



BERMUDA MONETARY AUTHORITY

CONSULTATION PAPER ON A NEW REGULATORY REGIME FOR
CREDIT UNIONS

SEPTEMBER 2009

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0. Introduction

0.1. This Paper outlines the Bermuda Monetary Authority's ("the Authority") proposals for a new regulatory regime for credit unions. Credit unions typically provide financial services to a broad cross-section of society (including groups not adequately served by the traditional providers). The current legislation is outdated and needs revision to ensure adequate protection is afforded to the credit union members.

0.2. The views of the Bermuda Industrial Union ("BIU") Members Credit Union Co-operative Society and of other interested persons on the proposals set out in this Paper are invited. Comments should be sent to policy@bma.bm no later than **October 31, 2009**.

1. Current Situation

1.1. The BIU Members Credit Union is the sole credit union operating in Bermuda. In putting forward these proposals, the Authority has taken into account the possibility that other credit unions might emerge in time.

1.2. In a credit union, the main defining feature is the “common bond”, which restricts membership to individuals who share a common characteristic. Usually, the members all work for the same employer or as in the case of the BIU Members Credit Union, they are all members of the BIU.

1.3. Under the current *Credit Unions Act 1982* (“the Act”), the Ministry of Finance (“MOF”) has the main supervisory responsibility for credit unions. The Authority undertakes certain supervisory functions delegated to it by the MOF.

1.4. The legislative framework for credit union has never been updated and furthermore, neither policy nor guidance has ever been issued to assist the BIU Credit Union in the conduct of their activities. Consequently, in order to effectively determine the appropriate regulatory framework for credit unions, the Authority conducted research of other jurisdictions and the World Council of Credit Unions (“WOCCU”) to determine best practice for the Bermuda context.

2. The Authority’s Approach

2.1. As credit unions are not-for-profit organizations, one of the Authority’s obligations is the protection of the credit union members’ shares/savings, and to this end, it is proposed that a new regulatory framework be implemented which strengthens this protection. The Authority takes a risk-based approach to regulation, which results in a supervisory approach specific to the risk profile of the institution. It is proposed that this same approach be applied to the new credit union framework.

2.2. The proposed credit union framework encapsulates the principles contained within the Model Law produced by the WOCCU and the International Credit Union Safety and Soundness Principles. It was measured against the work done in other jurisdictions to draw from their experiences and incorporates this shared learning and established standards. The objective is to ensure that credit unions in Bermuda will be subject to internationally accepted supervisory standards.

2.3. The Authority appreciates that, unlike other financial institutions, a credit union works as a cooperative, valuing volunteerism, co-operation and member participation. In developing the new regulatory framework, the Authority endeavours to ensure that the unique characteristics of a credit union are not lost.

3. New Legislation

3.1. The Authority proposes that the following legislation be repealed to give way for new credit union legislation:

- *Credit Union Act 1982*
- *Credit Union (Delegation of Minister's Functions) Order 1989*

3.2. The new credit union legislation will be risk-based and include international standards, and best practice. Importantly, it is proposed that the new legislation will transfer complete regulatory and supervisory responsibilities for credit unions to the Authority. The Authority currently has responsibility for overseeing the activities of a variety of financial service providers including commercial banks, insurance companies, trust companies, fund administrators and investment companies. As credit unions provide financial services to its members, it seems appropriate that they should fall within the regulatory purview of the Authority.

General Powers of the Authority

3.3. It is proposed that the new credit union legislation shall give the Authority powers to supervise any legal entity that is carrying on credit union business. The Authority will be required to keep under review the operation of these entities including any new developments which might impact the discharge of their duties and functions. Operationally, it is proposed that the new credit union legislation will allow the Authority to:

- Define the business of a credit union (including prohibited business);
- Establish a licensing regime and process/approve applications for licences and revoke licences;
- Issue regulations and guidance;
- Set the standards for prudential criteria;
- Obtain information (including regular statutory filings and financial statements in a format and with such frequency as the Authority requires);
- Carry out assessments of the risk profile and safety and soundness of a credit union;
- Conduct on-site examinations;
- Conduct off-site supervision, (the continuous monitoring of the financial position and performance of credit unions and perform assessments of a credit union's compliance with the Act and Regulations);
- Require credit unions to take action to comply with the legislation and/or to discontinue any unsound or unsafe practice; and
- Levy any enforcement actions.

