <i>controllers</i> and <i>close links</i>, and are bound to notify the <i>FSA</i> of changes. It may be unlikely, in practice, that <i>credit unions</i> will develop such relationships. It is possible, however, that a <i>person</i> may acquire control of a <i>credit union</i> within the</p>

Module	Relevance to Credit Unions
	<p>meaning of the <i>Act</i> by reason of holding the prescribed proportion of <i>deferred shares</i> in the <i>credit union</i>.</p> <p>In relation to SUP 16, <i>credit unions</i> are exempted from the requirement to submit annual reports of <i>controllers</i> and <i>close links</i>.</p>
Decision, Procedure and Penalties manual (DEPP)	<p>DEPP is relevant to <i>credit unions</i> because it sets out:</p> <p>(1) the <i>FSA's</i> decision-making procedure for giving <i>statutory notices</i>. These are <i>warning notices</i>, <i>decision notices</i> and <i>supervisory notices</i> (DEPP 1.2 to DEPP 5); and</p> <p>(2) the <i>FSA's</i> policy with respect to the imposition and amount of penalties under the <i>Act</i> (see DEPP 6).</p>
Dispute Resolution: Complaints (DISP)	DISP sets out <i>rules</i> and <i>guidance</i> in relation to treating complainants fairly and the <i>Financial Ombudsman Service</i> .
Compensation (COMP)	COMP sets out <i>rules</i> relating to the scheme for compensating consumers when authorised <i>firms</i> are unable, or likely to be unable, to satisfy claims against them.
Complaints against the FSA (COAF)	This relates to complaints against the <i>FSA</i> .
The Enforcement Guide (EG)	The Enforcement Guide ( <i>EG</i> ) describes the <i>FSA's</i> approach to exercising the main enforcement powers given to it by the <i>Act</i> and by regulation 12 of the <i>Unfair Terms Regulations</i> .
Financial crime: a guide for firms (FC)	FC provides <i>guidance</i> on steps that a <i>firm</i> can take to reduce the risk that it might be used to further <i>financial crime</i> .

# Appendix 1

## Key Definitions

### 1.1 Key Definitions

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

***attached shares*** means any shares in the *credit union* (other than any *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 the shares before the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 came into force.

***complaint*** any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service, which:

- (a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience; and

	(b) relates to an activity of that <i>respondent</i> , or of any other <i>respondent</i> with whom that <i>respondent</i> has some connection in marketing or providing financial services or products, which comes under the jurisdiction of the <i>Financial Ombudsman Service</i> .
<b>CREDS</b>	the Credit Unions New sourcebook.
<b>deferred shares</b>	in relation to a <i>Great Britain credit union</i> , means any shares of a class defined as deferred shares by section 31A of the Credit Unions Act 1979.
<b>final response</b>	(in CREDS 9) a written response from a <i>respondent</i> which: <ul style="list-style-type: none"> <li>(a) accepts the <i>complaint</i>, and, where appropriate, offers redress or remedial action; or</li> <li>(b) offers redress or remedial action without accepting the <i>complaint</i>; or</li> <li>(c) rejects the <i>complaint</i> and gives reasons for doing so; and which informs the complainant that, if he remains dissatisfied with the <i>firm's</i> response, he may now refer his complaint to the <i>Financial Ombudsman Service</i> and must do so within six months.</li> </ul>
<b>net liability</b>	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.
<b>total non-deferred shares</b>	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 <i>FSA</i> under SUP 16.12.5 R (see CREDS 8.2.3 G), excluding any <i>deferred shares</i> in the <i>credit union</i> .
<b>total relevant liabilities</b>	means the sum of: <ul style="list-style-type: none"> <li>(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</li> <li>(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).</li> </ul>
<b>unattached shares</b>	means the total shares in the <i>credit union</i> other than any <i>attached shares</i> or <i>deferred shares</i> .

