BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP28/19

Credit unions: Review of the capital regime

October 2019

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Responses are requested by Friday 24 January 2020.

Please address any comments or enquiries to:
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1 Overview

1.1 In this consultation paper (CP), the Prudential Regulation Authority (PRA) sets out its proposed changes to the capital requirements that apply to credit unions. The proposals would result in amendments to the Credit Union Part of the PRA Rulebook (Appendix 1) and Supervisory Statement (SS) 2/16 'The prudential regulation of credit unions' (Appendix 2).

1.2 The key proposed changes are:

- for credit unions with more than £10 million of total assets, to provide a greater degree of flexibility and remove barriers to growth by replacing the current regime with a 'graduated rate' approach and removing the 2% capital buffer; and
- to reduce complexity in the capital regime by removing the association between credit union activities/membership size and capital requirements and to address the risks posed by these factors by other means.

1.3 The PRA also proposes changes to SS2/16 relating to smaller credit unions. The PRA is proposing to set new expectations in relation to credit unions with a capital to assets ratio in the 3-5% range, in which a credit union with a capital to assets ratio below 5% should be prepared to engage more fully with the PRA.

1.4 The CP is relevant to all UK credit unions.

Background

1.5 The PRA last consulted on changes to credit union capital requirements in 2015 as part of the review of the legacy Credit Unions sourcebook.[1] Final rules, including creation of the new Credit Unions Part of the PRA Rulebook, were published in 2016.[2] Prior to this, credit union capital requirements were last reviewed by the Financial Services Authority (FSA) in 2010.[3]

1.6 The PRA considers that there are improvements that could be made to the current regime. In particular we note: (i) that there are barriers to expansion for those credit unions approaching the £10 million asset or 15,000 member thresholds; (ii) that the link between capital and credit union membership size/activities creates a degree of complexity in the regime, where the risks posed by these factors could be addressed by other means; and (iii) that earlier supervisory engagement with credit unions with capital ratios below 5% is more likely to facilitate a non-failure solution. The proposals in this CP aim to address these concerns.

Implementation

1.7 The PRA proposes that the proposed changes would take effect upon publication of the final policy.

1 CP22/15 'Reform of the legacy Credit Unions Sourcebook', June 2015, available at (Page 2 of 2): https://www.bankofengland.co.uk/prudential-regulation/publication/2015/reform-of-the-legacy-credit-unions-sourcebook.

2 PS4/16 'Reform of the legacy Credit Unions Sourcebook', February 2016, available at (Page 1 of 2): https://www.bankofengland.co.uk/prudential-regulation/publication/2015/reform-of-the-legacy-credit-unions-sourcebook.

3 FSA Policy Statement 'PS10/11- A review of the Credit Union sourcebook (CRED)', available at: https://www.fca.org.uk/publication/policy/ps10_11.pdf

Responses and next steps

1.8 This consultation closes on Friday 24 January 2020. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP28_19@bankofengland.co.uk.

1.9 The proposals set out in this CP have been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

2 Proposals

2.1 This chapter provides a summary of the existing credit union capital requirement regime and the proposed changes to capital requirements for credit unions:

- with more than £10 million in total assets; and
- carrying out additional activities or with more than 15,000 members.[4]

2.2 This chapter also sets out the PRA's proposed amendments to SS2/16 in relation to additional expectations in respect of credit unions with a capital to assets ratio in the 3-5% range.

2.3 The PRA also proposes some additional, non-substantive changes to update the language and references in SS2/16 (for example to change references from 'Credit Union Rulebook Part 8.5' to 'Credit Unions 8.5'). These changes would not change policy expectations and have not been marked up in the draft SS.

