

**CREDIT UNIONS SOURCEBOOK AND  
CONSEQUENTIAL AMENDMENTS (NO 2) INSTRUMENT 2002**

**Powers exercised**

A. The Financial Services Authority amends the Credit Unions sourcebook, the Supervision manual, the Compensation sourcebook and the Glossary in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the "Act"):

- (1) section 138 (General rule-making power);
- (2) section 155(7) (Consultation);
- (3) section 156 (General supplementary powers);
- (4) section 157 (Guidance);
- (5) section 213 (The compensation scheme);
- (6) section 214 (General);

and of the following powers and related provisions in the Financial Services and Markets Act 2000 (Consequential Amendments and Transitional Provisions) (Credit Unions) Order 2002 (the "Order"), having regard to section 13 of the Interpretation Act 1978 (Anticipatory exercise of powers):

- (5) article 9 (Designation of existing provisions to take effect as rules);
- (6) article 10 (Modification of existing provisions);
- (7) article 14 (Guidance on continued provisions); and
- (8) article 15 (Consultation on provisions prior to commencement).

**New rules and guidance**

B. The Financial Services Authority makes and alters rules (other than the provisions designated as continued provisions by paragraph D below) and gives and alters guidance (other than the guidance on continued provisions given in paragraph H below) with effect from 2 July 2002 in accordance with Annexes A, E and F to this instrument.

C. Sections 138, 156, 213 and 214 of the Act are specified for the purposes of section 153(2) of the Act (Rule-making instruments).

## **Continued provisions**

D. The Financial Services Authority designates the provisions of:

- (1) the Credit Unions Act 1979;
- (2) the subordinate legislation made under that Act; and
- (3) the Industrial and Provident Societies Act 1965;

set out in Annex B to this instrument (the "existing provisions") for the purposes of article 9 of the Order.

E. In accordance with article 10 of the Order, the existing provisions are modified:

- (1) so as to be interpreted in accordance with, and apply subject to, the General provisions (GEN) module of the FSA's Handbook of rules and guidance;
- (2) by showing the words "credit union" in italic type in every place where they occur in the existing provisions (so as to have effect as a defined term in accordance with the General provisions); and
- (3) as set out in Annex C to this instrument;

and the existing provisions as so modified are the "continued provisions".

F. The continued provisions are to be treated as having effect under section 138 of the Act (General rule-making power).

G. The continued provisions are set out in Annex A to this instrument at:

- (1) CRED 7.3.5R;
- (2) CRED 7A.2.1R to CRED 7A.2.4R;
- (3) CRED 7A.3.1R to CRED 7A.3.2G;
- (4) CRED 7A.4.1R to CRED 7A.4.3R;
- (5) the table in CRED 7A Ann 1R (Table 1, headings and rows A to C, Table 2 and Table 3); and
- (6) CRED 14.10.10R and CRED 14.10.11R.

### **Guidance on continued provisions**

- H. The Financial Services Authority gives the guidance in CRED 7A.1.2G, CRED 7A.2.3G, CRED 7A.3.2G, CRED 14.10.9G under section 157 of the Act and article 14 of the Order.

### **Rules and guidance subject to relevant prior consultation**

- I. The Financial Services Authority, in making the rules referred to in column 1 of Annex D to this instrument, and also set out in Annex A to this instrument, relies upon article 15 of the Order.
- J. For the purposes of article 15(3) of the Order, relevant prior consultation complying with the requirements of section 5 of the Regulatory Reform Act 2001 is the consultation undertaken by HM Treasury in its consultation document entitled "Proposed amendments to the Credit Unions Act 1979" published on 15 October 2001, and the provisions in relation to which consultation took place are the provisions referred to in column 2 of Annex D to this instrument.
- K. The rules referred to in paragraph I above are set out in Annex A to this instrument at:
- (1) CRED 7A.2.5R to CRED 7A.2.8 R; and
  - (2) row (D) of Table 1 in CRED 7A Ann 1 R.

### **Commencement**

- L. This instrument comes into force on 2 July 2002.

### **Citation**

- M. This instrument may be cited as the Credit Unions Sourcebook and Consequential Amendments (No. 2) Instrument 2002.

By order of the Board  
20 June 2002

## Annex A Amendments to Handbook

In this Annex, underlining indicates inserted text and striking through indicates deleted text. Where an entire new chapter or annex is inserted into the Handbook, the place that it goes is indicated, but the text is not underlined.

### Supervision manual

SUP 16.7.62R      *A credit union must submit reports to the FSA in accordance with, and in the same format as, the forms contained in SUP 16 Ann ~~13~~14R, as set out in SUP 16.7.63R.*

SUP 16.7.63R      Table: Financial reports required from a credit union (see SUP 16.7.62R)

Content of report	Form	Frequency	Due date
Key financial data	CQR	Quarterly	One <i>month</i> after quarter end
<del>Annual audited statement</del> <u>Extended financial data</u>	CYAR	Annually	Seven <i>months</i> after financial year end

SUP 16.7.63AG      Guidance notes for the completion of the reports are contained in SUP 16 Ann 15G.

SUP 16.7.63BR      The annual report required from a credit union by SUP 16.7.62R and SUP 16.7.63R must be made up for the same period as the audited accounts published by the credit union in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 (See CRED 14 Ann 1G).

SUP 16.7.63CG      CRED 14.10.10R(2)(a) states that the audited accounts referred to in SUP 16.7.63BR are to be made up for the period beginning with the date of the credit union's registration or with the date to which the credit union's last annual accounts were made up, whichever is the later, and ending on the credit union's most recent financial year end.

- SUP 16 Ann 13R Delete *SUP 16 Ann 13R* (and its contents) created by the Credit Unions Sourcebook (Consequential Amendments) Instrument 2001.
- SUP 16 Ann 14R After *SUP 16 Ann 13R*, insert as *SUP 16 Ann 14R* the Quarterly Return (CQ) and Annual Return (CY) set out in Annex E to this instrument.
- SUP 16 Ann 15G After *SUP 16 Ann 14R*, insert as *SUP 16 Ann 15G* Guidance Notes - Quarterly Return (GN/CQ) and Annual Return (GN/CY) set out in Annex F to this Instrument
- SUP App 1 1.7 In Figure 1 (Determination of a firm's prudential category – general), in the fourth box down of the left hand column, line 1, after "*building society*" add "*credit union*".

### Compensation sourcebook

- COMP 4.2.2.R Table Persons not eligible to claim unless COMP 4.3 applies (see COMP 4.2.1R)
- ...
- (1) *Firms* (other than a *sole trader firm*, a *credit union* or a *small business* whose *claim* arises out of a *regulated activity* for which they do not have *permission*)
- ...
- (7) *Directors* and *managers* of the relevant person in default. However, this exclusion does not apply if:
- (a) both of the following apply:
- (a*i*) the *relevant person in default* is a ~~*mutual association*~~ *mutual association* which is not a ~~*large large mutual association*~~; and
- (b*ii*) the *directors* and *managers* do not receive a salary or other remuneration for services performed by them for the *relevant person in default*, or
- (b) the *relevant person in default* is a *credit union*.
- ...

### Credit Unions sourcebook

- CRED 7.3 ~~Funds held on trust for persons too young to be members~~  
Borrowing and Financial risk management

- CRED 7.3.1R ~~Nothing in CRED 7.2.1R–CRED 7.2.3R applies to funds held on trust as mentioned in section 9(2) of the Credit Unions Act 1979. [Deleted]~~
- CRED 7.3.2G ~~Section 9(2) of the Credit Unions Act 1979 requires that *deposits held on trust for persons too young to be members* should be kept in a fund apart from the general funds of the *credit union* and invested only in the manner specified by statute. [Deleted]~~
- CRED 7.3.5GR ~~A *version 2 credit union* may borrow from any of the sources permitted under section 10 of the Credit Unions Act 1979 subject to the restrictions contained in that section. The borrowing of a *version 2 credit union* must not at any time exceed an amount equal to 50 per cent of the total shareholding in the *credit union*.~~
- CRED 7.3.6R Subordinated debt obtained by a *credit union* and forming part of its capital (see CRED 8.2.1R) does not count towards the borrowing limits under CRED 7.3.3R and CRED 7.3.5R.

After Chapter 7, insert the following new chapter:

## Chapter 7A Shareholding

### 7A.1 Application and purpose

- 7A.1.1R This chapter applies to all *credit unions*.
- 7A.1.2G The purpose of this chapter is to provide for limits on holdings of shares and deposits, joint accounts, dividends and insurance cover (based on the aggregate value of shares and deposits).

### 7A.2 Members' shares

#### Maximum shareholdings

- 7A.2.1R A *credit union* must not permit a member to have or claim any interest in the shares of the *credit union* exceeding the greater of £5,000 and 1.5 per cent of the total shareholdings in the *credit union*.
- 7A.2.2R Where CRED 7A.2.1R or CRED 7A.2.6R would be breached in relation to a member of a *credit union* because of a reduction in the total shareholdings in the *credit union*, those *rules* must, in relation to him, have effect, as respects any shares which he had, or interest which he

claimed, immediately before the reduction, as if there were added at the end "at the time, or latest time, when he acquired shares, or an interest in the shares of the *credit union*."

7A.2.3G *CRED 7A.2.2R* makes it unnecessary for a member to reduce his shareholding merely because of a reduction in the total shareholdings of the *credit union*.

7A.2.4R For the purposes of *CRED 7A.2.1R* and *CRED 7A.2.2R*, the total shareholdings in a *credit union* at any time must be taken to be the total shareholdings as shown in the most recent annual return to have been sent to the *FSA* under *SUP 16.7.62R* (see *CRED 14.10.7G*).

### **Joint accounts**

7A.2.5R Shares in a *credit union* must not be held in the joint names of more than two members.

7A.2.6R For the purpose only of the limit in *CRED 7A.2.1R*, the interest of a member in a joint account must be treated as 50 per cent of the shareholding in that account.

### **Dividends on shares**

7A.2.7R A *version 1 credit union* must not:

- (1) pay different dividends on different accounts; and
- (2) pay dividends out of interim profits more than once a year.

7A.2.8G A *version 2 credit union* is permitted to:

- (1) pay different dividends on different accounts; and
- (2) pay dividends out of interim profits more than once a year.

### **7A.3 Deposits by persons too young to be members**

7A.3.1R A *credit union* must not take deposits exceeding £5,000 from a person who is under the age at which, under section 20 of the Industrial and Provident Societies Act 1965, he may become a member of the *credit union*.

7A.3.2G Section 20 of the Industrial and Provident Societies Act 1965 provides that a person above the age of 16 may be member of a *credit union*.

## 7A.4 Insurance against fraud or other dishonesty

- 7A.4.1R A *credit union* must at all times maintain in force a policy of insurance complying with *CRED 7A.4.2R*.
- 7A.4.2R In order to comply with *CRED 7A.4.1R*, a policy of insurance subject to the exception in *CRED 7A.4.3R*:
- (1) must insure the *credit union* in respect of every description of loss suffered or liability incurred by reason of the fraud or other dishonesty of any of its officers or employees;
  - (2) must so insure the *credit union* up to the limits set out in *CRED 7A Ann 1R* in respect of any one claim, except that the liability of the insurer may be restricted to the amounts set out in *CRED 7A Ann 1R* in respect of the total of the claims made in any one year; and
  - (3) must not provide in relation to any claim for any amount greater than one per cent of the limits on any one claim set out in *CRED 7A Ann 1R* to be met by the *credit union*.
- 7A.4.3R From the losses and liabilities against which a policy complying with *CRED 7A.4.2R* must insure there must be excepted all loss suffered or liability incurred by a *credit union* other than direct pecuniary loss discovered during the currency of the policy of insurance or within 18 months of the date on which either the policy of insurance lapses, or the duties of the officer or employee concerned are terminated, whichever occurs first.

## Annex 1R: Insurance against fraud or other dishonesty

1 Table Insurance cover required

	<b>Column (1)</b>	<b>Column (2)</b>	<b>Column (3)</b>
	Aggregate value of share subscriptions and other deposits received and not repaid (the "aggregate value")	Cover required in respect of any one claim	Cover required in respect of total claims made in any one year
<b>Row (A)</b>	Less than £10,000	The higher of £500 or 50	The higher of £1,000 or

		per cent of the aggregate value	100 per cent of the aggregate value
<b>Row (B)</b>	£10,000 to £100,000	The higher of £5,000 or 20 per cent of the aggregate value	100 per cent of the aggregate value
<b>Row (C)</b>	More than £100,000	The higher of £20,000 or 15 per cent of the aggregate value	The higher of £100,000 or 75 per cent of the aggregate value
<b>Row (D)</b>	More than £1,000,000	£150,000 plus 5 per cent of the aggregate value over £1,000,000, subject to a maximum of £2,000,000	£750,000 plus 5 per cent of the aggregate value over £1,000,000, subject to a maximum of £4,000,000

2 Table  
 In relation to a *credit union* which, at the relevant date, has accepted and not repaid share subscriptions and other deposits of the aggregate value stipulated in column (1) of the table in this Annex, the limit in respect of any one claim is the amount appearing in the corresponding part of column (2); and the amount in respect of the total of claims made in any one year is the amount appearing in the corresponding part of column (3).

3 Table  
 For the purposes of this Annex, "the relevant date" is either the date of inception or renewal of the policy of insurance, or such other date as the *credit union* determines, provided that the relevant date in each year subsequent to the first must be not more than one year after the relevant date in the preceding year.

CRED 9.1.7R "Total relevant liabilities" means the sum of:

- (1) unattached shareholdings in the *credit union*, and deposits by persons too young to be members of the *credit union*; and
- (2) liabilities (other than liabilities for shares, ~~and deposits held on trust for persons too young to be members of the *credit union*~~) with an original or remaining maturity of less than three *months* (including overdrafts and instalments of loans).

CRED 9.3.4R ~~Of the *deposits* held by a *credit union* on trust for *persons* too young to be members, the amount held as liquid assets must at all times be equal to at least 5%.~~

~~[Deleted]~~

CRED 9.3.5R ~~Of the *deposits* held by a *version 1 credit union* on trust for *persons* too young to be members, the amount held as liquid assets must not be below 10% on two consecutive quarter ends.~~

~~[Deleted]~~

CRED 9.3.6G ~~*CRED 9.3.4R—CRED 9.3.5R* reflect the fact that section 9(2) of the Credit Unions Act 1979 requires that *deposits* held on trust for *persons* too young to be members should be kept in a fund apart from the general funds of the *credit union* (see *CRED 7.3.2G*).~~

~~[Deleted]~~

CRED 9.3.11G For the purposes of clarity, funds serving liquidity purposes may be invested in the manner set out in ~~*CRED 7.1.4R—CRED 7.1.9R*~~ *CRED 7.2.1R* provided that the resulting assets satisfy the relevant requirements of this chapter.

CRED 13.1.1G This chapter applies to:

- (1) ~~a *person* applying, or considering applying, to the *FSA* to become a *registered only credit union*~~; ~~[Deleted]~~
- (2) a *person* applying, or considering applying, to the *FSA* to become *authorised* as a *credit union* with a *Part IV permission to accept deposits*;
- (3) a *candidate*, but only as a matter of general relevance.

CRED 13.1.2G This chapter gives *guidance* about:

- (1) what it means to become a ~~*registered only credit union* and a *credit union*~~ with a *Part IV permission to accept deposits*;
- (2) the application procedures for persons wishing to become ~~a *registered only credit union* and a *credit union*~~;
- (3) the procedures by which an applicant can obtain approval for *persons* to perform *controlled functions* under the *approved persons* regime; and
- (4) the *FSA*'s decision making procedures for *Part IV permission*

and *approved persons* applications.

- CRED 13.2.1G Registration and becoming *authorised* as a *credit union* are two distinct but linked statutory processes. The Credit Unions Act 1979 sets out the statutory requirements for registration and the *Act* sets out the statutory requirements relating to *authorisation*. ~~The FSA would normally expect these two processes to be undertaken simultaneously as part of a single combined application. However where appropriate, the FSA is willing to consider granting registration before making a decision about *authorisation* where the applicant would find this helpful. Where the FSA grants registration before making a decision about *authorisation* there can be no assumption on the part of applicants that the FSA will grant a *Part IV permission*.~~ Section 1 of the Credit Unions Act 1979 as amended provides that a credit union may not be registered unless it has applied to the FSA for a *Part IV permission to accept deposits*, and the FSA shall not issue an acknowledgment of registration to a credit union unless it also proposes to give the credit union such a permission. If it does issue an acknowledgment, it should determine any outstanding application for a *Part IV permission to accept deposits* as soon as reasonably possible thereafter.
- CRED 13.3.1G ~~The registration process leads to the formation of a *registered only credit union*, as an *industrial and provident society*, under the Credit Unions Act 1979. On registration, it a credit union becomes a special type of *industrial and provident society*, which is a *body corporate* with limited liability.~~
- CRED 13.3.2G ~~Registration does not allow a *registered only credit union* to undertake *deposit* taking activities. Whether or not *accepting deposits* is a *regulated activity* under the *Act* depends on the use to which the *money* is put. The activity is caught if *money* received by way of *deposit* is lent to others or if any other activity of the *person* accepting the *deposit* is financed wholly (or to a material extent) out of the capital, or interest on, *money* received by way of *deposit*.~~  
[Deleted]
- CRED 13.3.3G ~~Where the FSA has granted registration before making a decision about *authorisation* the *registered only credit union*~~ A credit union must become *authorised* under the *Act* (see CRED 13.5 - CRED 13.8) before it can undertake the activity of *accepting deposits*.
- CRED 13.4.2G ~~Where the FSA has agreed to consider granting an application for registration before making a decision about an application for a *Part IV permission*~~

- (1) ~~it will look to make its determination within three months of receipt of the application. Where information or documents required to be submitted as part of the application are not provided, or the FSA requires additional information, it may take longer to complete this process;~~
- (2) ~~it may want to meet with the applicant as part of the registration process although, normally, it would not expect to do so;~~
- (3) ~~the applicant may withdraw its application for registration (and Part IV permission at any time before the application for registration is granted or refused, by giving written notice to the FSA.~~

[Deleted]

CRED 13.6.2G

- ...
- (4) details of the individuals to be involved in the running of the *credit union*, particularly those performing one or more controlled functions for whom approved persons status will be required (see CRED 6.3); ~~and~~
  - (5) a statement from two directors of the applicant 's committee of management confirming, to the best of their knowledge, the completeness and accuracy of the information supplied; and
  - (6) confirmation of insurance against fraud or other dishonesty (see CRED 7A.4.1R – CRED 7A.4.3R).