## Credit Unions New sourcebook

### CREDS TP 1 Transitional Provision

(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transition- al provi- sions: dates in force	Hand- book pro- visions: coming in- to force
1	CREDS 5.3.1 R	R	A <i>version 1 credit union</i> need not comply with CREDS 5.3.1 R until midnight on 30 September 2014. CRED 8.3.1 R, as it was in force on 31 December 2011, will apply from the beginning of this transitional period until midnight on 30 September 2012. From midnight on that day until midnight on 30 September 2013, the <i>version 1 credit union</i> must at all times maintain a capital-to-total assets ratio of at least 1%. From midnight on 30 September 2013 until the end of this transitional period at midnight on 30 September 2014, the <i>version 1 credit union</i> must at all times maintain a capital-to-total assets ratio of at least 2%.	From mid- night on 30 September 2012 to mid- night on 30 September 2014	8 January 2012
2	CREDS 6.3.2 R	R	A <i>version 2 credit union</i> need not comply with CREDS 6.3.2 R until midnight on 30 September 2014. From midnight on 30 September 2012 until midnight on 30 September 2013, the <i>version 2 credit union</i> must hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the <i>credit union's</i> liquid assets below 6% of its <i>total relevant liabilities</i> . From midnight on 30 September 2013, until the end of this transitional period at midnight on 30 September 2014, the <i>version 2 credit union</i> must hold enough liquid assets to ensure that on no two consecutive quarter ends is the level of the <i>credit union's</i> liquid assets below 8% of its <i>total relevant liabilities</i> .	From mid- night on 30 September 2012 to mid- night on 30 September 2014	8 January 2012

(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transitional provisions: dates in force	Hand-book provisions: coming into force
3	SUP 16.12.7 R	R	The change in the applicable due date for the submission by a <i>credit union</i> of an annual return under SUP 16.12.5 R from 7 months to 6 months does not apply to an annual return in respect of the financial year ending on or before 31 July 2012.	31 July 2012	8 January 2012
4	SUP 16 Annex 14 R	R	SUP 16 Annex 14 R, as it was in force on 31 December 2011, continues to apply to: (i) quarterly returns for <i>credit unions</i> in respect of the quarter ending on or before 31 December 2011, and (ii) annual returns in respect of the financial year ending on or before 7 January 2012	8 January 2012	8 January 2012
5	CREDS TPs 1, 2, 3 and 4	R	CREDS TPs 1, 2, 3 and 4 do not apply to <i>Northern Ireland credit unions</i> .	From 31 March 2012 for as long as the relevant TPs remain in force	For <i>Northern Ireland credit unions</i> 31 March 2012
6	CREDS 2.2.4 R, CREDS 2.2.6 R, CREDS 2.2.8 R, CREDS 3.3.7 R, CREDS 6.2.4 R and CREDS 7.2.1 R	R	A <i>Northern Ireland credit union</i> need not comply with CREDS 2.2.4 R, CREDS 2.2.6 R, CREDS 2.2.8 R, CREDS 3.3.7 R, CREDS 6.2.4 R and CREDS 7.2.1 R.	From 31 March 2012 until 31 December 2012	For <i>Northern Ireland credit unions</i> 31 March 2012
7	CREDS 3.2.1 R	R	A <i>Northern Ireland credit union</i> need not comply with CREDS 3.2.1 R with respect to any types of <i>investment</i> invested in prior to <i>credit unions day</i> provided those types of <i>investment</i> were permitted under the Credit Unions (Northern Ireland) Order 1985 and the Credit Unions (Authorised Investments) Regulations (Northern Ireland) 1995 prior to <i>credit unions day</i> .	From 31 March 2012 until 30 March 2013	For <i>Northern Ireland credit unions</i> 31 March 2012

