

Review of the GB cooperative and credit union legislation: a consultation

June 2007



HM TREASURY

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FOREWORD BY THE ECONOMIC SECRETARY TO THE TREASURY

In November 2006, I announced that the Government, working with stakeholders, would review the legislation governing the mutual sector, in particular that relating to cooperatives and credit unions in Great Britain.

The mutual sector plays a significant role in enhancing financial inclusion, social cohesion, offering diversity and choice in the financial services sector as well as contributing to the wider economy. Let us not underestimate the significance of this sector. Almost 50% of the UK population belongs to a mutual organisation. The mutual sector overall (credit unions, cooperatives, building societies and friendly societies) have over 30 million members, and combined total assets in excess of £400 billion.

However, for some time now stakeholders have expressed concerns that the legislation governing the sector is out of date, and is in some instances restricting their development and competitiveness. Indeed, as is often pointed out, much of the current industrial & provident societies legislation is an amalgamation of 19th century legislation, and the current legislative framework for credit unions is 27 years old.

Although legislation for the mutual sector has provided a robust framework to date, the challenges of the 21st century, increased expectations from members and global competitive pressures make it imperative that we have a legislative framework that will facilitate the growth and expansion of the mutual sector as well as enable the provision of a high quality service to members.

The Government is publishing this consultation as a first step in responding to this challenge. We want to make sure that we are examining the right questions, and that change is soundly evidence based: legislation has costs as well as benefits. This paper therefore seeks evidence on the strengths and weaknesses of the current legislative framework. We invite the sector and other stakeholders to send in their views.

I hope that this consultation and the ensuing recommendations will result in the creation of a modern legislative framework for the mutual sector in Great Britain enabling it to stimulate innovation and compete better with proprietary companies.



Ed Balls

Economic Secretary

21 June 2007

INTRODUCTION

Background **1.1** This consultation paper seeks views from stakeholders on the scope of the review of mutuals legislation in Great Britain (GB). The long-term aim is to provide the mutual sector with a cost-effective legislative framework, which will enable them to compete even more effectively in the modern economy, and to continue to fulfil their valuable social role.

1.2 The Government has consulted the sector informally about the changes, which would be of most help in achieving these objectives. Their views are represented in this document. We would now like to know whether this is the right scope for the review, and to gather evidence to inform an impact assessment.

Mutuals **1.3** Mutual societies are, broadly speaking, societies registered under the Building Societies, Friendly Societies and Industrial & Provident Societies Acts. The latter includes credit unions. Mutuals share certain defining characteristics. They are

- owned/controlled by their members;
- run democratically on the basis of one member one vote;
- set up to meet the mutual needs of their members;
- not set up to make profits for external shareholders or primarily provide a return on capital; and
- share any surplus or profits (the dividend) with their members.

1.4 Public limited companies (Plc) in contrast belong to their shareholders /investors and voting powers are generally determined by the number of shares owned. The primary aim of Plcs is to maximise profits and shareholder returns. Plcs return profits to the holders of their capital.

Current legislative framework

1.5 The legislation for building societies is reasonably up to date. The Building Societies Act 1986 (BS Act 86) was significantly amended by the Building Societies Act 1997 (BS Act 97). The Government is supporting a Private Members Bill (currently going through Parliament) that, once implemented, will make significant changes to building society legislation and facilitate transfers between different types of mutual. The Treasury has also carried out a public consultation¹ on making legislative changes to certain aspects of the BS Act 86. This included a review of how deposits from a building society's subsidiaries were to be treated in calculating their funding limit.

1.6 The Friendly Societies Act dates back to 1992. Both the Building and Friendly Societies Acts are regularly amended to keep them in line with EU requirements for deposit takers and insurers. This consultation therefore focuses on the legislation relating to cooperatives and credit unions and does not include building or friendly societies.

¹ Consultation on legislative changes to the Building Societies Act 1986 was held from 9 November 2006 to 1 February 2007.

Cooperatives **1.7** In the UK the history of the cooperative sector grew out of the success of the Rochdale Pioneers² setting up a cooperative venture in 1844. This has grown into the diversified businesses run by cooperatives today. The International Cooperative Alliance (ICA) defines cooperatives as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”. The majority of GB cooperatives meet these criteria.

1.8 There is at present no national law on cooperatives in GB, however the closest equivalent is the law concerning Industrial & Provident Societies (IPSs) and the majority of GB cooperatives are registered under the Industrial & Provident Societies Act 1965 (IPSA 65).

1.9 Cooperatives may establish as other legal forms, including as companies (under the Companies Act), partnerships, unregistered unincorporated associations and even as limited liability partnerships. There are essentially two types of societies under IPSA 65- Cooperatives run by their members for their members, and community benefit societies or “Bencoms” which are run by their members but for the benefit of the community. The Financial Services Authority (FSA) is the registrar for IPSs registered under IPSA 65 as cooperatives or Bencoms whilst Companies House registers those set up as companies.

Credit Unions **1.10** Credit Unions are financial cooperative societies offering their members loans out of the pool of savings built up by the members themselves. The Credit Unions Act 1979 (CU Act 79) is the main Act of Parliament governing credit unions in GB, however they are registered under IPSA 65 and are subject to most of its requirements. There was no legal structure for credit unions prior to the 1979 Act and some of the early credit unions were registered under the Companies Act or as cooperatives. Credit unions in GB have since 2002 been registered and regulated by the FSA.

1.11 Credit unions are only open to a limited field of members who all meet a membership qualification called the “common bond” which determines who is eligible for membership. This may be based on people living or working in the same area, association such as church or trade union or other qualifying criteria approved by the Registrar. Their members make decisions democratically in their collective interest through an elected board. Savings accounts (referred to as shares) are held only by members, no interest is payable and dividends are subject to a statutory limit, currently 8%. Loans from credit unions may only be made to members and there is a ceiling on the amount of interest chargeable, currently 2% per month.

Profile of the sectors **1.12** As at December 2005 there were 8,132 ‘live’ IPSs registered with the FSA³, with about 19 million members and total assets of nearly £120 billion. The most significant in terms of numbers and assets are consumer and worker cooperatives, cooperative consortiums, agricultural cooperatives and housing cooperatives. A breakdown of some of the significant IPS sectors is as follows⁴:

² The Rochdale Society of Equitable Pioneers was a group of 28 weavers and other artisans in Rochdale. They opened their store on December 21, 1844 with a meagre selection of butter, sugar, flour, oatmeal and a few candles. Ten years later the British Cooperative movement had grown to nearly 1000 cooperatives.