4. Licensing Regime

4.1. The Authority proposes that all credit unions would be required to be licensed in order to conduct business. The credit union would have to apply to the Authority for a licence. Additionally, the applicant would be required to publish in the official gazette a notice of their intention to apply for a licence. The application submitted to the Authority should be accompanied by the following:

- A copy of the notice published in the gazette;
- A business plan demonstrating financial viability and the ability to satisfy the prudential standards set by the Authority;
- A written Anti-Money Laundering/Combating the Financing of Terrorism (“AML/CFT”) compliance Programme;
- Credit union Bye-laws;
- A copy of the credit union’s proposed lending policy, including procedures for dealing with loan delinquency;
- Proposed Board Members and Officers (which will be assessed for fitness and propriety);¹
- Details of the management structure including management staff;
- Details of the common bond (i.e. what is it that unites the credit union);
- Eligibility criteria for members;
- Minimum membership (i.e. how many members would the credit union need to have before it can commence operations);
- Sponsorship (i.e. will there be a sponsorship body, if so written support/cooperation would be required);
- Application fee and other fees as prescribed by the Authority; and
- Additional information, documents and reports as the Authority may require for the purpose of considering the application.

4.2. The Authority will consider the application, and where approval is granted a licence will be issued, which would outline the credit union’s permitted business activities and, if necessary, any other applicable conditions.

4.3. The Authority may grant a licence to a credit union if it is satisfied that the applicant meets the licensing requirements.

4.4. A licence will remain in force until revoked by the Authority.

¹ The list of proposed Board Members and Officers must be accompanied by a statement signed by the President that the Board Member and Officers satisfy the fit and proper criterion (see paragraph 5.1 below). This determination is to be made by the credit union itself but will be subject to the review and approval of the Authority.

4.4. A credit union wishing to vary or expand the type of business for which it is licensed must first obtain the approval of the Authority. The credit union would be required to prepare a business case in support of any new line of business and demonstrate that it has the required management skills and competencies along with the appropriate controls to assume this additional business. As a condition of such approval, the Authority may vary capital requirements and other prudential criteria.

5. Corporate Governance

5.1. Corporate governance refers to the processes, structures and information used for directing and overseeing the management of an institution. International core principles require that the Authority satisfy itself that all deposit taking institutions have adequate governance and controls in place. It is the responsibility of the credit union's Board and Senior Management to ensure that the credit union has satisfactory corporate governance functions, relative to its size and risk profile. It is proposed that the following provisions be implemented in order to promote good governance for the credit unions:

1. Fit and Proper Criterion—similar to other regulated entities, the Authority is proposing a fit a proper criterion for all credit unions' Board Members and Senior Management (including the supervisory and credit committee members). Given the importance of the Board for the governance of credit unions, Board Members should have certain skills and competencies for the role. In assessing whether a potential Board Member or a member of Senior Management has the relevant competence, soundness of judgment and diligence, the Authority will consider the following criteria:

- Previous similar experience and responsibility, and their record in fulfilling this position;
- Appropriate qualifications and training;
- Previous conduct and decision taking;
- Probity;
- Reputation and character;
- Criminal record;
- Contravention of any provision of banking, insurance, investment, trust or other legislation designed to protect members of the public against financial loss, due to dishonesty, incompetence or malpractice;
- Involvement in any deceitful, oppressive, or improper business practices; and
- Censure or disqualification by professional or regulatory bodies,

While any evidence of relevant past misconduct needs to be taken into consideration, the Authority recognizes that lapse of time, and a person's subsequent conduct, are factors which may be relevant in assessing whether they are fit and proper for a particular position.

2. Appointment of Credit Union Board Members and Senior Management—

A credit union will be responsible for appointing their own Board Members and senior management. When doing so they must ensure that appointees meet the established fitness and propriety criteria, and collectively possess the necessary skills, experience and knowledge required for conducting credit union business. The Authority must be notified of the appointment of all credit union's Board members and senior management within thirty (30) days of their appointment, and all appointments will be subject to Authority approval. In the event that a credit union is unable to find suitable candidates the Authority may impose restrictions.

