

Year in Review and Seasons Greetings

Brigitte Goulard, Vice President, Policy, CUCC

Contrary to the situation in other countries around the globe, the Canadian government was spared this past year in having to financially support its financial institutions, or in many cases, paying out depositors. However, Canada did not remain immune to the global recession and our government still moved forward with many policy initiatives to counter the downturn. The 2009 Budget Implementation Bill contained numerous amendments which provide the government with additional powers to intervene should one of our institutions threaten to destabilize our financial system. Crown Corporations were also given additional powers and money to enhance credit availability. New programs were established to ensure financial institutions' access to liquidity. House and Senate Committees examined issues ranging from credit and debit cards, the availability of credit and the competitiveness of the agricultural sector. Remarkably, all of this took work place at a time where it seemed that an election was waiting around the corner.

Admittedly, we near the end of 2009 with a sense of relief. Can we expect as much activity in 2010? Mostly likely the answer is yes. Although world economies seem to be on the route to recovery, many of the policy commitments undertaken in the past year by groups such as the G20 still remain to be delivered upon. Canadian financial institutions may be ranked best in the world for financial soundness but they will likely be affected by the implementation of rules that seek to address the new compliance trend: systemic, macro-prudential risk.

Canadian Central's policy team is ready for 2010 and looks forward to continuing our work with you to develop policies that are responsive to the needs and objectives of the Canadian credit union system. Thank you for your support and we wish all of you a merry and safe holiday season.



A Federal Powers Position Statement

Board of Directors Approves Federal Charter Position Statement

David Phillips, President & CEO, CUCC

On November 18th, Canadian Central's Board of Directors approved the Credit Union Central of Canada Position Statement on the issue of a federal charter for credit unions. This Position Statement was developed following consultations with the credit union system across Canada, including the distribution of a Consultation Paper to the Provincial and Regional Centrals, webinars, and a survey.

A federal charter would allow interested credit unions to pursue cross-border strategies as a means of strengthening their operations and providing services to their members. It would also allow credit unions to (continued on page 2)

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diversify sources of funding, spread their geographical and sectoral exposure and, by doing so, reduce their exposure to regional or geographical risk.

Indeed, the growth and consolidation of the credit union system will soon reach the point where the lack of a federal charter option for credit unions could become a competitive disadvantage for some credit unions and for the credit union sector as a whole. Thus a federal charter would help create a competitive balance between banks and credit unions.

Underlying the Position Statement are three principles that are fundamental for an effective federal charter for credit unions. First, the charter must be useful, attractive and accessible. Second, it must maintain the distinctiveness of credit unions as member-owned, community-focused full service financial institutions. Finally, a federal charter must not be disruptive to the stability and continuing success of the Canadian credit union system.

While the Position Statement suggests that the best means of implementing this charter is through amendments to the *Cooperative Credit Associations Act*, the Position Statement does not preclude alternative approaches provided that any such approach meets the principles set out in the Position Statement.

Canadian Central has sent a copy of the Position Statement to the Assistant Deputy Minister of the Department of Finance, and on December 16th representatives from Canadian Central will meet officials from the Department to discuss the Position Statement.

In the months to come, we are looking forward to further developing the framework for a federal credit union charter that will help credit unions across Canada better serve their members and communities.

Ottawa Developments

Federal Agricultural Consultation

Robert Martin, Director, Research, CUCC

The Federal Minister of State for Agriculture, Jean-Pierre Blackburn, has been undertaking informal consultations with stakeholders on how to assist new farmers and facilitate the intergenerational transfer of farms. The Minister has been consulting with farm groups and with students and faculty at agricultural colleges and universities.

In these discussions Minister Blackburn has been highlighting the potential usefulness of the Canadian Agricultural Loans Act (CALA) Program and Farm Credit Canada as mechanisms to help young farmers and facilitate farm transfers.

Canadian Central provided the Minister with a submission in response to this consultation. The submission expressed support for the expanded use of the CALA Program. On the other hand, the submission did not support an expanded role for FCC instead noting that the FCC occupies a disproportionate share of the agricultural lending market. The submission also recommends the government avoid developing programs that seek to assist producers by granting even greater access to credit. The submission notes that the agricultural economy is currently burdened with high debt loads. Heavy reliance on such credit drives up land and agricultural asset prices making it more difficult for young farmers to thrive.