³ The FSA registers all types of IPSs, which includes both cooperatives, and Bencoms.

⁴ Source: Coops UK.

	Number	Employees	Members	Turnover (estimated)
Consumer Cooperatives	34	111,205	8,256,000	£12.5 billion
Worker Cooperatives	373	2,067	2,072	£130 million
Cooperative Consortiums	247	402	178,500	£314 million
Agricultural Cooperatives⁵	404	7,863	153,476	£4.4 billion
Housing Cooperatives	645	253	40,053	£98 million

1.13 There were 567 registered credit unions in GB as at 30 September 2006 with just under ½ million members and total assets of just under £500 million.

Devolution **1.14** Matters relating to IPSs are devolved to Westminster under the Scottish and Welsh devolution arrangements, however some cooperatives engage in matters devolved to Scotland. For example, cooperatives that are registered social landlords in Scotland are governed by The Housing (Scotland) Act 2001. HMT will therefore fully consult with the Scottish Executive to establish any read across and incorporate their comments in this consultation.

1.15 Credit Unions and IPSs in Northern Ireland are a devolved matter. The relevant Northern Ireland enactments are the Industrial & Provident Societies Act (Northern Ireland) 1969 and the Credit Unions (Northern Ireland) Order 1985. This consultation will therefore **not** extend to Northern Ireland cooperatives or credit unions.

Policy responsibility **1.16** The FSA is the registrar (and regulator where applicable) for cooperatives and credit unions, however HMT has policy responsibility for the sector and its legislation.

How to respond **1.17** This consultation document will be sent to the representative bodies of the mutuals sector, cooperatives and credit unions in GB, academics as well as stakeholders in the financial services sector. The consultation document will also be posted on the Treasury public website and printed copies available on request.

1.18 In accordance with Cabinet Office best practice, this consultation will last 12 weeks, from **21 June 2007** to **12 September 2007**. Please send your responses to:

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⁵ England and Scotland only. Does not include Wales or Northern Ireland.

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Disclosure of responses

I.19 When responding, please state if you are responding as an individual or representing the views of an organisation. In accordance with the code of practice on open government, comments will be made publicly available unless respondents specifically request otherwise. In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of e-mails will be disregarded for the purpose of publishing responses unless an explicit request for confidentiality is made in the body of the response. If you wish part, but not all, of your response to remain confidential please supply two versions – one for publication on the website with the confidential information deleted and another confidential version for the HMT consultation team.

Regulatory Impact Assessment

I.20 This consultation seeks stakeholders' views and evidence on the current legislative framework for the cooperative and credit union sectors. The consultation will help to inform any proposed changes. Following on from this the Treasury will prepare a full Regulatory Impact Assessment (RIA) of the various options including a cost/benefit assessment based on the evidence gathered. A copy of the RIA will be posted on the HMT public website at www.hm-treasury.gov.uk also available on request from the HMT correspondence and enquiry unit.

CONFIDENTIALITY DISCLOSURES

I.21 Information provided in response to this consultation, including personal information, might be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act (DPA) and the Environmental Information Regulations 2004.

I.22 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality will be maintained in all circumstances.

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**Cabinet Office
code of
practice**

1.25 The Cabinet Office has published a Code of Practice for Written Consultations to guide Department's activities in this area, which sets out the following criteria:

- consult widely throughout the process, allowing a minimum of 12 weeks for written consultations at least once during the development of the policy;
- be clear about what the proposals are, who may be affected, what questions are being asked, and timescale for responses;
- ensure the consultation is clear, concise and widely accessible;
- give feedback regarding the responses received and how the consultation process influenced the policy;
- monitor the department's effectiveness at consultation, including through the use of a designated consultation co-ordinator; and
- ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

1.26 If you feel that this consultation does not fulfil these criteria, please contact:

Sowdamini Kadambari
 HM Treasury
 1 Horse Guards Road
 London
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THE CURRENT LEGISLATIVE FRAMEWORK

2.1 The mutual sector in Great Britain - building societies, cooperatives, credit unions and friendly societies - plays a valuable public policy function, in parallel to meeting the needs of members. In addition the mutual sector now compete with companies, banks and insurers for a wide range of mainstream bancassurance business.

2.2 The broader mutual sector engages in a range of activities which help to encourage a savings ethic among members as well as create wealth. For example, building societies facilitate asset creation and ownership by helping people to save for, as well as own, their own homes. Friendly societies provide life assurance and assistance to their members during sickness, unemployment and retirement, offering a socially responsible welfare alternative to Government initiatives. For many on low incomes and unable to access mainstream credit products, credit unions offer a realistic alternative to some of the home credit companies, which may charge Annual Percentage Rates (APRs) in excess of 100 per cent.

2.3 The Government is working closely with the cooperative and credit union sectors to address diverse social issues such as financial exclusion, eroding social cohesion, and the low propensity to save within some economic groupings. One of these Government initiatives, a key priority in the financial inclusion strategy, is the promotion of access to affordable credit for those on low incomes. The Government set up a Growth Fund of £36 million in 2006 to support credit unions to expand their loan service to financially excluded people. However, the success of such schemes relies to a large extent on the existence of an effective and enabling legislative framework. For example, a clear corporate governance and up-to-date accounting regime on the one hand and sufficient powers to meet members' needs on the other.

2.4 Membership of cooperative and credit union societies has grown in the UK in the last two decades, but there have only been limited developments in the legislation since 1979, including:

- **The Deregulation (Credit Unions) Order 1996:** This Order amended the 1979 Credit Unions Act to introduce a new membership qualification for credit unions, allow members to hold shares of up to 1.5% of a credit union's total shareholdings, allow a loan which is equal or less than a member's shareholding to be regarded as a secured loan and amended the Act to prevent a member from withdrawing the shares used to support such a loan. It also raised the borrowing limit for non-qualifying members and relaxed the limit on member's borrowings for specific credit unions, which could demonstrate to the registrar that they had satisfactory arrangements in place to deal with increased risk.
- **Financial Services and Markets Act (FSMA) 2000:** This Act provides the framework within which the single regulator for the financial services industry, the "Financial Services Authority" operates. It equipped the Financial Services Authority with a full range of statutory powers and created the Financial Services and Markets Tribunal. It also established the framework for a single ombudsman and compensation schemes to provide further protection for customers.

