

On The Policy Front

Bank of Canada and CMHC Liquidity Announcements – An Update

Gary Rogers, Vice-President, Financial Policy, CUCC

In the October 31 edition of *Policy and Advocacy Report*, Gary Rogers summarized the content and implications of a flurry of recent federal announcements that increase access to liquidity by the financial institutions sector. These include Purchase and Resale Agreement (PRA) auctions by the Bank of Canada, CMHC purchase of insured mortgage pools, and the Canadian Lenders Assurance Facility (CLAF). Several new announcements were made on November 12 that supplement these measures.

The Bank of Canada announced a new plan for a Term Loan Facility (TLF). As with some of the previous programs, this will be transacted through an auction with LVTS participants, including Credit Union Central of Canada. Eligible collateral will be non-mortgage loan portfolios. Liquidity advances will be only 60% of the amount of the portfolio, meaning there is a 40% discount on the advances. An initial \$8 billion will be available through four auctions occurring between November 19 and December 8.

In light of the other recently announced liquidity options available, it is unlikely that most financial institutions will avail themselves of this program. But it presents a useful backstop to have in place, in case the liquidity problems in the market endure and deepen.

The Department of Finance announced that CMHC will purchase up to an additional \$50 billion of insured mortgage pools. The total program increases to \$75 billion from \$25 billion which suggests the government intends to make periodic increases as market conditions warrant. This is a program of considerable interest to the credit union system, as traditional mortgage securitization channels have disappeared in the current environment. It supplements the quarterly Canada Mortgage Bond program.

Also, the fee required to participate in the CLAF was decreased. This will make the program more affordable for financial institutions. However, even with these reduced costs, credit union entities are much less likely to be interested in the CLAF than in the CMHC program and PRA auctions.

Competition Policy Review Panel

Brigitte Goulard, Vice President, Policy, CUCC

On November 19th, Her Excellency the Right Honourable Michaëlle Jean, Governor General of Canada, delivered the Speech from the Throne to open Canada's 40th Parliament. In the speech the federal government indicated it would proceed with legislation to modernize competition and investment laws by implementing many of the recommendations of the Competition Policy Review Panel. The Competition Policy Review Panel was appointed in 2007 to review Canada's competition laws and make recommendations to modernize them. The panel's final report (*Compete to Win*), issued in June 2008, put forward a series of policy recommendations to make Canada more competitive in the context of economic globalization. The following three recommendations/comments are of interest to credit unions:

1. Competition in the financial services sector

The Report recommends the removal of the de facto prohibition on bank, insurance and cross-pillar mergers of large financial institutions. Notwithstanding the panel's view on the matter, it is unlikely that a minority government, particularly in these difficult economic times, will permit bank mergers.

Of particular interest to credit unions is the Report's statement that "allowing greater international competition as well as more competition between bank and non-bank lending institutions would benefit both

the financial services sector and the public interest in competitive and efficient markets. These should be considerations in the 2012 review of the Bank Act by the Minister of Finance.”

This statement will prove useful when developing Canadian Central's position for the 2012 review.

2. The Competition Act

The Report recommends that the Minister of Industry examine whether to increase the financial thresholds that trigger an obligation to notify a merger transaction as well as whether to create additional classes of transactions that are exempt from the merger notification provisions of the Competition Act.

It will be important for the system to seize this opportunity and make its case that mergers between credit unions do not raise any competition concerns and should therefore not be subject to the merger notification provisions.

3. Agreement on Trade

Not surprisingly, the Report recommends that the federal government provide leadership in the elimination of all internal barriers between the provinces and territories that inhibit the free flow of goods, services and people by June 2011. The Report further recommends that federal and provincial governments establish by June 2009 a work plan to achieve this goal and provide interim reports on progress every six months.

The government reiterated in the Throne Speech its intent to work with provincial governments to eliminate internal trade barriers. This may be an opportunity for the credit union system to take a leadership role.

A copy of the full report is available at:

[http://www.ic.gc.ca/epic/site/cprp-gepmc.nsf/vwapj/Compete_to_Win.pdf/\\$FILE/Compete_to_Win.pdf](http://www.ic.gc.ca/epic/site/cprp-gepmc.nsf/vwapj/Compete_to_Win.pdf/$FILE/Compete_to_Win.pdf)

Your Policy Team At Work

EFT Code of Practice Consultation Process

On November 18, 2008, Canadian Central Policy Division staff met with Department of Finance representatives including Jane Pearse, the Director, Financial Institutions Division to discuss credit union system views regarding the Federal Government's proposed new Electronic Funds Transmission (EFT) Code of Practice. The proposed Code is intended to replace and expand upon the current Debit Card Code of Practice.

