



BERMUDA MONETARY AUTHORITY

CREDIT UNIONS ACT 2010

STATEMENT OF PRINCIPLES
JANUARY 2011

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CREDIT UNION ACT STATEMENT OF PRINCIPLES
JANUARY 2011

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1. INTRODUCTION

1.1 In developing the regulatory regime, including this Statement of Principles (the Principles), the Bermuda Monetary Authority (the Authority) recognises that credit unions are not-for-profit organisations, and in this respect are different from other deposit-taking financial institutions. The Authority is aware that credit unions work as a co-operative, valuing volunteerism, co-operation and member participation. Therefore, the Authority is committed to ensuring the unique characteristics of credit unions are maintained, while still fulfilling its obligations to protect the interests of credit union members.

1.2 This Statement of Principles is made pursuant to section 5 of the Credit Unions Act 2010 (the Act) which requires the Authority to publish in such manner as it deems fit a Statement of Principles in accordance with which it is acting or proposing to act:

- in interpreting the minimum criteria and prudential standards;
- in exercising its powers to grant, amend, restrict, or revoke a licence and;
- in exercising its powers to obtain information, reports and to require production of documents.

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1.3 The Authority may revise these Principles from time to time. The Authority will publish a statement of any changes to the Principles and will issue revised versions of the Principles when there have been significant developments in its approach.

2. EXPLANATION FOR THE STATEMENT OF PRINCIPLES

2.1 The Principles established in this document are relevant to the Authority's decisions on whether to:

- grant a licence to a credit union;
- give directions to a credit union;
- impose conditions upon a licence; or
- revoke the licence of a credit union.

2.2 The Principles serve as the Authority's interpretation of the Minimum Criteria (Schedule 2 of the Act), and of the prudential requirements (Schedule 3 of the Act). Additionally, the Principles clarify the grounds for restriction and revocation of a licence (Sections 13 and 14 of the Act). This interpretation, together with the principles underlying the exercise of its powers, encapsulate the main standards and considerations to which the Authority will have regard in conducting its supervision of credit unions.

2.3 The function of credit union supervision includes monitoring the on-going compliance with provisions of the Act and international standards while identifying any threats to the interests of a credit union's membership. If the Authority is not satisfied with the operations of a credit union, it will consider taking the appropriate steps in order to protect a credit union's membership. Where appropriate, the Authority will seek remedial action by persuasion and encouragement. However, if the Authority considers that its powers should be exercised, it may take formal action to impose conditions or to give directions and/or ultimately, to revoke the licence of a credit union.

3. MINIMUM CRITERIA—SCHEDULE 2

3.1 Before a credit union may be licensed under the Act, the Authority must be satisfied that the entity can maintain compliance with the minimum criteria (Schedule 2 of the Act) and the prudential requirements (Schedule 3 of the Act) together with all other requirements of the Act. Once registered, credit unions are subject to the Authority's supervision and will be required to fulfil their obligations on an on-going basis to ensure that the interests of their members are sufficiently safeguarded.

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3.2 In addition to reviewing returns and other data received from a credit union, the Authority's supervision will also include the use of on-site compliance visits, consistent with the risk-based framework that is applied by the Authority to all of its regulated entities. When necessary, the Authority will hold discussions with the chief executive officer, senior management and officers. Through these means, the Authority seeks to satisfy itself that a credit union continues to conduct business prudently and in accordance with all relevant criteria.

3.3 This part of the Principles sets out the Authority's interpretation of these criteria.

Directors and Officers to be Fit and Proper Persons

3.4 A credit union will be responsible for appointing its own board of directors (directors), chief executive officer, senior executive officers, senior management and committee members. In appointing these members, a credit union must ensure that all of the potential appointees meet 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 directors, a chief executive officer and senior executive officers within fourteen (14) days of their appointment.

3.5 Every person who is, or is to be, a chief executive officer, a senior executive officer, an officer or a director of a credit union is to be a fit and proper person to hold their particular position. With regard to these individuals, consideration should be given to whether the person has relevant experience, sufficient skills, knowledge and soundness of judgment to undertake and fulfil the particular duties and responsibilities of their office properly. In assessing whether a person has the relevant competence, soundness of judgment and diligence, consideration should be given to whether the person has previous experience with similar responsibilities, their record in fulfilling their previous role and, where appropriate, whether the person has appropriate qualifications and training.