CRED 13 Ann 1G    Annex 1: Requirements of Registration

1 Table        The requirements of registration under the Industrial and Provident Societies Act, as set out in the Credit Unions Act 1979 and referred to in CRED 13.4.1G.

...  
~~That on registration there will be in force, in relation to the credit union, a policy of insurance against fraud.~~        Credit Unions Act 1979, s.15

CRED 14.3.4G A *credit union* is also under an obligation to appoint an auditor under the Friendly and Industrial and Provident Societies Act 1968, but a single auditor may be appointed for both purposes (See CRED 14 Ann 1G).

CRED 14.10.6G Table This table belongs to CRED 14.10.5G

<b>Content of report</b>	<b>Form</b>	<b>Frequency</b>	<b>Due date</b>
Key financial data	CQR	Quarterly	One <i>month</i> after quarter end

CRED 14.10.8G Table This table belongs to CRED 14.10.7G

<b>Content of report</b>	<b>Form</b>	<b>Frequency</b>	<b>Due date</b>
<u>Annual audited statement</u> <u>Extended financial data</u>	CYAR	Annually	Seven <i>months</i> after financial year end

#### **Accounts and audit**

CRED 14.10.9G *Credit unions* are required by the Friendly and Industrial and Provident Societies Act 1968 to publish audited accounts. CRED 14 Ann 1G contains further information about these requirements.

CRED 14.10.10R (1) Every *credit union* must send to the FSA a copy of its audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 (See CRED 14 Ann 1G).

(2) The accounts must:

(a) be made up for the period beginning with the date of the *credit union's* registration or with the date to which the *credit union's* last annual accounts were made up, whichever is the later, and ending on the *credit union's* most recent financial year end; and

(b) accompany the annual return submitted to the FSA under SUP 16.7.62R (see CRED 14.10.7R), unless they have been submitted already.

CRED 14.10.11R Every *credit union* must supply free of charge to every member or

person interested in the funds of the *credit union* who applies for it a copy of the latest audited accounts of the *credit union* sent to the FSA under CRED 14.10.10R.

CRED 14 Ann 1G At the end of CRED 14, insert the following new Annex:

## **Annex 1: Accounts and audit - Friendly and Industrial and Provident Societies Act 1968**

### **Introduction**

1. The Friendly and Industrial and Provident Societies Act 1968 applies to industrial and provident societies in general. The following is an outline of the main provisions relating to *credit unions*, which are a special type of industrial and provident society.

### **Books of account**

2. Section 1(1) of the Friendly and Industrial and Provident Societies Act 1968 provides that every *credit union* is to:
  - (1) cause to be kept proper books of account with respect to its transactions and its assets and liabilities;
  - (2) establish and maintain a satisfactory system of control of its books of account, its cash holdings and all its receipts and remittances.

### **General provisions as to accounts and balance sheets**

3. Section 3 of the Friendly and Industrial and Provident Societies Act 1968 provides that every revenue account and balance sheet of a *credit union* is to give a true and fair view.

### **Publication of accounts**

4. Section 3A of the Friendly and Industrial and Provident Societies Act 1968 provides that a *credit union* is not to publish any revenue account or balance sheet unless:
  - (1) it has been signed by the *credit union's* secretary and two members of its committee;
  - (2) it has been previously audited by the auditors;

- (3) it incorporates a report by the auditors as to whether the revenue account and balance sheet give a true and fair view.

### **Re-appointment and removal of qualified auditors**

5. Section 5(1) of the Friendly and Industrial and Provident Societies Act 1968 provides that a qualified auditor appointed to audit the accounts and balance sheet for the preceding year of account is to be re-appointed as auditor for the current year of account unless:
  - (1) a resolution has been passed at a general meeting appointing somebody instead of him or providing expressly that he is not to be re-appointed; or
  - (2) he has given notice of his unwillingness to be re-appointed; or
  - (3) he is ineligible for appointment for the current year of account; or
  - (4) he has ceased to act as auditor by reason of incapacity.

### **Obligation to appoint auditors**

6. Section 4 of the Friendly and Industrial and Provident Societies Act 1968 provides that a *credit union* is to appoint a qualified auditor or auditors to audit the accounts and balance sheet unless:
  - (1) the aggregate of the receipts and payments in respect of the preceding year of account did not exceed £5,000;
  - (2) the number of members at the end of the preceding year did not exceed 500; and
  - (3) the aggregate value of assets at the end of that year did not exceed £5,000.
7. If all these conditions apply, the *credit union* may appoint two or more lay auditors (subject to any direction given by the *FSA*).

### **Qualified auditors**

8. Section 7 of the Friendly and Industrial and Provident Societies

Act 1968 provides that no person is a qualified auditor unless he is eligible for appointment as a company auditor under section 25 of the Companies Act 1989, that is to say a person who is registered with one of the five supervisory bodies recognised under the Companies Act 1989:

- (1) the Institute of Chartered Accountants in England and Wales;
- (2) the Institute of Chartered Accountants in Scotland;
- (3) the Institute of Chartered Accountants in Ireland;
- (4) the Chartered Association of Certified Accountants; and
- (5) the Association of Authorised Public Accountants.

### **Restrictions on appointment of auditors**

9. Section 8 of the Friendly and Industrial and Provident Societies Act 1968 provides that none of the following persons is to be appointed as auditor of a *credit union*:
  - (1) an officer or servant of the *credit union*;
  - (2) a person who is a partner of, or in the employment of, or who employs an officer or servant of the *credit union*.

### **Auditors' report**

10. Section 9(2) of the Friendly and Industrial and Provident Societies Act 1968 provides that the audit report is to state whether the revenue account and the balance sheet comply with the requirements of the Friendly and Industrial and Provident Societies Act 1968 and the Industrial and Provident Societies Act 1965 and whether in the opinion of the auditors:
  - (1) the revenue account gives a true and fair view of the income and expenditure of the *credit union* as a whole for that year of account; and
  - (2) the balance sheet gives a true and fair view either of the assets and current liabilities of the *credit union* and the resulting balances of its funds or of the state of affairs of the *credit union* (as the case may require) as at the end of that year of account.

11. Section 9(4) of the Friendly and Industrial and Provident Societies Act 1968 provides that it is the duty of the auditors to make such investigations as will enable them to form an opinion as to:
  - (1) whether the *credit union* has kept proper books of account in accordance with section 1(1)(a) of the Friendly and Industrial and Provident Societies Act 1968;
  - (2) whether the *credit union* has maintained a satisfactory system of control over its transactions in accordance with section 1(1)(b) of the Friendly and Industrial and Provident Societies Act 1968;
  - (3) whether the revenue account and other accounts to which the report relates, and the balance sheet are in agreement with the books of account of the *credit union*.
  
12. Section 9(4) of the Friendly and Industrial and Provident Societies Act 1968 also provides that if the auditors are of the opinion that the *credit union* has failed to comply with section 1(1)(a) or (b) of the Friendly and Industrial and Provident Societies Act 1968, or if the revenue account, the other accounts and the balance sheet are not in agreement with the books of account of the *credit union*, the auditors are to state that fact in their report.

CRED 15.1.1G This chapter contains *guidance* on the investigation and enforcement powers available to the *FSA*, and its approach to the use of those powers, in respect of :

- (1) ~~registered only credit unions;~~ [Deleted]
- (2) *credit unions*, with respect to their activities of accepting deposits; and
- (3) approved persons of *credit unions*, as set out in *CRED 6* (The Approved persons regime).

CRED 15.2.1G The *FSA's* has a number of investigation and enforcement powers ~~are provided for~~ in the Industrial & and Provident Societies Act 1965, the Friendly and Industrial & and Provident Societies Act 1968; and the Credit Unions Act 1979 ~~and~~, although its main powers derive from the Act.

- CRED 15.2.2G For ease of reference:
- (1) Annex 1 to this chapter (*CRED 15 Annex 1G*) contains a table of the *FSA*'s investigation and enforcement powers under the Industrial & and Provident Societies Act 1965, the Friendly and Industrial & and Provident Societies Act 1968 and the Credit Unions Act 1979; and
  - (2) Annex 2 to this chapter (*CRED 15 Annex 2G*) contains a table of the main relevant investigation and enforcement powers under the *Act*, showing where they are considered in the Enforcement manual (*ENF*).
- CRED 15.2.3G Some of the *FSA*'s powers listed in *CRED 15 Annex 1G* are similar to the powers listed in *CRED 15 Annex 2G*. For example, the *FSA* has information gathering and investigation powers under both the Industrial & and Provident Societies Act 1965, as extended by the Credit Unions Act 1979, and the *Act*. These different powers enable the *FSA* to investigate and enforce the different requirements imposed on ~~registered-only credit unions and~~ *credit unions* by legislation.
- CRED 15.2.4G In appropriate circumstances, the *FSA* may need to consider which power to use, and whether to use powers, from one or more of the Acts. ~~The appropriate~~ Which power or powers are appropriate will vary according to the circumstances of the case. Where the *FSA* is exercising its investigation and enforcement powers, it will normally explain to the ~~registered-only credit union,~~ *credit union*, individual or other *persons* concerned under which power, or powers, it is acting.
- CRED 15.2.5G However, it is the responsibility of ~~registered-only credit unions,~~ *credit unions* and individuals, or other persons connected to them to ensure that their actions comply with the requirements of the legislation and, ~~for credit unions,~~ the *FSA*'s rules, at all times. ~~Registered-only credit unions,~~ *Credit unions* and those involved with them can contact their usual supervisory contact at the *FSA* about the general use of the *FSA*'s investigation and enforcement powers.
- CRED 15.3.1G There are a number of principles underlying the *FSA*'s approach to the exercise of its investigation and enforcement powers in relation to ~~registered-only credit unions and~~ *credit unions*:
- (1) the effectiveness of the regulatory regime depends to a significant extent on the maintenance of an open and cooperative relationship between the *FSA* and the management

of ~~registered only credit unions and~~ credit unions;

- (2) the *FSA* will seek to exercise its investigation and enforcement powers in a manner that is transparent, proportionate and consistent with its publicly stated policies; and
- (3) the *FSA* will seek to ensure fair treatment when exercising its investigation and enforcement powers; for example, the *FSA*'s decision making process for regulatory enforcement cases generally gives an opportunity for both written and oral representations to be made, and also provides for a facility for mediation in certain disciplinary cases.

CRED 15.3.2G The investigation and enforcement powers available to the *FSA* form part of the regulatory toolkit it will use to meet its *regulatory objectives* of protecting *consumers*, promoting public awareness, maintaining confidence in the *financial system* and reducing *financial crime*. Where a *credit union*, or an individual, has failed to comply with the requirements of the Industrial & ~~and~~ Provident Societies Act 1965, the Friendly and Industrial & ~~and~~ Provident Societies Act 1968, the Credit Unions Act 1979, the *Act*, the *FSA*'s *rules*, or other relevant legislation (for example, the Criminal Justice Act 1993 and the ~~Money-L~~Money Laundering Regulations 1993), it may be appropriate to deal with this without the need for formal disciplinary or other enforcement action.

CRED 15.3.4G Where the *FSA* has concerns about ~~a registered only credit union~~, a *credit union*, or an individual, it will normally discuss its concerns with them before considering the use of its investigation and enforcement powers. However, the *FSA* may take action without discussing its concerns with a *credit union* in urgent cases or in cases where the interests of consumers might otherwise be put at risk.

CRED 15.4.1G ~~The *FSA*'s enforcement powers are exercised in, and or reviewed by, the criminal courts, the civil courts and the *Tribunal*. For example, the *FSA* has power to prosecute particular offences in the criminal courts, it may seek to obtain *injunctions* in the civil courts, and its powers to impose disciplinary sanctions under the *Act* are subject to referral to the *Tribunal*.~~

[Deleted]

CRED 15.4.2G The *FSA*'s enforcement powers in the Industrial & ~~and~~ Provident Societies Act 1965, the Friendly and Industrial & ~~and~~ Provident Societies Act 1968, the Credit Unions Act 1979 and the *Act* can be grouped into three broad categories, based on the type of procedure

that applies to their use. The three broad categories are:

- (1) regulatory enforcement powers, which the *FSA* must exercise by ~~administration~~ statutory notice procedures (see *CRED* 15.4.3G and 15.4.5G);
- (2) civil enforcement powers, which the *FSA* must exercise by making application to the civil courts (see *CRED* 15.4.4G and 15.4.5G); and
- (3) criminal prosecution powers, which the *FSA* must exercise by bringing proceedings in the criminal courts (see *CRED* 15.4.4G and 15.4.5G).

CRED 15.4.3G      When the *FSA* exercises its regulatory enforcement powers, the ~~administration~~ statutory notice procedure it must follow varies depending on the type of action to be taken and the provisions of the relevant legislation.

- (1) If the *FSA* is using its regulatory enforcement powers under the *Act*, it must give the reasons and various notices required by the *Act* and, in all cases, allow the *person* receiving the notice an opportunity to make representations. The *FSA*'s decision making procedures for notices to be given by the *Act* are set out in *DEC*. *CRED* 16 provides an overview of *DEC*.
- (2) If the *FSA* is using its regulatory enforcement powers under the Industrial & and Provident Societies Act 1965, the Friendly and Industrial & and Provident Societies Act 1968 and the Credit Unions Act 1979, it will have regard to the Principles set out in *CRED* 3 and will, so far as appropriate, provide a process that is consistent with that in *DEC*.

CRED 15.4.5G      (1) If the *FSA* is considering using its regulatory enforcement, civil enforcement or criminal prosecution powers under the *Act*, it will apply the policies on the use of those powers set out in *ENF*.

(2) If the *FSA* is considering using its regulatory enforcement, civil enforcement or criminal prosecution powers under the Industrial & and Provident Societies Act 1965, the Friendly and Industrial & and Provident Societies Act 1968 and the Credit Unions Act 1979, it will, to the extent appropriate, apply the policies on the use of similar powers under the *Act* (as set out in *ENF*).

**Annex 1: Enforcement Powers**

**1 Table** Table of powers under Industrial and Provident Societies legislation and the Credit Unions Act 1979

...

**SUSPENSION OF OPERATIONS**

~~Power to issue a Direction suspending the operations of a credit union~~ ~~Credit Unions Act 1979, s.19~~

~~Power to vary or revoke a Direction suspending the operations of a credit union~~ ~~Credit Unions Act 1979, s.19~~

...

2.1 Detailed contents of *CRED*

2.1.1 Table

...

**7 Investment and borrowing**

...

~~7.3 Funds held on trust for persons too young to be members~~  
Borrowing and Financial risk management

...

**7A Shareholding**

7A.1 Application and purpose

7A.2 Members' shares

7A.2.1 Maximum shareholdings

7A.2.5 Joint accounts

7A.2.7 Dividends on shares

7A.3 Deposits by persons too young to be members

7A.4 Insurance against fraud or other dishonesty

Ann 1 Insurance against fraud or other dishonesty

...

**14 Supervision**

...

14.10 Reporting requirements

14.10.9 Accounts and audit

Ann 1 Accounts and audit - Friendly and Industrial and Provident Societies Act 1968

...

**17 Complaints handling procedures for credit unions**

17.1 Application and purpose

## CRED Schedule 2

Notification requirements

...

2 Table Notification requirements

<b>Handbook reference</b>	<b>Matter to be notified</b>	<b>Contents of notification</b>	<b>Trigger event</b>	<b>Time allowed</b>
...				
<i>CRED</i> 14.120.5R	Quarterly Return	<del>Quarterly return form</del> <u>Key financial data</u>	<del>End of quarter</del> <u>end</u>	1 <i>month</i> after quarter <del>event</del> <u>end</u>
<i>CRED</i> 14.120.7R	Annual Return	<del>Annual Return</del> <u>Extended financial data</u>	<del>End of financial year</del> <u>end</u>	7 <i>months</i> after financial year <del>end</del> <u>end</u>
<u><i>CRED</i></u> <u>14.10.10R</u>	<u>Audited accounts</u>	<u>Revenue account and Balance sheet</u>	<u>Financial year end</u>	<u>Until submission of Annual Return</u>

## CRED Schedule 4

Powers exercised

G

1 Table

The following powers and related provisions in or under the *Act* have been exercised by the *FSA* to make the rules in *CRED*:

- (1) Section 138 (General rule-making power);
- (2) Section 149 (Evidential provisions); ~~and~~
- (3) Section 156 (General supplementary powers)-; and
- (4) The following articles of the Financial Services and Markets Act 2000 (Consequential Amendments and Transitional Provisions) (Credit Unions) Order 2002 (SI 2002/1501):
  - (a) article 9 (Designation of existing provisions to take effect as rules); and
  - (b) article 10 (Modification of existing provisions).

The following powers in or under the *Act* ~~has~~ have been exercised by the *FSA* to give *guidance* in *CRED*:

(1) Section 157(1) (Guidance)- ; and

(2) Article 14 (Guidance on continued provisions) of the Financial Services and Markets Act 2000 (Consequential Amendments and Transitional Provisions) (Credit Unions) Order 2002 (SI 2002/1501).

## CRED Schedule 7

Consolidated schedule of releases

~~Schedule 7~~

~~Consolidated schedule of releases~~

~~1 Table~~

~~This schedule will list by serial number each release containing amendments made to CRED since it was first published. Since CRED is being published for the first time, there are no entries in this schedule.~~

~~[Deleted]~~

## Glossary

*consumer*

(1) ...

(d) ... before commencement);

(e) (in relation to the FSA's power to make general rules) a person within the extended definition of consumer in article 4 of the Financial Services and Markets Act 2000 (Consequential Amendments and Transitional Provisions) (Credit Unions) Order 2002 (SI 2002/1501) (Application of definition of "consumer" to customers of credit unions before commencement);

...