Summary of the current and proposed capital requirements for credit unions

2.4 The table below summarises the capital requirements under the current regime and proposed regime.

Table 1: Current and proposed capital requirements for credit unions

	Current minimum capital to assets ratio (CAR) required	Proposed CAR ratio required
Total assets ≤£5 million	3% (5% applies if > 5,000 members, 8+2% applies if >15,000 members or carries out additional activities)	3% (of whole balance sheet)
Total assets >£5 million and ≤£10 million	5% (or 8+2% applies if > 15,000 members or carries out additional activities)	5% (of whole balance sheet)
Total assets >£10 million	8% + 2% buffer	5% of first £10 million, 8% of any assets above £10 million, 10% of any assets above £50 million

4 Additional activities are those activities carried out or additional services provided by a credit union as described in Credit Unions 3.3, 3.5, Chapter 4, 6.4 or Chapter 7.

The current capital regime

2.5 Credit unions are currently subject to a capital regime based on a simple leverage ratio of capital to total assets ('capital to assets ratio' or 'CAR'). This applies on a tiered basis according to the total assets of the credit union:[5]

- Credit unions with ≤ £5 million in total assets are subject to a minimum 3% CAR;
- Credit unions with >£5 million and ≤ £10 million in total assets are subject to a minimum 5% CAR; and
- Credit unions with >£10 million in assets are subject to a minimum 8% CAR plus a 2% buffer.

2.6 The activities and membership size of the credit union also affect their capital requirements under the current capital regime (regardless of the credit union's total asset size):[6]

- Credit unions that carry out additional activities (with the exception of the additional activity of providing transactional accounts) are subject to the 8% CAR +2% buffer requirement;
- Credit unions that have more than 5,000 members are subject to a minimum 5% CAR requirement; and
- Credit unions that have more than 15,000 members are subject to a minimum 8% CAR +2% buffer requirement.

Proposed new capital requirements for credit unions with more than £10 million in total assets

2.7 For credit unions with more than £10 million of total assets, the PRA proposes to remove the 8% CAR plus 2% buffer capital requirement and replace it with a 'graduated rate' approach. This approach would require higher levels of capital to be held only against total assets that exceed higher thresholds: a credit union would be required to hold 5% capital against its first £10 million of total assets, 8% of total assets between £10 million and £50 million and 10% of total assets above £50 million (the £50 million being a new threshold). The 2% buffer would no longer apply. The PRA considers that the proposals would provide a greater degree of flexibility to larger credit unions and remove barriers to growth. The PRA is not proposing to apply the graduated rate approach below the £10 million threshold. The PRA considers that the benefits of such a change would be outweighed by the consequent reduction in financial resilience for this cohort of credit unions.

2.8 With regards to the 2% buffer, the PRA has considered whether this should be maintained. The 2% buffer was introduced (on top of the 8% minimum capital requirement) in 2016 following a consultation on the review of the credit union rulebook.[7] In late 2015, the PRA consulted on the basis of a hard 10% minimum requirement for this cohort of credit unions.[8] Some respondents took the view that a hard 10% requirement would mean credit unions would end up holding a buffer on top of the minimum. Taking this into account the PRA modified the proposal so that the 10% requirement would be composed of two elements: an 8% minimum to be maintained at all times

5 Credit Union Rulebook Part rule 8.5
6 Credit Union Rulebook Part rule 8.5
7 See footnote 1.
8 See footnote 2.

and a 2% capital buffer to be available to absorb losses in stress situations. However, despite this, the PRA's supervisory experience is that credit unions still hold capital over and above 10% solely in order to meet the applicable regulatory requirement. The PRA therefore does not consider a formal regulatory buffer is necessary and recommends removing the buffer concept from the rules. It does however propose that a (graduated) 10% requirement would apply to the very largest credit unions (those with assets above £50 million) in recognition that the largest credit unions have the greatest impact on financial stability and therefore the PRA has higher expectations of them.

2.9 The PRA proposes to amend Credit Unions 2.5. This permits credit unions to pay out interim profits more than once a year only if it has a capital to assets ratio of at least 8% of total assets and, other than in a stress scenario, a 2% buffer. The PRA proposes to remove reference to the buffer.