3.6 Individual directors need not hold formal qualifications but must have sufficient experience or training providing them with the following skills:

- ability to read and interpret financial statements;
- basic understanding of laws governing the credit union;
- knowledge of risk measurement and effective management;
- knowledge of and commitment to credit union philosophy;
- familiarity with asset and liability management; and
- familiarity with lending and collections.

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3.7 The probity of potential appointees is equally as important as their skills and knowledge; therefore it is essential that a person with responsibility for the conduct of credit union business is of high integrity with a sound reputation and character. When assessing potential appointees, consideration should be given to whether the person has a criminal record, convictions for fraud, contraventions of any provisions of law protecting members of the public against financial loss or has conducted dishonest, oppressive or otherwise improper business practices (whether lawful or not) which may otherwise reflect discredit on their method of conducting business. Consideration should also be given to whether a potential appointee has been censured or disqualified by any professional or regulatory bodies, e.g. The Institute of Chartered Accountants of Bermuda, or corresponding bodies in other jurisdictions.

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

3.7 Once a credit union is licensed, the Authority has continuing regard to its performance. Imprudence in the conduct of a credit union's business, or actions which have threatened (without necessarily having damaged) the interests of members will reflect adversely on the competence and soundness of judgment of those responsible. Similarly, failure by a credit union to conduct its business with integrity and professional skills will reflect adversely on the probity and/or competence and/or soundness of judgment of those responsible. This applies whether the matters of concern have arisen from the way the persons responsible have acted or from their failure to act in an appropriate manner.

Business to be directed by at least two individuals

3.8 This criterion is often referred to as the "four eyes" principle and provides that at least two individuals must effectively direct the business of a credit union. The Authority normally expects that these individuals will be either senior executives or persons to whom the board has delegated executive powers and who report directly to the board. The Authority requires that at least two independent persons be involved in both the formulation and implementation of the policies of a credit union and in making and signing-off on all significant decisions. Both persons must have sufficient experience and knowledge of the business and the necessary personal qualities to detect and resist any imprudence, dishonesty or other irregularities by the other person.

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Composition of the Board

3.9 The board should consist of an odd number of directors and there should be no fewer than five directors. Having an odd number of directors prevents tied votes, while having fewer than five members could make it difficult for the board to adequately represent its membership. As a general principle, the Authority will expect that the majority of the board membership be comprised of non-executive directors, who do not have any executive responsibilities or who are not employees of the credit union. Directors with non-executive responsibility can provide the credit union with independent views on such areas as:

- strategy;
- performance;
- risk; and
- people (remuneration, resources, appointments, succession planning, standards of conduct).

Business to be conducted in prudent manner

3.10 In order for a credit union to be regarded as conducting its business in a prudent manner, there is a need to ensure compliance with the Act and with other relevant provisions of law (e.g. *Proceeds of Crime Act 1997*). Business should be conducted with integrity and professionalism. Adequate accounting and other records of its business should also be maintained. A credit union should also ensure that there are adequate resources and systems of control consistent with the nature and scale of its operations.

3.11 The Authority requires that the records and systems of control of a credit union be such that it is able to fulfil its prudent conduct and identify threats to the interests of its membership. They should also be sufficient to enable a credit union to comply with the applicable notification and reporting requirements under the Act. Delays in providing information or any inaccuracies in the information provided will call into question the fulfilment of notification and reporting requirements.

3.12 Credit unions face a variety of financial risks in their business. Recognising that capital cannot guard against all these risks, the Act requires a credit union to hold appropriate insurance cover. In judging the appropriateness of insurance cover, the Authority should be satisfied that the scope and scale of the cover in place provides reasonable assurance of the ability of the credit union to continue to trade in the event that it should face:

- major damage to its infrastructure; or
- material claims from members for loss and damage sustained.

Persons directing the business of the credit union should assess the level of risk they face in the business and determine the extent of coverage appropriate for that business. The Authority will review the adequacy of cover in place, having regard to the scale,

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composition and complexity of the business and to the size of the deductible in relation to the credit union's overall capital resources.