*registered only credit union*

~~a body corporate registered under the Industrial and Provident Societies Act 1965 as a credit union in accordance with the Credit Unions Act 1979, which is not an *authorised person*.~~

*version 1 credit union*

~~a credit union whose Part IV permission includes a requirement (whether for all or for particular purposes) that it must not lend more than £10,000 in excess of a member's shareholding; in this definition ...~~

## Annex B

### Continued provisions

**The following provisions of the Credit Unions Act 1979 are designated under paragraph D of the Credit Unions Sourcebook and Consequential Amendments (No.2) Instrument 2002.**

Provision	(Notes )	Subject matter
section 5(3)	(1)	limit on member's shareholding
section 5(4A)	(2)	servicing for reduction in total shareholding
section 5(10)	(3)	annual assessment of total shareholdings
section 9(1)	(4)	limit on juvenile deposits
section 10(1) – words repealed by article 2(7)of the Order, beginning " but the amount so borrowed ..."	(3)	limit on total borrowings
section 15 (1)	(5)	insurance against fraud or other dishonesty
section 15(2) excluding paragraph (d)		

**The following provisions of subordinate legislation made under the Credit Unions Act 1979 are designated under paragraph D of the Credit Unions Sourcebook and Consequential Amendments (No.2 ) Instrument 2002.**

Regulations	Provisions designated
The Credit Unions (Insurance against Fraud etc.) Regulations 1980	Article 3 Article 4(2)    Article 4(3) Schedule

**The following provisions of the Industrial and Provident Societies Act 1965 are designated under paragraph D of the Credit Unions Sourcebook and Consequential Amendments ( No.2) Instrument 2002.**

Provision	Notes	Subject matter
Section 39(1)	(3) (6) (7)	Submission of annual return to FSA
Section 39(2)	(6)	Period covered by return
Section 39(5)		Members' entitlement to copy of return

(1) amended by S.I.1996/1189

(2) inserted by S.I.1996/1189

(3) inserted by S.I. 1996/1189 and amended by S.I.2001/2617

(4) amended by S.I. 1989/2423, S.I.2001/811 and S.I.2001/2617

(5) amended by the Insurance Companies Act 1982 (c.50), Schedule 5, S.I. 2001/2617 and S.I. 2001/3649

(6) amended by the Friendly and Industrial and Provident Societies Act 1968 (c.55),Schedule 1;

(7) amended by S.I.1996/1738.

## Annex C

### Modification of Continued Rules

**Each of the provisions of the Credit Unions Act 1979 , or subordinate legislation made under it , or of the Industrial and Provident Societies Act 1965 set out below is modified , in the manner shown , under paragraph 4 of the Credit Unions Sourcebook and Consequential Amendments (No.2 ) Instrument 2002**

**Credit Unions Act 1979**

Section 5(3) – member's shareholding	<p>Renumber the provision as 7A.2.1R.            Insert at the beginning the words "A <i>credit union</i> must not permit ".            Delete, after the words " a member " , the words " of a credit union shall not " and substitute the word "to".</p>
Section 5(4A) – saving for reduction in total shareholding	<p>Renumber the provision as 7A.2.2R.            Delete the words " subsection (3) above " and substitute "CRED 7A.2.1R or CRED 7A.2.6R "            Delete the words "that subsection shall" and substitute "those <i>rules</i> must "</p>
Section 5(10) – annual assessment of total shareholding	<p>Renumber the provision as 7A.2.4R.            Delete the words "subsection (3) above " and substitute "CRED 7A.2.1R and CRED 7A.2.2R".            Delete the word "shall" and substitute the word "must".            Delete the words " audited balance sheet " and substitute " annual return" .            Delete the words " Authority under section 39 of the 1965 Act ( annual returns ) " and substitute " FSA under SUP 16.7.62R ( See CRED 14.10.7 G)"</p>
Section 9(1) – limit on juvenile deposits	<p>Renumber the provision as 7A.3.1R.            After the opening words " A credit union " , delete the word "may" and substitute " must not ". Delete the words " up to a total of " and substitute " exceeding".            Delete the words "by virtue of " and substitute "under".            Delete the words "1965 Act" the first time it occurs and substitute " Industrial and Provident Societies Act 1965".            Delete the words beginning " and nothing " to the end of the sentence.</p>
Section 10(1) – words repealed by article 2(7) of the Order, beginning " but the amount so borrowed ..."  – limit on total borrowings.	<p>Renumber the provision as 7.3.5R.            Delete the words " but the amount so borrowed and not repaid shall " and substitute " The borrowing of a <i>version 2 credit union</i> must " .            Delete the words " in the aggregate one half of the total paid up share capital " and substitute " an amount equal to 50 per cent of the total shareholding in the <i>credit union</i> " .</p>
Section 15 – Insurance against fraud and other dishonesty Subsection(1)	<p>Renumber as 7A.4.1R.            Delete the words from the beginning of the subsection to "of this section ; and "            Delete the word "shall" (in the second place where it occurs) and</p>

	<p>substitute "must".</p> <p>Delete the word "such " , and the words after "policy " (in the second place where it occurs) to the end of the sentence.</p> <p>Insert after that word "policy" the words " of insurance complying with CRED 7A.4.2R".</p>
Subsection (2) ( excluding paragraph (d) )	<p>Re-number as 7A.4.2R.</p> <p>Delete the words " this section" in the introductory words of the subsection and substitute "CRED 7A.4.1R". After the words " policy of insurance " insert "subject to the exception in CRED 7A.4.3R " .</p> <p>Re-number paragraph (a) as (1).</p> <p>Delete the words "subject to such exceptions as may be prescribed, " in paragraph (a) .</p> <p>Re-number paragraph (b) as (2).</p> <p>Delete the words "a limit of not less than £20,000( or such other figure as may be prescribed )" in paragraph (b) and substitute " the limits set out in CRED 7A Ann1 R " .</p> <p>Delete the words "an amount of not less than £100,000 (or such other figure as may be prescribed)" in paragraph (b) and substitute " the amounts set out in CRED 7A Ann1 R " .</p> <p>Re-number paragraph (c) as (3).</p> <p>Delete the words ", except with the consent in writing of the FSA ," in paragraph (c).</p> <p>Delete the words "the limit referred to in paragraph (b) above" in paragraph (c) and substitute " the limits on any one claim set out in CRED 7A Ann 1R " .</p> <p>Delete the word " ; and " at the end of paragraph(c) .</p>
<b>Credit Unions (Insurance against Fraud etc.) Regulations 1980</b>	
Article 3	<p>Re-number as 7A.4.3R.</p> <p>Delete the words " ,under sub-paragraph (a) of section 15(2) of the Act , a policy of insurance " and substitute " a policy complying with CRED 7A.4.2R " .</p> <p>Delete the words " in order to comply with section 15 of the Act".</p> <p>Delete the word "shall" ( in the first place where it occurs ) and substitute "must".</p> <p>Delete the words "shall first occur " and substitute "occurs first".</p>
Article 4(2)	<p>Re-number as Table 2 in 7A. Ann 1R.</p> <p>Delete the words " the Schedule to these regulations " and substitute "this Annex "</p> <p>Delete the words " amount prescribed in place of the said amount of £20,000 " and substitute " the limit in respect of any one claim " .</p> <p>Delete the words " prescribed in place of the said amount of £100,000 " and substitute " in respect of the total of claims made in any one year " .</p> <p>Delete the word "thereof" in both places where it appears.</p>
Article 4 (3)	<p>Re-number as Table 3 in 7A. Ann 1R.</p> <p>Delete the words " this regulation " and substitute " this Annex, " .</p> <p>Delete the words " in paragraph (2) shall be " and substitute the word</p>

	<p>"is".</p> <p>Delete the word "a" (in the first place where it occurs) and substitute "the".</p> <p>Delete the words " providing a credit union with the cover required by section 15 of the Act ".</p> <p>Delete the words " may determine" and insert " determines".</p> <p>Delete the word "always".</p> <p>Delete the word " shall " the second time it occurs , and substitute "must".</p>
Schedule	<p>Number the rows of the table A,B and C</p> <p>Insert the words " ( the " aggregate value " )" at the end of the heading to column(1).</p> <p>Insert the words "Cover required in respect of " before the heading to column(2) , and delete the parentheses.</p> <p>Insert the words " Cover required in respect of " before the heading to column (3), and delete the words "of the" and the parentheses.</p> <p>Delete the words " of share subscriptions and other deposits received and not repaid " in the column (2) and column (3) entries in rows A,B and C.</p> <p>Delete the character "%" in each place where it occurs , and substitute "per cent".</p>
<b>Industrial and Provident Societies Act 1965 – section 39 , annual returns</b>	
Section 39(1)	<p>Renumber as 14.10.10 (1) R.</p> <p>Delete the words "registered society shall " and substitute " <i>credit union</i> must". " Delete "Authority" and substitute "FSA ".</p> <p>Delete the words " a return , together with " , paragraphs (a) and (b) of subsection (1) , and subsections (1A) and (1B) , and substitute " a copy of its audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968.( See CRED 14 Ann 1 G )."</p>
Section 39(2)	<p>Renumber as 14.10.10 (2) R.</p> <p>Delete "said return shall" in the introductory words , and substitute "accounts must".</p> <p>In paragraph ( c ) , delete "subject to subsections (3) and (4) of this section, " and " under this Act".</p> <p>In paragraph (c) ,delete the words " return was " and substitute " accounts were " , and delete the word "society " twice , and substitute " <i>credit union</i> " .</p> <p>Immediately before sub-paragraph (i) insert the words "on the <i>credit union</i>'s most recent financial year end ."</p> <p>Renumber paragraph ( c ) as 14.10.10(2)(a)</p> <p>Delete sub-paragraphs (i) and (ii).</p> <p>Insert new paragraph 14.10.10 (2)(b) " accompany the annual return submitted to the FSA under SUP 16.7.62 R ( see CRED 14.10.7R), unless they have been submitted already."</p>
Section 39(5)	<p>Renumber as 14.10.11 R.</p> <p>Delete " registered society " and ( in two places ) "society " and substitute in each case " <i>credit union</i> " .</p> <p>Delete the word "shall" and substitute "must".</p> <p>Delete " return " and substitute " audited accounts " .</p> <p>Delete " under this section " and substitute " sent to the FSA under</p>

	CRED 14.10.10 R ."
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**Annex D**  
**Rules and Guidance**  
**Subject to relevant prior consultation**

Rule or Guidance	Existing provision	Subject matter
CRED 7A.2.5R CRED 7A.2.6R	Credit Unions Act 1979 Section 5(3)	Limit on joint shareholding
CRED 7A.2.7R CRED 7A.2.8G	Credit Unions Act 1979 Section 14	Differential and interim dividends
CRED 7A Ann1R, Table 1, row (D)	Schedule to the Credit Unions (Insurance against Fraud etc.) Regulations 1980	Insurance against fraud or other dishonesty

**Annex E**  
**Quarterly Return (CQ) and Annual Return (CY)**



**Credit Union – Quarterly Return (CQ)**

As at:

Name

Credit Union Limited

FSA Firm Reference Number

**Membership**

Number of members at the end of the quarter

Number of juvenile depositors at the end of the quarter

**Complainants contact point**

Have there been any changes to the single contact point for complainants at the *credit union*. If there have please provide their details below:

Print Name

Address

Daytime Contact Telephone Number

**Signature**

(This signatory must be an *approved person*.)

I confirm that the information in this form is accurate and complete to the best of my knowledge and belief and that I have read the Guidance Notes to this form.

As an *approved person*, I also verify that the Supervisory (Internal Auditing) Committee has carried out a *bank* reconciliation, as part of their internal audit during the quarter, which is independent of the *bank* reconciliation carried out by the treasury team each month.

Print Name

Date

Signature

Daytime Contact Telephone Number

**Please note:** Knowingly or recklessly giving the *FSA* information, which is false or misleading in a material particular, may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). SUP 15.6.1R and SUP 15.6.4R require an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the *FSA* and to tell the *FSA* immediately if materially inaccurate information has been provided. SUP 16.3.11R requires an authorised person to submit reports containing all the information required. APER 4.4.6E provides that, where an approved person is responsible for reporting matters to the *FSA*, failure to inform the *FSA* of materially significant information of which they are aware is a breach of Statement of Principle 4. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the *FSA*. Do not assume that information is known to the *FSA* merely because it is in the public domain or has previously been disclosed to the *FSA* or another regulatory body. If there is any doubt about the relevance of information, it should be included.

## Share capital

Total shares

**£**

1A

## Loans to members

Total loans to members

1B

Bad debts written off

1C (  )

Interest receivable

1D

Total net liabilities

1E

## Provision for doubtful debt

Specific

1F

General

1G

## Credit union liabilities

Borrowings from other credit unions

2A

Authorised overdrafts

2B

Committed facilities received

2C

Other borrowings

2D

Total borrowings

2E

Borrowings as % of total shares

2F  %

## Income and expenditure

Total income

3A

Total expenditure

3B

## Total assets

4A

## Total liabilities

4B

## Credit union capital

Audited reserves

General

5A

Other

5B

Interim net profit/(loss)

5C

Subordinated debt

5D

Total capital

5E

---

## Arrears analysis

3 months to 12 months

6A

Number

6D

Net liabilities

Over 12 months

6B

6E

Total

6C

6F

## Liquidity ratio

### Liquid assets

Cash and bank balance

Investments (realisable within 8 days)

Unused committed facilities

Unused overdrafts

**Total liquid assets**

	£
7A	<input type="text"/>
7B	<input type="text"/>
7C	<input type="text"/>
7D	<input type="text"/>
7E	<input type="text"/>

### Relevant liabilities

Unattached shares / juvenile deposits

Liabilities

(with an original or remaining maturity of less than 3 months)

Authorised overdrafts

Other liabilities / borrowings

**Total relevant liabilities**

7F	<input type="text"/>
7G	<input type="text"/>
7H	<input type="text"/>
7I	<input type="text"/>

**Liquidity ratio**

7J	<input type="text"/>	%
----	----------------------	---

---

## Large exposures

Largest net exposure

As % of capital

Aggregate total of large net exposures

As % of capital

8A	<input type="text"/>	
8B	<input type="text"/>	%
8C	<input type="text"/>	
8D	<input type="text"/>	%

---

## Large version 1 and version 2 credit unions

### Risk adjusted capital ratio

Total capital

Net provision or 1% of total assets whichever is the lower

Total risk adjusted capital

Total assets

**Risk adjusted capital ratio**

9A	<input type="text"/>	
9B	<input type="text"/>	
9C	<input type="text"/>	
9D	<input type="text"/>	
9E	<input type="text"/>	%



**Credit Union – Annual Return (CY)**

Name and address of credit union

FSA Firm Reference Number

The credit union's financial year end was / /

Please indicate whether the credit union has a version 1 requirement or version 2 requirement by ticking the appropriate box.

Version 1

Version 2

The credit union is affiliated to

Number of members at the financial year end (A1) Qualifying

(A2) Non-qualifying

Number of juvenile depositors at the financial year end (A3)

Have you attached a copy of the audited accounts for the period covered by this return?

Yes/No  
Delete as appropriate

Name of credit union's computer software system (if any) (A4)

Name of credit union's bankers

Number of staff members at financial year end who are paid for by the credit union

(A5) Full Time

(A6) Part Time

Number of staff members at financial year end who are paid for by other organisations

(A7)

Are any of the paid staff members approved persons?

Yes/No

Delete as appropriate

### Fidelity bond insurance

Policy issued by

Date of inception of policy or last renewal (A8)

/ /

Date of expiry of policy (A9)

/ /

Amount of cover in respect of:

Any one claim (A10)

£

All claims made in any one year (A11)

£

Were any claims made on the policy during the period covered by the return? (A12)

Yes/No

Delete as appropriate

### Signatures

Member of the committee of management

Signature

Name in Block Capitals

Secretary of the *credit union*

Signature

Name in Block Capitals

**Please note:** Knowingly or recklessly giving the FSA information, which is false or misleading in a material particular, may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). SUP 15.6.1R and SUP 15.6.4R require an authorised person to take reasonable steps to ensure the accuracy and completeness of information given to the FSA and to notify the FSA immediately if materially inaccurate information has been provided. SUP 16.3.11R requires an authorised person to submit reports containing all the information required. APER 4.4.6E provides that, where an *approved person* is responsible for reporting matters to the FSA, failure to inform the FSA of materially significant information of which he is aware is a breach of Statement of Principle 4. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action by the FSA. It should not be assumed that information is known to the FSA merely because it is in the public domain or has previously been disclosed to the FSA or another regulatory body. If there is any doubt about the relevance of information, it should be included.

