



ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY

*Lught-Reill Shirveishyn Argidoil Ellan Vannin*

# CREDIT UNIONS (AMENDMENT) BILL 2017

## SUMMARY OF CONSULTATION RESPONSES

**Consultation CP17-02/T03 from 10 March to 25 April 2017**

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## GLOSSARY OF TERMS

Term	Meaning in this document
<b>Authority</b>	<a href="#">Isle of Man Financial Services Authority</a>
<b>CUA</b>	<a href="#">Credit Unions Act 1993</a> (current Act)
<b>FSA08</b>	<a href="#">Financial Services Act 2008</a>
<b>IBSA</b>	<a href="#">Industrial and Building Societies Act 1892</a>
<b>IoM</b>	Isle of Man
<b>Keeling Schedule</b>	<a href="#">Credit Unions Act - Keeling Schedule</a> (i.e. CUA incorporating amendments shown in the Credit Unions (Amendment) Bill 2017)

## **1 CONSULTATION RESPONSES**

The following list of questions and summary of responses relates to the Isle of Man Financial Services Authority's [consultation on the Credit Unions \(Amendment\) Bill 2017](#)<sup>1</sup> that was open from 10 March to 25 April 2017. The draft Bill was published with a [Keeling](#) version (showing the Act as it would be following the changes proposed).

Comments were received from four external parties: one MHK (politician), one corporate services provider ('CSP'), one credit union trade body and one credit union. Comments were also received from other Government bodies.

### **Questions asked**

#### **General questions**

1. Do you have any comments on the Credit Unions (Amendment) Bill?
2. The Bill severs the link between the CUA and IBSA. Do you have any comments on this change? Please explain the reasons for any comments you make.
3. The Bill prescribes constitutional powers for credit unions in the CUA and transfers regulatory powers to the FSA08. Do you have any comments on this change? Please explain the reasons for any comments you make.
4. Do you have any comments about the regulatory regime for credit unions that is outlined in this consultation? If so, please explain any views and, if possible suggest how any issues could be addressed.

#### **Specific questions**

5. Section 5(3) retains the existing cap of £5,000 on member's savings. An alternative would be a cap of the greater of (a) £5,000 or (b) 1.5% of all members' savings. Do you have any comments on this suggestions? If so, please explain the reasons. (NB In either case the £5,000 figure could be varied by the Authority by secondary legislation.)
6. Section 7(5) retains the current requirement that withdrawals by borrowers whose borrowings exceed their savings (net borrowers) should be "permitted only at the discretion of the committee". Do you think this is appropriate? Please explain the reasons for any comments you make.

<sup>1</sup> <http://www.iomfsa.im/ConsultationDetail.gov?id=613>

## Questions asked

7. A revision to section 11 proposes removal from the Act of the maximum interest rate and term of loans. It is proposed that these would be covered in secondary legislation in future. Do you think this is appropriate? Please explain the reasons for any comments you make.
8. Amendments proposed to the Act do not specifically allow for different classes of shares. Do you think it would be appropriate to permit credit unions to offer an option of deferred shares (if requested by a member)? Such deferred shares would be subject to restrictive withdrawal criteria and would not receive the protection described in section 16 (as revised). Please explain the reasons for any comments you make.

## Responses received (in summary)

Topic	Comments
<b>Savings compensation scheme</b>	<ul style="list-style-type: none"><li>• Supported. Scheme must be in harmony with maximum savings</li><li>• Treasury should provide a scheme which should cover 100% of savings</li><li>• Proposed scheme requires further review. Need to consider that there could be more than one credit union</li></ul>
<b>Link with IBSA* (Q 2)</b>	<ul style="list-style-type: none"><li>• Appropriate to sever link</li><li>• Need to ensure that mutuality aspect of credit unions is not lost – this should be specified in the Act</li><li>• Credit union and its ethos should be specified in the Act</li></ul>
<b>Regulatory powers to transfer to FSA (Q 3)</b>	<ul style="list-style-type: none"><li>• Supported (x 2)</li></ul>
<b>Regulatory regime (Q 4)</b>	<ul style="list-style-type: none"><li>• Maximum loan should reflect maximum savings limit so as to enable income generation</li><li>• Maximum members should equal IoM population</li><li>• Maximum savings per child should be greater of £5,000 or 1.5% of total children's savings</li></ul>

