

PRA makes significant modifications to the reform of the Legacy Credit Unions Sourcebook

On the 1st February the Bank of England publicised its Policy Statement on the Reform of the legacy Credit Unions sourcebook.

There were some significant modifications made to the original proposals set out in the Consultation Papers CP22/15 PRA and CP15/21 FCA which received 124 responses. Rule changes will come into place on the 3 February 2016. Modifications and rule changes have been highlighted below:

Limit on shares and deposits

The original proposal was to set a limit on the amount of shares that could be held in a credit union to the maximum amount that would be covered by the Financial Services Compensation Scheme (FSCS). Although this was not likely to affect many credit unions, ACE and UKCU argued that this proposal would give a negative view of credit unions to existing members and potential new members, in that credit unions could be viewed as an insecure place to save for those members who would wish to hold larger amounts in shares thus undermining consumer confidence. Recognising this potential impact of this proposal, particularly on larger credit unions, the PRA

will *not* now set a blanket restriction on shares but will expect credit unions with members wishing to exceed the FSCS limit to provide an advance notification to the PRA. You now have to tell the PRA at least 5 days before issuing shares above this limit, and they can refuse you permission.

Framework for additional activities

Although ACE and UKCU welcomed the abolition of the version 1 and version 2 credit union models we were concerned about the introduction of the proposed "minimum prudential standard" that would be imposed on credit unions before they could undertake any additional services including a minimum 10% capital:assets ratio or to benefit from the new opportunities to invest in a wider range of capital protected products over a longer period of time. There was concern that the proposed framework would impose a rigid structure of prescribed

regulatory requirements that would have seen many credit unions failing to meet some of the ratios suggested in the original proposal. Taking such responses into account the PRA has modified the proposal in the following way:

- The 10% capital requirement will now be composed of two elements, an 8% minimum to be maintained at all times and a 2% capital buffer which would be available to absorb losses in stress situations. Buffer to be in place by September 2018.
- The number of ratios that credit unions will be expected to achieve will be reduced with credit union boards deciding which of the ratios correctly reflect their business model. While most of the ratios remain, credit unions will now be able to set the level of these ratios based on its individual business model. The PRA has set out indicative requirements and expects the levels set by Credit Unions to be justifiable.

Continued on page 2

INSIDE THIS ISSUE

Pages

- 1, 2 PRA makes significant modifications to the reform of the Legacy Credit Unions Sourcebook
- 2 Barbara Hann awarded CBE by the Prince of Wales for services to the financially excluded
- 3 ACE Conference heading for Newcastle in North Tyneside's Year of Credit Unions
- 3 Scottish Parliament pledges to make Scotland a Credit Union Nation
- 3 Is your Credit Union's money safe with the banks and building societies?
- 3, 4 Banknotes are changing - the new fiver is coming in September 2016
- 4 Collecting financial data to promote ACE Credit Unions
- 4 ACE launches virtual training programme pilot in partnership with Coventry and Warwickshire Co-operative Development Agency

Minimum Capital Requirements

- The previous hard line on achieving a 10% capital ratio has been eased by the 8% fixed + 2% buffer approach but the PRA has modified the requirement for a minimum of a 10% capital ratio to those credit unions with over £10m in assets or 15,000 members (was previously 10,000).

Maximum Lending Cap

- The proposed maximum lending cap of £500,000 has been removed by the PRA.

Bad Debt Provisioning

- The General Provision requirement for bad debts has been removed and replaced by a mandatory tiered obligation which will require all credit unions to make the following provisions from the 3rd February 2016:

3 months in arrears 35%

6 months in arrears 60%

9 months in arrears 80%

12 months + 100%

Bad Debt Write-offs

- The original proposal to write-off all bad debts over 12 months in arrears has been removed by the PRA. Credit unions will still have to make a 100% provision but will not automatically have to write-off these debts.

Audited Accounts

- It is now a rule that British credit unions must submit annual audited accounts to both the PRA and the FCA.

Electronic Reporting

- Electronic reporting by credit unions will become mandatory in the near future via the website portal with an estimated timeline of the end of Q2 2016. Annual and Quarterly Returns will be simplified with the addition of separate provisioning and information regarding additional activities.

Criminal Records Checks (CRC)

- It is the responsibility of all credit unions to undertake a CRC on all new Directors.

Liquidity

- Liquidity remains at 10% unattached shares.

Barbara Hann awarded CBE by the Prince of Wales for services to the financially excluded

Founding member of ACE Credit Union Services, Barbara Hann, has been awarded her CBE by the Prince of Wales for Services to the Financially Excluded. This high level award, which is known fully as Commander of the Most Excellent Order of the British Empire, is given to those who have played a prominent role at a national level in their field. Barbara was the Chief Executive Officer of ACE Credit Union Services until October 2014, when she decided to take a well-earned break from her long-term involvement with the British credit union movement.