- **The Credit Unions (Increase in Limits on Deposits by persons too young to be members and of Periods for the Repayment of Loans) Order 2001:** This sought to raise two separate limits set by the Credit Unions Act 1979 namely the limit on the deposits that a credit union could take from persons too young to be members and the periods for which credit unions could make loans.
- **FSMA 2000 (Mutual Societies) Order 2001:** This transferred the functions of the Commissions and registrars of mutual societies to the FSA and the Treasury.
- **FSMA 2000 (Permissions and Applications) (Credit Unions etc) Order 2002:** This made transitional arrangements for the transfer of credit union regulation to the Financial Services Authority.
- **FSMA (Consequential Amendments and Transitional Provisions) (Credit Unions) Order 2002:** This amended credit union legislation by repealing parts of the Credit Unions Act 1979 and disapplying to credit unions parts of the Industrial and Provident Societies Act 1965.
- **The Regulatory Reform (Credit Unions) Order 2003:** This amended the 1979 Credit Unions Act to allow credit unions to charge for providing additional basic services (e.g. bill payments), make the common bond requirements governing admission to membership more flexible and establish appropriate regulation on the use of the name 'credit union'.
- **The Industrial and Provident Societies Act 2002:** Allows the Industrial & Provident Societies Act 1965 to be amended to assimilate to company law, with certain exceptions. The Act places additional requirements on a society to convert into or transfer its engagements to a company.
- **The Cooperatives and Community Benefit Societies Act 2003:** This Act enables the Treasury to bring forward in secondary legislation provisions under which community benefit societies could permanently prevent any use of or dealing with their assets except for the benefit of the community; bring aspects of industrial and provident society law relating to societies' ability to enter into transactions in line with corresponding legislation relating to companies; and bring aspects of industrial and provident society legislation into line with the position in company law in relation to how societies execute deeds and documents and enter into contracts.
- **The Civil Partnership Act (Overseas Relationships and Consequential etc Amendments) Order 2005:** This updates the credit union Act 1979 to make provision for civil partnerships.
- **The Credit Unions (Maximum Interest Rate on Loans) Order 2006:** This order increased the limit on the interest, which a credit union could charge on loans made by it. The maximum interest was increased from 1% to 2% per month.

2.5 Notwithstanding the above developments, the legislative framework for much of the sector (with the possible exception of building societies) has not kept abreast with international comparisons or with legislation for other legal forms such as companies. Indeed much of the core legislation for the mutuals sector precedes the rapid

technological changes that have taken place in the last two decades or so, including the effects of globalisation and the increasing mobility of capital.

2.6 It is therefore important that the sector has a legislative framework fit for the modern environment in order to address some of these issues. Any change should take into account the unique aspects of the sector (especially their mutuality and huge disparity in sizes), yet be flexible enough to equip them with the ability to participate in their future development, allow wider access to new as well as existing members, provide better services and improve competition both within and outside the sector.

Cooperatives

2.7 There is at present no national law on cooperatives in GB, the closest being that relating to IPSs. The cooperative form is an important legal structure for businesses and an alternative to companies. It would therefore be useful for steps to be taken to ensure as far as possible that the legislative framework for IPSs is updated where appropriate so that it is no less convenient or efficient than company law.

2.8 To this end the review will seek to identify the implications of any recent changes in the legislative landscape such as the Enterprise Act 2000 and the Companies Act 2006 to consider whether there are any areas where there is disparate treatment between companies and cooperative societies. This will help create a level playing field between companies and cooperative societies and ensure that potential new registrants are not discouraged from using the mutual form. It is also worth considering whether GB cooperatives should be brought into line with their EU counterparts, for example in expanding the services they can offer to members to include banking and the ability to attract investment from a wider range of sources.

The European mutual sector

2.9 The structure of the mutual sector in Europe differs from the UK, particularly in having a much clearer distinction between mutuals and cooperatives. In Europe the mutual sector primarily refers to mutual insurers that provide forms of health insurers complementing health service delivery in many European countries, for example France, Netherlands, Spain and Italy. Cooperatives are bodies that meet the ICA definition of a cooperative, based on the principle of one-member, one-vote and regardless of financial or other commitment. Credit unions in Europe are essentially financial cooperatives.

2.10 Cooperatives in Europe offer a broad range of services from small trade outlets offering goods and services to some of the largest banking institutions in Europe. There are some 300,000 cooperatives in the EU employing 4.8 million people and a membership of around 140 million.

2.11 Consumer and producer cooperatives such as agricultural or pharmacy cooperatives play a significant role in the European economy. In Germany for example the cooperative sector has around 20 million members providing employment for over 400,000 people and in France some 21,000 cooperatives providing employment for nearly 700,000 people.

2.12 Cooperative banks are significant in Europe and have long been part of the mainstream banking sector. For example the Raiffeisen Bank in Germany is mutually owned and grew from the foundations of the credit union sector. Cooperative banking

in Europe arose from the ideas of Raiffeison & Schulze-Delitzsch who also provided the framework for the development of credit unions in North America and elsewhere.

2.13 There are now over 4,5001 cooperative banks in Europe with 60,000 branches ranging from small to very large. The very large cooperative banks such as Raffeisen, Rabobank and Credit Agricole are significant organisations competing with the biggest commercial banks.

2.14 Mutual insurers represent around 21% of the European market including both life and non-life insurance business, globally this rises slightly to around 25%. Agricultural cooperatives are also common across Europe and play very important roles in the economy. Dairy cooperatives in Norway for example are responsible for 99% of the milk production and in Poland 75%2.

2.15 This consultation will examine whether there are any lessons to be learnt from the European experience to enable the GB cooperative sector play a more effective role in the economy. It will in addition discuss some of the key issues, which the cooperative sector in the GB has identified as impediments to their development and in need of revision.

Credit unions worldwide

2.16 The number of credit unions has increased globally in the last decade. Statistics from the World Council of Credit Unions (WOCCU) shows that there are now over 42,000 credit unions worldwide, with membership of over 157 million, a global penetration of over 6%; savings amounting to over \$760 billion and loans totalling over \$600 billion3. In some countries credit unions have been permitted to increase the services they can offer to their members and are consequently in direct competition with traditional suppliers of financial services4.

2.17 The nature of credit union membership in Europe varies considerably as demonstrated by the table below. According to WOCCU, there are 620 credit unions in Ireland with nearly 3 million members. This gives a penetration rate, in effect, of 110.61%, as some people are members of more than one credit union. In contrast in Great Britain there are just over 500,000 members and 567 registered credit unions meaning a penetration rate of just over 1%.

¹ Source: European Association of Cooperative Banks, 2005 statistics.

