

**Financial Institutions Act  
and Credit Union Incorporation  
Act Review:**

British Columbia  
Credit Union System  
Response to the  
Initial Public  
Consultation Paper

September 15, 2015







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# Executive Summary

This submission represents the British Columbia (“B.C.”) credit union system’s response to the Initial Public Consultation published by the Ministry of Finance (the “Ministry”) as part of the legislated decennial review of the Credit Union Incorporation Act (B.C.) (“CUIA”) and the Financial Institutions Act (B.C.) (“FIA”).

## What makes a co-op a co-op is not how it earns money, but what it does with it after it earns it.

– B. Fairburn, Centre for the Study of Co-ops, 2015

This submission was informed by a robust consultation process with the credit union system through representative<sup>1</sup> working and sub-working groups, discussion papers, and various meetings of the Legislative Committee of Central 1 Credit Union’s (“Central 1”) Board. This response also considers the credit union system in the context of international standards and industry best practices in other provinces.

The B.C. credit union system laid out this submission thematically, rather than by addressing each question in the order of the consultation paper. Where applicable, we have indicated which question in the corresponding subsection of the paper is relevant to the response, and have bolded our specific recommendations.

### The recommendations in this paper can be summarized as follows:

1. Capital and liquidity standards must be appropriately tailored for the B.C. credit union system.
  - a. Recognition of a reliance on retained earnings and the credit union’s own members to form its capital base.
  - b. Recognition of the historic effectiveness of mutual support in liquidity management.
2. The regulatory framework must be appropriately tailored for the B.C. credit union system.
  - a. Supports a healthy system that understands that while credit unions are not driven by profit maximization, profits are necessary to grow and prosper.

- b. Minimizes risk to the provincial government.
- c. Oversight must allow for taking prudent risks, maintenance of public confidence in the system and an ability to innovate in response to technology and market changes.
3. The value of system-funded and capitalized support entities needs to be strengthened.
  - a. Stabilization Central’s purpose in stabilizing challenged credit unions should be re-established.
  - b. As the funder of CUDIC, credit unions should have a greater voice in its governance.
  - c. Central 1’s critical role in providing scale economies must be maintained.
4. The deposit insurance regime must respect the following five principles:
  - a. Maintenance of a competitive credit union system.
  - b. Supports provincial money staying in the province.
  - c. Recognizes the value of self-regulation in the system.
  - d. Is easily understandable by depositors.
  - e. Any transitions must be well thought out and very carefully managed.
5. Credit unions recommend that any new frameworks for governance or consumer protection respect their members as owners and shareholders.

This system submission is intended to present issues of importance to the whole system. Our member credit unions will make their own submissions and we encourage you to give detailed consideration to the issues they highlight as being of high importance to their business models.



Where people  
put their money  
matters

## Landscape

Since the first credit union was incorporated in B.C. 1939<sup>2</sup>, the credit union system has given British Columbians the ability to be a part of their financial institutions, rather than apart from the financial institutions making decisions about their money in head offices far away.

### Where British Columbians put their money matters to government.

1,917,446 million<sup>3</sup> British Columbians trust credit unions to reinvest their money in the provincial economy in the form of loans and dividends. Our ability to leverage money to support economic growth, small businesses and create jobs is not unique as financial institutions. Where we are unique is that the only place we do this is B.C.

B.C., as a province more than 4,000 kilometers away from the economic and political centre of the country, has always had to chart its own course to economic prosperity. It did this by building institutions that serve the interests of British Columbians, such as B.C. Hydro and B.C. Ferries. In the same category of such heritage assets is the B.C. credit union system. With banking established early in Canada's history as a federal power, credit unions were established as a consumer-driven alternative to make local lending decisions based on local knowledge that banks did not have.

While credit unions continue to provide loans to clients that big banks will not, this does not reflect a greater risk appetite than the banks. It reflects greater local knowledge about business prospects, character and local support. We are different, but complementary to, the major banks. Credit unions are not “mini-banks”, they offer consumers a different way of saving, borrowing and investing, that in many ways helps make banks better. We are proud that the system has grown through mutual support and cooperation to become the largest financial services industry headquartered in B.C.

Credit unions currently have \$53.9 billion invested in mortgages and loans to local households and businesses, and are the prudent stewards of \$56.8 billion of deposits.<sup>4</sup> They are the only banking provider in 42 communities. They provide \$1.62 billion in salaries and benefits, 18,000 direct and indirect jobs in every corner of the province, including valuable head office positions. Our contribution to the gross domestic product of the province in 2014 was approximately \$2.38 billion (1 percent).<sup>5</sup>

All of this has been done in cooperation with the provincial governments of the past seventy-five years. It has been an incredible bargain – not one dollar of taxpayers' money has ever been needed to support the system. It is a track record we are proud of, and with the support of strong legislative changes, one we intend to maintain.

# Capital Requirements

Questions 1, 3 | Page 25

## Commercial Lending

Commercial lending is an increasingly important business line for credit unions. In 2014, the system's assets grew by 4.3 percent or \$2.5 billion, and most of that asset growth was concentrated in commercial mortgages. In order to leverage our increased capacity, the Capital Requirements Regulation must be modernized so that credit unions are not penalized by an additional 1.0 weighting factor on the proportion of commercial loans exceeding 30 percent.<sup>6</sup> We note that credit unions in other provinces are not subject to an additional weighting factor on commercial loans over 30 percent and that the limit has already been modernized once – from 20 percent when it was introduced in 1990, to 30 percent over a decade ago. While FICOM will continue to play an important oversight role in investment and lending policies and reporting, a blanket 30 percent de facto cap on all credit unions is no longer suitable. **We recommend that the 30 percent limit be eliminated.**

At times, it is in a member's interest to borrow using residential property as collateral in the name of a holding company or trusts for tax or estate planning reasons. However, the Investment and Lending Regulation and the Capital Requirement Regulations in the FIA classify holding companies and trusts as commercial, regardless of what purpose they are used for.<sup>7</sup> As a result, loans that have a residential purpose are classified as commercial and contribute to the above-mentioned 30 percent portfolio "threshold". The purpose of the transaction, not just the form, should be taken in to account. To remedy this issue, it is strongly recommended that additional wording be added within section 14 part b) of the definition of commercial loan as stated in the FIA's Capital Requirements Regulation. **We recommend the inclusion of additional wording that reads 'except the entity or trust whose sole purpose is to hold residential properties for non-commercial purposes'.**

## Mortgages

Over the past 30 years, credit unions have kept pace with the growing demand for mortgages in British Columbia. They have pioneered numerous consumer-friendly innovations, such as flexible pay-out repayment features, allowing borrowers to pay out their mortgages at their own pace, in numerous instances a benefit of immense value.<sup>8</sup>

Recently, an 80 percent loan-to-value mortgage for home purchases has become industry standard. For federally-regulated financial institutions, the weighting factor for residential mortgages that do not exceed a loan-to-value ratio of 80 percent is 0.35. This is also the case for credit unions in other provinces. In British Columbia, currently, residential mortgages of up to 75 percent loan-to-value ratio are risk weighted at 0.35.<sup>9</sup> The differential between the provincial and federal requirements is a considerable capital penalty, requiring over double the capital to be set aside for a typical 80 percent new home mortgage.

**Credit unions in B.C. have \$53.9 billion invested in mortgages and loans to local households and business, which represents a 16.5 per cent share of the market.**

Given the prominence of residential mortgages in the composition of credit union loan portfolios, **credit unions propose that the Table of On Balance Sheet Items in the Capital Requirements Regulation of the FIA be amended so that residential mortgages with loan-to-value ratios of up to 80 percent are risk weighted at 0.35.**

## Collective Loan Loss Provisions

Collective loan loss provisions assist regulators in gaining a better understanding of a financial institution’s credit risk. However, the approaches to loan loss provisioning and how it is dealt with in capital differ significantly between provincial and federal financial regulators. Federally, the Office of the Superintendent of Financial Institutions (“OSFI”) allows collective loan loss provisions to be counted towards a financial institution’s Tier 2 capital.<sup>10</sup> In B.C. the FIA’s Capital Requirements Regulation does not recognize credit unions’ collective loan loss provisions as capital. This would result in the funds still being available to a financial institution to be able to absorb other losses. **It is strongly recommended that the collective loan loss provisions be counted towards Tier 2 capital for B.C. credit unions.**

Credit Unions	Banks
Domestic operations	International operations
Primarily community and small business accounts	Large corporate accounts
Member-owned	Market owned
Have a regional system of risk management <i>(Central 1, Stabilization Central, other credit unions)</i>	No broader risk management network
Cooperative principles-based institution	Private, profit-driven institution
Operates independently from the stock market	Attached to the stock market
Lower-risk portfolios <i>(mostly backed by mortgages)</i>	Higher-risk portfolios
Retained earnings make up most of the capital base	Investment shares make up most of the capital base
Majority do not have a bond rating	Have a bond rating
Collective liquidity structure	Independently manage liquidity

## Threshold Deductions for Investments in Subsidiaries

Currently, the FIA’s Capital Requirements Regulation requires credit unions to take a 100 percent deduction from capital for significant investments in subsidiaries.<sup>11</sup> OSFI has implemented a 10 percent threshold deduction as CET1 capital.<sup>12</sup> The difference between the two approaches has an impact on the amount of capital a credit union holds. The OSFI approach would alleviate substantial capital pressure for credit unions that have insurance and other subsidiaries. **We thus recommend the adoption of a 10 percent threshold deduction for investments in subsidiaries similar to OSFI’s capital framework.**

## Investment and Lending Regulation

The FIA’s Investment and Lending Regulation has a limitation on acquiring, holding or controlling voting shares or interest in an entity if the total investment exceeds 5 percent in the aggregate of the financial institution’s or extraprovincial corporation’s assets.<sup>13</sup> Furthermore, there’s a similar 2 percent restriction placed on investments in venture capital entities and the management, sale or leasing of real property. The present language around investment in shares is unclear. It is presently unknown whether that terminology is referencing the cash purchase price paid for the shares, the market value of the shares or whether the term “investment” includes debts issued by the CU to the subsidiary. We recommend that clarity be provided on the wording in the Regulation.

