



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

CREDIT UNIONS

DEFERRED SHARES

CONSULTATION PAPER

Issue Date: 29 April 2019

Closing Date: 27 May 2019

CP19-03/T03

CONSULTATION PAPER – CP19-03/T03

This consultation paper is issued by the Isle of Man Financial Services Authority, which is the regulatory body for the financial sector in the Isle of Man.

The purpose of this consultation is to obtain views about a draft Order to permit credit unions to issue deferred shares to their members.

Please supply evidence to support your views on these matters, where relevant.

The closing date for comments is **27 May 2019**.

Please send comments in writing and preferably by email (but not scanned documents) to:

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If you have a query in relation to how this consultation has been carried out, please contact the Authority's Policy and Authorisations Division by email at IOMFSAPOLAUTH@gov.im or by telephone on +44 (0) 1624 646000.

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GLOSSARY OF TERMS

Term	Meaning in this document
Act	Credit Unions Act 1993 ¹
Authority	Isle of Man Financial Services Authority
FSA08	Financial Services Act 2008 ²

¹ https://www.legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/1993/1993-0019/CreditUnionsAct1993_5.pdf

² https://www.legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/2008/2008-0008/FinancialServicesAct2008_15.pdf

1 EXECUTIVE SUMMARY

1.1 Overview

In April 2019 the Credit Unions Act 1993 (**'the Act'**) was amended and supervision and licensing of credit unions was transferred to the Financial Services Act 2008 (**'FSA08'**).

A new provision in the Act enables the Isle of Man Financial Services Authority (**'the Authority'**) to make an Order under section 7(1A) to permit credit unions to issue deferred shares in addition to ordinary shares.

In 2016, the IoM's first credit union was authorised and registered by the Authority. This registration was converted to a licence³ on 1 April 2019, to coincide with the new legislation. No other credit unions have sought registration to date.

1.2 What is the purpose of this Consultation Paper?

This consultation paper invites interested parties and their advisers to consider the proposal to permit credit unions to issue deferred shares, together with the draft legislation and to submit comments to the Authority before the closing date for the consultation. All views are welcome, especially those that include constructive comments or evidence to support views.

1.3 Who may be affected by this Consultation Paper?

The proposals in this paper will affect the existing credit union in the Isle of Man and its members, as well as any parties that may be interested in setting up, or offering services to, a credit union.

³ <https://www.iomfsa.im/registers/licence-holders/manx-credit-union-limited/>

2 CONSULTATION PROCESS

2.1 The Authority's regulatory objectives

The Authority's regulatory objectives are set out in section 2(2) of the FSA08 as —

- (a) securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity;
- (b) the reduction of financial crime; and
- (c) the maintenance of confidence in the Island's financial services, insurance and pensions industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre.

Proposals in this consultation are related to objectives (a) and (c).

The Authority is required to give consideration to certain factors when undertaking its role in accordance with paragraph 3 of Schedule 1 to the FSA08. The most relevant factors are:

Factor	Information
The need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden	Deferred shares will assist credit unions by enabling them to maintain higher levels of capital and will offer their members an additional type of savings product. However, deferred shares are a higher risk product, which will need to be made clear to purchasers.
The impact of its decision on the stability of the financial system of the Island	Due to the size of their operations, credit unions are not expected to affect the Island's financial stability. Deferred shares will not be underwritten by any current or future statutory compensation scheme.

2.2 Responding to the Consultation Paper

The Authority considers open dialogue with stakeholders as essential in developing its proposals and welcomes comments on the proposals in this document. However, please note that your comments may not result in a change to the proposals. Please do not submit comments anonymously as they will not be considered or included in the Consultation Response.

Professional bodies, trade associations and other representative groups are asked to provide a summary of the people and organisations that they represent when responding, as well as the methodology used to gain members' input.

3 PROPOSALS

The Credit Unions Act 1993 was amended with effect from 1 April 2019 when supervision and licensing of credit unions was transferred to the FSA⁰⁸. Credit unions are now covered by Class 9 regulated activity. The changes were made following several public consultations between 2015 and 2018.

Section 7(1A) in the Act enables the Authority to make an Order to permit credit unions to issue deferred shares in addition to ordinary shares. Such shares may be issued to either individual or corporate members.

Section 29(3)-(6) in the Act describes deferred shares and the rights and obligations of credit unions and members in respect of those shares. The draft Order proposes that information about 'the issue documents' concerning any deferred shares should be provided to prospective purchasers 10 working days before purchase. This proposal is to address the fact that deferred shares carry greater risks for the holders than ordinary shares and are more akin to capital in a company. For example, in the event of insolvency holders of deferred shares rank behind holders of ordinary shares.

The Authority may place conditions on the issue of deferred shares on a case by case basis and therefore it may, for example, restrict the value of deferred shares that a credit union may issue either to any one member or in total.

Please see the Appendix for the draft legislation

QUESTION – LEGISLATION

Do you have any comments on the draft regulatory legislation? If so, please tell us the reasons for your views and any suggestions.

4 IMPACT ASSESSMENT

The Authority has taken into consideration the anticipated impact of deferred shares on credit unions and on members of credit unions, together with the potential impact on the Isle of Man Government.

There are risks to members in holding deferred shares (such as lack of access to their funds) which must be clearly and fully explained to those members before purchase. Despite these risks, it is understood that some members support the ethos of credit unions and may wish to buy deferred shares for philanthropic reasons.

There is a benefit to credit unions in issuing deferred shares because these shares equate to long term capital in the entity and help it meet statutory capital ratio requirements.

The attached draft Order proposes that credit unions must provide appropriate information to prospective purchasers of deferred shares, via the 'the issue documents', at least 10 working days in advance of their purchase, so that those members have adequate time to assess the risks.

APPENDIX – DRAFT LEGISLATION



Credit Unions Act 1993

CREDIT UNIONS (DEFERRED SHARES) ORDER 2019

Approved by Tynwald:

Coming into Operation:

1 August 2019

The Isle of Man Financial Services Authority makes the following Order under section 7(1A) of the Credit Unions Act 1993 after carrying out the consultations required by section 28 of that Act.

1 Title

This Order is the Credit Unions (Deferred Shares) Order 2019.

2 Commencement

If approved by Tynwald, this Order comes into operation on 1 August 2019.

3 Application

This Order applies to all credit unions.

4 Deferred shares

A credit union may issue deferred shares subject to the issue documents described in section 29(3) of the Act being provided at least 10 working days in advance of any purchase.

MADE _____

Chief Executive of the Isle of Man Financial Services Authority

Member of the Isle of Man Financial Services Authority