

We're Back

Brigitte Goulard, Vice President, Policy, CUCC

Back in the office, back at school and very soon back in Parliament. The amazing weather we've enjoyed this summer here in the Nation's Capital gave us all the opportunity to relax and recuperate after an extremely busy spring.

But it's now time to put away the sunscreen lotion and get back to work. It promises to be another busy session with already several consultations on the go (see inside for more details) and more to come shortly. Canadian Central's policy team will also deliver before the end of the year on several priority projects. Kevin Dorse's article, *We want to share your success: Be a part of our CSR InfoHub*, reports back on our Sustainability Strategy Priority project.

But one last piece of fun before we need to take out our snow boots: a crossword puzzle to test your knowledge of our payment system. Now you can really try to puzzle out the payment system. Enjoy!

Credit Unions Number 1 in Overall Customer Service for 6th Consecutive Year

Synovate, one of the research subscriptions that Canadian Central holds on behalf of the system, announced their 2010 Best Banking Awards on August 24. The Synovate 2010 Best Banking Awards are based on quarterly Customer Service Index (CSI) survey results. Sample size for the total 2010 CSI program year ended August 2010 was 38,978 households. For the sixth consecutive year credit unions were rated 1st in overall customer service. For more information:

<http://www.cucentral.ca/Default.aspx?DN=0d8bcd3a-a563-43b1-a36d-ebd691779ab7&l=English>



2010 Policy Priority Projects

Priority Project No: 4 - Co-operation among Credit Unions

Jan Hopper, Senior Policy Advisor, CUCC

The project to research and catalogue credit union collaborative arrangements is well underway. Over the past month, members of the National Young Leaders Subcommittee on Collaboration have been busy conducting follow-up interviews with 35 credit unions who have reported being part of collaborative arrangements.

Results indicate that benefits of collaboration most often noted are cost savings, access to intellectual capital and increased revenue. Examples of some of the initiatives described include:

- collaborating on the development of best practices and policies and procedures;
- the establishment of purchasing groups to achieve better pricing on products and services from suppliers; and
- the establishment of formal service organizations. (continued on page 2)

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The next step in this project will be the preparation of a *Strategic Brief* on Collaboration. This document will provide an overview of present and potential collaboration projects to serve as a reference guide for credit unions.

It is not too late to provide information about your credit union's collaboration activities. For a copy of the survey, please contact Jan Hopper at hopperj@cucentral.com. You can also complete the survey by telephone by calling 416-232-3414.

Priority Project No: 5 – Sustainability Strategy We want to share in your success: Be part of our CSR InfoHub

Kevin Dorse, Senior Policy Advisor, CUCC and Kate Martin, Policy Analyst, CUCC

You may not know Panagiotis Tsiriotakis by name, but you may know his story. Seven years ago, the Crete immigrant arrived in Canada with little money, no credit history but a dream to retail his family's organic olive oil in this country. When the big banks wouldn't help, he turned to an innovative micro-credit program being run by Alterna Savings. The Ontario credit union provided him with enough money to import more barrels of oil and buy bottles for retail. Today, Acropolis Organics has sales near half a million in U.S. and Canadian markets and eight full and part-time staff.

Mr. Tsiriotakis' story has been featured by the *Globe and Mail* and elsewhere as one example of the innovative approach that Canada's credit unions are taking to corporate, or more accurately, cooperative social responsibility (CSR).

Right now, Canadian Central is undertaking a major initiative so that credit unions can better share and collaborate in meeting their CSR goals. Guided by a working group of system experts we have been developing an 'InfoHub' for CUCentral.ca that will feature "Success Stories" of how credit unions are using CSR to make a difference. These stories will make the site more valuable for visitors. But we need more of them.

In ways that are both big and small, credit unions are giving back to their communities everyday; economically, socially, environmentally, and even through our democratic and community accountability.

It's so much a part of the credit union difference that we might not even stop to think about it.

Do you know of a great credit union CSR initiative? We want to hear from you?. Send us a brief summary of how your credit union initiative has made your community stronger. Contact Kate Martin at martink@cucentral.com.

