CP22/15 - Reform of the legacy Credit Unions sourcebook released on the 24th June 2015, proposals to replace the existing CREDS. The major changes that the Consultation Paper proposes are:

- **The shelving of the existing Version 2 category of credit unions** - to be replaced with four categories to reflect differing business models. The new categories will be applicable to those credit unions wishing to undertake additional activities Some specified additional activities will require credit unions to maintain a 10% capital requirement although this does not include payment services.

- **Boards of Directors to report to their members annually** - at an AGM about any specified additional activities that it is undertaking and additional information will be required in Regulatory returns. Boards must also report on whether the credit union has complied with Single Customer View requirements for depositor protection and on whether it has maintained the required insurance against fraud and dishonesty.

- **A financial risk management policy statement** - must be maintained by any credit union carrying on any of the specified activities including mortgages, additional lending, additional investments or payment services. Policy statements on liquidity management and lending must still be produced by all credit unions.

- **New limit on maximum Shareholding** - under this proposal no credit union will be permitted to allow a member to be exposed to the risk of a loss of deposits which means that the current FSCS protection limit of £85,000 could not be exceeded by members. This proposal is likely to impact on large credit unions only.

- **Increase in the Capital ratio of large credit unions** - credit unions with more than 10,000 members or £10million in assets will be expected to achieve a 10% capital ratio instead of the current level of 8%. This ratio will not apply until 1 October 2018. The ratio will rise to 9% on 1 October 2017. For all other credit unions the ratio remains at 3%, rising to 5% once they have reached either 5,000 members or £5million in assets.

- **Credit unions will not be able to make a sub-ordinated loan** - (repayable on liquidation after other debts have been paid) unless it is to another credit union and forms part of that credit unions capital. Restrictions will apply to amounts over £15,000.

- **General provision for bad debts will be abolished** - due to the fact that this provision served no meaningful purpose.

- **Current guidance to make a specific of 60% when a loan is more than 6 months in arrears and 80% when more than 9 moths in arrears will become a rule -** ensuring a consistent approach to provisioning.

- **Increase in range and duration of investments** - currently only available to Version 2 credit unions will be available to all credit unions providing that they fulfil the additional requirements, including having a capital to total assets ratio in excess of 10%.

- **Payment services to members restricted** - to credit unions achieving additional requirements aimed at insuring that Boards fully understand the implications of offering such a service to members.

- **Credit unions have to maintain a liquidity ratio of at least 10% at all times -** replacing the current ratio of 5%.