² Source: International Cooperative Alliance.

³ Source: World Council of Credit Unions.

⁴ Nicholas Ryder, The Financial Services Authority and Credit Unions: The final piece in the jigsaw?

Credit Unions in Europe ⁵

Country ⁶	Credit Unions	Members	Penetration
Ireland	620	3,000,000	110.61%*
Poland	76	1,394,433	5.14%
Lithuania	56	55,458	2.24%
Latvia	30	22,005	1.39%
Great Britain	550	501,879	1.25%

* A result of multiple memberships.

2.18 GB credit union membership appears to lag behind other industrialised nations. In Canada and USA for example around 40% of the population belong to a credit union whilst in Australia the figure is about 25%.

2.19 It has been suggested by some commentators that one of the main reasons why credit unions in GB are not developing as well as other countries is due in part to the restrictive legislative framework. As noted by Fergusson and McKillop⁷ at present GB credit unions are single product intermediaries providing basic savings and loan service, pre-specified volume limits and interest rate ceilings. They contend that credit unions should be permitted a broader role in retail financial services. Others cite the restrictive criteria for membership as a reason for the low penetration rate of credit unions. One of the aims of this review will be to attempt to obtain a better understanding of the reasons for the relatively low penetration rates for credit union membership in GB.

2.20 An often-raised criticism of the GB credit union sector is that they have historically tended to focus their activities on people on low-incomes and not done enough to embrace the more wealthy or affluent sections of the community. As a consequence, for example, there is a widely held perception of GB credit unions being the “poor person’s bank”. It is important for the long-term sustainability of mutual societies, particularly credit unions, to be able to attract membership from a wider client base. The review will attempt to identify ways by which credit unions can widen their membership.

⁵ World Council of Credit Unions (WOCCU) 2005 Statistical Report

⁶ The table identifies those European countries that have formally identified credit unions. Elsewhere in Europe the distinction between credit unions and cooperative banks is blurred and reliable analysis is not available.

⁷ The Strategic Development of Credit Unions (Wiley, 1997).

KEY POLICY ISSUES

Future direction of the cooperatives sector

3.1 This Chapter discusses the main policy issues which the sector and other stakeholders have raised with the Government. The Government has consulted informally with the main trade representatives of the cooperative and credit union sectors including Cooperatives UK and the Association of British Credit Unions.

COOPERATIVES

3.2 Legal barriers to provision of certain financial services: There are currently legal barriers to the provision of certain financial services under IPS legislation in Great Britain. For example a GB IPS with withdrawable share capital is not allowed to carry on banking business because one of the effects is that withdrawable share capital would make it difficult to ensure capital adequacy¹ requirements are always met.

3.3 However cooperatives are allowed to carry on banking business in several EU countries, for example, in France, Credit Agricole's regional banks are cooperative entities and in the Netherlands, Rabobank, (AAA rated bank) provides a full range of financial services founded on cooperative principles.

3.4 It has been suggested that this review should consider if the GB IPS sector should be allowed to engage in such services. One of the main risks of IPSs in GB engaging in certain financial services is that it could result in increased regulation both from GB regulators and the EU, especially for those societies that wanted to engage in deposit taking.

Q. What are your views on whether the cooperative sector should have a wider role in financial services (including banking) and what evidence is there for a need for such provision?

3.5 Outdated title of Industrial & Provident Societies: The current title of "industrial and provident" society has been described variously by the sector as outdated, inappropriate and leading to confusion. This was recognised by the Government in the Strategy Unit report, titled "Private Action Public Benefit²". It has been suggested that a more appropriate title might be the "Cooperative and Community Benefit Society". This would reflect the inclusion of "Bencoms".

Q. What are your views on the current title of "industrial & provident society" and do you have any suggestions on a possible name change?

Registration

3.6 Electronic registration and communication: IPSs have indicated that their operational ability would be enhanced if they had the ability to register electronically, submit statutory forms, file charges, vote and communicate with their members. They also consider that the register of societies should be available electronically and to be searchable online in the same way as it is for companies. They stress that this would

¹ Generally refers to the level of capital funds required to support the institutional structure and to provide protection against unanticipated and excessive losses. It is a requirement for firms conducting investment business to have sufficient funds. The European Union's Capital Adequacy Directive, which sets minimum levels of capital for financial services companies, came into effect on 1st January 1996. Compliance is regulated by the FSA.

² Report published in 2002 highlighting some of the key challenges facing the voluntary and not-for-profit sector.

ensure modernisation of the register, allow parity with companies and fit in with the government's electronic communications agenda. Section 8 of the Electronic Communications Act 2000 gives the Government a power to modify legislation to facilitate the use of electronic communication. Section 707B of the Companies Act 1985 permits documents to be sent to Companies House using electronic communications.

3.7 Set up costs incurred by registrar: It is inevitable that there will be associated costs of setting up the system by the FSA. The FSA however is not permitted to cross subsidise income from its other functions so it is likely that any such work would be at full cost recovery and that IPSs may have to make some contribution.

Q. What are the advantages and disadvantages of introducing electronic communications for IPSs including set up costs?

Membership **3.8 Minimum age for membership:** IPSA 65 stipulates that a person above the age of 16 can be a member of an IPS unless the society's rules say otherwise. IPSs point out that this is in contrast with other corporate bodies, where membership can be in the name of a younger person. The Companies Act, for example imposes no minimum age for members (although under the Companies Act 2006 a person under 16 will not be able to be a company director). It has been suggested by IPSs that adopting a similar permissive arrangement for societies would send a positive message about the involvement of younger people in membership, community involvement and civic responsibility.

3.9 Non-user investor members: Membership of an IPS is currently restricted to customers, employees or suppliers. All these involve a commercial or other relationship with the society. There are no non-user investor members in GB IPSs although the IPS Act does not specifically exclude them. A recently passed EU regulation allows non-user investor members in a European Cooperative Society (SCE).

Q. What is an appropriate minimum age for membership of an IPS (if any)?

Q. What are your views on the participation of non-user investor members within IPSs?

Funding & Share Capital **3.10 Withdrawable share capital:** IPSA 65 imposes a maximum limit of £20,000 that a member of an IPS can invest in the society.

3.11 IPSs point out that this financial limit restriction on share capital does not apply to Companies Act companies (including cooperatives that are registered as companies). They suggest that raising the limit would ensure parity with companies and enable IPSs to attract more inward investment.