3.13 Beyond notification and reporting, the Authority will also take into account a range of other considerations in assessing whether a credit union is prudently run. These include but are not limited to assessing whether a credit union has:

- sufficient resources;
- experienced and skilled staff;
- sufficient institutional capital;
- appropriate management of unsecured loans;
- an effective documented and utilised arrears management policy;
- effective anti-money laundering arrangements
- effective provisioning requirements for delinquent loans;
- sufficient liquidity (ability to cope with unexpected events); and
- appropriate corporate governance arrangements.

Investment Requirements

3.14 Credit unions are required to adopt a reasonable and "prudent person" approach to investments in order to avoid undue interest rate and concentration risks, while obtaining a reasonable return. The prudent person approach requires that a credit union should only assume investment risks that it can properly identify, measure, respond to, monitor, control and report. When deciding to invest, a credit union should give full consideration to the impact that the investments will have on its capital and liquidity requirements. This being the case, the Authority proposes the following:

- **Board Responsibility**—the board shall be responsible for formulating, reviewing and adjusting the investment policy, including the risk appetite of the credit union. 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

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- 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.

Lending Requirements

3.15 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:

- Lending Policy 's objectives (including but not limited to such key areas as);
 - related party lending
 - unsecured lending

- 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).

3.15 A credit union should manage unsecured loans prudently. Generally, the Authority would expect to see a Lending Policy which specifically addresses unsecured lending in order to keep such lending within prudent levels.

Arrears Requirements

3.16 A credit union should have a robust and effective approach to handling arrears. The Authority requires credit unions 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 characterised, this

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information should be used to promptly make the appropriate amendments to the overall Lending Policy.

Provisioning Requirements

3.17 In addition to the information presented in 3.16 above, default risk must be properly accounted for in the provision for doubtful debts. A credit union should conduct due diligence on its members 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 the financial statements should include an appropriate provision for doubtful debts. In assessing the adequacy of a credit union's provisioning policy, the Authority will have regard to the extent to which it complies with the standard laid down by the World Council of Credit Unions, set out in the table below:

Delinquency period	Percentage of outstanding loan balance to be provided
30 days to 365 days	35%
Greater than 365 days	100%

4. PRUDENTIAL REQUIREMENTS—SCHEDULE 3

Reserve Funding Requirements

4.1 A credit union needs to maintain sufficient reserves to ensure continuity in order to protect members' savings. The stronger the overall reserves position, the easier it is for credit unions to deal with future uncertainties. This capital requirement serves as the mechanism by which credit unions protect their members from unforeseen losses. A Credit Union shall maintain a reserve fund and other institutional capital of not less than ten percent (10%) of its total assets. At the close of each financial year, twenty-five percent (25%) of the net surplus shall be placed into a reserve fund until such time that the institutional capital is equal to ten percent (10%) of total assets.

The reserve fund:

- Shall not be distributed to members unless a credit union has been dissolved.
- Shall not be distributed to any person or outside entity having a legal claim.

Institutional capital comprises:

- The reserve fund;

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- Statutory or other non-distributable general reserves;
- Undistributed surplus; and
- Such other funds which may be received by the credit union by way of non-refundable donations for no specified purpose, which are not available for distribution.

4.2 The Authority should be informed immediately should the Credit Union's institutional capital fall below 10% of total assets and the appropriate measures should be taken to restore the fund to the required level as soon as possible.

Liquidity Requirements

4.3 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. In order to decrease liquidity risk and avoid a liquidity crisis, a credit union will be required to maintain a minimum liquidity ratio of fifteen percent (15%) of withdrawable savings in highly-liquid, easily accessible instruments and accounts such as:

- Cash;
- Deposit accounts with Bermuda banks;
- Government securities issued by Bermuda Government;
- Bermuda Government Bonds; and
- Other instruments may be acceptable subject to the approval of the Authority.

Lending Requirements

4.4 A credit union can lend to any member up to a maximum period of ten (10) years and up to a maximum amount of ten percent (10%) of institutional capital or 2% of aggregate withdrawable shares, whichever is the lower.

The total loan portfolio shall not exceed eighty percent (80%) of a credit union's total assets.

External Borrowing

4.5 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 credit risk, a credit union shall only borrow up to a maximum of ten percent (10%) of total assets or four times its retained earnings and reserves, whichever is the lower.

