



Coast Capital Savings Credit Union

**Submission to the Department of Finance  
Second Stage Consultation  
on the Federal Financial Sector Review**

September 29, 2017

## Introduction

Coast Capital Savings is pleased to participate in the Department of Finance's second stage consultation on its review of the federal financial sector framework.

Coast Capital Savings is Canada's largest credit union by membership, serving 543,000 members in 52 branches in Metro Vancouver, the Fraser Valley, Vancouver Island and Okanagan regions of British Columbia. Of those members, 50,000 are small or large businesses; that translates to more than 1 out of every 10 businesses in British Columbia choosing to bank with us.

Our credit union offers a range of deposit, lending and investment services to members, and currently holds more than \$20 billion in assets under administration. Coast Capital has 1,800 employees, and generates more than \$125 million annually in economic impact within our relatively condensed operating area. Named a BC Top Employer in 2017, Coast Capital is also a member of Canada's Best Managed Companies Platinum Club.

Our credit union also annually donates 7% of its pre-tax profits, which results in more than \$5 million per year being reinvested into local community organizations, and \$5.7 million in 2016 alone. Our investment strategy focuses on empowering and engaging youth, in the areas of financial literacy, education, mental health and social connectedness.

Coast Capital has applied to OSFI to continue as a federal credit union, regulated under the Bank Act, and is hopeful that continuance will be approved in 2018. As such, we appreciate the opportunity to submit this paper, and offer our comments on a number of items described in Finance Canada's federal finance sector review and consultation paper. Specifically, our response offers feedback on the following sections of the paper:

1. Positioning a Competitive and Innovative Sector to Support Long-Term Economic Growth
2. Promoting Diversity on Boards
3. Establishing Annual Elections
4. Mandating Individual Director Elections
5. Majority Voting for Directors of the Board in Uncontested Elections
6. Distributing Meeting Materials
7. Limitations on using the Terms "Bank", "Banker", or "Banking"
8. Transactions of Public Interest
9. Electronic Meetings
10. Advance Voting
11. Proposals by Members of a Federal Credit Union
12. Access to Federal Credit Union Membership List
13. Canada Deposit Insurance Corporations claims in Liquidation

## **1. Positioning a Competitive and Innovative Sector to Support Long-Term Economic Growth**

*Competition in the financial sector can be a tool to deliver economic growth. In this context, the Department is seeking views on how best to ensure that the financial sector supports long-term economic growth, while balancing the need for a well-functioning and stable sector and, in particular, the role that small and mid-sized banks can play in enhancing the innovative and competitive potential of the Canadian economy.*

Coast Capital Savings appreciates that the stability and functionality of Canada's financial services sector is paramount to Finance Canada. Citizens must be able to trust the integrity and stability of their financial institutions, and the regulatory environment must ensure Canadians' assets are well-protected.

However, the financial services sector is also an important economic driver, making possible the financing for everything from major acquisitions or development projects, to expansion of small businesses, to the purchase of a home for a young family. Prudent regulation must also be balanced with healthy competition among players within the sector, to ensure they continue to innovate, evolve and ultimately better serve their customers.

In Canada's current environment there are six large financial institutions, and hundreds of small or medium sized banks, credit unions and caisses populaires. On the surface, this suggests a healthy degree of competition. However, consider that every credit union in Canada, combined, represents about 1/5 the size of just one of the large banks. If competition in the marketplace is to be enhanced, it will come from the emergence or growth of small and medium-sized banks and credit unions.

The challenge is that the scope of regulation for FRFI's is in most cases the same, whether the institution holds \$10 billion or \$1 trillion in assets. We agree it is important to prudently regulate any financial institution. However, it could be argued that, due to economies of scale, a particularly arduous regulatory regime especially disadvantages the smaller institutions – thereby inhibiting their ability to grow and compete, and defeating the policy objective to enhance competition in the marketplace.

Additionally, credit unions and caisses populaires are also owned by their members (each customer is a member who holds an equal share – at Coast Capital that share value is \$5). As such, many of the risks inherent with a publicly traded entity do not apply – a federal credit union is not vulnerable to a sudden or dramatic drop in stock value, for example.