2.10 The PRA proposes to retain rules that require credit unions to transfer a specified amount of their profits to their general reserve if their capital is less than 10% of its total assets (and prevents them from making a transfer from the general reserve whilst they remain below 10%). These requirements apply to all credit unions, regardless of whether they are otherwise subject to a capital requirement lower than 10%.

Proposals for credit unions carrying out additional activities or with more than 15,000 members

2.11 The PRA proposes to remove the association between credit union activities/membership size and capital requirements and address the risks posed by these factors by other means. Credit unions carrying out additional activities are already subject to additional systems and controls requirements; the PRA is proposing that credit unions with more than 15,000 members would also be subject to these requirements.[9]

2.12 This proposal aims to reduce complexity in the capital regime. The PRA considers a focus on systems and controls would be a more effective way to manage any risks to credit unions in this cohort rather than maintaining the link with capital requirements.

Proposed amendments to SS2/16 relating to credit unions with less than £5 million in total assets

2.13 The PRA proposes to introduce additional expectations in respect of credit unions with a CAR in the 3-5% range. This means that, where the CAR of a credit union is below 5% but remains above 3%, the credit union will be expected to engage with the PRA more fully on its ongoing sustainability and its capacity to budget and business plan, as set out in the draft SS in Appendix 2. Where a credit union's CAR falls below 3%, credit unions can expect supervisory intervention (as is currently the case).

2.14 The PRA's proposal aims to provide an earlier trigger point for credit unions to engage with the PRA with a view to recovery, wind down or merger. Supervisory experience is that earlier engagement is more likely to facilitate a non-failure solution (for example raising additional capital or seeking merger partners), therefore the PRA expects the change, over the longer term, to reduce the credit union failure rate (and associated FSCS costs) and create a more resilient sector. This should in turn create a more sustainable provision of financial services to credit union members.

9 The PRA Credit Union Rulebook Part 10.3 sets out requirements that a credit union carrying out an additional activity must meet. Chapter 4 of SS2/16 sets out the PRA's expectations of credit unions undertaking additional activities: https://www.bankofengland.co.uk/prudential-regulation/publication/2016/the-prudential-regulation-of-credit-unions-ss.

3 The PRA's statutory obligations

3.1 Before making any rules, the Financial Services and Markets Act 2000 (FSMA)[10] requires the PRA to publish a draft of the proposed rules accompanied by:

(i) a cost benefit analysis;

(ii) an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,[11] insurance objective[12] (if applicable), and secondary competition objective;[13]

(iii) an explanation of the PRA's reasons for believing that making the proposed rules is compatible with its duty to have regard to the regulatory principles;[14] and

(iv) a statement as to whether the impact of the proposed rules will be significantly different on mutuals than on other persons.[15]

3.2 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.[16]

3.3 The PRA is also required by the Equality Act 2010[17] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis (CBA)

3.4 There is a strong case for amending the current capital requirements: following a review of the existing requirements, the PRA found barriers to expansion for a cohort of credit unions, in particular those currently subject to the 2% buffer and those approaching the £10 million total assets or 15,000 member thresholds (the 'capital cliff edge'). Currently, credit unions approaching those thresholds see their capital requirement double at the point these thresholds are reached.

3.5 Charts 1 and 2 below compare marginal and average capital requirements under both the current regime and the proposals set out in Chapter 2 above. The increase in the marginal capital requirement for firms with more than £10 million in assets from 5% to 8% will see average capital requirements rise steadily as asset size increases. Chart 3 shows the effect of the proposed policy on total capital requirements, which, for credit unions with more £10 million in total assets, rise steadily as asset size increases and avoids large jumps in capital requirements.

10 Section 138J of FSMA.
11 Section 2B of FSMA.
12 Section 2C of FSMA.
13 Section 2H(1) of FSMA.
14 Sections 2H(2) and 3B of FSMA.
15 Section 138K of FSMA.
16 Section 30B of the Bank of England Act 1998.
17 Section 149.

