



HM TREASURY

HM Treasury
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ACE Credit Union Conference

Areas to discuss

- The role of HM Treasury in credit unions.
- The Call for Evidence and response.
- Credit unions for the new government.



What is HM Treasury's role regarding credit unions?

HM Treasury is the Government's financial and economic Department. It is led by the Chancellor of the Exchequer, supported by the Chief Secretary to the Treasury, who are both Cabinet Ministers.

The Department also has a number of Junior Ministers; the Financial Secretary to the Treasury, the Exchequer Secretary and the Economic Secretary.

The civil service support the Ministers by providing them with advice, evidence and recommendations for how to best achieve the politicians' commitments, and how best to solve problems that arise.



What is HM Treasury's role regarding credit unions?



The Treasury is divided into a number of Groups, I sit within the Financial Services Group. Each Group is then subdivided into teams, mine is the Banking and Credit Team. And within each team there are several branches – I am the Head of the Building Societies and Mutuals Branch which covers all policy related to mutuals, including building societies, credit unions and co-operatives. In my team I also have Katie Smith who works with me on credit unions and co-operatives, and Mark Pickard on works on building societies. If you want to get in touch with Government about credit unions then we are the people to speak to so please do get in touch with us directly!

Call for Evidence

In Autumn 2014 the government issued a Call for Evidence on credit unions which sought views from interested parties about the future of credit unions and how the government can do more to support the development of the credit union movement in Great Britain.

The responses to the call for evidence were very wide-ranging, reflecting, in part, the high level of diversity in the credit union sector.



Call for Evidence

However, we have committed to use the responses to the Call for Evidence when considering legislative amendments to be pursued in the course of this parliament. These may include changes to the following:

Objects

Most respondents to the Call for Evidence thought the objects remained appropriate but some felt the language was antiquated and needed updating. Others felt that the objects should be relaxed and that a general purpose object should be introduced which would allow credit unions to provide any service which benefited members.

We are considering the various options for the Objects. Updating the language would require a change to legislation which is an arduous process and would probably not be considered appropriate to undertake unless we were also changing the substance of the Objects.

The Objects also need to be usable for the FCA who use them to determine applications for new credit unions and rule changes. We are therefore working with the FCA to see how we might clarify them for this regulatory purpose.

Relaxing the Objects in any significant way would allow credit unions to expand into other services, but any relaxation would need to be weighed up with the additional regulation that would need to be applied to the sector in that scenario. Credit unions are currently carved out of many regulations precisely because they only conduct straightforward, non-risky activity.

Call for Evidence

Common bond restrictions (number, family)

The majority of respondents thought the common bond should be retained, but felt that it should be broadened, especially for those with locality common bonds which are limited at 2 million potential members.

The reason for the 2 million potential membership rule is that the European Union Consumer Credit Directive states that credit unions are only exempt from the application of the Directive provided credit is “not offered to the public generally”. EU Directives are agreed by all EU Member States and are mandatory to implement in the UK. Crucially the exemption for credit unions from this Directive is about the population to whom credit is ‘offered’ rather than the population who have received that credit and therefore applies to potential rather than actual members. Government has previously taken the view that the definition of the ‘public generally’ is a maximum of 2 million people. Therefore, credit unions with a locality common bond need to have fewer than 2 million people in their region if they are to remain exempt from the Consumer Credit Directive.

We are in discussion with lawyers about potential changes to the common bond, including whether the definitions of family members who are included in the common bond needs to be either extended or clarified.

Call for Evidence

Appropriate level for rule change decisions

The response to the Call for Evidence highlighted the views of some who felt the FCA could delegate some responsibility to credit union boards rather than having to seek authorisation from the membership in every case. Some respondents felt the existing system was laborious and stifled innovation. Other respondents felt this would dilute the democratic nature of a credit union.

The majority of respondents also called for the FCA to pre-approve rule changes before they are put to the membership. However this brings with it the same concerns around dilution of membership control.

We are in discussions with the FCA about whether certain non-substantive changes could be pre-approved or made solely by the board, however we will need to consider carefully how we might define a non-substantive change and whether this would have an impact on the democracy of the credit union.

Call for Evidence

PRA power to direct mergers

A number of respondents felt that the PRA should have powers to enforce mergers and mandate the transfer of the loan book where a credit union is failing. Others felt this would be over-interventionist and compromise the independence of the credit union sector. There were also mixed views as to whether a stabilisation fund should be established to support struggling credit unions.

We are considering whether such powers for the PRA would constitute simply suggesting ideas for mergers, or actually enforcing mergers. Such powers might improve consumer confidence in the less-stable credit unions and the sector as a whole. However, we need to carefully assess the possible impact of such a decision.

Ability to make ancillary charges

Current legislation allows for credit unions to charge 'appropriate fees' for ancillary services, and respondents asked for guidance from government on how this should be interpreted. We are discussing with lawyers what advice we might usefully provide. This builds on previous discussion around ancillary charges, for example the change in legislation in 2012 which allowed allow credit unions to charge ancillary fees to existing members but not new members who have joined since January 2012. We are looking into the discussions that have happened around this issue previously.

