



8 April 2020

Dear Directors, staff members and volunteers,

We recognise that credit unions (CUs) across the UK are facing period of unprecedented operational and financial challenges. We appreciate that this could therefore be a time of personal stress for you all. We ask that CU directors and members of their senior management teams read this letter carefully and consider what it means for your CU.

This letter:

- sets out details of a **PRA rule modification available to all CUs** from today's date until 1 January 2021;
- explains the **PRA's supervisory focus and priorities** for CUs in this period of stress; and
- reiterates messages on **regulatory reporting**.

We also take this opportunity to remind you that, as regulated entities, you are obliged to be open, transparent and honest with the PRA.<sup>1</sup> We are committed to engaging with CUs on regulatory matters in a proportionate and practical way, but we can only do this effectively with a full understanding of the problems you are facing. **Should you wish to notify us of particular problems you are facing, please use our mailbox address: [prudential\\_creditunions@bankofengland.co.uk](mailto:prudential_creditunions@bankofengland.co.uk).**

#### Provisioning requirements – modification by consent

The PRA has published a model direction modifying a PRA rule on minimum provisioning requirements. The modification is available for all consenting CUs from today until 1 January 2021.

CUs have the option to consent to this modification such that the minimum provisioning requirements for bad debt will be reduced in line with the rates set out below:

Percentage of the net liability to the CU of borrowers...	Rule 3.11 (unmodified) A CU must make specific provision...of at least	Modification of Rule 3.11 A CU must make specific provision...of at least
where the amount is more than three months in arrears.	35%	20%
where the amount is more than six months in arrears.	60%	40%
where the amount is more than nine months in arrears.	80%	60%
where the amount is more than twelve months in arrears.	100%	100%

<sup>1</sup> Fundamental Rules 2.7: "A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice."

CUs that want to take up this modification must send a short email to [prudential\\_creditunions@bankofengland.co.uk](mailto:prudential_creditunions@bankofengland.co.uk), confirming they are consenting to the modification and including their CU name and Firm Reference Number. No supporting information is needed. We will send CUs a short confirmatory email by return and will publish a list of CUs consenting to the modification on the PRA's website.

CUs should consider carefully if and how they want to consent to this modification. In coming to a decision, you should consider the profile of your membership and historic and current rates of arrears in your loan book. If taking up the modification, CUs should still be mindful of the overarching PRA requirement on provisioning that states "A credit union must make adequate provision for bad debts" and provision accordingly and appropriately.

We expect all CUs to be mindful of their continuing and existing regulatory requirements as set out in the PRA Credit Union Rulebook Part. PRA rules set out obligations with respect to credit risk management, credit control, record-keeping and the collection of adequate management information.<sup>2</sup>

The PRA is conscious that at the point this modification expires, there will be an increase in provisioning that may create a challenge for some CUs who have made use of it. We will consider appropriate use of our policy tools to assist CUs to manage that risk.

For more information, please see the FAQs at the end of this letter and visit [www.bankofengland.co.uk/creditunions](http://www.bankofengland.co.uk/creditunions) to view the model direction modifying the rule.

#### PRA supervisory approach for CUs

The PRA has consistently stressed the importance of sound governance, risk management and general prudence in its past communications with the CU sector. It is crucial that CUs are mindful of these principles, especially at this time of economic stress.

In particular, at a time where meeting face-to-face is a challenge, CU boards should think carefully about how board decisions can be made and what management information is collected and provided for board members such that they are able to identify, prioritise and focus upon the risks their CU is facing.

The PRA is mindful of the operational challenges that may make certain aspects of CU operations and compliance increasingly challenging. And we realise that the requirements upon all of us for social distancing and for certain members of society to isolate themselves are a particular challenge for many CUs. We expect CUs to act reasonably, prudently and in the best interests of members. Where they do so, the PRA is committed to engaging with them constructively and supervising them pragmatically and proportionately, although in order to do so we rely on CUs' openness, co-operation and timely disclosure of problems they are facing.