Additionally, there are some credit unions that have vastly expanded the scope and size of their investment portfolios and these thresholds are no longer appropriate for some credit unions. **We recommend that definitions in this section be clarified and revised to accommodate more flexible business models, where appropriate.**

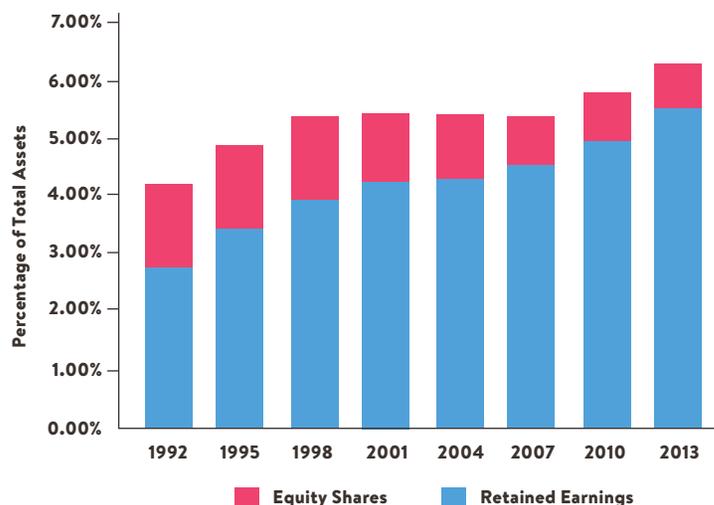
## Applying International Standards to Provincially Regulated Credit Unions

Questions 2, 4 | Page 25

Credit unions are supportive of the intent of Basel III to create a safer global banking environment, through the standardization of capital and liquidity best practices. Our principal concern is that Basel III was designed mainly for internationally active joint-stock banks, not cooperative provincially-focused credit unions. Basel III does not take into account the cooperative and collaborative approach designed to reduce threats to the financial system. The strength of the credit union system in B.C. has traditionally been in its operation as an intertwined system, not in being treated as separate entities operating in isolation. Treated individually, it is impossible for credit unions to achieve any economies of scale that are essential to the banking business.

It is critical to understand that capital, liquidity and Basel III regulations will have different impacts on credit unions and that there is no “one size fits all” solution. For example, the US Federal Reserve has been explicit that “smaller banks present a very different set of business models. Their risks and vulnerabilities tend to grow from different sources. An explicit and sustained tailoring of regulation and supervision for community banks not only seems reasonable, it seems an important and logical next step in financial regulatory reform.”<sup>14</sup> We want to **ensure that Basel III capital requirements are adapted for a cooperative framework, including the qualification of membership shares to count as CET1 capital.**

### BC Credit Union System Retained Earnings Growth



### Every Bit of Capital Counts

There is an across-the-board concern that many of the alternative capital instruments issued by credit unions may not qualify for upper-tier capital treatment, or even Tier 2 treatment in a Basel III application. Former Governor of the Bank of Canada, David Dodge, cautioned that “there remains an important issue about what qualifies as regulatory capital and what subtracts from regulatory capital. Precise national definitions here can easily create un-level playing fields across banks with different structures – and can have different consequences.”<sup>15</sup>

Retained earnings form approximately 87 percent of the current capital base of the B.C. credit union system, which is well above that of banks. Due to the high ratio of retained earnings, credit union capital in B.C. is currently of a high quality according to Basel III standards. Notably, as demonstrated by Table 1, credit unions have continued to steadily build retained earnings since 1992 and in particular since the financial crisis of 2008. Although Table 1 depicts how stable the system has remained over time, it also demonstrates how constrained credit unions are in the types of capital they can access to meet regulatory requirements.

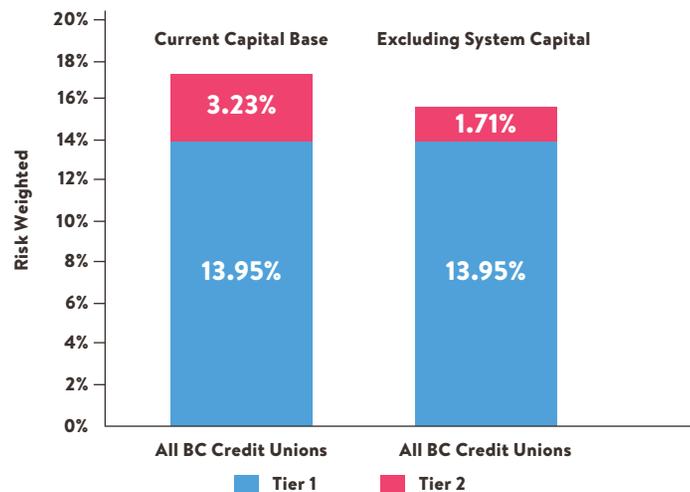
Consultant Michael Andrews has argued that “...credit unions generally already have high proportions of CET1 – retained earnings – and that there is already evidence that Basel III qualifying instruments can be successfully issued. Thus, while there may be some transition issues, a Basel III regime would not be present

any insurmountable challenges...”<sup>16</sup> Unfortunately, it is very difficult to grow capital exclusively through the use of retained earnings, which are increasingly taxed, sometimes at rates higher than rates paid by banks,<sup>17</sup> and suffering from the long term trend of dropping interest rate margins.<sup>18</sup> Retained earnings are perpetually limited in quantity as they are built from profits and not a potentially interminable pool of investors. Thus, while Mr. Andrews has noted that in the two Canadian jurisdictions that have introduced a Basel III regime – Quebec and Saskatchewan – there has been no difficulty in meeting the CET1 requirement, the question of long-term growth potential remains unanswered.

### Tax Treatment for Credit Unions

In 2014, the provincial budget announced that the Income Tax Act would be amended to phase out the provincial preferential income tax treatment for credit unions over five years beginning in 2016.<sup>19</sup> The impact of the phase out will have a knock-on effect on credit unions. It is projected that credit unions will lose the ability to make approximately \$395 million in loans to households and businesses across B.C. annually.<sup>20</sup> Once fully phased in, credit unions’ taxes will have a cumulative increase of over \$80 million from 2016-2020,<sup>21</sup> and after 2018, the impact of the phase out will result in the effective credit union tax rate exceeding that of the chartered banks in Canada.

### System Capital in the BC Credit Union System



While not directly part of the considerations of this legislative review, credit unions want to emphasize that taxation bears heavily on the capital considerations. Under Basel III, financial institutions are required to hold a greater quantity of higher quality capital. Sources of capital for credit unions are more limited, with retained earnings comprising a significant portion of the CET1 base. These retained earnings take longer to build up, and if they are also subject to higher tax rates, that puts additional stress on the capital structure of the credit unions and may create a destabilizing effect.

The Minister of Finance has recently been instructed to “work with B.C. industry to propose policy or tax changes to Cabinet that could improve the competitiveness of B.C. businesses that do not include the return of a harmonized sales tax.”<sup>22</sup> We believe that permanently deferring the phase out of the preferential income tax treatment for credit unions would indeed meet this objective, while preserving the strong capital structure of B.C.’s financial institutions.

## System Capital

System capital was introduced in 1989 through the credit unions’ dialogue with the government on the importance of being recognized as a system rather than individual entities.<sup>23</sup> Unlike banks that work in isolation to generate liquidity, credit unions work together as a cooperative system. As a system, credit unions in B.C. were able to successfully withstand numerous crises, including the 2008 global financial crisis.

B.C. credit unions are currently permitted to include one-half of the proportionate share of retained earnings in a central (Central 1, Stabilization Central) and CUDIC as Tier 2 capital.<sup>24</sup> There is concern that these amounts may not be counted towards Tier 1 or Tier 2 capital in a Basel III regime. Table 2 demonstrates the negative impact that eliminating system capital would have on the credit union system. In recognition of the system’s strong collective performance in normal and stressed conditions, **maintaining system capital as a component of credit unions’ capital bases as Additional Tier 1 or Tier 2 would be appropriate.**

## Treatment of Membership and Equity Shares

### Question 5 | Page 25

Basel III has standardized the quality of capital by defining a set of criteria that capital instruments must meet in order to qualify as capital. The criteria are varied among the quality tiers of capital but are related to the permanency and the ability of capital to absorb losses. Membership and investment shares do not comprise a large portion of the system’s capital structure, but they are necessary to ensure credit unions are

well capitalized. Credit unions have always issued membership shares and in many systems these shares continue to qualify as regulatory capital under non-Basel III regimes. The Basel Committee intended to allow cooperative shares with a high degree of permanence and the ability to absorb losses to qualify as CET1 capital.<sup>25</sup>

**Approximately 1 in 3 British Columbians are credit union members. Dividends are paid to members rather than investors from outside the province.**

**Over the past five years, B.C. credit unions have returned an average of \$36 million annually in dividends and patronage refunds to these members.**

Equity shares were introduced in 1983 as a voluntary measure and are important to credit unions as they diversify their capital bases. Equity shares provide an alternative to complete reliance on retained earnings. Equity shares are also a way for members to demonstrate support of their credit union. While there was initial concern that the system would overuse the amount of equity shares when it was first counted towards credit unions’ capital bases, in 32 years, credit unions have demonstrated responsible use of equity shares and have managed them well. In B.C. equity shares count for approximately ten percent of capital whereas some other provinces rely on them for over 35 percent of their capitalization.<sup>26</sup>

The existing structure of membership and equity shares in B.C. satisfies the permanency and loss absorption components necessary for Tier 1 capital compliance. Section 64(8) of the CUIA restricts a credit union from redeeming shares if the capital base of the credit union is below the regulated level of what is considered to be adequate. The restriction on redemption causes the shares to be inaccessible to the member until the credit union is no longer under stress. The system believes that the inability to redeem shares when a credit union is undercapitalized thereby constitutes fulfillment of the permanency requirement for CET1 capital under Basel III. This is consistent with the interpretation in the European Union.<sup>27</sup>

In the Ministry of Finance and Corporate Relations 1987 Discussion Paper on the Credit Union Amendment Act, it acknowledged that “it seems unlikely credit unions will be able to increase their profit margins enough to substantially improve retained earnings”.<sup>28</sup> The observation by the government in the 1980s is still relevant; raising retained earnings is a longer term strategy. **Credit unions recommend that investment, patronage and membership shares continue to count towards their capital bases.**

# Liquidity Requirements

Questions 1, 2 | Page 27

The 2008 global financial crisis demonstrated the direct negative impacts that insufficient liquidity has on financial institutions. Since then, liquidity management is more than ever a key component of credit unions' risk management structures. As cooperatives, credit unions work together to maximize efficient uses of liquidity, with loss minimization as a core objective.