3. Establishment of Committees—as a minimum the credit union should consist of the following two committees:

(i) The Supervisory Committee—conducts an examination of the affairs of a credit union including financial records and statements at least once per quarter, produces an annual report of its audit and submits the same report to the members at the Annual General Meeting. The Supervisory Committee will be the primary mechanism for assessing the adequacy of internal controls and for monitoring compliance with these controls, (including AML & CFT provisions).

(ii) The Credit Committee—is responsible for the approval and general supervision of loans to members and for ensuring compliance with the Lending Policy. The Credit Committee must also verify the ability of borrowing members and their guarantors to meet their obligations under the terms of their loans. (Please note that it might be appropriate for a credit union to establish other committees based on its size and risk profile).

4. Establishment of Bye-Laws—bye-laws should clearly outline the roles and responsibilities of the Board, its committees and officers.

5. Controls—Senior Management must ensure that a credit union has an effective control culture which promotes the following:

- An appropriate and effective control environment that supports the effective and prudent management of its operations, and of the risks to which it is exposed;
- Reporting procedures to ensure the Board is provided with timely, relevant, accurate and complete reports that will enable it to assess whether a credit union is operating effectively; and
- Appropriate and effective processes for assisting the Board in assessing whether a credit union is meeting prudential standards.

6. Financial Reporting

6.1. Credit unions will be required to prepare and submit to their Board unaudited financial statements on a monthly basis and audited statements annually. Additionally, the Authority will require credit unions to prepare and submit to the Authority quarterly unaudited financial returns and audited financial return on an annual basis. Both the audited and unaudited financial statements should include a balance sheet, income statement, and statement of cash flows. The financial returns are to be prepared in accordance with any of the following standards or principles:

- International Financial Reporting Standards (“IFRS”);
- Generally accepted accounting principles (“GAAP”) that apply in Bermuda, Canada, the United Kingdom or the United States of America; or
- Such other GAAP as the Authority may recognise.

6.2. The timely submission of all financial returns is critical to the effective ongoing supervision of credit unions. It is proposed that credit unions be required to submit their audited annual financial statements **no later than four (4) months after the close of its financial year** (a filing extension will require approval from the Authority). However, the Authority encourages all credit unions to complete and submit their annual returns as soon as possible after the close of its financial year. Consistent with other regulated entities, failure to submit financial reports may result in regulatory action.

7. Provision of Information

7.1. Consistent with other regulated entities, the Authority shall have unlimited access to a credit union’s books and records. The Authority will be authorized to review a credit union’s facilities, books, records, accounts, documents and financial statements. As necessary, the Authority may require non-routine information and a credit union will be obligated to provide such information.

7.2. All credit unions will be expected to notify the Authority of any matters that may have a serious impact on their operations. The following includes a non-exhaustive list of issues that a credit union will be required to notify the Authority:

- Failure to meet one of the threshold conditions;
- Actual or suspected fraud;
- Anything that might impact its risk profile (e.g. new business initiatives or material changes to its capital adequacy or liquidity).

7.3. The Authority will also be given power to obtain additional information and reports outside of the statutory information and reports. There may be a situation where the Authority requires additional information (e.g. where there are material concerns about the accuracy or completeness of information). Thus it is proposed that formal

powers be given to the Authority to require a credit union to provide any such information as may reasonably be required for the performance of its functions under the legislation. It is not anticipated that the Authority would exercise this power frequently as it is expected that information will be provided voluntarily.

8. Anti-Money Laundering/ Combating the Financing of Terrorism (“AML/CFT”)

8.1. AML/CFT is designed to enhance monitoring and detection of money laundering and the financing of terrorism. It has therefore become necessary to provide an audit trail of financial transactions to help detect and prevent money laundering activities. Credit unions, like other financial institutions, must have in place policies, procedures and adequate internal controls to detect any type of unusual or suspicious activity in member accounts.