The submission was developed in cooperation with members of Canadian Central's Agricultural Sub-Committee of the Legislative Affairs Committee. The submission is available at www.cucentral.com/BlackburnDec09.

Credit Cards

Government Issues Draft Code of Conduct for the Credit and Debit Card Industry

Robert Martin, Director, Research, CUCC

Doug Whalen, Director, Payments, CUCC

The federal Department of Finance recently issued a draft Code of Conduct for the Credit and Debit Card Industry (see announcement and draft code: <http://www.fin.gc.ca/n08/09-109-eng.asp>). The draft Code was issued for consultation purposes and stakeholders have until mid-January to respond with comments and concerns.

The draft Code is merchant oriented and the Department indicates the Code will be implemented according to time-lines determined through discussions with participating payment card networks.

The draft Code includes 9 recommended policy elements that include measures to:

- ensure merchant statements are more understandable and interchange fees transparent;
- grant merchants 90 days notice of an fee changes;
- grant merchants the ability to cancel contracts without penalty in the event of a fee change announcement;
- ensure merchants are not obligated to accept a network's debit card services in order to accept that network's credit card services
- allow merchants to provide discounts for different methods of payment and differential discounts among brands;
- allow merchants to accept multiple forms of debit card payment, and where a "co-badged" card is presented that has multiple debit services available, allow the merchant to make the choice as to which is utilized for the transaction;
- ensure co-badged cards are fairly branded and do not give one network preferential branding over another;
- not allow debit and credit card functions to reside on the same payment card; and

- limit the issuance of premium credit cards to well-defined groups of card holders.

The Retail Council of Canada (RCC) responded positively to the draft Code and praised the Code as "...a solid starting point as government begins to address merchant concerns and to avoid skyrocketing costs for debit and credit card transactions." The Canadian Federation of Independent Business was also supportive. To date, the Canadian Bankers Association has been muted in its criticism of the draft Code.

As Visa and MasterCard launch debit services that compete directly with Interac in the Canadian market, the provisions of the new Code relating to "co-badged" cards become particularly important for credit unions.

Co-badged debit cards are debit cards that can have access to multiple debit card networks (e.g. Interac and MasterCard Maestro on one debit card). It is important to note that Visa Debit and MasterCard Maestro are not allowed to co-exist on the same card, as per Visa and MasterCard rules. However, both Visa and Maestro are allowed to co-exist with Interac on a debit card under the current policies of Visa, MasterCard and Interac.

Under the new Code, when a co-badged debit card is used for payment at a merchant, it is the right of merchant, not the consumer or the card-issuing institution, to choose which of the debit services available will be used for the transactions. This could have potentially significant impacts to both the consumer and the card issuing institution in terms of transactions costs and may affect other areas such as loyalty programs.

Credit unions will need to understand how the "fair branding of co-badged cards" measures may affect their current and future card designs, in terms of the use and placement of debit service logos or service marks.

Credit unions may also be significantly affected by the provision of the Code that does not allow debit and credit functions to reside on the same card (e.g. MasterCard Maestro would not be allowed on a MasterCard credit card.)

Canadian Central continues to review the draft Code and consider the implications for the credit union system, in order to provide the government with feedback on the draft Code in January 2010.



Government Releases Final Quarterly Update

Anne Dance, Policy Analyst, CUCC

Prime Minister Harper released his government’s final quarterly update on Tuesday, December 2nd, making the unusual choice to do so while in a plane over Siberia (preceding his visit to China). The update contained information on the reach of the stimulus package and noted that 8,000 of a planned 12,000 stimulus projects are underway, with 97 percent of total funding committed. The report notes that by reducing taxes and relying largely upon infrastructure investment, the stimulus program aims to create or maintain 220,000 jobs this year and next while renewing consumer and business confidence. According to this quarterly update, the Government is moving toward a timely wind-down of Government stimulus funding, and the Government projects a return to balanced budgets by March 2011.

The update highlights a few new measures that are particularly relevant to the credit union system, including the elimination of tariffs on manufacturing imports, the extension of the length of EI eligibility, increased funding for SME research and development, and intensification of financial Crown corporation activity, particularly in the small business sector. The

update also notes that the Government is seeking feedback on its recently released Code of Conduct for the Credit and Debit Card Industry in Canada.

The quarterly update also touches upon the federal Government’s measures to reform federally regulated private pension plans. According to this report, the Government intends to enhance plan protections, ensure that sponsors can better manage funding obligations, simplify arrangements for negotiating changes in plans, improve the framework for defined and negotiated contribution plans, and reform investment rules.

