

CHANGES TO MODEL RULES

LRO (unchanged) to become law and to
come into force in April 2011

CREDS to come into force on the same date.



Credit Union Services



WHY RULES NEED UPDATING

- **The LRO**
- **CREDS**
- **CURG (Credit Unions' Regulatory Guide)**

All the trade bodies will have to update their model rules, policies & procedures and other advice and guidance such as factsheets.

ACE Credit Union Services and UKCU have completed a joint rule book, which is now with the FSA for comments.

ALL CREDIT UNIONS MUST REGISTER THE NEW RULES



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- **Credit unions will have to hold a meeting of members to approve the change of rules and will have to send in an application for a change of rules to the FSA.**
- **Most credit unions will benefit from the changes – even if only in a small way – but will not be able to take advantage of the changes unless they go through the formal process of adopting a new rule book.**
- **Credit unions will have to set out their decisions in the rule books – e.g, whether they are going to accept corporate members.**

THREE GROUPS



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- **The changes fall into three groups:**
- **Changes that arise as a result of the LRO/CREDS.**
- **Changes that ACE/UKCU are proposing to update and simplify the rule book.**
- **ACE/UKCU additions to the rule book – e.g. proxy voting**

CHANGES TO MODEL RULES DUE TO NEW LEGISLATION & CREDS

KEY CHANGES INCLUDE:

Membership – common bonds - corporate members

Young members

Attachment of shares for loans

Deferred shares

Interest bearing accounts

Non-qualifying members

Date annual returns, levels of capital, liquidity and
provisioning

Common Bonds & Corporate Membership



- A summary of changes is provided
- Credit unions may combine common bonds

Where a “locality” is involved:

- the number of potential members must be two million or less
- it must be reasonably practicable for every member to:
 - participate in votes of the credit union
 - serve on the credit union’s committee
 - have access to all the services offered by the credit union

Applies to both new and existing credit unions

Corporate Members



Three types:

- A body corporate – member in its own right
- Partnership – a partner must represent the partnership
- Unincorporated association – a trustee must represent the members of the association.

Credit unions will have to ensure there is an agreement which sets out what the representatives can do on behalf of their organisation, particularly in relations to withdrawing shares and taking out loans.

Credit unions can be members of other credit unions!

- Rules limiting numbers of members shares and loans
- Each corporate member will have one vote



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Important to Note:

- **If credit unions do not intend to take into membership any corporate members, they must notify the FSA – before the LRO comes into law.**
- **Credit unions can impose stricter limits on corporate members, share holding and loans than are contained in legislation.**
- **Credit union rules must make provision for terminating corporate membership and repayment of shares, other than deferred shares, held by corporate bodies to comply with 25% limit.**

Attachment of shares



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- **There has been confusion between the Treasury and FSA on the meaning of ‘attachment of shares’.**
- **The latest interpretation from the HM Treasury given by Jon Ellis at ACE’s conference in May is:**
 - **particular shares or classes of shares are ‘attached’ if the loan agreement contains a term saying that they cannot be withdrawn “for the duration of the loan”**
 - **but this term may be varied by mutual agreement of the parties**

DEFERRED SHARES



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DEFERRED SHARES

- **Count towards capital (when members pay in money for deferred shares, credit union has to transfer that sum to reserves)**
- **Different from other credit union shares in being transferable, but not withdrawable, and carrying no right to borrow**
- **Generally repayable only on winding-up or dissolution of credit union, after all creditors have been repaid**
- **Only one vote (if hold both ordinary and deferred shares)**
- **Document must be issued to depositor setting out rights and obligations of depositor and credit union**
- **Not covered by the Financial Services Compensation Scheme**

INTEREST BEARING SHARES



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Credit unions may issue interest-bearing shares so long as they have:

- **registered an amendment of rules to provide for it**
- **submitted to the FSA:**
 - **an audited annual return showing reserves of at least £50,000 or 5% of total assets, whichever is greater**
 - **a report from auditor that credit union has satisfied conditions specified by the FSA**
- **The credit union must submit an annual report to the FSA confirming it continues to fulfill the above criteria – details of what is required yet to be stated by the FSA.**

Converting interest-bearing shares into non-interest bearing shares



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- – this will need to be done if the three conditions above fail to be met:
- The yearend balance does not show the required amount of reserves, or has not be submitted to the FSA on time for two years running.
- The annual report above has not been submitted for two consecutive years.
- The credit union must have a rule for this conversion.

YOUNG MEMBERS



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- The credit union will decide at what age a young person can be a member.
- The credit union may accept deposits from a young person below the set age, providing s/he is eligible for membership once s/he reaches the set age.
- Members under the age of 16 years cannot be elected as an officer, director, treasurer, committee member, trustee (i.e. for an association) or manager.
- Members under 18 years may not receive a loan, except in exceptional circumstances between the age of 16 and 18.

Non-qualifying members (16)



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The board of directors will decide whether there should be a percentage limit on the number of non-qualifying members and what that percentage should be; or whether there should be no limit.

Other changes to the rules



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- **Ancillary fees** – credit unions may charge such fees as it considers appropriate for ancillary services (market rate?)
- **Dividend** – the upper limit of 8% has been removed, except in the case of dissolution, where the maximum remains at 8%.
- **Dissolution** – two thirds of those who vote can decide to dissolve a credit union. (was three quarters.)
- **Charging for copies of the rule books** – free to members, but not exceeding £5 to others.

Changes in CREDS which are not included in the model rules.

- **Annual Returns**
- **Capital**
- **Liquidity**
- **Provisioning**

Annual Returns, Capital and Liquidity



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- **Annual returns**
- Deadline **six** months after financial year ends. Serious possibility of fine if late.
- **Increase in Capital to Assets Ratio**
- Version 1 credit union must at all times maintain a capital to asset ratio of at least 3%. Version 2 – at least 8%.
- Increase will be gradual over a three year period
- **Increase in Liquidity**
- Version 1 credit union must at all times hold liquid assets of a value equal to at least 10 % of its total liabilities.
- (Includes only those assets that can be realised for cash in 8 days; loans to another credit union cannot be counted as liquid by the lender).
- Increase will be gradual over a three year period
- Higher initial capital for new credit unions

Increase in Provisioning



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- A credit union must make specific provision in its accounts for bad and doubtful debts:
- 1. 35% of the net liability to the credit union of borrowers where the amount is three months in arrears; and
- 2. 100% of the net liability to the credit union of borrowers where the amount is 12 months in arrears; and

A credit union **should consider** making the following specific provisions in its accounts for bad and doubtful debts:

- A. 60% of the net liability to the credit union of borrowers where the amount is six months in arrears; and
- B. 80% of the net liability to the credit union of borrowers where the amount is nine months in arrears.
- A credit union should make a general provision in its accounts 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 1 & 2 above.

TWO ADDITION RULES - ACE/UKCU

- Proxy Voting
- Directors / Committee members' Honoraria
- Employees can be directors (limit 1/3)