

Response to the Prudential Regulation Authority Consultation Paper 13/25 – Credit Union Service Organisations

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, as well as 2 mutual – owned banks and 7 credit unions.

Executive summary

We welcome the opportunity to respond to Prudential Regulation Authority (PRA) [Consultation paper 13/25 – Credit Union Service Organisations](#) (CP13/25).

We are pleased the PRA recognises the potential for Credit Union Service Organisations (CUSOs) to play an important role in facilitating credit union growth. We support the overarching aim of the PRA proposals to amend rules and supervisory statements to make it clear that credit union investments in CUSOs are permitted, subject to certain safeguards. However, we have concerns and questions regarding some of the details of the proposals; namely:

- CUSOs “exclusively” for the benefit of credit unions and their members – why limit who can use the services of a CUSO?
- The 5% capital cap on investment is too low and may prevent meaningful participation in shared services.
- How and when does the capital cap apply? More detail and clarification is needed.

Response

We note there are no consultation questions to answer in CP13/25; so instead we have set out our general thoughts on the proposals below.

Proposed amendments to the PRA rulebook

The following comments relate to the proposed changes to the PRA Rulebook, as set out in Annex 1 of CP13/25.

We support the PRA proposal to amend the credit union investment rules in the PRA rulebook to make it clear that credit union investments in CUSOs are permitted. However, we question the requirement in 6.3(6) to limit credit union investment in CUSOs to providing ancillary services “*exclusively to credit union and credit union members, for the benefit of those credit unions and its members*”.

Other mutual financial institutions, such as small building societies, might also benefit from the services provided by CUSOs. However, the use of the word “exclusively” in 6.3(6) would appear to prevent non-credit unions from using or benefiting from CUSOs.

Limiting CUSOs to providing services only to credit unions could affect the long-term sustainability of such organisations or indeed the feasibility of creating them. Without the option to offer CUSO services to non-credit unions, the potential for growth and development of CUSOs is limited in the medium to long term which may ultimately be detrimental to credit unions and their members.

We agree that a core requirement of CUSOs should be to benefit credit unions and their members, but question why that benefit should be limited solely to credit unions and their members. We would be grateful if the PRA considered amending the proposed wording in 6.3(6) so that CUSO services can be offered to non-credit unions.

Proposed amendments to Supervisory Statement 2/23

The following comments relate to the proposed changes to Supervisory Statement 2/23 (SS2/23), as set out in Annex 2 of CP13/25.

The proposed new chapter 18 of SS2/23 (Credit unions that use or own CUSOs) repeats the requirement in 6.3(6) of the PRA Rulebook that CUSOs should provide services “exclusively” for the benefit of credit unions. As mentioned earlier, we believe the PRA should reconsider this restriction.

We understand and support many of the precautionary requirements and safeguards set out in chapter 18. However, we have serious concerns regarding the proposed 5% capital cap in 18.7.

The proposed 5% cap on credit union investments in CUSOs could unintentionally stifle innovation, collaboration, and growth. For smaller credit unions, the cap may prevent meaningful participation in shared services, while larger ones may struggle to fund critical infrastructure projects. Although the consultation recognises the value of CUSOs, the cap risks undermining their potential by making joint ventures financially unviable.

We note the reason given for setting the cap at 5% is that PRA analysis indicates the sector is resilient to a loss of 5% of capital, while a requirement set at 10% of capital would result in a level of failures which is above the PRA's risk appetite. That said, there is a significant difference between 5% and 10% and we wonder if there is scope to increase the limit higher than 5%, but below the 10% the PRA finds unacceptable.

We note there is a proposed exemption process for going above the 5% cap, but we believe it lacks detail and clarity and may deter strategic investment. More detail and guidance on when and how the exemptions would operate would be welcome.

In addition to our concerns regarding the level of the cap, we have questions about how and when it will apply.

Firstly, are grant funds in scope of the investment rules? At a meeting regarding CP13/25 on 18 September 2025, the PRA stated that grants are not in scope and would not contribute towards the 5% capital cap. We would be grateful to have this clarification in writing.

Secondly, at what point in time does the 5% capital cap apply? Is it immediately before or after the investment, given that the investment could reduce your reserves which would impact what counts towards the 5% cap? And is the 5% cap a one time restriction or ongoing? What happens if the initial investment is at 5%, but over a period of years, the credit union's reserves reduce, essentially tipping the investment over the 5% cap? In that situation, would the credit union be expected to reduce its investment to bring it under the 5% mark? This may not be achievable.

Thirdly, is the intention that the cap will be based on the regulatory capital requirements or the actual capital that a credit union holds on its balance sheet? Many credit unions maintain a buffer above the PRA requirement, therefore the approach taken could make a significant difference. If the cap is based on the regulatory requirements, this may significantly reduce how much can be invested in a CUSO and could unnecessarily prevent a credit union from utilising its excess capital.

Further detail and clarification on these points would be appreciated.

One way to address some of these potential issues would be to replace the fixed 5% cap with a flexible or tier-based model based on the credit union's size and the risk of the investment. The PRA should consider allowing a higher cap for low-risk, infrastructure-focused CUSOs.

We would welcome the opportunity to engage further with the PRA on CP13/25 and the issues outlined above.