## Mandatory Liquidity Pool

The B.C. credit union system has effectively pooled liquidity for over 70 years. Unlike smaller banks, whose only form of recourse is to the Bank of Canada, credit unions have a system liquidity pool, Stabilization Central, and each other as a point of support. As noted in the government's discussion paper, credit unions in B.C. are required through the FIA's Liquidity Requirement Regulation to invest at least 8 percent of their deposits and other liabilities with Central 1.<sup>29</sup> The deposits are held in the Mandatory Liquidity Pool ("MLP"), which is subject to supervisory restrictions on security composition and derivative usage by FICOM.

**In November 2014, Nelson and District Credit Union in the Kootenays passed the \$3 million mark in its 15 year history of community giving. To mark the milestone, each credit union employee identified a key volunteer in the community, whose organization received \$100 in recognition.**



The MLP is designed to meet the emergency needs of credit unions in a liquidity crisis. As such, the MLP is invested in High Quality Liquid Securities that can be easily and immediately converted into cash or pledged as collateral through the Bank of Canada's Standing Liquidity Facility ("SLF"). The SLF "is at the same time stability enhancing and efficiency enhancing. It would be used by some banks in 'normal' economic times but available to all banks without attendant stigma in times of stress."<sup>30</sup> By the same token, the pooled liquidity model diversifies risks and creates economies of scale by not only providing adequate resourcing to manage the pool, but also by providing sufficient funding for the majority of the credit unions in B.C. in a stress situation.

The 2008 merger of Credit Union Central of British Columbia and Credit Union Central of Ontario Limited into what is now "Central 1" enhanced the value proposition of the MLP for both provinces. The merger not only signaled collaboration between provinces, but potential significant risk reduction for credit unions' liquidity management. The geographic dispersion between B.C. and Ontario means that the systems have the potential to support each other should a localized liquidity event occur in either province.

Central 1 is currently working with FICOM to establish specific protocols and processes around access to the liquidity pool for both B.C. and Ontario credit unions with the objective that protocols will be formalized as part of this legislative review.

## Additional Liquidity Considerations

In 2014 OSFI released its interpretation of Basel III's guidance on liquidity risk management. The cornerstones of OSFI's approach are the Liquidity Coverage Ratio ("LCR"), Net Cumulative Cash Flow ("NCCF"), and Net Stable Funding Ratio ("NSFR"). While it may be useful for credit unions to calculate these internally for their own prudent liquidity management, **it would be effective for regulators to assess these ratios at a system level**, as has been implemented to some extent in the province of Quebec. Central 1, as the manager of credit unions' liquidity vested in the pool, calculates all the above metrics and also conducts a comprehensive series of systemic liquidity stress tests to safeguard the B.C. credit union system and this should be considered in stress tests.

Although credit unions have access to the pooled safety net of the MLP, each credit union remains responsible for the prudent management of its individual liquidity. Credit unions are cognizant that a strong and liquid credit union system must be comprised of strong and liquid credit unions.

As such, when calculating the above ratios individually, **credit unions strongly recommend that their mandatory deposits at Central 1 be counted as Central Bank deposits for the LCR and as unencumbered liquid assets in the NCCF (should the Ministry not agree that NCCF should not apply to credit unions)**. The protocols being developed will clarify how credit unions will be able to access this liquidity in a stress scenario and it should be treated in the same manner as reserves held at the Bank of Canada by other financial institutions.

## Regulatory Environment

### Question 1 | Page 17

B.C. credit unions support a strong regulatory environment to ensure the overall viability of British Columbia's economy. When the legislation was assented to by the Legislature in July of 1989, the government ascertained "the objective of the FIA and CUIA is to provide a balanced regulatory regime which is consistent with an efficient B.C. financial sector. This requires both effective public protections to provide needed confidence and avoidance of unnecessarily restrictive or paternalistic regulatory measures."<sup>31</sup> At the time, the credit union system "wholeheartedly endorsed that objective". This submission suggests that despite a very different financial sector, these core objectives should still form the foundation of any statutory or regulatory changes.

The Office of the Auditor General of British Columbia issued a report in March 2014 titled "Credit Union Supervision in British Columbia". This report expressed concern over FICOM's supervision of credit unions being "constrained due to a shortage of staff".<sup>32</sup> It alleged that this shortage of staff was affecting FICOM's ability to establish "appropriate risk ratings for credit unions."<sup>33</sup> The system's primary concern is that FICOM is staffed by individuals who possess high levels of expertise on the regulation of financial institutions and that these individuals are well-trained in how to ensure safety and success in cooperative financial structures through the execution of their statutory responsibilities. Credit unions are sensitive to budget restrictions of publically-funded entities, however the Auditor General found that statutory responsibilities were not being completed (e.g. approvals, and examinations deferred to private contractors) while other non-statutory projects were completed (e.g. guidelines, a supervisory framework, and a D-SIFI designation). This indicates a diversion of resources rather than a lack of resources. Given that credit union deposit insurance assessments are partially used to fund FICOM<sup>34</sup>, our hope is that some of these funds could be used to attract and maintain top talent.

### Summary of Regulatory Recommendations

- i. an effective appeals mechanism be established, possibly including the establishment of an Ombudsman Office;
- ii. the authority of the Superintendent and Commission should be explicitly defined in statute and adhered to;
- iii. all decisions of the Superintendent be appealable, including the jurisdiction of the Superintendent; and,
- iv. the governance structure of FICOM and CUDIC should be reviewed, the boards separated, and industry representation on the board or boards considered.

### Improved Transparency in Decision Making

#### Questions 2, 3 | Page 17

Transparent decision-making in regulatory environments is critical to the creation of a respectful, effective and balanced framework. Most importantly, transparency reduces disputes and creates a constructive and collaborative relationship with the regulator. Credit unions see inherent value in the regulator and deposit insurer functions, but recommend that the governance structure of the regulator and deposit insurer be reviewed.<sup>35</sup>



**When a former competitive powerlifter had a dream of expanding his basement training and health consulting business, he was turned away by every financial institution except for Prospera Credit Union.**

**With their help, he opened the Fraser Valley School of Tai Chi and Core Fitness & Rehab. Some years later, the business success enabled him to purchase the building housing the business at one-third of its assessed value.**

The concern over the governance structure of the regulator has been raised in the past. In 1987, CUDIC was concerned about “too much concentration of power in one body without appropriate appeal procedures.”<sup>36</sup> CUDIC also did “not envision the Superintendent of Financial Institutions as part of the deposit insurer”. However, the FIA provides no substantial separation between CUDIC and FICOM’s board or president, and over time, this has resulted in transparency and accountability being compromised.<sup>37</sup> The independence of the governance structures allows for the regulatory and deposit insurance functions to simultaneously work together while maintaining a degree of separation that is necessary for a balanced regulatory environment.

We note that credit unions in other provinces, as the sole contributors to the deposit insurance fund, act as either as observers or voting members of the deposit insurance corporation.<sup>38</sup> **As the funders of deposit insurance, we posit that**

**a representative from the credit union system be appointed to the board of CUDIC, and that this board be separated entirely from the board of FICOM.**

### **Guidelines should be Guidelines**

Federally, OSFI has exercised the use of guidelines as a method of regulating national financial institutions. In B.C., FICOM has replicated OSFI’s regulatory methodology by releasing a number of similar guidelines in recent years.<sup>39</sup> Credit unions are supportive of FICOM issuing guidelines as a roadmap for credit unions to ensure financial and social responsibility to their members. In many ways, this is preferable, as the rigidity of statute does not allow for broad flexibility to ensure prudent and effective decision-making in changing market conditions.<sup>40</sup> However, it is important to distinguish guidelines from statutory regulatory requirements. Guidelines are effective as flexible, discretionary tools and should not be interpreted as a prescriptive listing of rules and orders, or used overly-punitively in the calculation of assessments. **The credit union system strongly recommends that the interpretation of Guidelines be consistent with their purpose and that no credit union be unduly penalized for a lack of prescriptive adherence to any given requirement in a Guideline.**

### **Effective Accountability Mechanisms**

There are instances where credit unions need to appeal a decision made by the Superintendent or Commission. The current mechanism for appeals is through the Financial Services Tribunal (“FST”), under the authority of the FIA. The FST was established in 2004 after the repeal of the Commercial Appeals Commission Act. The Commercial Appeals Commission was an independent and effective mechanism for businesses in B.C. including credit unions. While credit unions are appreciative of an appeals mechanism through the FST, there is concern over its effectiveness.

The FIA specifies a limited list of decisions or orders made by the Superintendent that are appealable while any decisions or orders made by FICOM are only appealable to the Supreme Court of British Columbia. Under the FIA, the Commission has certain powers, whereas the Superintendent has information collection, monitoring and approval powers. In practice, the Commission delegates many responsibilities to the Superintendent. Further complexity is added when the Superintendent makes decisions or orders outside the statutory scope of the Acts. These limitations necessitate another appeals mechanism, for de facto orders and decisions. Since most issues are time sensitive, credit unions are of the opinion that a more expedient, and effective method is necessary, one that fosters a cooperative and strong working relationship with the regulator.

We note that in 2009, when significant regulatory responsibility was transferred to the Deposit Insurance Corporation of Ontario (“DICO”) from the Financial Services Commission of Ontario (“FSCO”) both credit unions, regulators, and government agreed it was necessary to establish an Ombudsperson office. The role of this person is to investigate complaints relating directly to regulatory issues between insured institutions and DICO, as it was agreed that one person and one board having all the authority to make regulatory and deposit insurance decisions necessitated an expedient resolution mechanism if conflicts arose. **We recommend that the Ministry of Finance consider establishing a credit union Ombudsperson in B.C.**

## Disclosure of Identity for Credit Unions

### Question 6 | Page 8

Advertising is a crucial facet of credit unions’ presence and visibility within the financial system. Credit unions are proud of their brand, however, as with most other institutions, when advertising or promoting their services it is sometimes more powerful to use a brand name as opposed to a full legal name.