As well, the shift towards a single securities regulator continues to move ahead: on October 15th, the federal Government launched the Advisory Committee of Participating Provinces and Territories, which will provide provincial and territorial advice to the Canadian Securities Transition Office. Soon, the federal Government will seek the opinion of the Supreme Court of Canada as to whether Parliament has the constitutional authority to enact and implement a federal securities regulatory regime.

Announcing Credit Union Central of Canada’s full 2010 Conference line-up!

Canadian Conference for
Credit Union Leaders

Winnipeg, Manitoba, May 1-5, 2010

[Click here for more information](#)



National Credit Union
Lending Conference

Vancouver, British Columbia, October 2-5, 2010

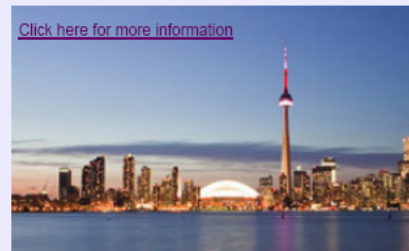
[Click here for more information](#)



National Credit Union
Treasury & Finance Forum

Toronto, Ontario, November 30 - December 1, 2010

[Click here for more information](#)



Hill Happenings

Anne Dance, Policy Analyst, CUCC

Despite rampant election speculation in early September and the recent one year anniversary of the tumultuous Coalition Crisis, pundits are now suggesting that Parliament will indeed endure for some time.

Nevertheless, the federal parties continue to jockey for public support. As of November 26th, the Tories maintained their 10-point lead. They stand at 36.9 percent support amongst eligible voters, while the Liberals trail at 27.1 percent. Next, the NDP follows at 15.3 percent, the Green Party is up at 11.4 percent and the Bloc remains at 9.4 percent (34.7 percent in Quebec).

On the Hill, some of the most divisive and politicized recent debates have involved the use of ten-percenters (taxpayer funded MP newsletters), ongoing disputes over the dispersal of stimulus funds, and of course the prisoner transfer issue in Afghanistan. Liberal and Conservative support for the Harmonized Sales Tax Bill ensures its success in the House, but that debate has been particularly rife with delicate maneuvering and strategy.

Outside of the House, four committees that are particularly relevant to the credit union system are rushing to finish a number of important studies before Parliament rises for the holidays. The House Finance Committee has looked at the Income Tax Act and budget provisions. As well, the Committee recently completed its pre-budget consultations, which dealt with topics as diverse as health care costs, the future of the pension system, poverty reduction measures and charitable giving, industrial sector tax deduction requests, and funding for public research. The Committee will likely release its report on these consultations later this week.

The Standing Committee on Industry, Science and Technology has been studying the recent economic performance of small and medium sized enterprises and the services sector in Canada. As well, they have reviewed supplementary estimates and conducted a statutory review of the Canadian Business Corporations Act. Of particular note, the Committee studied credit card interchange fees and the debit payment system. The credit union system perspective on this issue was well represented, not only due to Canadian Central's earlier appearance before Committee, but because credit union system representatives had raised the issue with four committee members during Canadian Central's Lobby Day.

Equally busy has been the Standing Committee on Agriculture and Agri-Food. Over the past month its members have undertaken several Program Reviews and discussed the hog sector crisis, the status of the red meat sector in Canada, the Agriculture Flexibility Program, genetically modified organisms, and the competitiveness of Canadian agriculture. We are currently monitoring the Committee during its most recent study, which examines young farmers.

The Senate Standing Committee on Banking, Trade and Commerce has largely dealt with changes to a patent drug act for export for international humanitarian purposes, and minor legislative amendments to the Business Development Bank of Canada Act.

As always, here at Canadian Central we will continue to keep you informed about pertinent developments on the Hill.

Happy holidays!

Your Statistical Report

National Affiliated System Results – Q3

Sandra Brizland, Research Analyst, CUCC

National affiliated system results for the 3rd quarter of 2009 were recently released by Canadian Central. The Canadian credit union system remains in a financial healthy position heading into the last stretch of 2009 as the system recorded solid gains in third quarter. System assets, savings/deposits and loans all experienced increased growth, with both assets and deposits/savings accelerating at a somewhat slightly faster pace than growth reported in the second quarter. Loan growth, however, was down slightly from the previous quarter.

