

**CREDIT UNIONS NEW SOURCEBOOK (CONSEQUENTIAL AMENDMENTS)
INSTRUMENT 2011**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 149 (Evidential provisions);
 - (c) section 156 (General supplementary powers);
 - (d) section 157(1) (Guidance);
 - (e) section 213 (The compensation scheme);
 - (f) section 214 (General);
 - (g) section 226 (Compulsory jurisdiction); and
 - (h) paragraph 13 (Compulsory jurisdiction) of Schedule 17 (The Ombudsman Service); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FSA’s Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. (1) Subject to (2), this instrument comes into force on 8 January 2012.
 (2) Part 2 of Annex A to this instrument comes into force on 1 October 2014.

Amendments to the Handbook

- D. The modules of the FSA Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex B
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex C
Supervision manual (SUP)	Annex D
Decision Procedure and Penalties manual (DEPP)	Annex E
Dispute Resolution: Complaints sourcebook (DISP)	Annex F
Compensation sourcebook (COMP)	Annex G

Notes

- E. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are intended for the convenience of readers but do not form part of the legislative text.

Citation

- F. This instrument may be cited as the Credit Unions New Sourcebook (Consequential Amendments) Instrument 2011.

By order of the Board
8 December 2011

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

Part 1: Comes into force on 8 January 2012.

attached shares (in *CREDS*) means any shares in the *credit union* (other than any *deferred shares*):

- (a) the withdrawal of which is not permitted by section 7(5) of the Credit Unions Act 1979; or
- (b) 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*.

Paragraph (c) 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.

CREDS the Credit Unions New sourcebook.

net liability (in *CREDS*) means the outstanding balance of any loan made to the borrower and any interest on that loan that is due but unpaid, less any *attached shares* held by the borrower.

total non-deferred shares (in *CREDS*) means the total of members' share balances in a *credit union* shown in the most recent annual return to have been sent to the *FSA* under *SUP* 16.7.62R or *SUP* 16.12.5R (see *CREDS* 8.2.3G), excluding any *deferred shares* in the *credit union*.

total relevant liabilities (in *CREDS*) means the sum of:

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

unattached shares (in *CREDS*) means the total shares in the *credit union* other than any *attached shares* or *deferred shares*.

Amend the following definitions as shown:

complaint ...

(2) (in *DISP*, except *DISP* 1.1 and the *complaints handling rules* and the *complaints record rule* in relation to *MiFID business*, and in *CREDS* 9) 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:

...

deferred share (1) (other than in *CREDS* and *COMP*) in relation to a *building society*, a deferred share as defined in the Building Societies (Deferred Shares) Order 1991.

(2) (in *CREDS* and *COMP* 5.3.1R(2)(ca)) means any share of a class defined as a deferred share by section 31A of the Credit Unions Act 1979.

final response (1) (in ~~*CRED*~~ *CREDS* 9) a written response from the *firm* which:

(a) accepts the complaint, and, where appropriate, offers redress; or

(b) offers redress without accepting the complaint; or

(c) rejects the complaint and gives reasons for doing so;

and which informs the complainant that, if he remains dissatisfied with the *firm's* response, he may now refer his complaint to the *Financial Ombudsman Service* and must do so within six months.

...

own funds ...

(3) (in *IPRU(INV)* 8) capital, as defined in ~~*CRED* 8.2.1R~~ *CREDS* 5.2.1R.

respondent

...

- (1) (in *DISP* and *CREDS 9*) a firm (except a *UCITS* qualifier), payment service provider, electronic money issuer, licensee or VJ participant covered by the Compulsory Jurisdiction, Consumer Credit Jurisdiction or Voluntary Jurisdiction of the Financial Ombudsman Service.

...

Part 2: Comes into force on 1 October 2014

CREC

~~the Credit Unions sourcebook.~~

Annex B

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

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

4.1 Application and purpose

...

Application: credit unions

4.1.8 R This chapter does not apply to:

- (1) a ‘small *credit union*’, that is one with:
 - (a) assets of £5 million or less; and
 - (b) a total number of members of 5,000 or less (see ~~CRED~~ 8.3.14R CREDS 5.3.13R); or

...

Annex C

**Amendments to the Interim Prudential sourcebook for Investment Businesses
(IPRU(INV))**

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

- 8 Requirements on credit unions which are CTF providers**
- 8.1 Application, general and professional indemnity insurance requirements
- ...
- 8.1.2 R A *credit union* to which this chapter applies must:
- (1) have and maintain at all times financial resources of the kinds and amounts specified in, and calculated in accordance with, the *rules* of this chapter, in ~~CRE^D~~ CRE^DS and, where applicable, in *MIPRU* 4 (Capital Resources); and
- ...
- 8.1.3 G The *rules* in this chapter should be read with the *rules* relating to capital in ~~CRE^D~~ CRE^DS and, where applicable, *MIPRU*.
- ...
- 8.2 Capital requirements
- 8.2.1 R ‘Capital’ in this chapter has the meaning described in ~~CRE^D 8.2.1R~~ CRE^DS 5.2.1R.
- 8.2.2 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, or a *version 2 credit union*, which acts as a *CTF provider* and whose *permissions* include *regulated activities* relating to *accepting deposits* and *making arrangements with a view to transactions in investments* other than *contracts of insurance* or *rights to or interests in a life policy* must maintain at all times capital which is equal to the higher of:
- (1) £10,000; and
- (2) the capital requirements for the *credit union* under ~~CRE^D~~ CRE^DS.
- 8.2.3 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, or a *version 2 credit union*, which acts as a *CTF provider* which *makes arrangements with a view to transactions in investments* including *contracts of insurance* or *rights to or interests in a life policy* must maintain at all times capital which is equal to the highest of:

- (1) £10,000;
 - (2) the capital requirements for the *credit union* under ~~CRED~~ CREDS;
and
- ...

Annex D

Amendments to the Supervision manual (SUP)

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

13A Annex 1G Application of the Handbook to Incoming EEA Firms

...		
(1) Module of Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
...
CRED <u>CREDS</u>	Does not apply.	Does not apply.
...		

...

16.12 Integrated Regulatory Reporting

...

- 16.12.6 R The applicable reporting frequencies for submission of *data items* and periods referred to in *SUP* 16.12.5R are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

...	
Note 2	The annual report required from a <i>credit union</i> by <i>SUP</i> 16.12.5R must be made up for the same period as the audited accounts published by the <i>credit union</i> in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 (see CRED 14 Annex 1G). CRED 14.10.10R(2)(a) <u>CREDS</u> 8.2.6R(2)(a) states that the audited accounts referred to in <i>SUP</i> 16.12.5R are to be made up for the period beginning with the date of the <i>credit union's</i> registration or with the date to which the <i>credit union's</i> last annual accounts were made up, and ending on the <i>credit union's</i> most recent financial year end.

...	
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- 16.12.7 R The applicable due dates for submission referred to in SUP 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in SUP 16.12.6R, unless indicated otherwise.

<i>Data item</i>	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
...						
CY						7 <u>6</u> months
...						

...

Insert the following new text at the end of SUP 16 Annex 14(1)R (Quarterly Return (CQ)), after the section headed “Large version 1 and version 2 credit unions”. The text is not underlined.