(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transition- al provi- sions: dates in force	Hand- book pro- visions: coming in- to force
8	CREDS 3.2.2 R	R	A Northern Ireland credit union that is a <i>version 1 credit union</i> need not comply with CREDS 3.2.2 R with respect to any <i>securities</i> invested in, or loans made, in accordance with CREDS 3.2.1 R prior to <i>credit unions day</i> provided those <i>securities</i> or loans mature in accordance with the terms of the relevant agreement as at <i>credit unions day</i> . This transitional provision does not apply to any <i>securities</i> invested in, or loans made, in accordance with CREDS 3.2.1 R prior to <i>credit unions day</i> that satisfy the requirements in CREDS 3.2.2 R.	From 31 March 2012 until the ma- turity date of the <i>securi- ties</i> invested in or loans made	For North- ern Ireland <i>credit unions</i> 31 March 2012
9	CREDS 3.2.2 R	R	A Northern Ireland credit union that is a <i>version 1 credit union</i> need not comply with CREDS 3.2.2 R with respect to any <i>securities</i> invested in, or loans made, in accordance with CREDS 3.2.1 R using surplus funds within one year from <i>credit unions day</i> and which in accordance with the terms of the relevant agree- ment have a maturity of up to three years.	From 31 March 2012 until 30 March 2013	For North- ern Ireland <i>credit unions</i> 31 March 2012
10	CREDS 3.2.3 R	R	A Northern Ireland credit union that is a <i>version 2 credit union</i> need not comply with CREDS 3.2.3 R with respect to any <i>securities</i> invested in, or loans made, in accordance with CREDS 3.2.1 R prior to <i>credit unions day</i> provid- ed those <i>securities</i> or loans mature in accor- dance with the terms of the relevant agreement as at <i>credit unions day</i> . This transitional provi- sion does not apply to any <i>securities</i> invested in, or loans made, in accordance with CREDS 3.2.1 R prior to <i>credit unions day</i> that comply with CREDS 3.2.3 R.	From 31 March 2012 until the ma- turity date of the <i>securi- ties</i> invested in or loans made	For North- ern Ireland <i>credit unions</i> 31 March 2012
11	CREDS 4.4.1 R	R	A Northern Ireland credit union need not comply with CREDS 4.4.1 R.	From 31 March 2012 until 30 March 2013	For North- ern Ireland <i>credit unions</i> 31 March 2012



(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transitional provisions: dates in force	Handbook provisions: coming into force
12	CREDS 5.3.3 R and CREDS 5.3.5 R	R	Where the requirements of CREDS 7.5.1 R, CREDS 7.5.2 R and CREDS 7.5.4 E would result in a <i>Northern Ireland credit union</i> having to make higher provision than would have been required prior to <i>credit unions day</i> , that <i>Northern Ireland credit union</i> need not comply with CREDS 5.3.3 R and CREDS 5.3.5 R to the extent that that <i>Northern Ireland credit union</i> may transfer out of its general reserve the amount of provision that is additional to the amount that would have been required prior to <i>credit unions day</i> . If a <i>Northern Ireland credit union</i> takes advantage of this transitional provision it must advise the FSA of the amount transferred by the due date of submission for submission of its next annual return. This provision applies even where the amount standing to the <i>Northern Ireland credit union's</i> general reserve is, or as a result of the transfer would be, less than 10% of total assets.	From 31 March 2012 until the due date for submission by that <i>Northern Ireland credit union</i> of its next annual return	For <i>Northern Ireland credit unions</i> 31 March 2012
13	CREDS 7.3.1 R	R	A <i>Northern Ireland credit union</i> that is a <i>version 1 credit union</i> need not comply with CREDS 7.3.1 R with respect to any loan outstanding on <i>credit unions day</i> . That loan must be repaid in accordance with the terms as at <i>credit unions day</i> of the relevant loan agreement. This transitional provision does not apply to any loan outstanding on <i>credit unions day</i> that satisfies the requirements in CREDS 7.3.1 R.	From 31 March 2012 until the day the loan is repaid	For <i>Northern Ireland credit unions</i> 31 March 2012
14	CREDS 7.3.4 R	R	A <i>Northern Ireland credit union</i> that is a <i>version 2 credit union</i> need not comply with CREDS 7.3.4 R with respect to any loan outstanding on <i>credit unions day</i> . That loan must be repaid in accordance with the terms as at <i>credit unions day</i> of the relevant loan agreement. This transitional provision does not	From 31 March 2012 until the day the loan is repaid	For <i>Northern Ireland credit unions</i> 31 March 2012