Chart 1: Marginal capital requirements

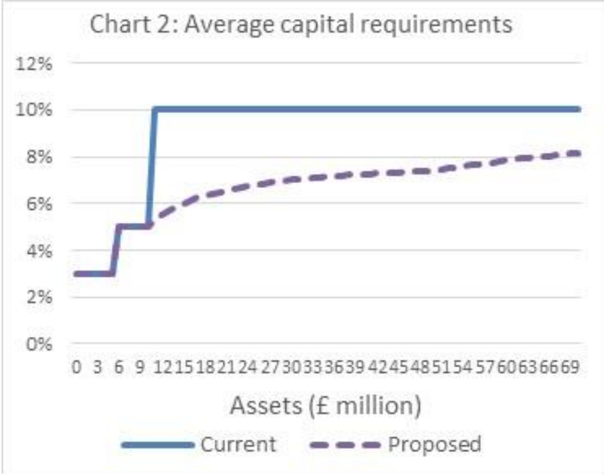

Chart 2: Average capital requirements

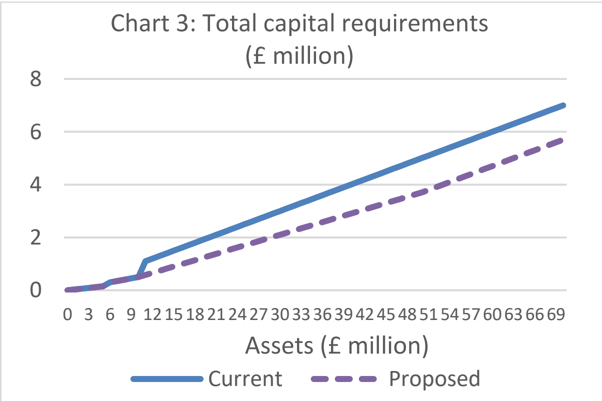

Chart 3: Total capital requirements (£ million)

Costs

3.6 The expected costs arising from the PRA's proposals are outlined below. Table 2 below sets out the expected changes in capital requirements for the different cohorts of credit unions by asset size.

Table 2: Capital held and capital required under current and proposed requirements by peer group (total assets)

Peer group (Total assets)	<£5 million	£5m-£10 million	£10 million-£50 million	>£50 million	Total sector
Number of CUs	288	70	73	11	442
Current capital held	£54.9 million	£53.8 million	£197.3 million	£127.5 million	£433.6 million
Current requirement	£20.8 million	£28.7 million	£152.0 million	£93.1 million	£294.6 million
Requirement under proposals	**£15.2 million**	**£25.2 million**	**£99.7 million**	**£78.8 million**	**£218.9 million**

3.7 **<£5 million cohort**: under the PRA's proposals, overall capital requirements will decrease from £20.8 million to £15.2 million due to the proposed removal of the capital link with credit union activities and membership. The reduction in costs for these credit unions can be estimated by applying the net return on capital to the difference. The PRA calculates that the return on capital that credit unions will pay to be 6.1% per annum based on data from PRA returns. It is estimated that the return on members' share balances (and juvenile deposits) is 1.3% based on average returns for the past four years. The net return that is paid on higher capital balances is around 4.8% per annum. This implies a cost reduction of approximately £270,000 per annum for the sector. However in practice we do not expect that most credit unions will reduce capital in response to the change in requirements so the actual amount is likely to be less.

3.8 **£5 million-£10 million cohort:** overall capital requirements will decrease from £28.7 million to £25.2 million due to the proposed removal of the capital link with credit union activities and membership. The benefits in terms of cost reduction for these credit unions can be estimated by applying the net return on capital (4.8%) to the difference. This implies a cost reduction of approximately £170,000 per annum for the sector. As above, in practice we do not expect most credit unions to reduce capital in response to the change in requirements.