SUPPLEMENTARY ANALYSIS OF THE QUARTERLY RETURN

Interest-bearing shares

Interest-bearing shares

	£	
Total shares		10A
<i>(transferred from 1A on CQ)</i>		
Interest-bearing shares		10B
Dividend-bearing shares		10C

Deferred shares

Deferred shares

Total shares		11A
<i>(transferred from 1A on CQ)</i>		
Non-deferred shares		11B
Deferred shares		11C

Reserves - total

Audited reserves – General <i>(transferred from 5A on CQ)</i>	_____	12A
Audited reserves - Other <i>(transferred from 5B on CQ)</i>	_____	12B
Revaluation reserve – non-capital element	_____	12C
Deferred share reserves	_____	12D
Reserves	_____	12E

Reserves - percentage

Total assets <i>(transferred from 4A on CQ)</i>	_____	12F
Reserves as % of total assets	_____	12G

Corporate membership

Corporate members

Number of members at the end of the quarter <i>(transferred from 1a on CQ)</i>	_____	13A
Individuals	_____	13B
Bodies corporate	_____	13C
Partnerships	_____	13D
Unincorporated associations	_____	13E

Corporate non-deferred shares

Non-deferred shares <i>(transferred from 11B above)</i>	_____	14A
Individual non-deferred shares	_____	14B
Body corporate non-deferred shares	_____	14C
Partnership non-deferred shares	_____	14D
Unincorporated association non-deferred shares	_____	14E

Corporate deferred shares

Deferred shares <i>(transferred from 11C above)</i>	_____	15A
Individual deferred shares	_____	15B
Body corporate deferred shares	_____	15C
Partnership deferred shares	_____	15D
Unincorporated deferred shares	_____	15E

Corporate loans

Total loans to members <i>(transferred from 1B on CQ)</i>	_____	16A
Individual loans	_____	16B
Body corporate loans	_____	16C
Partnership loans	_____	16D
Unincorporated association loans	_____	16E

Insert the following new text at the end of SUP 16 Annex 14(2)R (Annual Return (CY)) after the “Auditor’s statement”. The text is not underlined.

SUPPLEMENTARY ANALYSIS OF THE ANNUAL RETURN

Interest bearing shares

Interest-bearing shares

	£	
Members' share balances <i>(transferred from 2T on CY)</i>	_____	33A
Interest-bearing shares	_____	33B
Dividend-bearing shares	_____	33C

Interest expenditure

Expenditure – Other <i>(transferred from 4P on CY)</i>	_____	34A
Interest expenditure	_____	34B
Non-interest expenditure	_____	34C

Deferred shares

Deferred shares

Members' share balances <i>(transferred from 2T on CY)</i>	_____	35A
Non-deferred shares	_____	35B
Deferred shares	_____	35C

Reserves - total

General reserve – Closing balance <i>(transferred from 10G on CY)</i>	_____	36A
Other reserve – Closing balance <i>(transferred from 11G on CY)</i>	_____	36B
Revaluation reserve – non-capital element	_____	36C
Deferred share reserve	_____	36D
Reserves	_____	36E

Reserves - percentage

Total assets <i>(transferred from 1P on CY)</i>	_____	36F
Reserves as % of total assets	_____	36G

Corporate membership

Corporate members

Total members	_____	37A
<i>(transferred from 12D on CY)</i>		
Individuals	_____	37B
Bodies corporate	_____	37C
Partnerships	_____	37D
Unincorporated associations	_____	37E

Corporate non-deferred shares

	£	
Non-deferred shares	_____	38A
<i>(transferred from 35B above)</i>		
Individual non-deferred shares	_____	38B
Body corporate non-deferred shares	_____	38C
Partnership non-deferred shares	_____	38D
Unincorporated association non-deferred shares	_____	38E

Corporate deferred shares

Deferred shares	_____	39A
<i>(transferred from 35C above)</i>		
Individual deferred shares	_____	39B
Body corporate deferred shares	_____	39C
Partnership deferred shares	_____	39D
Unincorporated deferred shares	_____	39E

Corporate loans

Due from members for loans - Secured	_____	40A
<i>(transferred from 1E on CY)</i>		
Due from members for loans - Unsecured	_____	40B
<i>(transferred from 1F on CY)</i>		
Total loans outstanding	_____	40C
Individual loans	_____	40D
Body corporate loans	_____	40E
Partnership loans	_____	40F
Unincorporated association loans	_____	40G

Non-qualifying membership**Non-qualifying member percentage**

Limit on the number of non-qualifying members (where stated in the rules of the credit union)	_____	41A
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Amend SUP 16 Annex 15(1)G (Notes on completing the Quarterly Return (CQ) for credit unions) as shown:

General information

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Please read ~~CRED~~ *CREDS* in conjunction with these reporting instructions.

Send the fully completed Quarterly Return (CQ) to **The Financial Services Authority** in accordance with SUP 16.3.6R – SUP 16.3.13R (~~See CRED 44.10.4G~~) **within one calendar month** after the quarter to which it relates. Failure to do so is a breach of your regulatory requirements, as laid down in *CREDS*, and may result in your *credit union* being subject to FSA sanctions.

...

"~~CRED~~" "*CREDS*" means the Credit Unions New sourcebook.

...

Membership and complaints contact

page 2 of CQ

Membership

Indicate in the appropriate boxes the number of ~~persons~~ members that the *credit union* currently has in each category of membership.

"**Member**" refers to a member (qualifying or non-qualifying) (and over the age of 16 at which he may lawfully become a member of the *credit union*, under the *credit union's* rules), who can save up to ~~£5,000~~ £10,000 or 1.5 per cent of the assets of the *credit union*, which ever is the greater. [A qualifying member is a person who fulfils the membership qualification requirements: a non-qualifying member is a person who no longer fulfils the membership qualification requirements, having once done so.]

"**Juvenile depositor**" refers to a depositor ~~under the age of 16~~ (who is a person too young to be a member of the *credit union* (under the *credit union's* rules)), who can save up to a maximum of ~~£5,000~~ £10,000, but cannot take out a loan from the *credit union*.

Complainants contact point

Tick "Yes or No" as appropriate

~~CRED 17.6.9R~~ CREDS 9.2.11R states that a *credit union* must inform the FSA of any changes to the single contact point within the *credit union* for complainants. If there have been any changes to your complainants contact point since your last submission to the FSA you will need to provide the new details in the boxes provided

Signature

page 2 of CQ

Signature

The Quarterly Return (CQ) states that the signatory must be an *approved person*. The signatory should not be an officer on the Supervisory Committee or an officer approved for the *non-executive director function*. This means that the person signing the Quarterly Return (CQ) will hold an approved function on the committee of management or that of the *chief executive function*. The criteria for *approved persons* are set out in ~~CRED Chapter 4~~ CREDS 2 (Senior management

arrangements, systems and controls) and ~~Chapter 6 (The Approved persons regime)~~ CREDS 8.3 (Approved persons).

Share capital

page 3 of CQ

- 1A **Total shares** The total amount of money held by your *credit union*, at the quarter end, relating to shares paid in by ~~adult~~ members.
- This figure should take account of all changes made during the quarter.

Loans to members

page 3 of CQ

- 1B **Total loans to members** The total amount outstanding at the quarter-end on all loans to ~~adult~~ members (irrespective of when such loans were made). It will include any loans written off during the period.

...

Provision for doubtful debts

Please note: ~~CREG 10.5.4G~~ CREDS 7.5.5G states that in order to comply with ~~CREG~~ CREDS "it will be necessary for a *credit union* to a *credit union* should review its provisioning requirements frequently (that is, at least monthly)". The FSA recommends that this is done at least quarterly.

...

- 1F **Specific** Provision for doubtful debt – specific, refers to the provisions that your *credit union* has **actually** made to cover loans in arrears as laid down in ~~CREG~~ CREDS. ~~CREG (10.5.2R)~~ states that your *credit union* should make the following specific provisions:
- ~~35% on all net liabilities on loans which are over 3 months and up to 12 months in arrears.~~
 - ~~100% provision on all net liabilities on loans which are over 12 months in arrears~~
- CREDS 7.5.2R states that a *credit union* must make specific provision in its accounts for bad and doubtful debts of at least the amounts set out below:
- 35% of the net liability to the *credit union* of borrowers where the amount is more than three *months* in arrears; and
 - 100% of the net liability to the *credit union* of borrowers where the amount is more than 12 *months* in arrears.

The net liability on a loan is calculated as follows:

(Total Balance of loan + outstanding interest) – Shares attached shares

Where a member's shares exceed the net liabilities on the loan, there is no liability and it can be excluded from provisioning.

