

CREDIT UNIONS SOURCEBOOK (AMENDMENT NO 7) INSTRUMENT 2006

Powers exercised

- A. The Financial Service Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 156 (General supplementary powers); and
 - (3) section 157(1) (Guidance).

Commencement

- B. This instrument comes into force on 1 January 2007.

Amendments to the Handbook

- C. The Supervision manual (SUP) is amended in accordance with Annex A to this instrument.
- D. The Credit Unions sourcebook (CRED) is amended in accordance with Annex B to this instrument.

Citation

- E. This instrument may be cited as the Credit Unions Sourcebook (Amendment No 7) Instrument 2006.

By order of the Board
23 November 2006

Annex A

Amendments to the Supervision manual (SUP)

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

Notes on completing the quarterly and annual returns for Credit Unions

FSA Handbook Reference: SUP 16 Ann 15(1)G

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Large exposures

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For example, ~~CRED 10.4.1R~~ defines a large *exposure* is defined as any individual net liability which is at least ~~£5,000~~ £7,500 and at least 10% of the value of the *credit union's* capital.

8A Largest net exposure To work out your *credit union's* largest net *exposure*, you will need to determine:

1. The net exposure on each loan and find the largest figure. The formula for this is:
(loan balance + interest owing)- share balance
2. what is the total capital of your *credit union*? This is defined at **5E**.

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However, we further know from the above that only net liabilities over ~~£5,000~~ £7,500 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Example:

Member number	Share balance	Loan balance + interest owing	Net Liabilities	Is it a large exposure?
150	£3,125	£12,500	£9,375	YES
152	£1,750	£7,000 <u>£10,000</u>	£5,250 <u>£8,250</u>	YES
103	£3,115	£9,002 <u>£12,002</u>	£5,887 <u>£8,887</u>	YES
462	£2,500	£6,700	£4,200	No
204	£2,138	£7,911 <u>£10,911</u>	£5,773 <u>£8,773</u>	YES
109	£4,000	£8,500	£4,500	No

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8C Aggregate total of large net exposures

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Taking the example at **8A** above, this figure will be ~~£26,285~~ **£35,285** (see below).

Member number	Share balance	Loan balance + interest owing	Net Liabilities
150	£3,125	£12,500	£9,375

152	£1,750	£7,000 £10,000	£5,250 £8,250
103	£3,115	£9,002 £12,002	£5,887 £8,887
204	£2,138	£7,911 £10,911	£5,773 £8,773
Totals	£10,128	£36,413 £45,413	£26,285 £35,285

8D As % of capital

CRED states that the aggregate total of large net *exposures* must not exceed 500% of the total capital of the *credit union* (~~*CRED* 10.4.2R~~), and must not exceed 300% of the total capital without prior notifying the *FSA* (~~*CRED* 10.4.3R~~). To see if the example satisfies the rules please use the following calculation:

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So:

$$\frac{\frac{\del{£26,285} \quad \del{£35,285}}{\del{£40,000}}}{\del{£40,000}} \times \frac{100}{1} = \del{65.71\%} \quad \del{88.21\%}$$

Notes on completing the annual return (CY) for Credit Unions

FSA Handbook Reference: SUP 16 Ann 15(2)G

30E Liquidity ratio

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Large exposures

Whilst these figures relate to the financial year end, your *credit union* will need to look at large *exposure* requirements when issuing loans. For example, *CRED 10.4.1R* defines a large *exposure* is defined as any individual net liability which is at least ~~£5000~~ £7,500 and at least 10% of the value of the *credit union's* capital.

31A Largest net exposure

To work out your *credit union's* largest net *exposure*, you will need to determine:

1. The net exposure on each loan and find the largest figure. The formula for this is:
(loan balance + interest owing) - share balance
2. what is the total capital of your *credit union*? This is defined at **2S**.

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However, we further know from the above that only net liabilities over ~~£5,000~~ £7,500 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Member number	Share balance	Loan balance + interest owing	Net Liabilities	Is it a large exposure?
150	£3,125	£12,500	£9,375	YES
152	£1,750	£7,000 £10,000	£5,250 £8,250	YES
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31C Aggregate total of large net exposures

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Taking the example at **31A** above, this figure will be ~~£26,285~~ **£35,285** (see below).

Member number	Share balance	Loan balance + interest owing	Net Liabilities
150	£3,125	£12,500	£9,375
152	£1,750	£7,000 £10,000	£5,250 £8,250
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Totals	£10,128	£36,413 £45,413	£26,285 £35,285

31D As % of capital

CRED states that the aggregate total of large net *exposures* must not exceed 500% of the total capital of the *credit union*

~~(CRED 10.4.2R)~~, and must not exceed 300% of the total capital without prior notifying the FSA ~~(CRED 10.4.3R)~~. To see if the example satisfies the rules please use the following calculation:

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So:

$$\frac{\begin{array}{l} \cancel{£26,285} \quad \underline{£35,285} \\ \hline \end{array}}{£40,000} \times \frac{100}{1} = \cancel{65.71\%} \quad \underline{88.21\%}$$

Annex B

Amendments to the Credit Unions sourcebook (CRED)

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

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1.1.3 G Every *credit union* is either a *version 1 credit union* or a *version 2 credit union*. The difference is that a *version 1 credit union* is subject to a *requirement* that it must not lend more than ~~£10,000~~ £15,000 in excess of a member's shareholding. *CRED* 14.5 (Application to vary or cancel *permission*) chapter describes how a *credit union* can switch between the two versions.

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7A.2.7 R A *version 1 credit union* must not:

- (1) pay different dividends on different accounts; ~~and~~ 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.

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10.4.1 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 ~~£5000~~ £7,500;
- (2) it is at least 10% of the value of the *credit union's* total capital.

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