

November 2009

09 / 27

newsletter



Financial Services Authority

How the review of the Credit Unions Sourcebook (CRED) affects your firm

Our Consultation Paper – *Review of the Credit Unions Sourcebook (CRED)* – outlines our proposed amendments to the CRED regime. For more details, read the full paper on our website: www.fsa.gov.uk.

Will this affect you – directly or indirectly?

This paper will be of interest to credit unions, their officers and volunteers, their trade associations, and those planning to set up new credit unions.

What is being proposed?

We have set out how we want to increase the financial strength and stability of credit unions and reduce the number of credit union failures.

We propose to increase:

- the initial capital requirements for new version 1 credit unions to £10,000 (from £1,000); and for new version 2 credit unions to £50,000 (from £5,000);

- ongoing capital-to-total-assets requirements for version 1 credit unions to 3% (currently they have only to meet a bare solvency requirement); and
- liquidity requirements for both version 1 and version 2 credit unions to 10% of relevant liabilities at all times (up from 5%, though version 1 credit unions must also currently meet 10% on two consecutive quarter-ends).

We propose phasing in these requirements so that credit unions have time to adjust.

We also propose:

- reducing the submission period for annual returns from seven months to four months; and
- providing additional guidance on provisioning requirements.

We also set out how we will restructure our current requirements (CRED), in a new sourcebook to be called 'CREDS'. We intend to make our requirements more user-friendly and to amend them so they are consistent with the government's proposed changes to credit union law, which are expected to take effect in April 2010.

Why have we published this?

There are two main drivers for our proposals. The first is that, given our experience of supervising credit unions over the past seven years, we consider it important to raise capital and liquidity requirements and ensure credit unions are more financially sound.

The second main driver is the government's proposed changes to credit union law, which will allow credit unions to engage in some new activities. Our consequential amendments give effect to these changes without changing the substance or policy intent of our own rules.

Background

When we took on the regulation of credit unions seven years ago, we set relatively modest regulatory requirements in the expectation that we would gradually be able to raise standards across the sector – particularly once credit unions with little capital had generated more capital, merged with others, or closed.

There has been some improvement, but not to the extent we had anticipated, so there is still significant scope to improve the financial resilience of the credit union sector, which has a failure rate of around six a year.

What do you need to do next?

You need to send us your comments on the proposals in this paper before **February 10 2010**.

What will the FSA do next?

Subject to the consultation responses, we aim to make the new CREDS sourcebook rules come into effect at the same time as the government's proposed legislative changes, expected in April 2010.

Want to find out more?

In November 2009 we are holding some regional roadshows, to give the industry an opportunity to discuss our proposals and their implications. Further details are available at the following link: http://www.fsa.gov.uk/smallfirms/your_firm_type/credit/pdf/surgeries.pdf

How can I get the full paper?

You can download the full Consultation Paper from:

www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_27.shtml

Or you can order hard copies of the paper:

Phone our helpline on 0845 608 2372, quoting reference CP09/27

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This newsletter summarises Consultation Paper 09/27. The Financial Services Authority invites comments on this CP. Comments should reach us by 10 February 2010.

Comments may be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/pages/library/policy/cp/2009/cp09_27_response.shtml).

Alternatively, please send comments in writing to:

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It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.