3.12 The main risk of any change to the current position is that removing or significantly raising the ceiling on maximum investment might weaken the case for exempting withdrawable share capital, from for example the Money Laundering Regulations and the Consumer Credit Directive as well as raising the possibility of regulation as a deposit taker by the FSA.

Q. What are the costs and benefits of raising the financial limit restrictions on withdrawable share capital?

Corporate governance, accountability and reporting

3.13 The Company Law Review³ recommended certain proposals, which have now been enacted in the Companies Act 2006. It has been suggested that these and other matters relating to Companies Act 2006, which are aimed at modernising company matters, could usefully benefit IPSs, reflect good governance and ensure parity with companies. IPSs emphasise that these are not intended to be adopted wholesale but rather that the principle be considered. Some of the provisions suggested are:

- option for directors to provide a service rather than personal address;
- the application of the Company Director's Disqualification Act;
- guidance on self-dealing by directors or officers regarding service contracts, property transactions, loans etc as per Companies Act 2006;
- Statutory right to remove a director as per Companies Act 2006;
- statutory statement of directors/officer's duties as per Companies Act 2006 ; and
- information on directorships held and requirement for societies to notify changes of directors.

Q. What are your views on the application of the above proposals from Company Law to IPSs? Please give reasons.

3.14 Copy rules for societies: IPSA 65 provides that copy rules must be provided by a society on request for a prescribed maximum fee. This is currently set at 10 pence and is seen as an outdated and completely impractical fee. IPSs have therefore suggested that the fee should be revised in order to reflect current commercial realities.

3.15 Easier Dissolution: Schedule 16 to the Friendly Societies Act 1992 (FS Act 92) makes it easy for a society registered under the FS Act 74 to dissolve by amending section 93(1)(b) of the 1974 Act to provide for the passing of a special resolution to approve an Instrument of Dissolution. The IPS Act in comparison requires that 75% of the membership have to sign the instrument of dissolution for the dissolution to be effective.

3.16 It has been suggested that this presents difficulties for those IPSs, which have lost contact with more than 25% of their membership. They would therefore like to be afforded the same advantage by similar amendment to section 55 of IPSA 65 and stress that it would help clean up the register of defunct societies.

Q. What would you suggest as an appropriate fee for copy rules for IPSs?

Q. What is your view on whether IPS legislation should have adequate and clearer provisions to facilitate easier dissolution, tidying up of the register, and cancellation? Please suggest how this can be achieved.

³ Details of the Company Law Review including the full final report of the review steering group can be found at www.dti.gov.uk/cld/review.htm

Accounting & audit arrangements including insolvency

3.17 Interim accounts: The Friendly and Industrial & Provident Societies Act 1968 (FIPSA 68) section 3(A) 2(a) refers. It has been pointed out that the publication of revenue account and balance sheets by IPSs requires a full audit report. However in contrast companies are allowed (under Company Law) to publish these without the need for a full audit. IPSs have suggested that this puts them at a disadvantage in terms of the extra work they need to undertake as well as the additional expense.

3.18 Administration regime and insolvency: Rescue regimes such as administration afforded to companies under the Enterprise Act 2002 are not open to IPSs. This has been raised as a key issue for Football Trusts as currently the Football Association's rules will not allow IPSs to own Clubs "as they cannot go into administration".

3.19 Under the current IPS legislation an IPS in distress is either wound-up or taken over by another. However section 255 of the Enterprise Act 2002 gives the Treasury ("with the concurrence of the Secretary of State") an order-making power to "apply the law about company arrangements or administration to non-companies" including IPSs.

3.20 It has been suggested that a possible unintended consequence is that an IPS in distress could be converted by the administrator into a company limited by shares without reference to the members, resulting in a forced demutualisation.

3.21 Statutory Year Ends: The current legislation stipulates that IPSs must have year-ends, which fall between 31st August and 31st January unless they apply to the Registrar for special permission to have a different date. The IPS Act gives the Registrar the power to approve a different date. It has been suggested that allowing societies the flexibility to choose their year-end without the need to seek the Registrar's consent would ensure parity with companies.

Q. What are the advantages and disadvantages of IPSs publishing a full audit report to support their revenue accounts and balance sheets?

Q. Section 255 of the Enterprise Act 2002 allows rescue regimes such as administration afforded to companies to be extended to IPSs. Do you think these regimes should be extended to IPSs, and why? What protections should be in place?

Q. Should IPSs be allowed to have a year-end of their choice? What are the advantages and disadvantages?

The Registrar function

3.22 The FSA has suggested that certain additional powers may be required for them to more effectively carry out their functions and to protect the owners/members of IPSs. These include the following:

- Introduction of powers of direction, investigation and inspection similar to those available to Companies House.
- Penalties for providing misleading information. Further to the Company Law review it will become an offence to provide false or misleading information to the Company Registrar. The FSA suggests that a similar general provision be provided in relation to societies.
- Power to suspend and deregister societies under certain circumstances such as failure to submit an annual return and failure to pay the periodic fee to the FSA.

Q. What are the advantages or disadvantages of the introduction of powers of direction and investigation for the Registrar?

Q. What are your views on the effect of the introduction of penalties for providing false or misleading information to the Registrar?

Q. What are the benefits or otherwise of the FSA having the power to suspend or deregister an IPS for offences such as failure to submit an annual return and failure to pay the periodic fee to the Registrar?

Implementation **3.23 Implementation:** There is a need for proper identification and prioritisation of the key policy issues that the sector would like to address and the envisaged costs for societies.

Q. Please list in order of priority the policy changes which would have the most impact on improving the ability of IPSs to compete with proprietary firms. Explain with supporting evidence, why any changes are needed.

CREDIT UNIONS

Future direction of the sector

3.24 Perceptions and attitudinal change: There is a widely held perception that the mutual sector in general (and credit unions in particular) has tended to focus their activities on low-income communities. This has led to an unfortunate perception of GB credit unions as the “poor person’s bank”.

3.25 Use of the “credit union” name: Credit unions in GB must use the words “credit union” in their names and no other organisations may use these words. The Treasury Select Committee on Financial Inclusion meeting on 1 May 2007 expressed interest in the potential for credit unions to be rebranded as “community banks”. It was suggested that the term “community bank” would be more recognisable and accessible than “credit union”.

Q. Should credit unions aim to extend their membership to embrace the more affluent sections of the community? If yes, how can this be achieved?

Q. Should the use of the words “credit union” continue to be compulsory, and be protected from use by other institutions? Please give reasons.