Call for Evidence

Ability to establish subsidiary bodies

Current legislation is explicit that credit unions cannot have subsidiary bodies, which are defined as companies whose boards are controlled by a credit union, or where a credit union holds more than half of the nominal value of the company's equity share capital. We are looking at whether this definition is still relevant and considering whether this is something we would wish to relax or clarify.

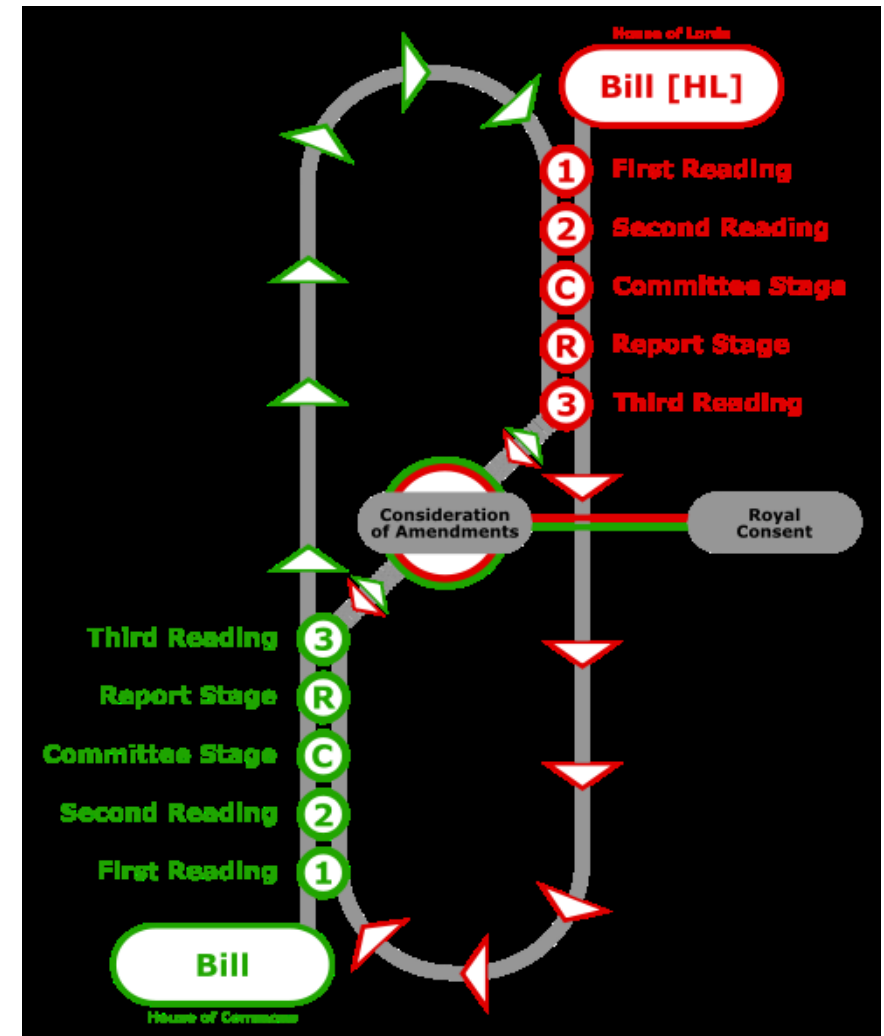
Clarification on purchase and use of property

The rules on credit unions' ability to hold land is restricted to property used to conduct business, or as a way of taking or enforcing loans security. There have been queries from some credit unions as to the interpretation of this legislation and we are working with lawyers to clarify the rules.

Call for Evidence

The Government also committed to working with the Prudential Regulatory Authority and the Financial Conduct Authority as they consider the feedback on the regulatory approach from the Call for Evidence as input into their reviews of the current Credit Union Sourcebook (CREDS). Officials have been actively engaging with the regulators on this issue.

Any decisions for policy changes will need to be made by Ministers. Legislative change is also a time-consuming process, and Ministers need to agree that it is worth prioritising before it can even get off the ground. Bills can only be introduced with the backing of the Parliamentary Secretariat and go through multiple Parliamentary readings before they become statute.



Looking ahead

The Conservative Party manifesto committed to “support the credit union movement in making financial services more accessible”. Within HM Treasury we don’t yet know who will be the minister with responsibility for credit unions, but we do know that Damian Hinds, the new Exchequer Secretary Minister, was formerly the Chair of the All Party Parliamentary Group on Credit Unions so there is a Treasury Ministry with previous experience of the sector.

Chancellor of the Exchequer – George Osborne MP

Chief Secretary – Greg Hands MP

Financial Secretary – David Gauke MP

Exchequer Secretary – Damian Hinds MP

Economic Secretary – Harriett Baldwin MP



Questions and Feedback