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<sup>2</sup> We particularly refer CUs to 10.2 (<http://www.prarulebook.co.uk/rulebook/Content/Chapter/320155/06-04-2020>) and 16.3 (<http://www.prarulebook.co.uk/rulebook/Content/Chapter/320155/06-04-2020>)

## *Capital*

The capital requirements policy for CUs changed on Monday 16 March 2020, reducing capital requirements for larger CUs. However, we recognise that current challenges will give some CUs concerns with respect to ongoing compliance. The PRA has always operated a pragmatic supervisory approach with respect to CU capital and will continue to do so.

Where a CU is either already below its requirement or projects to be so, it should notify the PRA immediately as required by the Credit Union Rulebook Part 8.6.<sup>3</sup> On receipt of that notification, we will engage with CUs on a case-by-case basis. The starting point for that supervisory dialogue is to seek assurance from the CU on its plan to restore its capital.<sup>4</sup>

## *Liquidity*

CUs should be mindful of the PRA's liquidity requirements.<sup>5</sup> In our recent interactions with the sector, we have noted instances of good practice here, such as daily monitoring of members' withdrawals; and a consideration of investments held and under what conditions (and what withdrawal penalties may apply). We expect CUs to consider their specific liquidity situation and associated risks and to act accordingly.

## Regulatory reporting

We reiterate the message sent to CUs last week; that the PRA will accept delayed submission for regulatory reports due on or before 31 May 2020.<sup>6</sup>

A two-month extension is granted for annual returns and accounts. A one month extension is granted for quarterly returns.

However, timely submission is still encouraged and we would ask that these extensions are only utilised where a CU is experiencing particular challenges.

**We end by reiterating that should you wish to notify us of particular problems you are facing, please use our mailbox address:**  
[prudential\\_creditunions@bankofengland.co.uk](mailto:prudential_creditunions@bankofengland.co.uk).

Yours sincerely

CU Supervision team

<sup>3</sup> <http://www.prarulebook.co.uk/rulebook/Content/Chapter/320147/06-04-2020>

<sup>4</sup> As stated, supervisory engagement is on a case-by-case basis, but CUs should be mindful of the principles outlined in SS2/16; "Where a credit union's capital ratio is below 5%, the PRA expects a credit union to engage more fully with the PRA. In particular, the PRA will expect a credit union to engage with the PRA on its ongoing sustainability and its capacity to budget and business plan. As part of that discussion and only in certain circumstances, the PRA will expect credit unions to engage with the PRA on whether they have a viable future and if not, what plans they have to close the credit union in an orderly fashion, which could be by way of insolvent wind-up, solvent wind-down or the transfer of its engagements to another credit union."

<sup>5</sup> <http://www.prarulebook.co.uk/rulebook/Content/Chapter/320148/06-04-2020>

<sup>6</sup> See <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/covid-19-regulatory-reporting-and-disclosure-amendments>

## FAQs - modification

What is a modification by consent?	The PRA has power under s138A Financial Services and Markets Act 2000 to direct that specific rules in the PRA handbook apply to certain firms with modifications. The PRA may only make such a direction if satisfied that: a) compliance by the particular firms with the unmodified rule would be unduly burdensome or would not achieve the purpose for which the rule was made; and b) the direction would not adversely affect the advancement of any of the PRA's objectives.
Which CUs does the modified rule apply to?	<b>All credit unions may</b> consent to the modification but the modified rule will only apply to those CUs that do in fact consent.
Which rule will be modified?	The model direction modifies Rule 3.11 of the PRA Rulebook Credit Union Part.
Do we have to consent to the modification?	No, you do not have to consent to the modification.
How can CUs consent to the modification?	If you want to consent to and so take advantage of the modification, you should send a short email with your CU's name and Firm Reference Number to <a href="mailto:prudential_creditunions@bankofengland.co.uk">prudential_creditunions@bankofengland.co.uk</a> . We will send CUs a short confirmatory email by return and will publish a list of CUs consenting to the modification on the PRA's website.
What will happen if we do not consent to the modification?	Should you decide not to consent to the modification, you will be subject to the rules in the PRA Rulebook Credit Union Part as they currently stand. In particular, you will need to make specific provisions for bad debts as set out in the unmodified Rule 3.11.
When does the modification start?	The model direction modifying the rule was published on 8 April 2020 but will not apply to your CU until you indicate your consent to the modification. If you wish to take advantage of the modification it would be advisable to indicate your consent as soon as possible.
How long does it last?	The modification lasts until 1 January 2021.