Q. What are your views on a suggested name change from credit unions to community banks?

Membership **3.26** Restrictive common bond: sections 1(2)(b), 1(4), 1(5), and 21(3)(b) of the CU Act 79 refer. Credit unions must draw up a rule defining who is eligible for membership, based on a full list of “appropriate membership qualifications” (AMQ). The legislation currently limits the number of common bonds and the registering credit union must satisfy the registrar that it fulfils the qualification before it can operate. Examples of qualifying criteria for common bonds can be geographic, work place or association.

3.27 Non-qualifying member (NQM) rules: Non-qualifying members are persons who qualified for membership when they joined the credit union but have ceased to do so. In order to protect the common bond concept, a credit union’s membership cannot

be made up of more than 10% of such persons. Sections 5(5), 5(6), 5(7), and 5(8) of the CU Act 79 refer. It has been suggested that the current rules pertaining to NQM are restrictive and is causing problems in today's mobile society.

3.28 In addition, in some local authorities (including councils), the increasing use of compulsory competitive tendering for services such as Information Services, Facilities Management and Council Tax administration means that many of the services are now outsourced and external contractors have replaced council staff. Credit Unions suggest that this could lead to the collapse of some of the largest council credit unions, which base their common bond solely on employment status.

3.29 Minimum age: Section 20 of IPSA 65 and section 9 of CU Act 79 stipulate that a person cannot be a shareholding member of a credit union until the age of 16, although a credit union can choose to impose a higher age. If a credit union's rules allow, a person may make deposits with a credit union before reaching that age ("juvenile deposits") and a member cannot become an officer of the credit union until the age of 18. It has been argued that Banks and building societies are able to offer more incentives to younger savers without these restrictions.

3.30 Prohibition of corporate membership: CU Act 79 stipulates that credit union membership is restricted to natural persons and that only individuals may be members of a credit union. Credit unions cannot admit corporate bodies or unincorporated associations. It has been suggested that this restricts their access to additional sources of funds and restricts the services they can provide to their members.

Q. What are your views on the following issues relating to membership of credit unions?

- Common bond;
- Non qualifying member rules;
- Minimum age; and
- Prohibition of corporate membership.

Savings **3.31** The Credit Unions Act does not enable credit unions to pay interest on savings. Credit Unions have suggested that this should be reviewed.

Q. What are the advantages and disadvantages of allowing credit unions to pay interest on members' savings?

Provision of auxiliary services

3.32 Credit Unions have suggested that the CU Act 65 restricts credit unions from providing all the services their members need citing the following specific examples:

- Complementary financial services as per section 1(3) and the limitation to cost recovery when it charges for ancillary services as per s9A (1).
- Hire purchase: credit unions have no power under s.1(3) to purchase goods for resale to members as part of a hire purchase agreement.
- Holding of land: s12 CU Act refers. The current provisions only allow a credit union to hold land "for the purpose of conducting its business thereon" but "for no other purpose". It has been suggested that credit unions should have

the flexibility if they so wish to hold land for example to fulfil its objects and in accordance with its powers but not as an investment.

Q. What are the costs and benefits of credit unions providing auxiliary services to their members, including for example complementary financial services, hire purchase and holding of land?

Governance, accountability and reporting

3.33 Electronic communication: Credit union legislation makes no provision for credit unions to communicate electronically with members. Credit Unions consider this to be at odds with the current trends in electronic communications for companies such as the Electronic Communications Act 2000, one of whose primary aims is to facilitate electronic commerce.

3.34 Voting arrangements: The CU Act gives a member the ability to vote at a general meeting which may be exercised by proxy if the rules allow, but there is no automatic right to vote in that way. Credit Unions suggest that this limits the opportunity for democratic participation by their members and would welcome a review.

3.35 Company Director's Disqualification Act: It has been pointed out that this Act which consolidates certain enactments relating to the disqualification of persons from being directors of companies, and from being otherwise concerned with a company's affairs is, arguably, currently not extended to societies. It is suggested that good governance dictates that it should. The main reasons cited are that it would modernise credit union legislation and ensure parity with companies.

3.36 Ability to assimilate company law: The IPSA 2002 gave the Treasury powers to make orders assimilating the law relating to companies into IPSA 65 however this was not extended to the Credit Unions Act. It has been suggested that extending this facility to credit unions would ensure parity with other societies in the mutual sector.

3.37 Charges for copy of copy rules: Section 15 IPSA allows a credit union to charge no more than 10 pence for a copy of its copy rules. Credit Unions argue that this is outdated, does not reflect the commercial reality and would therefore welcome a review.

Q. What are your views on electronic communications between credit unions and their members?

Q. Should credit union members be given a statutory right to vote by proxy? Please give reasons.

Q. Should the application of Company Directors Disqualification Act be extended to credit unions? Please give reasons.

Q. Should there be a power in the new legislation to assimilate the law for building societies and companies to the law for credit unions? Please give reasons.

Q. How should charges for a copy of a credit union's rules be determined?

Accounting & audit

3.38 Audited annual accounts: Credit unions are required to produce audited annual accounts and to make these available to members. Credit Unions have suggested that the costs of such audited accounts for the smaller credit unions can be prohibitive. They concede however that because credit unions are managing their members' savings

there will still need to be some mechanism for accounting to their members but would welcome a simplification of the requirements for the smallest credit unions

Q. Should all credit unions still be required to produce annual accounts audited by a registered auditor or should there be exceptions for smaller credit unions? Please give reasons.

Q. What are your views on auditors being required to report to the Registrar any issues of concern about a credit union's financial practices and procedures.

Implementation **3.39** **Implementation:** There is a need for proper identification and prioritisation of the key policy issues that the sector would like to address and the envisaged costs for societies.

Q. Please list in order of priority the policy changes which would have most impact on improving the ability of credit unions to compete with proprietary firms? Explain with supporting evidence, why any changes are needed.

4.1 This section summarises the issues, which have been raised by stakeholders, and the questions on which the Government would welcome detailed evidence. The Government would be grateful to know whether the list of issues is comprehensive, or there are others, which we should consider in the review.

COOPERATIVES

Future direction of the cooperatives sector

1. What are your views on whether the cooperative sector should have a wider role in financial services (including banking) and what evidence is there for a need for such provision?
2. What are your views on the current title of “industrial & provident society” and do you have any suggestions on a possible name change?

Registration

3. What are the advantages and disadvantages of introducing electronic communications for IPSs including set up costs?

Membership

4. What is an appropriate minimum age for membership of an IPS, if any?
5. What are your views on the participation of non-user investor members within IPSs?