1G General

Provision for doubtful debt – general, refers to the provisions that your *credit union* has **actually** made to cover potential doubtful debts, in the future. As laid down in ~~CRED~~ CREDS, these are loans which:

- are currently not in arrears; or
- are up to and including 3 months in arrears.

Your *credit union* should make a 2% provision for the net liabilities of all these loans – all loans which are not covered by the specific provisions above at (1F).

The net liability on a loan is calculated as follows:

(Total loan + outstanding interest) – Shares attached shareholding

...

Credit union liabilities

page 3 of CQ

Chapter 7 3 (~~Investments~~ Investment and borrowing) of ~~CRED~~ CREDS sets out the criteria for *credit unions*.

~~CRED 7.3.3R~~ CREDS 3.3.3R states that “the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the shareholding total non-deferred shares in the *credit union*”. ~~Short-term is defined as not more than “the end of two consecutive quarters” (CRED 7.3.4E).~~

CREDS 3.3.4E provides that, if the borrowing of a *version 1 credit union* exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDS 3.3.3R.

...

3B Total expenditure

The total expenditure by your *credit union* during the financial year to date (YTD). We advise *credit unions* to make provision here for known expenses such as audit fees and other known fees payable by the *credit union* for the financial year. The purpose of this is to offset any fluctuation in your *credit union's* solvency/capital position, especially in the first quarter of the *credit union* financial year when many expenses fall due.

- Provisions for anticipated tax and dividends are required by ~~CRED 8.2.1R~~ CREDS 5.2.1R. Tax is usually payable on any interest received on *bank* accounts or investments (unless it clearly stipulates that the investment is exempt from taxation).
- Provisioning will be made pro rata on a monthly or quarterly basis.

If you have any questions regarding the tax your *credit union* will need to pay you should consult your local Inland Revenue office.

...

Credit union capital

page 3 of CQ

~~CRED~~ CREDS states that the following is to be included in

calculating Capital:

- audited reserves;
- interim net profits;
- subordinated debts; and
- initial capital.

Please refer to ~~CRED 8.2.1R~~ CREDS 5.2.1R.

Please note: "Negative reserves and any interim net losses must be deducted from capital" (~~CRED 8.2.2R~~ CREDS 5.2.5R). "When a *credit union* makes a subordinated loan to another *credit union* qualifying as capital under ~~CRED 8.2.1R(4)~~ CREDS 5.2.1R(4)(a), the full amount of the loan (not the amount counting towards the borrower's capital under ~~CRED 8.2.4R~~ CREDS 5.2.7R) must be deducted from the lender's capital" (~~CRED 8.2.5R(4)~~ CREDS 5.2.8R(1)).

5A	Audited reserves – general	Amount held by your <i>credit union</i> in general reserve, as laid down at CRED 8.3.5R <u>CREDS 5.3.2R</u> .
...		
5B	Audited reserves - other	<p>Money that your <i>credit union</i> has set aside out of net profits (in accordance with CRED 8.3.5R <u>CREDS 5.3.2R</u>) - for example, a "revenue reserve" for unforeseen circumstances.</p> <p>This will include initial capital which has not yet been spent.</p> <p>Please note:</p> <p><u>Where a revaluation reserve is included within other reserves, this should only include revaluation reserves counting towards capital under CREDS 5.2.1R(6) to CREDS 5.2.1R(8).</u></p> <p><u>If money is held in a deferred share reserve, it should not be included within other reserves, but reported separately in the supplementary analysis to the quarterly return.</u></p> <p>Please refer to Chapter 8 5 of CRED <u>CREDS</u>. This figure will be negative if your <i>credit union</i> has an accumulated deficit from previous years. "Audited reserves – other" should not be confused with a bad debt "reserve" or provision for bad debts. Please insert "nil" if no other audited reserves are held by your <i>credit union</i> other than a general reserve.</p>
...		
5D	Subordinated debt	<p>Subordinated debts in 5D are loans where the lender has agreed to the terms set out on CRED 8.2.1R <u>CREDS 5.2.1R</u>. They are loans to the <i>credit union</i> where the lender has agreed to rank behind everyone else, if the <i>credit union</i> fails, in terms of recovering their money. The loans should have an original term of over five years.</p> <p>Whereas your <i>credit union</i> is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt has to meet the rules laid down in CRED 8.2.1R <u>CREDS 5.2.1R</u>. You will need to refer to this when calculating subordinated debt. Some of</p>

the main conditions are listed below:

...

Provided the subordinated debt meets the rules laid down in Chapter 8 5 (Capital requirements) of ~~CRED~~ CREDS, the following formula will need to be used in writing down your *credit union's* subordinated debt:

...

Information for version 1 credit unions

...

Whilst the Quarterly Return (CQ) asks your *credit union* for total capital (which includes reserves, interim net profit/ (loss), subordinated debts and initial capital) you will need to be aware that all *version 1 credit unions* "must at all times maintain a ~~positive amount of capital~~ a capital-to-total assets ratio of at least 3%", (~~CRED 8.3.1R~~ CREDS 5.3.1R) in other words "a positive net worth". This means that "bad and doubtful debts must be taken into account in establishing ~~whether a credit union is maintaining a positive amount of capital~~ the capital-to-assets ratio", (~~CRED 8.3.4G~~ CREDS 5.3.12G).

...

Actual provision for doubtful debt - specific

These are the provisions that your credit union has **actually** made to cover loans in arrears as laid down in ~~CRED~~ CREDS. It is the same figure that appears at **1F** on the Quarterly Return (CQ).

...

Actual provision for doubtful debt - general

These are the provision for doubtful debt that your ~~credit union~~ *credit union* has **actually** made to cover potential doubtful debts, in the future, as laid down in ~~CRED~~ CREDS. It is the same figure that appears at **1G** on the Quarterly Return (CQ).

...

How is total net worth calculated?

From the above we have established how to work out how much money your *credit union* should be setting aside to adequately cover doubtful debts. ~~CRED 8.3.4G~~ CREDS 5.3.12G states that "bad and doubtful debts must be taken into account" when determining the *credit union's* total net worth.

...

On this example, your *credit union* would satisfy the requirements of ~~CRED~~ CREDS, since the *credit union* has a "positive net worth".

...

Arrears analysis

6A-C

Net liabilities

The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the

member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:

Loan balance + interest owing – attached share balance = Net liability

The table below is an example on how to work out net liability:

Loans 3-12 months in arrears

Loan No.	Loan balance	Interest owing	Share Attached share balance	Net liability
1	£390	£10	£200	£200
2	£580	£20	£500	£100
3	£4,050	£150	£2,200	£2,000
4	£720	£30	£1,000	£0
5	£115	£10	£50	£75
Total	£5,855	£220	£3,950	£2,375

...

Liquidity ratio

page 4 of CQ

7A Cash and bank balance ...

Please note that this relates to money relating to adult members and juvenile depositors. ~~Following recent changes, credit~~ *Credit unions* no longer have to keep the *deposits* of juveniles separate from the shares of adult members. Grants that constitute part of the *bank* balance should be excluded from liquid assets, unless there are adequate funds in long-term investment to cover the amount of the grant used for this purpose.

7B Investments (less than 8 days to maturity)

~~CRED 9.3.8R~~ CREDS 6.3.8R states that only investments that could be realised within eight days can be included in calculating your *credit union's* liquidity ratio. It is therefore important that your committee of management takes a long-term view of the *credit union* business before investing surplus funds. Your *credit union* will need to be aware of redemption penalties or other losses you may incur for the early realisation of such funds. In short, most investments can be converted into cash but at a cost.

...

IMPORTANT NOTICE: Version 1 credit unions should not hold investments with a maturity date of over 12 months (~~CRED 7.2.2R~~ CREDS 3.2.2R).

...

