

Our Vision - Redefining Wealth

Our Purpose - Working with people and communities to help them thrive and prosper.

Our Brand Promise - At Vancity, we make you good money by putting money to good.



**RESPONSE TO THE PROVINCE'S
INITIAL PUBLIC CONSULTATION PAPER FOR THE REVIEW
OF BC'S
*FINANCIAL INSTITUTIONS ACT &
CREDIT UNION INCORPORATION ACT***

Table of Contents

Purpose 4

Executive Summary..... 4

Framework for Modernization..... 5

1. Commentary 7

2. Federal Bill C-43 9

3. Additional Considerations 10

Out of Province Business 11

4. Extraprovincial Issues..... 11

5. Insurance Regulation 12

6. Technology..... 12

Deposit Insurance 13

7. Insurance Limit..... 13

8. Regulatory Framework/Assessment Methodology and Metrics 14

9. What’s Covered?..... 15

Credit Union Governance 15

10. Governance Framework..... 16

11. Fiduciary Duty of Directors..... 16

12. Member Engagement..... 17

13. Mergers and Acquisitions..... 17

14. Directors’ Election..... 18

15. Common Bonds..... 18

Capital Requirements..... 18

16. Raising Capital..... 20

17. Membership and Equity Shares..... 20

Liquidity Requirements 21

Responsibility and Regulation of Central Credit Unions 21

18. Stabilization Central 22

19. The Credit Union System 22

Financial Literacy..... 23

20. Role of Financial Institutions 23

21. Role of Provincial Government	24
22. Legislative Changes to Bolster Financial Literacy	25
23. Reporting Financial Abuse.....	25
24. Government Communication of Relief Programs	25
25. Conclusion	26
Appendix 1	27
Remaining Topics Raised by the Province.....	27
Financial Consumer Protection.....	27
Market Discipline/Public Disclosure	27
Technological Change	28
26. Online Services and Consumer Protection.....	29
27. Consumer Protection and Records Storage	30
Regulatory Powers and Guidelines	30
Insurance Retailing and Licensing Exemptions	31
28. Exemptions	32
29. Insurance Council	32
30. Products to be sold by Licenced Agents.....	32
31. Restricted Insurance Agent Model	32
32. Conclusion	32
Regulation of Insurance Intermediaries	33
Protection of Confidential Information	34
Long Term Disability Plans	34
Rebating	34
Regulatory Framework for Trust Companies.....	35
Regulation of Trust Business.....	35
Appendix 2	37
Specific Legislative Challenges and Suggestions for Change	37

Purpose

In June 2015 the Ministry of Finance released its Public Consultation Paper seeking input for the review of the *Financial Institutions Act* (FIA) and the *Credit Union Incorporation Act* (CUIA).

We appreciate the opportunity for input and the Ministry's openness to working with the credit union system to review the legislation. We have no concern with the comments of this paper being disclosed to other interested parties or being made publically available.

This response outlines the key components necessary for a strong credit union system and then addresses each of the sections within the Minister's paper. This response builds on the background paper we shared with the Ministry in March of 2015, titled: *Provincial Financial Institutions Regulatory Review Discussion Document*. Also attached as an [appendix](#) are specific legislative challenges Vancity has encountered and suggestions for change. Some are expanded on within the context of this paper, while other, more minor points are left within the confines of the appendix.

Executive Summary

Our Goals are in Alignment with Provincial Goals.
From building local economies to supporting new homeowners, Vancity is uniquely positioned to support the economic and social goals of the Province of British Columbia. We are able to help more people and businesses meet their goals because we are a trusted community partner.

The historic, current and future importance and role of credit unions in the Province of British Columbia is clear (see also *Provincial Financial Institutions Regulatory Review Discussion Document* – March 2015 – noted above) but modernization in regulatory infrastructure is needed. The backgrounder outlines how credit unions are an engine for economic growth; it describes the values-based business model and its implications, and explains why risk in the credit union context is different than national banks in this environment.

Credit unions create economic capacity by supporting the growth of social capital and strengthening environmental sustainability. This capacity is important to British Columbians and a key element attracting almost 1.9 million people to become members of credit unions. The right balance in legislation can either help or hinder this capacity. To understand better what that right balance might be, we have stepped back from the detail to consider the overall functioning of the credit union system, its value to individuals who live and work in our BC communities, and the Province's needs. We believe the proposed Framework for Modernization addresses the key components needed to ensure the ongoing stability and growth of the economic capacity provided in the Province of British Columbia by the credit union system.

Below we outline a [Framework for Modernization](#) which has six components:

1. Recognition of the 'joint and several' nature of the credit union *system*,

2. Move to a self insurance model to manage deposit holders' risk,
3. Restructure deposit insurance keeping in mind its public policy purpose as effective protection for individual depositors,
4. Removal of historical barriers which limit future economic growth,
5. Development of an effective transition plan, and
6. Advance financial literacy by enabling and supporting credit unions and developing central partnerships.

Framework for Modernization

As a credit union *system* there are a number of interdependent components that must be modernized in a synchronized manner to ensure stability and growth. We outline six key elements below and then provide additional commentary.

- 1) Recognition of the 'joint and several' nature of the credit union *system*.

The *system* is based on pooled capital, liquidity, and shared services like payments and clearing (which we describe in more detail under [Federal Bill C-43](#) below). This mutuality among credit unions is why there has not been a single failure in the modern era. In order to maintain the effective working relationship within this system there must be:

- Recognition of the Portfolio view as a legitimate way to manage risk.
- Incorporation of this by the Regulator into the approach to regulation – and shift away from the current approach of reviewing credit unions out of the context of the system.

Example: Should another credit union come under stress or risk of failure; Vancity has an incentive and capacity to assist by:

- *Extending our purchasing power;*
- *Syndicating loans to generate assets for both (and thereby also diversifying risk);*
- *If necessary, asking the members of both credit unions to join forces and merge operations.*

Vancity has successfully used each of these in specific situations.

Legislation such as requiring credit unions to be members of Central 1 and Stabilization Central Credit Union (Stabilization Central) (e.g. FIA S. 283) are supportive of the joint and several nature of the credit union system by preventing the free rider problem; while Division 4 could be enhanced to provide greater clarity and powers to Stabilization Central. We explain this in more detail under the [Responsibility and Regulation of Central Credit Unions](#).

In addition, the ability of Central 1 to invoke a call on capital to ensure solvency must be maintained. This collective solvency has been used in favour of system crisis resolution (such as occurred in 1974, 1986, and 2008). Stabilization Central, Central 1, and credit unions must be able to continue coming together to help out an individual credit union. Though this is not in legislation, it exists in the governance protocols of Stabilization Central and Central 1; these protocols are essential to understanding our joint and several nature and should not be undermined by legislative change.

2) Move to a self insurance model to manage deposit holders risk.

This can be an advantage for the Province by moving liability for deposit insurance further away from the balance sheet of the Province. An enhanced self-regulatory role for Stabilization Central would allow government to reduce its fiscal accountability by transferring that burden onto the credit union system.

- BC has some historical experience and a self insurance model is in place today in some locations (for example Saskatchewan).
- Current infrastructure can be deployed to establish this self insurance model including expanding the role of Stabilization Central.
- An approach to self fund would require an actuarial diversity of credit unions, an appropriate tax structure for assessments and income earned on the Fund, a strong stabilization capability, solvency powers, and the legacy of accumulated capital.
- Fund size and annual assessments would be recalibrated to ensure it is efficient from a credit union point of view.
- The key strength of the program will be to see issues well in advance of any need for deposit insurance and then have the power to solve them through a strong capacity in Stabilization Central.

3) Restructure deposit insurance, keeping in mind its public policy purpose as effective protection for individual depositors.

Unlimited deposit insurance does not serve the best interests of British Columbians. Though we believe the risks of unlimited insurance in the credit union context are overstated, there is none-the-less a prevailing national and international unfavourable view and an unwelcome interpretation of increased moral hazard connected to it.

A restricting of deposit insurance should include the following characteristics:

- It should be simple and avoid unnecessary complexity from a member or market point of view
 - Specific modeling for municipals, university, school, hospital (MUSH) and first nations/aboriginal agency deposits – to ensure funds which originate from provincial government programs stay in the Province - should be included.
 - Generally it should be pegged to the federal level; but must have an effective premium above it to retain deposits within the Province (modelling required).
- 1) An effective transition to a new level of insurance is necessary. The goal is to avoid sending negative signals to membership/BC residents about the stability of credit unions.
 - a. Any change must be clearly communicated.
 - b. Transition timing has to allow key risks to be effectively managed.
 - 2) A regulatory regimen that recognizes the role of credit unions in the growth of sustainable local economic development.

A move from an unlimited deposit insurance regimen **must** come with a lighter hand in the application of regulatory requirements (see #1 above). This is critical to encourage diversity of credit unions across the Province to allow for a vision, business model, size, and location that meets each community's needs. Vibrant credit unions in diverse communities will help the Province control its own long term

costs within these communities such as infrastructure, health, childcare, and costs to support small businesses.

4) Review historical barriers which limit future economic growth.

Currently there is an effective cap on the amount of small business lending that a credit union can extend.

- Thirty percent of the total loan portfolio can be in small business/commercial lending – over 30%, the capital requirements change and cause additional lending to be effectively shut down. This creates a 30% effective cap on small business/commercial lending for credit unions.
- This prevents credit unions from diversifying away from retail lending and prevents credit unions from serving small businesses in our communities at a time when sustainable economic activity is being promoted and encouraged.
- Other financial institutions operating in BC are not restricted in this way.

5) Development of an effective transition plan.

An effective transition plan will give credit unions and British Columbians time to understand and prepare for the major potential changes such as a move to a limited deposit insurance regimen and a self-insurance model. Vancity would be pleased to contribute to the development of the transition plan.

6) Advance financial literacy by enabling and supporting credit unions and developing central partnerships.

Credit unions have an obligation to deliver member education ensuring members have the knowledge, skills, and confidence to make the right financial decisions for themselves. There is a role, not only for credit unions, but also for shared programming through a central or provincial authority which would address the potential conflict of interest whereby financial institutions financially benefit from interest or fees (e.g. interest from unpaid credit card balances).

There are other things credit unions should be required to do such as:

- Cashing any Government of Canada issued cheque (up to \$1,500) without fees or an account, and
- Be allowed to report concerns of financial abuse to next-of-kin (or other member delegates).

The Province could also adopt the goals set out in the federal financial literacy strategy.

Commentary

If there is a shift to self insurance, and away from unlimited deposit insurance, this must be accompanied by a regulatory approach that integrates the joint and several nature of the system – this means individual credit unions *and* the strength of the system should be viewed together. It has always been a hallmark of credit unions to support each other and to resolve concerns internally before they become systemic issues. The connection among Central 1, Stabilization Central, and individual credit unions is unique and we believe this approach will strengthen that bond for the future.