Consultations

Competition Bureau Services Standards

Robert Martin, Senior Policy Advisor, CUCC

In June 2010 the Competition Bureau launched a consultation on proposed changes to its merger review service standards. The proposed changes to the service standards focused on shortening the maximum time allowed to the Bureau to review, and rule on, "complex" and "very complex" merger transactions. Currently, the Bureau sets a maximum of 70 days to review a "complex" merger transaction and is proposing to lower this to 60 days. For "very complex" transactions the current standard is 5 months and the Bureau is proposing to lower this to 120 days. However, the Bureau is not proposing any change to the standard for reviewing "non-complex" transactions (currently 14 days). Further details of the consultation were outlined in the June 29, 2010, Volume 6, Policy and Advocacy Report (see: <http://www.cucentral.ca/PA290610>).

On July 30th, Canadian Central provided the Bureau with a submission regarding the proposed changes. The submission noted that the credit union system has been a keen participant in policy discussions with the Bureau over the past decade with this engagement driven by concerns about the Bureau's flat \$50,000 fee charged to credit unions participating in merger transactions requiring review. Credit unions find the flat fee framework to be inequitable because it does not take into account the fact that delivering the merger review service to large merger parties may be a complex and time consuming task while delivering the same service to smaller parties (e.g. credit unions) may be relatively simple. The flat fee framework is also unfair because it results in participants in smaller, non-

complex transactions subsidizing the Bureau's work on large, complex transactions.

The submission noted that if the proposed changes to service standards proceed, the fees paid by participants in non-complex transactions will be used in the future to support even faster service to parties involved in complex and very complex mergers. Meanwhile, credit unions, and other parties, involved in non-complex transactions would not receive *any* benefit from the proposed changes. The submission also noted that the proposed changes contradict the Bureau's overall objective of "fairness" which seeks to ensure that those who benefit most from a service should pay for it.

In the submission, Canadian Central recommended that the Bureau reconsider the proposals set out in the service standard consultation document with a view to ensuring that *all parties* receive similar benefits from any future changes to the service standards. More importantly, Canadian Central asked that the Bureau re-examine the current flat fee policy and consider possible alternatives such as those outlined in Canadian Central's June 2007 *Submission to the Competition Bureau's Stakeholder Consultation on Mergers* (see: <http://www.cucentral.ca/policyissues>)

Basel Consultations – Trends in Liquidity and Capital Adequacy Regulation

Gary Rogers, Vice President, Financial Policy, CUCC

In the June edition of this publication, we summarized credit unions' response, through Canadian Central, to consultation documents for regulation of liquidity risk and capital adequacy from the Basel Committee on Banking Supervision (BCBS). Our representations to the Bank of Canada and OSFI urged Canadian regulators to implement flexibly the proposals written for large, internationally active FIs, tailoring their application to characteristics of the Canadian markets and the credit union sector.

The oversight body of the BCBS, met on July 26 and reported that its members reached broad agreement on the overall design of the capital and liquidity reform package (Basel III). This includes the definition of capital, the treatment of counterparty credit risk, the leverage ratio, and the global liquidity standard.

As a result of the public consultations, a number of adjustments to the previous proposals were announced. These include a delay in the implementation of some aspects of the package. For example, the net stable funding ratio (NSFR), which is designed to promote medium and long-term funding of assets and activities of financial institutions, will not become a minimum standard until 2018 and a modified proposal will be issued by the end of 2010. Changes were also made to the definition of qualifying liquid assets under the liquidity coverage ratio (LCR).

A notable comment with respect to the LCR is: "The Committee also is in the process of discussing the treatment of cooperative and savings bank networks and will provide a concrete proposal for consideration at the September 2010 BCBS meeting."

The BCBS will issue the details of the capital and liquidity reforms "later this year".

Finance Department Consults on Changes to the *Interest Act* Regulations

Robert Martin, Senior Policy Advisor, CUCC

On August 16th, the Federal Department of Finance issued a consultation paper in regard to potential changes to the regulations accompanying the *Interest Act* (see: http://www.fin.gc.ca/n10/data/10-072_1-eng.asp). The proposed changes are intended to assist businesses in gaining easier access to longer term mortgage credit.