# Balance Sheet

£

## Assets

Fixed assets

1A

### **Current assets**

Investments – Banks and Building Societies

1B

Investments – Securities

1C

Investments juvenile deposits

1D

Due from members for loans

    Secured

1E

    Unsecured

1F

    General provision for doubtful debts

1G

    Specific provision for doubtful debts

1H

Due from other credit unions

1J

Cash and bank balances

1K

Other debtors

1L

Prepaid expenses

1M

Other assets

1N

### **Total assets**

1P

## Liabilities

Juvenile deposits

2A

Borrowings from credit unions

2B

Bank loans

2C

Authorised overdrafts

2D

Grants

2E

Other creditors and accruals

2F

Corporation tax

2G

Interest to juvenile depositors

2H

Applications

2J

Other (specify)

2K

### **Total liabilities**

2L

### **Net assets** (1n – 2l)

2M

### **Credit union capital & reserves**

General reserve

2N

Other reserves

2P

Subordinated debt (over 4 years remaining)

2Q

Subordinated debt (4 years or less remaining)

2R

Total Capital

2S

Members' share balances

2T

### **Total capital and share balances**

2U

# Revenue account

## Income

Entrance fees  
Interest from members' loans  
Bank Interest  
Other investment income  
Profit on sale of investment and assets  
Bad debts recovered  
Admin charges for juvenile deposits  
Grants  
Donations  
Insurance commission  
Annual membership fees  
Ancillary service charges  
Other (specify)

£

3A	
3B	
3C	
3D	
3E	
3F	
3G	
3H	
3J	
3K	
3L	
3M	
3N	

## **Total income**

3P	
----	--

## Expenditure

Admin expenses  
Auditors remuneration  
Fidelity bond insurance  
Management expenses  
Bad debt provision  
Bad debts written off  
Bank charges  
Interest charged (on borrowings)  
Loss/revaluation on investments/assets  
General insurance  
LP/LS insurance  
FSA fees  
Trade association membership dues  
Other (specify)

4A	
4B	
4C	
4D	
4E	
4F	
4G	
4H	
4J	
4K	
4L	
4M	
4N	
4P	

## **Total expenditure**

4Q	
----	--

## **Income less expenditure**

4R	
----	--

## **Profit/(loss) for year before taxation**

5	
---	--

less taxation

6	
---	--

Profit/(Loss) after tax:

7	
---	--

Transferred to appropriation account

## Appropriation account

Profit/(loss) after tax

(Transferred from revenue account)

Transfer to general reserve

(Loss to be transferred to general reserve)

Transfer to other reserve

Transfer from general reserve

Transfer from other reserve

Transfer to applications

£

8A	
8B	( )
8C	( )
8D	
8E	
8F	

## Applications

Transfer from appropriation account

Transfer as % of profit after tax

Dividend

Rate of dividend

Rebate of interest

Rate of interest rebate

Donations

9A	
9B	%
9C	( )
9D	%
	%
9E	( )
9F	%
9G	( )

## Reserves

### General reserve

Opening balance

Transfer from appropriation account

Transfer as % of profit after tax

Transfer from other reserves

Transfer to appropriation account

Transfer to other reserves

Closing balance

10A	
10B	
10C	%
10D	
10E	( )
10F	( )
10G	

### Other reserves

Opening balance

Transfer from appropriation account

Transfer as % of profit after tax

Transfer from general reserve

Transfer to appropriation account

Transfer to general reserve

Closing balance

11A	
11B	
11C	%
11D	
11E	( )
11F	( )
11G	

# Notes to accounts

## Membership

Beginning of year	12A	
Added during Year	12B	
Ceased during Year	12C	( )
Total members	12D	
Non qualifying at end of year	12E	
% Non qualifying	12F	%

## Shareholdings

Opening balance	13A	
Shares in (including dividends)	13B	
Share withdrawn (including transfers)	13C	( )
Closing balance	13D	
Average member share balance	13E	
Value of unattached shares	13F	

£

## Loans to members

Opening balance	14A	
Loans made to members	14B	
Interest receivable	14C	
Total repayments (interest and capital)	14D	( )
Bad debts written off	14E	( )
Closing balance	14F	
Number of loans (at financial year end)	14G	
Total net liabilities	14H	

## Arrears analysis

	Number	Net liabilities
3 months to 12 months	15A	
Over 12 months	15B	
Total	15C	

## Provision for members' doubtful debt

### General provision

Balance at beginning of year	16A	
Increase in year	16B	
Written off during year	16C	( )
Decrease in year	16D	( )
Balance at end of year	16E	

### Specific provision

Balance at beginning of year	16F	
Increase in year	16G	
Written off during year	16H	( )
Decrease in year	16J	( )
Balance at end of year	16K	

## Fixed assets

£

Opening cost	17A	
Additions at cost	17B	
Original cost of disposals	17C	( )
Opening depreciation	17D	( )
Depreciation charge in year	17E	( )
Depreciation eliminated on disposals	17F	
Net book value	17G	

---

## Investments

### Due from other credit unions

Opening balance	18A	
Transfer to other credit unions during year	18B	
Repaid by other credit unions during year	18C	( )
Capital written off	18D	( )
Closing balance	18E	
Return on investment	18F	%

### Investments – Bank and Building Societies

Opening balance	19A	
Invested during year	19B	
Withdrawn during year	19C	( )
Closing balance	19D	

### Investments – Securities

Opening balance	20A	
Investments purchased during year	20B	
Investments sold during year	20C	( )
Losses/Capital written off	20D	( )
Closing balance	20E	

### Cash and Bank balance

Opening balance	21A	
Increase/(decrease)	21B	
Closing balance	21C	

## Debt Liabilities

£

### Borrowings from other credit unions

Opening balance

22A

Amount received

22B

Interest charged for year

22C

Repayments (capital and interest)

22D

Closing balance

22E

Date of final repayment

22F

### Bank Loans

Opening balance

23A

Amount of loan received

23B

Interest charged for year

23C

Repayments (capital and interest)

23D

Closing balance

23E

Date of final repayment

23F

### Other borrowings

Opening balance

24A

Amount of loan received

24B

Interest charged for year

24C

Repayments (capital and interest)

24D

Closing balance

24E

Date of final repayment

24F

### Subordinated Debts

Opening balance

25A

Received during year

25B

Interest charged for the year

25C

Repaid during year (capital and interest)

25D

Closing balance

25E

### Authorised overdrafts

Maximum limits

26A

Charges incurred during year

26B

Date term expires

26C

Max amount drawn during year

26D

### Committed facilities

Maximum limit

27A

Charges incurred during year

27B

Date term expires

27C

Max used during year

27D

### Grants

Opening balance

28A

Received during year

28B

Applied during year

28C

Closing balance

28D

Date grants expire

28E

## Liquidity ratio

### Liquid assets

Cash and bank balance

Investments (realisable within 8 days)

Unused committed facilities

Unused overdrafts

### Total liquid assets

29A	
29B	
29C	
29D	
29E	

### Relevant liabilities

Unattached shares

Liabilities (with an original/ remaining maturity of less than 3 months)

Authorised overdrafts

Other liabilities / borrowings

### Total relevant liabilities

30A	
30B	
30C	
30D	

### Liquidity ratio

30E		%
-----	--	---

## Large exposures

Largest net exposure

As % of capital

Aggregate total of large net exposures

As % of capital

£

31A	
31B	%
31C	
31D	%

## Large version 1 and version 2 credit unions

### Risk adjusted capital ratio

Total capital

Net provision or 1% of total assets whichever is the lower

Total risk adjusted capital

Total assets

### Risk adjusted capital ratio

32A		
32B		
32C		
32D		
32E		%

# Auditor's statement

In my opinion, the information contained in the balance sheet and revenue account of the Annual Return has been completely and accurately extracted from the audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968.

## Registered auditor

Signature	<input type="text"/>
Name	<input type="text"/>
Tel.no.	<input type="text"/>
Date	<input type="text" value="/ /"/>

Address

Only in the extremely limited circumstances permitted by section 4 of the Friendly and Industrial and Provident Societies Act 1968, may the statement be signed by lay auditors (two).

## Lay auditors (two)

Signature	<input type="text"/>
Name	<input type="text"/>
Occupation	<input type="text"/>
Address	<input type="text"/>
Date	<input type="text" value="/ /"/>

Signature	<input type="text"/>
Name	<input type="text"/>
Occupation	<input type="text"/>
Address	<input type="text"/>
Date	<input type="text" value="/ /"/>



**Annex F**  
**Guidance Notes on Quarterly Return (GN/CQ) and Annual Return (GNCY)**

**GN/CQ**



**Guidance Note for completion of  
Credit union - Quarterly Return (CQ)**

<b>Contents</b>	
<b>General information</b>	
<b>Front cover</b>	
<b>Share capital</b>	
<b>Loans to members</b>	
<b>Credit union liabilities</b>	
<b>Income and expenditure</b>	
<b>Credit union solvency</b>	
<b>Arrears analysis</b>	
<b>Liquidity ratio</b>	
<b>Large exposures</b>	
<b>Large version 1 and version 2 credit unions</b>	
<b>Risk adjusted capital ratio</b>	

## General information

The Quarterly Return (CQ) is to be completed by all *credit unions* in Great Britain as at end March, end June, end September and end December. This form should be completed using the accruals-based accounting method.

Please read *CRED* in conjunction with these reporting instructions.

Send the fully completed Quarterly Return (CQ) to **The Financial Services Authority** in accordance with *SUP* 16.3.6R – *SUP* 16.3.13R (See *CRED* 14.10.4G) **within one calendar month** after the quarter to which it relates. Failure to do so is a breach of your regulatory requirements, as laid down in *CRED*, and may result in your *credit union* being subject to *FSA* sanctions.

Page numbers that appear in the text of these Guidance Notes refer to the pages of the Quarterly Return (CQ), not to the pages of this Guidance Note (GN/CQ).

Words in italics denote defined terms which can be found in the Glossary to the main *FSA Handbook*.

"*CRED*" means the Credit Unions Sourcebook.

"*SUP*" means The Supervision Manual (part of the main *FSA Handbook*)

"*APER*" means the Approved Person Manual (part of the main *FSA Handbook*)

'CUA 1979' means the Credit Unions Act 1979.

If there is no figure to be entered in the box please insert "nil" or "N/A" as appropriate.

Care should be taken to avoid errors. The *approved person* who signs the Front Page of the Quarterly Return (CQ) should initial any alterations to entries. Correction fluid should **not** be used in correcting entries.

All information should be legible, especially the name of the persons signing the Quarterly Return (CQ).

If you have any questions, please contact one of the following numbers:

**020 7676 0104**  
**020 7676 1096**  
**020 7676 0282**  
**020 7676 0352**

## Membership

Indicate in the appropriate boxes the number of persons currently in each category.

**"Member"** refers to a member (qualifying or non-qualifying) over the age of 16, who can save up to £5,000 or 1.5 per cent of the assets of the *credit union*, whichever is the greater. [A qualifying member is a person who fulfils the membership qualification: a non-qualifying member is a person who no longer fulfils the membership qualification, having once done so.]

**"Juvenile depositor"** refers to a depositor under the age of 16 (a person too young to be a member), who can save up to a maximum of £5,000, but cannot take out a loan from the *credit union*.

## Complainants contact point

*CRED 17.6.9R* states that a *credit union* must inform the *FSA* of any changes to the single contact point within the *credit union* for complainants. If there have been any changes to your complainants contact point since your last submission to the *FSA* you will need to provide the new details in the boxes provided.

## Signature

The Quarterly Return (CQ) states that the signatory must be an *approved person*. The signatory should not be an officer on the Supervisory Committee or an officer approved for the *non-executive director function*. This means that the person signing the Quarterly Return (CQ) will hold an approved function on the committee of management or that of the *chief executive function*. The criteria for *approved persons* are set out in *CRED* Chapter 4 (Senior management arrangements, Systems and Controls) and Chapter 6 (The Approved persons regime).

The *approved person* will also be verifying that the Supervisory (Internal Audit) Committee has carried out a bank reconciliation, as part of their internal audit during the quarter, which is independent of the bank reconciliation carried out by the treasury team each month. The purpose of carrying out an independent bank reconciliation is to safeguard the assets of your *credit union* and to ensure that the committee of management is carrying out its duties in accordance with your *credit union's* rules, relevant legislation and regulatory requirements. This will include verification of the "Cash and *bank* balances" that appear on Page 3 of the Quarterly Return (CQ) under **7A**.

Any corrections to entries should be initialled by the signatory.

Send in the Quarterly Return (CQ) with an original signature, not a photocopy.

## Share capital - page 2

### 1A Total shares

The total amount of money held by your *credit union*, at the quarter end, relating to shares paid in by adult members.

This figure should take account of all changes made during the quarter.

## Loans to members - page 2

### 1B Total loans to members

The total amount outstanding at the quarter-end on all loans to adult members (irrespective of when such loans were made). It will exclude any loans written off during the period.

### 1C Bad debts written off

The total amount of loans written off during the quarter should be entered into this box.

These are delinquent loans that your *credit union* believes are likely to be irrecoverable and may therefore be written out of the accounts. Writing off loans does not prevent your *credit union* continuing to seek repayment.

### 1D Interest receivable

The total amount of Interest receivable on loans and other investments during the quarter should be entered into this box.

### 1E Total net liabilities

The total net liabilities on all loans. To determine the total net liabilities please refer to "Arrears Analysis" at 6 below.

### Provision for doubtful debt

Please note: CRED 10.5.4G states that in order to comply with CRED "it will be necessary for a *credit union* to review its provisioning requirements frequently (that is, at least monthly)".

Below we set out the minimum requirements your *credit union* will need to meet. However, your *credit union* may need to make additional provisions to reflect the risks and/or potential risks bad debts will have on the *credit union*.

### 1F Specific

Provision for doubtful debt – specific, refers to the provisions that your *credit union* has actually made to cover loans in arrears as laid down in CRED. CRED (10.5.2R) states that your *credit union* should make the following specific provisions:

- 35% on all net liabilities on loans which are over 3 months and up to 12 months in arrears.
- 100% provision on all net liabilities on loans which are over 12 months in arrears

The net liability on a loan is calculated as follows:

## **(Total loan + outstanding interest) - Shares**

Where a member's shares exceed the net liabilities on the loan, there is no liability and it can be excluded from provisioning.

### **1G General**

Provision for doubtful debt – general, refers to the provisions that your *credit union* has actually made to cover potential doubtful debts, in the future. As laid down in CRED, these are loans which:

- are currently not in arrears; or
- are up to and including 3 months in arrears.

Your *credit union* should make a 2% provision for the net liabilities of all these loans – all loans which are not covered by the specific provisions above at **(1F)**.

The net liability on a loan is calculated as follows:

## **(Total loan + outstanding interest) - Shares**

Where a member's shares exceed the net liabilities on the loan, there is no liability and it can be excluded from provisioning.

Your *credit union* will still wish to enforce a strict policy of chasing loans arrears that are fully covered by shares (and therefore not subject to our provisioning requirements). Whilst many *credit unions* automatically make share to loan transfers to offset any missed payments (when a member falls behind with their loan repayments), you need to be aware of the impact, if any, such a policy may have on your *credit union*.

## **Credit union liabilities - page 2**

Chapter 7 (Investments and borrowing) of CRED sets out the criteria for *credit unions*.

CRED 7.3.3R states that "the borrowings of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the *credit union*". Short-term is defined as not more than "the end of two consecutive quarters" (CRED 7.3.4E).

### **2A Borrowings from other credit unions**

The total closing balances of all loans received by your *credit union* from other *credit unions* at the end of the quarter.

However, subordinated debt does not fall into this group.

### **2B Authorised overdrafts**

The total closing balances of all authorised overdrafts used by your *credit union* from *banks* at the end of the quarter.

The figure to be reported here is the figure drawn down and not the agreed limit on the overdraft facility.

## 2C Committed facilities granted

A committed facility is a committed line of credit, other than an overdraft, from a *bank*. These are funds immediately available from a *bank* and constitute a loan.

The total closing balances of all committed facilities used by your *credit union* from *banks* at the end of the quarter.

The figure to be reported here is the figure drawn down and not the agreed limit on the committed facility.

## 2D Other borrowings

The total closing balances of all other borrowings (not covered by **2A**, **2B** or **2C** above) received by your *credit union* at the end of the quarter. This will include all subordinated debts which do not count towards Capital Requirements - please refer to details at **5D** for guidance.

Whilst the majority of *credit unions* will not have subordinated debts, those that do should take into account the following when working out how much of any subordinated debts count towards other borrowings:

Years to maturity	Amount of subordinated debt counting towards other borrowings
More than 4	Nil
Less than and including 4 but more than 3	20%
Less than and including 3 but more than 2	40%
Less than and including 2 but more than 1	60%
Less than and including 1	80%

Subordinated debts are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loan should have an original term of over five years.

## 2E Total borrowings

This figure is calculated using the following formula:

$$2A + 2B + 2C + 2D = 2E$$

## 2F Borrowings as % of total shares

To determine this ratio your *credit union* will use the following formula:

$$\frac{\text{Total borrowings (2E)}}{\text{Total shares (1A)}} \times \frac{100}{1}$$

## Income and expenditure - page 2

Income and expenditure should be calculated using the accruals based accounting method.

### 3A Total income

The total income generated by your *credit union* during the financial year to date (YTD). Total income may include:

- entrance fees;
- interest receivable on loans;
- interest on investments; and
- grants released during the financial year to date (YTD).

However, this is not an exhaustive list.

### 3B Total expenditure

The total expenditure by your *credit union* during the financial year to date (YTD). We advise *credit unions* to make provision here for known expenses such as audit fees and other known fees payable by the *credit union* for the financial year. The purpose of this is to offset any fluctuation in your *credit union's* solvency/capital position, especially in the first quarter of the *credit union* financial year when many expenses fall due.

- Provisions for anticipated tax and dividends are required by *CRED* 8.2.1R. Tax is usually payable on any interest received on *bank* accounts or investments (unless it clearly stipulates that the investment is exempt from taxation).
- Provisioning will be made pro rata on a monthly or quarterly basis.

If you have any questions regarding the tax your *credit union* will need to pay you should consult your local Inland Revenue office.

### 4A Total assets

The total assets of your *credit union* that appear on the Balance Sheet of the relevant monthly financial statement. It may include the following:

- Investments
- Investments of juvenile *deposits*
- Total loans to members
- Cash and *bank* balances

This is not an exclusive list. Your *credit union* will need to refer to its relevant Balance Sheet.

**Please note: Unused overdrafts should not be included when calculating the total assets of your *credit union*.**

#### **4B Total liabilities (including Reserves)**

The total liabilities of your *credit union*, that appear on the Balance Sheet of the relevant Monthly Financial Statement of your *credit union*. It may include the following:

- Total shares of members
- Reserves
- Juvenile savings
- Total borrowings at **2E** above

This is not an exclusive list. Your *credit union* will need to refer to its relevant Balance Sheet.

### **Credit union capital - page 2**

*CRED* states that the following is to be included in calculating Capital:

- audited reserves;
- interim net profits;
- subordinated debts; and
- initial capital.

Please refer to *CRED* 8.2.1R.

Please note: "Negative reserves and any interim net losses must be deducted from capital", (*CRED* 8.2.2R)

#### **5A Audited reserves - general**

Amount held by your *credit union* in general reserve, as laid down at *CRED* 8.3.5R.

A *credit union* is required to transfer at least 20% of its net profits to general reserve each year, until such time as general reserve reaches 10% of total assets. This transfer would usually take place at the financial year end. It is likely that your auditor at the financial year end will advise you on how much you should transfer.