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5. POWERS TO GRANT, RESTRICT OR REVOKE A LICENCE

Principles Relating to the Granting of Licences

5.1 To grant a licence under the Act, the Authority needs to be satisfied that all the minimum licensing criteria in Schedule 2 and the prudential requirements in Schedule 3 are met. The Minister must also have advised the Authority that he is satisfied that the grant of the licence would be in accordance with the economic and financial policy of the Government. In order to be so satisfied, the applicant and any other relevant parties must first have provided all the appropriate information requested by the Authority in connection with the application. Even where it is satisfied that the criteria are or can be met, the Authority retains a residual discretion not to grant a licence - notably if it sees reason to doubt that the criteria and requirements will be met on a continuing basis or if it considers that for any reason there might be significant threats to the interests of members or potential members. The Authority also considers, in exercising its discretion, whether it is likely that it will receive adequate information from the credit union and relevant connected parties in order to enable it to monitor the fulfillment of the criteria and requirements and to identify potential threats to the members.

Grounds for Revocation of a Licence

5.2 Section 15 of the Act sets out the Authority's powers to revoke a licence. This section gives guidance on the Authority's interpretation of the grounds in section 14 of the Act.

5.3 The grounds upon which the Authority may take action are widely drawn, enabling the Authority to exercise its powers before a threat to members may become very great or immediate. As a result, the Authority is able to act, where necessary, before the deterioration in a credit union's condition is such that there is a serious likelihood that members will suffer loss. When its powers become so exercisable, the Act gives the Authority wide discretion in determining the action it feels appropriate to safeguard the interests of members. In particular, it may revoke a licence, apply restrictions to a licence or take some other action. The Principles relating to the Authority's exercise of this discretion are described in paragraph 5.9-5.13 below.

5.4 Section 15(a)-(d) provides that the Authority's powers become exercisable if it appears that any of the criteria in Schedule 2 or requirements in Schedule 3 is not or has not been met or may not be or may not have been fulfilled. The Authority would consider

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that a criterion “may not be fulfilled” in circumstances where the evidence available raised a material doubt about whether a criterion or requirement is or has been fulfilled.

5.6 Under section 15(b) the Authority’s powers become exercisable if a credit union fails to comply with any requirement imposed by the Act (for example, an obligation to deliver quarterly returns (section 29) and annual returns to the Authority (section 31)). Similarly, it covers any failure to comply with requirements imposed by the Authority using its formal powers under the Act (for example a restriction under section 14 or a requirement for information under section 33).

5.7 Section 15(c) provides that the Authority’s powers become exercisable if it is provided with false, misleading or inaccurate information by or on behalf of a credit union or in connection with an application for a licence by or on behalf of a person who is or is to be a director, chief executive officer or senior executive. The simple provision of inaccurate information renders the power exercisable. However, in practice, the Authority would not consider exercising its powers unless the inaccuracy was material, or symptomatic of wider prudential concerns.

5.8 Under Section 15(d), although breaches of the licensing criteria or prudential requirements and other matters referred to above cover most of the circumstances which would pose a threat to the interests of members and potential members, other sudden external threats unconnected with the credit union’s conduct remain possible – for example as a result of a national catastrophe or force majeure declaration. This section ensures that the Authority is able to act where the interests of members or potential members are threatened in any other way, whether by the manner in which the institution is conducting or proposing to conduct its affairs or for any other reason.

Principles Relating to Restriction or Revocation of a Licence

5.9 Where its powers of formal intervention are exercisable, the Authority seeks, in deciding on the appropriate course of action, to act in the interests of the credit union’s existing and potential members. As noted above, the Authority’s formal intervention powers become exercisable in a wide range of circumstances and a range of alternative courses of formal action are open to the Authority. Where the Authority can have adequate confidence in a credit union and its management, it is always open to it to seek remedial action by informal means, notably through persuasion and agreement with the institution regarding the steps to be taken to return it to compliance. Where the Authority can be satisfied that prompt and adequate remedial action will be put into effect, thereby protecting the interests of existing and potential members, it is unlikely to revoke or restrict the licence. However, where the prudential concerns are very serious or where the Authority feels less able to rely on a purely informal approach, it is likely that formal action will be taken which could include revocation.