In many U.S. jurisdictions, and in some Canadian jurisdictions<sup>41</sup>, a corporation may adopt a trade name. This is also the case under the Bank Act.<sup>42</sup> For example, the Royal Bank of Canada brands itself and is clearly visible in the community as “RBC”, Tangerine is a trade name of the Bank of Nova Scotia, and the Insurance Corporation of British Columbia is “ICBC”. In Ontario, there are 20 caisses populaires that identify themselves in communities using the Desjardins trade name rather than their legally registered Ontario caisse populaire name.<sup>43</sup> The precedent in the use of trade names by other financial institutions is apparent.

Unfortunately, the prescriptive nature of the CUIA<sup>44</sup> has not kept pace with common business practice. As such, **it is recommended that the CUIA be amended to recognize that while the legal name of a credit union must appear on all official and legal documents, its trade name may be used on signs and advertising.** As a suggestion, the Cooperative Credit Associations Act states that subject to certain sections of the Act, “an association may carry on business under or identify itself by a name other than its corporate name”<sup>45</sup> and this should be added as a subsection to s.14 of the CUIA.

**A Vancouver Island-based small business approached their financial institution with new growth targets – the bank didn’t agree. Frustrated and disheartened, it approached Coastal Community Credit Union. The credit union recognized the business’ potential and, being a supporter of local business, established a relationship and approved the loan. The business eventually expanded into Alberta, and brought out-of-province profits back to the Island.**



In addition, given that it is often in the best interests of a credit union to merge or amalgamate with a larger credit union, and that the membership may prefer their local brand to remain prominently displayed, **we recommend that a subsection be added to s.14 of the CUIA to allow for regional trade names.** This subsection should read: “If a credit union acquires all or substantially all of the assets of, or amalgamates with, one or more other entities, the credit union may use [operating, divisional, regional, brand or] trade names consisting of the names of the transferring entities or the amalgamating entities excluding the words “credit union”, “caisse populaire“, or “limited”.

# Membership and Governance

## Question 1 | Page 22

Member engagement forms the foundation of good credit union governance. The recommendations in this section are intended to modernize the CUIA and FIA to ensure strong engagement by our member owners over the next ten years and beyond.

### Inclusion of Unincorporated Associations as Members

In British Columbia, unincorporated associations (for example, charitable organizations such as the Girl Guides of Canada) are not contemplated as members of credit unions. In order to make deposits, the FIA requires two or more individual members of a credit union to sponsor an unincorporated association pending approval from the directors that a majority of members of the association are eligible for membership in the credit union.<sup>46</sup> This creates a burdensome requirement that is inconsistent with the community-oriented mandate of credit unions.

There are other jurisdictions in Canada that allow for unincorporated associations to be members of credit unions without any sponsorship or restrictions.<sup>47</sup> **The allowance of unincorporated associations as members fits well with our business model and we thus recommend that they be allowed to be members in their own right without the existing sponsorship requirements.**

### Member Engagement and Special Resolutions

#### Question 2, 4 | Page 22

Special resolutions are one of the most effective and democratic ways that members are involved in the decision making process of a credit union. In 1983, the threshold requirement for a credit union member to propose a special resolution was introduced as the lesser of 300 persons or five percent of the membership.<sup>48</sup> Since then, credit unions have experienced consolidation and strong, profitable growth. Unfortunately, some have also experienced difficulties with members bringing forward multiple proposals in a short amount of time. Social media has propagated this ability through the ease of quickly soliciting 300 signatures and by sensationalizing and misrepresenting issues. The misuse of the requisitioning mechanism imposes significant costs on a credit union both in terms of diverted employee time and out-of-pocket expenses. At the same time, credit unions wish to preserve member's rights and encourage their engagement in the governance of the credit union.

**As late as 2007, Bowen Island did not have a financial institution to serve its population of 3,500. Enter First Credit Union, who in the intervening years has created six new jobs – significant for a population of this size, grown its membership to 1,200 in 2012, and has reinvested in scholarships, sponsorships, donations and dividends which continue to further enhance the Island's culture and economic strength.**

We recommend amending the current signature requirement to a more practical threshold given the diversity in size of credit unions across British Columbia. **It is recommended that the 300 person signature requirement be eliminated in favour of a requirement for “1% of the members, but not less than 100 members”.** The dual structure would preserve the rights of members at both very large and very small credit unions. In addition, due to the ineffectiveness of signatures as an identity verification tool, **we recommend that the requirement should be for “1% of the members, but not less than 100 members” with no reference to “signatures”.** Please see our recommendations under the technology section for identity verification.

### Common Bonds

#### Question 5 | Page 22

Historically, common bonds were established during the incorporation of a credit union as a dedication and mutual commitment to the members and communities they served. In a new reality of online banking and increased mobility of members, common bonds can be limiting and cumbersome, particularly in the case of geographic bonds, where numerous credit unions are now able to coexist in the same community, promoting healthy competition. Numerous provincial jurisdictions in Canada have allowed common bonds to be optional.<sup>49</sup>

An amendment to the CUIA to allow for common bonds to be made optional would be appropriate. **We recommend the addition of the word “may” to section 40 of the CUIA**, which will allow for the legislation to become flexible through inferring that a credit union could have, but is not required to have, a common bond of membership. **The system is aware that there may still be diverging views on this recommendation and that pertaining to member-initiated special resolutions. Please refer to the individual submissions of the credit unions for details.**

### Altering Credit Union Constitutions

Constitutions are one of the defining documents of a credit union from its incorporation, however in many cases they have become outdated and not effective references in a rapidly changing financial environment. Many constitutions have not been changed since incorporation due to the limited ability credit unions have to amend their constitutions, leading to nuisance situations such as when one credit union’s constitution listed the par value of shares being \$5 at the time of incorporation, though more recent legislation now states the par value of a share is \$1. The CUIA only expressly authorizes constitutions to be amended through special resolution in explicitly stated circumstances listed in the legislation.<sup>50</sup> In order to respect the autonomy of credit unions, it is **recommended that the legislation should allow credit unions to alter their constitutions under any circumstances they see fit by way of the adoption of a special resolution of the membership.**

### Issuing Shares in Series

The definitions section of the CUIA recognizes that shares may be issued in series, but the CUIA provides no further statutory authority for doing so. This may be oversight that should be corrected as other corporate legislation (e.g. the British Columbia Corporations Act) explicitly authorizes the issuance of a series of shares. There is precedent for credit unions issuing shares in series in other provinces in Canada, and the Bank Act also expressly authorizes it.<sup>51</sup>

The authority to issue shares in a series should be left to the discretion of Directors, as this will assist in the event of rapid changes in the market. Further, section 20(4)(b)(ii) stipulates: “If the commission consents ... to a proposed amalgamation agreement ... it must (b) submit the proposed amalgamation agreement (ii) to the holders of each class of equity shares other than the membership shares for approval by a separate resolution of the holders of that class, requiring a majority of 2/3 of the votes cast.”

This means that a class of shares with very few members could veto an amalgamation because of the 2/3 requirement. This gives a disproportionate amount of power to classes of shares with fewer shareholders, as there are instances with credit unions having upwards of 130 classes of shares, some with very few subscribers. This is inconsistent with the one member, one vote principle. **We recommend that, as long as the credit union’s rules so provide, directors of a credit union be entitled to fix the number of shares in the series and designate the rights, privileges, restrictions and conditions to be attached to such series.**

### Voting by Corporate Members

Small businesses have always been important and loyal credit union members. Many of these businesses are sole proprietorships. The CUIA does not contemplate a voting situation where a corporate member is a sole proprietor and cannot be represented by an individual who is also a personal member. An individual member who is a sole proprietor should have the right to vote on their behalf and on behalf of the business.

**The credit union system recommends that the CUIA adopt language similar to Alberta’s Credit Union Act that allows a member to be able to vote individually as well as on behalf of a business wherein they are the sole proprietor.** Additionally, a procedure could be written into the credit union rules to allow for segmentation of individual votes from corporate votes at meetings in order to address the concern of a vote by a show of hands and having the individual voting personally and on behalf of the sole proprietorship.

# Technological Neutrality

Questions 1, 2 | Page 12

There have been a number of technological advancements since the last legislative review. The use of electronic communication, correspondence, signatures and data storage by businesses including financial institutions has increased exponentially. New service delivery channels and new payment systems have changed traditional branch-based banking, yet the legislation still references outdated terms such as the keeping of documents in binders, notification by post, and storage in offices. Given the rigidity of the statute, **we recommend the legislation be rewritten to be technologically neutral.** Neutrality will ensure that the legislation is open-ended enough to accommodate technological advancements and permit the applicability of other legislation such as British Columbia's Electronic Transactions Act (2001) which permits the use of electronic communication unless another piece of legislation specifies that another method must be used.

**For every member of Summerland and District Credit Union that switched to e-statements, it donated \$10 to planting trees in local parks and to rehabilitating the trail on Summerland's flagship park – Giant's Head Mountain.**



For example, a necessary amendment is the current mailing requirements for a credit union's annual general meeting. The CUIA requires credit unions to mail by post a notice of an impending AGM and send financial statements and the auditor's report to each member.<sup>52</sup> The cost of postage and the labour costs invested in preparing mailings to the membership are unnecessary expenses of a credit union, and nuisances to the membership, as many members prefer to receive all communications electronically.

**It is recommended that the CUIA be amended to allow for electronic delivery of AGM notices where an email address is provided and consent to receive electronic correspondence is granted by the member.** Additionally, as in Saskatchewan<sup>53</sup>, direct notice requirements could be made optional and alternative modes of notification of an AGM could be included such as posting notices in the branches and on the corporate website and local newspaper ads.

## Electronic Statements and Signatures

In recent years, there has been an increase in the number of members subscribing to monthly e-statements for a summary of their banking activities. However, the amount of members that actually view their e-statements is decreasing. One credit union found that of members recently subscribed to e-statements, almost half never actually looked at them. This is due, in part, to the ease and convenience of mobile and online banking. Members find it unnecessary to look at monthly statements because they can instantly access all their banking history on their mobile or online banking portals.

In addition, the use of signatures as appropriate identity verification tools, whether on paper or in electronic format should not be referenced in legislation. It is much more prudent to verify identities through PINs, passwords, or user-set challenge questions. Thus, while it is not a major concern, the current requirements under the Business Practices and Consumer Protection Act ("BPCPA")<sup>54</sup> for providing electronic notifications of e-statements and requiring borrowers to "give consent in writing for the Disclosure Statement" are unnecessarily onerous for consumers and businesses alike. The legislation and regulations must accommodate a broader range of identity verification (e.g. PINs) and notification (e.g. "push" mobile application notice) tools.