~~CRED 9.3.9E(1)~~ CREDS 6.3.6E(1) reads: provides that "For for the purpose of calculating a *credit union's* liquidity ratio, the *securities* referred to in ~~CRED 7.2.2R – 7.2.3R~~ CREDS 3.2.1R to 3.2.3R should be valued on the basis that they could be realised

at par, minus the following discounts:

...

7C Unused committed facilities

...

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* with which your *credit union* holds its current account. Any unused committed facilities can be entered into this box. If your *credit union* does not have any committed facilities this box should be filled by a "nil". We would like to draw your attention to ~~CRED (7.3.3R)~~ CREDS 3.3.3R. It states that "the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the ~~shareholding~~ total non-deferred shares in the *credit union*". ~~Short-term is defined as not more than "the end of two consecutive quarters" (CRED 7.3.4E).~~

CREDS 3.3.4E provides that, if the borrowing of a version 1 credit union exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDS 3.3.3R.

...

7D Unused overdrafts

This relates to a *credit union* which has an authorised overdraft arrangement with an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* with which your *credit union* holds its current account. Any surplus overdrafts which has not been used can be entered into this box. If your *credit union* does not have an authorised overdraft facility this box should be filled by a "nil". Again, we would like to draw your attention to ~~CRED (7.3.3R)~~ CREDS 3.3.3R. It states that "the ~~borrowings~~ borrowing of a *version 1 credit union* must not exceed, except on a short-term basis, an amount equal to 20% of the ~~shareholding~~ total non-deferred shares in the *credit union*". ~~Short-term is defined as not more than "the end of two consecutive quarters" (CRED 7.3.4E).~~

CREDS 3.3.4E provides that, if the borrowing of a version 1 credit union exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of CREDS 3.3.3R.

...

7F Unattached shares/juvenile deposits

~~Total value of adult shares, which are not attached to a loan, and the total value of juvenile deposits held by your credit union.~~

~~Because juvenile depositors cannot have loans, all juvenile deposits will be unattached.~~

~~To assist you in working out the unattached shares for your credit union, we would like to draw your attention to the following three different classifications — which are for illustration purposes only. These are:~~

~~All members who have not got a loan and are not acting as guarantor for a loan;~~

~~Example:~~

Member number
 Share balance
 Loan balance + interest owing
 Unattached shares

101

£750

£0

£750

102

£1,201

£0

£1,201

103

£254

£0

£254

104

£1,500

£0

£1,500

Totals

£3,705

£0

£3,705

All members with loans, but not part of a guarantor agreement;

Example:

Member number
 Share balance
 Loan balance + interest owing
 Unattached shares

005

£600

£750

£nil

006

£1,470

£1,201

£269

007

£522

£254

£268

008

£900

£1,500

£nil

Totals

£3,492

£3,705

£537

All guarantors

Example:

~~Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:~~

~~Member number~~

~~Share balance~~

~~Loan balance + interest owing~~

~~Net liability~~

~~Unattached shares~~

200

£600

£750
 £150
 nil

 300
 £1,470
 £1,204
 nil
 £269

~~The net liability for the loan of member 200 equals £150 and therefore member 200 has no unattached shares.~~

~~Member 300 has no net liability, but £269 in unattached shares. Since there is a charge on these shares to the value of the net liabilities of the loan of member 200, the total unattached shares for both members is as follows:~~

a
 Unattached shares of member 300
 £269

b
 Net liability of member 200
 £150

Combined unattached shares (a – b)
 £119

~~Your credit union will need to closely monitor guaranteed loans when working out unattached shares.~~

Total value of unattached shares and the total value of juvenile deposits held by your credit union.

“unattached shares” means the total shares in the credit union other than attached shares and deferred shares.

“attached shares” are shares that act as security for a loan, and shares that cannot be withdrawn under the terms of the loan.

...

...

8A	Largest net exposure	To work out your <i>credit union's</i> largest net <i>exposure</i> you will need
----	----------------------	--

to determine:

- a) the net *exposure* on each loan and find the largest figure.
The formula for this is:

(loan balance + interest owing) – attached share balance

- b) what is the total capital of your *credit union*?
This is defined at **5E**.

Say, for example your *credit union's* total capital is £40,000. We know from the above that only net liabilities over 10% of Capital are subject to the large *exposures* rule. Ten percent of £40,000 is £4,000.

However, we further know from the above that only net liabilities over £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 share	Share <u>Attached share balance</u>	Loan balance + interest owing	Net Liabilities	Is it a large exposure?
...

- 8B As % of capital An individual large exposure should not exceed **25%** of your credit union's capital (~~CRED 10.4.2R~~ CREDS 7.4.2R).
To determine this percentage, your *credit union* will need to use the following calculation:
...

- 8C Aggregate total of large net exposures This figure relates to the sum total of all net liabilities subject to the large *exposures* rule as defined in **8A** above.
Taking the example at **8A** above, this figure will be **£35,285** (see below).

Member number	Share <u>Attached share balance</u>	Loan balance + interest owing	Net liabilities
...

- 8D As % of capital CRED CREDS states that the aggregate total of large net *exposures* should not exceed 500% of the total capital of the *credit union*, and should not exceed 300% of total capital without prior notifying the *FSA*. To see if the example satisfies the rules please use the following calculation:
...

Large version 1 and version 2 credit unions

page 4 of CQ

Risk adjusted capital ratio	<p>A risk adjusted capital ratio is a requirement for larger <i>version 1 credit unions</i> and <i>version 2 credit unions</i> under CRED <u>CREDS</u>.</p> <p>CRED 8.3.16R <u>CREDS 5.3.15R</u> states "A <i>version 1 credit union</i> with total assets of more than £10 million and/or a total number of members of more than 10,000, <u>or both</u>, must maintain at all times a capital-to-total assets ratio of at least 8%"</p>
...	
9B Net provisions or 1% of total assets – whichever is the lower	<p>Capital should be risk-adjusted for <i>version 2 credit unions</i> and large <i>version 1 credit unions</i> (CRED 8.4.1R <u>CREDS 5.4.1R</u> and CRED 8.3.16R <u>CREDS 5.3.15R</u>). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets (CRED 8.4.2R <u>CREDS 5.4.2R</u>).</p> <p>...</p>

Insert the following new text at the end of SUP 16 Annex 15(1)G (Notes on completing the Quarterly Return (CQ) for credit unions). The text is not underlined.

NOTES ON COMPLETING SUPPLEMENTARY ANALYSIS OF THE QUARTERLY RETURN

General Information

The Supplementary Analysis of the Quarterly Return should be completed as part of the Quarterly Return by *credit unions* in Great Britain where they meet one or more of the following conditions at the end of the quarter:

- the *credit union* has issued interest-bearing shares under section 7A of the Credit Unions Act 1979 (the Act);
- the *credit union* has issued *deferred shares* in accordance with section 31A of the Act; or
- the *credit union* has admitted corporate members under section 5A of the Act.

The Supplementary Analysis of the Quarterly Return is intended to break down some of the information contained in the Quarterly Return in order to give a clearer picture of the financial position of *credit unions* that undertake the activities listed above.

Interest-bearing shares

Interest-bearing shares

10A	Total shares	The total amount of money held by the <i>credit union</i> relating to shares paid in by members.
		The amount entered here should be transferred from 1A on CQ for analysis. In the following sections, this amount should be broken down into interest-bearing and dividend-bearing shares so that: 10A = 10B + 10C
10B	Interest-bearing shares	The total amount of money held by the <i>credit union</i> in respect of shares that are interest-bearing.
10C	Dividend-bearing shares	The total amount of money held by the <i>credit union</i> in respect of shares that are dividend-bearing.

Deferred shares

Deferred shares

11A	Total shares	The total amount of money held by the <i>credit union</i> relating to shares paid in by members.
		The amount entered here should be transferred from 1A on CQ for analysis. In the following sections, this amount should be broken down into non-deferred shares and <i>deferred shares</i> so that: 11A = 11B + 11C
11B	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of non-deferred shares.
11C	Deferred shares	The total amount of money held by the <i>credit union</i> in respect to <i>deferred shares</i> .

