



Northern Ireland  
Assembly

Mark Hoban MP  
Financial Secretary to the Treasury  
HM Treasury  
1 Horse Guards Road  
LONDON  
SW1A 2HQ

9<sup>th</sup> February 2012

*Dear Mr. Hoban*

**Financial Services Authority Regulation of Northern Ireland Credit Unions**

Following representations from the Irish League of Credit Unions and the Ulster Federation of Credit Unions, the Committee for Enterprise, Trade & Investment agreed, at its meeting on 2<sup>nd</sup> February that I should write to you to voice the Committee's continuing concerns at some aspects of the proposed regime for the regulation of Northern Ireland credit unions.

The Committee welcomes many of the changes to the proposals which followed consultation. The Committee particularly welcomes the amendment to the proposed individual shareholding limit for Northern Ireland credit unions which will allow them to maintain individual shareholding of the greater of £15,000 or 1.5% of total share.

The Committee supports the views of the Minister for Enterprise, Trade & Investment which she expressed to you in her letter of 1<sup>st</sup> February. The Northern Ireland credit union movement is particularly concerned that the original proposal to limit the investment period for version 1 credit unions to 12 months has not been amended.

The FSA response to this issue, in its policy statement of December 2011, states that credit unions should be able to demonstrate that they can manage liquidity pressures while tying up funds longer-term. It is the Committee's strongly held view that, historically, all credit unions in Northern Ireland have demonstrated this ability admirably through their prudent investment of surplus funds for up to five years under the current provisions. The FSA proposals constitute a considerable backward step for credit unions here. As the Committee

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stated in its response to the consultation, credit unions are not permitted to invest in schemes with any element of risk. They invest in banks and government bonds where interest is guaranteed. This, coupled with the record of prudent investment by credit unions here provides sufficient assurances that they can manage liquidity in the longer-term under the watchful eye of the FSA.

The Committee recognises that it may be physically impossible for many of our smaller credit unions to comply with the additional management and administrative burden associated with becoming a version 2 credit union. Many of these credit unions are staffed by small numbers of dedicated and experienced volunteers who give freely of their time for the benefit of the communities in which they live. They have many years of experience in managing liquidity pressures and prudent investment of surplus funds. To now require these volunteers to add considerably to their burden of bureaucracy is, in all probability, likely to result in the closure of small, mostly rural credit unions where, often deprived communities, are unable to readily avail of other mainstream borrowing opportunities.

The FSA highlights the possibility that some credit unions may wish to circumvent the transitional provision by investing an excessive amount of surplus funds for three years during the first year following transfer. Credit unions may also be tempted to invest an excessive amount of surplus funds for up to five years prior to the new arrangements coming into effect. While the Committee would not support such a move, any requirement which reduces the investment potential of currently prudently managed credit unions in the longer-term, while leaving the door open and creating the temptation for credit unions to invest excessive amounts in an attempt to mitigate against the transitional arrangement, is not in the interests of the FSA or credit unions. Although the FSA states that its supervision team will monitor the behaviour of credit unions in this area such monitoring would be retrospective rather than preventative.

It is understandable that the FSA wishes to operate a single set of rules but it is important that those rules, not only provide a robust regime for regulation, but also support the needs of credit unions. The Committee asks that you explore ways of amending the rules to allow for version 1 credit unions with a long-term history of sound investment of surplus funds and prudent management of liquidity pressures, to invest surplus funds for longer-term maturity periods. If this is not possible, the FSA should consider amending the rules for Northern Ireland credit unions. It is important that any public body, when developing rules and regulations, considers the needs of those it serves above the convenience of its internal processes and procedures. In this instance, FSA rules should be constituted so as not to cause undue detriment to credit unions or their members.

Credit unions also have continuing concerns in relation to proposed provisioning for bad debt. The proposed requirements constitute an almost doubling of the current arrangements for provisioning for bad debt. The credit union movement points out that the current system has worked well in the past. It is felt that the proposals would constitute an over-regulation of credit unions and are being imposed solely as a reflex reaction to the banking crisis. The Committee urges you to reconsider this proposal and work with the credit union movement to develop a solution that works well for both the FSA and the Northern Ireland credit union movement. The Committee considers the change to FSA regulation of Northern Ireland to be an opportunity for the FSA to benchmark against successful practices here and make improvements to the regulation of GB credit unions. Provisioning for bad debt may be one example where improvements can be made to the current systems.

Yours sincerely



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**Mr Alban Maginness MLA**  
Chair  
Committee for Enterprise, Trade and Investment