## Legislative Overlap and Contradictory Requirements

A recent update to the Recycling Regulations<sup>55</sup> by the B.C. Ministry of Environment included new reporting requirements for businesses such as the measurement of paper products distributed to residential customers. Credit unions are required to pay recycling fees for the paper correspondence that is sent to members and are subject to fines if there is non-compliance. These regulations conflict with the mailing requirements for AGMs in the CUIA and some requirements in the BPCPA.<sup>56</sup> While credit unions are very supportive of environmental programs, poor synchronization and inconsistency among legislation leads to punitive costs to business. **We encourage more holistic views be taken to legislative and regulatory amendments on future environmental initiatives.**

## Online Service Offerings, Records Storage and Retention

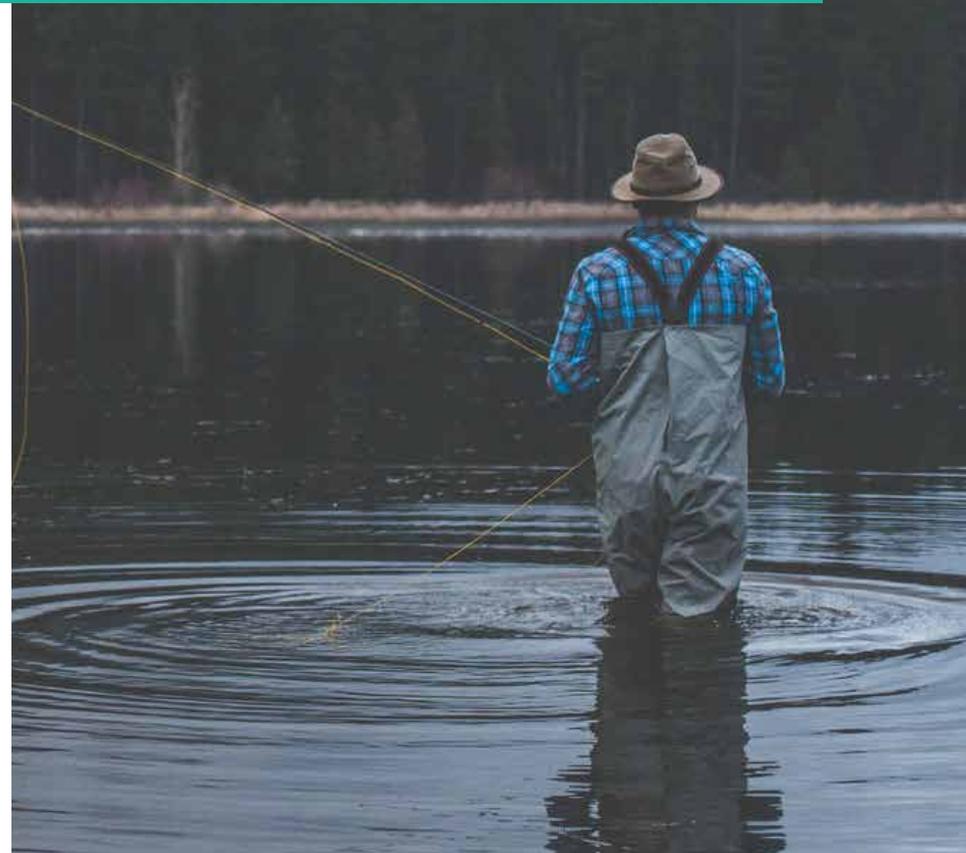
Questions 3, 4, Page 13

The technology landscape is changing so rapidly that including provisions on online offerings, storage and retention in a statute would be impractical. We recommend instead including guidelines for financial services offerings in a proposed voluntary market conduct code to respect consumer choice.

Credit unions rely on external parties to a much greater degree than banks. For example, MemberDirect®, developed and maintained by Central 1, provides the online banking platform for credit unions. We note the Credit Union Prudential Supervisor's Association ("CUPSA") recently issued an "Information Technology ("IT") Governance Guideline" that outlines sound IT principles and appropriate roles and responsibilities of key stakeholders. The guideline requires that third party service providers confirm that "hosted and outsourced products have been properly audited and assessed".<sup>57</sup>

**The Skwachàys Lodge and Residence is a building that houses 24 shelter-rate rental apartments for Aboriginal people at risk of homelessness, and many other important Aboriginal community services.**

**Three levels of government partnered to establish Skwachàys, and Vancity bridged the remaining \$2 million funding gap to allow BC Housing to commence construction.**



# Responsibility and Regulation of Central Credit Unions

Questions 2, 3 | Page 28

## Stabilization Central Credit Union

Unique to B.C., Stabilization Central Credit Union has fulfilled its mandate to protect the credit union system for 25 years. Prevention, through early monitoring, has ensured that no B.C. credit union has failed to meet its obligations to members or drawn on the deposit insurance fund to stabilize its operations since Stabilization Central's incorporation. B.C. credit unions take pride in having an independent, system funded stabilization entity. The system-owned component is a strength that reinforces the cooperative nature and prudential management of the credit union system. Given the strong track record of prudent management of credit unions, **we recommend leveraging Stabilization Central's capacity as a self-regulatory organization for the system.**

## Central 1 Credit Union

Section 90 of the CUIA stipulates that a central may provide services to its members if, in the opinion of the directors, the services are incidental or conducive to the sound operation of its members or attaining the purposes of its members. We believe that this section is critical in expressing the importance of having a system-owned entity to promote collaboration and provision of services best provided to a group as opposed to each financial institution individually. As a D-SIFI, Central 1 has been subject to additional requirements such as more stringent investment and lending policies and capital management. While these initiatives are consistent with a strengthened focus on risk management, **it is essential that similar future measures are not punitive to "attaining the purposes of its members".**

Notwithstanding the changes to the Cooperative Credit Associations Act ("CCAA"), Central 1's mandate and role remain the same. The core purpose of this organization is successful credit unions with the mission to "provide credit unions with the critical scale economies that we can access cost effectively working together".<sup>58</sup> Through group clearing and payments processing, trade services and liquidity management, Central 1 provides support to its member credit unions and it is essential that the repeal of Part XVI of the CCAA not impact the provision of these important services. Central 1 will address the specifics of this repeal, and other matters specific to its mandate in their own submission.

Central 1's member credit unions are satisfied with the statutory sections around governance as defined in Part 6 of the CUIA. Specifics of Central 1's corporate governance structure are outlined in its rules. According to the CUIA, changes to the constitution and rules occur through the passing of a special resolution by our membership.<sup>59</sup> In 2015, Central 1 changed its corporate governance structure through a special general meeting where the board composition was amended from 16 members to 13 over 3 years with full implementation by 2016. In line with the importance of Central 1 to the Canadian credit union system, the new structure allows for the ability to appoint additional directors to fill any skills gaps on the Board, and compels the directors to conduct a governance review every three years.<sup>60</sup>

# Deposit Insurance

## Questions 1-4, page 21

An effective deposit insurance system is an important pillar of the financial safety net and plays a key role in contributing to the stability of the financial system and the protection of depositors.<sup>61</sup>

Credit unions are values-based financial institutions. **As such, credit unions recommend a principles-based approach for B.C.'s deposit insurance scheme.**

The deposit insurance scheme must respect the following five principles:

- Maintenance of a competitive credit union system.
- Supports provincial money staying in the province.
- Recognizes the value of self-regulation in the system.
- Is easily understandable by depositors.
- Any transitions must be well thought out and very carefully managed.

## A Note on Moral Hazard

In 1988, when the then B.C. Finance Minister introduced an amendment to the Credit Union Act to provide a back-stop of CUDIC's guarantee, he stated: "This initiative demonstrates our confidence in and commitment to the credit union movement in our province. Credit unions are an important, locally-based component of our provincial financial sector. The measures announced today will help our credit unions continue to grow and prosper in the coming years."<sup>62</sup> Arguably, this statement is even more relevant today as credit unions have demonstrated they are prudent stewards of the unlimited government-backed guarantee for the past seven years.

It may be true that unlimited deposit insurance would introduce moral hazard in joint-stock banks, but it isn't clear that the same arguments apply to the B.C. system which benefits from cooperative support, unique stabilization entities and a joint and several guarantee. In fact, credit unions had unlimited deposit insurance from 1968-1988 with no evidence of problems. Why is this?

**The benefits of credit unionism are considerable for even the most loosely united credit unions. Members reap meaningful direct benefits because of local control and quick decision-making thus benefitting from all the services that have been built up over the years – from insurance to property management – by local credit unions and the co-operative movement.**

– Ian MacPherson, Co-operation, conflict and consensus: B.C. Central and the credit union movement to 1994

## Structure

The cooperative financial model does not incent the risk-taking behavior that introduces hazard to the institution, system, or taxpayer. This is principally because credit unions are fundamentally similar to government in that their purpose is to generate economic well-being for their members, who are, with some minor exceptions, residents of B.C. Without these members, credit unions have no purpose. Credit unions are not profit-maximizing entities. The government must create economic well-being for its citizens, or it will be dissolved. Both are intrinsically incented to act in the best interests of the community.

This is not true of banks, and particularly not of Canadian banks that, for the most part, are headquartered in Toronto. In their profit-based model, they have no incentive to continue to serve clients or communities that do not help them to achieve that objective. In addition, credit union executives do not receive large bonuses that incent excessive risk taking in order to maximize shareholder profits.

The B.C. structure is also unique in that it is one of only two provinces<sup>63</sup> that have a system-owned stabilization entity. Stabilization Central Credit Union's mandate is to help protect B.C.'s credit union system through prevention and early monitoring. For a quarter of century this entity has strengthened the fabric of the system by proactively assisting credit unions facing governance, operational, or financial challenges.



## Prevention

Since 2008 credit unions have become far more stringently regulated. While credit unions are required to adhere to many of the same regulatory practices as banks (for example, anti-money laundering, reporting under the Foreign Account Tax Compliance Act, etc.) a number of B.C.-specific directives and guidelines have also been introduced since 2008. In addition to already stringent capital and liquidity requirements, credit unions in B.C. are now also subject to:

- An Internal Capital Target Guideline.
- A Governance Guideline.
- A Guideline on Residential Mortgage Underwriting.
- A Guideline on Information Technology Governance.
- A Non-Compliant Filings Administrative Penalty Guideline.
- Net Cumulative Cash Flow Liquidity Reporting for large credit unions.
- Numerous directives on the use of deposit agents, related parties, non-income qualifying mortgages and criminal activity, and the storing and processing of information outside of Canada.
- New initiatives to ensure credit unions are active in resolution planning.