Some key findings in the Q3 system results are:

- System assets are currently \$119.2 billion, representing an increase of \$8.5 billion or 7.7% over the same time last year;
- Loan growth decreased slightly in comparison to first and second quarter; total loans at third quarter gained \$5.5 billion or 6%, reaching \$98.2 billion; loans as a percentage of total deposits are currently at 90.9%, down from the 94.9% reported twelve months ago -a reflection of continued stronger growth in deposits over loans;
- Deposits/savings growth continued its upward trend from the previous quarter, with an annualized growth rate of 10.6%; deposits at credit unions reached \$108 billion at third quarter 2009, an increase of \$10.3 billion from a year ago;
- Combined earnings for the system in the first nine months of the year were recorded at \$408.85 million, a decline of 11% from the \$461.37 million reported a year ago. While net income is down from the same time last year, the drop occurred in the first half of 2009.

At the end of Q3, the number of credit unions stood at 425 (down from 444 a year ago), the number of locations was 1,722 (down from 1,740 in Q3 2008), and the number of members was 5,082,893 (an increase from 5,057,400 at the end of Q3 2008).



To see the full report:

<http://www.cucentral.com/Default.aspx?DN=7ec01257-b591-43eb-a4bd-6fe5ea0ccddc&I=English>

Research Bits

Les Czarnota, Researcher, Information Services, CUCC

Credit Union Central of Canada subscribes to various research firms on behalf of the Canadian credit union system. This allows affiliated members to access the research directly and search for relevant material to fulfill an information need. Many reports are available from two organizations – the US-based Council on Financial Competition and the Ottawa-based Conference Board of Canada.

The Conference Board of Canada is one of Canada's leading independent research organizations. A well-respected authority on emerging economic and social trends, key public policy issues, and organizational strategies and practices, the Conference Board of Canada produces research and analysis on a wide range of issues. Currently over 600 publications are available on the Conference Board of Canada site dating back to June 1998 including periodicals and research reports in the following areas: national economic trends, provincial economic trends, organizational effectiveness, human resources, governance, and risk management.

Credit Union Central of Canada holds a membership in the Conference Board on behalf of the system. Registration is required to access the Conference Board of Canada research. To access the research, go to <http://sso.conferenceboard.ca/web/Login.aspx> - if you already have an account, please use the "sign in" section at the right. If you are registering for the first time, please "create an account". The domain names of all of the Centrals and the Top 30 credit unions in Canada should already be recognized by the Conference Board of Canada's registration system, so you shouldn't have any problem registering. If for some reason, your registration is not accepted, please send an email with your email address and credit union name to Les Czarnota, Researcher, Information Services czarnotal@cucentral.com.

Some recent Conference Board titles include:

- **Provincial Outlook Economic Forecast: Autumn 2009** - Report by The Conference Board of Canada, November 2009, 68 pages
- **Risk is Not a Four Letter Word: ERM Webinar**, Recorded Webinar by The Conference Board of Canada, November 2009
- **Compensation Planning Outlook 2010: Cautious Optimism on the Road to Recovery**, Report by Allison Cowan, November 2009, 44 pages

Two recent Conference Board publications may be of interest:

Social Networking: How Companies Are Using Web 2.0 to Communicate with Employees is an Executive Action Report by Sheri Rothman of the Conference Board New York. Published in December 2009, this six-page report looks at the benefits of in-house social networking sites. Companies find that it keeps collaboration inside company firewalls, gives them a leg up on the war for talent, improves internal communications, and boosts employee engagement.

The factors that determine whether an aboriginal business will succeed or fail is the topic of **True to Their Visions: An Account of 10 Successful Aboriginal Businesses**, a 66-page report authored by Ashley Sisco and Nicole Stewart and published in December 2009 by the Conference Board of Canada.

Aboriginal business development is a growing trend in Canada that is improving the socio-economic outcomes for Aboriginal peoples by creating jobs and wealth in their respective communities and Canada at large. Aboriginal entrepreneurs are not only making a difference, but making a profit and creating jobs as well.

This report features 10 successful Aboriginal businesses from across Canada and draws out the common challenges and keys to success, forming an easy-to-use Aboriginal business guide. The featured businesses demonstrate that strong leadership, sound business practices, and solid relationships and partnerships are key to overcoming these challenges and realizing success.