Because of the principle of “joint and several”, credit unions have both the experience and the incentive to self manage their portfolio of business risk. We’ve shown a desire and capability to manage risk by working together across the system.

For example:

One of the key issues Lower Mainland credit unions face is the high cost and increasing value of residential real estate. This is particularly significant for our members – many of whom are younger – as they are stretched to buy their first home. This creates a demand for loans at credit unions like Vancity. In contrast, credit unions in other parts of the Province do not have the same cost of real estate; but face other issues like an aging population, creating a demand for savings (deposits). Many rural and northern communities are actively working to attract investment and jobs that will bring younger families back. There is an incentive, practise, and benefit for credit unions to work together so excess liquidity (savings) can flow to Lower Mainland credit unions and excess assets (syndications) can move north to generate needed revenue for rural credit unions to finance their communities’ businesses through this transition.

Credit unions have not yet determined an optimal size and shape for deposit insurance. While our [Framework for Modernizations](#) suggests change, we also highlight the conversation must focus on the primary purpose of deposit insurance; which is to protect individual depositors’ funds and create stability and trust in the provincial banking system. Vancity advocates for a self insurance model to efficiently and effectively manage deposit holders risk.

As the Ministry notes, the application of international standards (such as Basel III) must ‘respect the particular needs and circumstances of BC’s financial sector’. There is precedent in the United States and some Canadian political recognition that a regulatory model designed for large multinational banks cannot be blindly applied to co-operative financial institutions which are predominantly local, smaller, and simple businesses in comparison. Vancity is not looking for a separate regulatory model, but the careful and considered application of a principles based approach to risk management in the unique context of credit unions.

The current Capital Requirements Regulation needs to be modernized so credit unions are not penalized by an additional weighting factor on the proportion of commercial loans exceeding 30 percent of the total lending portfolio. This same and arbitrary cap does not exist for federally regulated banks. Removing this effective cap would allow credit unions with the necessary capacity to diversify away from high concentrations of residential real estate and

better manage overall risk. The Bank of Canada and Department of Finance have stated small businesses are not being adequately supported by the big five banks. This is an easy 'two-for-one' solution wherein we allocate more of our capital to commercial lending (small business) and away from residential mortgages. Because of the cap we can currently only increase our support to small businesses by increasing our exposure to residential real estate due to the 30% ratio.



Unfortunately, Canada is being dragged along by this overzealous black-letter global movement by authorities to cabin, crib and confine financial institutions. In the long term, this approach will prove expensive in terms of lost efficiency and lower growth of output and incomes. Thus, in the end it will probably have to be at least partially unwound.

C.D. Howe Institute - Financial Regulation and Efficiency: Trade-offs in the Post-Financial Crisis Era

The cap works like this: commercial loans at less than 30% of the total portfolio for a \$100 M loan requires \$13 million capital to be set aside. At 31% of the total portfolio the same loan (same risk etc.) requires \$26 million in capital be set aside. This consumes too much capital for the arbitrary cut off of 30% and so credit unions are forced to increase residential mortgages before they can offer further loans to small businesses.

With the Framework for Modernization as the starting point, we also highlight additional detailed provisions which we believe support modernization while maintaining the unique and valuable nature of financial co-operatives. For instance, we highlight changes to:

- Capital and Liquidity Requirements;
- Technologically Permissive Language;
- Extra-provincial Loan Syndication; and
- The role of Stabilization Central.

By stepping back and looking at what the Province needs to ensure a strong and stable credit union system (captured in our [Framework for Modernization](#)) some of the ad hoc questions and suggestions submitted by both the Province, and from within the credit union system, are not aligned; and if taken out of context of the strategic intent of the changes, could threaten credit unions' unique capacity and value. For instance, proposals to make amendments to special resolutions, fiduciary duty of directors, and commons bonds threaten to remove the unique capacity and capabilities of credit unions and bring them closer to becoming simply regional banks.

Bill C-43 severely limits the ability of credit unions to efficiently process payments at the national level, for the benefit of the members and communities they serve.

Federal Bill C-43

A Special mention is required of Bill C-43 within the context of a legislative review. The Federal Bill repeals section 16 of the *Cooperative Credit Associations Act* and means credit union centrals are now regulated only by the provinces. Although the stated purpose of the amendment was to clarify provincial and federal accountabilities over credit union centrals, it also means credit union centrals will lose federal status and, it appears, the ability to effectively be part of the Canadian Payments Association.

In turn, this jeopardizes the credit union payments structure, given the national agreement between credit unions and centrals which enables Central 1 to serve as a national clearing agent. By mandating that a federal entity must have a preponderance of federal members, the Bill severely limits the ability of credit unions to efficiently process payments at the national level, for the benefit of the members and communities they serve.

A credit union system owned payments solution, with membership in the Canadian Payments Association, is the only reasonable way the system can operate and retain its unique capabilities. Forcing credit unions to use a bank owned payments system puts credit unions at the whim of the big banks who could administer charges on the system to create an unfair competitive advantage.

Additional Considerations

Any review of provincial legislation must take into account the likely impact of the new federal regulatory framework on the provincial credit union landscape. Several credit unions, at least one in BC, have made clear their intention to pursue the federal regulatory framework. What impacts will the movement of mid to large credit unions away from provincial regulations have on the provincial credit union capital, liquidity, regulation, and structure? As credit unions move out of provincial regulatory control and into the federal space how will the provincial regulatory approach need to change? What structural changes may be necessary and how should capital and liquidity be effectively adapted to accommodate these moves?

An emerging issue for legislators is the use of technology by out of province entities. Change is needed here. What it looks like requires further discussion particularly the question of how legislation can adapt to the transformative change taking place. Vancity has been keeping a close eye on these transformative changes. Recently we launched a future proofing initiative to build a deeper understanding of what the emerging digital disruption means for our members and communities and for the future role of our credit union. We know that the needs of our members and communities are evolving as technology is driving continuous innovation and creating new efficiencies that will redefine how financial institutions interact with their customers. The result is that the nature and importance of social capital (and not just financial capital) is growing and traditional models of wealth creation are being challenged. This means that tomorrow's growth will not look like today's growth.

Finally, while the majority of our comments focus on the broader structure and functioning of the credit union system, we have also included specific comments on [insurance businesses](#), [credit union insurance operations](#), [trust business](#), and [credit unions trust activities](#), in response to your questions.

MINISTRY OF FINANCE QUESTIONS AND VANCITY RESPONSES

Out of Province Business

1) Are changes or clarifications needed to BC's legislative framework for regulating extra provincial credit unions, either for BC credit unions operating extra-provincially or for credit unions from other jurisdictions operating in BC?	Yes
2) Are changes needed to BC's approach to insurance regulation? Should certain exemptions be available in respect of individuals and entities (including societies and self-insurers) seeking to purchase insurance outside BC? On what basis should exemptions be provided?	No
3) Are changes to the current legislative framework needed to address the use of technology by out of province entities providing financial products and services to British Columbians? Do the current definitions of what constitutes "carrying on business in BC" need to be revisited in light of increased e-commerce/online distribution of financial products?	Yes

Extra Provincial Issues

Clarification of the legislative framework is needed. We are operating in an environment of shifting technology and low margins. There is a need for sustainable regional economic development and at the same time the composition of credit unions regulated provincially is about to change. More discussion is needed with the Province to create a legislative framework that best sets British Columbians and their credit unions up for success.

We feel the prohibition in section 81 of the CUIA is no longer necessary. It is at odds with portfolio diversification, inconsistent with legislation in most other provinces, and ignores the reality of today's



Alberta, Saskatchewan, Ontario, Quebec, and PEI do not have a prohibition on doing business outside of the province, but rather confirmation that a credit union organized under their respective laws may carry on business in any jurisdiction outside of its home, subject to the laws of the other jurisdiction.

economy with money and people easily moving between provincial boundaries and a (reasonable) expectation on their part that they may continue to deal with the same financial institution.

Credit unions operate extra-provincially when syndicating loans across provincial boundaries. Doing so improves their portfolio diversity and maintains a community connection that is a strength

of the credit union system. In addition, loan syndication is a way in which smaller credit unions are able to serve their members as it allows for the origination of loans in their community not otherwise possible with their smaller capital base.

Of particular concern has been Bill C-43. The Bill undermines the credit union approach of working collaboratively to generate co-operative scale. This is a broadside hit on credit union capability. As compared to other direct clearers, the loss of continuity, a consolidated national point of reference, and responsibility for regulatory and management oversight of credit union payments, are gaps that impair

the credit union system's capability to identify risk situations and respond with nationally coordinated and timely actions.

Insurance Regulation

Concerning insurance regulation, we have no specific recommendations as this is not an issue for Vancity. We do suggest the Province view this from a lens of what would actively enable consumer access to services and are risks effectively managed.

Technology

An emerging issue for legislators is the use of technology by out of Province entities. This must be carefully examined in the context of financial institution regulation. Change is needed here. What it looks like requires further discussion on the question of how can legislation adapt to the transformative change taking place by new entrants such as Apple pay or fully automated investment houses.

Vancity has been keeping a close eye on these transformative changes. Recently, we launched a future proofing initiative to build a deeper understanding of what the emerging digital disruption means for our members and communities and for the future role of our credit union. We know that the needs of our members and communities are evolving as technology is driving continuous innovation and creating new efficiencies that will redefine how financial institutions interact with their customers. The result is that the nature and importance of social capital is growing and traditional models of wealth creation are being challenged. This means that tomorrow's growth will not look like today's growth.

Two things we've seen by way of example are:

- 1) There is a growing community of financial technology (fintech) start-ups in the lower mainland who are exploring disruptive business models for payments, lending, and financial literacy. They see the potential to remove pain points and give customers greater flexibility and convenience. Unfortunately, the current regulatory environment makes it difficult for credit unions to collaborate with these entrepreneurs to bring these innovations to scale. On the flip side, we also see the proliferation of payday lenders (including online payday lenders), who on the surface purport to remove pain points and provide customers with greater flexibility but do so at a predatory cost.
- 2) Blockchain technology will transform payments systems through a global network of interconnected computers that create layered data and an "open ledger". This contrasts with financial services companies that have operated in closed ledger systems. While closed ledger systems such as Visa, MasterCard and Western Union remain dominant, it is estimated that within two to three years, an open ledger system based on the blockchain technology will offer a viable alternative that has the potential to transform the way the world does business. This technology has the potential to make fraud or hacking very difficult and the opportunity to make operations faster, more efficient and more transparent.

It is too soon to say exactly how these emerging technology changes will impact the provision of services; but it is clear they will. For Vancity, the important consideration is that legislation recognizes

that these changes will come and that public interest is maintained whilst keeping a level playing field for service providers.