#### **5B Audited reserves - other**

Money that your *credit union* has set aside out of net profits (in accordance with *CRED* 8.3.5R) - for example, a "revenue reserve" for unforeseen circumstances.

This will include initial capital which has not yet been spent.

Please refer to Chapter 8 of *CRED*. This figure will be negative if your *credit union* has an accumulated deficit from previous years. "Audited reserves – other" should not be confused with a bad debt "reserve" or provision for bad debts. Please insert "nil" if no other audited reserves are held by your *credit union* other than a general reserve.

#### **5C Interim net profits/(loss)**

This figure relates to the unaudited profit or loss of your *credit union*, which will appear on the Balance Sheet of your *credit union* accounts. The figure relates to the

financial year to date (YTD) figures. To work out the profit or loss of your *credit union* you will use the following formula:

$$3A - 3B = 5C$$

Please ensure that the Interim net profits / (loss) of your *credit union* has taken account of anticipated expenditure covered under "Total expenditure" at **3B** above. The reason your *credit union* should take account of proposed dividends and other anticipated expenditure are two fold.

- Firstly, as mentioned at **3B** above, it is to offset any fluctuation in your *credit union's* solvency/capital position, especially in the first quarter of the year when many expenses fall due. Historically, many *credit unions* trade at a loss in the first quarter of every financial year – what will your *credit union* do to overcome this?
- Secondly, whilst *credit unions* may make healthy profits throughout the year, at the financial year end many *credit unions* transfer the statutory minimum of 20% of profits into reserves. The remainder is often redistributed to members in the form of a dividend. Therefore, not to take account of anticipated dividends would mean that the solvency (which takes account of profits) of your *credit union* would be artificially exaggerated throughout the year.

## **5D Subordinated debt**

Subordinated debts in 5D are loans where the lender has agreed to the terms set out on *CRED* 8.2.1R. They are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loans should have an original term of over five years.

Whereas your *credit union* is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt has to meet the rules laid down in *CRED* (8.2.1R). You will need to refer to this when calculating subordinated debt. Some of the main conditions are listed below:

- When the loan is issued it should have a maturity date of not less than five years;
- The conditions attached to the loan should state that the claims of the subordinated creditors rank behind those of all unsubordinated creditors including the *credit union's* shareholders;
- The subordinated debt should not become due and payable before its final maturity date agreed with the creditor (in writing) except in the event of default by non-payment of any interest or principal under the debt agreement or the winding-up of the *credit union*.

Provided the subordinated debt meets the rules laid down in Chapter 8 (Capital requirements) of *CRED*, the following formula will need to be used in writing down your *credit union's* subordinated debt:

Years to maturity	Amount of loan counting towards capital
More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

## 5E Total Capital

Total capital is calculated using the following formula:

$$5A + 5B + 5C + 5D = 5E$$

## Information for version 1 credit unions

*Credit unions* should be solvent (maintain a positive net worth) at all times. If your *credit union* does not meet this requirement or may not meet it at a date in the future, you should inform your lineside supervisor (person at FSA dealing with your *credit union*) immediately, so that we can work with you on ways to resolve the situation.

Whilst the Quarterly Return (CQ) asks your *credit union* for total capital (which includes reserves, interim net profit/ (loss), subordinated debts and initial capital) you will need to be aware that all *version 1 credit unions* "must at all times maintain a positive amount of capital", (CRED 8.3.1R) - in other words "a positive net worth". This means that "bad and doubtful debts must be taken into account in establishing whether a *credit union* is maintaining a positive amount of capital", (CRED 8.3.4G).

Although we do not ask for this, specifically, on the Quarterly Return (CQ), we are able to work it out from the information already given. Your *credit union* will need to be aware of how we work out the total net worth of your *credit union*. In calculating the total net worth of your *credit union* you will need to take the following into consideration:

Total Capital	£
Actual provision for doubtful debt - specific	£
Minimum provision for doubtful debt - specific	£
Actual provision for doubtful debt - general	£
Minimum provision for doubtful debt - general	£

### Total capital

This is the same figure that appears at **5E** on the Quarterly Return (CQ).

### Actual provision for doubtful debt - specific

These are the provisions that your *credit union* has actually made to cover loans in arrears as laid down in CRED. It is the same figure that appears at **1F** on the Quarterly Return (CQ).

### Minimum provision for doubtful debt - specific

Minimum specific provisions are based on all actual net liabilities on loans which are over 3 months in arrears. (Please refer to Arrears analysis below for further details)

The formula for working out minimum specific provisions is as follows:

<b>Arrears Analysis</b>		Number	Net Liabilities
<b>A</b>	3 months to 12 months		£
<b>B</b>	Over 12 months		£
<b>C</b>	Total	<b>(A + B)</b>	£

The above arrears are based on net liabilities

<b>Minimum specific provision</b>		
35% of <b>A</b>	(arrears - 3 months to 12 month)	£
100% of <b>B</b>	(arrears over 12 months)	£
<b>D</b>	<b>Minimum specific provision</b>	<b>£</b>

An example on how to work out minimum specific provisions is given below:

<b>Arrears Analysis</b>		Number	Net Liabilities
<b>A</b>	3 months to 12 months	7	£7,000
<b>B</b>	Over 12 months	10	£10,000
<b>C</b>	Total	<b>(A + B)</b>	<b>£17,000</b>

<b>Minimum specific provision</b>		
35% of <b>A</b>	(arrears - 3 months to 12 month)	£2,450
100% of <b>B</b>	(arrears over 12 months)	£10,000
<b>D</b>	<b>Minimum specific provision</b>	<b>£12,450</b>

### Actual provision for doubtful debt - general

These are the provision for doubtful debt that your *credit union* has actually made to cover potential doubtful debts, in the future, as laid down in CRED. It is the same figure that appears at **1G** on the Quarterly Return (CQ).

### Minimum provision for doubtful debt - general

Minimum general provisions are based on all actual net liabilities on loans which are currently not in arrears or are up to and including 3 months in arrears. (Please refer to Arrears analysis below for further details).

The formula for working out minimum specific provisions is as follows:

<b>Minimum general provision</b>		
Total net liabilities	(same as <b>1E</b> on Quarterly Return)	£
Total arrears over 3 months	( <b>C</b> above)	(£ _____)
<b>E</b>	Total net liabilities subject to general provision	£
<b>F</b>	<b>Minimum general provision</b>	£
	(2% of total loans subject to general provision)	

An example on how to work out minimum general provisions is given below:

### Minimum general provision

Total net liabilities (same as <b>1E</b> on Quarterly Return)	£107,250
Total arrears over 3 months ( <b>C</b> )	(£ 17,000 )
<b>E</b> Total net liabilities subject to general provision	£90,250
<b>F</b> Minimum general provision	£1,805

### How is total net worth calculated?

From the above we have established how to work out how much money your *credit union* should be setting aside to adequately cover doubtful debts. *CRED* 8.3.4G states that "bad and doubtful debts must be taken into account" when determining the *credit union's* total net worth.

For this reason, if your *credit union* has not made adequate provisions the shortfall will be deducted from total capital in determining the total net worth of the *credit union*. *Version 1 credit unions* cannot, however, include surplus provisions in this calculation. To calculate the total net worth of your *credit union* you can use the following table:

	Minimum Provision	Actual Provision	Affecting net worth
Specific	A	B	If A < B then "nil" If A > B then, (B - A)
General	C	D	If C < D then "nil" If C > D then, (D - C)

Using the figures from the example above:

- Actual provision for doubtful debt – specific = £14,000
- Actual provision for doubtful debt – general = £1,000

	Minimum Provision	Actual Provision	Affecting net worth
Specific	£12,450	£14,000	"Nil"
General	£1,850	£1,000	£850

The total net worth of your *credit union* is:

Total capital  
( Specific - affecting net worth )  
( General - affecting net worth )  
Total net worth

**For the purpose of this example, total capital is £2,000.**

£2,000  
( £0 )  
( £850 )  
£1,150 Total net worth

On this example, your *credit union* would satisfy the requirements of *CRED*, since the *credit union* has a "positive net worth".

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## Capital Ratio (for information purposes only)

To determine the capital ratio your *credit union* will use the following formula:

$$\frac{\text{Total capital (5E)}}{\text{Total assets (4A)}} \times \frac{100}{1}$$

## 6 Arrears analysis - page 2

This relates to net liabilities on loans as mentioned above at "loans to members" – **1B – 1G**. In this section there are 2 time periods under which to analyse the number and amount of loans in arrears and have net liabilities attached:

- "3 months to 12 months" on the Quarterly Return (CQ) refers to all loans which are over 3 months and up to and including 12 months in arrears, and have net liabilities attached;
- "over 12 months" on the Quarterly Return (CQ) refers to all loans which are over 12 months in arrears, and have net liabilities attached;.

Please note: Where payments actually received from a member are irregular in timing and/or amount, your *credit union* needs to have a policy on how to deal with such arrears. Ultimately, how sure can your *credit union* be that such a loan will not be defaulted upon in the future? The main concern for us is that your *credit union* can be confident that adequate provisions have been made to offset any potential burdens an irrecoverable debt would place on the *credit union* in the future. For this reason, it may be prudent for your *credit union* to make provisions for such risks.

For example:

If 15 weekly repayments have been missed (or an amount equivalent to 15 weekly repayments is overdue), then the loan is to be included under the "3 months to 12 months" time period, irrespective of when the most recent repayment was received.

### Number

The actual number of outstanding loans, within the time periods mentioned above, with net liabilities at the end of the quarter.

### Net liabilities

The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:

$$\text{Loan balance} + \text{interest owing} - \text{share balance} = \text{Net liability}$$

The table below is an example on how to work out net liability:

Loans 3-12 months in arrears:				
Loan No.	Loan balance	Interest owing	Share balance	Net liability

1	£390	£10	£200	£200
2	£580	£20	£500	£100
3	£4,050	£150	£2,200	£2,000
4	£720	£30	£1,000	£0
5	£115	£10	£50	£75
<b>Total</b>	<b>£5,855</b>	<b>£220</b>	<b>£3,950</b>	<b>£2,375</b>

From this table we see that there are 4 loans with positive net liabilities. Total net liabilities for this period is £2,375.

The **Total** of the number and amount of net liabilities of loans in arrears should also be given. From the example above totals will be as follows:

	Number	Net Liability
3-12 months	4	£2,375
Over 12 months	0	£0
Total	4	£2,375

## Liquidity ratio - Page 3

### 7A Cash and bank balance

The total amount in your *credit union's bank* current account plus any cash in the custody of officers (e.g. cash for the collection point float or petty cash). The following are not to be included in this calculation:

- Authorised overdrafts;
- Committed facilities;
- Other investments of surplus funds which will fall into the investments section of liquid assets.

Please note that this relates to money relating to adult members and juvenile depositors. Following recent changes, *credit unions* no longer have to keep the *deposits* of juveniles separate from the shares of adult members. Grants that constitute part of the *bank* balance should be excluded from liquid assets, unless there are adequate funds in long-term investment to cover the amount of the grant used for this purpose.

### 7B Investments (less than eight days to maturity)

*CRED 9.3.8R* states that only investments that could be realised within eight days can be included in calculating your *credit union's* liquidity ratio. It is therefore important that your committee of management takes a long-term view of the *credit union* business before investing surplus funds. Your *credit union* will need to be aware of redemption penalties or other losses you may incur for the early realisation of such funds. In short, most investments can be converted into cash but at a cost.

Please note: This will include any deposit accounts your *credit union* may use.

**Important notice: Version 1 credit unions should not hold investments with a maturity date of over 12 months (CRED 7.2.2R).**

The remainder of the information at **7B** relates directly to *version 2 credit unions*.

*CRED 9.3.9E(1)* reads: "For the purpose of calculating a *credit union's* liquidity ratio, the *securities* referred to in *CRED 7.2.2R – 7.2.3R* should be valued on the basis that they could be realised at par, minus the following discounts:

- (a) maturity less than 1 year - Zero
- (b) maturity 1 to 5 years - 5%"

So in events where your *credit union* can realise investments within eight days, you will still need to reduce the applicable figure by 5% for all *securities* with a maturity date of between one and five years.

Example:

Time period	Amount realisable in 8 days	Amount allowed for liquidity
Less than 1 year	£200	£200
1 to 5 years	£500	£475

Whilst these are minimum requirements your *credit union* will need to draft and implement a comprehensive Liquidity Management Policy to account for the greater risks attached to longer-term investments.

### **7C Unused committed facilities**

A committed facility is a committed line of credit, other than an overdraft, from a *bank*. These are funds immediately available from a *bank* and constitute a loan.

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* with which your *credit union* holds its current account. Any unused committed facilities can be entered into this box. If your *credit union* does not have any committed facilities this box should be filled by a "nil". We would like to draw your attention to *CRED (7.3.3R)*. It states that "the borrowings of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the *credit union*". Short-term is defined as not more than "the end of two consecutive quarters" (*CRED 7.3.4E*).

Please note that any unused committed facilities may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We reserve the right to seek evidence of any committed facilities which are used for liquidity purposes.

### **7D Unused overdrafts**

This relates to a *credit union* which has an authorised overdraft arrangement with an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* with which your *credit union* holds its current account. Any surplus overdrafts which has not been used can be entered into this box. If your *credit union* does not have an authorised overdraft facility this box should be filled by a "nil". Again, we would like to draw your attention to *CRED (7.3.3R)*. It states that "the borrowings of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the *credit union*". Short-term is defined as not more than "the end of two consecutive quarters" (*CRED 7.3.4E*).

Please note that any unused overdrafts may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We reserve the right to seek evidence that a *credit union* overdraft facility, which is used for liquidity purposes, has indeed been authorised by the relevant *bank*.

## 7E Total liquid assets

This figure is calculated by the following:

$$7A + 7B + 7C + 7D = 7E$$

## 7F Unattached shares / juvenile deposits

Total value of adult shares, which are not attached to a loan, and the total value of juvenile *deposits* held by your *credit union*.

Because juvenile depositors cannot have loans, all juvenile *deposits* will be unattached.

To assist you in working out the unattached shares for your *credit union*, we would like to draw your attention to the following three different classifications – which are for illustration purposes only. These are:

1. All members who have not got a loan and are not acting as guarantor for a loan;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
101	£750	£0	£750
102	£1,201	£0	£1,201
103	£254	£0	£254
104	£1,500	£0	£1,500
<b>Totals</b>	<b>£3,705</b>	<b>£0</b>	<b>£3,705</b>

2. All members with loans, but not part of a guarantor agreement;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
005	£600	£750	£nil
006	£1,470	£1,201	£269
007	£522	£254	£268
008	£900	£1,500	£nil
<b>Totals</b>	<b>£3,492</b>	<b>£3,705</b>	<b>£537</b>

3. All guarantors

Example:

Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:

Member number	Share balance	Loan balance + interest owing	Net liability	Unattached shares
200	£600	£750	£150	nil
300	£1,470	£1,201	nil	£269

The net liability for the loan of member 200 equals £150 and therefore member 200 has no unattached shares.

Member 300 has no net liability, but £269 in unattached shares. Since there is a charge on these shares to the value of the net liabilities of the loan of member 200, the total unattached shares for both members is as follows:

a	Unattached shares of member 300	£269
b	Net liability of member 200	£150
	Combined unattached shares (a-b)	<hr/> £119

Your *credit union* will need to closely monitor guaranteed loans when working out unattached shares.

### **Liabilities** (with an original or remaining maturity of less than three months)

These are all liabilities excluding unattached shares / juvenile *deposits* (which are already covered in the relevant liabilities being calculated). Only liabilities that fall due within the three-month period are to be included in the calculations. **7G** and **7H** below fall into this group.

Please note: Only those liabilities (repayments of capital and interest) which fall due over the next three months are to be included.

#### **7G Authorised overdrafts**

All drawn down overdrafts which need to be repaid over the next three months are to be included here

Example:

Your *credit union* has an overdraft facility of £2,000. It has drawn down £600 which it expects to pay back over the next six months on a pro-rata basis. Over the next three months your *credit union* will expect to pay back £300 capital and any interest charges. This is the figure to be included.

#### **7H Other liabilities / borrowings**

These are all liabilities excluding unattached shares / juvenile *deposits* and authorised overdrafts (which are already covered in **7F** and **7G**). Included in this category are such things as:

- loans from other *credit unions*;
- loans from *banks*;
- subordinated debts;
- committed facilities

Example:

Your *credit union* receives a £1,200 loan from your local *bank*. The terms of the loan agreement state that the loan must be repaid in 12 equal monthly instalments over a year. Your *credit union* has to pay back £100 capital and outstanding interest at the end of every month. In this instance your *credit union* should include three monthly repayments (to include capital and interest), when calculating liabilities with maturity of less than three months.

## 7I Total relevant liabilities

This figure is calculated by using the following formula:

$$7F + 7G + 7H = 7I$$

## 7J Liquidity ratio

To determine the liquidity ratio, your *credit union* will use the following formula:

$$\frac{\text{Total liquid assets (7E)}}{\text{Total relevant liabilities (7I)}} \times \frac{100}{1}$$

## Large exposures - Page 3

Whilst these figures relate to the quarter end, your *credit union* will need to look at large *exposures* requirements when issuing loans. For example, *CRED* 10.4.1R defines a large *exposure* as any individual net liability which is at least £5,000 and at least 10% of the value of the *credit union's* capital.

## 8A Largest net exposure

To work out your *credit union's* largest net *exposure* you will need to determine:

- a) the net *exposure* on each loan and find the largest figure. The formula for this is:

$$(\text{loan balance} + \text{interest owing}) - \text{share balance}$$

- b) what is the total capital of your *credit union*? This is defined at **5G**.

Say, for example your *credit union's* total capital is £40,000. We know from the above that only net liabilities over 10% of Capital are subject to the large *exposures* rule. Ten percent of £40,000 is £4,000.

However, we further know from the above that only net liabilities over £5,000 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Example:

Member number	Share balance	Loan balance + interest owing	Net liabilities	Is it a large exposure?
150	£3,125	£12,500	£9,375	YES
152	£1,750	£7,000	£5,250	YES
103	£3,115	£9,002	£5,887	YES
462	£2,500	£6,700	£4,200	No
204	£2,138	£7,911	£5,773	YES
109	£4,000	£8,500	£4,500	No

As we can see the largest net *exposure* is that of member 150 and it is £9,375.