5.10 Where there are serious concerns and there is no reasonable prospect of speedy and comprehensive remedial action, the Authority is likely to consider revocation, even if

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the threat to members is not seen as immediate because the credit union has adequate capital and liquidity. On the other hand, where formal supervisory intervention holds out good prospects of achieving successful remedial action within an acceptable time-scale, the Authority will not normally seek to revoke a licence. In so far as is consistent with the interests of members, actual and potential, the Authority will always seek to explore fully the prospects of remedial action. If, however, the financial position of the credit union is weak or is deteriorating rapidly, the scope for such a solution may be limited. The Authority has to balance the interests of existing members, for whom it may be desirable to allow the licence to remain in place rather than precipitate a forced sale of the credit union's assets, and the interests of potential members who may risk being exposed to loss.

5.11 Section 17 of the Act provides that where the Authority concludes that its powers are exercisable and should be exercised, it must first serve written notice of its intention to act. A credit union then has a period of fourteen (14) days within which it can make representation, which the Authority needs to consider before issuing a final notice regarding the action to be taken. Where a credit union remains aggrieved by the Authority's decision, it then has certain rights of appeal.

5.12 The circumstances in which a restricted licence rather than revocation is likely to be appropriate are where the Authority considers that the imposition of restrictions may provide effective underpinning to a credit union's efforts to remedy the situation, and that there is a reasonable prospect that all the relevant criteria and requirements will be fulfilled again within a reasonable period. The Authority must, therefore, look for a sound and viable programme for swift remedial action.

5.13 On occasion, however, when concerns arise it may also be desirable to impose restrictions as a holding measure to protect members and potential members while further information is sought and evaluated.

Cases of Urgency

5.14 Section 18 of the Act provides for the Authority to impose or vary restrictions with immediate effect (i.e. without serving notice of its intention to act) when it considers it a matter of urgency. Wherever possible, the Authority adheres to the normal notice provisions set out in Section 17. However, where it perceives or suspects a serious immediate concern to the interests of members or potential members, it considers the need for urgent action. This may also involve circumstances in which it sees it as important for holding action (e.g. to prevent further deterioration of the position) to be taken while fuller information is sought.

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6. POWERS TO OBTAIN INFORMATION, REPORTS AND TO REQUIRE PRODUCTION OF DOCUMENTS

Reporting Requirements

6.1 Prudential supervision involves the receipt and analysis of a wide variety of regular and ad hoc financial and other information from institutions. The Authority's standard reporting arrangements are kept under review and amended in the light of developments. Such reports and information are routinely provided by institutions on an entirely voluntary basis.

6.2 Credit unions should provide the Authority with a quarterly return no later than thirty (30) days following the end of each quarter and it should comprise the following:

- Balance sheet as of the date of the return month end
- Income statement for year to date
- Cash flow statement
- Liquidity ratio – as defined under Schedule 3 of the Act – which should include a break down of the composition of highly liquid assets
- Capital ratio – i.e. institutional capital divided by total assets
- Ratio of total loans to total assets
- Reports on the credit union's compliance with prudential standards established by the World Council of Credit Unions (WOCCU) International Safety and Soundness Principles
- A listing of the ten (10) largest outstanding loans together with all loans breaching the restriction that lending to an individual member should not exceed 10% of institutional capital or 2% of aggregate withdrawable shares.
- A listing of the ten (10) largest member funding sources inclusive of saving accounts, shares accounts, and deposits

Statutory reporting requirements

6.3 Certain matters are, however, the subject of specific statutory reporting requirements as follows:

- the requirement under section 31 of the Act for a credit union to submit an annual return to the Authority, signed by the chief executive officer or secretary, confirming the name and address of every person who is a director, chief executive officer, senior executive officer or officer of the credit union and every person who has ceased to hold any such position since the date of the previous return;

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- the requirement under section 28 of the Act to provide immediate written notice to the Authority of a proposal either to remove an auditor before the expiration of his term of office or replace an auditor whose term of office has expired; and
- the requirement to provide the Authority with a copy of audited financial statements no later than four months after the close of the credit union's financial year end.

6.4 Under section 32 of the Act, a credit union is required to notify the Authority of any matters that may have a serious regulatory impact on its operations. The following includes a non-exhaustive list of issues that a credit union must report to the Authority:

- Failure to meet any of the minimum criteria, prudential requirements or other obligations under the Act;
- New business initiatives or any other material changes to its business operations;
- Changes to the chief executive officer, senior executive officers or directors;
- Actual or suspected fraud in relation to the business of the credit union; and
- Any matter that might significantly impact the credit union's operations.

