



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

CREDIT UNIONS
THE NEW REGULATORY REGIME
AND
AMENDMENT TO LOAN INTEREST RATE

CONSULTATION RESPONSE

CR19-03/T03

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GLOSSARY OF TERMS

Term	Meaning in this document
Act	Credit Unions Act 1993 as amended by the Credit Unions (Amendment) Act 2018 ¹ (amendments are not yet operational)
Amendment Act	Credit Unions (Amendment) Act 2018 ² (see ' Act ' above)
Authority	Isle of Man Financial Services Authority
Bill	Credit Unions (Amendment) Bill (which became the 'Amendment Act')
Consultation	Consultation issued 5 November 2018 ³

¹ Credit Unions Act 1993 (as amended): <https://www.iomfsa.im/media/2463/creditunionsact1993-keelingschedule.pdf>

² Credit Unions (Amendment) Act 2018: https://www.legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/2018/2018-0009/CreditUnionsAmendmentAct2018_1.pdf

³ Consultation: https://consult.gov.im/financial-services-authority/credit-unions-the-new-regulatory-regime-and-amendm/supporting_documents/Credit%20Unions%20Secondary%20Legislation%20Consultation%20Document%20v2.pdf

1 BACKGROUND

1.1 This consultation response is issued by the Isle of Man Financial Services Authority ('the Authority') following consultation paper CP18-06/T03⁴.

The purpose of the consultation was:

- a) to obtain views about the proposed credit unions' regulatory regime that will be enacted in secondary legislation made under the Financial Services Act 2008⁵; and
- b) to seek views on a proposed increase to the maximum interest rate payable by borrowers on loans made by credit unions under the Credit Unions Act 1993 (as amended in 2018).

1.2 Following a high level consultation process on proposals to update credit unions' legislation and to develop a framework for regulating credit unions, drafting work began on a Credit Unions (Amendment) Bill in 2016. The Bill was enacted in 2018 and details of the new regulatory regime were described in the consultation paper.

1.3 As the Authority is aware that credit unions are typically run by volunteers and without substantial financial backing or resources, the regulatory provisions were designed to provide adequate protection to customers (i.e. members) of credit unions without imposing too onerous a burden on credit unions themselves.

1.4 In addition to proposing new regulatory legislation, the consultation also sought comments on draft 'standard licence conditions'; outlined proposed changes to the [Licensing Policy for Regulated Activities under the Financial Services Act 2008](#); and referred to the Appointed Day Order⁶. A further item in the consultation, unconnected to regulatory provisions, was a draft order to increase the maximum interest rate at which credit unions may lend to their members.

1.5 The introduction of both the new regulatory regime and the interest rate change are dependent on the Amendment Act coming into operation (via its Appointed Day Order).

⁴ Consultation: https://consult.gov.im/financial-services-authority/credit-unions-the-new-regulatory-regime-and-amendm/supporting_documents/Credit%20Unions%20Secondary%20Legislation%20Consultation%20Document%20v2.pdf

⁵ Financial Services Act 2008: https://www.legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/2008/2008-0008/FinancialServicesAct2008_15.pdf

⁶ Appointed Day Order: An item of legislation that brings an Act into operation.

2 SUMMARY OF RESPONSES

2.1 The consultation was published on the Authority’s website and notified to various relevant parties. It was open from 5 November to 14 December 2018 and received 16 responses:

Category	No. of responses
Credit union	1
Members of credit union	11
Other individuals	1
Credit union trade bodies	2
Other IoM bodies	1
TOTAL	16

Few comments were expressed on the draft regulatory legislation⁷ but more respondents commented on the proposed interest rate change and draft ‘standard licence conditions’.

2.2 Summary of responses by item:

- a) The ***Regulated Activities (Credit Unions Etc.) (Amendment) Order 2019*** provides that Class 9 is the new class of regulated activity under a financial services licence for credit unions. No adverse comments were received regarding the draft order.
- b) The ***Financial Services (Exemptions) (Credit Unions) (Amendment) Regulations 2019*** exempt Class 9 entities from needing to hold permissions to conduct Class 8(2) activity (so they can make third party payments on behalf of their members). The proposal received no adverse comments.
- c) The ***Financial Services (Fees) (Credit Unions) (Amendment) Order 2019*** specifies an application and an annual fee for credit unions.
 - i. **Annual fee** - Most consultation responses (13 of 16) expressed the view that the proposed annual fee of £500 was too high. The final order specifies an annual fee of £250.

