

Welcome to Canadian Central's *Policy and Advocacy Report*

At their September 25, 2008 Board meeting, Canadian Central's Board of Directors adopted a new Mission Statement that calls for Canadian Central to become the national voice and national forum for the Canadian credit union system, and to actively lead or participate in initiatives to build successful, competitive, and growing credit unions in Canada. The Mission Statement further states that Canadian Central will contribute to the success of the credit union system through strong advocacy, expert research and the provision of value-added services to its member provincial Centrals, their member credit unions, and other credit union organization.

In light of this Mission Statement, Canadian Central developed this *Policy and Advocacy Report*, which will provide Canadian Central members with in-depth analysis of emerging issues in the financial services sector as well as timely information on the progress of key legislation and government initiatives which may affect the system.

We hope you will enjoy the *Policy and Advocacy Report* and encourage you to contact us with your comments and suggestions.

On The Policy Front

FINANCIAL SECTOR POLICY AND THE BANKING CRISIS: SOME IMPLICATIONS FOR THE CREDIT UNION SECTOR

Over the past several weeks financial market developments and their associated political responses have been unpredictable and unprecedented in scale and scope. In August of this year it would have been practically impossible to find a political observer or

economist who would have predicted that governments in the United Kingdom, the United States and the European Union would be rapidly nationalizing large parts of their banking sectors and investing upwards of \$2 trillion (USD) in attempting stabilize the global financial system. Commentators have run out of superlatives to describe the crisis.

A search for causes of the crisis is under way and political and economic observers have cast a critical eye toward practically every institution, policy and practice associated with the operation and management of the global financial system. Credit rating agencies have come under increased scrutiny over the past year for their failure to adequately assess the risk associated with certain financial instruments. At the same time, "value-at-risk" risk management models used by financial institutions have been criticized. Many commentators have highlighted shortcomings in Board oversight at the financial institution level while others have flagged perverse financial incentives that foster excessive risk taking by management. Finally, many observers have critically analyzed the role of certain financial instruments and practices in fostering and accelerating the crisis (sub-prime mortgages, collateralized debt obligations, short-selling etc).

It is impossible to predict *in detail* how these critical assessments will impact financial sector policy in the future but *it is clear that we are entering a period during which advocates of greater financial policy liberalization will be on the defensive*. Already, we are seeing proposals for policy reform in the financial sector that point toward greater regulatory oversight and tighter restrictions on financial innovation¹. In the foreseeable

¹.For example UK Prime Minister Gordon Brown has issued a five point plan calling for greater transparency in accounting standards and the valuation of assets, oversight of credit rating agencies, checks on executive remuneration, ensuring Board competence and expertise, sound banking practice, more extensive banking supervision, and new global financial architecture to govern global finance.

future, policy makers and politicians are likely to treat proposals originating from the financial sector for more deregulation or for enhancements to business powers with some skepticism.

For better or worse, this new policy context has emerged just as the federal Department of Finance begins its work on Canada's five-year review of financial institutions legislation. It has been a policy objective of the credit union system to see expanded business powers in the *Cooperative Credit Associations Act*. In the current context it seems clear that any such proposals will not only have to be justified on the basis of increasing competition and consumer choice but, *most importantly*, on the way in which such reforms will advance the cause of financial stability and prudential banking.

In the coming months, as the credit union system works toward developing proposals for federal financial sector policy reform, the system needs to be sensitive to the new policy context and gauge proposals in a manner that will resonate with the times. The good news is that credit unions have a good story to tell – one that should be welcomed by both policy makers and politicians.

New on the CUCC website

CUCC statement on CPA discontinuance of the image-based cheque clearing project:

http://www.cucentral.ca/TECP_14oct08

Information on the Revised Mortgage Insurance Framework took effect on October 15:

http://www.cucentral.ca/MortgageInsurance_10cot08

Information on the Review of the Personal Information Protection and Electronics Documents

Act: http://www.cucentral.ca/PIPEDA_3OCT08

Information on the launch of the National Do Not Call

List: http://www.cucentral.ca/DNCL_22aug08



On The Political Front

The more things change, the more they remain the same.

On October 14, Canadians elected another minority Conservative government, albeit one with sixteen more seats than previously. It is therefore expected that in short order we will once more find on Parliament Hill similar bickering and posturing among the parties. The results of the election again proved to Harper that to win an election he must woo the Quebec electorate, a strategy he focused on for two years only to founder in the last few months with anti-crime initiatives and cuts to culture that played to his Conservative base but alienated Quebec voters.

Despite similarities with the last Parliament there might however be one marked difference, the Conservatives and Liberals may have no choice but to make it work for a period. The former because to call another election when the majority of Canadians believe their call to the polls was a waste of money and time would not reflect favourably on a government that once legislated a fixed election date. Harper lost the current election gamble, and may now feel compelled to attempt what he has to date found so difficult - negotiate and compromise with the other parties. Unfortunately, working with the other parties may prove more difficult in a difficult economic environment as their distinctive political stripes become visible.

With Dion's leadership clearly in question, if not already doomed, Liberal hopefuls have most likely already started planning for the succession. It would therefore not be in their interest to push for an election until concerns regarding the party's leadership have been addressed and the party is once again on safer grounds to proceed with another election. Also, the Liberal Party has considerable work to do in order to place party financing on a stronger footing and must work to develop broadly appealing policy that can reverse its retreat from being a truly national party. All of this will take time.

What does this mean for the credit union system and co-operatives in general? Another minority government may once more result in little progress being made on legislation as Committee work gets bogged down in partisan positioning. The issue of bank mergers which might have resurrected under a majority government will most likely not resurface unless such action becomes necessary as the result of financial difficulties experienced by the banking sector. Also, rather than court controversy, the government may proceed cautiously with any financial sector legislative reform that could emerge out of the legislative review currently underway. Finally, the credit union system could potentially deal with a new Finance Minister as there has been speculation that Minister Flaherty might be replaced, potentially by Jim Prentice, who's currently Industry Minister.

In the near future Canadian Central will identify Parliamentarians with potential interest in the credit union system with a view to providing them with an information package on the system and seek to sensitize them to the importance of the sector to the Canadian economy. Provincial Centrals will be asked

PARTY	ELECTED	VOTE SHARE %
CONSERVATIVE	143	37.63
LIBERAL	76	26.24
BLOC QUEBECOIS	50	9.97
NDP	37	18.20
INDEPENDENT	2	0.69
GREEN	0	6.8
OTHERS	0	0.47



to collaborate in this initiative.

Provincial News

Ontario:

Credit unions in Ontario have now been waiting for more than a year for the coming into force of the new Credit Unions and Caisses Populaires Act. The Ontario government has still not provided any indication as to when the regulations allowing for the implementation of the Act are to be released.

Newfoundland:

The Government of Newfoundland and Labrador has undertaken a review of the Credit Union Act and Regulations in order to streamline regulations and reduce red tape. The government is considering an amendment that would allow credit unions to sell life insurance products in their branches (but not property and casualty insurance). Canadian Central submitted comments to the Newfoundland and Labrador government supporting the proposal.

We invite all Canadian Central members to contribute to this portion of the Report by submitting information on policy developments in their respective provinces. Submit comments to Brigitte Goulard, Vice President, Policy at goulardb@cucentral.com. Thank you in advance for your participation.

The *Policy and Advocacy Report* is published by Credit Union Central of Canada. For editorial or general inquiries please contact:

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