Bank of England PRA

Laura Wallis
Director, UK Deposit Takers

26 March 2025

Dear Directors,

Prudential Regulation Authority's (PRA) approach to Credit Union Service Organisations (CUSOs) and intention to consult on rule changes

CUSOs are entities that are owned by credit unions and provide shared services to them, providing economies of scale benefits. A small number of CUSOs are already established in the UK and we are seeing increasing interest from credit unions wishing to establish them. However, there is some uncertainty as to whether the regulatory framework permits credit unions to hold an investment in CUSOs.

This letter aims to clarify the current regulatory position with respect to credit unions that hold an investment in, or are users of, CUSOs. We also outline our intention to consult on changes to PRA rules later this year to remove any uncertainty on the regulatory position.

1. What is a CUSO?

CUSO characteristics typically include:

a) they are established and owned by credit unions;
b) a CUSO's purpose is to exclusively provide services to credit unions (which may include credit unions other than their owner credit unions) and their members; and
c) CUSOs tend to provide administrative, professional, management and technology services (ancillary services).

2. Benefits and risks of CUSOs

We recognise that there may be material benefits to the sector to having CUSOs, including access to (and control of) shared services (such as administrative, professional, management and technology services), benefits from economies of scale such as reduced costs, and access to new expertise and services that the credit union could not offer by itself.

We are, however, cognisant that there are risks inherent to CUSOs that need to be managed appropriately. These include reliance on third parties without adequate governance and controls, movement of activity to non-supervised entities, the creation of single points of failure and step-in risk.[1]

CUSOs are a key feature of the credit union sectors in other jurisdictions, such as Ireland and the US. In these jurisdictions there are explicit regulatory frameworks in place to ensure that any risks associated with CUSOs are mitigated.

3. Compatibility with legislation and regulatory framework

Whether a credit union's use of a CUSO is permitted under existing legislation and PRA rules will depend on how the CUSO is set up and funded.

> **Legislation – Credit Unions Act 1979 ('the Act') and related provisions:** Credit unions in Great Britain must ensure that their interest in a CUSO is compatible with the legislation, including the legislative restriction on credit unions owning a subsidiary.[2] In Northern Ireland, there is no express prohibition in legislation on forming a subsidiary.
>
> **PRA rules:** Rules in the Credit Unions Part of the Rulebook may prevent a credit union from holding an interest/investment in a CUSO, depending on how that CUSO and the credit union's interest in it is structured.[3]

There are wider regulatory considerations that credit unions should be mindful of in order to ensure that any risks associated with a credit union holding an investment in a CUSO are mitigated. However, these are not currently explicitly captured in regulation and we will aim to set these out as part of the consultation.

---

[1] Step-in risk refers to the risk that the credit union provides financial support to support the CUSO in a stressed situation irrespective of a contractual requirement to do so.

[2] Section 26 of the Act prohibits a credit union from having a "subsidiary". A subsidiary is defined as a company in which the credit union owns a majority of nominal share value or in which the credit union is a member and controls the composition of the board (See Section 100 of the Co-operative and Community Benefit Societies Act 2014); or, a subsidiary may be defined as a registered society (S) which is a subsidiary of another registered society (P) in which (a) P is a member of S and controls the composition of its committee, or (b) P can exercise a majority of the votes to which S's members are entitled under its rules. (See Section 101 of the 2014 Act).

[3] Chapter 6 of the Credit Union Part of the PRA Rulebook, requires that credit unions only invest surplus funds in a specified list of investments (Rules 6.3 and 6.4).

4. PRA approach to CUSOs

The PRA recognises that properly established and operated, CUSOs have the potential to facilitate credit union growth and ensure their sustainability. The PRA is therefore supportive of the establishment of CUSOs that meet the legislative requirements and where the associated risks are managed prudently. In line with this approach, we propose to:

- consult on amending PRA rules (Rule 6.3 and 6.4 of the Credit Unions Part of the Rulebook) in order to make it clear that investment of surplus funds in CUSOs are permitted (where the CUSO investment meets the legislative requirement); and
- consult on expectations for credit unions that invest in and/or use CUSOs.

5. PRA considerations

We set out below some of the key regulatory considerations which we have observed in other jurisdictions, for credit unions investing in or using CUSOs, and which will form the basis for a more detailed consultation in due course. These include:

- ensuring that a credit union carries out due diligence and risk assessment before establishing/ investing in a CUSO;
- ensuring that the liability of the credit union is limited to the amount that they have invested (ie to ensure a credit union is not using its funds to prop up a failing CUSO). This may include limits on the amount a credit union is allowed to invest in a CUSO and a requirement for a credit union to undertake legal due diligence to satisfy itself that the credit union is legally and operationally separate from the CUSO; and
- outsourcing considerations (ie to ensure that CUSO arrangements are such that the inherent risks (eg reliance on third parties, the creation of single points of failure and step-in risk) are managed. Key to this will be establishing a clear line of risk oversight of outsourced activities, together with substitutability and exit plan arrangements.

The PRA is clear that when setting expectations it will seek to be proportionate to credit unions' size and scale.

6. Temporary rule modifications

The PRA will contact credit unions that are already investing in a CUSO to ensure that they are doing so in a way that is compatible with the current regulation. Where appropriate we may use temporary rule modifications to ensure these credit union's use of CUSOs is in line with PRA rules.

If you have questions about the content of this letter, please email your named supervisor or contact **prudential_creditunions@bankofengland.co.uk**.

Yours faithfully,

Laura Wallis
Director, UK Deposit Takers