(1)	(2)	(3)	(4)	(5)	(6)
	Materials to which the transitional provision applies		Transitional Provision	Transition- al provi- sions: dates in force	Hand- book pro- visions: coming in- to force
			apply to any loans outstanding on <i>credit unions day</i> that satisfies the requirements in CREDS 7.3.4 R.		
15	CREDS 7.4.2 R	R	A <i>Northern Ireland credit union</i> need not comply with CREDS 7.4.2 R with respect to any individual large <i>exposure</i> in existence on <i>credit unions day</i> or the aggregate total of all large <i>exposures</i> in existence on <i>credit unions day</i> . Those large <i>exposures</i> must be repaid in accordance with the terms of the agreement relating to the relevant large <i>exposure</i> as at <i>credit unions day</i> . This transitional provision does not apply to any individual large <i>exposure</i> in existence on <i>credit unions day</i> or the aggregate total of all large <i>exposures</i> in existence on <i>credit unions day</i> that comply with CREDS 7.4.2 R.	From 31 March 2012 until 30 March 2014 or the day the individu- al large ex- posure or the aggre- gate total of all large <i>ex- posures</i> sat- isfies the re- quirements in CREDS 7.4.2 R if earlier	For <i>North- ern Ireland credit unions</i> 31 March 2012
16	CREDS 9.2.1 R and CREDS 9.2.7 R	R	A <i>Northern Ireland credit union</i> need not comply with the requirement to submit a return under CREDS 9.2.1 R until 30 April 2013, and the relevant reporting period under CREDS 9.2.7 R for this return is from 1 October 2012 to 31 March 2013.	From 31 March 2012 until 30 April 2013	For <i>North- ern Ireland credit unions</i> 31 March 2012
17	SUP 16.12.5 R	R	A <i>Northern Ireland credit union</i> need not comply with the requirement to submit quar- terly returns under SUP 16.12.5 R until 31 Jan- uary 2013 for the period from 1 October to 31 December 2012.	From 31 March 2012 until 31 Jan- uary 2013	For <i>North- ern Ireland credit unions</i> 31 March 2012
18	SUP 16.12.5 R	R	A <i>Northern Ireland credit union</i> need not comply with the requirement to submit an an- nual return under SUP 16.12.5 R for the year end 30 September 2011.	From 31 March 2012 indefinitely.	For <i>North- ern Ireland credit unions</i> 31 March 2012



## Credit Unions New sourcebook

### Schedule 1 Record keeping requirements

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



## Credit Unions New sourcebook

### Schedule 2 Notification requirements

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

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

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
CREDS 2.2.4 R	Business plan	Copy of business plan	Upon request	As soon as reasonably practical
CREDS 2.2.52 G			<i>Version 2 credit unions</i> should submit after adoption and / or amendment	
CREDS 2.2.6 R	Policies and procedures manual	Copy of policies and procedures manual.	Upon request	As soon as reasonably practical
CREDS 2.2.60 G		Wide range of detail as specified as guidance in CREDS 2	<i>Version 2 credit unions</i> should submit after adoption and / or amendment	
CREDS 3.3.10 R	Financial risk Management Policy	Statement of financial risk management policy	<i>Version 2 credit unions</i> must submit after adoption and / or amendment	As soon as reasonably practicable
CREDS 5.2.3 G	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
CREDS 6.2.5 R	Liquidity	Liquidity Management Policy Statement	<i>Version 2 credit unions</i> must submit after adoption and/or amendment	As soon as reasonably practical
CREDS 7.2.1 R to CREDS 7.2.2 R	Lending policy	Current lending policy statement	<i>Version 2 credit unions</i> must submit after adoption and/or amendment	As soon as reasonably practical

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
CREDS 7.4.6 G	Large <i>exposures</i>	Limits on large <i>exposures</i> to avoid concentration of risk	Upon request	As soon as reasonably practical
CREDS 8.2.1 G	Quarterly return	Key financial data	Quarter end	1 <i>month</i> after quarter end
CREDS 8.2.3 G	Annual return	Extended financial data	Financial year end	6 <i>months</i> after financial year end
CREDS 8.2.6 R	Audited accounts	Revenue account and balance sheet	Financial year end	Until submission of annual return
CREDS 9.2.1 R	Complaints report	Analysis of complaints	31 March each year	1 <i>month</i> after period end

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## Credit Unions New sourcebook

### Schedule 3 Fees and other required payments

There are no requirements for fees or other payments in *CREDS*.

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

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





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## Credit Unions New sourcebook

### Schedule 4 Powers exercised

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

- Section 138 (General rule-making power)
- Section 149 (Evidential provisions)
- Section 156 (General supplementary powers)
- Section 213 (The compensation scheme)
- Section 214 (General)
- Section 226 (Compulsory jurisdiction)
- Paragraph 13 (Compulsory jurisdiction) of Schedule 17 (The Ombudsman Scheme)

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

- Section 157(1) (Guidance).



## Credit Unions New sourcebook

### Schedule 5 Rights of actions for damages

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

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

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

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



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## Credit Unions New sourcebook

### Schedule 6 Rules that can be waived

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

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