In addition to posing less relative risk, credit unions also typically have a strong record of lending success with their members. As locally-run institutions, credit unions typically know their members and can make well-informed, strategic lending decisions. As a result, they often will have a stronger relationship and can do a more thorough assessment of a small business owner than the large banks are capable of doing. Where a Toronto-based bank's policies might prevent approval of a local business owner's loan, the local credit union will often approve it, based on their deeper knowledge of the applicant. For example, a current Member of Parliament recently shared that, when he wanted to expand his business years ago, TD and RBC turned down his loan application. Coast Capital Savings approved it, based on their understanding of not only his business and acumen, but the intricacies of the local marketplace

where he sought to expand. That business – one of 50,000 BC businesses that are Coast Capital members – continues to thrive today.

Our request of Finance Canada is twofold. First, that there be recognition of the contribution small and medium-sized financial institutions make, and of the important role they play in ensuring Canada's financial services sector remains competitive and innovative. Second, that a proportionality model in how these institutions are regulated be developed, particularly when broad issues like FATCA, the Common Reporting Standard, Guideline B-20 and other new policy positions or standards are considered. To that end, we respectfully suggest Finance consider developing specialists with expertise specifically on the strengths, weaknesses, risks and opportunities presented by small and medium sized financial institutions, who might then provide meaningful input for policy development and implementation.

## **2. Promoting Diversity on Boards**

*Stakeholders are aiming to promote gender diversity to include more women among directors and senior management. The Department is seeking views on whether to implement a “comply or explain” model to promote the participation of women on boards of directors and in senior management of federally regulated financial institutions.*

Coast Capital Savings is deeply committed to diversity in all aspects of its operations, including at the Board of Director and senior management level. Currently, four of our 10 Directors are women, and three of our eight permanent Executive Committee members are women (one role is currently under recruitment). We recognize that women make up a large proportion of our overall workforce and should have strong representation in our leadership ranks.

However, the diversity in our credit union's membership extends far beyond gender, and we believe it is our responsibility to also address other diversity considerations. Considerations such as ethnic and cultural background, age, sexual orientation/identification are among the many factors we consider as we strive to be a diverse and inclusive organization.

Coast Capital's position is that asking financial institutions to demonstrate their commitment to diversity in leadership roles is certainly a worthwhile endeavor. However, restricting it solely to gender diversity, or enshrining specific quotas within the Act could have unintended consequences. We would suggest such a commitment to diversity be broadened to encourage a more robust, multi-faceted commitment to diversity, in order to help financial institutions become more inclusive and realize the business and societal benefits of a truly diverse organization. This could be monitored and disclosed via a publication like the annual Public Accountability Statement that each FRFI is required to produce.

## **3. Establishing Annual Elections**

*The Department is seeking views on whether to establish annual elections for directors with fixed, one-year terms for all federally regulated financial institutions. For small institutions, the Department is considering whether to provide a two-year transition period and seeking views on the unique implications for these institutions.*

Credit unions are institutions built upon democratic principles, including the annual election of Directors from the membership, by the membership. However, the proposal as written could result in the potential complete turnover of a Board of Directors in a single year or possibly every year; this would present significant governance issues. Coast Capital Savings opposes the annual election policy option, as it is currently proposed in the Department's consultation paper.

First and foremost, forced annual elections for all board positions would impair sound governance and board planning, which are matters of serious work and effort for credit union boards. Also, credit union board nominating/recruiting committee members would be put in conflict, as they themselves would be subject to re-election.

Another concern is that, with annual elections, continuity of experience and knowledge become uncertain. Gaps in skills and experience cannot be reliably ascertained and recruited for, as board membership will be uncertain from year to year. It is commonly understood and accepted that the first year for any director is a period of learning, and greater contributions are typically made in subsequent years.

In contrast, a bank typically has a controlling bloc or blocs of shareholders, which will tend to give stability despite annual elections (results are predictable). One member, one vote means credit union boards to not share this factor of stability in board selection.