In addition, Central 1 Credit Union is subject to numerous additional requirements as a domestic systemically important financial institution (“D-SIFI”). For example, this includes a requirement that Central 1 adhere to more stringent investment and lending policies particularly on the mandatory liquidity pool, capital management requirements, adherence to detailed monthly reporting, and establishing and reporting an Internal Capital Adequacy Assessment Process as defined by the federal Office of Superintendent of Financial Institutions’ (“OSFI”) E-19 Guideline.

This combined cooperative model and regulatory prevention strategy has been effective in other jurisdictions as well. The Credit Union Deposit Guarantee Corporation in Saskatchewan notes protection as its key deposit protection strategy. The Corporation states “the preventive approach includes high standards of sound business practice, comprehensive monitoring practices, intervention if required, preventive programs and regulatory policy and guidance.”<sup>64</sup> This approach has ensured sound credit union operations throughout every financial crisis to date.

## Principles

# 1. Maintain a Competitive Credit Union System

While a persistent low interest rate environment has necessitated credit union business models to evolve beyond the traditional retail deposit and lending portfolio, deposits are still far more important to credit unions than banks. This is a well understood fact, and one that was echoed in Australia where the Consumer Owned Banking Association stated that “insuring such deposits at 100 percent could be significant for smaller authorized deposit-taking institutions (“ADIs”), as is the case in Canada, to promote local recycling of funds for economic development and provide competitive neutrality compared to the debt market advantages the big 4 banks gain because they are in effect government sponsored entities.”<sup>65</sup>

Credit unions provide real competition to banks, which has several benefits, aside from mitigating concentration risk. Competition leads to a superior allocation of resources in the economy, or more economic output for a given level of inputs, by resulting in lower prices, higher returns, better non-price terms, product innovation, and customer convenience.<sup>66</sup>

Since the early 1980s banks could and did accept deposits that were separately guaranteed through their subsidiaries, effectively doubling or tripling the deposit insurance that can be obtained by depositors from CDIC. The deposit insurance scheme at the federal level is also designed so that the average couple can spread deposits around between the different insured categories to maximize coverage. In fact, the official CDIC brochure and online calculators explain how consumers can multiply their coverage.<sup>67</sup>

There is also an understanding that the largest five banks are simply “too big to fail”. More specifically, the lack of an explicit mention of potential losses for non-insured deposits in the 2014 consultation on Taxpayer Protection and Bank Recapitalization Regime published by the federal Department of Finance could be read to imply that unlimited deposit insurance prevails. Under the heading of “Consumer Deposits,” the consultation document notes for example – without qualification – that “deposits will be excluded” from the bail-in regime.



**Initially turned down by other financial institutions, Dragon’s Den competitors “Holy Crap” were given support and their first line of credit from a BC credit union.**

**Holy Crap remains successful and has won many awards. Their product is even in the International Space Station!**

The consultation document does not explain the scope of the term “consumer deposits,” nor does it acknowledge the possibility that deposit holders with non-insured deposits could be subject to the bail-in.

There are also numerous occurrences of the federal government intervening in the affairs of large banks.<sup>69</sup> For example, in the 1980s, the Canadian Imperial Bank of Commerce (“CIBC”) was at risk due to the potential collapse of two of its largest corporate debtors, Massey-Ferguson and Dome Petroleum Company. The Canadian government worked with Massey’s creditors to try to bail the company out in 1981 by allowing it to raise new capital and supporting it throughout the recession.<sup>70</sup>

Similarly Dome Petroleum Company, another of CIBC’s debtors made history in 1982-83 by having the federal government intervene in its affairs.<sup>71</sup> This type of debtor/creditor intervention has been seen in other jurisdictions as well, and is a substantial part of the reason the government introduced the Taxpayer Protection and Bank Recapitalization Regime and more stringent requirements for financial institutions that it has designated as Domestic Systemically Important Banks (“D-SIBs”)

We can thus conclude that, given the federal government’s incentives to support banks beyond the posted deposit insurance limit, a harmonized approach to posted deposit insurance does not make sense. The recommendations we make are consistent with the need to take a differentiated approach which will support B.C. credit unions as a competitive and complementary alternative to the big banks.



## 2. Supports Provincial Money Staying in the Province

Credit unions have always been and will always be committed to the betterment of B.C. So, as stated by our largest credit union, Vancouver City Savings Credit Union, “Why do one thing with money when you can do two or three things with the same dollars?”

We have already explained that credit unions bear some similarities to government. Where there is departure in similarities is the ability of credit unions to use these funds in lending and community capacity building projects, creating a provincial economic multiplier effect. Unfortunately, municipalities, universities, schools and hospitals (“MUSH” entities) often have internal bylaws or investment policies that state they must be held in rated institutions, or institutions with unlimited deposit insurance. Most credit unions do not have the size or scale to obtain credit ratings, and therefore, without an unlimited guarantee, they could not compete for these deposits.

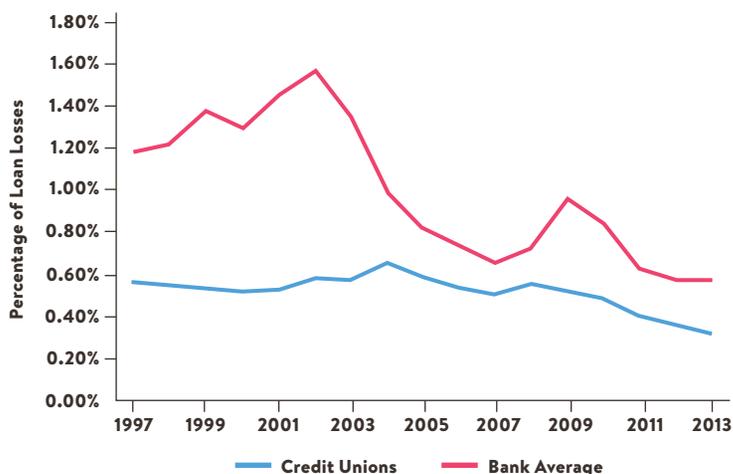
This also makes intrinsic sense in that the taxpayer is ultimately the steward of these public deposits. The system is thus still united in its position from the last substantive legislative review where it argued “as integral components of their communities and their regional economies, credit unions have played a ... role in providing financial services to public bodies. Each of these public bodies is responsible for raising and administering public monies. In that the taxpayers of British Columbia are ultimately the guarantors of public monies, the British Columbia Deposit Insurance Corporation should insure, unlimitedly, deposits by public bodies made with provincially incorporated financial institutions.”<sup>72</sup>

## Facts and Figures

In 2013, FICOM conducted a data call to analyze the deposits held at credit unions. That analysis revealed that 72 percent of deposits were over \$100,000, and 94.4 percent of deposits originate from B.C., with 78.5 percent being retail deposits. Extra-provincial wholesale and brokered deposits only comprised 5.6 percent combined.<sup>73</sup> This demonstrates that credit unions continue to be dedicated to their traditional consumers, and as such, so should the level of deposit coverage.

### Loan Losses as a Percent of total loans

Credit Unions vs Banks | 1997 - 2013



However, these aggregate details do not paint a full picture. In some rural and Northern credit unions, 40 percent of deposits exceed \$250,000, with some retail deposits exceeding \$500,000, or even \$1 million.<sup>74</sup> These deposits represent funds and savings from the marketplace and not deposit brokerage activities. Other Lower Mainland credit unions predict that a reduction of deposit insurance to \$100,000 would result in a \$4.8 million negative impact to the bottom line in the first year of transition. In both cases, a reduction in coverage would reduce investment in the community, lending to small business and dividends paid to British Columbians.<sup>75</sup>

From a retail perspective, a lower level of deposit insurance perversely encourages depositors to put smaller sums into multiple accounts and different institutions, which leads to inefficiency for consumers, governments and financial institutions alike. Particularly in the Lower Mainland, there is no shortage of retail depositors who might find themselves with cash in excess of \$1 million from real estate sales. This creates difficulties in providing proper financial planning advice and better pricing for consumers. Forgetting deposits is a particular concern for seniors who often have higher deposits and are living off their savings, especially those who do not receive pensions. Splitting finances between accounts leaves these individuals more vulnerable to fraud and financial abuse, as it is difficult for financial institutions to create a fulsome picture of the individual's finances.

Finally, the 2015 Provincial Speech from the Throne highlighted a special focus on small business, recognizing them as the primary source of economic growth in the province.<sup>76</sup> Oftentimes, these businesses are poorly served by banks that lack the regional knowledge necessary to make fully informed lending decisions. Banks also have no commitment to these local economic engines, as evidenced by HSBC's decision to "dump" small business accounts in 2013.<sup>77</sup>

From department store Fields' recent capital infusion from First West Credit Union, to Hall Printing's success story in the Kootenays, the commitment of credit unions to B.C.-headquartered businesses, large or small, has always been part of our core purpose. This does not mean we make riskier lending decisions; but rather smarter decisions, because we are closer to our communities and our customer-owners. In fact, credit union loan losses are consistently relatively less than the banks.

However, unlike banks, credit unions do not have deposit taking subsidiaries, as the cost of capitalizing such subsidiaries for virtually all credit unions would be prohibitive. Banks leverage these subsidiaries to split large deposits that are often held by businesses. This creates an incentive for businesses to hold accounts at banks rather than their provincial financial institutions that are better able to leverage these funds in the local economy. When a business has an account at one of the big five banks, these funds can be used to fund development outside of the province, or even outside of Canada. Credit union capital deployment is overseen by the community that forms its board of directors, and is reinvested into supporting more local businesses and projects.

### 3. Recognizes the Value of Self-Regulation of the System

Since CDIC was created in 1967, 43 of its member institutions have failed. By contrast, no B.C. credit union has ever required government intervention or support. To a large extent this is due to the system's joint and several guarantee. It is important to understand what exactly the system means by "joint and several" in any discussion concerning revising its deposit insurance scheme, as the functioning of this guarantee mitigates the risk to the province.