## 8B As % of capital

An individual large *exposure* should not exceed **25%** of your *credit union's* capital (*CRED* 10.4.2R).

To determine this percentage, your *credit union* will need to use the following calculation:

$$\frac{\text{Largest net exposure (8A)}}{\text{Total capital (5G)}} \times \frac{100}{1}$$

So:  $\frac{£9,375}{£40,000} \times \frac{100}{1} = 23.44\%$

### 8C Aggregate total of large net exposures

This figure relates to the sum total of all net liabilities subject to the large *exposures* rule as defined in **8A** above.

Taking the example at **8A** above, this figure will be £26,285 (see below).

Member number	Share balance	Loan balance + interest owing	Net liabilities
150	£3,125	£12,500	£9,375
152	£1,750	£7,000	£5,250
103	£3,115	£9,002	£5,887
204	£2,138	£7,911	£5,773
Totals	£10,128	£36,413	£26,285

### 8D As % of capital

*CRED* states that the aggregate total of large net *exposures* should not exceed 500% of the total capital of the *credit union* (*CRED* 10.4.2R), and should not exceed 300% of total capital without prior notifying the *FSA* (*CRED* 10.4.3R). To see if the example satisfies the rules please use the following calculation:

$$\frac{\text{Aggregate total of large net exposure (8C)}}{\text{Total capital (5G)}} \times \frac{100}{1}$$

So:  $\frac{£26,285}{£40,000} \times \frac{100}{1} = 65.71\%$

## Large version 1 and version 2 credit unions

### Risk adjusted capital ratio - page 3

A risk adjusted capital ratio is a requirement for larger *version 1 credit unions* and *version 2 credit unions* under *CRED*.

*CRED* 8.3.16R states "A *version 1 credit union* with total assets of more than £10 million and/or a total number of members of more than 10,000 must maintain at all times a risk-adjusted capital to total assets ratio of at least 8%"

## 9A Total capital

This figure is the same as the figure that appears at **5G** on page 2 of the Quarterly Return (CQ).

## 9B Net provisions or 1% of total assets whichever is the lower

Capital should be risk-adjusted for *version 2 credit unions* and large *version 1 credit unions* (CRED 8.4.1R and CRED 8.3.16R). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets (CRED 8.4.2R).

Net provisions are those provisions your *credit union* has made minus minimum specific provisions. In other words:

	Provision
Minus	100% of net liabilities on loans which are 12 months or more in arrears
Minus	35% of net liabilities on loans 3 – 12 months in arrears
=	<b>Net provisions</b>

This figure is calculated by using the following calculation:

### Arrears Analysis

Arrears - 3 months to 12 months	<b>A</b>
Arrears - over 12 months	<b>B</b>
Total arrears	<b>C = A+B</b>

The above arrears are based on net liabilities

Number	Net Liabilities
	£
	£
	£

<b>Minimum specific provision</b>	
35% of <b>A</b> (arrears - 3 months to 12 month)	£
100% of <b>B</b> (arrears - over 12 months)	£
<b>D Total minimum specific provisions</b>	<b>£</b>
Actual specific provision for doubtful debt (as at <b>1F</b> )	£
Actual general provision for doubtful debt (as at <b>1G</b> )	£
<b>E Total actual provisions</b>	£
Total minimum specific provisions ( <b>D</b> )	(£ )
<b>F Net provisions</b>	£
Total assets (as at <b>4A</b> )	£
<b>G 1% of total assets</b>	£

The figure to be posted onto the Quarterly Return (CQ) is the lesser of **F** and **G**. If this is a negative figure, the figure that appears on the Quarterly Return (CQ) needs to be a negative figure.

Example

### Arrears Analysis

Arrears - 3 months to 12 months      **A**  
Arrears - over 12 months                **B**  
Total arrears                                **C = A + B**  
The above arrears are based on net liabilities

Number	Net Liabilities
5	£28,000
10	£67,000
15	£95,000

#### Minimum specific provision

35% of **A** (arrears - 3 months to 12 month)      £9,800  
100% of **B** (arrears over 12 months)                £67,000  
**D Total minimum specific provisions**                £76,800

Actual specific provision for doubtful debt (as at **1F**)      £70,000  
Actual general provision for doubtful debt (as at **1G**)      £10,000  
**E Total actual provisions**                                £80,000  
Total minimum specific provisions ( **D** )                (£76,800 )  
**F Net provisions**    £3,200  
Total assets (as at **4A**)                                        £1,120,000  
**G 1% of total assets**    £11,200

The figure to be posted onto the Quarterly Return (CQ) at 9B is £3,200.

#### 9C Total risk adjusted capital

This figure is calculated using the following formula:

$$9A + 9B = 9C$$

#### 9D Total assets

This is the total assets of your *credit union* that appears on the Balance Sheet. It will be the same figure that appears in **4A** above. Please note that unused overdrafts or unused committed facilities cannot be used when calculating the total assets of your *credit union*.

#### 9E Risk adjusted capital ratio

The risk adjusted capital ratio your *credit union* will use the following formula:

$$\frac{\text{Total risk adjusted capital (9C)}}{\text{Total assets (9D)}} \times \frac{100}{1}$$

**GVCY**



## **Guidance Note for completion of Credit union Annual Return**

### **Contents**

**General information**

**Front pages**

**Balance sheet**

**Revenue account**

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**Reserves**

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**Credit union solvency**

**Liquidity ratio**

**Large version 1 and version 2 credit unions**

**Auditors report**

**Committee of management**

## General information

The Annual Return (CY) should be completed by all *credit unions* in Great Britain at the end of their financial year. It should be completed using the accruals-based accounting method.

Please read *CRED* in conjunction with these reporting instructions.

Send the fully completed Annual Return (CY) (including a completed auditor's statement) to the Financial Services Authority in accordance with *SUP* 16.3.6R – *SUP* 16.3.13R (see *CRED* 14.10.4G) by the date stated in the *credit union's* rules (which should be within 7 months of the financial year end). Failure to do so is a breach of your regulatory requirements, as laid down in *CRED*, and may result in your *credit union* being subject to *FSA* sanctions.

A copy of the audited annual accounts of the *credit union* (and the auditor's report on those accounts) should also be submitted (see *CRED* 14.10.10R(1)).

If there is no figure to be entered in the box please write "nil", "none" or "N/A" as appropriate.

Care should be taken to avoid errors. The two people who sign page 2 of the Annual Return (CY) should initial any alterations to entries. Correction fluid should **not** be used in correcting entries.

Page numbers in this note relate to the pages of the Annual Return (CY), **not** to the pages of this guidance note.

Words in italics denote defined terms which can be found in the Glossary to the main *FSA Handbook*.

"*CRED*" means the Credit Unions Sourcebook.

"*SUP*" means The Supervision Manual (part of the main *FSA Handbook*)

"*APER*" means the Approved Person Manual (part of the main *FSA Handbook*)

'CUA 1979' means the Credit Unions Act 1979.

The number and figure in brackets shown next to the headings refer to the box numbers on the Annual Return (CY) form.

## Accounting Policies

### Fixed assets

Fixed assets are stated at net book value. Depreciation is provided on fixed assets at rates expected to cover costs over their expected useful lives.

### Investments

These are stated at cost, less provision for permanent diminution in value where necessary.

### Provision for doubtful debts

This is made in accordance with the rules and guidance set out in *CRED* 10.5.3E.

**Amount of interest**

Interest receivable on loans and other investments and payable on loans made to the *credit union* is to be accrued.

**Front pages****Name and address**

Insert the registered name and address of the *credit union*.

**Firm reference number**

Insert the number assigned to the *credit union* by the Financial Services Authority.

**Financial year end**

Insert the date of the *credit union's* financial year end (See *SUP* 16.7.63BR and *CRED* 14.10.10R(2)(a)).

**Version 1 / version 2 requirement**

See *FSA Handbook Glossary* for definitions.

**Affiliation**

Insert the name of the trade association that the *credit union* is affiliated to. If the *credit union* is not affiliated, insert "none".

**Membership (A1)**

Indicate in the appropriate boxes the number of members that the *credit union* currently has in each category of membership.

A "non-qualifying" member is someone who no longer fulfils the membership qualification, having once done so e.g. he or she no longer lives in the common bond area. No more than 10% of the total membership of the *credit union* should be "non-qualifying".

A "juvenile depositor" is a person who is too young to be a member - someone under the age of 16 - who can save up to a maximum of £5,000, but cannot take out a loan from the *credit union*.

**Audited accounts**

Delete "Yes or No" as appropriate. Audited annual accounts are required by the Friendly and Industrial and Provident Societies Act 1968. *CRED* 14.10.9G and *CRED* 14 Ann 1G give guidance about the statutory accounts. Attach a copy of the accounts before returning the Annual Return (CY). See *CRED* 14.10.10R.

**Computer software (A4)**

Please insert the name of the software system the *credit union* uses.

**Bankers**

Please insert the name of the *bank* or *building society* the *credit union* holds its current account with.

**Number of staff members paid for by the credit union (A5-6)**

Please insert the relevant number of full and part time staff the *credit union* employs. This figure should not include staff who work at the *credit union* but whose wages are paid by another organisation.

**Number of staff members paid for by other organisations (A7)**

Please insert the number of paid staff that the *credit union* has that are paid for by outside organisations.

**Paid staff members - *approved persons***

Please delete either yes or no as appropriate.

**Fidelity bond insurance**

The purpose of this section is to ensure that the *credit union* had sufficient and continuous insurance in place during the period covered by the Annual Return (CY).

**Policy issued by**

Insert the name of the company providing the insurance to the *credit union*.

**Date of inception of policy or last renewal (A8)**

Insert the date that the policy originally started or the date on which it was last renewed. The date of the last renewal is likely to coincide with the *credit union's* year-end (prior year).

**Date of expiry of policy (A9)**

This should be the date that the policy held by the *credit union* expires. It is likely to be the same date as the year-end for this return.

**Amount of cover (A10)**

The amount of cover actually provided should be available from the bonding certificate or insurance policy.

**Table showing the amount of cover required (CRED 7A.1.10R)**

<b>Aggregate value</b>	<b>Cover required in respect of any one claim</b>	<b>Cover required in respect of total claims made in any one year</b>
Less than £10,000	The higher of £500 or 50 per cent of the aggregate value	The higher of £1,000 or 100 per cent of the aggregate value
£10,000 to £100,000	The higher of £5,000 or 20 per cent of the aggregate value	100 per cent of the aggregate value
More than £100,000	The higher of £20,000 or 15 per cent of the aggregate value	The higher of £100,000 or 75 per cent of the aggregate value
Over £1,000,000	£150,000 plus 5 per cent of value over £1,000,000 (subject to a maximum of £2,000,000)	£750,000 plus 5 per cent of value over £1,000,000 (subject to a maximum of £4,000,000)

**All claims in any one year (A11)**

The total amount of claims that the *credit union* has made on its fidelity bond insurance policy in this financial year.

### **Were any claims made? (A12)**

Please answer yes or no.

### **Signatures**

The signatories should not sign the form until they have made sure that all entries are complete.

One signatory should be a member of the committee of management.

One signatory should be the secretary of the *credit union*.

Any corrections to entries should be initialled by each of the two signatories. Send in the form with originals (**not** photocopies).

### **Balance sheet**

The balance sheet sets out the *credit union's* total assets, reserves and liabilities at the end of the financial year.

#### **Assets**

##### **(1A) Fixed assets**

The figure entered here should include the value of any property the *credit union* owns (e.g. the *credit union's* registered office, computer or office equipment). Depreciation of the fixed assets should be deducted before the figure is entered into the box.

#### **Current assets**

##### **(1B) Investments – Banks and Building Societies**

The total of money held in a *bank* or *building society* investment account: this will be separate from the current account that the *credit union* holds and will usually pay more interest on the monies held.

*Credit unions* may only invest this money in *deposits* or loans to: (1) a *UK domestic firm* with *Part IV permission to accept deposits*; (2) an institution which is authorised in any other *EEA State to accept deposits* (See CRED 7.2.1R)

##### **(1C) Investments – securities**

The total of money held in *securities*.

A *credit union* may only invest this money in: sterling-denominated *securities* issued by the government of any *EEA State*; (2) and fixed-interest sterling-denominated *securities* guaranteed by the government of any *EEA State* (See CRED 7.2.1R).

A *version 1 credit union's investments* should not have a maturity date exceeding 12 months from the date the *investment* was made. (CRED 7.2.2R)

A *version 2 credit union's investments* should not have a maturity date exceeding five years from the date the *investment* was made. (CRED 7.2.3R)

Further information can be found in *CRED* Chapter 7 (Investment and borrowing).

### **(1D) Investments juvenile deposits**

The *investments* held in respect of the *credit union's* juvenile depositors.

### **Due from members for loans**

The total amount outstanding at the year-end on all loans to members.

### **(1E) Secured loans**

The total amount outstanding to the *credit union* that is secured e.g. on shares or property. This figure will exclude any loans written off during the financial year. Please note that if loans are secured on property, a legal charge should be taken out by the *credit union* to ensure that the loan is properly secured.

### **(1F) Unsecured loans**

The total amount of loans that are made to members but are not fully secured as indicated above. This figure will exclude any loans written off during the financial year.

### **Less: Provision for doubtful debts**

This figure is deducted from the loan balances and is therefore shown as a negative.

### **(1G) General provision**

*CRED* 10.5.3E sets out that *credit unions* should maintain a general provision for bad and doubtful debts of at least 2% of net liabilities not already covered by specific provisioning on loan arrears **(1H)**. General provisions are provisions that your *credit union* has made to cover potential doubtful debts in the future. These are loans currently not in arrears or loans that are in arrears up to three months.

### **(1H) Specific provision**

*CRED* 10.5.2 R states that a *credit union* must make specific provision in its accounts of at least:

1. 35% of the net liability to the *credit union* of borrowers where the amount is more than three months in arrears.
2. 100% of the net liability to the *credit union* of borrowers where the amount is more than 12 months in arrears.

Net liability on a loan can be calculated as follows:

(Total loan + outstanding interest) – shares

Where a member's shares exceed the amount held in loan there is no risk to the *credit union* and no provision needs to be made.

Please note that these are minimum requirements and your *credit union* may need to make additional provisions to reflect the risks and/or potential risks bad debts will have on the *credit union*.

### **(1J) Due from other *credit unions***

The total amount outstanding at the year-end on all loans made to other *credit unions* (irrespective of when the loans were made).

**(1K) Cash and *bank* balances**

The total amount in the *credit union's bank* account, plus any cash that the *credit union* holds (e.g. collection point floats or petty cash). If the *credit union* has drawn upon its overdraft facilities, the amount owed should be inserted in box **2D** of the balance sheet.

**(1L) Other debtors**

Any monies owed to the *credit union* from organisations not listed above.

**(1M) Prepaid expenses**

These are bills that the *credit union* has paid but the benefit falls into a later accounting period e.g. insurance premiums.

**(1N) Other**

This can include any other assets not covered in the above boxes. It may include suspense accounts that have been opened to correct an error. A suspense account figure should only appear under "assets" if the error results from over debiting and the amount is expected to be recoverable. Any entries made here should be itemised.

**(1P) Total assets**

This figure is the sum total of boxes **1A-1N**.

**Liabilities**

**(2A) Juvenile deposits**

The total amount due to juvenile depositors.

**Loans**

**(2B) Borrowings from other credit unions**

The figure for the amount outstanding on any loan that the *credit union* may have received from another *credit union*.

**(2C) Bank loan**

The figure for the amount outstanding on any loan that the *credit union* may have received from a *bank*.

*A version 1 credit union* may not borrow more than 20% of the total shareholding (see box 13d) of the *credit union* except on a short-term basis. Subordinated debt does not form part of the later calculation. (See *CRED* 7.3.3R-7.3.6R for more information.)

**(2D) Authorised overdrafts**

The amount that the *credit union* is overdrawn at the *bank*. This figure should not be shown on the assets side of the balance sheet.

**(2E) Grants**

Total amount of grants that the *credit union* has received but not yet released to revenue.

**(2F) Other creditors and accruals**

Money that the *credit union* owes with respect to bills or interest still owing on loans.

## **(2G) Corporation tax**

The amount of tax owed by the *credit union* at the year-end in respect of corporation tax. Corporation tax is payable on interest earned on non-trading income e.g. bank account interest.

## **(2H) Interest to juvenile depositors**

The amount of interest payable on juvenile accounts that the *credit union* has not paid at the end of the financial year.

## **(2J) Applications**

Total monies applied to dividend, rebate of interest and donations in the current year but not yet paid to members.

## **(2K) Other**

This should include any other liability not covered above. All entries made here should be fully itemised.

## **(2L) Total liabilities**

This figure is the sum total of boxes **2A-2K**.

## **(2M) Net assets**

This is the sum of total assets minus total liabilities (**1P minus 2L**).

## **Credit union capital and reserves**

### **(2N) General reserves**

Amount held by the *credit union* in general reserve (See *CRED* 8.3.5R.)

### **(2P) Other reserves**

Money that the *credit union* has set aside out of profits e.g. a revenue reserve to provide for unforeseen circumstances. Other reserves are entirely voluntary and do not have to be held by the *credit union*.

### **(2Q-R) Subordinated debt**

Subordinated debts in 2Q-R are loans where the lender has agreed to the terms set out on *CRED* 8.2.1R. They are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loans should have an original term of over five years.

Whereas your *credit union* is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt should meet the rules laid down in *CRED* 8.2.1R(4). You will need to refer to this when calculating subordinated debt. Some of the main conditions are listed below:

- When the loan is issued it should have a maturity date of not less than five years;
- The conditions attached to the loan should state that the claims of the subordinated creditors should rank behind those of all unsubordinated creditors including the *credit union's* shareholders;

- The subordinated debt should not become due and payable before its final maturity date except in the event of default by non-payment of any interest or principal under the debt agreement or the winding-up of the *credit union*; and

Please note that only subordinated debt counting towards capital should be shown in 2Q-R.