8.2. The Authority proposes that credit unions prepare an AML/CFT manual which should make reference to the specific requirements of Bermuda’s AML/CFT. The manual should periodically be reviewed and approved by the Board and updated to reflect ongoing developments. Additionally, all credit unions should comply with the requirements of the *AML/CFT Regulations 2008* which (among other considerations), as of January 1, 2009 saw the Authority assume responsibility for monitoring AML/CFT. The Authority will be issuing *Guidance on the Prevention of Money Laundering and Combating Terrorist Financing*, which will include but not be limited to the following requirements:

- **Customer Due Diligence**—conduct adequate customer due diligence in order to determine the true identity of each member, their economic activities, the origins and destinations of their transactions, in order to determine whether transaction volume and account activity is “normal” based on past account history.
- **Develop Internal Reporting Procedures**—this will include appointing a Reporting Officer who must be given sufficient resources to carry out their functions. The Reporting Officer will be responsible for such matters as:
 - Receiving suspicious activity reports (“SAR”) from staff; and
 - Reporting suspected money laundering or financing of terrorism to the Financial Intelligence Agency (“FIA”).
- **Offer AML/CFT Training to Staff**—Under the Proceeds of Crime Act (“POCA”) credit unions will be required to ensure that all relevant staff members are made aware of their anti-money laundering responsibilities. Staff should be able to identify and know the role of the Reporting Officer, and be familiar with AML/CFT. New employees will be required to receive AML/CFT training and proceeds of crime training, while existing staff will be required to undertake refresher training at least once every two years.

8.3. By failing to comply with the POCA and/or AML/CFT Regulations, a credit union may become vulnerable to money laundering, financing of terrorism and related reputational risks which may expose it to possible prosecution.

9. Prudential Standards

9.1. It is important to note that the proposals set out in this section represent minimum standards. It is the responsibility of a credit union to ensure that it has sufficient resources to support its activities.

Lending

9.2. It is the responsibility of the Board to exercise effective control over the risks arising from its lending activities. A credit union should have a Lending Policy approved by the Board and it should include policies and procedures for the management of arrears and for the proper recording and reporting of past due loans. It is proposed that a credit union review its Lending Policy at least once a year. It will be the responsibility of a credit union to provide the Authority with a current copy of its Lending Policy and all credit union members should be made aware of the Lending Policy. At a minimum, the Lending Policy should address the following:

- The Lending Policy 's objectives;
- Eligibility requirements for receiving a loan;
- Classification of loans offered;
- Required loan documentation;
- Acceptable types of collateral;
- Interest rates, terms, repayments conditions;
- Maximum loan amounts;
- Determination of the borrower's ability to repay the loan; and
- Loan approval authority (Credit Committee or any other authorized individuals).

9.3. In line with best practice, the Authority is proposing to increase the maximum period for which a credit union can lend from two (2) years unsecured and five (5) years (secured) to **three (3) and seven (7) years respectively**. The Authority further proposes that the maximum amount that the credit union can lend to any individual member (maximum exposure of an individual member) is **two percent (2%) of total assets**. The Authority is also proposing that the total loan portfolio **should not exceed the internationally accepted range of sixty percent (60%) to eighty percent (80%) of its total assets** and unsecured loans should be managed by the credit union and kept within prudent levels to be agreed with the Authority.

Arrears

9.4. The success of a credit union is largely dependent on its ability to manage arrears. Therefore, it is clear that credit unions will need to establish a robust and effective approach to handling arrears. The Authority is proposing that credit unions be required to have in place a documented Arrears Management Policy setting out the procedures and process for dealing with borrowers who fall into arrears. The Arrears Management Policy should be reviewed regularly and an analysis should be conducted to identify the types of loans which commonly fall into arrears. Once the types of loans which fall into arrears have been identified and characterized, this information should be used to promptly make the appropriate amendments to the overall Lending Policy.

Provisioning

9.5. Default risk must be properly accounted for in the provision for doubtful debts. Credit unions should conduct due diligence on their customers to ascertain the level of risk of default for loans that are in arrears. The Arrears Management Policy should include a section on provisioning and it is proposed that the financial statements reflect the provisions for doubtful debt as follows (based on the WOCCU standard):

Loan Category	Length of Arrears	Percentage of Outstanding Loan Balance
Special Mention	1 month – less than 3 months	10%
Substandard	3 months – less than 6 months	35%
Doubtful	6 months – less than 12 months	65%
Loss	More than 12 months	100%

9.6. It is critical that a credit union makes every effort to collect delinquent loans and that losses on delinquent loans are recognized so that financial statements represent the true financial position.