Section 10 of the Act establishes mandatory mortgage pre-payment terms that lenders must include in mortgages beyond a 5 year term. More specifically, Section 10 establishes the right of pre-payment of the full amount of the mortgage amount subject to a penalty of three months interest. At the same time, the Act creates an exception to these provisions that grants corporations and joint stock companies exemption from the pre-payment requirements and allows them to negotiate pre-payment terms with their lender. This exemption allows such entities to negotiate better interest rates in return for less favourable pre-payment privileges. Section 10 also gives the Government the right to extend this exemption to other business entities through the regulatory process.

Currently, many holders of commercial real estate structure themselves as limited partnerships, trusts or real estate investment trusts. This is often done for tax purposes. However, these entities do not qualify for the exemption noted above. The Government aims to remedy this situation by issuing new regulations that extend the exemption to partnerships and trusts that are established in whole, or in part, for business or commercial purposes. **The Government wishes to use this consultation process to determine whether there are any further commercial entities that should be included on the list of institutions with such negotiating rights. It also wishes to know whether the proposals to extend such negotiating rights may take away mandatory pre-payment privileges from any group that should have a statutory right of pre-payment.**

The consultation document has been circulated to Canadian Central's National Lenders Committee with a view to obtaining system feed-back on the proposals. The Department of Finance has established a stakeholder submission deadline of October 15, 2010. If you have any questions or comments about this consultation please contact Rob Martin (martinr@cucentral.com).

On The Policy Front

Farm Credit Canada Meeting

Robert Martin, Senior Policy Advisor, CUCC

On August 20th, Ken Anderson (CEO, SaskCentral) and David Phillips (CEO, Canadian Central) met in Toronto with Greg Stewart, the CEO of Farm Credit Canada and Remi Lemoine, FCC's Executive Vice-President. The meeting was prompted by concerns expressed in the credit union system about FCC's growing role in the agricultural lending market. In June, CUCC wrote to Mr. Stewart suggesting this meeting to discuss these concerns and to try to find a way to build a more constructive relationship between FCC and the Canadian credit union system. The meeting was cordial and canvassed a broad range of issues involving FCC and the credit union system. At the meeting, FCC defended its business practices but the meeting ended on a positive note with a suggestion to establish a Liaison Committee to discuss complaints about FCC practices as well as other matters of mutual interest.

The meeting concluded with an agreement that CUCC would develop some ideas for the Liaison Committee and these would be forwarded to FCC for consideration.

Although the prospect of the establishment of a Liaison Committee is a positive development, CUCC nevertheless has concerns about the scope of FCC's mandate and consequently will continue to raise these concerns with policy makers.

Tax Update

HST/GST

Gary Rogers, Vice President, Financial Policy, CUCC

A number of recent tax developments merit mention from a credit union perspective on **HST/GST**

HST expands: On July 1, HST replaced GST for credit unions in Ontario and British Columbia, and the HST rate increased in Nova Scotia. As credit unions do not qualify to recover most of the GST or HST they pay as input tax credits, their costs for goods and services not previously subject to provincial retail sales taxes have increased. However, all transactions between credit unions, Centrals and deposit insurance corporations continue to be exempt from both GST and HST. This exemption was negotiated between the credit union system and the federal government when GST was first introduced in 1991.

Destination tax: Also on July 1, a change occurred to adjust HST from a source tax to a destination tax. The key in determining whether to collect GST or HST is the province where a service is primarily consumed (the destination) rather than the province where the provider is located (the source). To illustrate, Canadian Central collects tax from some registrants at its conferences. When this national conference was previously held in Halifax, Canadian Central collected GST, not HST, despite the conference being held in an HST province, because Canadian Central is located in Ontario, which was a GST province. If that conference were to take place in Halifax now, Canadian Central would collect HST at the Nova Scotia rate, not the Ontario HST rate, because the service is being supplied in NS. Similarly, a BC credit union renting a safety deposit box to an Alberta member is required to

collect HST, not GST, because the Alberta member is using the box in BC.

SAM expands: Complicated rules known as the Special Attribution Method (SAM), will apply to an expanded range of financial institutions, but still not to credit unions. The SAM rules have applied for more than a decade to banks, insurance companies and trust and loan companies operating in at least one HST and one non-HST province. Now, they will be required also if these entities operate in at least two HST provinces and, for the first time, to mutual funds, exchange traded funds, and registered pension plans. The SAM rules adjust an FI's GST/HST costs based on whether the services are consumed in an HST or non-HST province, regardless of whether the supplier charged GST or HST. In simple terms, they prevent an FI benefitting from shopping for services in a lower tax province.