Formal Powers

6.5 Section 33 of the Act provides formal powers for the Authority by notice in writing to require from a credit union such information as it may reasonably require for the performance of its functions under the Act. The section also provides for the Authority to require a credit union to provide it with a report by the credit union's auditor or by an accountant or other person with relevant professional skill on any relevant matter that would fall within the section.

6.6 Formal use of the power requiring a credit union to provide the Authority with such information is most infrequent since the Authority is able generally to rely on the willingness of credit unions to provide information voluntarily. In particular circumstances, however, the Authority must consider whether to make use of this power – notably, for example, where it has material concerns about the accuracy or completeness of information provided by a credit union.

6.7 Section 34 of the Act provides statutory powers for the Authority by notice in writing to require a credit union to produce relevant documents or information. This power can also be used to obtain relevant documents in the possession of other persons; and also to require information or documents from entities related to a credit union. Section 35 of the Act provides the Authority with specific powers to enter the business premises of such persons for the purpose of obtaining relevant information or documents. Use of these powers is exceptional, and generally reflects circumstances in which the Authority has serious concerns about the operations of a credit union.

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7. ANTI-MONEY LAUNDERING/ ANTI-TERRRIST FINANCING

7.1 Since 1st January 2009 the Authority, pursuant to Section 5 of the *Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008*, has a duty to monitor AML/ATF regulated financial institutions for compliance with the *Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008* (“the Regulations”). These Regulations should be read in conjunction with the Guidance Notes for AML/ATF Regulated Institutions which were issued in March 2009. The above legislation empowers the Authority to impose civil penalties for non-compliance with the regulations.

7.2 The Regulations define those institutions which are regulated and in particular Section 2(a) of the Regulations refers to any person or entity that “carries on deposit-taking business within the meaning of section 4 of the Banks and Deposit Companies Act 1999”. Credit unions are therefore within scope of the Regulations and must comply with the provisions they establish.

7.3 The Regulations are divided into three (3) parts and are aimed at ensuring that senior management of regulated institutions have in place policies and procedures that will deter and detect any attempts by clients to conduct money laundering or terrorist financing. The Guidance Notes outline the practical application of the Regulations for businesses to assist them to be in compliance with the Regulations. They cover areas relating to:

- Senior management responsibilities;
- Internal controls;
- Reporting Officers;
- Risk-based approach;
- Customer due diligence;
- Confirmation of verification of identity;
- Suspicious activity reporting;
- Staff awareness, training and alertness; and
- Record keeping.

8. WORLD COUNCIL OF CREDIT UNIONS (WOCCU) PRINCIPLES

8.1 In regulating Credit Unions, the Authority will also have due regard to a credit union's adherence to the principles established by the WOCCU which include the following:

Governance Principles

8.2 The WOCCU defines governance as a system designed to control and distribute power within an organisation. To this end the WOCCU recommends that a credit union adhere to the principles of:

- **External Governance**
 - Transparency
 - Compliance
 - Public Accountability

- **Internal Governance**
 - Structure
 - Continuity
 - Balance
 - Accountability

- **Individual Governance**
 - Integrity
 - Competence
 - Commitment
 - Balance
 - Accountability

Safety and Soundness Principles

8.3 The WOCCU's Safety and Soundness Principles set out prudential standards intended to safeguard credit union members' savings from losses and to ensure credit unions function in a sound manner. The Safety and Soundness Principles offer a best practice guide on the following:

- **Delinquency**
- **Loan Loss Provisioning**

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- **Institutional Capital**
- **Non-Earning Assets**
- **Pricing**
- **Operating Costs**
- **Liquidity**
- **Diversification**
- **Non-Financial Operations**

Consumer Protection Principles

8.4 The WOCCU recognises that credit unions are member-owned and governed institutions that exist for the good of those using their services. Thus there should be standards to safeguard credit union members, enabling them to understand their rights and make informed decisions. These include the following:

- **Disclosure of Rates and Fees**
- **Periodic Statements**
- **Honest and Non-Deceptive Promotions**
- **Fair Credit Practices**
- **Dignified Collection Practices**
- **Members' Consent to Share Information**
- **Dispute Resolution Services**
- **Provide Education about Thrift and Wise Use of Credit**
- **Fair and Forthright Conversions**