⁷ Amendments to the [Regulated Activities Order 2011](#) ('RAO'); [Financial Services \(Exemptions\) Regulations 2011](#) ('Exemption Regs'); [Financial Services \(Fees\) Order 2018](#) ('Fees Order'); and [Financial Services Rule Book 2016](#) ('Rule Book'). All these items are made under the Financial Services Act 2008.

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- ii. **Application fee** - Two respondents commented on the application fee – one said £500 was too high and the other said it was appropriate. The final order specifies an application fee of £500.
- d) The **Financial Services (Credit Unions) (Amendment) Rule Book 2019** amends the Financial Services Rule Book to exclude credit unions from its requirements, because all Class 9 requirements will initially be in ‘standard licence conditions’.
- e) The **Credit Unions Act 1993 (Loan Interest Rate) (Amendment) Order 2019**⁸ increases the maximum interest rate at which credit unions can lend to their members - this rate being prescribed in section 11 of the Act, currently at 1% per month⁹. 14 out of 15 respondents who answered this question thought that a maximum rate of 3%¹⁰ per month was appropriate, whereas one respondent thought 3% was too high. The final order specifies 3% per month as a maximum interest rate for loans to members.
- f) The **Standard Licence Conditions (‘SLCs’)** specify most of the requirements to be imposed on Class 9 licenceholders and will operate instead of requirements in the Financial Services Rule Book. Five respondents commented that requirements should be minimal and uncomplicated, to avoid being too burdensome. A few comments were also made regarding dividends, the annual reporting period, and SLCs for new versus established credit unions. Minor changes were made to the draft SLCs as a result.
- g) The **Licensing Policy**¹¹ will have minor changes to reflect the terminology and individual characteristics of the credit unions sector, (for example, credit unions have a committee of management instead of a board of directors). These weren’t detailed in the consultation and no general comments were received on this topic.

2.3 The majority of respondents said that they were members of the Manx Credit Union Limited¹² (**MCU**), while others commented on the impact of the proposals on that entity. However, it is possible there may be other credit unions in future, so legislative requirements and the Class 9 regulatory regime must suit all potential credit unions and not just the MCU.

⁸ Made under the Credit Unions Act 1993 as amended by the Credit Unions (Amendment) Act 2018

⁹ 1% per month is circa 12.5% APR

¹⁰ 3% per month is circa 42.5% APR

¹¹ <https://www.iomfsa.im/media/1428/fsa08licensingpolicy.doc>

¹² The Isle of Man’s only credit union, which was authorised in August 2016.

3 OUTCOMES

3.1 The following items of legislation will come into operation at the beginning of April 2019, subject to Tynwald approval in March 2019:

- a) *Regulated Activities (Credit Unions Etc.) (Amendment) Order 2019;*
- b) *Financial Services (Exemptions) (Credit Unions) (Amendment) Regulations 2019;*
- c) *Financial Services (Fees) (Credit Unions) (Amendment) Order 2019;*
- d) *Financial Services (Credit Unions) (Amendment) Rule Book 2019;*
- e) *Credit Unions (Amendment) Act 2018 Appointed Day Order 2019;* and
- f) *Credit Unions Act 1993 (Loan Interest Rate) (Amendment) Order 2019.*

The other elements of the regulatory regime will also come into operation at the same time, namely the credit unions' Standard Licence Conditions and the Licensing Policy changes.

When all these items are in operation, 'as amended' versions of the legislation and other documents will be shown on the Authority's website¹³.

3.2 A copy of this document has been sent or notified to all those that responded to the consultation.

In case of any query, please contact —

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¹³ Regulatory legislation (under Financial Services Act) via <https://www.iomfsa.im/legislation-guidance/>; Credit Unions Act (as amended) and standard licence conditions via <https://www.iomfsa.im/regulated-sectors/credit-unions/>; and Licensing policy at <https://www.iomfsa.im/media/1428/fsa08licensingpolicy.doc>