Deposit Insurance

1) <i>What is the optimal and appropriate level and system of deposit insurance?</i>	TBD, \$250,000 is right for Vancity
2) <i>Should a limit on deposit insurance protection be reintroduced, and if so, what limit?</i>	Yes
3) <i>Should any limits be reviewed on a regular basis (e.g., every five or ten years)?</i>	Yes
4) <i>If a limit was reintroduced, should certain exceptions be made (e.g., unlimited protection for Registered retirement savings products), similar to what has been done in other jurisdictions?</i>	Yes
5) <i>Are other reforms to BC deposit insurance coverage needed? Is the scope of coverage appropriate (i.e., should certain products or types of deposit be excluded or included)? "Where do we go from here?"</i>	Yes

Insurance Limit

The purpose of deposit insurance is to protect individual depositors and it serves to create stability and trust in the provincial banking system. When setting the level of insurance, its effect on keeping dollars inside the Province to fund future economic growth and innovation, and encouraging effective businesses to deliver that growth and innovation should be considered.

Credit unions should not rely on unlimited deposit insurance to retain their solvency. The current unlimited amount is an excessive target and is not necessary to meet public policy objectives.

Credit unions are concerned about increasing regulatory pressures and requirements which some believe is, in part, are due to unlimited deposit insurance. The credit union sector is significant to the Province in size. Too low of an insurance coverage may see the sector shrink and dollars travel out of the Province. Where coverage is too high, the viability of business begins to be threatened as heightened prudential oversight hampers creativity and innovation.

Any revisions to deposit insurance should be:

- Simple, to avoid unnecessary complexity from a member or market point of view,
- Modeled to keep deposits of municipals, university, school, hospital (MUSH) and first nations/aboriginal agencies within the Province; and
- Generally pegged to the federal level but must have an effective premium above it to retain deposits within the Province (modelling required).

There needs to be an effective transition to any new deposit insurance levels to avoid sending negative signals to BC residents about the stability of credit unions. A transition needs to be:

- Clearly communicated; and
- Timed to allow key risks to be effectively managed.

An examination of Vancity's concentration in large deposits shows there is no concentration of connected depositors, and we actively monitor risk and policy thresholds set by our risk appetite. We compared our top 20 depositors and they remain stable at 6-7% of all liabilities, both before and after

unlimited insurance came into place. What that confirms is Vancity does not disproportionately use unlimited insurance as a competitive tool.

If considered from the Basel III environment point of view, the net stable funding ratio at Vancity is stable. This is because Vancity's business model requires 80% member deposits as its effective liquidity coverage ratio. Deposit concentration is only one part of a full liquidity risk management regimen that we monitor and test.

From a policy development point of view, perhaps the question about what level of deposit insurance is appropriate should focus on how best to mitigate risk to the individual consumer who likely has more modest needs that could be satisfied with more modest limits

A further look at Vancity's deposits shows that 93.5% of our BC resident members have deposits less than \$100,000. 4.2% have deposits greater than 100,000 but less than \$250,000, while 2.4% have deposits over \$250,000. Business account deposits, included in these numbers, can be more volatile and more substantial than retail member deposits. Simple business operations of payroll deposits or large sales reflect short, but substantial, swings. To our business members it has been observed the operating acumen and liquidity capacity of a credit union are more important than deposit insurance limits. So to that end, an insurance limit of \$250,000 would be sufficient to cover the majority of Vancity's membership. This only represents a portion of BC Credit Unions' members. We recommend a similar analysis of the systems' membership to determine the optimal level of deposit insurance.

From a policy development point of view, perhaps the question about what level of deposit insurance is appropriate should focus on how best to mitigate risk to the individual consumer who likely has more modest needs that could be satisfied with more modest limits. These also consider how financial institutions should mitigate and support the risks of small and medium businesses and their deposits. Analysis of all the deposits held by credit union members and future trends and needs will be helpful information to review as a starting point to developing any overall policy position.

Limits should be reviewed on a regular basis. We suggest every 10 years.

Regulatory Framework/Assessment Methodology and Metrics

The current structure that supports deposit insurance is sub optimal. The intertwining governance of CUDIC and FICOM create a conflict which could better be handled through a separation of the roles. Vancity supports Central 1's position, articulated in their paper under the section "Improved Transparency and Decision Making" and believe CUDIC should be independently governed, be accountable for setting the fund size target, and determine the assessment.

Greater clarity on the qualitative portion of the assessment is needed for credit unions. We suggest a constructive challenge on the methodology; we believe the actual percentage for the qualitative assessment at CUDIC is very high.

We propose a further constructive challenge on the metrics. Credit unions are required to target a certain return on assets, however putting a target out that does not consider current market conditions forces credit unions to take additional risk to hit a higher income target. The CDIC assessment model has some better elements (such as the focus on volatility of earnings; big swings in earnings have a greater impact than a planned target of lower profit over a multi-year period).

Borrowings to capital is also something to review. For example, it does not make sense to penalize borrowings versus agent deposits; especially in our joint and several system and our close connection with Central 1.

What is Covered?

The Ministry raises some interesting points with respect to special coverages, payouts, and limitations. We believe, if limits are reintroduced, there should be considerations for exceptions such as MUSH and aboriginal agencies deposits. In addition, provincial limits should also recognize that under the CDIC regimen national banks offer multiple entities to effectively extend deposit insurance where it is appropriate for a customer.

A gross payout approach does not seem in the best interest of British Columbians. If we are to consider the structure of loans, notwithstanding the ability to call a loan in certain circumstances, consumers have a reasonable expectation of repayment in installments. A gross insurance payment approach would leave the average consumer (holding savings and a mortgage product) with nothing after an insolvent event. Most do not have savings greater than the balance owing on their mortgage. This may also have the unintended consequence of fracturing consumer relationships if people ‘playing the system’ separate their loans and deposits into different institutions.

Given the close ties with the USA, and prevalence for cross border shopping, consumers may hold a portion of their savings in foreign currency. We do not see a cause for increased deposit insurance payout should these amounts be included within any deposit insurance structure.

Similarly deposit insurance should support Canadians in their savings goals through coverage in other products such as term deposits. Should dollar value coverage limits be imposed, an aggregate product approach can be taken.

Respecting interbank deposits, the public policy purpose of deposit insurance, considering any exceptions such as MUSH and aboriginal agencies, will guide this answer.

Credit Union Governance

1) <i>Are changes to the credit union governance framework needed?</i>	No
2) <i>Are changes needed to foster member engagement and/or deter frivolous proposals? If so, what changes are needed? How can member engagement be increased?</i>	No
3) <i>Do CUIA rules on mergers and acquisitions provide appropriate disclosure and approval mechanisms?</i>	Yes
4) <i>Are changes to the voting process for election of directors and other special resolutions needed? Should there be more clarity around endorsement of nominees or proposals by a credit union? Should member thresholds and other voting processes be in legislation or credit union rules?</i>	No
5) <i>Should credit unions be required to have a common bond? Should the criteria for what can be a common bond be changed?</i>	Yes to have. No to change

Governance Framework

No changes are needed to the governance framework. The development of FICOM's Governance Guideline provides the specificity and modernization needed. Between guidelines, a credit unions' own rules (which are approved by the membership and reviewed by the Regulator), and the legislation the checks and balances are in place and work well. We don't advocate for the legislation to begin including the specificity that should be translated into guidelines or rules.

Fiduciary Duty of Directors

There are members of the credit union system advocating for a change in the legislative wording for directors' fiduciary duty, aligning with a recent Supreme Court of Canada decision. Vancity believes in a distinct legislative difference for co-operatives as compared to other corporations. The distinction would recognize an enshrined fiduciary duty to the shareholders, depositors, and policy holders as well as to the co-operative entity.

The co-operative model is different than the corporate model. In contrast to an investor-owned corporation, control in co-operatives is tied to personhood as opposed to amount of capital invested. This democratic structure thus lays a foundation for a wider spectrum of motivations - a motivation that is determined by people as people, not by people as investors. Co-operatives rely on retained earnings and member dues for their capital needs. Participation in a co-operative recognizes the inherent value of diverse contributions from stakeholders, each with a particular vested interest, coming together for a particular and shared purpose.

It is because of these differences that the FIA's view of stakeholders is an important concept to retain. The corporate view of "best interests of the corporation" is simply not broad enough to reflect the true nature of the relationship between a co-operative and its members.

In Europe, the corporate model is changing. On July 8th, 2015 the European Parliament voted in favour of amendments to a Commission proposal to enhance long-term shareholder engagement and transparency¹.

Among the statements adopted was that "The financial crisis has revealed that shareholders in many cases supported managers' excessive short-term risk taking. Moreover, the current level of "monitoring" and engagement in investee companies by institutional investors and asset managers is often inadequate and too much focused on short-term returns, which leads to suboptimal corporate governance and performance of listed companies."

Vancity believes in a distinct legislative difference for co-operatives as compared to other corporations. The distinction would recognize an enshrined fiduciary duty to the shareholders, depositors, and policy holders as well as to the co-operative entity.

The Parliament goes on to say that "Greater involvement of shareholders in companies' corporate governance is one of the levers that can help improve the financial and non-financial performance of those companies. Nevertheless, since shareholder rights are not the only long-term factor which needs to be taken into

¹ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2015-0257+0+DOC+PDF+V0//EN>

consideration in corporate governance, they should be accompanied by additional measures to ensure a greater involvement of all stakeholders, in particular employees, local authorities and civil society.”

It is the duty of the Board to ensure and consider the greater involvement of these stakeholders. It would seem to suggest that directors and officers, in the traditional corporate model, need to ask why shareholder value should be maximized if shareholders are only one piece of a larger stakeholder group who all should be considered.

Member Engagement

We feel no changes are needed to foster member engagement and/or deter frivolous proposals. We recognize there is diversity of opinion in the credit union system over member engagement. Some indicate the threshold of 300 signatures for special resolutions has not kept pace with growth and consolidation, we respectfully disagree. The 300 member threshold may seem like a small number in the context of some of the larger credit unions; but, as one of them, we think it an important element that distinguishes credit unions from other financial institutions. It speaks to our democratic traditions and keeps the threshold to have a voice, low. We are member owned and operated – in the true sense – so that is appropriate.

Generally, members are smart and understand that if there are ‘nuisance’ issues – once brought to the floor of the AGM – they are dealt with appropriately by the membership. While not all members agree with each other, the point is to have an open debate. Our experience is that when we try to control debate, members object, become suspicious and rightly so.

The current legislation also has adequate provisions for dealing with vexatious or irrational special resolution proposals.

In our discussion paper on the provincial regulations we note how strongly our unique structure and history supports communities and members in this province. This is all true, but asking for this kind of governance change would, we believe, fly in the face of our history, structure, business model and unique strengths which will enable us to continue to be vibrant and relevant in the future.