Joint and several can reference the mutuality of the system in preventing failures. A commonly referred to example is the closure of the Britannia Mine in 1958. Britannia Credit Union was at risk of failure due to the number of at-risk mortgages from its now largely unemployed depositors. Demonstrating cooperative principles in action, other credit unions intervened and took over the miner's mortgages, thus protecting the assets while the credit union was officially wound-down.

The design of the relevant sections of the Credit Union Act of the 1960s, as carried forward into the FIA in 1989 was predicated on the fact that "no government funding was involved in extending this guarantee. Rather if CUDIC's reserve fund ever became impaired, and after a special assessment had been levied against credit unions CUDIC could then replenish its resources by borrowing on the security of the government guarantee."<sup>78</sup> This design remains in place today.

To be specific, while FIA does not expressly state that the deposit guarantee is joint and several, it is implied through the operation of sections 266, 268, 269 and particularly, section 271. Together, these sections provide that all credit unions are required to contribute to building the fund and to replenishing the fund. The FIA clearly intends that an assessment on every credit union be proportionally the same, because section 268(3) requires that the Commission make a positive determination if it wishes to do otherwise. That subsection provides that "(on) grounds it considers proper, the commission by order may waive an assessment under this section as the assessment applies to one or more credit unions named in the order ..."

Understanding this guarantee is important because it effectively negates moral hazard through a form of self-regulation. This should be recognized, and strengthened in any revisions to the deposit insurance scheme. As noted above, Stabilization Central has been effective at credit union interventions and

should be empowered to take a greater role in self-regulation of the industry and deposit insurance management. This includes a more comprehensive role in the development of a transparent assessment framework.

#### Support fair regulation through affordable premiums, and a transparent assessment framework.

The ex-ante funded deposit insurance scheme has always been fully paid for by credit unions. It is a pool of reserves intended to be sufficient to cover both expected and unexpected net losses up to a level of confidence interval (99th percentile).<sup>79</sup> Three factors drive base assessments, namely: target fund size informed by an independent actuary, deposit growth (5% in 2013) and investment returns (1%).<sup>80</sup> In 2013, concern was raised by the Auditor General that the fund might provide inadequate coverage for the level of deposits.<sup>81</sup> In fact, the assets of the credit union system exceed its liabilities by \$4.8 billion.<sup>82</sup> In addition, stress tests of Central 1 and the large B.C. credit unions demonstrate that the system is well capitalized and able to deal with shocks.

Currently, the deposit insurance premium structure for credit unions in British Columbia is an annual risk-adjusted assessment, divided by quantitative and qualitative calculations. The quantitative metrics used by the regulator are explicitly stated and include metrics such as capital, earnings, and asset quality. The qualitative risk rating portion increased from 15percent to 50percent in 2012. At the time credit unions expressed concern about the subjectivity and the lack of transparency in the assessment criteria and the process in which the supervisory composite risk rating is developed. In response FICOM developed and released documentation that described the composite risk rating process (an "intervention stage" scale from "low and normal" to "above average and risk to financial viability") and conducted information sessions with credit union management and boards to promote better understanding.<sup>83</sup> Unfortunately, the qualitative portion of the assessment is still opaque and too highly weighted. To some degree credit unions did adapt to the new structure. The current variable assessment model that was introduced in 2013 would have resulted in an 18.8 percent increase in assessments had credit unions not adapted to the measures, however this did not occur.<sup>84</sup> **Credit unions recommend lowering the qualitative portion of the assessment and that all metrics be clearly defined.**<sup>85</sup>

## 4. Is Easily Understandable by Depositors

CDIC's deposit insurance scheme permits the average depositor to increase their coverage beyond \$100,000, but this is not without spending considerable time and effort investigating how to spread their deposits out between joint and single registrations, and different deposit products. While CDIC does provide an online calculator to assist in the process, to a certain extent this only serves to confirm that its coverage is too complex to understand by simply walking through the branch door. This leads to inefficiency and confusion.

By contrast, the B.C. deposit insurance scheme is far simpler. Unsophisticated B.C. retail depositors have unlimited coverage. There is no need to split deposits between institutions, subsidiaries, and different account names. Residents have the comfort that their deposits, no matter what category they fall into are fully covered. Businesses, the B.C. MUSH sector and First Nations also need not be concerned with deposit splitting and institutional diversification. Finally, it is important to note that institutional diversification does not serve to reduce risk to the deposit insurance fund, as the aggregate amount would still be fully insured.



**While the credit union system outside Quebec has less than 5 percent of assets of the financial sector, it serves anywhere from 10 to 15 percent of the small business sector, depending on how 'small business' is defined. For example, Integris Credit Union, headquartered in Prince George is currently financing four major commercial projects in Prince George, Fort St. John and surrounding communities.**

## 5. Transitions must be well thought out and very carefully managed

Finally, credit unions commit to engage with the government to ensure that any changes to the deposit insurance scheme are perceived favourably in the public. Credit unions have built their business models, and some depositors have come to rely on the unlimited guarantee. As mentioned above, they are more reliant than banks on deposits. There is a serious risk that any change or reduction in coverage might be misperceived by the public or media, which could lead to significant liquidity loss, particularly along the Alberta border. This could be particularly detrimental if combined with the potential introduction of Basel III liquidity risk metrics. Credit unions are committed to developing a transition and communication strategy that will protect our members' best interests. No action should be taken by the government without robust consultation, sufficient lead time and very careful communication.

# Financial Consumer Protection

## Questions 1, 2, 5 | Page 8

Prior to the financial crisis of 2008, “consumer protection was viewed through a narrow prism of safety and soundness of the financial entities. If the financial institutions could remain solvent, consumer protection could be ensured.”<sup>86</sup> This is no longer true and there have been great strides taken to make consumer protection a priority. There is recognition that “efficient market conduct and fair treatment to customers are not only in the best interests of the consumers and financial service providers, but are also an essential pre-requisite for financial stability.”<sup>87</sup>

Federally, OSFI not issue standards or requirements around market conduct; this responsibility is that of the Financial Consumer Agency of Canada (“FCAC”). Similarly, credit unions in B.C. are subject to numerous requirements that are housed at Consumer Protection B.C., and within the BPCPA and its related regulations.

In order to ensure there is no duplication of requirements, the **credit union system in B.C. recommends an industry-driven, but collaborative effort, to create a voluntary Market Code specifically for our industry.** This Market Code would be similar to the SaskCentral “Market Code Handbook”.<sup>88</sup> SaskCentral’s Market Code contains sections around privacy, complaint handling, transparency and disclosure. As part of the transparency and disclosure section, for example, the Market Code outlines rules around branch closure notices to members. Specifically, consumers need to be provided with 4 months’ notice of any branch closure.<sup>89</sup> We note that most credit unions in B.C. have given substantial branch closure notification without any formal requirements to do so.

Finally, the credit union system remains deeply concerned with unregulated financial service providers that are branding themselves as technology companies<sup>90</sup> while providing services that, in the opinion of our industry, require regulatory oversight, such as loans. While this matter is beyond the scope of this review, we urge the Ministry to contemplate the underpinnings and future development of this trend.

It will without a doubt have a strong impact on consumers and careful public policy must be developed to address it.

## Mergers and Acquisitions

### Question 3 | Page 22

From a statutory standpoint, the current CUIA rules on mergers and acquisitions have appropriate disclosure and approval mechanisms. The consolidation of the system from over 100 credit unions to 42 has been accomplished with extremely minimal concern or complaint. Generally, the approval mechanisms in place have worked effectively. An area of concern for the system is the length of time it takes for a merger or acquisition to be approved by the regulator even if strong member support is indicated. **A flexible, but specific regulatory approval time limit should be included in a merger guide, which could be embedded in the voluntary market code referenced above.**

## Complaint Handling

Credit unions believe that ownership is the strongest form of consumer protection and we strive to continuously engage our members to ensure their financial institution is meeting their expectations. In many ways, our board members have traditionally served as ombudspersons, being members themselves. In fact, in August 2015, credit unions won the IPSOS best banking award for best in customer service excellence for the 11th consecutive year.<sup>91</sup> B.C. should follow industry standard and not legislate complaint handling, however, **the system is supportive of an independent ombudservice being established within Stabilization Central** to handle complaints for credit union members that have not been successfully resolved by an internal process.

**A group of credit unions launched Humanomics in 2014 to address rising household debt and low savings. In addition to developing a Youth Financial Workbook, the participating credit unions launched a special Youth Savings Account. Starting with 11 and 12 year olds, the young member deposits \$25 or a recurring monthly deposit of \$10 for three months. On the account’s first anniversary, the member receives a 20 percent bonus, and on the third anniversary, a 5 percent bonus.**

# Financial Literacy

## Questions 1-4 | Page 11

Credit unions, large and small, place a strong emphasis on financial literacy, specifically with B.C.'s youth, newcomers and the elderly. The donations may be small in comparison to the big banks, but they often have a greater local impact. In 2014, for example, Coast Capital Savings donated \$600,000 over 3 years to Junior Achievement of B.C., a non-profit to educate 27,000 youth across the province about the importance of having good dollar sense.<sup>92</sup> Similarly, Northern Savings Credit Union offers free quarterly financial seminars on topics such as retirement planning, as well as offering youth financial literacy camps. In 2015, Kootenay Savings established an interactive youth budgeting workshop, Kootenay Kids Cash, where 592 students grades 5 through 8 participated from 16 schools.<sup>93</sup> Though these examples are recent, credit unions have always supported communities to ensure B.C. citizens are gaining a firm understanding of financial literacy. Credit unions also combat elder abuse in numerous ways, collectively and individually. Our relationship-based banking model is arguably one of the most effective ways financial institutions can protect their customers. In addition, through their participation on the Ministry of Health's Council to Reduce Elder Abuse, collaboration with the Alzheimer's Society of B.C. to launch their Guide for Dementia Friendly financial professionals, and in the promotion of a CU Source® training course entitled Financial Abuse of Older Adults: Recognize, Review, Respond, we are actively engaged in combatting this growing problem.

### Power to Protect Members from Financial Abuse

On June 18, 2015, the Digital Privacy Act, received royal assent and came into force. The Digital Privacy Act amended the federal Personal Information Protection and Electronic Documents Act ("PIPEDA"), adding sub-section 7(3)(d.3) to allow disclosure of suspected financial abuse to government bodies (including police and the Public Guardian and Trustee) as well as next of kin or an authorized representative.