Reserves - total

12A	Audited reserves – General	The total amount held by the <i>credit union</i> in general reserve. The amount entered here should be transferred from 5A on CQ.
12B	Audited reserves - Other	The total amount held by the <i>credit union</i> in other reserves. The amount entered here should be transferred from 5B on CQ.
12C	Revaluation reserves – non-capital element	The amount of revaluation reserve that is not included in 5B of CQ and 12B (because it does not count towards a <i>credit union's</i> capital under <i>CREDS</i> 5.2.1R). See the note to 5B on CQ.

12D	Deferred share reserves	The total amount held by the <i>credit union</i> in the deferred share reserve. Where subscribed for in full, <i>credit unions</i> must transfer a sum equal to the amount paid for <i>deferred shares</i> to its reserves.
12E	Reserves	The total amount of money held by the <i>credit union</i> in reserves (including deferred share reserves) at the end of the financial year, so that: 12E = 12A + 12B + 12C + 12D

Reserves - percentage

12F	Total assets	The amount entered here should be transferred from 4A on CQ.
12G	Reserves as % of total assets	To determine this ratio your <i>credit union</i> will use the following formula: $\frac{\text{Reserves (12E)}}{\text{Total assets (12F)}} \times 100$

Corporate membership

Corporate members

13A	Number of members at the end of the quarter	Total number of members of the <i>credit union</i> . The amount entered here should be transferred from 1a on CQ for analysis. In the following sections, this amount should be broken down into different categories of member so that: 13A = 13B + 13C + 13D + 13E
13B	Individuals	The number of members of the <i>credit union</i> that are individuals.
13C	Bodies corporate	The number of members of the <i>credit union</i> that are <i>bodies corporate</i> .

13D	Partnerships	The number of members of the <i>credit union</i> that are partnerships.
		Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
13E	Unincorporated associations	The number of members of the <i>credit union</i> that are unincorporated associations.
		Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.

Corporate non-deferred shares

14A	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of shares that are not <i>deferred shares</i> . The amount entered here should be equal to the amount at 11B above.
		In the following sections, this amount should be broken down into non-deferred shares held by different categories of member so that: 14A = 14B + 14C + 14D + 14E
14B	Individual non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by individuals.
14C	Body corporate non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by bodies corporate.
14D	Partnership non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by partnerships.
		Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
14E	Unincorporated association non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by unincorporated associations.
		Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.

Corporate deferred shares

15A	Deferred shares	<p>The total amount of money held by the <i>credit union</i> in respect of <i>deferred shares</i>. This should be equal to the amount at 11C.</p> <p>In the following sections, this amount should be broken down into <i>deferred shares</i> held by different categories of member so that:</p> <p>15A = 15B + 15C + 15D + 15E</p>
15B	Individual deferred shares	The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by individuals.
15C	Body corporate deferred shares	The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by <i>bodies corporate</i> .
15D	Partnership deferred shares	<p>The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by partnerships.</p> <p>Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.</p>
15E	Unincorporated association deferred shares	<p>The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by unincorporated associations.</p> <p>Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.</p>

Corporate loans

16A	Total loans to members	<p>The total amount outstanding to the <i>credit union</i> on loans to members. The amount entered here should be transferred from 1B on CQ for analysis.</p> <p>In the following sections, this amount should be broken down into loans to different categories of member so that:</p> <p>16A = 16B + 16C + 16D + 16E</p>
16B	Individual loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to individuals.
16C	Body corporate loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to <i>bodies corporate</i> .

16D	Partnership loans	<p>The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to partnerships.</p> <p>Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.</p>
16E	Unincorporated association loans	<p>The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to unincorporated associations.</p> <p>Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.</p>

Amend SUP 16 Annex 15(2)G Notes on completing the Annual Return (CY) for credit unions as shown:

General information

The Annual Return (CY) should be completed by all *credit unions* in Great Britain at the end of their financial year. 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. It should be completed using the accruals-based accounting method.

Please read ~~CRED~~ CREDS in conjunction with these reporting instructions.

Send the fully completed Annual Return (CY) (including a completed auditor's statement) to the Financial Services Authority in accordance with SUP 16.3.6R – SUP 16.3.13R (~~see CRED 14.10.4G~~) by the date stated in the *credit union's* rules (which should be within 7 months of the financial year ending on or before 31 July 2012 and within 6 months of any subsequent financial year end). Failure to do so is a breach of your regulatory requirements, as laid down in ~~CRED~~ CREDS, and may result in your *credit union* being subject to FSA sanctions.

A copy of the audited annual accounts of the *credit union* (and the auditor's report on those accounts) should also be submitted (see ~~CRED 14.10.10R(1)~~ CREDS 8.2.6R).

...

~~“CRED”~~ “CREDS” means the Credit Unions Sourcebook New sourcebook.

...

Accounting Policies

...

Provision for doubtful debts	This is made in accordance with the rules and guidance set out in CRED 10.5.3E <u>CREDS 7.5.4E</u> .
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...

Front page

...		
	Financial year end	Insert the date of the <i>credit union's</i> financial year end (See <i>SUP 16.7.63BR</i> and <i>CRED 14.10.10R(2)(a)</i> <u><i>CREDS 8.2.6R(2)(a)</i></u>).
...		
A1	Membership	<p>Indicate in the appropriate boxes the number of members that the <i>credit union</i> currently has in each category of membership.</p> <p>A "non-qualifying" member is someone who no longer fulfils the membership <u>qualification requirements</u>, having once done so e.g. he or she no longer lives in the common bond area. Ne more than 10% of the total membership of the <i>credit union</i> should be "non-qualifying".</p> <p>A "juvenile depositor" is a person who is too young to be a member – someone under the age of 16 – who can save up to a maximum of £5,000, of the <i>credit union</i> (under the <i>credit union's</i> rules), who can save up to a maximum of £10,000, but cannot take out a loan from the <i>credit union</i>.</p>
	Audited accounts	Delete "Yes or No" as appropriate. Audited annual accounts are required by the Friendly and Industrial and Provident Societies Act 1968. <i>CRED 14.10.9G</i> and <i>CRED 14 Ann 1G</i> give guidance about the statutory accounts. Attach a copy of the accounts before returning the Annual Return (CY). See <i>CRED 14.10.10R</i> <u><i>CREDS 8.2.6R</i></u> .
...		
A10	Amount of cover	<p>The amount of cover actually provided should be available from the bonding certificate or insurance policy.</p> <p>Table showing the amount of cover required (<i>CRED 7A.1.10R</i> <u><i>CREDS 4 Annex 1R</i></u>)</p> <p>...</p>
...		
	Current assets	
1B	Investments – <i>Banks</i> and <i>Building Societies</i>	<p>The total of money held in a <i>bank</i> or <i>building society</i> investment account: this will be separate from the current account that the <i>credit union</i> holds and will usually pay more interest on the monies held.</p> <p><i>Credit unions</i> may only invest this money in <i>deposits</i> or loans to:</p> <p>(1) a <i>UK domestic firm</i> with <i>Part IV permission</i> to accept <i>deposits</i>;</p> <p>(2) an institution which is authorised in any other <i>EEA State</i> to accept <i>deposits</i> (See <i>CRED 7.2.1R</i> <u><i>CREDS 3.2.1R</i></u>)</p>