We have found that with the legislation speaking to ‘signatures’ the process for membership verification (to ensure and honour a legitimate proposal) can be a next to impossible practical task. It would be better to strike a balance between the need to identify a member and the respect of their privacy when it comes to a petitioner collecting the information. However, we recognize this issue may be better addressed in the regulation as opposed to legislation.

There is diversity of opinion in the credit union system over member engagement. The 300 member threshold may seem like a small number in the context of some of the larger credit unions; but, as one of them, we think it an important element that distinguishes credit unions from other FIs.

Mergers and Acquisitions

The CUIA sets appropriate rules on mergers and acquisitions, no changes are needed here. Mergers and acquisitions have been a tool used by credit unions. In 1996 there were around 100 credit unions in BC, today it’s below 40. The reasons are varied; but two of the primary drivers are increasing regulatory complexity and challenges centred on economies of scale (access to capital and higher

income taxes). We support credit unions' ability to merge where it makes sense to the community and the current process of ensuring this is through a membership vote is a core principle of member driven democracy. We also support a vibrant economy comprised of many credit unions, not just a few with no real consumer choice.

While we have no specific changes to recommend for legislation concerning mergers and acquisitions, we encourage the Province to consider the drivers behind consolidation and how legislation and regulation can be balanced to promote consumer protection, achieve effective prudential oversight, yet allow smaller community focused credit unions to survive and prosper.

Directors' Election

We do not feel that changes are needed to the voting process for directors' election. Appropriate clarity exists for nominee endorsement or credit union proposals.

Common Bonds

The common bond is the foundation for a credit union and is an integral part of the member/owners interconnection. It is what initially draws a collective together into a co-operative. Losing pieces such as the common bond chips away at credit unions unique identity, leaving them virtually banks.

While we recognize that credit unions may grow beyond their original common bonds, it is the right of the members to consider expanding the bond of their co-operative, it is after-all theirs. If so approved by the members, there exist open bonds which should allow for growth of credit unions. We support keeping the concept of a common bond within the legislation.

Capital Requirements

1) <i>Is BC's current capital framework for credit unions adequate or are changes needed?</i>	Change needed
2) <i>Should BC's capital requirements benchmark national and international capital standards and be more principles/risk-based? Should different capital standards be applied depending on the size and complexity of financial institutions?</i>	Considered application on a principles base
3) <i>Are there issues with the commercial lending threshold, and should it be re-evaluated? Should BC consider adopting a more risk sensitive approach to commercial loans (i.e., rather than assigning all commercial lending a 100 percent risk weighting)?</i>	Yes
4) <i>Credit unions have less access to capital markets and may be at a disadvantage compared to other financial institutions when it comes to raising capital. Are there other innovative capital instruments available to credit unions that are not contemplated under BC's current framework and, if so, should they be?</i>	Yes
5) <i>Do the CUIA rules on membership and equity share redemption need to be revised?</i>	Yes

The current capital framework is appropriate as long as it doesn't adopt Basel III as written. Changes are needed to the requirements benchmark, standards, and applicability based on size and complexity.

Further to our commentary on Basel III in the [Summary](#), we restate that capital requirements adopted for large national and international financial institutions should be examined to determine the best way

to translate them in the context of diverse community credit unions with their unique business model and risks. Enabling, not penalizing legislation that supports the existence of credit union centrals is needed.

An unintended consequence of increased regulatory burden is the proliferation of 'shadow banking'. That is, unregulated institutions participating as regulated financial institutions. The federally regulated payment exchange system is the most obvious example; but there are numerous other examples in capital requirements, wealth management, and etcetera. We've begun to see the federal banks recognize this risk and lobby for a limited adoption of Basel III standards.

It is clear that enabling legislation of the past has put the BC credit union system in an enviable position compared to other jurisdictions, provincially and worldwide. When other jurisdictions are examined, their limitations are usually due to hindering legislation. In BC, legislation has proven invaluable to the growth of credit unions and the communities where our members live and work. This is forward thinking and insight which we believe should continue into the future.

As co-operatives, credit union capital is sourced locally and, by design, most of it does not leave the Province. This is a fundamental difference from banks whose capital is sourced from within Canada yet used for a broad range of purposes, including providing funding of economic development outside of Canada. Credit union capital deployment is democratically overseen by each community within BC through their credit unions.

The adoption of Basel III must include the recognition of membership shares as tier 1 capital. Additionally, the experience in Quebec shows us that capital at the central level can be appropriately aggregated over the system.

There needs to be consideration of a 'culture/trust ratio' and not just capital ratios. The community oversight of credit unions contributes heavily to their prudence and should not be ignored because it is not visible or the same in the national or international banking space. The creation of social capital is what makes credit unions so valuable as an institution to their communities and to their members. Basel III approaches capital purely from a financial perspective. Vancity recommends a thorough review and inclusion of the concept of social capital. Social capital could become a defining component of the legislation that transforms how credit unions support the communities they operate in.

We must also recognize that Basel standards are evolving; for instance, the recent change in credit risk framework has a disproportionately onerous impact on credit unions. The United States has chosen not to apply this standard to small business. By setting a plan to consider each Basel standard for adoption at the credit union level the Province and credit unions will be in a better position when future changes occur.

The current Capital Requirements Regulation needs to be modernized so credit unions are not penalized by an additional weighting factor on the proportion of commercial loans exceeding 30 percent of the total lending portfolio. This same and arbitrary cap does not exist for federally regulated banks. Removing this effective cap would allow credit unions with capacity to diversify away from high concentrations of residential real estate and better manage overall risk. The Bank of Canada and Department of Finance have stated that small businesses are not being adequately supported by the big five banks. This is an easy 'two-for-one' solution wherein we allocate more of our capital to commercial lending (small business) and away from residential mortgages. Because of the cap we can currently only

increase our support to small business/commercial by increasing our exposure to residential real estate due to the 30% ratio.

The cap works like this: commercial loans at less than 30% of the total portfolio for a \$100 M loan requires \$13 million capital to be set aside. At 31% of the total portfolio the same loan (same risk etc.) requires \$26 million in capital be set aside. This consumes too much capital for the arbitrary cut off of 30% and so credit unions are forced to increase residential mortgages before they can offer further loans to small businesses.



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.

Central 1 Economics. Credit Unions in B.C. August 2014.

In section 14 of the Act, 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’. The additional small business/commercial loans would be risk weighted based on their actual risk, not an arbitrary formula.

Raising Capital

Credit unions are severely limited in the ways they can raise capital. Methods to do so are a fruitful area for further dialogue. Adaptability to accommodate future needs is ideal. Central 1, in their submission to the Department of Finance, will be including detailed comments on capital requirements, what should be included in regulatory capital, the applicability of Basel III and tax treatment as it relates to the capacity to build retained earnings.

Membership and Equity Shares

The CUIA currently restricts members to no more than 1,000 membership shares. Is this limit still appropriate in today’s context? Should a higher ceiling be contemplated?

For larger credit unions there is an option to obtain short term or long term credit ratings, which could then facilitate the issuing of preferred shares or debt (for example, bonds) that with the appropriate conversion characteristics, could qualify as non-viable contingent capital, under Basel III. Limitations on this avenue to raise capital still exist, of course. These instruments would be limited to credit union members (as opposed to the open market) and the capacity to do this for most credit unions is not realistic due to their size. Should Central 1 be given appropriate powers to enable them to raise capital in this way on the request of smaller credit unions?

We refer to Central 1’s submission on “Capital Requirements” as we support the recommendations therein.

Liquidity Requirements

1) <i>Are the current legislated liquidity requirements for credit unions appropriate or are changes needed? If so, what changes?</i>	Change needed
2) <i>Should BC's liquidity requirements reflect national and international liquidity standards and be more principles/risk-based? Should different standards and rules be applied depending on the size and complexity of financial institutions?</i>	Considered application on a principles base



As co-operatives, credit unions realize the importance of working together to achieve successes and avoid losses, and they share a strong belief in a collaborative approach to system liquidity.

[Financial Institutions Act and Credit Union Incorporation Act Review: System Response to the Initial Public Consultation Paper.](#)

Basel III standards would require that each credit union, at the smallest level, be strong on its own. This is not the way to build a strong system or even a strong portfolio. It does not consider the structure of the credit union system.

The Mandatory Liquidity Pool is an effective tool in the credit union system. It allows for the necessary scale to support the six largest credit unions with their business plans and daily operations. It creates a pool substantial

enough to enable trust by a single credit union's members that they can access funds as the members' needs arise. Individual credit union liquidity is important, but it should be viewed in the context of the liquidity pool.

We refer to Central 1's submission on "Liquidity Requirements" as we support the recommendations therein.

Responsibility and Regulation of Central Credit Unions

1) <i>Are changes or clarifications to Stabilization Central's mandate/role, powers or corporate governance structure needed?</i>	Yes
2) <i>Are changes or clarifications to Central 1's mandate/role, powers or corporate governance structure needed?</i>	Yes
3) <i>Are any changes needed in light of the removal of federal oversight and regulation of central credit unions?</i>	Yes

Changes are needed in light of Bill C-43, it is still an open question as to how credit unions will access the payment space in a way that respects the unique co-operative model. A credit union system owned payments solution, with membership in the Canadian Payments Association, is the only reasonable way the system can survive. Utilizing a bank owned system puts credit unions at a great loss of control to banks who may administer charges on the system to create an unfair competitive advantage.

The Bank of Canada has clarified their availability for emergency funding to the credit unions system. Access to this requires an indemnity from the Province. We encourage the Province to enter into an indemnity agreement for liquidity events.

Stabilization Central

To support the framework we outline in our summary, Vancity advocates enhancing the role of Stabilization Central and believe it should become a self regulated organization and not directly linked to FICOM or Central 1. This will allow Stabilization Central to most effectively function in their stabilization role.



History has shown the necessity of having adequate early warning systems to identify problems and early intervention systems to resolve them in a swift and flexible manner. Stabilization Central plays an important role in these functions and is part of the safety net protecting depositors and the credit union system in the event of a failure.

[Submission of Stabilization Central Credit Union](#)

Stabilization Central was built on the principle that the credit union system should deal with its own problems and should not rely on a government body to intervene and resolve the financial and operating challenges encountered by BC credit unions. History has shown the necessity of having adequate early warning systems to identify problems and early intervention systems to resolve them in a swift and flexible manner.

Stabilization Central plays an important role in these functions and is part of the safety

net protecting depositors and the credit union system in the event of a failure. We encourage a discussion with the Province that covers the powers for Stabilization Central such that they would be enabled as an in-system regulator. Powers to be discussed would include:

- Administration of the fund for depositor protection,
- Monitoring and examination of credit unions,
- Support for credit unions in terms of financial assistance and obtaining services; and
- Promoting risk management tools and activities.