At the meeting, Canadian Central representatives outlined concerns that the proposed EFT Code contains many areas of ambiguity which could lead to difficulties assigning liability in some situations. Canadian Central's comments also underlined the need for further consultation with stakeholders prior to finalization of the Code.

The Department of Finance agreed that further consultation is necessary. Thus the timeframe for finalization and implementation of the Code will be delayed beyond the original deadline of December 2008. It is expected that the next round of consultations will include meetings of “communities of interest” (e.g. consumer groups, financial institutions).

As the consultation proceeds, Canadian Central will seek input from the appropriate Canadian Central committees on an “as needed” basis.

Meeting of the AML/ATF Public/Private Sector Advisory Committee

On November 13th, Canadian Central participated in a meeting of the Anti-Money Laundering and Anti-Terrorist Financing Public/Private Sector Advisory Committee (PPAC).

The PPAC was established by the Department of Finance in 2007 and is Chaired by the Assistant Deputy Minister of the Financial Sector Policy Branch, Mr. Jeremy Rudin. The Committee is a high-level discussion forum tasked with addressing emerging issues and providing general guidance for Canada's overall anti-money laundering and anti-terrorist financing (AML/ATF) policy. The Committee consists of approximately 30 members, with more than half of the members from the private sector. The public sector participants generally consist of members who already

participate in the Interdepartmental Steering Committee on this topic (e.g. RCMP, CSIS, FINTRAC, Canada Border Services Agency and OSFI) while private sector representatives consist of participants from sectors covered by the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. This includes financial entities (banks and credit unions), life insurance companies, securities dealers, money service businesses, accountants, the notarial profession, the real estate sector, casinos, dealers in precious metals and stones, and home builders.

At PPAC meetings members are able to comment on Canada's AML/ATF regime both within a domestic context, including its effectiveness and efficiency, and in response to international AML/ATF developments. PPAC meetings also provide an opportunity for the Government to provide valuable feedback to the private sector on overall AML/ATF trends and efforts.

At the November 13th meeting, credit union system and other private sector representatives highlighted a number of issues:

- The government needs to do more to communicate the requirements of the AML/ATF legislation to regulated entities and the general public since citizens are often being confronted with new AML/ATF related questioning by regulated entities when engaging in financial transactions.
- The government needs to properly assess the effectiveness of the AML/ATF regime before considering any further compliance and reporting requirements.

The Department indicated that in early 2009 the federal government will appoint an independent third party to review the effectiveness of the AML/ATF regime and to make recommendations to the government as to how it can be improved. The Department agreed that PPAC representatives will be able contribute to the Terms of Reference that will guide the review.

Happening on the Hill

Federal Government Delivers Speech from the Throne

Rob Martin, Director of Research, CUCC

On Wednesday November 19, The Governor General of Canada delivered the Government's Speech from the Throne. In the speech the government outlined a set of priorities that focused heavily on initiatives aimed at maintaining economic stability and prosperity. In the speech the government indicated that it will proceed with an agenda that will:

- Work with international partners to develop a regulatory framework that will put the global financial system on a sounder footing;
- Balance the desire for fiscal prudence and spending control with the need for a fiscal stimulus to stabilize the deteriorating economic situation; Foster economic and technological innovation in Canada while seeking opportunities to promote growth through freer trade and investment flows;
- Reform competition law and investment policies to promote growth;
- Support the growth of cleaner energy sources;
- Promote the safety and security of Canadians by continuing to rebuild the Canadian Forces, developing a new national security plan and adopting legislation that will promote the safety of food, drugs and consumer products.

Only a day later Kevin Page, the budget officer for Parliament indicated how difficult it may be for the government to deliver on its agenda when he released a report predicting that the federal government will run a deficit of C\$3.9 billion in the 2009-10 fiscal year (starting April 1) and a deficit of C\$1.4 billion in 2010-11.

For Your Information

Finance Minister Clarifies RRIF Rules

Gary Rogers, Vice-President, Financial Policy, CUCC

On November 20, Finance Minister Flaherty wrote to federally regulated financial institutions to address public concerns about RRIF withdrawals. A number of recent commentators and media reports have suggested it is unfair to require RRIF holders to cash in their mutual fund and stock holdings in RRIFs to satisfy annual minimum withdrawal requirements. The concern expressed is that this would lock in losses that seniors should not have to incur at this time of great concern about the sufficiency of retirement income.