Notwithstanding these points, Coast Capital agrees that renewal of a Board of Directors is essential to the long-term health of the organization. We suggest Finance Canada consider the model currently employed by our credit union, and several others in British Columbia. Directors are elected for 3-year terms, structured with a cycle that sees three or four of our 10 Directors' terms expiring in any given year. These roles are filled via annual elections, after a rigorous nomination committee process that a) identifies the expertise the credit union needs and the key gaps in the remaining directors' skill sets; and b) seeks to attract a selection of candidates with the skills to fill those gaps. Additionally, Coast Capital maintains a 12-year term limit for any Director, which further ensures renewal when a Director is successful in being re-elected multiple times.

#### **4. Mandating Individual Director Elections**

*The Department is seeking views on whether to mandate individual director elections for all federally regulated financial institutions. For small institutions, the Department is considering whether to provide a two-year transition period and is seeking views on the unique implications for these institutions.*

Coast Capital Savings is supportive of this suggestion, as it is consistent with our current practices, and with credit union values overall.

#### **5. Majority Voting for Directors of the Board in Uncontested Elections**

*Under a majority voting system, in an uncontested election, where the number of available director seats equals the number of nominees, candidates would require more votes in favour of their candidacy than against them in order to be elected (or re-elected) to a board. The Department is*

*seeking views on how a majority voting standard could work in an uncontested election for directors of federally regulated financial institutions, while ensuring minimum disruptions to the operations of a board and continued stability in the case of a failed election of a candidate.*

It is Coast Capital Savings' position that election by acclamation is a reasonable model to consider, provided the nomination process itself is thorough and compliant with industry and regulator best practices. In a credit union model, where there is no contested election, members will tend not to bother voting, leaving the nomination and election process potentially subject to the pressures and votes of a small, disgruntled minority. It should be noted that an uncontested election is often the result of a lack of interest from potential candidates. If the single candidate to put his or her name forward is defeated, it represents a governance risk to the organization, as it will likely face a vacancy on the Board of Directors for a substantial amount of time.

Rather than create a potential governance issue after the Directors' election, we suggest Finance Canada instead focus on the organization's nomination process, to ensure it is thorough, well-structured, and attracting candidate(s) with the appropriate skill sets the Board needs to move the organization forward. Coast Capital Savings is happy to share its nominations procedures and policies, should that be helpful in Finance Canada's considerations of this issue.

## **6. Distributing Meeting Materials**

*The Department is seeking views on whether to permit the use of the "notice and access" approach to sending meeting materials for all federally regulated financial institutions. For small institutions, the Department is seeking views on whether this approach would be beneficial*

Coast Capital Savings strongly supports this change. A "notice and access" system is essential for credit unions, both for meeting materials and annual financial information. The cost of full mail outs would be a considerable financial burden (running into the hundreds of thousands of dollars each year), and the mail out would be of little practical benefit in comparison to what can be achieved by way of "notice and access". The environmental impact of such mailings would also be considerable. Credit unions should be permitted to give members notice that the full package is available online and at all branches.

Coast Capital has previously provided a briefing note on this matter to Finance Canada, and is happy to consult further on this issue.

## **7. Limitations on using the Terms "Bank", "Banker", or "Banking"**

*The Department is seeking views on whether prudentially regulated non-bank deposit-taking institutions should be given flexibility to use the terms "bank" or "banking" to describe their activities and services in appropriate circumstances. Feedback is welcomed on how to refine the limitations on the use of these terms and on how to avoid marketplace confusion and ensure appropriate protection of consumers.*

Alongside our fellow credit unions, Coast Capital Savings strongly supports this change, and concurs with the position put forth by our trade association, the Canadian Credit Union Association.

Our belief is that the intent of the current restriction is to reduce consumer confusion. However, its application will have the opposite effect. Suddenly, millions of Canadians who carry out their everyday banking services with a credit union would be faced with new, confusing language when they attempt to make a deposit, exchange currency, or make a payment on a loan. As credit unions attempt to create a new vernacular to describe what we do, the language we use would become increasingly convoluted to avoid using banned wording. This can only confuse the consumer, and is inconsistent with any objective on government's part to implement plain language and create clarity for consumers.