We refer to the Stabilization Central submission as we support the principles outlined therein.

The Credit Union System

There are a number of significant changes on the horizon which will have an unprecedented impact on the credit union system:

- How payments and settlements will work post Bill C-43;
- What will the capital/liquidity landscape look like if Coast Capital Savings or First West convert to the federal credit union regulatory framework and how will that necessitate change in the role of Central 1 and FICOM; and
- Restructure and the role of Central 1.

Vancity already represents over 30% of the systems capital, the exit of one or two other credit unions could push this beyond 50% and leave Vancity as the sole large provincially regulated credit union in the Province. This would have significant implications for smaller credit unions and would pose a challenge to the current structure of Central 1. It also poses a regulatory challenge for FICOM with only one large institution within its regulatory portfolio.

We propose the Province consider modeling based on these anticipated future changes to ensure the drafted legislation is appropriate for the credit unions that remain in the provincially regulated system


under such a scenario. We think the right structure and legislation could set the credit union system up for success and even save the Province money.

Financial Literacy

1) <i>What role should financial institutions and intermediaries play in contributing to and fostering financial literacy? Are there any legislative impediments to their doing so? Do financial institutions need additional tools to help fight financial abuse?</i>	A greater role
2) <i>What role should the provincial government have with respect to promoting financial literacy? Is there a need to duplicate or complement efforts being undertaken at the federal level, particularly for provincially regulated institutions? Should legislative changes to bolster financial literacy and/or protect consumers from financial abuse be considered? The federal government has tabled legislation to permit federally regulated entities to report concerns about financial abuse to next of kin in specific circumstances. Should similar and/or other changes be considered with respect to BC financial institutions?</i>	Could do more, complement Federal
3) <i>Do governments, including the BC provincial government, need to better communicate government policies in areas such as earthquake disaster relief? Are there other measures government should be taking with respect to earthquake or catastrophic loss insurance?</i>	Provide public education

A national Task Force on financial literacy was established in 2012, and key informants to that Task Force included Credit Union Central of Canada (CUCC). In a briefing note, CUCC noted that “one of the major problems with existing financial literacy efforts is that they are divergent, complicated and would benefit from improved delivery and transparency.” That Task Force made several recommendations aimed specifically at financial institutions, calling on us to:

- intensify our efforts to raise fraud awareness among the most vulnerable Canadians;
- put a strong emphasis on delivering educational information and ensuring that it is fully understood by Canadians at teachable moments; and
- simplify our informational materials and disclosure documents.



Heather, a Vancity member in Burnaby came in to her local branch for help when her long-term disability payment was delayed. “It was definitely cheaper than getting money from a payday lender,” she says. “There has been the odd time I’ve thought of going to one of those, but even though it all sounds good at first you’re just digging a hole for yourself.” “The process was quick and easy,” adds Heather. “And it made more sense to me to deal with the credit union that I had been with for years.”

Role of Financial Institutions

An example of how credit unions can make a difference, even in the current legislative framework, is Vancity’s “Fair and Fast” loan product. The product seeks to break the cycle of members trapped in the payday lending cycle and tied to extremely high interest rates. Vancity saved its members an estimated one million dollars in fees and interest in 2014; funding nearly 750 of these loans. In 2015, responding to member feedback, we added further clarifying information on vancity.com and simplified the approval process. We also

included disability benefits as an eligible source of income to help members qualify for the loan.

Credit unions have an obligation to act on Co-operative Principle Five (member education), tracing back our origins to the Rochdale Pioneers, and the importance of members having the knowledge, skills and

confidence to make the right financial decisions for themselves. We need to remind ourselves as a credit union system that we exist to serve member needs which include financial literacy.

There are opportunities for credit unions to collaborate on the delivery of financial literacy programs, and for the provincial regulator and stabilization authority to require specific investments in financial literacy for members: this could be an indicator of health during the annual review process. Vancity would be happy to share our curriculum and methodologies for our community based financial literacy workshops (Each One, Teach One) broadly across the credit union system.

However, the challenge with asking financial institutions to better address financial literacy is that it is a bit of a “fox in the henhouse” conundrum: financial institutions make significant earnings from interest earned on unpaid balances on credit cards, for example – how can it be made appealing to work in our members’ long-term financial well-being and against our own short-term profit metrics? The solution may be for shared programming through a central/provincial authority.

See below about possible reporting options where financial abuse is suspected.

Role of Provincial Government

At minimum, the Province should complement the very significant efforts being undertaken by the federal government with its financial literacy strategy. The federal government is developing a comprehensive database of financial literacy resources, and while it has bugs to be worked out, the Province should encourage provincially regulated financial institutions and other agencies to list resources on this website. See <http://www.fcac-acfc.gc.ca/Eng/financialLiteracy/initiativesProjects/Pages/home-accueil.aspx>.

The Province could adopt the three broad goals set out in the federal financial literacy strategy: <http://www.fcac-acfc.gc.ca/Eng/financialLiteracy/financialLiteracyCanada/strategy/Pages/home-accueil.aspx>, and use that as a framework for its own complementary statement about financial literacy in BC. Those goals are to:

- manage money and debt wisely;
- plan and save for the future; and
- prevent and protect against fraud and financial abuse.

Having a complementary strategy for the Province, and asking provincially regulated industries to adopt the same strategy, would be useful in continuing to build a coherent Canadian narrative about financial literacy.

Public service advertising about the real costs of payday lending, and how British Columbians can make different choices that meet the three broad goals set out above would be useful. Financial abuse occurs in a number of industries, from payday lenders to rent-to-own outlets, to cell phone contracts, and even artists’ works bought by galleries on commission.

The Province could model a financial literacy strategy and information resource based on what it has done for health care: <http://www2.gov.bc.ca/gov/content/health/about-bc-s-health-care-system>. It could also consider producing users’ guides to financial services (including the services listed above) in a format similar to the BC Health Guide.

Legislative Changes to Bolster Financial Literacy

Just as federally chartered banks are required to cash any Government of Canada issued cheque – up to \$1,500 – without fees or with an account at that branch, credit unions should be required to do the same. Without this, individuals turn to other cheque cashers, who may charge a premium.

Credit unions should cash any cheque, regardless of membership, and based on the provision on ONE piece of signed picture identification, up to \$1,500 (unless there is some reason to suspect fraud, in which case that must be documented and provided to the individual). The Province should mirror the policies set out there: <http://www.fcac-acfc.gc.ca/eng/resources/publications/yourRights/Pages/Cashingy-Encaisse.aspx>

The Province does provide some regulation of payday loans, and good information is available on the Consumer Protection BC site, about the costs of payday lending. While the regulation requires posted signage in payday lenders about the effective annualized payment rate, more work can be done to help citizens/consumers understand the costs and perils of using payday loans. See <http://www.consumerprotectionbc.ca/consumers-payday-lending-home/how-can-we-help>.

Reporting Financial Abuse

Credit unions should be allowed to report concerns about financial abuse to next-of-kin (or other delegate of the member) in specific circumstances, which should be clearly documented to protect members, and credit union employees. While there are reporting opportunities where a member is supported by the Public Guardian and Trustee, abuse can occur outside of those relationships, and a reporting mechanism should be developed.

However, reporting to next-of-kin may be of no help in situations of family abuse of vulnerable seniors – a mechanism to allow seniors to nominate someone as their delegate to receive information about financial abuse could be developed. Our credit union is currently working on “third party monitored accounts” which will serve for members in the community living movement, but a variation on third party monitored accounts – entered willingly by a senior or other individual concerned by potential abuse by someone intimate to them – could be a useful tool to help identify and stop financial abuse.

Government Communication of Relief Programs

The Province should provide public education on the costs of disasters, and what is paid by common taxes, and what is individual responsibility. This should be done broadly, for natural disasters, but also to help citizens understand the importance of renters insurance and other forms of consumer protection. In partnership with the insurance industry, a broad education program that addresses the role of insurance in many applications could be developed. It should also be included in Planning 10 curriculum, so that it is introduced at the high school level.

In addition to more tools provided at the high school level, the development of a provincial financial literacy resource center could be the delivery vehicle for more information on insurance and other financial tools.

Conclusion

Credit unions, as community partners have an obligation to promote financial literacy. They cannot do so alone. The support and integration of programs offered by government are needed. Legislative tools to help combat financial abuse are helpful and modeling the proposed federal legislation could be valuable.

Appendix 1 Remaining Topics Raised by the Province

Financial Consumer Protection

1) <i>Should BC consider adopting a market conduct code for fair treatment of consumers that would apply to financial institutions? If so, should there be one code for all financial institutions or separate codes for different types of financial institution?</i>	Yes
2) <i>Should BC credit unions be required to have an internal complaint handling process and to offer member access to an independent ombudservice?</i>	Not opposed
3) <i>Should ombudservices be mandated for addressing consumer complaints against mutual insurers and/or insurance agents and brokers?</i>	Not opposed
4) <i>Should authorization requirements for financial institutions and licensing requirements for insurance agents and brokers specifically require fair treatment of consumers?</i>	Not opposed
5) <i>Should branch closure notification rules be considered in BC, perhaps as part of a market conduct code? If so, what rules would be appropriate in BC?</i>	Not opposed
6) <i>Does BC have the correct framework for use of corporate and business names and logos, and the disclosure of identity for financial institutions?</i>	No opinion

Credit unions are a British Columbia success story; but the average person likely does not understand the fundamental characteristics of co-operatives. To remain viable we think it's key to identify as a co-operative. However, this challenge is one that must be faced by credit unions themselves and not one that can be solved over legislated use of names.

If there is consumer confusion around the framework for financial institutions then greater clarity would be of benefit. We're not aware of any current confusion.

A market code of conduct for consumer treatment is a prudent and reasonable approach. While there are many cases for a unique provincial approach to issues; we cannot see any particular advantage in this case and would therefore support the adoption or modeling of federal codes and ombudservice.

Specifically tying fair treatment to licencing seems overly bureaucratic if the principles under questions 1, 2, and 3 are adopted.

Credit unions are often the only financial institution in remote communities, and as co-operatives have a good track record of keeping their community partners informed of any branch closures. We don't feel the legislation is necessary to ensure this, but are not opposed to it.

Market Discipline/Public Disclosure

1) <i>Should BC financial institutions be required to make additional financial and risk information available publicly, including online? If so, which types of information? What are the benefits and risks or issues associated with more stringent public disclosure?</i>	Yes
2) <i>Should FICOM be permitted to publish information it collects from financial institutions online? Are there certain types of information that should not be published or exemptions that should be provided (e.g., to particular types or sizes of institution)?</i>	With restrictions

3) <i>Should financial institutions in BC be required to provide information to national databases for regulatory purposes, and should FICOM be allowed to do so?</i>	Through regulator
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Best practice and accountability standards are moving towards more transparency. People are clearly making more and more use of online information. British Columbians and credit unions would be better served with a principles based approach to transparency rather than one of legislation. We recognize there are gaps in credit union transparency. Vancity supports a transparent system and ourselves have tried to raise the bar, for instance releasing our Three Year Plan to the public.