Funding & share capital

6. What are the costs and benefits of raising the financial limit restrictions on withdrawable share capital?

Corporate governance, accountability & reporting

7. What are your views on the application of the proposals from the Company Law Review to IPSs? Please give reasons. [See paragraph 3.13]
8. What would you suggest as an appropriate fee for copy rules for IPSs?
9. What is your view on whether IPS legislation should have adequate and clearer provisions to facilitate easier dissolution, tidying up of the register, and cancellation? Please suggest how this can be achieved.

Accounting & audit arrangements (inc. insolvency)

10. What are the advantages and disadvantages of IPSs publishing a full audit report to support their revenue accounts and balance sheets?
11. Section 255 of the Enterprise Act 2002 allows rescue regimes such as administration afforded to companies to be extended to IPSs. Do you think

these regimes should be extended to IPSs and why? What protections should be in place?

12. Should IPSs be allowed to have a year-end of their choice? What are the advantages and disadvantages?

The registrar function

13. What are the advantages or disadvantages of the introduction of powers of direction and investigation for the Registrar?

14. What are your views on the effect of the introduction of penalties for providing false or misleading information to the Registrar?

15. What are the benefits or otherwise of the FSA having the power to suspend or deregister an IPS for offences such as failure to submit an annual return and failure to pay the periodic fee to the registrar?

Implementation

16. Please list in order of priority the policy changes which would have most impact on improving the ability of IPSs to compete with proprietary firms. Explain with supporting evidence, why any changes are needed.

CREDIT UNIONS

Future direction of the sector

17. Should credit unions aim to extend their membership to embrace the more affluent sections of the community? If yes, how can this be achieved?

18. Should the use of the term “credit union” continue to be compulsory, and be protected from use by other institutions? Please give your reasons.

19. What are your views on a suggested name change from credit unions to community banks?

Membership

20. What are your views on the following issues relating to membership of credit unions?

- Common bond;
- Non qualifying member rules;
- Minimum age;
- Restriction on number of members; and
- Prohibition of corporate membership.

Savings

21. What are the advantages and disadvantages of allowing credit unions to pay interest on members' savings?

Provision of auxiliary services

22. What are the costs and benefits of credit unions providing auxiliary services to their members, including for example complementary financial services, hire purchase and holding of land?

Governance, accountability and reporting

23. What are your views on electronic communications between credit unions and their members?

24. Should credit union members be given a statutory right to vote by proxy? Please give reasons.

25. Should there be restrictions on transactions with directors and connected persons and if so what should they be? Please give reasons.

26. Should the application of Company Directors Disqualification Act be extended to credit unions? Please give reasons.

27. Should there be a power in the new legislation to assimilate the law for building societies and companies to the law for credit unions?

28. How should charges for a copy of a credit union's rules be determined?

Accounting & audit inc. insolvency

29. Should all credit unions still be required to produce annual accounts audited by a registered auditor or should there be exceptions for smaller credit unions? Please give reasons.

30. What are your views on auditors being required to report to the Registrar any issues of concern about a credit union's financial practices and procedures.

Implementation

31. Please list in order of priority the policy changes which would have most impact on improving the ability of credit unions to compete with proprietary firm. Explain with supporting evidence, why any changes are needed.

Annual Percentage Rates

Annual Percentage Rate (APR) is an expression of the effective interest rate that will be paid on a loan, taking into account one-time fees and standardising the way the rate is expressed. It is the total cost of credit to the consumer expressed as an annual percentage of the amount of credit granted. In the UK lenders are required to disclose the APR before a loan (or credit application) is finalised.

Application fee

Application fee is sometimes referred to as authorization fee. This is the fee payable by a credit union when seeking authorization as a deposit-taker under Section IV of the Financial Services and Markets Act. Without this authorization a credit union will not be allowed to trade.

Asset lock

Asset lock is a general term used to cover all the provisions designed to ensure that the assets of a society (including any profits or other surpluses generated by its activities) are in the event of a wind-up used for the purposes for which they were originally intended and not distributed to individuals.

ABCUL

Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in Britain.

Audit thresholds

Audit threshold refers to the guidance on limits for which audits are required or exempted. These may be based on criteria such as turnover, number of employees or gross assets. The rules do not apply to sole traders or partnerships but apply to limited liability partnerships. Even though some businesses may not be required to have an audit many businesses choose to do so for sound managerial reasons.

Bancassurance

Bancassurance is the combination of banking and insurance business. The selling of insurance and banking products through the same channel, most commonly through bank branches selling insurance. A high street bank for example might sell both mortgages and the life insurance policies that must go with them.

Benevolent Society

Benevolent Society is an organisation, usually a charity or trust which has been set up to help certain groups of people. The help they can provide varies, from small grants of money to paying for essential items e.g. high fuel bills, adaptations or equipment for disabled people. They are often associated with a trade or profession, one of the armed forces, area where you live, religion or a particular illness or disability.

Bencom

Benefit of the Community Society (Bencom) is a cooperative society run by its members for the benefit of the wider community. They are required to demonstrate to the Registrar that there is a “special reason” why they should operate as a Bencom rather than as a company. Examples include some Housing Associations, Health Trusts, Leisure Trusts, supporters Trusts, development Trusts, Exempt charities and Community Development Finance Institutions (CDFI).

Building Societies

Building Societies are financial institutions owned by its members offering banking and other financial services especially mortgage lending. The **Building Societies Associations (BSA)** is the trade association for all the UK's building societies. Building Societies in the UK are governed by the **Building Societies Act 1986 (BS Act 1986)**.

Combined Code

Combined Code: The Combined Code on Corporate Governance sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability, audit and relations with stakeholders. All companies incorporated in the UK and listed on the main market of the London Stock Exchange are required under the Listing Rules to report on how they have applied the Combined Code in their annual report and accounts. The Associations of Friendly Societies and Mutual Insurers have developed an annotated version for their members. (Annotated Combined Code).

Cooperatives

Cooperatives are defined by the International Cooperative Alliance as “ an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically- controlled enterprise”. **Cooperatives UK (CoopsUK)** is a representative organisation for the cooperative movement in the UK. Its main purpose is to develop and extend cooperative enterprise. It is itself a cooperative organisation, owned and democratically controlled by its members. Membership comprises individual cooperative enterprises ranging in size and diversity from small worker owned cooperatives to large consumer owned cooperatives.