Capital Requirements

9.7. Consistent with the Authority’s risk-based approach for all regulated entities, credit unions will be required to maintain sufficient financial resources to effectively manage the risk created from their lending activities. In particular credit unions should have a minimal level of capital to serve as a “cushion” for any unexpected losses that may occur.

9.8. Credit union capital is referred to as institutional capital and the purpose of institutional capital is to cover unexpected losses from loans and investments and other contingencies and to protect members' savings and be available to creditors on winding up. Institutional capital will comprise the following:

- Non-distributable reserves created or increased by appropriations of retained earnings; and
- Capital donations or other surpluses.

Institutional capital should be **permanent and non-withdrawable** and **Members' shares, re-valued assets and provisions are not to be considered institutional capital.**

9.9. Currently there are only reserving provisions for credit unions under Section 12 (2) of the Act, which requires a minimum of twenty (20%) of total assets be set aside for a reserve fund. The Authority is proposing that credit unions have a **minimum capital/risk weighted assets ratio of 8%** with the **Authority having the power to prescribe a higher capital ratio if it determines that the risk profile warrants it.** This will ensure that a credit union can absorb any reasonable amount of loss and remain solvent. The details of an appropriate risk weighted capital adequacy regime for credit unions must be agreed with the Authority.

Reserve Fund

9.10. Credit unions need to maintain sufficient reserves to ensure continuity and to protect members' savings. The stronger the overall reserves position, the easier it is for credit unions to deal with future uncertainties. The reserve fund, which is an additional capital requirement to those outlined above (paragraph 9.7-9.9) will serve as the mechanism by which credit unions protect their members from unforeseen losses. It is proposed that a credit union **maintain a reserve fund of not less than ten percent (10%) of its total assets.** At the close of each financial year, **ten percent (10%) of the net profits are to be placed into a reserve fund** until such time that this fund is **equal to ten percent (10%) of total assets.** The reserve fund:

- i. Should be held in a liquid form as determined by the Authority
- ii. Should not be distributed to members unless a credit union has been wound-up.
- iii. Should not be distributed to any person or outside entity having a legal claim.

The credit union board must inform the Authority immediately should the reserve fund fall below 10% and take the appropriate measures to restore the fund to the required level as soon as possible. The credit union Board should decide on the amount of reserves to prudently hold in excess of the

minimum requirement of 10%. From time to time, the Authority will review the **reserve fund in order to determine any adjustments.**

Liquidity

9.11. Liquidity is the ability to meet liabilities at the time they fall due. A credit union must have sufficient liquidity on hand to meet operating expenses and to meet day-to-day demands for withdrawals. An illiquid credit union can weaken members' confidence and trigger a rush for members to withdraw their funds.

9.12. In assessing liquidity, the Authority will focus on the ability of a credit union to cope with unexpected events. In order to decrease liquidity risk and avoid a liquidity crisis, the Authority is proposing that credit unions be required to maintain a **minimum liquidity ratio of fifteen percent (15%) of withdrawable savings in highly liquid easily accessible instruments and accounts.**

External Borrowing

9.13. A credit union's ability to borrow depends on its financial condition, its capital adequacy, presence of highly liquid collateral, and general macroeconomic conditions. In order to avoid undue risk, the Authority is proposing that credit unions only borrow up to **a maximum of ten percent (10%) of total assets.**

Investments

9.14. Credit unions are required to adopt a reasonable and prudent approach to investments in order to avoid undue interest rate risk and concentration risk, while obtaining a reasonable return. This being the case, the Authority proposes the following:

- **Board Responsibility**—the Board shall be responsible for formulating, reviewing and adjusting the investment policy. As a minimum the investment policy shall address the following:
 - Purpose and objectives of the investment activities;
 - Types of investments that can be made;
 - Who has authority to make the investments and the extent of this authority;
 - Need for adequate investment diversification across investment type and/or entity; and
 - Annual review and revision of the policy as needed.
- **Reporting**—on a monthly basis a credit union's management shall prepare a report for the Board that details:

- All investments;
- Interest rates and maturity dates for those investments;
- Any investment activity for the month; and
- Comparison of the book value (or the actual cost of the investment) where possible to the current market value, if available. If there is a loss when the book and market values are compared, management should relate the potential loss to capital in order to illustrate the impact of the potential loss on solvency.