Where it concerns the publishing of information by the Regulator, a cautious approach must be taken. FICOM collects a great amount of information that is sensitive not only to credit unions’ competitive environment but also contains personal member information. Consideration must be given to member data, privacy requirements, system stability, and board of director material that would normally be confidential.

With increased globalization it makes prudent sense for provincial regulators to connect to national regulatory databases. Requiring smaller credit unions to report data not only to FICOM, but to national databases could be an unnecessary burden on their capabilities. Vancity has first hand experience in the resources required to report to multiple regulatory entities. We believe the national reporting is better handled through FICOM.

Technological Change

1) <i>Are there any barriers or impediments to using new technology in the current legislative and regulatory framework (e.g., for member engagement, provision of products and services, etc.)? What changes are needed to ensure the regulatory framework continues to enable and accommodate technological change, now and in the future?</i>	Yes, change needed
2) <i>Are any changes needed to ensure consumers continue to be protected and provided with the information they need to make informed choices?</i>	Yes
3) <i>Are there certain financial products or services that should not be available for purchase directly by consumers online without using a professional broker or financial advisor at a regulated institution?</i>	No opinion
4) <i>Are there consumer protection and regulatory issues related to record storage or retention? Should there be limits on what kinds of data can be entrusted to a third party service provider for storage and/or processing?</i>	Yes

Technological change is inevitable and fast paced. Flexibility and either technology neutral or permissive language in the legislation is needed to allow credit unions and consumers take advantage of new tools and means of accessing information as they evolve.

It is important to offer consumers choice. We have heard from our own members that they do not wish to receive hard copy mailings of certain material and rightly point out that doing so stands against our principle of environmental sustainability. For example, requirements in the *FIA* and *CUIA* to mail by “prepaid post” are onerous and do not reflect the modern options for delivery of information or members’ choice. The availability of financial statements and auditor’s report are key pieces of transparency. However, limiting the delivery of this information to the two proposed options does not recognize the other means by which members access information in the digital age and does not reflect the choice they wish to have.

Vancity recommends changes to this section to be more permissive rather than prescriptive by allowing credit unions to ‘...make available a copy of the financial statements...by any one or combination of the following methods:’

The methods could include prepaid mail, email, online posting, or hard copy by in-branch request.

Legislation should set the standard of care for information; with credit unions then being able to evaluate their options (including third party services) and decide on the best course of action.

As we mentioned in the Capital section, increased regulatory burden will have an unintended consequence of creating a competitive advantage for unregulated ‘shadow banking’. Shadow banking is already here, and it must be something the Province considers as it develops legislation for the future. Financial institutions need regulation that ensures proper consumer protection and a level playing field for financial service providers.

Online Services and Consumer Protection

The following is an excerpt from the Credential Financial paper “Online Advice in Canada. Competitive Landscape. August 2015.” Credential Financial, as our investment and mutual fund dealer, advocates on our behalf, most recently regarding the Client Relationship Model Phase 2. While the paper does not directly address what products should or should not be available strictly online; it does provide a good insight into the consumer and technological drivers of this shift to online products and services. It also has recommendations for credit unions to consider before implementing such products and services. We believe this is a good place to start:

The emergence of a new group of digital wealth management firms in Canada has been the source of much media attention and industry discussion in recent months. Some media outlets and analysts are predicting that online advice will forever change how wealth management is delivered, while others have dismissed the “robo-advisor” movement as unproven and no match for human personalized advice.

Many of the start-up firms have principals from Silicon Valley, not Wall Street or Bay Street. They are building their business around a technology platform, and bringing in portfolio managers to handle the less differentiated process of building and managing ETF portfolios. With this background in tech start-ups, these firms focus on the client experience as the driver for development.

As the realm of online advice is so new in Canada, practices and governance are still being established. Still, it has become apparent that the US model cannot be applied directly to the Canadian marketplace.

Like all wealth management providers, many credit unions are plagued by similar problems that online advice is intended to solve:

- 1. Efficiently servicing small accounts.*
- 2. Attracting and retaining Millennials in a manner that matches their consumer expectations.*
- 3. Responding to growing fee sensitivities in light of CRM2 with a low cost, scalable solution.*

Regardless of the model, there are a number of considerations that go into the development of an online advice solution.

- *Potential channel conflict: Online advice is another example of the bifurcation that is taking place in Canada as it relates to the costs of investment management services. The presence of these distribution channels causes other channels to justify their value in relation to these low cost models. Wealth organizations should consider the maturity of their other distribution channels when contemplating a ‘robo’ like offering.*
- *Bank oligopoly: In Canada, as go the big banks, so goes the industry. The big banks have not yet created online advice solutions as part of their core offering. It would be reasonable to suggest that an online advice strategy would move in lock-step with repositioning or rationalizing their in-branch advice delivery model. Considerations would also need to take into account a product offering that doesn’t significantly reduce margins such as ETFs. This said if the major banks in Canada moved into online advice as a core strategy, other wealth providers would need to quickly follow suit.*
- *Cost of client acquisition: To launch a service to the broader market requires significant marketing dollars. As with all aspects of wealth, distribution and access to captive existing markets will be a key to achieving scale.*
- *Upfront technology investment: Key to attracting a younger tech-savvy demographic is an exceptional online user experience. Beyond that, there would be technology investments in integrating portfolio management systems with front-end client portals along with back office book of record systems.*

The key to all of the above is scale. Any solution developed for the credit union system would need to be in coordination with partners committed to achieving the scale required to overcome the initial and ongoing investments in this business.

We believe there is appropriate consumer protection through the Know Your Client requirements and certain levels of insurance protection for investors if the dealer becomes insolvent.

Consumer Protection and Records Storage

There has been no shortage of recent data breaches and large entities are just as much at risk as small. Data plays an important role in the business of credit unions, trust companies, and insurance businesses and there is more data being collect now than ever before. We recommend that the Regulator adopt outsourcing guidelines much as OSFI has.

With more automated collection of data and computerized assessments it is worth the Province considering how the legislation and consumer protection can be adaptable to take into account rapid changes which will lead into unforeseen territory.

Regulatory Powers and Guidelines

1) <i>Does FICOM have adequate tools to address current and emerging risks (at an individual and system-wide level) in a timely and effective manner?</i>	Yes
2) <i>Should FICOM have the ability (i.e., with authority provided in legislation) to issue enforceable prudential and market conduct requirements and standards/rules? If so, what limits on that power and accountability mechanisms are needed (e.g., oversight/approval role for government, appeal process, etc.)?</i>	Yes
3) <i>To respond to emerging risks in a timely manner, does FICOM need powers to revise conduct and</i>	With

<i>solvency expectations outside of legislation or regulation? If so, what limits and accountability mechanisms are needed?</i>	limits
<i>4) What major transactions should be subject to Commission approval? Should the FIA set out criteria for approval of major transactions?</i>	No opinion
<i>5) Do the FIA frameworks for reciprocals, mutual insurers and societies offering insurance need to be reviewed? If so, what issues need to be addressed?</i>	No opinion
<i>6) Are any changes to solvency regulation of insurance companies in BC required?</i>	No opinion

In order to respond to an evolving world, the Regulator needs the authority and ability to issue enforceable prudential and market conduct requirements or rules. However, we reiterate our principle (raised in the March 2015 Discussion Paper from Vancity) that the deeply rooted community knowledge of local credit unions is not factored into classic risk assessments, except with a cursory view that lack of diversification could be problematic. We believe the opposite is true; if diversity has an advantage in prudent management credit unions are better positioned than banks.

Prudential regulation should be developed in the context of efficiency of the systems they regulate². For small credit unions within BC, this may have already reached a tipping point that will result in degradation of the credit union asset, with all its past and future potential to the Province, and a disadvantage to the communities currently being served by these institutions.

We believe the Regulator has the necessary tools and power. FICOM's role should not be that of an operator. Its role is an overseer role and it should be concerned with capacity and liquidity, not strategy. If there is an issue identified by the Regulator it is not their role to find a solution but that is the role of the credit union, Stabilization Central, and Central 1.

Insurance Retailing and Licensing Exemptions

<i>1) Are the current exemptions appropriate? Should any additional exemptions be provided?</i>	Yes
<i>2) Should insurers have more responsibility for exempt sellers? Should they be required to provide more direct oversight?</i>	Yes
<i>3) Should the FIA be amended to give the Insurance Council increased powers to license and regulate incidental sellers of insurance?</i>	No
<i>4) Should certain insurance products only be sold by licensed agents? If so, which ones?</i>	Yes
<i>5) Should the restricted insurance agent model used by some other provinces, and applicable to travel agencies in BC, be looked at with respect to the sale of other types of incidental insurance such as credit insurance and/or product and vehicle warranties? If so, which types? Is the current restricted licensing regime for travel agencies effective and appropriate? Should travel agents, who are already regulated by Consumer Protection BC, be provided with an exemption under the FIA?</i>	Restricted model valuable in some areas

² David Dodge - *Financial Regulation and Efficiency: Trade-offs in the Post-Financial Crisis Era* – January 29, 2015 verbatim comments provided by the C.D. Howe Institute.

Exemptions

The current exemptions are appropriate; however, deeper oversight into adequate training would be of benefit to consumers. This can be accomplished through a mandatory, annual, online knowledge session.

Insurers should be held accountable for the level of knowledge and training given to the exempt sellers' staff. Consumers should be made aware of this requirement and insurers be held accountable to the consumer.

From our experience in insurance operations, the following additional questions/comments have been raised for consideration by the Province:

- I. Consider the internet or remote sales and how they operate – are the operators who answer calls licensed as well?
- II. Most life insurance companies also offer online guaranteed issued plans – what consumer protection exists here, especially concerning product explanations?
- III. If employees of financial institutions can sell life, disability, and critical illness insurance – they should be properly trained – insurance training should be mandatory and verified that the employee has full and adequate knowledge.

Insurance Council

As above, while full insurance licensing may not be necessary, a thorough understanding of all product features and benefits and the impact on the consumer is critical. It is very important that consumers be protected; including on any credit facility offered by a financial institution and any requirement for full licensing could negatively impact this offer.

Products to be sold by Licenced Agents

Permanent insurance and insurance where a higher level of understanding of both the consumer need and the solution offered should only be sold by licensed and qualified agents. Any product sold by exempt sellers should be fully understood and the shortcomings of the product should be outlined by the insurers to the sellers and by the sellers to the consumers. It should always be noted that a licensed agent may have a solution that offers superior benefits. Licensed agents should be held accountable to do holistic needs planning for risk.