Common bond

Common bond is the qualification for membership of a credit union. It is the one thing that all members have in common- e.g. living in the same area, or working for the same employer. It is the common bond, which makes credit unions unique and different to banks and building societies.

Companies Act 1985 (CA1985)

Companies Act 1985 (CA 1985) is an Act of UK Parliament enacted in 1985, which sets out the responsibilities of companies, their directors and secretaries. It was reformed in 2006 and only applies to companies incorporated under it. Sole traders, partnerships, limited liability partnerships and the like are not governed by the Act.

CRED

CRED is the Financial Service Authority's credit union Specialist Sourcebook.

Credit Unions

Credit Unions are financial cooperative organisations of individuals with a common affiliation (such as employment, employment union membership, place of residence etc). They accept deposits from members, pay interest (dividends) on them out of earnings and primarily provide consumer instalment credit to members. In Great Britain they are governed by the **Credit Union Act 1979 (CU Act 1979)**.

Community Benefit Societies

Community Benefit Societies (Bencom): see Bencom above

Community Interest Company

Community Interest Company (CIC) are limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit and not purely for private advantage. This is achieved by a “community interest test” and “asset lock”

which ensure that the CIC is established for community purposes and the assets are dedicated to these purposes. Registration of a company as a CIC has to be approved by the Regulator who also has a continuing monitoring and enforcement role.

Demutualisation

Demutualisation occurs when a mutual society, which is owned by its members, becomes a public company owned by its shareholders. Members sometimes receive a windfall if, for example, their building society converts to a bank, although these days new customers have to sign away any potential windfall when they first join. See also charitable assignment.

Dividend

Dividend for credit unions is the return on members' savings similar to an interest payment. The dividend is paid annually out of the credit union's profits. The Credit Union Act 1979 limits the amount of dividend paid to each member to no more than 8%.

European Cooperative Society

The European Cooperative Society (SCE) came into force on 18 August 2006. It consists of a Regulation setting out the framework for a new type of pan-European institution, capable of operating across Member State on the basis of registration in one Member State and a Directive specifying the employee involvement provisions.

Fees

Fees. For credit unions there are two main types of fees- **Periodic fees** (paid annually) and **Application fees** (payment for the cost of authorisation or requests for significant changes to the permission profile of existing credit unions e.g. an application for a mortgage permission).

Financial Services Authority

Financial Services Authority (FSA) is the registrar for all mutual societies and the regulator for credit unions and all other financial services providers.

Financial Services and Markets Act 2000

Financial Services and Markets Act 2000 (FSMA 2000) is the new legislation that brings all financial service providers (including credit unions) under the control of a single regulator, the FSA. FSMA sets out the objectives and powers of the FSA.

Friendly Societies

Friendly Societies in its purest form is a mutual insurance provider. In the wider sense all mutually owned "not for profit" financial organisations are friendly societies. That is why building societies, friendly societies, industrial & provident societies credit unions and some mutual insurance companies were registered with the Registrar of Friendly Societies.

FIPS Act 1968

Friendly and Industrial & Provident Societies Act 1968 (FIPS Act 1968)

Funding limit

Funding limit refers to the current requirement by the Building Societies Act 1986 that a building society raise at least 50% of their funds from members.

International Cooperative Alliance

International Cooperative Alliance (ICA) is an independent, non-governmental association, which unites, represents and serves cooperatives worldwide. It was founded in 1895 and has 220 member organisations from 85 countries representing more than 800 million individuals worldwide.

Industrial & Provident Societies

Industrial & Provident Societies are organisations conducting an industry, business or trade either as a cooperative or for the benefit of the community and are registered under the **Industrial & Provident Societies Act 1965 (IPSA 65)**.

Minimum Initial Capital Requirement	Minimum Initial Capital Requirement for credit unions is the minimum capital required by a credit union before authorisation is granted. It is £1000 for credit unions subject to version 1 requirements and £5000 for version 2 (or more as the FSA may see fit).
Mutuality	Mutuality refers to the concept of an organisation being owned by its members and run for their benefit. Voting is based on the principle of one member one vote irrespective of size of investment. E.g. building societies, friendly societies and some life insurance companies.
Non-qualifying member	Non-qualifying member. (NQM) A member who originally joined the credit union when they were within the common bond but now no longer shares the common bond with the other members. The Credit Unions Act 1979 restricts the number of non-qualifying members to no more than 10%.
Public limited company	A public limited company is a type of limited company whose shares may be offered for sale to the public. The designation Plc was introduced in the UK by the Companies Act 1980. Internationally the PLC status is roughly equivalent to AG, S.A., N.V and Corporation.
Private Members Bill	Private Members Bill is a public Bill promoted by a private Member of either House of any party who is not a Minister.
Registry of Friendly Societies	Registry of Friendly Societies. Previously the Registrar and Regulator of credit unions. It ceased to exist on 1st December 2001 when its role was taken over by the FSA.
Regulatory Reform Order	Under the Regulatory Reform Act 2001, Ministers have the power to make a Regulatory Reform Order by Statutory Instrument, to remove burdens affecting persons in the carrying on of any activity. This now known as a Legislative Reform Order
Shares	Shares: For credit unions when a member pays in savings into the credit union they are buying shares that are all £1.00 in value. All members are equal regardless of the size of their shareholding. The maximum shareholding is £5000 or 1.5% of the total shareholding of the credit union, whichever is greater.
UK GAAP	UK Generally Accepted Accounting Practice (UK GAAP) is the overall body of regulation establishing how company accounts must be prepared in the UK. It includes not only accounting standards but also UK company law.
Unsecured loan	Unsecured loan for credit unions is a loan that is secure only by the borrowers signature and promise to pay. It has to be repaid in 5 years if granted by a version 1 credit union and 10 years if granted by a version 2 credit union.
Version 1 Requirements	Version 1 Requirements is the business permitted for credit unions subject to this set of requirements including savings, loans and other ancillary activities.
Version 2 Requirements	Version 2 Requirements is the business permitted for credit unions subject to this set of requirements including savings, larger deposits over longer periods, variable dividend accounts and certain other ancillary activities.

Withdrawable share capital

Withdrawable share capital is the term for a form of finance for Industrial & Provident Societies (IPS), currently £20,000. This is the maximum sum a member of an IPS can invest in the society.

World Council of Credit Unions (WOCCU)

World Council of Credit Unions (WOCCU) is the worldwide representative organisation for credit unions. It has members and affiliates in 92 countries around the world. Members include regional and national credit union associations, and business service organisations. Together they represent more than 42,000 credit unions serving over 157 million members.

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