We can appreciate that government has a responsibility to protect consumers from unqualified organizations attempting to pass themselves off as reputable financial institutions – we, too, think this is important. But credit unions are not unknown, shady characters trying to sneak into Canada's well-respected banking system. Coast Capital Savings has been operating in BC for more than 70 years, and along with more than 40 other BC credit unions, is well-regulated by the Financial Institutions Commission. We provide banking services to our members and we comply with all of our industry's and regulators' rules. Banning the use of our industry's commonplace terminology is counter-productive, and, some would argue, anti-competitive.

Finally, we would like to observe that this rule does not seem to be based upon any concern regarding the business model or stability of credit unions themselves. With the advent of federal credit unions, there will be a class of credit unions in Canada that will be allowed to use these terms, while the provincially-based ones will not. As a credit union currently attempting to convert from provincial to federal regulation, Coast Capital would suggest it is illogical that we would be considered incapable of responsibly using the "bank, banker, banking" terminology the day before continuance, but perfectly capable of using it the day after. This inconsistency is also a potential source of confusion for the typical Canadian consumer.

#### **8. Transactions of Public Interest**

*The Department is seeking views on whether to broaden the list of approvals that require advance publication in the Canada Gazette (e.g., financial establishment in Canada). Notices would call upon objections from the public. This potential change would inform Canadians of transactions that could be of public interest and provide them with an opportunity to object.*

Before offering feedback on this time, Coast Capital requests greater context regarding what criteria would be used to identify the types of items that would form the broadened list of approvals the require advance publication in the Canada Gazette. In particular, we would like to better understand the materiality threshold at which a transaction might become "of public interest" under a broadened definition.

#### **9. Electronic Meetings**

*Shareholders, members, and policyholders can choose to participate in meetings electronically, subject to the by-laws of the institution. As technology becomes more prevalent, broader use of electronic meetings could become the preferred model.*

*The Department is seeking views on the appropriate conditions for increasing electronic participation in meetings so long as access to a physical meeting in Canada is provided.*

Coast Capital's position is that fully electronic meetings should be permissible. If a physical location is required, there should be maximum flexibility for electronic participation. Credit unions seek to encourage member participation, and modern electronic methods facilitate this goal. As credit unions expand within regions and across Canada, electronic meetings and participation become ever more important and ever more useful, and increasingly expected.

Coast Capital's current practice is to hold its physical Annual General Meeting (AGM) in a different location each year, rotating among Surrey, Richmond and Victoria (the three major centres in which the majority of current members reside). To promote participation, we also webcast the AGM and incorporate a tool by which members online can pose questions to the leadership. This has proven an effective model for our credit union and we would seek to enhance it and continue this practice going forward, should we be granted continuance as a federal credit union.

#### **10. Advance Voting**

*Some provincial legislation permits members of a credit union to vote in advance electronically, by mail or by ballot at a local branch office. However, stakeholders have submitted that the current federal framework may not clearly permit voting in advance (electronically or otherwise), and this lack of clarity may create uncertainty.*

*The Department is seeking views on whether to clarify the rules regarding advance voting and how this may impact current practices, including determining record dates and notice of meetings.*

Member participation in Director elections and in special resolution voting is a challenge for credit unions. Historically, this was done in person at the AGM, however, as credit unions have grown to include multiple branches in multiple communities, this approach was no longer inclusive of all members (for example, some members may be physically or financially unable to travel to another community for the AGM). As federal credit unions emerge, this challenge will become even more prevalent, with greater distance and variation of time zones becoming a factor as well.

While the Bank Act currently allows the practice of advance voting, it only contemplates it taking place by mail, not electronically or in a credit union branch. Further, the provisions for record dates are not adequate to allow for an advanced voting framework.

Advance voting is easy and practical, and permits an orderly and full participation by members of credit unions in decisions. In British Columbia, credit unions are permitted to implement advance voting, in branch, by mail or electronically. Since Coast Capital began offering all three of these options in 2011, member participation in Directors' elections and special resolution votes has increased exponentially. The year before electronic voting was implemented 17,195 members cast a ballot in the Director election. In 2017, more than 50,000 votes were cast.