Restricted Insurance Agent Model

Motor vehicle insurance is a key area where the restricted agent model would be valuable and be protective of the consumer. With respect to creditor insurance, as above, a model of more adequate oversight and accountability of training and knowledge is a reasonable solution.

Conclusion

Generally speaking, Vancity notes that insurance regulation is highly focused on compliance based checks. Vancity advocates for a risk based approach to the regulation which would meet the Province's objectives of promoting "...strong risk management and appropriate/responsible risk-taking" and allow the industry to "...grow and prosper". For instance, a risk based approach could allow product creation serving the underbanked.

Vancity questions the purpose of physical separation between insurance and financial services business. Is the separation in the best interest of the consumer, does it advance any consumer protection measures? As we note in the credit union financial services section, credit unions are unlike banks and the blanket application of the same regulation for both banks and credit unions as a one size fits all approach doesn't consider the unique nature of the credit union system. Credit unions represent multiple insurers while banks do not and often sell solely their own insurance products. There is no ownership by any one credit union of an insurance company and thus the regulations for selling life insurance in credit unions should be allowed with fewer restrictions. From a member perspective, credit unions seek, and we believe members wish for, holistic financial services which includes financial products.

We also seek dialogue on a number of topics not addressed by this request for feedback:

- Insurance Corporation of British Columbia (ICBC): ICBC drives much of the insurance business in BC. We'd like to see discussion on how the ICBC model supports the regulation and framework. Any changes to this model would have significant industry impacts.
- Technology. We'd like to see a dialogue on how technology is being leveraged by consumers. We're seeing more informed consumers who do more online transactions. Vancity would like to see a more open regulatory framework that will enable what technology has to offer.
- We would like to see a broader focus on financial literacy. Financial abuse of elders, while important, is not the only important issue. Retirement planning, home purchasing, and budgeting for youth entering the workforce are all equally important issues in our communities.
- Creditor Insurance. Consumer protection for loans is an important element of insurance. This product is easy to obtain, and can offer a strong element of protection for consumers through critical illness, disability and death benefits. We would like to see this kind of life insurance product considered within the regulatory framework.

Regulation of Insurance Intermediaries

1) <i>Should some or all members of the Insurance Council of BC be elected?</i>	No
2) <i>Does the Insurance Council have the right regulatory tools and structure for its role? Are any improvements needed to enhance coordination between the supervisory and intermediary regulatory authorities?</i>	No opinion
3) <i>Is the current oversight framework, including appeals to the Financial Services Tribunal, effective? If Insurance Council members are elected, are changes needed to other aspects of the accountability framework?</i>	No opinion
4) <i>Should special brokers in BC be required to obtain licences directly from FICOM?</i>	No opinion
5) <i>Are changes needed to the licensing framework for insurance adjusters?</i>	No opinion

Vancity sees the need to ask who the insurance council exists to serve. From this dialogue, important answers and positions will emerge. The council needs to have the skills that would best serve this mandate.

Policies are effective in controlling a specific aspect; but are ineffective when the landscape evolves. A principles based approach would better serve consumers and business. There are existing models which use a principles based approach effectively.

Appointments are based on individual recommendations currently. The industry needs individuals who are well informed on the issues. Elections can result in a popular choice; not always the best choice. Consider the model used by FICOM of recommended candidates based on a governance guideline in the credit union system.

Protection of Confidential Information

1) <i>Does BC's financial institutions legislation achieve the right balance between open government and appropriate protection of confidential information relating to financial institutions? If not, what changes are appropriate?</i>	No opinion
2) <i>Would insurer self-assessment privilege provide a net public benefit by enhancing internal compliance systems and confidential disclosure to the regulator? Do the benefits outweigh the costs of limiting evidence available in court proceedings?</i>	No opinion
3) <i>Should the issue of privilege be addressed in the context of insurers alone, financial institutions generally or through a more comprehensive review related to all industries?</i>	No opinion

There needs to be balance between the rights of consumers under privacy legislation, transparency, and the stability of the system all which work to support consumer confidence. Vancity is not aware of any issues which take this out of balance currently.

Long Term Disability Plans

1) <i>Does BC have the right approach to long term disability benefits?</i>	No opinion
2) <i>Should employers and other plan sponsors be required to insure LTD benefit plans? Would this deter employers from providing these benefits?</i>	No opinion
3) <i>Are there consumer protection issues related to ASO plans? How can consumer awareness be increased?</i>	No opinion

The suggestions are positive, but we encourage the Province to consider the cost of implementation and the accessibility of insurance for some organizations. Whatever the model adopted, employers/sponsors should be required to adequately and regularly provide and explain their benefit plans and if/how they are insured to employees.

Rebating

1) <i>Is the current FIA rebating framework effective and appropriate?</i>	No
2) <i>Is the threshold of 25 percent of the premium appropriate? Would a different level be more appropriate, and if so, what level?</i>	No opinion
3) <i>Are the current disclosure rules on referral payments adequate to protect consumers? Should agents also be required to disclose the amount of any referral payment?</i>	No opinion

We are unclear whether rebating in property and casualty insurance makes sense at all. If the policy goal is consumer protection, controls on rebating do not protect consumers.

When discussing rebating, there are a number of categories in play. Each is distinct; such as commissions, renewal or trailer commissions, referral fees, participation credit, and rebating of premiums to consumers. It would be difficult to reasonably create a blanket rule for all.

We ask the Province if, for example, commissions for life insurance were reduced to 25% what would the effect on the industry be as far as ability for agents to earn a living. What would renewals or trailers then be? Creditor insurance participation can be varied year to year, insurer to insurer, or seller to seller. There is an opportunity to develop clearer guidelines and better oversight in this area.

Regulatory Framework for Trust Companies

1) <i>Are there concerns with potential conflicts of interest between financial institutions and subsidiary trust companies? Is further regulation needed in this area? If so, how should the problem be addressed (e.g., through specific trust company regulations, a code of market conduct, or regulation of the primary entity)?</i>	Yes, clarity
2) <i>Do the capital requirements for provincial trust-only trust companies need to be updated?</i>	No opinion
3) <i>Are there other issues with the current provincial framework for oversight of trust companies?</i>	Yes

We believe there is still room, and benefit to the consumer, for trust business. It is an added layer of consumer protection to have an agent acting on their behalf in such a fiduciary capacity. There has indeed been much consolidation in the industry and it has become unclear, from a consumer perspective, what a trust company does versus a bank or credit union.

We support not greater legislation and duplication of trust law, but clarity. The powers credit unions can enact for certain trust activities should be clearer and credit unions using such powers, as well as any trust company, must comply with the higher fiduciary obligations of a trustee.

Such clarity, though a code of market conduct, can aid in the question of conflicts of interest. Further, for subsidiary trust companies, independence of directors can be an important step to resolve conflicts of interest. It makes sense to harmonize capital requirements with those noted under Basel III, with appropriate modifications to reflect the credit union legal structure and different risk profile. We do not believe offering specific provincial benefits is a way to build a healthy trust sector.

Following the trend of regulation over the past decade it seems most prudent and efficient for a national regulatory framework that is either administered federally or provincially; but not both.

Regulation of Trust Business

1) <i>Should financial institutions legislation be expanded to regulate or generally prohibit (subject to exemptions) trust business carried on by individuals or associations?</i>	Not prohibit
2) <i>If the legislation is expanded to regulate trust business carried on by individuals or associations,</i>	Yes for

<i>what exemptions should be provided (e.g., for lawyers, real estate agents, bankruptcy trustees or individuals providing services to corporate entities)? Should a distinction be made between trust activities for personal and business related purposes?</i>	distinction
<i>3) Are further exemptions needed in respect of trust business undertaken by corporate entities (e.g., broker dealers)?</i>	No opinion
<i>4) Given that practically all deposit-taking trust companies are now federally regulated, should BC still be requiring trust companies to obtain a business authorization? Does this remain a core element of financial institutions regulation?</i>	Yes
<i>5) Should government consider adopting minimum standards, a code of conduct or another mechanism to regulate interest generated from trust funds, where the interest from the fund benefits third parties or the public?</i>	Yes

There is an efficiency and consumer advantage to individuals conducting trust business. Some institutions will not service smaller estate and trust clients, leaving those consumers with little, and in many cases, no choice. On the other hand, this area is open to significant abuse, conflict of interest, and risk to individual consumers of these services.

Therefore, we believe that individuals should be allowed to offer trust services. However, oversight through regulation is required. To maintain efficiency, regulation should be right-sized to the operations offered and the level of risk to consumers.

Regulation should extend to all individuals who carry on a trust business, whether or not they are designated professionals. The area for distinction is between those individuals who perform these services as a business versus for personal purposes, such as family members administering an estate or acting as a power of attorney for a relative.

Should BC wish to maintain oversight of market conduct requirements for trust business, it seems appropriate that their business authorization be required.

We believe that adoption of a code of conduct is appropriate to regulate interest generated from trust funds, where the interest from the fund benefits third parties or the public.

Appendix 2

Specific Legislative Challenges and Suggestions for Change

Issue (A): Definition of Senior Officer not reflective of scope of authority.

Facts: Definitions in the *FIA* and *CUIA* “**Senior Officer**” means each of the 5 highest paid officers of a corporation and includes an individual who, whether or not among those 5 highest paid officers,

(a) is the chair or a vice chair of the board of directors or the president, a vice president, the secretary, the treasurer or the general manager of the corporation, or

(b) performs functions of the corporation similar to those normally performed by an individual occupying any of the offices described in paragraph (a);

Vancity Position:

Vancity would like to see revisions to these definitions in both the *FIA* and *CUIA*. The definitions, based in compensation, are not necessarily reflective of the authority within the credit union that would be expected of a senior officer. For example, Some sales positions would on certain years make the “top 5” of compensation bumping off senior executives of the credit union. However, a sales role would have little strategic influence on the credit union as compared to a senior executive.

Vancity believes basing the definition of senior officer on strategic influence or decision authority rather than compensation is a more accurate measure. A straight number of 5 does not take into consideration the varying size and complexity of credit unions in the system. Larger credit unions would realistically have more than 5 individuals in a senior decision making role while much smaller credit unions may have less than 5. Vancity suggests the following, as similar to the *Bank Act*.

"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).

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Issue (B): Unrealistic timeframe in the *CUIA* for distributing incumbent auditor’s representation related to a notice of proposed change of auditor.

Facts:

The *CUIA* section 39.55 (2) (b) allows for the incumbent auditor to provide to the credit union, not less than three days before the mailing, written representations respecting the proposal to not reappoint the incumbent auditor. The credit union, at its expense, must forward this with the notice of the meeting to each member.

Vancity Position:

While Vancity agrees with the principle of this requirement, the timeframe of three days before mailing makes it impossible for us to comply. Given the number members Vancity (and other large credit unions) have, our printing and mailing suppliers need adequate time to prepare such packages. The minimum time we would need written representation from the auditor to include with the notice to members would be **21** days.

