



CREDIT UNION CENTRAL OF CANADA

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BY COURIER

July 25, 2006

Mr. Gerry Salembier
Director, Financial Institutions Division
Financial Sector Policy Branch
Department of Finance
L'Esplanade Laurier, 15th Floor, East Tower
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Mr. Salembier:

Re: 2006 Financial Institutions Legislation Review: Proposals for an Effective and Efficient Financial Services Framework (the "White Paper")

On behalf of the Canadian credit union system, Credit Union Central of Canada (Canadian Central) is pleased to respond to the Government's proposals for an effective and efficient financial services framework as those proposals are set out in the White Paper.

Process

As part of its review of the White Paper, Canadian Central, through its Legislative Affairs Committee, canvassed the opinions of the leaders of the provincial credit union centrals in each of the provinces outside of Quebec.

Substance

In general, the credit union system supports the direction taken in the White Paper to enhance the interests of consumers, increase legislative and regulatory efficiency, and adapt the framework to new developments. In particular, Canadian Central makes the following comments on specific proposals in the White Paper:

1.0 Proposals Affecting Non-Retail Associations

1.1 Continuance – Share Conversion (at page 32)

Canadian Central supports this proposal.

2.0 Proposals Affecting Retail Associations

2.1 Incorporation (at page 13)

Canadian Central supports the proposal to decrease to two the number of credit unions required for the incorporation of an association.

This support is premised on the understanding that the stipulation under section 24 of the *Cooperative Credit Associations Act* that the two credit union incorporators could not be incorporated under the laws of only one province will be retained.

There is support in the credit union system for the development of federal guidelines for the incorporation of a retail association. It has been suggested that incorporation of a retail association be subject to (among other things including (i) the section 27(h) requirement that the incorporation be in the best interests of the cooperative financial system in Canada and (ii) the section 52 provision prohibiting one person other than another association from controlling an association) minimum asset base, branch location, and membership requirements. Under such guidelines, a new incorporation should also specify the target groups to which it is addressing its business plan.

2.2 Opt-out from CDIC Membership (at page 13)

Canadian Central supports the proposal to introduce a deposit insurance opt-out regime for retail associations that are not accepting deposits from the general public.

2.3 Commercial Lending Limits

In its June 2005 submission to the Government, Canadian Central recommended an amendment to the *Cooperative Credit Associations Act* to eliminate the commercial lending limit for retail associations and associations with specified levels of regulatory capital.

Canadian Central is disappointed that this recommendation is not dealt with in the White Paper. The result will be that retail associations will be more restricted than their competitors in their capacity to build a diversified loan portfolio and hindered in their attempts to serve the small-and-medium enterprise market.

3.0 Proposals Affecting the Marketplace in which Credit Unions Operate

3.1 Consumer Issues (at pages 7, 8, 9, and 10)

Canadian Central believes that it is in the interests of consumers for governments to attempt to harmonize prescribed consumer protection regimes, especially in the area of disclosure.

The White Paper's proposals for disclosure regimes for deposit-type investment products, administration fees for deposit-type registered plans, on-line and in-branch harmonization, and cost-of-borrowing, will impact upon the entire financial services marketplace.

Canadian Central requests that it be consulted during the development of these regimes in order to assist in developing regimes that will avoid consumer confusion.

3.2 Use of the Bank Name (at page 19)

The proposal to develop rules relating to permitted uses of the term "bank", bank names, and logos could affect retail associations and credit unions in the financial services marketplace.

Canadian Central requests that it be consulted when the Government moves forward to develop such rules.

3.3 Cheque Hold Periods (at page 11)

Canadian Central supports a voluntary cheque-hold period protocol in the financial services industry.

Because any such protocol, and indeed federal regulations if they are ever promulgated, will become accepted as a norm in the marketplaces in which credit unions operate and compete, the credit union system believes that it must be part of the Government's consultation process on this issue.

Canadian Central will be disappointed if the Government strikes agreements with the banking industry without taking into account the interests of the credit union system.

3.4 Electronic Transactions (at page 10)

Canadian Central supports the adoption of a voluntary consumer protection regime to cover electronic transactions.

Because any such code will become accepted as a norm in the marketplaces in which credit unions operate and compete, the credit union system believes that it must be part of the Government's consultation process on this issue.

3.5 Bank Act Security

Canadian Central opposes the continued existence of a special, *Bank Act* security regime. We believe that each province has a sufficiently modern form of secured lending legislation in place to properly deal with secured transactions.

3.6 Foreign Bank Entry (at page 12)

Canadian Central would like to better understand the impact of the Government's proposal to 'remove near banks from the foreign bank entry framework'.

The *Bank Act*'s foreign bank rules extend to 'foreign cooperative credit societies'. Because 'foreign cooperative credit societies' could be 'near banks', the credit union system will need to assess the potential impact of the proposed change.

Conclusion

We thank you for the opportunity to provide input into the Government's policy-making process. We would be pleased to meet with you to discuss Canadian Central's original, June 2005, submission, the White Paper, and this response to the White Paper at your convenience.

Yours truly,

CREDIT UNION CENTRAL OF CANADA

By: 

David Phillips
Interim President and Chief Executive Officer