10. Supervisory Powers

10.1. Under these proposals the Authority will be responsible for supervising credit unions to ensure that they comply with the provisions of the law and regulations. It is proposed that the new legislation will give the Authority wide discretion in determining the action it feels appropriate to safeguard the interests of a credit union’s members. Similar to the provisions that have been established for other regulated entities, the Authority is proposing the following enforcement powers:

- **Authority May Give Directions**—the Authority may issue a direction when a credit union’s activities:
 - Fail to comply with any of the obligations under the legislation;
 - Threaten safety and soundness; and
 - Result in risk of undue loss of members’ deposits.

- **Restriction of a Licence**—the Authority may restrict the licence of a credit union under certain circumstances, such as where a credit union has failed to comply with its obligation under the new legislation or has violated a direction from the Authority. A credit union’s licence may be restricted by the imposition of conditions deemed necessary for the protection of members’ savings, including **but not limited to**:
 - Requiring a credit union to take certain steps or to refrain from adopting or pursuing a particular course of action or to restrict the scope of its business;
 - Imposing a limitation on any other business activities in which a credit union may be engaged;
 - Prohibiting the accepting of new business; and
 - Requiring the removal of an officer

- **The Court May Issue an Administrative Order**—for the purpose of protecting the interests of the members and preserving the assets of a credit union, the Authority may petition the court to place a credit union under an administrative order. An administrative order will be issued where:

- A credit union has not fulfilled its prudential requirements;
- A credit union has failed to comply with its obligations under the Act;
- The Authority has been provided with false, misleading or inaccurate information; and
- The interests of the members or potential members of the credit union are in any way threatened by the manner in which the credit union is conducting or proposes to conduct its affairs.

An administrative order will permit the takeover of the management of a credit union's affairs, and business by an administrator appointed by the Authority. An administrator will manage and administer the business of the credit union, shall take such action as will protect the interests of the members of the credit union, but shall not take on any new business.

- **Revocation of a Licence**— In other circumstances, such as where a credit union remains in violation or fails to comply with any requirement or contravenes any prohibition imposed on it, it may have its licence revoked by the Authority. The Authority may also revoke the licence of a credit union if it is satisfied that:
 - A credit union has not fulfilled its prudential requirements;
 - A credit union has failed to comply with its obligations under the Act;
 - The Authority has been provided with false, misleading or inaccurate information; and
 - The interests of the members or potential members of the credit union are in any way threatened by the manner in which the credit union is conducting or proposes to conduct its affairs.

When the Authority proposes to restrict or revoke a licence, it will provide a written notice outlining its intentions. After receiving the notice a credit union may make representation in writing to the Authority within a period of fourteen (14) days beginning with the day on which the notice was given (or such other longer period as the Authority may allow).

- **Winding-Up & Dissolution**—where all attempts at rehabilitation have failed, the Authority on its discretion may determine whether a credit union should be involuntarily wound up. The Authority may present a petition to the court for the winding up or the dissolution of a credit union.
- **Modification of Provisions** – The Authority may, on application from a credit union, direct that all or any of the provisions of this Act be waived, modified or adjusted. Any modifications granted must be for an agreed and for a clearly defined period. Permission for a modification may be subject to conditions and may be made retroactive. The Authority may revoke a permission at any time. Additionally, the Authority may vary a modification at any time, provided the variation has been applied for, or is consented to by the requesting credit union.

Any permission granted under this section is not a statutory instrument having legislative effect.

10.2. Although the Authority has highlighted areas of good corporate governance, all credit unions will be responsible for keeping abreast and complying with international standards such as those set out by the WOCCU and other international and regional bodies.

11. Right of Appeal

11.1. A credit union which is aggrieved by an enforcement or restriction/revocation of a licence decision of the Authority will have the right to appeal the decision to a tribunal. The process and procedures of the tribunal shall be as per sections 30- 34 of the “BANKS AND DEPOSIT COMPANIES ACT 1999”.

