



**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

Lught-Reill Shirveishyn Argidoil Ellan Vannin

Consultation Paper
CREDIT UNIONS
PROPOSED INCREASE TO
SAVINGS LIMIT
(MEMBERS' HOLDINGS OF ORDINARY SHARES)
CP20-02/T03

Issue Date: 3 August 2020
Closing Date: 13 September 2020

Consultation Paper – CP20-02/T03

This Consultation Paper is issued by the Isle of Man Financial Services Authority, which is the regulatory body for financial services in the Isle of Man.

The purpose of the consultation is to obtain views on a draft Order to raise the maximum limit of savings (ordinary shares), per member, in a credit union. Please supply evidence to support your views, where relevant.

The closing date for comments is **13 September 2020**.

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 Policy@iomfsa.im or by telephone on +44 (0) 1624 646000.

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Glossary

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

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

Section 5(3) of the Credit Unions Act 1993 (**'the CUAct'**) sets a limit of £5,000 on the maximum number of ordinary shares that may be held by any member of a credit union. This limit is also known as the savings limit. Section 5(4) permits the Isle of Man Financial Services Authority (**'the Authority'**) to make an Order to increase this amount and this paper proposes such an increase.

In 2016, the IoM's first credit union was authorised and subsequently licensed³ by the Authority. No other applications for credit union licences have been received.

1.2 What is the purpose of this Consultation Paper?

This Consultation Paper invites interested parties and their advisers to consider the proposal to increase the savings limit of £5,000 (together with the draft Order) 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.

2. Consultation Process

2.1 The Authority's regulatory objectives

The Authority's regulatory objectives are set out in section 2(2) of the Financial Services Act 2008 (**'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.

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

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

The Authority is required to give consideration to certain factors when discharging its functions in accordance with paragraph 3 of Schedule 1 to the FSA08. The most relevant factors for this consultation are considered as follows:

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	The legislative framework for credit unions in the Island was revised at the time that the sole credit union was licensed. The possible future need for an increased savings limit was addressed by enabling such changes to be made by secondary legislation. This proposal is in response to an apparent demand for such a change.
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 have a detrimental effect on the Island's financial stability.

2.2 Responding to the Consultation Paper

Open dialogue with stakeholders is an essential element for successful development of the Authority's proposals and constructive feedback will help the Authority reach an informed decision on the content of the proposals and manner of implementation. Respondents should note the following when responding to this Consultation Paper:

- As responses to the consultation may be subject to publication or disclosure in accordance with access to information regimes, respondents should state if they wish their response to remain confidential and, if so, the reasons for this.
- Submissions received by the closing date of the consultation will be considered but may not necessarily result in a change to the proposals following a review of all responses received.
- Professional bodies, trade associations and other representative groups should provide a summary of the people and organisations they represent when responding to a consultation as well as the methodology used to gain members' input.
- The Authority requests that submissions are not made anonymously as they will not be considered or included in the Consultation Response.

This Consultation Paper has been published on the Authority's website and the Isle of Man Government's Consultation Hub⁴.

3. Proposals

Since April 2019 credit unions have required a financial services licence to conduct Class 9 regulated activity⁵. This follows changes to the CUAct which resulted in the supervision and licensing of credit unions taking place under the FSA08⁶.

Section 5(3) of the CUAct sets a limit on the maximum number of ordinary shares that may be held by any member of a credit union: "A member of a credit union shall not have or claim any interest in the ordinary shares of the credit union exceeding £5,000". This limit is also known as the savings limit.

Section 5(4) permits the Authority to make an Order to increase this limit. Any such increase may be "expressed as a monetary amount or as a percentage of some monetary amount or determinable monetary amount".

3.1 Proposed new limit

It is proposed to increase the limit to "*the greater of £15,000 or 1.5% of the total ordinary shares of the credit union*" (**proposed limit**). The proposed limit would provide the opportunity for the existing credit union to grow in size, and to better facilitate regular saving by its members. (Credit unions are also able to offer deferred shares, which are outside this limit).

£15,000 is 1.5% of £1 million. Therefore, subject to any lower limits that may be imposed by a credit union in its own Rules, the proposed limit means that a member would be able to hold a maximum of £15,000 in savings (ordinary shares) if a credit union had total ordinary shares of up to £1 million. However, if the credit union had ordinary shares totalling £2 million, a member could hold a maximum of £30,000 in savings (ordinary shares).

If other credit unions were to be licensed, the proposed limit would automatically apply to those entities (unless the Authority decided to restrict its savings limit to a lower level).

3.2 Limits elsewhere

The UK's statutory savings cap per person is also the greater of £15,000 or 1.5% of total shares held by the credit union. The Republic of Ireland is an EU member state and so has the EU's savings cap, which is Euro 100,000 per person.

⁴ <https://consult.gov.im/>

⁵ See Class 9 in <https://www.iomfsa.im/media/2586/regulatedactivitiesorder2011.pdf>

⁶ Supervision was previously carried out under the CUAct.

In the UK and EU, members' savings are protected by statutory compensation schemes in the event of a credit union failing, whereas in the IoM no such statutory compensation exists. This means that an increase to members' savings in an IoM credit union will result in a corresponding increase in members' risk of financial loss if that credit union fails, unless there is alternative protection for the members' savings⁷.

Guernsey and Jersey do not have any credit unions.

4. Impact Assessment

The proposed change will only affect IoM credit unions (of which there is currently only one) and the credit unions' members. The Authority has taken into consideration the apparent need for a higher limit and credit unions' ability to monitor savings against the proposed limit.

In the event of failure of an IoM credit union, the amount of savings at risk of loss would correspond to the total savings held. Thus, if members hold more savings, they should be aware that the amount they may lose would be higher.

The change to the limit is not expected to impact on any other regulated entities, nor on other areas of Government.

5. Question

Legislation

The draft Credit Unions (Ordinary Shares) Order 2020 is in the appendix to this paper.

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

6. Next Steps

Following closure of the consultation period, the Authority will review the responses received and publish a Consultation Response document on the Authority's website and the Isle of Man Government's Consultation Hub.

⁷ The IoM's existing credit union has an arrangement to provide some alternative protection for members' savings.

APPENDIX – DRAFT LEGISLATION

C

Credit Unions Act 1993

CREDIT UNIONS (ORDINARY SHARES) ORDER 2020

Approved by Tynwald:

Coming into Operation:

xxx 2020

The Isle of Man Financial Services Authority makes the following Order under section 5(4) of the Credit Unions Act 1993, after consultation as required by section 28(3) of that Act.

1 Title

This Order is the Credit Unions (Ordinary Shares) Order 2020.

2 Commencement

If approved by Tynwald, this Order comes into operation on xxx 2020.

3 Increase in ordinary shares

In section 5(3) of the Credit Unions Act 1993, for “£5,000” substitute «the greater of £15,000 or 1.5% of the total ordinary shares of the credit union».

MADE _____ **2020**

Member of the Isle of Man Financial Services Authority

Member of the Isle of Man Financial Services Authority