Responses received (in summary)	
	<ul style="list-style-type: none"> <li>• Suggest minimum liquidity ratio of 10%</li> <li>• Concerns about regulatory costs/ impact that may be imposed by FSA</li> </ul>
<b>Maximum savings (Q 5)</b>	<ul style="list-style-type: none"> <li>• £5,000 appears reasonable (x 2)</li> <li>• £5,000 is too low</li> <li>• £5,000 is too low - suggest £10,000</li> <li>• £5,000 is too low - suggest £15,000</li> <li>• £5,000 is too low. Suggest maximum is the greater of £10,000 or 1.5% of total savings</li> </ul>
<b>Board to approve all withdrawals by net borrowers (Q 6)</b>	<ul style="list-style-type: none"> <li>• Supported (x 4)</li> </ul>
<b>Loan rates (Q 7)</b>	<ul style="list-style-type: none"> <li>• Supported (x 2)</li> <li>• Supported. Cap of 1% pcm is not commercially sustainable</li> <li>• Supported, but with terms of reference published</li> </ul>
<b>Deferred shares (Q 8)</b>	<ul style="list-style-type: none"> <li>• Supported (x 3)</li> <li>• Supported (with no compensation cover)</li> </ul>

\* IBSA is the Industrial and Building Societies Act 1892, which currently provides for the establishment of all mutual organisations. It is proposed to sever the link with this Act and to transfer all constitutional matters to the Credit Unions Act. Also, it is proposed to transfer all regulatory matters to the Financial Services Act by making the operation of credit unions a regulated activity.

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## 2 OUTCOME AND NEXT STEPS

Following the [consultation on the Credit Unions \(Amendment\) Bill 2017](#) the Authority proposes to make changes to the Bill to:

- include the concept of credit unions to address co-operative principles and mutuality;
- permit more flexibility in fees chargeable by DED;
- enable the Authority to specify the maximum shareholding as *either* a maximum £ figure, *or* a percentage of a credit union's total ordinary shareholdings;
- enable the Authority to prescribe that credit unions may issue deferred shares in addition to ordinary shares and to set and vary the limits on such shares;
- enable the Authority to prescribe a maximum period for a loan and a maximum loan interest rate; and
- permit the Authority or the Department (as appropriate) to exercise discretion in respect of (minor) errors in returns etc.

It should be noted that credit unions will be required to obtain a financial services licence from the Authority under the Financial Services Act 2008 ('FSA08')<sup>2</sup>. Regulatory requirements will be specified by the Authority under the FSA08.

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<sup>2</sup> The regulation of credit unions under FSA08 is not described in the Bill would be achieved by making the activity of operating a credit union a regulated activity under the [Regulated Activities Order](#) ('RAO'). Once an activity is prescribed in the RAO, it is subject to regulation by the Authority via licence conditions or the [Financial Services Rule Book](#) and entities may be required to submit financial returns and other reports to the Authority as required. In addition the Authority would be able to use other powers in and under the FSA08.

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### **3 IMPLEMENTATION**

The Authority will seek to make the changes described and then to progress the Bill through the Branches (House of Keys and Legislative Council) later in 2017, with the aim of it coming into operation as soon as is practical thereafter.

Once the revised CUA has been brought into operation, the Manx Credit Union (and any other credit unions in the IoM) will need to become regulated under the FSA08. In this respect, suitable changes to secondary legislation under the FSA08, along with transitional matters, will be the subject of separate consultation in due course.