



## The Regulator

### **Key Points**

- Since the 1<sup>st</sup> December, the Financial Services Authority has been responsible for the regulation of credit unions under the Credit Unions Act 1979. Since 2nd July 2002 the FSA has had a range of powers with which to regulate credit unions under the Financial Services and Markets Act 2000.
- The Financial Services Authority is also responsible for the regulation of banks, building societies, independent financial advisers, pensions, and all other financial providers and products.
- The FSA operate a “compliance based regime” – credit unions are expected to comply with the FSA’s regulatory requirements and meet the prudential standards established by the FSA. A credit union that fails to meet the standards for compliance may have restrictions placed on their operations.
- The FSA adopt a “risk based approach” to regulation through identifying levels of risk and potential impact, and focusing their resources on the highest risks.
- Study Groups applying for authorisation as credit unions have to satisfy the FSA that the credit union and the individuals running the credit union will comply with the rules and requirements established within CRED.

### **History – how credit unions became regulated by the FSA**

In 1997 the newly elected Labour Government decided to make the Bank of England independent and establish a single regulator for the entire financial services industry. Following consultation with the credit union movement<sup>1</sup>, Government announced in November 1999 that credit unions would also be regulated by the new regulatory organisation – previously known as NEWRO but soon to become known as the Financial Services Authority.

On 1<sup>st</sup> December 2001, the regulatory powers of all existing financial regulators was transferred to the Financial Services Authority. Existing regulators such as the Personal Investment Authority, Securities Investment Board, Building Societies Commission ceased to exist following this transfer of powers. Also on 1<sup>st</sup> December 2001, the Registrar of Friendly Societies (the previous regulator of credit unions) ceased to exist. From 1<sup>st</sup> December 2001, the FSA took over the Registrar’s regulatory responsibility for credit unions, using the existing regulatory powers of the Registrar, contained within the Credit Unions Act 1979.

Since 1<sup>st</sup> December 2001, the FSA has officially been the regulator of credit unions. As from 2nd July 2002, the FSA, in addition to the Registrar’s powers has had available the full range of powers and tools of the FSMA, to apply to its regulation and supervision of credit unions.

### **Financial Services & Markets Act 2000**

The Financial Services and Markets Act which received royal assent in June 2000 is the piece of legislation that established the Financial Services Authority and enabled the transfer of regulatory

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<sup>1</sup> Proposed amendments to the Credit Unions Act 1979 – A consultation Document by HM Treasury, November 1998.



powers from a number of separate and different regulators to the FSA. FSMA provides the FSA with the legal powers to make Rules that regulated firms must comply with.

The Financial Services and Markets Act (FSMA) gave the FSA a number of statutory duties; to maintain market confidence, promote public awareness, protect consumers, and reduce financial crime.

The Act also gave the FSA the power to establish two separate companies responsible for responding to consumer's needs for arbitration and compensation on the collapse of the financial provider. The Financial Services Compensation Scheme (FSCS) deals with claims for compensation. The Financial Ombudsman Service (FOS) acts as an arbitrator for disputes if the complaint can not be settled.

### ***FSA's approach to regulating credit unions***

The FSA regulates the largest bank in Britain, as well as the smallest credit union and the sole trader independent financial adviser. The FSA also regulates other mutuals such as building societies and friendly societies. The FSA have had to develop a regulatory regime that can be applied consistently but proportionately to all the different regulated firms. Within the regime there are high level principles that can be applied consistently to all, through a proportionate recognition of the unique characteristics and varying sizes and objectives of the different regulated firms.

The FSA's regulatory regime is contained within the **FSA Handbook**. This is a very large document. It contains the details of all the different aspects of regulation applying to all firms; such as requirements for authorisation, approved persons, enforcement actions, supervision techniques, money laundering prevention, etc.

Organisations such as credit unions, mortgage providers, Lloyds of London (for example) have some distinctly different regulatory needs that are not applicable to all other firms. These specific requirements are contained in a number of separate **Specialist Sourcebooks**. As well as containing specific requirements relating to only that sector, a Sourcebook also contains references to the relevant parts of the FSA Handbook, that a firm may also need to familiarise itself with on occasion (for example, if the credit union had breached a rule and the FSA was considering enforcement action).

The Specialist Sourcebook for credit unions is referred to by the abbreviation **CRED**.

To obtain authorisation as a credit union it is necessary to submit an Application Pack to the FSA – please see relevant section of this Study Group Pack.

### ***Other Sources of Information***

- The credit union team at the Financial Services Authority
- [www.fsa.gov.uk](http://www.fsa.gov.uk) – includes a handbook section and a publications section that contains all current and past consultations
- CRED – the Credit Union Specialist Sourcebook
- Application Pack for Credit Unions – available from the FSA's website
- <http://creditunioncommunities.org> ABCUL's member-only website contains information on the FSA and the regulatory regime
- ABCUL Membership Services Team ([info@abcul.org](mailto:info@abcul.org) or 0161 832 3694)