3.9 **>£10 million cohort:** overall capital requirements will decline from £245.1 million to £178.5 million as a result of the removal of the 2% buffer and the graduated approach. As above, by applying a net return of 4.8% per annum implies a cost reduction of approximately £3 million per annum for the sector.

Benefits

3.10 Competition in the credit union sector is currently hindered by the presence of the cliff-edge effect in capital requirements noted above. For example, currently a credit union with £10 million in assets and 15,000 members is required to hold 5% capital (£0.5 million), but if it acquires one more member or £1 in assets then it is required to hold 10% capital on the whole balance sheet (£1 million). The introduction of the 'graduated rate' approach shown in Chart 3 above would eliminate this barrier to expansion for credit unions with close to, but just under £10 million in assets.

3.11 The 'graduated rate' approach proposed will remove the cliff-edge effect for credit unions approaching £10 million in asset size, enhancing the ability of these credit unions to expand (thus helping to facilitate effective competition) while ensuring that capital requirements are adequate. The PRA considers the graduated rate approach will remain consistent with the PRA's safety and soundness objective: the group of credit unions affected are well-capitalised (largely by high quality capital) and the PRA expects growth in this group to remain steady and organic with very few failures.

3.12 The PRA does not expect that the reduction in capital requirements for larger credit unions will materially change the safety and soundness of those firms. The PRA's experience of larger credit unions is that in general they have greater expertise and resources to manage risks and that the proposed prudential requirements are sufficient.

3.13 The removal of the association between capital requirements and membership size/activities is not expected to have a material effect on the safety and soundness of those credit unions affected as the PRA intends to address the risks posed by those factors by other means (as set out in paragraphs 2.11-2.12).

Other competition considerations

3.14 Credit unions traditionally offer basic savings and loans products (mostly small, unsecured, personal loans) although they are able to offer (subject to meeting certain criteria) a wider range of products for example mortgages, corporate loans and larger loans over longer terms. In practice however most credit unions' product offerings still reflect the traditional model. Credit unions are also subject to certain legislative restrictions, for example: an interest rate cap (the maximum a credit union can charge on a loan) is 42.6% APR in Great Britain (3% a month) and 1% a month in Northern Ireland (12.68% APR); a three million limit on the number of potential members of a geographical common bond; restrictions on credit unions' ability to earn income from insurance mediation (credit unions can only mediate where the insurance is directly related to the loan); and a 10% membership limit on corporate members. Furthermore, many credit unions, especially those with community-based common bonds, target customers that are generally unprofitable for banks and building societies to pursue, many of whom are not eligible for credit elsewhere.

3.15 The PRA considers that most credit unions occupy a niche position in the market for basic loans and savings accounts, and do not necessarily compete directly with banks or building societies. These restrictions also mean that any impact on competition, even from larger credit unions providing products such as mortgages, is unlikely to be significant.

Compatibility with the PRA's objectives

3.16 The PRA considers that the proposals are compatible with the PRA's primary objective (safety and soundness) and secondary objective (to facilitate effective competition) as set out in cost benefit analysis section above. Although some credit unions will experience a decrease in capital requirements due to the removal of the link between capital and membership size/activities, the PRA is proposing to address the risks by these factors by other means. The reduction in capital requirements for larger credit unions is not expected to materially alter the safety and soundness of those firms as they generally have adequate capital and sufficient expertise and resources to manage risks. The PRA expects the proposal to remove the cliff-edge effect for credit unions approaching £10 million in asset size will enhance the ability of these credit unions to expand thus helping to facilitate effective competition.

Regulatory principles

3.17 In developing the proposals in this CP, the PRA has had regard to the regulatory principles. Of particular relevance is the principle that the diversity of different business models should be recognised: by ensuring a simple capital regime, whilst at the same time ensuring larger and more complex credit unions are subject to additional requirements reflecting the PRA's higher expectations, the proposals take into account the vast difference in size, business model and operational capability across the sector.

Impact on mutuals

3.18 The proposed rule changes will only affect credit unions, which are all mutual institutions, and consequently there is no comparison to be made in compliance with this requirement.