Barbara has an impressive past record for working in the best interests of those who were excluded and isolated in society and her past job roles have included being a Head Teacher, a Social Worker and a Trade Union Branch Secretary. She has a reputation for standing up for the rights of those who often feel that they have no voice and her work with credit unions over the past twenty years has been exemplary.

Bill Hudson, who took over from Barbara as CEO in 2014 said: "All those involved with ACE are extremely pleased and proud to hear the news that Barbara has been awarded the honour of receiving a CBE from the Prince of Wales. It is a much deserved recognition of Barbara's contribution to the development of the credit union movement over the years and her

dedication to representing and speaking on behalf of some of the most disadvantaged members of our society."



Barbara with her CBE accompanied by her two sons Trevor and Paul

Is your Credit Union's money safe with the banks and building societies?

Following the withdrawal of FSCS protection on credit unions' own deposits in July 2015, credit unions have been left with the likelihood of becoming insolvent should a bank or building society that with which it holds deposits go bust. Even though our members' savings are covered up to a maximum of £75,000, the PRA has recently confirmed that in all probability any credit union that holds deposits in a failed bank or building society is also likely to go out of business. This is because the Regulators have taken the view that

money held in banks and building societies by credit unions technically belongs to the credit union itself and not to the credit union members. So the answer to the question "Is your Credit Union's money safe with the banks and building societies?" the answer is "Not Really." This threat to British credit unions is the result of the PRA's decision to follow the European Deposit Guarantee Schemes Directive which makes deposits held by banks, building societies and credit unions ineligible to receive FSCS protection.

ACE Conference heading for Newcastle in North Tyneside's Year of Credit Unions

When ACE Credit Union Services heard that 2016 would be the Year of Credit Unions in North Tyneside, ACE members decided to hold their 2016 Annual Conference & AGM in the North Tyneside Borough. The Conference will be held at the Village Hotel in the Cobalt Business Park, NE27 0BY on the 13th and 14th May 2016.

ACE CEO Bill Hudson said: "Once we heard that North Tyneside Council had announced that 2016 would be "Year of Credit Unions" our members chose to hold this year's Conference in the Newcastle area in recognition of the Council's decision to formally recognise the importance of credit unions in North Tyneside."

The Conference programme to date has confirmed speakers from the Prudential Regulation Authority, the Financial

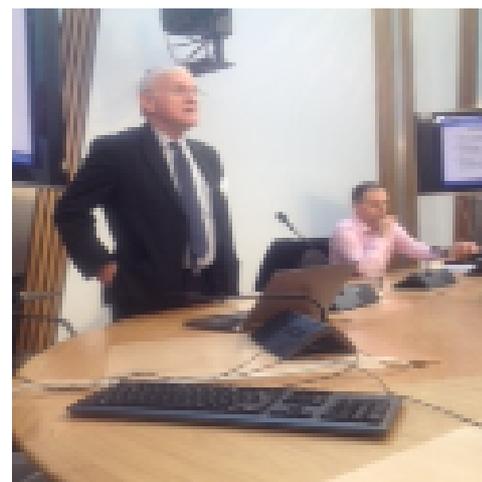
Conduct Authority and the Department for Work & Pensions. Other speakers include Victoria Mackay Parkin - Chair, Fincan, the North East voice for financial wellbeing; Dina Devalia - Insolvency Practitioner; Paul Jones - Liverpool John Moore's University; Nick Money - Third Sector Management Consultant; Ken Dunn - Business Development Director, Transave Credit Union; Bernard Cogan CUNA Mutual Group; Andrew Breese - CEO Moneywise Credit Union and Phil Goad the Chair of Moneywise Credit Union both based in Newcastle. To find out how to book your place at the ACE Conference email bill.hudson@acecus.org or telephone 029 20 674851.

Scottish Parliament pledges to make Scotland a Credit Union Nation

The Scottish Parliament held a special Credit Union event on the 12th February 2016 at the Holyrood parliamentary offices. The event, which was organised by Convener of the Parliament's Cross-Party Group on Credit Unions John Wilson MSP and chaired by the Parliament's Deputy Presiding Officer Elaine Smith MSP, attracted over 100 delegates from 50 credit unions across Scotland to discuss how the Scottish credit union movement can develop and grow to serve even more people than it does currently. With just over 100 credit unions serving 375,000 adults who are saving £454 million and borrowing £276 million the Scottish Credit Union movement is currently serving 7% of the adult population which is far higher than the market penetration rate in both England and Wales. Delegates were able to