The federal government agrees that credit unions should not have to make these complicated calculations because we generally operate within a single province. Therefore, credit unions continue to be excluded from this requirement.

Define financial service: As “financial services” are exempt from GST/HST, clarity of the definition is important. During the past six months some analysts thought the federal government was trying to change the definition by stealth, to collect more tax. Some headlines screamed that \$2 billion more tax would be collected on services that previously were thought to be exempt. Minister Flaherty was forced to issue a statement denying it.

A number of technical changes to the financial services definition were included in Bill C-9, the omnibus bill that implemented the 2010 federal budget (and more). However FIs were comforted by revised explanatory notes, CRA Notice 250, and assurances that regulations would be prescribed, if required, to prevent unintended consequences. The Senate Committee on National Finance voted to delete these amendments from C-9, but the Bill was passed intact by the Senate as a whole. In general, credit unions will not be affected by the technical changes that were made.

Your Fraud Report

On-line Fraud

Jan Hopper, Senior Policy Advisor, CUCC

On-line fraud, also referred to as “cybercrime” has many forms. The methods of cybercrime most often used to target financial institutions include phishing (e-mails designed to mislead consumers to obtain on-line account access information), virus distribution (to infect consumer's computers with malicious software), hacking into the financial institution's network (to retrieve confidential information) and attacks on corporate infrastructure (to interfere with service delivery).

On-line fraud poses significant financial and reputational risk to financial institutions.

On-line fraud is expected to increase

With the implementation of chip card technology to battle debit/credit card fraud, fraudsters are looking for new methods to continue to defraud individuals and organizations. According to the Canadian Anti-Fraud Centre, over 6000 Canadians reported losing approximately \$14.5 million due to on-line fraud in 2009. Experience in countries and regions that have moved to chip card technology suggest that these losses will increase as on-line activity becomes the new target for organized crime. According to a report by Financial Fraud Action UK, plastic card fraud decreased in 2009 by 28% while on-line fraud increased by 14% in the UK.

The Solution

With on-line banking fraud on the rise, it is necessary to look at the problem to see where the solution lies. Does it rest with the financial institution, the consumer or perhaps the Government? The answer is that all parties have to play a role in a coordinated approach to address the problem.

Financial institutions need to address risk issues by keeping technical solutions up-to-date and employing adequate policies that act to minimize the potential loss related to on-line fraud. Financial institutions will have to work with on-line banking system providers to

ensure that the latest security technology is available to secure consumer transactions. Keeping current with on-line fraud methods will help financial institutions determine how technology and policies can work together to reduce the risk to consumers and their organizations.

Consumers need to be aware of risks associated with on-line activity and take the steps that they can to ensure that transactions are conducted in a secure environment. This means that consumers should have adequate safeguards on their computers including a firewall and anti-virus software. Consumers should also have a general awareness of current scams and known techniques used by fraudsters to steal personal information so that they do not become victims. Initiatives such as the Competition Bureau's *Fraud Prevention Month* and the international *Cyber Security Awareness Month* help to build greater consumer fraud awareness.

The Government needs to do its part by ensuring that laws are in place to deter fraud and provide adequate punishment for offenders. Recent legislation designed for this purpose includes Bills S-4 (*An Act to amend the Criminal Code (identity theft and related misconduct)*), C-28 (*Fighting Internet and Wireless Spam Act*) and C-29 (*Safeguarding Canadians' Personal Information Act*). The provisions within these bills will work together to assist law enforcement in the investigation of on-line fraud and the prosecution of offenders.

Response of the credit union system

The problem has been identified by provincial Central risk managers for immediate attention as the number of incidents of on-line fraud are increasing across the the system. The issue was escalated to Canadian Central's Risk Management Policy Committee (RMPC) at its June meeting. The Committee agreed that action was required to prevent losses that have the potential to be similar to those experienced through debit card skimming. As a result, a best practices document for credit unions is currently under development. This is scheduled for release to the system in the Fall.