1C	Investments – securities	<p>The total of money held in <i>securities</i>.</p> <p>A <i>credit union</i> may only invest this money in: sterling-denominated <i>securities</i> issued by the government of any EEA State; (2) and fixed-interest sterling-denominated <i>securities</i> guaranteed by the government of any <i>EEA State</i> (See CRED 7.2.1R <u>CREDS 3.2.1R</u>).</p> <p>A <i>version 1 credit union's investments</i> should not have a maturity date exceeding 12 months from the date the <i>investment</i> was made. (CRED 7.2.2R <u>CREDS 3.2.2R</u>).</p> <p>A <i>version 2 credit union's investments</i> should not have a maturity date exceeding five years from the date the <i>investment</i> was made. (CRED 7.2.3R <u>CREDS 3.2.3R</u>).</p> <p>Further information can be found in CRED <u>CREDS</u> Chapter 7 <u>3</u> (Investment and borrowing).</p>
...		
1G	General provision	<p>CRED 10.5.3E <u>CREDS 7.5.4E</u> sets out that <i>credit unions</i> should maintain a general provision for bad and doubtful debts of at least 2% of net liabilities not already covered by specific provisioning on loan arrears (1H). General provisions are provisions that your <i>credit union</i> has made to cover potential doubtful debts in the future. These are loans currently not in arrears or loans that are in arrears up to three months.</p>
1H	Specific provision	<p>CRED 10.5.2R <u>CREDS 7.5.2R</u> states that a <i>credit union</i> must make specific provision in its accounts of at least:</p> <p>(1) 35% of the net liability to the <i>credit union</i> of borrowers where the amount is more than three months in arrears.</p> <p>(2) 100% of the net liability to the <i>credit union</i> of borrowers where the amount is more than 12 months in arrears.</p> <p>Net liability on a loan can be calculated as follows:</p> <p>(Total Balance of loan + outstanding interest) – attached shares</p> <p>Where a member's <u>attached</u> shares exceed the amount held in loan there is no risk to the <i>credit union</i> and no provision needs to be made.</p> <p>...</p>
...		
...	Loans	
...		
2C	<i>Bank loan</i>	<p>The figure for the amount outstanding on any loan that the <i>credit union</i> may have received from a <i>bank</i>.</p> <p>A <i>version 1 credit union</i> may not borrow more than 20% of the total shareholding (see box 13d) of the <i>credit union</i> except on a short-term basis. Subordinated debt does not form part of the later calculation. (See CRED 7.3.3R <u>7.3.6R</u> <u>CREDS 3.3.3R</u> to <u>3.3.6R</u> for more information.)</p>

...

Credit union capital and reserves

2N General reserves Amount held by the *credit union* in general reserve (See ~~CRED 8.3.5R~~ CREDS 5.3.2R.)

...

2P Other reserves Money that the *credit union* has set aside out of profits e.g. a revenue reserve to provide for unforeseen circumstances. Other reserves are entirely voluntary and do not have to be held by the *credit union*.

Please note:

Where a revaluation reserve is included within the other reserves, this should only include revaluation reserves counting towards capital under CREDS 5.2.1R(6) to CREDS 5.2.1R(8).

If money is held in a *deferred share* reserve, it should not be included within other reserves, but reported separately in the supplementary analysis to the annual return.

2Q-R Subordinated debt Subordinated debts in **2Q-R** are loans where the lender has agreed to the terms set out on ~~CRED 8.2.1R~~ CREDS 5.2.1R. They are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loans should have an original term of over five years.

Whereas your *credit union* is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt should meet the rules laid down in ~~CRED 8.2.1R(4)~~ CREDS 5.2.1R(4). You will need to refer to this when calculating subordinated debt. Some of the main conditions are listed below:

...

To meet the subordinated debt rules laid down in Chapter 8 5 (Capital requirements) of ~~CRED~~ CREDS, the following formula should be used in writing down your *credit union's* subordinated debt (see ~~CRED 8.2.4R~~ CREDS 5.2.7R):

...

...

2T Members' share balances Total amount of money held by the *credit union* in respect of shares paid in by ~~adult~~ members.

...

8B Transfer to general reserve This transfer should be compliant with ~~CRED 8.3.6R – 8.3.8R~~ CREDS 5.3.3R to 5.3.5R. For a *version 1 credit union* if the *credit union's* general reserve is less than 10% of total assets, the *credit union* should transfer at least 20% of surplus to general reserve. *Credit unions* may also make a voluntary transfer to general reserve and that should also be shown.

...

9D Rate of dividend The percentage of dividend paid on members' accounts. ~~Credit unions cannot pay more than 8% dividend to members in any one financial year even if several dividends are paid. If different rates are paid on different types of accounts these different rates should be shown.~~

...

13F Value of unattached shares ~~Total value of adult shares and juvenile deposits, which are not attached to a loan. This includes all shares: that are not attached to any loan;~~

~~Example:~~

Member number	Share balance	Loan balance + interest owing	Unattached shares
101	£750	£0	£750
102	£1,201	£0	£1,201
103	£254	£0	£254
104	£1,500	£0	£1,500
Totals	£3,705	£0	£3,705

~~which exceed a member's loan balance;~~

~~Example:~~

Member number	Share balance	Loan balance + interest owing	Unattached shares
001	£600	£750	£nil
002	£1,470	£1,201	£269
003	£522	£254	£268
004	£900	£1,500	£nil
Totals	£3,492	£3,705	£537

~~which are not used to guarantee a loan;~~

~~Example:~~

~~Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:~~

Member number	Share balance	Loan balance + interest owing	Unattached shares
200	£600	£750	(£150)
300	£1,470	£1,201	£269

~~The net liability for the loan of member 200 equals £150. Member 300 has £269 in unattached shares. To work out the unattached shares of both members we should complete the following formula:~~

~~Unattached shares of member 300 — £269
 Net liability of member 200 ————— (£150)
 Combined unattached shares ————— £119~~

~~Your credit union will need to monitor closely guaranteed loans when working out unattached shares.~~

Total value of *unattached shares* and the total value of juvenile deposits held by your *credit union*.

“*unattached shares*” means the total in the *credit union* other than *attached shares* and *deferred shares*.

“*attached shares*” are shares that act as security for a loan, and shares that cannot be withdrawn under the terms of the loan.

Loans to Members

...

14H Total net liabilities The total amount of outstanding on loans (inclusive of interest owing). Net liabilities can be calculated by using the following formula:
Loan balance + interest owing – attached share balance = Net liabilities

...

Net liabilities The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest – not just the sum of the repayments that have been missed). The formula used is as follows:
Loan balance + interest owing – attached share balance = Net liability

The table below is an example on how to work out net liability:

Loans 3-12 months in arrears				
Loan No.	Loan balance	Interest owing	Share <u>Attached</u> share balance	Net liability
...

...

...		
16E	Balance at end of year	The total general provision at the end of the year. Please note that CRED 10.5.3E <u>CREDS 7.5.4R</u> states that a <i>credit union</i> should have a general bad debt provision of 2% of total net liabilities on all loans not covered by the specific bad debt provisioning. This figure is the sum total of boxes 16A+16B-16C-16D and should be the same as box 1G on the balance sheet.
...		
16K	Balance at end of year	The total amount in the specific general reserve at the end of the financial year. To comply with CRED 10.5.2R <u>CREDS 7.5.2R</u> , all net liabilities on loans over 12 months in arrears should be fully provided for and all loans between 3-12 months should be provided for on a 35% of net liabilities basis. This figure is the sum total of boxes 16F+16G-16H-16J and should be the same as box 1H on the balance sheet.
...		
	Subordinated Debt	Subordinated debts are any loans where the lender has agreed to the terms as set out in CRED 8.2.1R <u>CREDS 5.2.1R</u> . These terms include agreeing to rank behind other creditors including the <i>credit union's</i> members in the event of the <i>credit union</i> failing. ...
...		
	Committed facilities	A committed facility is a committed line of credit, other than an overdraft, from a bank. These are funds immediately available from a bank and constitute a loan. This relates to a <i>credit union</i> that has secured committed facilities from an institution authorised to accept <i>deposits</i> within the EEA. Normally this will be the bank with which your <i>credit union</i> holds its current account. Any unused committed facilities can be entered into this box. If your <i>credit union</i> does not have any committed facilities, enter "nil" in this box. We would like to draw your attention to CRED (7.3.3R) <u>CREDS 3.3.3R</u> . It states that "the borrowings <u>borrowing</u> of a <i>version 1 credit union</i> must not exceed, except on a short term basis, an amount equal to 20% of the shareholding <u>total non-deferred shares</u> in the <i>credit union</i> ". Short term is defined as not more than "the end of two consecutive quarters" (CRED 7.3.4E). <u>CREDS 3.3.4E</u> provides that, if the borrowing of a <i>version 1 credit union</i> exceeds this amount at the end of more than two consecutive quarters, this may be relied on as tending to indicate contravention of <u>CREDS 3.3.3R</u>
...		