attend two of the six workshops that were delivered by credit union specialists including topics such as Governance, Young Savers, Mergers, Payroll Savings and Skills and Resources. Bill Hudson ACE CEO was asked to chair the workshop on Governance which was fully booked on both occasions and delivered by Paul Jones from Liverpool John Moores University Nick Money, Third Sector Management Consultant. Bill Hudson said that: "The Scottish Parliament event in Edinburgh was a very positive experience which illustrated how credit unions in Scotland were playing a dynamic part in the financial well-being of Scottish citizens and an active role in Scotland's campaign to tackle financial exclusion. The event launched the publication of the Credit Union Working Group's

which was set up to consider how best to promote the credit union sector in Scotland with recommendations for credit unions, Government, schools, local authorities and employers."



Paul Jones and Nick Money delivering Governance Workshop

Preliminary Conference Report:

<http://webmail.hosting.heartinternet.uk/webmail->

[new/index.php/mail/viewmessage/getattachment/folder/INBOX/uniqueId/4730/filenameOriginal/Preliminary%2BConference%2BReport.pdf](http://webmail.hosting.heartinternet.uk/webmail-new/index.php/mail/viewmessage/getattachment/folder/INBOX/uniqueId/4730/filenameOriginal/Preliminary%2BConference%2BReport.pdf)

Banknotes are changing - the new fiver is coming in September 2016

2016 is a big year for banknotes. A new £5 note will be issued by the Bank of England in September 2016 and will be followed by a new £10 note in 2017 and new £20 note by 2020. The Bank of England has been issuing banknotes for over 300 years and have evolved from handwritten paper notes by the Bank's Cashiers in the 17th Century to the high quality paper printed banknotes containing a range of complex security

features seen today. The new notes will be printed on polymer, which is cleaner, more securable and more secure than paper, incorporating advanced security features that make them more difficult to counterfeit. Polymer is a thin flexible plastic material that fits into wallets and purses just like paper notes.

Continued on page 4

Banknotes are changing - the new fiver is coming in September 2016

(Continued from page 3)

The new notes will retain the traditional look of the existing notes with a portrait of the Queen on the front. Sir Winston Churchill will feature on the back of the new £5 note and Jane Austen on the back of the £10 note. The new notes will be smaller than the current paper notes. All credit unions that handle cash need to prepare for the new notes with the new £5 note being issued from September 2016. Machines that handle cash will need to be updated and your staff will need to be trained to recognise the new notes. The Bank of England will be unveiling the full design and security features of the new £5 note about 3 months before the issue date and a range of training materials will be

made available. Keep up to date with the latest information about polymer bank notes by registering at: www.bankofengland.co.uk/banknotes/Pages/subscribe



Collecting financial data to promote ACE Credit Unions

By the end of February 2016, ACE had received 22 out of 38 December 2015 Quarterly Returns, from ACE credit unions which represents around 60% of all ACE affiliated credit unions. This collection of financial data had been requested so that the ACE Board can better promote the strength of ACE credit unions. With 16 more returns to come in the cumulative data at the end of February 2016 for ACE credit unions was:

Assets	Shares	Loans	Adult Members	Juniors
£39,981,770	£32,437,082	£ 25,404,908	60,182	10,699

It is estimated that membership figures will rise to over 75,000 adult members that currently belong to ACE affiliated credit unions.

If you have not yet sent your December 2015 Quarterly Return, please do so at your earliest convenience either by posting it to the Cardiff office or email to bill.hudson@acecus.org.

ACE launches virtual training programme pilot in partnership with Coventry and Warwickshire Co-operative Development Agency

ACE has agreed to work in partnership to deliver a virtual training programme at a preferential cost to ACE credit union affiliates. The programme which was launched on the 25th February 2016 on the new Senior Managers Regime will be followed by further 90 minute online sessions covering the following topics:

March 23 rd	Directors Roles & Responsibilities	(Wednesday) 10.30 am
April 27 th	Understanding Financial Information	(Tuesday) 10.30 am
May	Money Laundering	
June	Understanding your portfolio	
September	Marketing	
September	Directors Roles & Responsibilities	
October	Supervisory	

Mandy Bygrave Senior Business Outreach Coach with the CWDA said: "We are very happy for the opportunity to work with ACE credit unions on the delivery of essential training sessions that all credit union staff and volunteers will be able to benefit from. With the Regulators now expecting credit union staff and volunteers to be fully trained in their specific role within their credit union this is a very cost effective way of receiving all necessary training"

To book your place on any of the planned sessions please go to the following link:

<https://www.eventbrite.co.uk/e/credit-union-senior-manager-regime-tickets-21557458940>