To meet the subordinated debt rules laid down in Chapter 8 (Capital requirements) of *CRED*, the following formula should be used in writing down your *credit union's* subordinated debt (see *CRED* 8.2.4R):

Years to maturity	Amount of loan counting towards capital
More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

### **(2S) Total capital**

The total of boxes 2N-2R.

### **(2T) Members' share balances**

Total amount of money held by the *credit union* in respect of shares paid in by adult members.

### **(2U) Total capital and share balances**

This is the sum of total capital plus members' share balances. This figure should be equal to the net assets figure shown in box **2M**.

## **Revenue account**

The Revenue Account sets out the *credit union's* total income and expenditure, in order to arrive at the profit for the year.

### **Income**

#### **(3A) Entrance fees**

The total amount of money the *credit union* has received through entrance fees from new members.

#### **(3B) Interest from members' loans**

The total amount of interest earned on loans made to members.

#### **(3C) Bank interest**

The total amount of interest receivable on the *credit union's* bank account.

#### **(3D) Other investment income**

The total amount earned on investments held by the *credit union*.

#### **(3E) Profit on sale of investments and assets**

Profit earned on any investment or asset sales.

**(3F) Bad debts recovered**

The amount of debts that the *credit union* has recovered having previously written them out of the accounts.

**(3G) Administrative charges on juvenile account**

The amount earned by the *credit union* on any administrative charges to juvenile depositors.

**(3H) Grants**

Money received by the *credit union* in the form of a grant from another organisation and released into revenue.

**(3J) Donations**

Money received by the *credit union* in the form of a donation from a member or another body.

**(3K) Insurance commission**

Money received by the *credit union* from commission on insurance product sales.

**(3L) Annual membership fees**

Money received by the *credit union* from charging an annual membership fee for members.

**(3M) Ancillary service charges**

Money received by the *credit union* from fees for providing ancillary services to members.

**(3N) Other income**

This could be any other form of income received by the *credit union* that is not covered above by **3A-3M**. Any entry made here should be fully itemised.

**(3P) Total income**

This figure is the sum total of boxes **3A-3N**.

**Expenditure**

**(4A) Admin expenses**

This figure should include the following expenditure items as a total figure:

1. Occupancy costs
2. Printing, stationery and advertising costs
3. Staff remuneration
4. Insurance costs (not fidelity bond)
5. Legal fees

**(4B) Auditors remuneration**

Total payable to auditor.

**(4C) Fidelity bond insurance**

Total payable for fidelity insurance.

**(4D) Management expenses**

Total payable for expenses incurred by the officers of the *credit union* e.g. Officer expenses, honoraria to officers and expenses.

**(4E) Bad debt provision**

The net amount in the year added to the bad debt provision to provide adequately for loan arrears for the whole financial year. This may be a negative amount if arrears have fallen during the year.

**(4F) Bad debts written off**

The total amount of outstanding loans written out of the accounts due to non-payment to the extent that they have not been charged to the bad debt provision.

These are delinquent loans that your *credit union* believes are likely to be irrecoverable and has therefore been written out of the accounts. Writing off loans does not prevent your *credit union* continuing to seek repayment.

**(4G) Bank charges**

Charges payable on the *credit union's* bank accounts.

**(4H) Interest charged (on borrowings)**

This is total amount of interest the *credit union* has paid on borrowings. This figure is the sum total of boxes **22C**, **23C**, **24C** and **25C**.

**(4J) Loss/revaluation on investments/assets**

The total amount that the *credit union* has lost on investment sales and asset revaluation. This should not include depreciation as this is a capital movement not an expenditure item.

**(4K) General insurance**

The total amount that the *credit union* has paid for general insurance during the year.

**(4L) LP/LS insurance**

The total amount that the *credit union* paid on LP/LS insurance.

**(4M) FSA and related fees/costs**

The total amount that the *credit union* paid to the *FSA* during the year. Please note that this figure should include the costs of the *Financial Ombudsman Service*.

**(4N) Trade association membership dues**

The total amount the *credit union* paid to its trade association for membership during the year.

**(4P) Other**

This should include any expenditure items not covered in the other boxes. Any entry made here should be fully itemised. For example loans made to other *credit unions* that have been written off due to non-payment.

**(4Q) Total expenditure**

This figure is the sum total of boxes **4A-4P**.

**(4R) Income less expenditure**

The sum of box **3P** less box **4Q**.

#### **(5) Profit/(loss) for year before taxation**

If the figure is a negative, the *credit union* made a loss for the financial year. A positive figure denotes that a profit has been made by the *credit union*.

#### **(6) Less taxation**

The amount payable by the *credit union* on any taxable profit. Any tax enquiries should be made to your local Inland Revenue Office.

#### **(7) Profit/(Loss) for year transferred to appropriation account**

Amount transferred to appropriation account for distribution.

### **Appropriation Account**

#### **(8A) Profit (loss) after tax**

The same figure as shown at the end of the Revenue Account at **7**.

#### **(8B) Transfer to general reserve**

This transfer should be compliant with *CRED* 8.3.6R – 8.3.8R. For a *version 1 credit union* if the *credit union's* general reserve is less than 10% of total assets, the *credit union* should transfer at least 20% of surplus to general reserve. *Credit unions* may also make a voluntary transfer to general reserve and that should also be shown.

#### **(8C) Transfer to other reserve**

The amount the *credit union* decided to transfer to other reserves after the transfer to general reserve has taken place.

#### **(8D) Transfer from general reserve**

The *credit union* can only remove funds from general reserve if the general reserve exceeds 10% of total assets.

#### **(8E) Transfer from other reserve**

The *credit union* can transfer funds from other reserves as and when it sees fit.

#### **(8F) Transfer to applications**

Funds transferred for distribution.

### **Applications**

#### **(9A) Transfer from appropriation account**

The same as the amount shown at **8F** in the appropriation account.

#### **(9B) Transfer as % of profit after tax**

This is the percentage of profit transferred into the applications account for distribution.

#### **(9C) Dividend**

The amount of surplus the *credit union* will pay to members in the form of a dividend.

#### **(9D) Rate of dividend**

The percentage of dividend paid on members' accounts. *Credit unions* cannot pay more than 8% dividend to members in any one financial year even if several dividends are paid. If different rates are paid on different types of accounts these different rates should be shown in the boxes provided.

### **(9E) Rebate of interest**

The amount of surplus that the *credit union* intends to use as a rebate on interest receivable on members' loans.

### **(9F) Rate of interest rebate**

The percentage of interest rebate the *credit union* has given on members' loans.

### **(9G) Donations**

Any monies donated to another *credit union* or charitable organisation.

## **Reserves**

### **General Reserve**

#### **(10A) Opening balance**

The amount of general reserve at the end of the last financial year before any additions or subtractions for this financial year.

#### **(10B) Transfer from appropriation account**

The same as the amount shown at **8B** in the appropriation account.

#### **(10C) Transfer as % of profit after tax**

This sum is the amount transferred as a percentage of profit after tax. For *version 1 credit unions*: if your general reserve is less than 10% of total assets at the end of the previous financial year, then this figure should be at least 20% of profit.

#### **(10D) Transfer from other reserves**

Money transferred from other reserves into the general reserve – same as **11F**.

#### **(10E) Transfer to appropriation account**

Money transferred to appropriation account – same as **8D**.

#### **(10F) Transfer to other reserves**

The amount transferred to other reserves – same as **11D**.

#### **(10G) Closing balance**

The total general reserve at the end of this financial year. This should be identical to the figure shown on the balance sheet at **2N**. This figure should be the sum of **10A+10B+10D-10E-10F**.

## **Other Reserves**

#### **(11A) Opening balance**

The balance of other reserves at the end of the previous year.

#### **(11B) Transfer from appropriation account**

The amount transferred from the appropriation account as at **8C**.

#### **(11C) Transfer as a percentage of profit after tax**

This sum is the amount transferred as a percentage of profit after tax.

#### **(11D) Transfer from general reserve**

The amount transferred as at **10F** from general reserve.

**(11E) Transfer to appropriation account**

The amount transferred from other reserves as at 8E into the appropriation account.

**(11F) Transfer to general reserve**

The amount of voluntary transfer the *credit union* has made from other reserves as at **10D** into the general reserve.

**(11G) Closing balance**

The total amount held in other reserves at the *credit union* at the end of the financial year and identical to the figure in box **2P** on the balance sheet. This figure should be the sum of **11A+11B-11D-11E-11F**.

**Notes to accounts**

**Membership**

**(12A) Beginning of year**

Number of members at the start of the financial year.

**(12B) Added during year**

Number of new members during financial year.

**(12C) Ceased during year**

Number of members who ceased membership during financial year.

**(12D) Total members**

Total members at the end of the financial year. This figure is the sum total of boxes **12A+12B – 12C**.

**(12E) Non qualifying at end of year**

Total number of non-qualifying members at the end of the financial year. Non-qualifying members are members who once qualified under the common bond but no longer do so. For example, if someone moved outside the common bond area of your *credit union* or ceased to work for the employer your *credit union* is related to.

**(12F) % Non qualifying members**

This is the percentage of non-qualifying members of the total membership of the *credit union*:

$$\frac{\text{Non-qualifying members}}{\text{Total members}} \times \frac{100}{1}$$

**Shareholdings**

**(13A) Opening balance**

The total shareholdings and juvenile deposits at the end of the last financial year.

**(13B) Shares in (including dividends)**

The total amount of shares and juvenile deposits added during the year including any dividend paid. Please note that this should be a total amount and not net amount.

### (13C) Shares withdrawn (including transfers)

The total amount of shares and juvenile deposits that have been withdrawn during the financial year and should include any shares transferred to offset loans outstanding. This figure is a negative entry due to the reduction to total shares

### (13D) Closing balance

The total amount of shares and juvenile deposits held by the *credit union* at the year-end. This figure is the sum total of boxes **13A+13B-13C**.

### (13E) Average share balance

The average share balance of the *credit union*. This can be calculated by dividing total shares by the total number of members at the end of the year.

### (13F) Value of unattached shares

Total value of adult shares and juvenile deposits, which are not attached to a loan. This includes all shares:

- that are not attached to any loan;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
101	£750	£0	£750
102	£1,201	£0	£1,201
103	£254	£0	£254
104	£1,500	£0	£1,500
Totals	£3,705	£0	£3,705

- which exceed a member's loan balance.

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
001	£600	£750	£nil
002	£1,470	£1,201	£269
003	£522	£254	£268
004	£900	£1,500	£nil
Totals	£3,492	£3,705	£537

- which are not used to guarantee a loan.

Example:

Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:

Member number	Share balance	Loan balance + interest owing	Net liability
200	£600	£750	(£150)
300	£1,470	£1,201	£269

The net liability for the loan of member 200 equals £150. Member 300 has £269 in unattached shares. To work out the unattached shares of both members we should complete the following formula:

Unattached shares of member 300	£269
Net liability of member 200	<u>(£150)</u>
Combined unattached shares	£119

Your *credit union* will need to monitor closely guaranteed loans when working out unattached shares.

## Loans to Members

### (14A) Opening balance

The total amount owing to the *credit union* at the end of the previous financial year.

### (14B) Loans made to members

The total amount of loans made to members during the financial year.

### (14C) Interest receivable

The amount of interest charged on loans to members this should not exceed 12.68% per year.

### (14D) Total repayments (interest and capital)

The total amount of loans (including interest) that have been repaid during the year. The figure should also include loans that have been repaid due to a share to loan transfer. This figure is a negative entry due to the reduction to total loans.

### (14E) Bad debts written off

The total amount of loans that have been written out of the accounts of the *credit union* and should be the same as that shown in the Revenue Account at **4F**. This figure is a negative entry due to the reduction to total loans.

### (14F) Closing balance

The total amount of loans that the *credit union* has out to members at the end of the financial year. This figure is the sum total of boxes **14A+14B+14C-14D-14E**.

### (14G) Number of loans (at year-end)

The total number of loans outstanding at the end of the financial year.

### (14H) Total net liabilities

The total amount of outstanding on loans (inclusive of interest owing). Net liabilities can be calculated by using the following formula:

**Loan balance + interest owing – share balance = Net liabilities**

## (15A-C) Arrears analysis

This relates to net liabilities on loans. In this section there are 2 time periods under which to analyse the number and amount of loans in arrears and have net liabilities attached:

- "3 months to 12 months" on the Annual Return (CY) refers to all loans which are over 3 months and up to and including 12 months in arrears, and have net liabilities attached;

- "over 12 months" on the Annual Return Form refers to all loans which are over 12 months in arrears, and have net liabilities attached;

Please note: Where payments actually received from a member are irregular in timing and/or amount, your *credit union* should have a policy on how to deal with such arrears. Ultimately, how sure can your *credit union* be that such a loan will not be defaulted upon in the future? The main concern for us is that your *credit union* can be confident that adequate provisions have been made to offset any potential burdens an irrecoverable debt would place on the *credit union* in the future. For this reason, it may be prudent for your *credit union* to make provisions for such risks.

For example:

If 15 weekly repayments have been missed (or an amount equivalent to 15 weekly repayments is overdue), then the loan should be included under the "3 months to 12 months" time period, irrespective of when the most recent repayment was received.

### Number

The actual number of outstanding loans, within the time periods mentioned above, with net liabilities at the end of the quarter.

### Net liabilities

The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:

$$\text{Loan balance} + \text{interest owing} - \text{share balance} = \text{Net liability}$$

The table below is an example on how to work out net liability:

Loans 3-12 months in arrears:				
Loan No.	Loan balance	Interest owing	Share balance	Net liability
1	£390	£10	£200	£200
2	£580	£20	£500	£100
3	£4,050	£150	£2,200	£2,000
4	£720	£30	£1,000	£0
5	£115	£10	£50	£75
<b>Total</b>	<b>£5,855</b>	<b>£220</b>	<b>£3,950</b>	<b>£2,375</b>

From this table we see that there are 4 loans with positive net liabilities. Total net liabilities for this period is £2,375.

The **Total** of the number and amount of net liabilities of loans in arrears should also be given. From the example above totals will be as follows:

	Number	Net Liability
3-12 months	4	£2,375
Over 12 months	0	£0
<b>Total</b>	<b>4</b>	<b>£2,375</b>

## Provision for members' doubtful debts

### General Provision

#### (16A) Balance at beginning of year

The total general provision at the beginning of the year. General bad debt provisions refer to provisions that your *credit union* has made to cover potential doubtful debts. These are loans not currently in arrears or loans up to and including three months in arrears.

#### (16B) Increase in year

The total amount added to the general bad debt provision during the financial year.

#### (16C) Written off in year

The total amount of loans written off from the general bad debt provision during the financial.

#### (16D) Decrease in year

The total amount released from the general bad debt provision during the financial year because it was no longer required e.g. because the total amount of loans outstanding has fallen

#### (16E) Balance at end of year

The total general provision at the end of the year. Please note that *CRED* 10.5.3.E states that a *credit union* should have a general bad debt provision of 2% of total net liabilities on all loans not covered by the specific bad debt provisioning. This figure is the sum total of boxes **16A+16B-16C-16D** and should be the same as box **1G** on the balance sheet.

### Specific provision

#### (16F) Balance at beginning of year

The amount that the *credit union* has specifically provided against loan arrears at the beginning of the financial year.

#### (16G) Increase in the year

The total amount placed into the specific bad debt provision during the financial year.

#### (16H) Written off during year

The total amount of loans written off from the specific bad debt provisions during the financial year.

#### (16J) Decrease in year

The total amount released from the specific bad debt provision during the financial year.

#### (16K) Balance at end of year

The total amount in the specific general reserve at the end of the financial year. To comply with *CRED* 10.5.2R, all net liabilities on loans over 12 months in arrears should be fully provided for and all loans between 3-12 months should be provided for on a 35% of net liabilities basis. This figure is the sum total of boxes **16F+16G-16H-16J** and should be the same as box **1H** on the balance sheet.

### Fixed assets

**(17A) Opening cost**

The total amount of fixed assets the *credit union* had at the end of the previous financial year.

**(17B) Additions at cost**

The total amount of fixed assets purchased during the financial year.

**(17C) Original Cost of disposals**

The total amount of fixed assets sold during the financial year shown at original cost. It is shown as a negative, as it reduces the total amount of fixed assets held by the *credit union*.

**(17D) Opening depreciation**

Amount of depreciation at the end of the financial year.

**(17E) Depreciation charge in year**

Total amount of depreciation charged against assets.

**(17F) Depreciation eliminated on disposals**

Total amount taken out due to disposal of assets.

**(17G) Net book value**

The total amount of fixed assets held by the *credit union* at the end of the financial year. This figure is the sum total of boxes **17A+17B-17C-17D-17E-17F** and match that shown in the balance sheet at **1A**.

**Investments****Due from other credit unions****(18A) Opening balance**

The total amount that the *credit union* had out on loan to other *credit unions* at the beginning of the financial year.

**(18B) Transfer to other credit unions during year**

The total of loans granted to other *credit unions*.

**(18C) Repaid by credit union during year**

The total amount of the loan that has been repaid excluding the interest that the *credit union* has received on that loan.

**(18D) Capital written off**

The total amount of loans made to other *credit unions* that have been written off due to default or non-payment.

**(18E) Closing balance**

The total amount of outstanding loans made to other *credit unions* at the year-end. This figure is the sum total of boxes **18A+18B-18C-18D**.

**(18F) Return on investment**

The total amount of interest received by the *credit union* on its loans to other *credit unions* this should be the end of year balance.

## **Investments – *Bank and Building Societies***

### **(19A) Opening balance**

The amount that the *credit union* had in an investment account held at a *Bank or Building Society* at the beginning of the year.

### **(19B) Invested during year**

The amount of money added to the investment account during the year.

### **(19C) Withdrawn during year**

The amount of money withdrawn during the year.

### **(19D) Closing balance**

The amount that the *credit union* held in an investment account at the end of the year. This figure is the sum total of boxes **19A+9B-19C**.

## **Investments - Securities**

### **(20A) Opening balance**

The amount the *credit union* held in investments at the beginning of the year.

### **(20B) Investments purchased during year**

The total cost of new investments the *credit union* made during the year.

