

Financial Conduct Authority  
12 Endeavour Square  
London  
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22 January 2021

Dear David

### **Financial Conduct Authority – Regulatory Fees and Levies: Policy Proposals for 2021/22**

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 3% per month under the Credit Unions Act 1979 and provide credit in competition with high-cost lenders.

They are numerous, with 280 credit unions active in mainland Great Britain today, and have 1.4 million members and £1.8 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

### **Response to consultation**

Overall, we support the principle of standardising and consolidating the confusing array of 83 different fees into a smaller number of bands which should aid firms in identifying the relevant fee applicable to any given situation. We also appreciate the recognition of credit unions' unique position in financial services through the continued retention of special minimum fees and reduced fees for credit unions varying their permissions.

We understand that there is a fine balance to be found between truly reflecting the costs of individual requests to FCA and administering an overly burdensome granular set of fees which are difficult to navigate for firms and the regulator alike. Another consideration is that of fairness and

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providing a fee regime which does not put small firms at too much of a competitive disadvantage. We also understand FCA is only part funding applications through the fee system and thus there is a certain amount of proportionality built in by subsidising the costs of applications with the fees paid by larger tariff-paying firms. There is a large set of complex and competing aims and interests for the regulator to consider in its unenviable task of setting these fees.

However, there is one proposal where we feel that further consideration and revision is needed.

### **Senior Management Function Application fees**

We note that this is a new proposal and that FCA is shifting away from absorbing these costs centrally to setting a price around the level of the modal cost of each application. We do not know how the total amount that will be raised compares to the total cost of processing SMF applications, but we would expect this to fall short owing to FCA's explanation that some SMF applications including those involving interview processes can cost much more.

Credit unions as described above have a key role in financial inclusion and have a statutory objective to educate members in matters of financial capability. In addition, they are subject to a statutory interest cap, which is particularly relevant at the small average loan values to some of the most financially excluded people in society. This, coupled with a lack of scale, has always meant that credit unions have enormous pressures on their ability to cover their costs.

As both co-operative and not-for-profit organisations, breaking even or returning a small surplus back to their members is the challenging but usually achievable objective that they strive for. Unfortunately, credit unions have seen further pressure applied to their finances over the last 12 months due to the pandemic, subsequent reduction in lending, and large increases in deposits which has negatively impacted the sector's capital to assets ratio<sup>1</sup>.

Aside from the current Covid-19 situation, the above reasons have been the rationale for introducing special regulatory fees for credit unions since the inception of the FCA and we would once again ask FCA to make an exception for credit unions in relation to this new fee for Senior Management Function applications.

In addition to proportionality concerns, which do have to be weighed against base costs we would also highlight that credit union Senior Management Function applications are much less sophisticated and less costly to process as a result. Credit unions are subject to a simplified Senior Managers' Regime and the vast majority of credit unions only require two different SMFs i.e. SMF 8 (Credit Union Senior Manager) and SMF 17 (Money Laundering Reporting Officer). As a result, credit union governance maps are simple and are usually one or two pages.

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<sup>1</sup> The latest Bank of England Credit Union Statistics available (Q2 2020) show a reduction of loans to assets from 58% to 51%, an increase of deposits by 8%, and an overall reduction of capital to assets from 11.8% to 11.4%.

Furthermore, credit union SMF applicants are not interviewed by the FCA as a rule and generally have much less additional documentation to review. We would therefore suggest that credit unions applications are both less onerous than the modal application and credit unions also do not contribute to the minority of the most expensive and complicated applications. Therefore, we believe under the current proposals credit unions may end up contributing to the costs of more expensive applications which cannot be fair.

We are particularly concerned about the impact of the application costs on the smallest credit unions which subject to minimum fees, including the special minimum fees for credit unions under £500k and £2 million in modified eligible liabilities for which several applications would lead to a more than doubling of regulatory fees in a given year<sup>2</sup>. These credit unions are usually reliant on a board and staff of volunteers and in these situations, not only is the fee unwelcome but potentially creates a situation where some credit unions ration SMF applications.

In conclusion, we urge FCA to exempt credit unions from paying the Senior Management Function Application fee. We believe this would be commensurate with FCA's principles of good regulation and the unique role credit unions play in financial services and society.

### **Credit union special minimum fee bands**

Although this consultation focuses on application and transaction fees, we also ask FCA to consider raising the value of the special minimum fee tariff thresholds applicable to credit unions of under £500k and under £2million which have not been revised since the abolition of the FSA.

Naturally, these values have been steadily eroded by inflation over time, but the unprecedented spike in deposits this year has rapidly taken what are still tiny, community-based organisations into higher-bands and these thresholds no longer provide the relief that was intended when these concessions were retained by FCA almost a decade ago.

Please let us know if you wish to discuss this further.

Yours sincerely,

Daniel Arrowsmith  
Policy, Risk and Compliance Manager

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<sup>2</sup> For example, for 2019-20 the combined minimum fees of PRA, FCA, FOS, Money Guidance for a £0-500k MEL credit union comes to £237.