



CREDIT UNION TECHNICAL UPDATE

SPRING 2009

ALEXANDER SLOAN CHARTERED ACCOUNTANTS



Credit Union Legislation and Regulation is expected to undergo significant change this year. Draft new Credit Union Legislation should be issued shortly as will proposals to change the Credit Union Sourcebook (CRED).

Legislation

The Treasury's response to last year's consultation paper on Credit Union legislative reform has still not been published. This consultation paper, covered a number of significant proposals to areas such as the common bond rules, rules regarding shares, qualifying rules for membership and changes to the rules regarding the payment of interest.

A private members bill named the 'Co-operative, Community Benefit Societies and Credit Unions Bill' had its first reading in the House of Commons on the 21 January 2009. The bill was sponsored by Malcolm Wicks MP and is the next stage in the process of updating Credit Union legislation.

Full details of the bill are not available at present. The bill aims to allow regulations within Companies and Building Societies law to be applied to Credit Unions as well as the rules regarding Directors' disqualification. The bill is expected to have a second reading in late April and further details will be available nearer this time.

Credit Union Sourcebook

The FSA are expected to issue a Consultation Paper on changes to CRED in the next few months. The FSA have stated that they are considering changes to a number of areas including the Liquidity Ratio, General Reserve Requirements and the minimum Bad Debt Provision amongst other areas. We are still awaiting detailed proposals and we will issue further updates when these are available.

The FSA have said that they will also make changes to CRED where necessary for any new requirements included within the new Credit Union legislation. For instance if the concept of deferred shares is created by the new legislation then CRED will be updated to cover deferred shares.

Further Information

At present we are waiting on detailed proposals regarding both the new legislation and the changes to CRED. Changes to both regulation and legislation will have a significant impact on all Credit Unions. We will issue further updates as new information becomes available.



Effect of the Credit Crunch

The Credit Crunch has been well documented in the British Press over the last few months. Credit Unions, like all lenders, are expected to be affected by the economic downturn. The effect has varied from Credit Union to Credit Union. There are both risks and opportunities in the current climate for many Credit Unions. Some of the ways that Credit Unions will be effected include:

- **Bad Debts**– With the lending risk expected to increase in the current economic climate Credit Unions will need to monitor their lending policy as members who have a history of repaying in the past may not necessarily be able to repay in the current climate. Lending policy and budgets will require to be reviewed by many Credit Unions.
- **Bank Interest**– With Bank of England cuts to UK interest rates, many Credit Unions will experience a decline in their income that will need to be taken into account in their budgets.
- **Banking Arrangements**– A number of high profile banking collapses have dominated the press in recent months and Credit Unions need to consider how safe their money is. There are various

options available to Credit Unions with some splitting their funds between various banks to spread their exposure to risk. Credit Unions are classed as mutual societies and therefore those with Net Assets of less than £1.4m (as calculated by the FSCS) will have the first £50,000 of their deposits with UK banking institutions protected under the Financial Service Compensation Scheme (FSCS). Please see the FSCS website for the conditions to this protection.

Credit Unions which continually consider and monitor their risks are likely to cope better with the Credit Crunch

- **Opportunities**– Public trust in banks has declined over recent months following high profile collapses. Credit Unions therefore have the chance to promote themselves to the public as the ethical alternative. There has been an increase in press articles promoting Credit Unions as well as government backed schemes such as the new fund for Credit Unions announced by the Scottish Government (link available at www.alexandersloan.co.uk/credit.htm).

It is a changing market place and those Credit Unions which continually consider and monitor their risks are likely to cope better with the Credit Crunch.

Latest news on the recent Pre Budget Report, FSCS Levies and ABCUL's Code of Governance

REGULATORY UPDATE

CODE OF GOVERNANCE

ABCUL have issued their Code of Governance for Credit Unions. Their dedicated website www.credituniongovernance.coop provides further details and copies of the Code. There have been a number of minor changes from the draft Code.

There are four areas which the Code specifically covers:

- Compliance & Continuity,
- Integrity & Accountability,
- Skills and Ability,
- Structure and the Principles of Good Governance

There are also two different levels of compliance within the Code. Firstly the 'Required Standard' which ABCUL expects all Credit Unions to comply with. Credit Unions would also need to meet additional standards, within the Code, to achieve the 'Gold Standard' This is the standard that ideally all Credit Unions should aim for according to ABCUL.

For assistance in implementing the Code of Governance or checking your Credit Unions compliance please contact Andy McBean (creditunion@alexandersloan.co.uk) who will be pleased to help.

PRE BUDGET REPORT

The recent pre budget report contained a number of issues of direct interest to Credit Unions including:

Saving Gateway Accounts- Following successful pilot schemes, Alistair Darling announced in his pre-budget report, the government's plans for the launch of Saving Gateway Accounts. Credit Unions as well as Banks and Building Societies will be able to offer these accounts in the future. Saving Gateway accounts are aimed at persuading those people of working age on lower-incomes to save. The accounts will last for two years. The Government contribution of 50p for each pound saved will be paid at the end of the accounts. The first accounts will be available to eligible savers in 2010. The Treasury website contains more information about the scheme and details of who is eligible to open this type of account.

VAT Cut- The Budget also announced a change in VAT rates from 17.5% to 15% which will benefit many Credit Unions who are unable to reclaim the VAT on overhead costs.

FSCS LEVY

The FSA have announced that there will be increases in the FSCS levies as a result of the recent banking defaults. The letter issued by the FSA discusses the formula used to calculate the levy which will be payable by Credit Unions for the current year and the next two years. It is estimated that a Credit Union with £1m in protected deposits will pay approximately £512 this year. Costs over the next two years will be larger due to interest due on the FSCS borrowings to repay bank customers. For further information please see our website which provides a link to the letter issued by the FSA.



Contact Details:

If you would like any further information on any of our services or anything covered in this leaflet please contact us:

PLEASE NOTE OUR NEW GLASGOW OFFICE'S CONTACT DETAILS

Phone: (0141) 204 8989
Fax: (0141) 248 9931
E-Mail: creditunion@alexandersloan.co.uk

Website: www.alexandersloan.co.uk/credit.htm

Glasgow Office

38 Cadogan Street, Glasgow, G2 7HF

Edinburgh Office

1 Atholl Place, Edinburgh, EH3 8HP

ABOUT ALEXANDER SLOAN

We are authorised by The Institute of Chartered Accountants of Scotland to carry on audit work and have offices in Glasgow and Edinburgh.

We provide external audit services for a range of both employment and community based credit unions including four of the largest in the country. In addition we provide internal audit services for a number of not for profit organisations.

We provide a range of services for credit unions including:-

- External Audit
- Internal Audit
- System advice/internal audit for banking services
- Developing internal audit programmes for use by the Supervisory committee
- Training for Board and Committee Members
- Annual Return Completion
- Business Plans



Partners: Andrew M. McBean BAcc. C.A., Arnold J.S. Black B.A. C.A., Ewen M. Scott LL.B. C.A., Isobel W. Gray M.A. C.A. F.C.C.A., Alan S. Cunningham B.A. C.A., Mark Mulholland FCCA.

Associates: Steven Cunningham B.A.(Hons) C.A., Philip Morrice, Allison Devine B.Sc. C.A.

Registered to carry out audit work by The Institute of Chartered Accountants of Scotland.