### **(20C) Investment sold during year**

Amount received for investments sold during year.

### **(20D) Losses/capital written off**

Amount written off during financial year due to losses on sale of investments or a change in their market value.

### **(20E) Closing balance**

Amount of investments at end of financial year. This figure is the sum total of boxes **20A+20B-20C-20D**.

## **Cash and *Bank* balance**

### **(21A) Opening balance**

Amount held in *Bank* and in cash at beginning of year.

### **(21B) Increase/(decrease)**

Amount added/withdrawn from cash/*bank* balances during year.

### **(21C) Closing balance**

The amount held in cash and at *Bank* at the end of year. This figure is the sum total of boxes **21A+/-21B**.

## **Debt Liabilities**

### **Borrowings from other credit unions**

#### **(22A) Opening balance**

The total amount of borrowings the *credit union* had at the beginning of the financial year.

**(22B) Amount received**

The total amount the *credit union* borrowed from other *credit unions* during the financial year.

**(22C) Interest charged for the year**

The total amount of interest payable on loans from other *credit unions*.

**(22D) Repayments (capital and interest)**

The total amount of the loan that the *credit union* has repaid and is shown as a negative as it reduces the total amount of borrowings.

**(22E) Closing balance**

Total amount of borrowings at year-end. This figure is the sum total of boxes **22A+22B+22C-22D**.

**(22F) Date of final repayment**

The date that the last payment is due to the lending *credit union*.

**Bank Loans****(23A) Opening balance**

The total amount at the beginning of the financial year that the *credit union* borrowed from a *bank*.

**(23B) Amount of loan received**

The total amount borrowed by the *credit union* during the financial year.

**(23C) Interest charged for the year**

The total amount of interest payable on the loan during the financial year.

**(23D) Repayments (capital and interest)**

The total amount the *credit union* repaid during the financial year.

**(23E) Closing balance**

Total amount of *bank* loans at end of financial year. This figure is the sum total of boxes **23A+23B+23C-23D**.

**(23F) Date of final repayment**

The date that the final repayment is due.

**Other borrowings****(24A) Opening balance**

The total amount of other borrowings that the *credit union* had at the beginning of the financial year.

**(24B) Amount of loan received**

The total amount of the loan borrowed during the financial year.

**(24C) Interest charged for year**

The total amount of interest payable on the loan during the financial year.

**(24D) Repayments (capital and interest)**

The total amount that the *credit union* has repaid.

**(24E) Closing balance**

Total amount of other borrowings at financial year-end. This figure is the sum of boxes **24A+24B+24C-24D**.

**(24F) Date of final repayment**

The date that the last payment is due to the lender.

**Subordinated Debt**

Subordinated debts are any loans where the lender has agreed to the terms as set out in *CRED* 8.2.1R. These terms include agreeing to rank behind other creditors including the *credit union's* members in the event of the *credit union* failing. Total amounts of subordinated debt held by the *credit union* should be shown here although only the amounts attributable to capital calculations should be shown in the balance sheet. Please see the guidance for boxes **2Q-R**.

**(25A) Opening balance**

Total amount of subordinated debt at the beginning of financial year.

**(25B) Received during year**

Total additions to subordinated debt during financial year.

**(25C) Interest charged for the year**

The total amount of interest payable on the subordinated debt.

**(25D) Repaid during year**

Total amount of capital repaid on subordinated debt during financial year.

**(25E) Closing balance**

Total amount of subordinated debt at the end of the financial year. This figure is the sum total of boxes **25A+25B+25C-25D**.

**Authorised overdrafts****(26A) Maximum limit**

Maximum amount that the *credit union* can go overdrawn by.

**(26B) Charges incurred during year**

Total amount of charges during the financial year (*bank* charges not interest).

**(26C) Date term expires**

Date the overdraft facility expires.

**(26D) Max amount drawn during year**

The maximum amount of overdraft used during the financial year.

**Committed facilities**

A committed facility is a committed line of credit, other than an overdraft, from a bank. These are funds immediately available from a bank and constitute a loan.

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the bank with which your *credit union* holds its current account. Any unused committed facilities can be entered into this box. If your *credit union* does not have any committed facilities, enter "nil" in this box. We would like to draw your attention to *CRED* (7.3.3R). It states that "the borrowings of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the *credit union*". Short-term is defined as not more than "the end of two consecutive quarters" (*CRED* 7.3.4E).

Please note that any unused committed facilities may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We reserve the right to seek evidence of any committed facilities which are used for liquidity purposes.

**(27A) Maximum limit**

Maximum amount that the *credit union* can call on.

**(27B) Charges incurred during year**

Total amount of charges incurred during financial year for use of standby facility (*bank charges not interest*).

**(27C) Date facility expires**

Date the standby facility expires.

**(27D) Max used committed facilities during year**

The maximum amount of used committed facilities during the financial year.

**Grants**

**(28A) Opening balance**

Amount of grants at start of financial year.

**(28B) Received during year**

Total amount of new grants received during the financial year.

**(28C) Applied during year**

Total amount of grants applied during the financial year.

**(28D) Closing balance**

Total amount of grants at the end of the financial year. This figure is the sum total of boxes **28A+28B-23C**.

**(28E) Date Grants expire**

Date grant funding ends.

**Adult liquidity ratio**

**Liquid assets**

### **(29A) Cash and bank balance**

The total amount in your *credit union's* current *bank* account and any cash held in the custody of officers. This should be the same as box **1K**. The following are not to be included in this calculation:

- Authorised overdrafts;
- Committed facilities;
- Other investments of surplus funds which will fall into the investments section of liquid assets.

### **(29B) Investments (less than eight days to maturity)**

*CRED* 9.3.8R states that only investments that could be realised within eight days can be included in calculating your *credit union's* liquidity ratio. It is therefore important that your committee of management takes a long-term view of the *credit union* business before investing surplus funds in long term investments. Your *credit union* will need to be aware of redemption penalties or other losses you may incur for the early realisation of such funds. Most funds can be converted into cash but at a cost.

Please note: This will include any *deposit* accounts your *credit union* may use.

**Version 1 credit unions should not hold any investments with a maturity date of over 12 months (CRED 7.2.2R).**

The remainder of the information in 29B relates directly to *version 2 credit unions*.

*CRED* 9.3.9E(1) reads: "For the purpose of calculating a *credit union's* liquidity ratio, the *securities* referred to in *CRED* 7.2.2R – 7.2.3R should be valued on the basis that they could be realised at par, minus the following discounts:

- (a) maturity less than 1 year - Zero
- (b) maturity 1 to 5 years - 5%

So in events where your *credit union* can realise investments within eight days, you will still need to reduce the applicable figure by 5% for all *securities* with a maturity date of between one and five years.

Example:

Time period	Amount realisable in 8 days	Amount allowed for liquidity
Less than 1 year	£200	£200
1 to 5 years	£500	£475

Whilst these are minimum requirements your *credit union* will need to draft and implement a comprehensive liquidity management policy to account for the greater risks attached to longer term investments.

### **(29C) Unused committed facilities**

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* or *building society* which your *credit union* holds its current account. Any unused committed facilities may be entered into this box. If your *credit union* does not have any committed facilities, enter "nil" in this box. Please note that to comply with *CRED* 7.3.4E, the total borrowings

of a *version 1 credit union* should not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.

Please note that any unused committed facilities may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We at the *Financial Services Authority* reserve the right to seek evidence of any committed facilities, which are used for liquidity purposes.

#### **(29D) Unused overdrafts**

This relates to a *credit union* which has authorised overdrafts arrangement with an institution authorised to accept *deposits* within the *EEA*. Normally this will be the *bank* or *building society* with whom your *credit union* holds its current account. Any surplus overdrafts which have not been used may be entered into this box. If your *credit union* does not have an authorised overdraft facility, enter "nil" in this box. Please note that as laid down in CRED 7.3.4E the total borrowings of a *version 1 credit union* may not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.

Please note that any unused overdrafts may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We may seek evidence that a *credit union* overdraft facility, which is used for liquidity purposes, has indeed been authorised by the relevant *bank* or *building society*.

#### **(29E) Total liquid assets**

This figure is the sum total of boxes **29A+29B+29C+29D**.

### **Relevant liabilities**

#### **(30A) Unattached shares**

Please see earlier definition above at **13F**.

#### **Liabilities (with an original or remaining maturity of less than three months)**

These are all liabilities excluding unattached shares (which are already covered in the relevant liabilities being calculated). Only liabilities that fall due within three months can be included in the calculations.

#### **(30B) Authorised overdrafts**

These are all drawings under authorised overdraft.

#### **(30C) Other liabilities / borrowings**

These are all liabilities, excluding unattached shares and authorised overdrafts (which are already covered in the relevant liabilities being calculated here). Included in these calculations are such things as:

- loans from other *credit unions*
- loans from *banks*
- subordinated debt
- committed facilities

Chapter seven (Investments and borrowing) of *CRED* sets out the sources of borrowing available to *credit unions*.

### (30D) Total relevant liabilities

This figure is the sum total of boxes **30A+30B+30C**.

### (30E) Liquidity ratio

To determine the liquidity ratio your *credit union* will use the following formula:

$$\frac{\text{Total liquid assets}}{\text{Total relevant liabilities}} \times \frac{100}{1}$$

Please note that your liquidity level should not fall below 5% at any time and that *version 1 credit unions* should ensure that on no two consecutive quarter ends is the level of the *credit union's* liquid assets below 10% of its total relevant liabilities.

### Large exposures

Whilst these figures relate to the financial year end, your *credit union* will need to look at large *exposure* requirements when issuing loans. For example, *CRED* 10.4.1R defines a large *exposure* as any individual net liability which is at least £5000 and at least 10% of the value of the *credit union's* capital.

### (31A) Largest net exposure

To work out your *credit union's* largest net *exposure* you will need to determine:

- the net *exposure* on each loan and find the largest figure. The formula for this is:  
(loan balance + interest owing) - share balance
- what is the total capital of your *credit union*? This is defined at **5G**.

Say, for example your *credit union's* total capital is £40,000. We know from the above that only net liabilities over 10% of Capital are subject to the large *exposures* rule. Ten percent of £40,000 is £4,000.

However, we further know from the above that only net liabilities over £5,000 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Example:

Member number	Share balance	Loan balance + interest owing	Net liabilities	Is it a large exposure?
150	£3,125	£12,500	£9,375	YES
152	£1,750	£7,000	£5,250	YES
103	£3,115	£9,002	£5,887	YES
462	£2,500	£6,700	£4,200	No
204	£2,138	£7,911	£5,773	YES
109	£4,000	£8,500	£4,500	No

As we can see the largest net *exposure* is that of member 150 and it is £9,375.

### (31B) As % of capital

An individual large exposure should not exceed **25%** of your *credit union's* capital (*CRED* 10.4.2R).

To determine this percentage, your *credit union* will need to use the following calculation:

$$\frac{\text{Largest net exposure (9A)}}{\text{Total capital (5G)}} \times \frac{100}{1}$$

So: 
$$\frac{£9,375}{£40,000} \times \frac{100}{1} = 23.44\%$$

### (31C) Aggregate total of large net exposures

This figure relates to the sum total of all net liabilities subject to the large *exposure* rule as defined in **31A** above.

Taking the example at 9a above, this figure will be £26,285 (see below).

Member number	Share balance	Loan balance + interest owing	Net liabilities
150	£3,125	£12,500	£9,375
152	£1,750	£7,000	£5,250
103	£3,115	£9,002	£5,887
204	£2,138	£7,911	£5,773
Totals	£10,128	£36,413	£26,285

### (31D) As % of capital

*CRED* states that the aggregate total of large net *exposures* must not exceed 500% of the total capital of the *credit union* (*CRED* 10.4.2R), and must not exceed 300% of total capital without prior notifying the FSA (*CRED* 10.4.3R). To see if the example satisfies the rules please use the following calculation:

$$\frac{\text{Aggregate total of large net exposure (31C)}}{\text{Total capital (2S)}} \times \frac{100}{1}$$

So: 
$$\frac{£26,285}{£40,000} \times \frac{100}{1} = 65.71\%$$

Please note that risk adjusted capital should not be used for the purposes of calculating your large *exposures*. For all *credit unions* the total capital figure used here should be the same as box **2S** on the balance sheet.

### (31A) Largest net exposure

This figure should be calculated at the financial year end figures and not the figures at the time the loan was granted. *CRED* 10.4.1R defines large *exposures* as "an *individual net liability to the credit union of at least £5000*". To work out this figure your *credit union*

needs to determine the net *exposure* on each loan and find the largest figure. The formula for this is:

$$(\text{loan balance} + \text{interest owing}) - \text{share balance}$$

Example:

Member number	Share balance	Loan balance + interest owing	Net liabilities
150	£3,125	£12,500	£9,375
152	£1,750	£7,000	£5,250
103	£3,115	£9,002	£5,887
204	£2,138	£7,911	£5,773
Totals	£10,128	£36,413	£26,285

As we can see the largest net *exposure* is that of member 150 and is £9,375.

An individual large *exposure* should not exceed **25%** of your *credit union's* capital (*CRED* 10.4.2R).

### (31B) As % of capital

To determine this percentage, your *credit union* will need to use the following calculation:

$$\frac{\text{Largest net exposure}}{\text{Capital}} \times \frac{100}{1}$$

The figure for capital will be the figure that appears on the balance sheet at **2S**.

### (31C) Aggregate totals of large net exposures

This figure relates to the total of large net *exposures*. Further clarification on this may be found in *CRED* 10.4.6G.

### (31D) As % of capital

To determine this percentage your *credit union* will need to use the following calculation:

$$\frac{\text{Aggregate totals of large net exposure}}{\text{Capital}} \times \frac{100}{1}$$

## Large version 1 and version 2 credit unions

### Risk adjusted capital ratio

A risk adjusted capital ratio is a requirement for larger *version 1 and version 2 credit unions* under *CRED*.

*CRED* 8.3.16R states "A *version 1 credit union* with total assets of more than £10 million and/or a total number of members of more than 10,000 must maintain at all times a risk-adjusted capital to total assets ratio of at least 8%".

### (32A) Total capital

The figure for capital will be the figure that appears on the balance sheet at **2S**.

### (32B) Net provisions or 1% of total assets whichever is the lower

Capital should be risk-adjusted for *version 2 credit unions* and large *version 1 credit unions* (CRED 8.4.1R and CRED 8.3.16R). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets (CRED 8.4.2R).

Net provisions are those provisions your *credit union* has made minus minimum specific provisions. In other words:

	Provision
Minus	100% of net liabilities on loans which are 12 months or more in arrears
Minus	35% of net liabilities on loans 3 – 12 months in arrears
=	<b>Net provisions</b>

This figure is calculated by using the following calculation:

### Arrears Analysis

Arrears - 3 months to 12 months	<b>A</b>
Arrears - over 12 months	<b>B</b>
Total arrears	<b>C = A + B</b>

The above arrears are based on net liabilities

Number	Net Liabilities
	£
	£
	£

### Minimum specific provision

35% of **A** (arrears - 3 months to 12 months) £

100% of **B** (arrears - over 12 months) £

**D Total minimum specific provisions** £

Actual specific provision for doubtful debt (as at **1H**) £

Actual general provision for doubtful debt (as at **1G**) £

**E Total actual provisions** £

Total minimum specific provisions ( **D** ) (£ )

**F Net provisions** £

Total assets (as at **1P**) £

**G 1% of total assets** £

The figure to be posted onto the Annual Return (CY) is the lesser of **F** and **G**. If this is a negative figure, the figure that appears on the Annual Return (CY) needs to be a negative figure.

Example

### Arrears Analysis

Arrears - 3 months to 12 months	<b>A</b>
Arrears - over 12 months	<b>B</b>
Total arrears	<b>C = A + B</b>

The above arrears are based on net liabilities

Number	Net Liabilities
5	£28,000
10	£67,000
15	£95,000

### Minimum specific provision

35% of **A** (arrears - 3 months to 12 months) £9,800

100% of **B** (arrears - over 12 months) £67,000

<b>D Total minimum specific provisions</b>	£76,800
Actual specific provision for doubtful debt (as at <b>1H</b> )	£70,000
Actual general provision for doubtful debt (as at <b>1G</b> )	£10,000
<b>E Total actual provisions</b>	£80,000
Total minimum specific provisions ( <b>D</b> )	(£76,800 )
<b>F Net provisions</b>	£3,200
total assets (as at <b>1N</b> )	£1,120,000
<b>G 1% of total assets</b>	£11,200

The figure to be posted onto the Annual Return (CY) at 32B is £3,200.

### (32C) Total risk adjusted capital

This figure is the sum total of boxes **34a-34b**.

### (32D) Total assets

This is the same as box 1m on the Balance Sheet.

### (32E) Risk adjusted capital ratio

To determine the risk adjusted capital ratio, your *credit union* will use the following formula:

$$\frac{\text{Total risk adjusted capital}}{\text{Total assets}} \times \frac{100}{1}$$

## Auditor's statement

This statement that the information in the Annual Return (CY) has been completely and accurately extracted from the annual audited accounts of the *credit union* should be completed by the *credit union's* auditor. It is important to note that the *credit union* remains responsible for the completion of the Annual Return (CY).

## Committee of Management

Please complete the relevant details for all *credit union* officers here. The details required are their full name, address, post held at the *credit union* (this should include what committee they sit on), whether they are an *approved person*, their approved person function, and their year of birth.

Whilst a brief list of the main controlled functions are given below, *credit unions* will need to refer to *CRED* Chapter 4 (Senior management arrangements, Systems and Controls) and Chapter 6 (The Approved persons regime) of *CRED*. Please note that only the controlled function number needs to be inserted for example if you are on the *credit union's* committee of management the number would be CF1.

The governing functions of a *credit union* are:

**CF1:** The Directors function;

**CF2:** The non-executive director function; and

**CF3:** The chief executive function.

The required functions of a *credit union* are:

**CF8:** The apportionment and oversight function; and

**CF11:** The money laundering reporting function.

The system and controls functions of a *credit union* are:

**CF13:** The finance function;

**CF14:** The risk assessment function; and

**CF15:** The internal audit function.