12. Transitional Provisions

12.1. On the day of commencement of the new Act, the Authority is proposing a period of transition of **twelve (12) months**. During this transition period, an existing credit union will:

- Be allowed to carry on such business for a period not to exceed twelve months beginning with the date of the commencement; and
- Be expected to be in full compliance by the end of the 12 month period.

** The Authority is firmly committed to working closely with the credit union during the transition period to assist in achieving compliance with the new regulatory requirements.*

12. Summary of Proposals

Issue	Proposals
Legislation	<p>1. Repeal the <i>Credit Union Act 1982</i>, <i>BIU Members Credit Union Co-op Society Act 1983</i> and the <i>Credit Union (Delegation of Minister's Functions) Order 1989</i>.</p> <p>2. Create new Credit Union Legislation.</p>
Lending	<p>3. Must have a Lending Policy which addresses a minimum set of issues.</p> <p>4. Can lend up to 3 years for unsecured loans and seven 7 years for secured loans.</p> <p>5. The maximum to be lent to any one member cannot exceed 2% of credit union's total assets.</p> <p>6. The loan portfolio should not exceed 80% of total assets.</p>
Arrears	<p>7. Must have a documented and robust Arrears Management Policy, which should be reviewed regularly and information gleaned from the review should be used to make the appropriate amendments to the overall lending policy.</p>
Provisioning	<p>8. Provisions for doubtful debt should include the following:</p> <ul style="list-style-type: none"> • 1 month-less than 3 months—10% • 3 months-less than 6 months—35% • 6 months-less than 12 months—65% • More than 12 months—100%
Capital Requirements	<p>9. Minimum total capital/risk weighted assets ratio of 8% with the Authority prescribing a higher capital ratio if it determines that the risk profile warrants higher standards.</p>
Reserve Funding	<p>10. Maintain a reserve fund not less than 10% of its total assets.</p> <p>11. At the close of each financial year, 10% of the net profits are to be placed until such time that the reserve fund is equal to 10% of total assets.</p>
Liquidity	<p>12. Maintain a minimum liquidity ratio of 15% of withdrawable savings in easily accessible instruments and accounts.</p>
External Borrowing	<p>13. May only borrow up to a maximum of 10% of its total assets.</p>
Investments	<p>14. Adopt a reasonable and prudent approach to investing to avoid undue interest and concentration risk.</p> <p>15. Board to formulate and review Investment Policy.</p> <p>16. Monthly investment reports should be prepared for the Board.</p>

Issue	Proposals
Financial Reporting	<p>17. Credit unions will be required to prepare and submit audited annual financial returns (statutory) and monthly returns (management).</p> <p>18. The financial statement must include:</p> <ul style="list-style-type: none"> • An income statement; • A balance sheet; and • Cash flow statement <p>19. Audited financial returns must be submitted no later than 4 months after the close of the financial year (a filing extension will require approval from the Authority).</p>
Provision of information	<p>20. The Authority shall have unlimited access to all records of a credit union and will be granted the power to review a credit union's facilities, books, records, accounts, documents and financial statements. The Authority will also be given the power to obtain any additional information or reports (outside of statutory requirement).</p>
AML/CFT	<p>21. Have an AML/CFT Manual which should be periodically reviewed and updated.</p> <p>22. Provide Customer Due Diligence.</p> <p>23. Develop Internal Reporting Procedures.</p> <p>24. Provide AML/CFT training for staff.</p>
Corporate Governance	<p>25. Board Members and Officers must meet fit and proper criterion.</p> <p>26. The Authority will approve all Board Members and Officers.</p> <p>27. As a minimum the Board must establish a Supervisory and Credit Committee.</p> <p>28. Board must establish Bye-laws.</p> <p>29. Board must establish system of controls.</p>
Enforcement	<p>30. The Authority will have the Power to:</p> <ul style="list-style-type: none"> • Give Directions; • Issue an administrative order; • Restrict a licence; • Revoke a licence; and • Wind-Up and dissolve.
Right of Appeal	<p>31. A credit union which is aggrieved by an enforcement or restriction/revocation of a licence decision of the Authority will have the right to appeal the decision to a tribunal.</p>
Transitional Provisions	<p>32. On the day of commencement of the new Act, the Authority is proposing a period of transition of twelve (12) months.</p>