In comparison, the *Bank Act*, Section 321, requires an incumbent auditor to “...submit to the bank and the Superintendent a written statement...” and that “The bank must send a copy of the statements ... **without delay** to every shareholder ... and to the Superintendent. The phrasing of “without delay” recognizes the variable size in institutions and the time and resources required to provide notice. It also does not tie the sending of the statement to the notice of AGM, allowing more flexibility in the delivery.

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Issue (C): The requirements on members’ proposals for special resolutions do not provide sufficient time for verification of signatures by credit unions and does not allow the representative member to ask for more fields of identification.

Facts:

Section 76 of the *CUIA* allows for a special resolution proposal from members. The requisition must be “signed and dated by not less than 5% in number of the members or 300 members, whichever is the lesser,”

Vancity Position:

Vancity agrees with the principle of member control and voice this process allows. However, it can be exceptionally time consuming to verify the membership of 300 or more signatories if only a signature and date are provided. In many cases, the signature may not be legible, and while it may represent an actual member, there is no way to match it successfully. The credit union would be forced to deem such a signatory invalid weakening the power of this legislation.

Members who wish to bring forward such requisitions should be encouraged to ask (though it cannot be required) for other means of identifying the member, such as printed name, account or membership number. This would allow credit unions to far more accurately and efficiently match a members’ signature and verify membership.

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Issue (D): There is inconsistent treatment for the election of committee chairs between the *FIA*, *CUIA*, and *Business Corporations Act*.

- A) *CUIA* - 39.56 (2) – “The members of the audit committee must elect a chair from among themselves and, subject to section...”
- B) *Business Corporations Act (BCA)* – 224 (4) - “The members of the audit committee must elect a chair from among their number and, subject to section...”

- C) *FIA* – 111 (covers committees in general) – there is no stipulation on the election of a committee chair.
- D) *FIA* – 115 (covers an audit committee) – there is no stipulation on the election of a committee chair.
- E) *FIA* – 112 (covers conduct review committee) – no stipulation on the election of a committee chair (a conduct review committee is not mentioned in the *CUIA* or the *BCA*).

Vancity Position:

Vancity would like to see consistency within the three pieces of legislation (*CUIA/FIA/BCA*) about the election of a committee chair. Specifically we do not see the need to treat the chair of the audit committee any differently than chairs of other committees. Therefore we recommend either the removal of the election of a chair from the *CUIA* 39.56 (2) and *BCA* 224 (4). OR

Adding the words “The members of a committee must elect a chair from among themselves.” to *FIA* section 111.

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Issue (E): Requirements in the *FIA* and *CUIA* to mail by “prepaid post” are onerous and do not reflect the modern options for delivery or information or members’ choice.

Facts:

The *CUIA* section 39.48 states that the credit union must send financial statements and the auditor’s report to each member (*FIA* section 128 allows a condensed version to be sent) by “prepaid post” or “email address”.

Vancity Position:

Vancity’s values articulate transparency and the availability of financial statements and auditor’s report are key pieces of transparency. However, limiting the delivery of this information to the two proposed options does not recognize the other means by which members access information in the digital age and does not reflect the choice they wish to have.

Vancity recommends changes to this section to be more permissive rather than proscriptive by allowing credit unions to ‘...make available a copy of the financial statements...by any one or combination of the following methods:’

The methods could include prepaid mail, email, online posting, or hard copy by in-branch request.

Alternatively we would propose a clause be added to the existing wording which allows a member to opt out of receiving a copy of this information if they wish to view it online at their leisure. This is consistent with public company practice and we have experienced feedback from our membership desiring the ability to opt out of receiving paper information via post as such regular mailings are not consistent with Vancity’s environmental values or members’ choice.

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Issue (F): Requirements in the *FIA* and *CUIA* to mail by “prepaid post” are onerous and do not reflect the modern options for delivery or information or members’ choice.

Facts:

The *CUIA* section 78 requires notice of an AGM or special meeting to be sent by post or service delivery.

Vancity Position:

Vancity’s values articulate transparency and engagement with our members. We would make every effort to notify our members of AGMs or special meetings. However, limiting the delivery of this information to the two proposed options does not recognize the other means by which members access information in the digital age and does not reflect the choice they wish to have.

Vancity recommends changes to this section to be more permissive rather than proscriptive by allowing credit unions to provide notice by one or a combination of means such as prepaid post, service delivery, online, and or print or electronic media.

Alternatively we would propose a clause be added to the existing wording which allows a member to opt out of receiving notice if they wish to seek it online at their leisure.

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Issue (G): The *FIA* is inconsistent with the Supreme Court of Canada decision on directors’ fiduciary duty.

Facts:

In 2004 the Supreme Court of Canada ruled on directors’ duty of care. The ruling finds that:

Fiduciary Duty of Directors

Directors' fiduciary duties is set out in Section 122(1) (a) and requires that directors "act honestly and in good faith with a view to the best interests of the corporation." The Court confirmed that directors owe their fiduciary duty solely to the corporation, and not to any particular stakeholder group. The Court also confirmed that directors may take into consideration the interests of the corporation's various stakeholders, provided that they do not disregard entirely the interests of a particular stakeholder group. However, at all times, directors owe their fiduciary obligations to the corporation, and the corporation interests are not to be confused with the interests of the creditors, the shareholders or those of any other stakeholder.

Section 101 of the *FIA* states that:

Standard of care for directors and officers (Section 101)

- (1) A director or officer of a financial institution, in exercising the powers and performing the functions of a director or officer, must
 - (a) act honestly, in good faith and in the best interests of the financial institution, and

- (b) exercise the care, diligence and skill of a reasonably prudent person under comparable circumstances, and in doing so must take into account the interests of shareholders, depositors, if any, and policy holders, if any, and, without limiting this, of those to whom the directors owe a fiduciary duty.
- (2) The provisions of this section are in addition to, and not in derogation of, any enactment or rule of law or equity relating to the duties or liabilities of directors of a corporation.
- (3) Every director and officer of a financial institution must act in accordance with this Act and the regulations under it.

Vancity Position:

We believe in a distinct legislative difference for co-operatives as compared to other corporations. The distinction would recognize an enshrined fiduciary duty to the shareholders, depositors, and policy holders as well as to the co-operative entity.

The co-operative model is different than the corporate model. In contrast to an investor-owned corporation, control in co-operatives is tied to personhood as opposed to amount of capital invested. This democratic structure thus lays a foundation for a wider spectrum of motivations - a motivation that is determined by people as people, not by people as investors. Co-operatives rely on retained earnings and member dues for their capital needs. Participation in a co-operative recognizes the inherent value of diverse contributions from stakeholders, each with a particular vested interest, coming together for a particular and shared purpose.

It is because of these differences that the FIA's view of stakeholders is an important concept to retain. The corporate view of "best interests of the corporation" is simply not broad enough to reflect the true nature of the relationship between a co-operative and its members.

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Issue (H): Underwriting amendments. FICOM's guidelines for sound residential underwriting and risk management practices are too prescriptive.

Facts:

FICOM has drafted guidelines that outline expectations for sound residential underwriting and risk management practices.

Vancity Position:

Vancity recognizes the importance and need for sound risk management practices. We appreciate the openness in our conversations with FICOM over recent months with regards to our questions and concerns with the Residential Mortgage Underwriting Guidelines (RMUG) and our Onsite Review. Their approach appears to have been thought through, however in certain instances there is little flexibility and they appear to be too prescriptive. We would suggest that a less prescriptive, principles-based approach be undertaken by our regulators, with a focus on addressing the identified risk, as opposed to specific solutions.

We have offered suggestions in a few areas, primarily focused on the area of affordability (see below):

Affordability

Standardized Gross Debt Servicing (GDS) and Rental Income Debt Servicing Calculations, as well as Total Debt Servicing (TDS) maximums: The borrower’s capacity to repay the loan is one of the fundamentals in meeting the needs and financial circumstances of our members. Our current calculation methods are one component in supporting our differentiated member experience. In our opinion, the specificity in the requirements to apply CMHC prescribed calculations, and instituting a GDS are unnecessary. While we recognize the regulator is looking for consistency and comparability amongst financial institutions, the risks highlighted can be addressed by other means. The economic reality of home ownership in Vancity’s market area requires higher shelter costs, and hence our reliance on TDS, and flexibility in determining same.

Income Verification: While for the most part we meet the suggested guidelines, we do wish to maintain flexibility in what is required to confirm personal and rental income for our members. We feel we can achieve the spirit of this recommendation without removing flexibility (for example, including capital gains when the rationale is well thought through and including economic rent for rental suites in our housing market with little vacancy).

Issue (I): Current regulation requiring signatures in writing places credit unions at a competitive disadvantage. Electronic signatures should be a viable option.

Facts:

Our competitive market can be challenging in terms in providing our members with a differentiated lending experience that extends to more flexible and convenient mobile/online options.

Our competitors currently offer products where we cannot compete on an equal playing field because of differences in our regulatory bodies. Some competitors are not subject to the same regulatory requirements in Disclosure of the Cost of Consumer Credit Regulations where Part 5 specifically states the borrower(s) must give consent in writing for the Disclosure Statement.

Vancity is competing in a “non-financial” regulatory environment where workarounds such as e-signatures would not be considered as an acceptable substitute.

Vancity Position:

Vancity recognizes the importance of our members understanding their financial literacy and the Cost of Credit Disclosure process provides our members this support. Therefore, we wish for more flexibility in meeting this consent requirement using technology solutions such as e-signatures.

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Issue (J): Current regulation on ‘membership’ is out of step with the practices in other provinces when it comes to the treatment of unincorporated entities and trusts/trustees.

Facts:

Whenever a voluntary association wishes to open an account, Vancity is required to ensure that two of the sponsors are individual/retail Vancity members. Similarly a Trustee is required to be or become a separate credit union member.

This requirement arises from the Credit Union Incorporation Act and the Financial Institutions Act. Voluntary associations and trusts are deemed not to be legal entities and thus do not have the rights of natural persons.

This requirement often causes difficulty at our branches when account applicants do not have personal accounts and object to the need to open a personal account in order to open a trust account or an account for the association they have volunteered to assist.

Vancity Position:

Vancity believes this places a restriction on welcoming community organizations and is contrary to the purpose of credit unions. It’s a restriction not faced by chartered banks or credit unions in some other jurisdictions.

Vancity proposes adopting changes to the CUJA similar to those that exist in Alberta (& Ontario and PEI) where:

a “person” means an individual, a corporation, a government, a partnership or other firm or unincorporated association of persons, or a trustee or personal representative of a person;

And

For the purpose of determining all matters respecting membership, a partnership or other unincorporated association of persons is deemed to be a corporation.