29B	Investments (less than eight days to maturity)	<p>CRED 9.3.8R <u>CREDS 6.3.5R</u> states that only investments that could be realised within eight days can be included in calculating your <i>credit union's</i> liquidity ratio. It is therefore important that your committee of management takes a long-term view of the <i>credit union</i> business before investing surplus funds in long term investments. Your <i>credit union</i> will need to be aware of redemption penalties or other losses you may incur for the early realisation of such funds. Most funds can be converted into cash but at a cost.</p> <p>...</p> <p>Version 1 credit unions should not hold any investments with a maturity date of over 12 months (CRED 7.2.2R <u>CREDS 3.2.2R</u>).</p> <p>...</p> <p>CRED 9.3.9E(1) <u>CREDS 6.3.6E(1)</u> reads: provides that "For for the purpose of calculating a <i>credit union's</i> liquidity ratio, the <i>securities</i> referred to in CRED 7.2.2R – 7.2.3R <u>CREDS 3.2.1R to 3.2.3R</u> should be valued on the basis that they could be realised at par, minus the following discounts:</p> <p>...</p>
29C	Unused committed facilities	<p>This relates to a <i>credit union</i> that has secured committed facilities from an institution authorised to accept <i>deposits</i> within the EEA. Normally this will be the <i>bank</i> or <i>building society with</i> which your <i>credit union</i> holds its current account. Any unused committed facilities may be entered into this box. If your <i>credit union</i> does not have any committed facilities, enter "nil" in this box. Please note that to comply with CRED 7.3.4E <u>CREDS 3.3.4E</u>, the total borrowings of a <i>version 1 credit union</i> should not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.</p> <p>...</p>
29D	Unused overdrafts	<p>This relates to a <i>credit union</i> which has authorised overdrafts arrangement with an institution authorised to accept <i>deposits</i> within the EEA. Normally this will be the <i>bank</i> or <i>building society with whom</i> which your <i>credit union</i> holds its current account. Any surplus overdrafts which have not been used may be entered into this box. If your <i>credit union</i> does not have an authorised overdraft facility, enter "nil" in this box. Please note that as laid down in CRED 7.3.4E <u>CREDS 3.3.4E</u> the total borrowings of a <i>version 1 credit union</i> may not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.</p> <p>...</p>
...		

30C	Other liabilities / borrowings	<p>These are all liabilities, excluding <i>unattached shares</i> and authorised overdrafts (which are already covered in the relevant liabilities being calculated here). Included in these calculations are such things as:</p> <ul style="list-style-type: none"> • loans from other <i>credit unions</i> • loans from <i>banks</i> • subordinated debt • committed facilities <p>Chapter seven (Investments and borrowing) of <i>CRED 7</i> (Lending to members) of <i>CREDS</i> sets out the sources of borrowing available to <i>credit unions</i>.</p>
...		
30E	Liquidity ratio	<p>...</p> <p>Please note that your liquidity level should not fall below 5% at any time and that version 1 credit unions should 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 <u>the level set out in <i>CREDS</i> 6.3.1R, <i>CREDS</i> 6.3.2R and <i>CREDS</i> TP 1.</u></p>
...		
31A	Largest net exposure	<p>To work out your <i>credit union's</i> largest net <i>exposure</i> you will need to determine:</p> <ol style="list-style-type: none"> 1. the net <i>exposure</i> on each loan and find the largest figure. The formula for this is: (loan balance + interest owing) – <u>attached share balance</u> 2. what is the total capital of your <i>credit union</i>? This is defined at 2S. <p>...</p>
...		
31B	As % of capital	<p>An individual large exposure should not exceed 25% of your <i>credit union's</i> capital (<i>CRED</i> 10.4.2R <u><i>CREDS</i> 7.4.2R</u>).</p> <p>...</p>
...		
31D	As % of capital	<p><i>CRED</i> <u><i>CREDS</i></u> states that the aggregate total of large net <i>exposures</i> must not exceed 500% of the total capital of the <i>credit union</i>, and must not exceed 300% of total capital without prior notifying the FSA. To see if the example satisfies the rules please use the following calculation:</p> <p>...</p>
...		

Risk adjusted capital ratio	A risk adjusted capital ratio is a requirement for larger <i>version 1 and version 2 credit unions</i> under CRED <u>CREDS</u> . CRED 8.3.16R <u>CREDS 5.3.15R</u> states "A <i>version 1 credit union</i> 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%".
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...

32B	Net excess provision or 1% of total assets whichever is the lower	Capital should be risk-adjusted for <i>version 2 credit unions</i> and large <i>version 1 credit unions</i> (CRED 8.4.1R <u>CREDS 5.4.1R</u> and CRED 8.3.16R <u>CREDS 5.3.15R</u>). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets (CRED 8.4.2R <u>CREDS 5.4.2R</u>).
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...

...

Committee of Management

Please complete the relevant details for all *credit union* officers here. The details required are their full name, address, post held at the *credit union* (this should include what committee they sit on), whether they are an *approved person*, their approved person function, and their year of birth.

Whilst a brief list of the main controlled functions are given below, *credit unions* will need to refer to ~~CRED Chapter 4~~ CREDS Chapter 2 (Senior management arrangements, Systems and Controls) and ~~SUP 10 Chapter 6 of (The Approved persons regime) of CRED~~. Please note that only the controlled function number needs to be inserted; for example if you are on the *credit union's* committee of management the number would be CF1.

...

Insert the following new text at the end of SUP 16 Annex 15 (2)G (Notes on completing the Annual Return (CY) for credit unions) after the section headed "Committee of Management". The text is not underlined.

NOTES ON COMPLETING SUPPLEMENTARY ANALYSIS OF THE ANNUAL RETURN

General Information

The Supplementary Analysis of the Annual Return should be completed as part of the Annual Return by *credit unions* in Great Britain where they meet one or more of the following conditions at the end of the financial year:

- the *credit union* has issued interest-bearing shares under section 7A of the Credit Unions Act 1979 (the Act);
- the *credit union* has issued *deferred shares* in accordance with section 31A of the Act;
- the *credit union* has admitted corporate members under section 5A of the Act; or
- the rules of the *credit union* limit the number of non-qualifying members of the *credit union*, in accordance with section 5(5) of the Act.

The Supplementary Analysis of the Annual Return is intended to break down some of the information contained in the Annual Return in order to give a clearer picture of the financial position of *credit unions* that undertake the activities listed above.

Where a *credit union* issues interest bearing shares, its auditor should submit a report to the FSA stating whether in their opinion, the *credit union* has satisfied the conditions specified by the FSA for the purpose of section 7A of the Credit Unions Act 1979,

Interest-bearing shares

Interest-bearing shares

33A	Members' share balances	The total amount of money held by the <i>credit union</i> in respect of member shares.
		The amount entered here should be transferred from 2T on CY for analysis. In the following sections, this amount should be broken down into interest-bearing and dividend-bearing shares so that: 33A = 33B + 33C
33B	Interest-bearing shares	The total amount of money held by the <i>credit union</i> in respect of shares that are interest-bearing.
33C	Dividend-bearing shares	The total amount of money held by the <i>credit union</i> in respect of shares that are dividend-bearing.