Currently, section 18(1)(k) and (j) of the B.C. Personal Information Protection Act ("PIPA") allows credit unions to share personal information without consent if there is fraud or in circumstances that may affect "health or safety". The Adult Guardianship Act allows credit unions to report to designated agencies. However, credit unions are unable to share such information with next of kin, which leads to inconsistencies and delays. Contacting next of kin is a much less formal, and often more effective and respectful



**Vancity recently provided Canada's first Bus Co-op focused on servicing the elderly with \$156,000 in grants and financing. Working with the Seniors Resource Society and the Bus Co-op, this project ensures various seniors organizations have access to reliable and affordable transportation.**

tool to protect an older person's financial affairs. We note that reporting financial abuse does not absolve a financial institution from its requirements to respect member confidentiality and we are firm that measures be taken to protect the individual's sensitive information. **We strongly encourage the province to consider placing similar sections into PIPA as was done federally in the Digital Privacy Act.**

For greatest consistency, we believe these changes would be better served in the PIPA rather than the FIA or CUIA. We note that Central 1 made these recommendations to the Committee reviewing this Act in 2014, but they were rejected. With the passage of Bill S-4 federally, these amendments should be reconsidered.

# Market Discipline and Public Disclosure of Key Financial Risk Information

Questions 1-3 | Pages 9-10

Credit unions share annual audited and consolidated financial statements with their membership and detailed disclosure statements are also provided to their investors. Joint-stock banks investors are drawn from the general public, which necessitates a different type of disclosure.

Presently, FICOM receives monthly data from credit unions for regulatory reporting purposes. We are amenable to FICOM publishing some mutually-agreed upon data online. However, any reports or publications that FICOM produces should be presented in an aggregated format so as to not identify any individual credit union level data. There are some credit unions that are more easily identifiable due to their size or region and care must be given to protecting the individual level data of these credit unions.

## Legislative Impediment to Data Sharing for Credit Unions

Section 218 of the FIA prohibits voluntary data sharing with partner organizations that are wholly-owned by the credit union system, such as our national trade association, Credit Union Central of Canada (“CUCC”). CUCC has requested collection of annual credit union-level financial data which includes an additional 32 variables drawn from balance sheets and income statements. This data will be useful for national regulatory initiatives as well as assisting federal government agencies such as Statistics Canada. However, due to s. 218, credit unions are unable to share their individual level data directly with CUCC. The other provinces do not have such a legislative impediment restricting the sharing of data. The credit unions of B.C. support sharing information with system-owned entities, and, as such, **recommend s.218 be amended to permit this type of sharing.**

# Miscellaneous

## Out of Province Business

### Question 1 | Page 14

In 2004, the Legislature passed provisions in Division 1, Part 6 of the FIA relating to “extraprovincial credit unions”. Subsequently, in 2012 legislation was passed federally to allow a credit union to continue federally.

Subsection 91(15), the Constitution Act, 1867 gives the federal Parliament exclusive legislative authority over banking.<sup>94</sup> Presently, the provisions set out in the FIA add an additional layer of regulation to all extraprovincial credit unions including those that become federally incorporated. As such, the current extraprovincial credit union provisions in the FIA are constitutionally inapplicable to federal credit unions just as they would be inapplicable to banks.

Division 1 of Part 6 of the FIA requires review so that it applies only to extraprovincial credit unions that are not federally-incorporated. Not only would this avoid an additional layer of provincial regulation on a federally regulated credit union, it would also avoid potential constitutional challenges that may arise with federally- incorporated financial institutions being under exclusive legislative authority to regulate these organizations. **It is recommended that Part 6 of the FIA be amended to allow for an exemption of the additional regulatory requirements when referring to extraprovincial credit unions that are federally incorporated.**

## Dormant Credit Union Shares

Credit unions deal with dormant member accounts under the Unclaimed Property Act (“UPA”). Amounts over \$100 are removed from a credit union’s books after a 10 year period at which time they are sent to the B.C. Unclaimed Property Society. Amounts that are under \$100 are service charged to various members’ accounts and expensed over time which takes the smaller amounts into a credit union’s income. Section 85 of the FIA sets out the steps to be taken by a credit union in respect of inactive “deposits”, however, the intention of the legislature is not clear in respect of the shares of a credit union.

Some credit unions have resolved this issue by interpreting the Acts to mean that funds paid into a share account by the credit union as dividend payments would constitute a “deposit” for the purposes of section 85 of the FIA. However, funds paid to the credit union by the member as payment for shares would remain property of the credit union until such shares are redeemed. Thus, if funds are paid into a member’s account upon redemption of such shares, those funds then constitute a “deposit” for the purposes of the FIA.

While the UPA does not explicitly contemplate the Unclaimed Property Society monies invested in shares of a credit union, **we recommend that the Unclaimed Property Society be expressly authorized to accept such funds in order to comply with the spirit of the FIA and the UPA.** Refunding monies invested in the shares of credit unions through the Unclaimed Property Society would be an effective option, because of the Society’s mandate and resources for locating owners.

# Conclusion

The decennial review of the FIA and CUIA is an opportunity to take stock and identify where changes need to be made, where new directions should be taken and generally build upon the strong platform that the credit union system and government have jointly created.

Credit unions are cooperative financial institutions – internally and as a system. They are not governed for private profit, but rather the profits of their communities and members. Still, they compete in the same arena as internationally active banks, many of whom have extremely complex relationships which make them “too big to fail”. Credit unions are not big, but they offer consumers the opportunity to be part of something bigger. They will continue to operate as a jointly and severally guaranteed system, as they have successfully done for over seventy-five years.

The recommendations in this submission recognize the unbreakable ties between these institutions and the provincial economy. They demonstrate provincial support to its citizens, small businesses, and publicly funded-institutions, promoting a competitive, prudent financial sector that will keep provincial money in the province. In the words of the late cooperative scholar Dr. Ian McPherson, these are proposals “for those who believe that it is possible to combine values and principles with economic action.”<sup>95</sup>

# Appendix A: Technical Amendments

Credit Union Incorporation Act and Financial Institutions Act			
	Issue or Potential Legislative Improvement	Legislation/Regulation	Analysis
1.	<b>Definition of Insolvent</b> Section 1 of the CUIA has a definition of the word 'insolvent'. The definition says insolvent "includes".	s. 1 (CUIA)	The word "includes" infers a listing of multiple characteristics and the definition in the CUIA does not have multiple characteristics.
2	<b>Definition of Holding Credit Union</b> Section 2.1(4) of the CUIA references a "holding credit union", but does not define it. The word "company" was deleted and replaced with "credit union" when the Company Act was repealed. "Holding company" is defined in the FIA, but not the CUIA.	s. 2.1(4) (CUIA) s. 48(1) (FIA) s. 2(4) (Business Corporations Act)	The term "holding credit union" is confusing and inconsistent with the terminology in the Business Corporations Act. It is important to ensure that there is consistency for "holding company" terminology in both the FIA and CUIA. Change the wording in the CUIA from "holding credit union" to "holding company" or "holding corporation".
3.	<b>Definition of Subsidiary</b> The term "subsidiary" is not explicitly defined in the definitions section of either the FIA or the CUIA. The current definition within the CUIA neglects to define a wholly owned subsidiary.	s. 2.1(4)(5) (CUIA) s. (6) (FIA) s. (3) (Company Act) s. 2(2) (Business Corporations Act) s. 2(5) (Business Corporations Act)	When the Company Act was repealed a number of sections were rolled into the CUIA because of the interconnectedness of the two pieces of legislation.  The wording used for a "wholly owned subsidiary" in the current Business Corporations Act could be used in the CUIA.
4.	<b>Registering of Members and Auxiliary Members</b> Section 39.42 of the CUIA does not mention the register of member and auxiliary members provided in s. 54.	s. 39.42 (CUIA) s. 54 (CUIA)	Need to ensure consistency and when a section cross-references another section, it is important to ensure that the information is present. The CU should add in the register of member and auxiliary members as one of the records that it must keep.
5.	<b>Promissory Notes</b> Section 82.1(5) of the CUIA has references to "promissory notes", but under the Personal Property Security Act (PPSA) these are now referred to as "security agreements". There is other terminology to be analyzed as well such as "personal property" and "registered".	s. 1 (CUIA) s. 14.2(d) (CUIA) s. 82.1(5) (CUIA) s. 1(1) (PPSA)	It is beneficial to have consistency across related legislation when possible; therefore it makes sense to change the terminology of the CUIA to be consistent with the PPSA from "promissory notes" to "security agreements".
6.	<b>Standard of Care for Directors and Officers</b> The current language in the FIA limits the duty of directors and officers. The legislation mentions a duty to shareholders, depositors and policy holders.  The Supreme Court of Canada <sup>96</sup> found that the scope of who the fiduciary duty was owed to and extended to creditors. The section in the FIA that explains this requirement is Expressio Unius Est Exclusio Alterius meaning "the express mention of one thing excludes all others". It is inconsistent with the Supreme Court decision because it only references shareholders, depositors, and policy holders.	s.101(1)(b) (FIA)	An interprovincial comparison reveals that B.C. is the only province to have the extra wording that lists explicitly those who the standard of care is owed.  This issue could be reconciled by eliminating the wording that specifically lists those that directors and officers owe a standard of care and fiduciary duty. This would allow for better alignment across credit union and business corporation legislation across Canada.
7.	<b>Definition of Senior Officer</b> Definitions in the FIA and CUIA of "Senior Officer" are based on compensation and not authority or responsibility. A straight number of "5 highest paid officers" does not reflect the fact that larger credit unions have more than five persons in senior decision making roles while smaller credit unions have less than five.	s.1 (CUIA) s.1 (FIA)	The system proposes similar language to the Bank Act where "senior officer" means: (a) the chief executive officer, chief operating officer, president, secretary, treasurer, controller, chief financial officer, chief accountant, chief auditor or chief actuary of the entity; (b) performs functions of the entity similar to those normally performed by an individual occupying any of the offices described in paragraph (a).
8.	<b>Election of Committee Chairperson</b> There is inconsistent treatment for the election of committee chairpersons between the FIA, CUIA, and Business Corporations Act (B.C.A).	s.39.56(2) (CUIA) s.224(4) B.C.A s.111, 112, 115 (FIA)	These three pieces of legislation have differing requirements pertaining to the election of chairpersons. Specifically, some are prescriptive regarding the election of the chair of an audit committee. We recommend this language be removed from the CUIA and B.C.A.

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