As democratic financial institutions, member participation is extremely important in the ongoing development of credit unions. It is Coast Capital's position that it is essential to clarify the legislation to ensure this practice can be continued.

Coast Capital has previously provided a briefing note on this matter to Finance Canada, and is happy to consult further on this issue.

#### **11. Proposals by Members of a Federal Credit Union**

*Some stakeholders have requested the harmonization of bank and federal credit union eligibility requirements for submitting proposals. The Department is seeking views on whether a threshold ought to apply before members of a federal credit union can bring forward a proposal, and what type of threshold would be appropriate.*

A practical but modest threshold for the raising of proposals by members is recommended. While the credit union principle of one member, one vote is sacrosanct, that is not the same as one member, one proposal. A threshold of 1% of membership is suggested: it is practical yet ensures that any proposal has a serious weight of support amongst membership.

A threshold of 1% of membership would be a reasonable minimum for submission of proposals for federal credit unions. There is no need for precise harmonization between banks and credit unions. A company with share structure has a different ownership perspective from a credit union with its one member one vote structure.

Coast Capital has previously provided a briefing note on this matter to Finance Canada, and is happy to consult further on this issue.

#### **12. Access to Federal Credit Union Membership List**

*Ensuring transparent and effective communication among members on matters relating to the affairs of a federal credit union is essential to good governance. To facilitate member engagement, the Bank Act outlines the way in which members can obtain membership lists.*

*Stakeholders have indicated these lists may include certain commercially sensitive information and that there should be a limit on their access. The Department is seeking views on whether to continue allowing members automatic access to FCU membership lists in support of transparent communication or whether access should only be provided on request.*

Coast Capital Savings is in full support of the position put forth on this issue by our trade association, the Canadian Credit Union Association.

Unlike banks, the shareholders in a credit union are actually its depositors and borrowers. The credit union's shareholder list is also its complete customer list. As a result, member lists contain information which is sensitive for reasons of personal privacy and commercial confidence. In the current legislation, this requirement for credit unions is the equivalent of requiring RBC or Scotiabank to provide any current customer with the bank's entire customer list and contact information.

Member privacy must be paramount, and to respect this, access should not be provided. Requiring this is also anti-competitive, as it is a requirement to share the most valuable of business assets – our customer information – with anyone who chooses to purchase a \$5 credit union share. If government continued to hold the view that it should be made available, our recommendation would be that be only for certain legislatively stipulated purposes, released only to third party professional recipients (e.g. third party legal or accounting professionals) for a stipulated purpose, e.g. organizing a proposal for submission, or organizing a meeting requisition.

### **13. Canada Deposit Insurance Corporations claims in Liquidation**

*In a liquidation, the Canada Deposit Insurance Corporation (CDIC) would pay out on insured deposits to depositors and would then submit a claim to the liquidator for the amounts paid. Should the liquidator decide not to recognize CDIC's full claim, because it applied set-off against a deposit, CDIC's ability to recoup the full payment of insured deposits could be reduced.*

*The Department is seeking views on whether to change the Canada Deposit Insurance Corporation Act to clarify that the liquidator of a CDIC member institution has no right to apply set-off against a claim related to insured deposits. This potential change would protect CDIC's ability to recoup the full payment of insured deposits made to depositors.*

Coast Capital Savings is supportive of reasonable efforts to protect the assets of CDIC and prudently manage the premium levels assessed of its member institutions. We would look forward for further discussion of the clarifications Finance Canada would propose to achieve these objectives in the situation described above.

#### **For more information regarding this submission, please contact:**

Karen McDonald, Senior Manager, Member Engagement and Public Affairs

Coast Capital Savings Credit Union

9900 King George Blvd., Surrey, BC

Phone: (604) 517-7189

[Karen.mcdonald@coastcapitalsavings.com](mailto:Karen.mcdonald@coastcapitalsavings.com)