Credit unions can help to build member awareness about the risk of on-line fraud by making available the booklet – "Defend yourself from fraud". This booklet provides an overview of current threats and measures that can be taken to minimize the risks. Copies can be

ordered from Canadian Central's Marketing Department at www.cucentral.com.

Thinking Boldly... Growing Strategically

2010 National Credit Union Lending Conference

October 2 – 5 Vancouver, BC

Thinking boldly requires a confident and courageous commitment to imagining the possibilities. Cultivating those possibilities with intentional and deliberate planning allows us to grow strategically.

Developed with the support of the National Lenders Committee, Credit Union Central of Canada's 2010 National Credit Union Lending Conference promises a topical agenda designed specifically for credit unions. Network with credit union peers from coast to coast, attend dynamic workshops, interactive discussion forums and hear keynote addresses from some of today's most visionary minds as we are challenged and inspired to "Think Boldly and Grow Strategically."

Register online today!

<http://www.cucentral.ca/eventsconf>

Hill Happenings

Kevin Dorse, Senior Policy Advisor, CUCC

Federally-regulated credit unions took a big step closer to becoming a reality since our last 'Hill Happenings'. After 42 days of debate in the House and Senate, including two committee appearances by Canadian Central, the historic changes to the *Bank Act* allowing federal credit unions was passed by the Senate and received Royal Assent in mid-July.

While this marks the bill's final legislative step, it won't come into effect until cabinet brings it into force along with its regulations. We expect Finance Canada to publish the regulations in a matter of months and will continue to keep the system apprised of developments.

The House of Commons is scheduled to resume on Monday 20 September. When it does, MPs on the Finance Committee will immediately begin hearings in preparation for the 2011 budget. For our part, Canadian Central has outlined its priorities in a submission to the committee. Topics identified for consideration include a review of the GST as it applies to financial institutions, the adequacy of retirement income, as well as specific proposals to support the development of the cooperative sector to mark the United Nations' International Year of Co-operatives in 2012. Over September and October, the committee is expected to hold hearings in Surrey and Kamloops, British Columbia; Saskatoon, Saskatchewan; London, Ontario; Lebel-sur-Quévillon, Québec; and St. John's, Newfoundland and Labrador.

Along with shorter days and aisles overflowing with school supplies, the end of summer also brings with it the ritual of election speculation. Of course, only two circumstances can provoke an early federal election. The minority government would either have to be defeated by all three opposition parties voting non-confidence, or Prime Minister Harper would have to call a snap election as he did in the fall of 2008. At this moment, neither of these scenarios are at all likely.

For their part, the Conservatives have not enjoyed a summer free from distractions. Controversies involving security costs of the G8 and G20 summits and the decision to scrap the long form census have dogged the government. Even efforts to right the ship by focusing on crime were side-swiped by a puzzling debate over jailing the perpetrators of unreported crimes.

On the opposition side, Mr. Ignatieff's Liberals are arguably the least likely to want to push the election button. Liberals will have just come off a two month election-style leader's tour around the country with lessons to be learned and their hopes pinned on some resultant improvements in public domain opinion polls.

In addition, municipal elections occurring in Alberta, Manitoba, Ontario and parts of Saskatchewan and PEI all recommend against an early federal election this fall. Which, barring the unforeseen, puts the next window for election speculation around the federal budget in the spring of 2011.

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.

This installment of Research Bits highlights one report from the Council on Financial Competition and one from the Conference Board of Canada.

The Council usually publishes 3 to 4 research studies annually and has just released its second full study for 2010 - **The Post-Crisis "Boomer" Opportunity: What the Mass Market, Mass Affluent, and High Net Worth Value from Financial Providers.**

This 75-page report, released in June 2010, discusses how firms can restore profitable customer relationships by understanding customers' perceptions of their own financial situation. An extensive survey of mass-market, mass-affluent, and high-net-worth baby boomers and early retirees reveals that feelings of financial goal achievement powerfully affect deposit consolidation with financial providers. What is more, boomers' feelings of goal achievement do not directly correlate with their wealth. This study helps financial providers identify opportunities where they can capture additional boomer share of wallet by serving their unmet needs and improving their subjective sense of financial goal achievement. Each major segment offers a unique opportunity:

- **Mass Market**—To retain and increase deposits, financial providers must elevate competence by explaining how their products and services help customers with immediate financial challenges.
- **Mass Affluent**—Take a twofold approach to earn mass-affluent assets: preserve the financial condition of the "lower mass affluent" with straightforward solutions and encourage the confidence of the "upper mass affluent" by delivering proportionate advice to reconcile their resources and expectations.