Your Fraud Report

Federal Government Efforts to Combat Commercial Fraud

Jan Hopper, Senior Policy Advisor, CUCC

Fraud and identity theft are significant and growing problems in Canada. The magnitude of the problem is illustrated by the Canadian Council of Better Business Bureaus' estimate that identity theft results in \$2 billion annual losses to consumers, financial institutions, credit card companies and retailers. The above statistics include incidents of debit card skimming as it involves the theft of personal information from the card's magnetic stripe. It is expected that debit card fraud losses for 2009 will exceed the 2008 figure reported by the Interac Association of \$104.5 million.

Financial industry efforts are underway to combat this growing problem and include the migration to CHIP cards in the next few years, increased transaction monitoring to recognize fraudulent transactions and awareness building about how to detect and prevent skimming. Interac recently hosted a debit card skimming webinar that credit union representatives attended.

In addition to industry efforts, there are Federal Government initiatives underway to help in the battle against fraud. At the federal level, there are five - current and recent - Bills in varying stages of Parliamentary review that target different aspects of fraud. When considered together, these new rules will fight fraud by:

- creating new offences;
- increasing the investigative tools available to law enforcement; and
- creating tougher sentences for offenders.

Each of these Bills and the relevance to the fight against fraud are described below:

Bill S-4 – An Act to amend the Criminal Code (identity theft and related misconduct) received Royal Assent on October 22nd, 2009. Canadian Central and other members of the financial services industry have long advocated for amendments to the Criminal Code to address legislative gaps relating to identity theft. Bill S-4 enacts such changes as it makes it illegal to possess

or sell identification documents of another person regardless of the intended purpose. The new law also makes it illegal to possess skimming equipment which may assist police to arrest debit card fraudsters before losses are encountered.

Bill C-27, known as the “*Anti-Spam Act*” is complementary to *Bill S-4* as it aims to protect consumers against spam, counterfeit websites and spyware. Spam has progressed from being just an annoyance to a threat as it has become the method of choice for fraudsters to spread malicious spyware, collect personal information for purposes of identity theft and broaden the reach of on-line scams. *Bill C-27* makes it illegal to send a commercial electronic e-mail without the express consent of the recipient. While its prohibition on fraudulent activities is welcomed, there may be challenges to legitimate business due to the broad definitions used for some of the terms. *Bill C-27* has passed through the House of Commons and is presently before the Senate.

Together, *Bill C-46 – the Investigative Powers for the 21st Century Act* and *C-47 – the Technical Assistance for Law Enforcement in the 21st Century Act* provide law enforcement with greater tools for investigating on-line crime. These tools remove some of the stumbling blocks for police when seeking information from Internet Service Providers (ISPs) during investigations. While the financial services industry will benefit from the improved investigative abilities for law enforcement, there have been concerns expressed about the potential for abuse which could negatively impact personal privacy.

Finally, *Bill C-52 – An Act to amend the Criminal Code (sentencing for fraud)* if enacted would provide the courts with stronger sentencing powers. This legislation calls for a mandatory two year jail sentence for those convicted of fraud over \$1 million. *Bill C-52* also introduces new aggravating factors that can be considered when handing down sentences in fraud cases including consideration of the victim’s age, health and financial situation. The legislation would also permit the courts to consider community impacts when fraud losses are suffered by a particular neighbourhood, seniors’ centre or club, etc. Under the legislation, courts would be required to consider making the offenders pay restitution to the victims of fraud and prohibit the offender from having authority over other people’s money.

The new and proposed legislation about is expected to aid the financial services industry including credit unions as it will help in the investigation, prosecution and sentencing of fraudsters. Canadian Central will continue to monitor the status of these important Bills as they progress through the Parliamentary process. New developments will be reported in the Legislative Bulletins issued regularly by Canadian Central.

Executive Briefing Webinar Plan to Attend!

“Canadian Central Year End Review & Key Issues for 2010”

Join David Phillips, President & CEO, CUCC for this Executive Briefing Session. A year end review and outline of key national system issues for 2010 including topics such as: Federal Powers for Credit Unions, Crown financial Institutions (e.g. Farm Credit Canada) and Canadian Central’s 2010 priorities, will make up the agenda.

Date & Time: December 15, 2009
1:00 pm (EST) to 2:00 pm (EST)

Intended Audience: Credit Union CEO’s
and Executive Teams

How to Register: Please follow the instructions

1. Click [Here](#)
2. Click “Register”
3. Enter your information on the registration form and then click “Submit”

Once the host approves your registration, you will receive a confirmation by email with instructions on how to join.

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