



Characteristics of Effective Credit Union Legislation

*Bill Knight
Former Pres and CEO*




“Effective regulation and supervision of all financial institutions safeguard the stability of a country’s financial system and protect the savings deposits of its people.”

Technical Guide, Credit Union Regulation and Supervision, World Council of Credit Unions



Seems simple but is it really?

What does a secure legal framework look like post 2008?



What about?











What does an effective and secure legal framework look like post 2008?



A strong supervisory framework is built upon legislation that is:

- Predictable
- Proportional
- Prudential
- And that recognizes that financial institutions are run by human beings



Predictable Legislation

Predictable legislation provides a credit union the clarity and certainty it needs to plan and invest for the future.



Proportional legislation

Proportional legislation recognizes the risks a credit union presents to depositors and the financial system as a whole and establishes appropriate rules to mitigate those risks.



Proportional legislation

Credit unions are different from:

- Banks
- Other cooperatives

And this distinctiveness must be taken into account when enacting legislation or regulations.



Prudential Legislation

Key elements:

- Licensing and organizing requirements
- Capital requirements
- Definition of the powers and permissible activities
- Effective supervisory body



Prudential Legislation

Key elements:

- Governance principles
- Deposit and loan concentration limits for members
- Recordkeeping and anti-money laundering policies
- Deposit insurance regime



Licensing and Organizing

Necessary to respect the cooperative principles, but also regulations must define licensing requirements. To receive a license credit unions must comply with elements such as:

- Standardized accounting and reporting
- External audit
- Capital adequacy



Licensing and Organizing

- Provisions for loan losses
- Liquidity standards
- Internal controls
- Credit, collection and savings policies

- **Must be in the best interest of the cooperative system.**



Prudential Legislation

Capital requirements

- Establish minimum start-up capital
- Define what constitutes capital and determine capital adequacy



Supervisory Body

Mandate of the Office of Superintendent of Financial Institutions (OSFI):

- Supervise institutions to determine whether they are in sound financial condition and are complying with legislation
- Advise institutions when there are material deficiencies and require corrective actions
- Advance and administer a regulatory framework that promotes policies and procedures designed to control and manage risk.
- Monitor and evaluate system-wide issues that may impact institutions.



Governance Principles

Essential component of success:

- Regulation must establish defined roles and responsibilities as well as controls for conflicts of interest.
- **Two sets of guidelines:**
 - Prudential disciplines
 - Rules of governance
- **Must also set criteria for board members.**



Loan Concentration Limits

Different approaches to the setting of limits:

- In Ontario if a small institution: not allowed to lend commercially,
- If larger, yes, to a certain extent.
- At the federal level,
- If a bank: no limit, depends on the prudent person approach
- Other types of FI: 5% of regulatory capital



Human Nature

“Human nature should be at the forefront of efforts to avoid a repeat of the financial crisis, and single items such as the amount of capital held by banks should not be relied on to guarantee financial stability. We cannot be lulled into a false sense of security because some of the significant changes we are making to capital.”

Julie Dickson, Head of OSFI, Canada



Deposit Insurance Regime

**Key to the financial stability of
the financial system and the
protection of depositors**



BANK RUNS



Deposit Insurance Regime

**How much is necessary?
Should it be the same as the
banks?**



QUESTIONS??