The Minister reminded FIs that in-kind transfers are permitted, meaning that mutual funds and stocks can be transferred out to holders without the requirement to sell them and realize losses at this time. He further requested that FIs permit these in-kind transfers at no cost to their clients and confirm to him by November 28 that this procedure is in place and known to clients.

As provincially regulated FIs, credit unions are not obligated by this request from the Minister. But as participants in the same marketplace, credit unions should review their procedures to ensure they are serving their members to the highest standards. As part of this review, credit unions might wish to consider whether transfers of part of a term deposit may be made without penalty, if the member wishes to move part of a term deposit outside a RRIF to satisfy minimum withdrawal requirements. For example, if a member has a five-year, \$5,000 term deposit at 8% and requires a minimum withdrawal of \$1,000, can the \$1,000 remain invested for the same remaining term and interest rate, but outside the RRIF. This may create administrative difficulty for the financial institution, but would seem within the spirit of the Minister's request.

Credit Union Deposit Insurance - Summary

Les Czarnota, Researcher, Information Services, CUCC

Deposits within a credit union are protected by deposit insurance. Across Canada, credit union members have the same or higher coverage than what is available to Canadian chartered bank, deposit-taking trust and loan company customers through Canada Deposit Insurance Corporation (CDIC) which offers maximum coverage of \$100,000.

Alberta, British Columbia, Manitoba and Saskatchewan each have unlimited coverage. The Atlantic Provinces have coverage up to \$250,000, with the exception of PEI which has a limit of \$125,000. Ontario and Quebec each have \$100,000.

In most cases, this limit applies to individual or joint accounts at each credit union for each of Deposits (combination of savings & chequing accounts, term deposits, GICs), RRSPs, RRIFs, RESPs, and Trust Deposits. Coverage does not include mutual funds, equity shares and safety deposit contents for all provinces and foreign currency deposit accounts in Ontario, Quebec, New Brunswick, Nova Scotia and PEI. The table below summarizes the coverage.

Province	Deposit Insurance Organization	Coverage Amount
British Columbia	CUDIC (BC)	Unlimited
Alberta	CUDGC (AB)	Unlimited
Saskatchewan	CUDGC (SK)	Unlimited
Manitoba	CUDGC (MB)	Unlimited
Ontario	DICO	\$100,000
Quebec	AMF	\$100,000
New Brunswick	CUDIC (NB)	\$250,000
Nova Scotia	CUDIC (NS)	\$250,000
Prince Edward Island	CUDIC (PEI)	\$125,000
Newfoundland and Labrador	CUDGC (NL)	\$250,000

Information provided above is general in nature. For more detailed information contact the Deposit Insurance Corporation in your province.

Provincial News

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.

British Columbia

On Thursday November 20th, BC Finance Minister Colin Hansen introduced legislation that will:

- provide for unlimited deposit insurance protection for depositors in BC credit unions and enhanced supervisory powers of the Financial Institutions Commission responsible for the regulation of credit unions.
- protect registered retirement savings plans and similar funds from seizure by creditors; and
- in anticipation of the new Tax-Free Savings Account created by the federal government, ensure that the designation of a beneficiary will be honoured on an account holder's death.

These measures form part of BC Premier Gordon Campbell's 10-point economic plan unveiled in October to respond to current economic turmoil.

Manitoba

The Manitoba Securities Commission has proposed a new rule that will require deposit agents to:

- obtain registration before operating;
- ensure there are written agency agreements between deposit agents and financial institutions; and
- implement rules and procedures to govern relations between deposit agents and financial institutions.

These new regulations will impose regulatory and compliance obligations on credit unions that wish to deal with deposit agents. For example, credit unions will likely have to obtain annual confirmations from its deposit agents that they are duly registered and detailed agreements will have to be written to govern relations between agents and credit unions.

Further details about the proposed rule can be obtained at:

http://www.msc.gov.mb.ca/legal_docs/legislation/notices/33_501notice.pdf

Payday Loan Legislation

Governments in BC, Alberta, Ontario and Prince Edward Island are moving to implement legislation that will govern the payday loan sector. The trend toward provincial legislation has developed as a result of federal legislation passed in 2007 that granted provincial governments the right to legislate in this area to protect consumers. The legislation is being closely followed by the credit union system in each of these provinces to ensure the legislation does not inadvertently impact credit unions in an adverse manner.

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