HM Treasury recommendation letter

3.19 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.[18]

3.20 The aspects of the Government's economic policy most relevant to the proposals in this CP are: (i) competition; and (ii) better outcomes for consumers.

3.21 Aspect (i) has been considered in the 'compatibility with the PRA's objectives' section above. Regarding (ii), by removal of the 'cliff –edge effect' that will enhance the ability of credit unions to expand, potentially increasing the availability of credit union services to some consumers, the PRA considers that the proposals should help support better outcomes for consumers.

Equality and diversity

3.22 The PRA considers that the proposals do not give rise to equality and diversity implications.

18 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at https://www.bankofengland.co.uk/about/people/prudential-regulation-committee.

Appendices

1	**Draft instrument ‘PRA Rulebook: Non CRR firms: credit unions instrument [2020]’**	**10**
2	**Draft amendments to SS2/16 ‘The prudential regulation of credit unions’**	**13**

Appendix 1: Draft instrument 'PRA Rulebook: Non CRR firms: credit unions instrument [2020]'

PRA RULEBOOK: NON CRR FIRMS: CREDIT UNIONS INSTRUMENT [2020]

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers); and

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Non CRR Firms: Credit Unions Instrument [2020]

D. The PRA makes the rules in the Annexes to this instrument.

Commencement

E. This instrument comes into force on [DATE].

Citation

F. This instrument may be cited as the PRA Rulebook: Non CRR Firms: Credit Unions Instrument [2020].

By order of the Prudential Regulation Committee
[DATE]

Annex A

Amendments to the Credit Unions Part

In this Annex new text is underlined and deleted text is struck through.

...

2 SHARES AND DEPOSITS

…

2.5 A *credit union* must not:

(1) pay different dividends on different accounts unless:

(a) at the time of the payment of any dividends it has a *capital*-to-*total assets* ratio of at least 5%; and

(b) the payment of any of those dividends does not reduce the *capital*-to-*total assets* ratio to below 5%; or

(2) pay dividends out of interim profits more than once a year unless it has *capital* of at least 8% of *total assets*. ~~and, other than in a stress scenario in which case such buffer may be employed to absorb losses, a capital buffer at least equal to a further 2% of *total assets*.~~

…

8 CAPITAL

…

8.5 A *credit union* must have:

(1) subject to ~~(2)~~8.5A, *capital* of at least 3% of *total assets*;

(2) ~~subject to (3), *capital* of at least 5% of *total assets*, if that *credit union* has *total assets* of more than £5 million or more than 5,000 *members*~~[Deleted];

(3) ~~*capital* of at least 8% of *total assets* and a *capital* buffer at least equal to a further 2% of *total assets*, save in the event of a stress scenario in which case such buffer may be employed to absorb losses, if that *credit union* has *total assets* of more than £10 million, more than 15,000 *members* or undertakes an *additional activity* other than the *additional activity* of providing *transactional accounts*~~[Deleted].

8.5A A *credit union* that has *total assets* of more than £5 million must have:

(1) *capital* of at least 5% of *total assets* up to and including £10 million; and

(2) *capital* of at least 8% of *total assets* above £10 million up to and including £50 million; and

(3) *capital* of at least 10% of *total assets* above £50 million.

…

8.7 ~~In the event that a *credit union* employs its *capital* buffer in a stress scenario it must plan for the restoration of its *capital* buffer to the level stipulated in 8.5 within a reasonable period.~~ [Deleted].

…

10 GOVERNANCE

10.1 A *credit union* must ensure that the *governing body* reports to the *members* at the annual general meeting of the *credit union* on the following matters.

…

(2) whether the *credit union* has maintained at all times a policy of insurance complying with 2.10; ~~and~~

(3) any *additional activities* the *credit union* is carrying out and whether or not it is in compliance with any requirement in this Part applicable to those *additional activities*~~.~~; and

(4) if the *credit union* has more than 15,000 members, whether or not it is in compliance with any requirement in this Part applicable to a *credit union* with more than 15,000 *members*.