Interest expenditure

34A	Expenditure – Other	The <i>credit union's</i> expenditure that is not covered in the listed categories of expenditure at 4A-4N on the CY.
		The amount entered here should be transferred from 4P on CY for analysis. In the following sections, this amount should be broken down into interest expenditure and non-interest expenditure so that: 34A = 34B + 34C.
34B	Interest expenditure	The total amount of expenditure – other that is interest payable by the <i>credit union</i> on interest-bearing shares.
34C	Non-interest expenditure	The total amount of expenditure – other that is not interest payable by the <i>credit union</i> on interest-bearing shares.

Deferred shares

Deferred shares

35A	Members' share balances	The total amount of money held by the <i>credit union</i> in respect of member shares.
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The amount entered here should be transferred from **2T** on CY for analysis. In the following sections, this amount should be broken down into non-deferred shares and *deferred shares* so that: **35A = 35B + 35C**

35B	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of non-deferred shares.
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35C	Deferred shares	The total amount of money held by the <i>credit union</i> in respect of <i>deferred shares</i> .
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Reserves

36A	General reserve – Closing balance	The total amount held by the <i>credit union</i> in general reserve at the end of the financial year. The amount entered here should be transferred from 10G on CY.
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36B	Other reserve – Closing balance	The total amount held by the <i>credit union</i> in other reserves at the end of the financial year. The amount entered here should be transferred from 11G on CY.
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36C	Revaluation reserves – non-capital element	The amount of revaluation reserve that is not included in 11G on CY and 36B (because it does not count towards a <i>credit union's</i> capital under <i>CREDS</i> 5.2.1R). See the note to 2P on CY.
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36D	Deferred share reserves	The total amount held by the <i>credit union</i> in the deferred share reserve. Where subscribed for in full, <i>credit unions</i> must transfer a sum equal to the amount paid for <i>deferred shares</i> to its reserves.
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36E	Reserves	The total amount of money held by the <i>credit union</i> in reserves (including <i>deferred share</i> reserves) at the end of the financial year, so that:
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36E = 36A + 36B + 36C + 36D

Reserves - percentage

36F	Total assets	The amount entered here should be transferred from 1P on CQY
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36G	Reserves as % of total assets	To determine this ratio your <i>credit union</i> will use the following formula: Reserves (36E) X 100 Total assets (36F) 1
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Corporate membership

Corporate members

37A	Total members	Total number of members of the <i>credit union</i> at the end of the financial year. The amount entered here should be transferred from 12D on CY for analysis. In the following sections, this amount should be broken down into different categories of member so that: 37A = 37B + 37C + 37D + 37E
37B	Individual members	The number of members of the <i>credit union</i> at the end of the financial year that are individuals.
37C	Body corporate members	The number of members of the <i>credit union</i> at the end of the financial year that are <i>bodies corporate</i> .
37D	Partnership members	The number of members of the <i>credit union</i> at the end of the financial year that are partnerships. Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
37E	Unincorporated association members	The number of members of the <i>credit union</i> at the end of the financial year that are unincorporated associations. Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.

Corporate non-deferred shares

38A	Non-deferred shares	The total amount of money held by the <i>credit union</i> in respect of shares that are not <i>deferred shares</i> . The amount entered here should be equal to the amount at 35B above. In the following sections, this amount should be broken down into non-deferred shares held by different categories of member so that: 38A = 38B + 38C + 38D + 38E
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38B	Individual non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by individuals.
38C	Body corporate non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by <i>bodies corporate</i> .
38D	Partnership non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by partnerships. Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
38E	Unincorporated association non-deferred shares	The total amount held by the <i>credit union</i> in respect of non-deferred shares held by unincorporated associations. Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.

Corporate deferred shares

39A	Deferred shares	The total amount of money held by the <i>credit union</i> in respect of <i>deferred shares</i> . This should be equal to the amount at 35C . In the following sections, this amount should be broken down into <i>deferred shares</i> held by different categories of member so that: 39A = 39B + 39C + 39D + 39E
39B	Individual deferred shares	The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by individuals.
39C	Body corporate deferred shares	The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by <i>bodies corporate</i> .
39D	Partnership deferred shares	The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by partnerships. Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
39E	Unincorporated association deferred shares	The total amount held by the <i>credit union</i> in respect of <i>deferred shares</i> held by unincorporated associations. Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.

Corporate loans

40A	Due from members for loans – Secured	The total amount outstanding to the <i>credit union</i> on secured loans to members e.g. loans secured on shares or property. The amount entered here should be transferred from 1E on CY for analysis.
40B	Due from members for loans – Unsecured	The total amount outstanding to the <i>credit union</i> on unsecured loans to members. This figure will exclude any loans written off during the financial year. The amount entered here should be transferred from 1F on CY for analysis.
40C	Total loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on all loans to members, whether secured or unsecured, so that: 40C = 40A + 40B In the following sections, this amount should be broken down into loans to different categories of member so that: 40C = 40D + 40E + 40F + 40G
40D	Individual loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to individuals.
40E	Body corporate loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to <i>bodies corporate</i> .
40F	Partnership loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to partnerships. Partnerships are represented by individuals who are members of a <i>credit union</i> in their capacity as partners in a partnership.
40G	Unincorporated association loans	The total amount outstanding to the <i>credit union</i> at the end of the financial year on loans to unincorporated associations. Unincorporated associations are represented by individuals who are members of a <i>credit union</i> in their capacity as officers or members of the governing body of an unincorporated association.

Non-qualifying membership

41A	Limit on non-qualifying members	If the rules of the <i>credit union</i> provide a limit on the number of non-qualifying members of a <i>credit union</i> , that amount should be entered here. Non-qualifying members are members who no longer fulfil the membership qualifications, having once done so e.g. he or she no longer lives in the common bond area.
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Amend the following as shown.

App 1.3 Prudential categories and sub-categories

1.3.1 G Prudential categories and sub-categories used in the Prudential sourcebooks and the Supervision manual

<i>Prudential categories</i> (Note 1)	Applicable prudential requirements (Note 2)	Prudential sub-categories
...
<i>Credit union</i>	<i>CRED 7, 8, 9 and 10</i> <u><i>CREDS 3</i></u> <u><i>5, 6 and 7</i></u>	<i>Version 1 credit union</i> <i>Version 2 credit union</i>
...		
Note 2 = Only the requirements in the Prudential sourcebooks, and <i>CRED</i> <u><i>CREDS</i></u> are listed in the column. Requirements in other parts of the <i>Handbook</i> will also apply.		

Annex E

Amendments to the Decision Procedure and Penalties manual (DEPP)

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

2 Annex 1G Warning notices and decision notices under the Act and certain other enactments

...

Section of the Credit Unions Act 1979	Description	Handbook reference	Decision maker
20	where the <i>FSA</i> is proposing to cancel or suspend the registration of a <i>credit union</i> or to petition for the winding up of a <i>credit union</i>	CRED 15 Annex 1G	<i>RDC</i>

Annex F

Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

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

1.1 Purpose and application

...

- 1.1.5 R This chapter does not apply to:
- (1) [deleted]
 - (2) ~~a credit union~~; and [deleted]
 - (3) an *authorised professional firm* in respect of expressions of dissatisfaction about its *non-mainstream regulated activities*
- 1.1.5A R The *complaints reporting rules* and the *complaints data publication rules* do not apply to a *credit union*.
- 1.1.6 G ~~Analogous obligations relevant to *credit unions* are set out in *CRED 17*. *CREDS 9* sets out *rules* for *credit unions* in relation to reporting *complaints*.~~
- 1.1.6A G In relation to a *credit union*, the nature, scale and complexity of the *credit union's* business should be taken into account when deciding the appropriate procedures to put in place for dealing with *complaints*.

Annex G**Amendments to the Compensation sourcebook (COMP)**

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

5.3.1 R A *deposit* is a *protected deposit* only if:

...

(2) the *deposit* is not:

- (a) a bond issued by a *credit institution* which is part of the institution's capital, as set out in the Consolidated Banking Directive (Directive 2000/12/EC); or
- (b) a secured *deposit*; or
- (c) a *deferred share* issued by a *building society*; or
- (cA) a *deferred share* issued by a *credit union*; or
- (d) ...