- **High Net Worth**—To drive assets to financial advisors, enhance client confidence by employing fundamental planning activities that demonstrate trustworthiness, empathy, and influence.

For the economy-minded, the Conference Board of Canada released its latest (Summer 2010) quarterly **Canadian Outlook Economic Forecast** in late July. This 76-page report looks in detail at the Canadian economy and provides a short term national outlook and overview of the major sectors that make up the Canadian economy: consumer expenditures, housing, government, non-energy business investment, international trade, energy, employment, cost and prices, and financial markets.

Credit Union Central of Canada holds a membership in both organizations on behalf of the system. To access the research, the Council on Financial Competition and the Conference Board of Canada now require an individual registration using your email address as your username.

To register:

Go to the home page of the Council on Financial Competition:

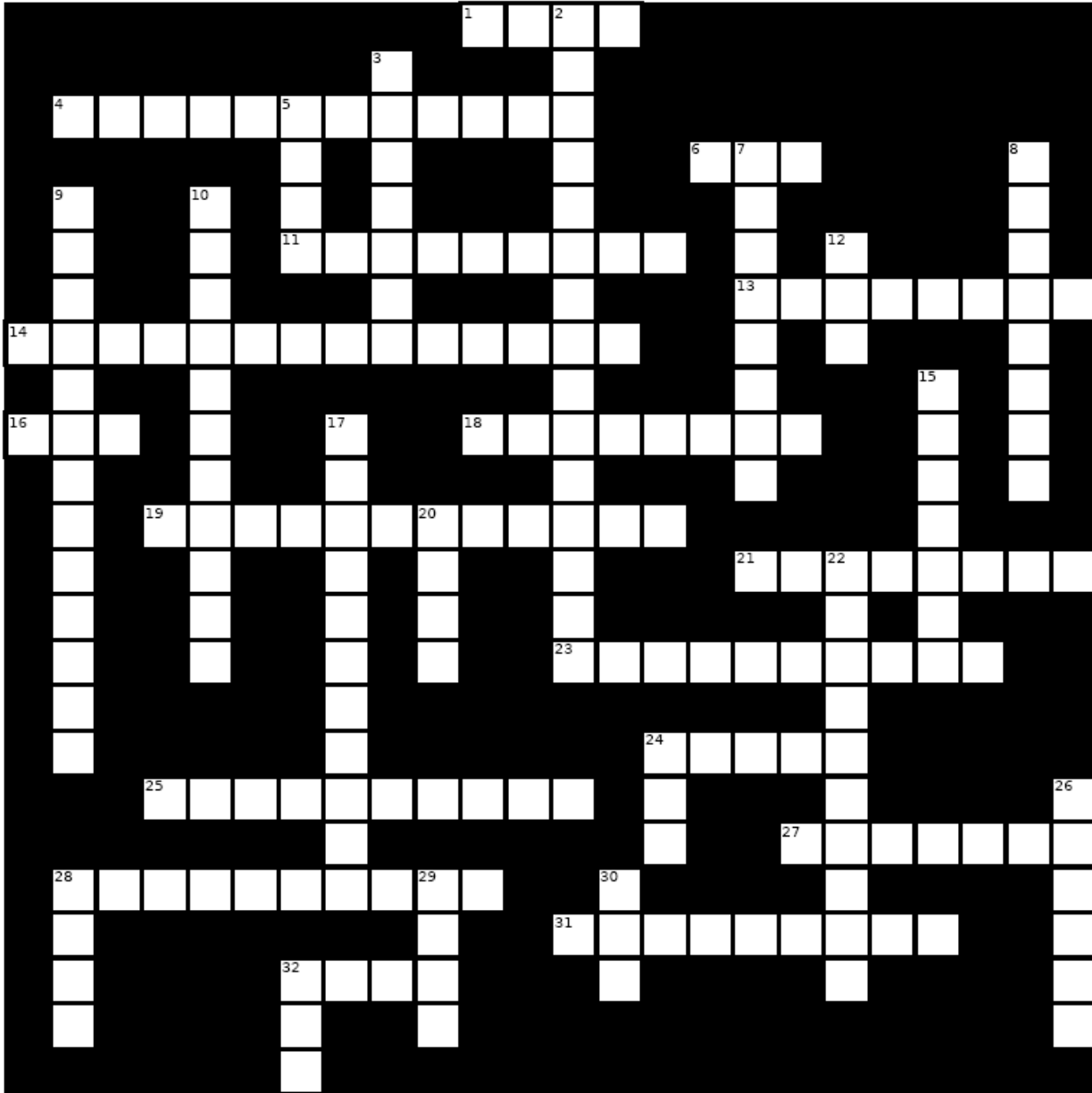
<https://cfc.executiveboard.com/Public/Default.aspx>