...

10.3 A *credit union* that is carrying out any *additional activity* or has more than 15,000 *members* must:

…

(3) ensure that its *governing body* monitors and assesses the risks associated with the carrying on of such activities or with having more than 15,000 *members* on at least a monthly basis.

…

Appendix 2: Draft amendments to SS2/16 'The prudential regulation of credit unions'

This appendix outlines proposed amendments to Supervisory Statement (SS) 2/16 'The prudential regulation of credit unions'. Underlining indicates new text and striking through indicates deleted text. Footnote numbering throughout the SS will be updated when the policy is finalised.

2 Capital

..

~~2.3 Where a credit union subject to a minimum total capital requirement of 10% experiences a stress situation it may, if necessary, employ all or part of the capital buffer element to absorb losses without being in breach of its capital requirement.~~[Deleted.]

~~2.4 Where a credit union subject to a minimum total capital requirement of 10% uses its capital buffer in the circumstances described in '2.3' above it will be expected to notify the PRA immediately as required by the Credit Union Rulebook Part 8.6. It will also be expected within a reasonable period to provide the PRA with a detailed and evidenced plan to restore its capital buffer. The PRA would normally expect restoration of the capital buffer to be achieved within six months of its use by the credit union.~~ [Deleted.]

2.5 ~~Where a credit union with a minimum capital requirement of 5% is experiencing significant growth, whether of member numbers, assets, or both, the PRA will expect to be notified as the credit union moves towards the asset or member number levels at which it will become subject to a 10% minimum total capital requirement.~~ [Deleted]

2.6 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 credit unions 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.

..

4 Additional activities and membership size

4.1 ~~The PRA expects a~~ A credit union that is undertaking 'additional activities' (see Table 1) or that has more than 15,000 members and is therefore subject to the requirement in the Credit Unions Rulebook Part 10.3(3), is expected to monitor its relevant business by using the ratios in 4.4, below, calibrated with values that are specifically aligned to its individual business model. The PRA expects the values selected by the credit union to provide an accurate and reliable business tool by which its Board may routinely and accurately monitor the credit union's performance against its strategic plan and its regulatory obligations. The PRA also expects the credit union to be able to provide details of its chosen ratios and evidence of the rationale underlying them on request.

..

4.2A Where a credit union is experiencing significant growth of members, the PRA will expect the credit union to consider the risks associated with increased membership and where appropriate take steps to address those risks. This should include consideration of operational risks (for example, whether systems are capable of managing additional capacity, whether the credit union has sufficient staff to cope with the increasing demand) and whether any changes need to be made to update their processes and procedures.

4.3 Where a credit union that is undertaking additional activities or that has more than 15,000 members concludes either that its business is no longer viable in the shorter term or sustainable in the longer term, the PRA expects to be notified immediately. The PRA will then expect the credit union to discuss with it what options it may have open to it, such as merger or transfer of engagements, and whether arrangements should be made for an orderly withdrawal from its additional activities.

4.4 By way of example only, the PRA considers that prudent practice suggests that the indicative ratio percentages for all calculations save ~~capital and~~ loans to assets are those outlined in Table 1.

Table 1: ~~Additional activities and ratio~~ Indicative ratios for credit unions that undertake additional activities or have more than 15,000 members

Ratio	Additional investments	Additional lending	Mortgages	Transactional accounts	Indicative ratio
~~Capital as percentage of total assets~~	~~Y~~	~~Y~~	~~Y~~		~~10%*~~
...					

~~* This ratio is mandatory~~. [Deleted]

4.5 Table 2 sets out the PRA's definitions of the terms set out in Table 1 for the purposes of the ratio calculations.

Table 2: Definitions for ratio calculations

Term	Definition
~~Capital~~	~~Regulatory capital as defined in the Credit Union Rulebook Part 8, particularly 8.2.~~
...	