Go to the home page of the Conference Board of Canada: <http://sso.conferenceboard.ca/web/Login.aspx>

If you are unable to access the site, please send an email with your email address and credit union name to czarnotal@cucentral.com

Puzzling Out the Payment System

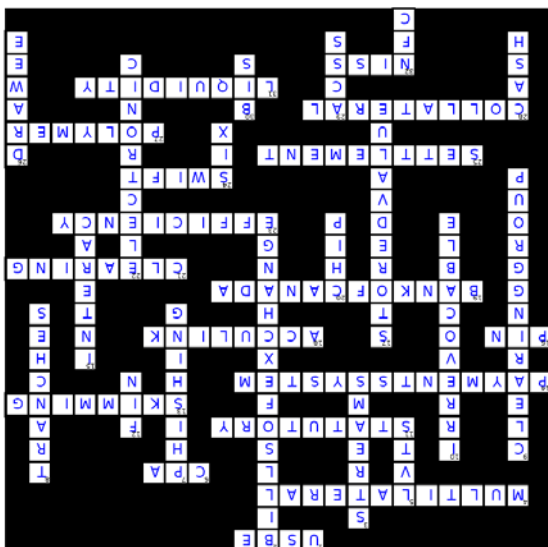
Payment Crossword Puzzle



Across	
1	System used to calculate clearing balance of USD payment items
4	The type of net settlement system ACSS is
6	Not-for-profit organization responsible for operating national systems for clearing and settlement of payments
11	Banks are _____ members of the CPA
13	Theft of credit card information used in an otherwise legitimate transaction
14	Collectively the instruments, rules and procedures used to effect a transfer of value
16	Secret code on payment cards
18	Credit union surcharge free network
19	Has primary oversight of payment system for controlling systemic risk
21	Reconciliation of payment items and calculation of balances
23	_____, safety and soundness are the three broad policy objectives of the payments system
24	Belgium headquartered cooperative that transports messages between financial institutions
25	Payment of the clearing balance
27	Material from which Canadian bank notes will be made in 2011
28	Securities posted at the Bank of Canada to ensure settlement
31	Type of risk arising from an inability of the sending party to meet its payment obligation
32	Accounting application used by the CUCC clearing group to reconcile and allocate settlement balances across Centrals

Down	
2	Act governing cheques and promissory notes
3	Categories of payment items cleared through the ACSS
5	CPA system through which 88% of daily transaction value is cleared
7	Attempt to acquire sensitive information (e.g. username; password) by masquerading as a trustworthy entity in an electronic communication
8	Options for exchanging payments in LVTS
9	Form in which the credit union system directly participates in the payments system
10	Key feature of the system through which the majority of value is transferred
12	Unique identification number assigned to financial institutions
15	Domestic debit card network
17	Where funds and/or data are physically stored on the card
20	New payment card technology currently being deployed
22	Where most of the growth in payments is today
24	Number of regional exchange points for paper items
26	Institution that makes the “pay/no pay” decision
28	Most basic payment instrument
29	CPA system through which 99% of daily transaction volume is cleared
30	Serves as a bank for central banks
32	Type of communications technology used by mobile payment schemes

Answer Key



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

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