



Regulation of the Saskatchewan Credit Union System

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INTRODUCTION

The purpose of this document is to describe the regulation of the Saskatchewan Credit Union System. The System includes Saskatchewan Credit Unions and Credit Union Central of Saskatchewan (SaskCentral), collectively, “Provincially Regulated Financial Institutions”, or “PRFIs”.

SASKATCHEWAN CREDIT UNIONS

Saskatchewan credit unions are member-owned financial cooperatives, democratically controlled by their members and operated for the purpose of providing financial services to their members. Financial products and services may be provided to non-members if authorized by the credit union’s articles.

CREDIT UNION CENTRAL OF SASKATCHEWAN (SASKCENTRAL)

SaskCentral is the statutory liquidity manager for the Saskatchewan credit union system. In this role, it ensures credit unions hold liquidity at SaskCentral to enable them to participate in the national payments system, including clearing and settlement programs. SaskCentral is also a trade association for credit unions and provides them with a wide range of products and services.

LEGISLATIVE AND GOVERNANCE MODEL

Provincial legislation provides the overall framework for the regulation of PRFIs, and includes:

- *The Credit Union Act, 1998* (“the CU Act”)
- *The Credit Union Regulations, 1999* (“the Regulations”)
- *The Credit Union Insurance Business Regulations*
- *The Credit Union Central of Saskatchewan Act, 2016* (“the CUCS Act”)

PRFIs must comply with the legal requirements and obligations established in the governing legislation, as well as other relevant provincial and federal legislation. PRFIs must also comply with regulatory requirements established by Credit Union Deposit Guarantee Corporation (CUDGC), as well as the articles, bylaws and policies set by PRFIs.

Difficult to Change



Easy to Change

Act
Legislature

Regulations
Cabinet

**Standards of Sound Business Practice/
Prudential Standards**
Credit Union Deposit Guarantee Corporation

Regulatory Requirements
Credit Union Deposit Guarantee Corporation

Articles/Bylaws
Members

Credit Union/SaskCentral Policy
Board

Credit Union/SaskCentral Procedures
Management

REGULATORY ROLES

The regulation of PRFIs is a shared responsibility.

SASKATCHEWAN LEGISLATIVE ASSEMBLY

The Saskatchewan Legislative Assembly establishes public policy and enacts legislation for the Saskatchewan credit union system. Through the legislation, the provincial government prescribes responsibilities for both CUDGC and the Registrar of Credit Unions (“the Registrar”).

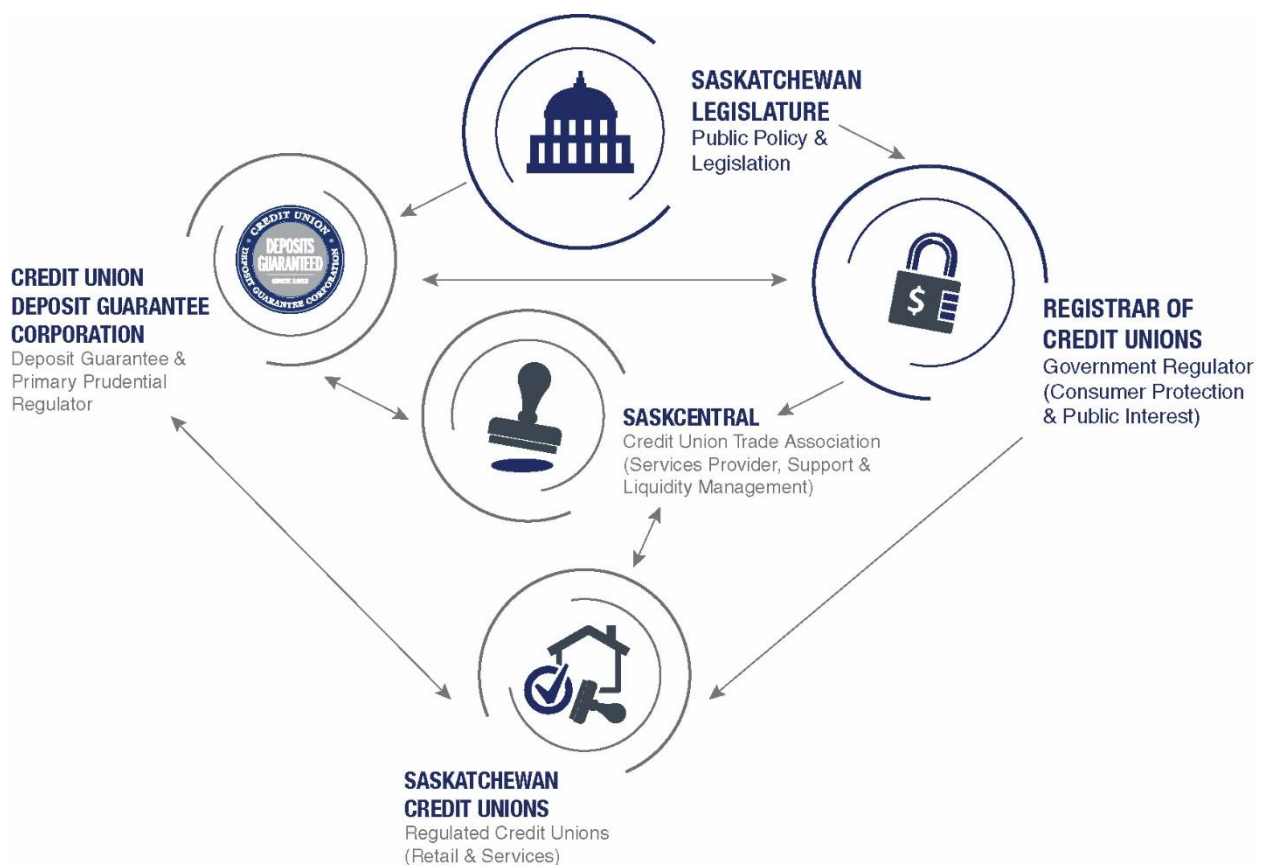
CREDIT UNION DEPOSIT GUARANTEE CORPORATION (CUDGC)

CUDGC is the primary regulator of PRFIs. It leads the development, monitoring and enforcement of regulatory requirements for PRFIs. CUDGC consults with the Registrar in developing regulatory requirements for PRFIs, such as Standards of Sound Business Practice for credit unions, Prudential Standards for SaskCentral, and regulatory guidelines and directives for PRFIs. CUDGC’s primary focus is on deposit protection and the solvency of PRFIs. It also manages the Deposit Guarantee Fund. CUDGC is accountable to the Registrar.

THE REGISTRAR OF CREDIT UNIONS (THE REGISTRAR)

The Registrar oversees and monitors CUDGC to ensure it is fulfilling its regulatory role. The Registrar has the ultimate responsibility and authority for the regulation of PRFIs, and is responsible for approving and accepting registrations and statutory filings of PRFIs, and issuing formal approvals of Prudential Standards. In overseeing and ensuring appropriate regulation of PRFIs, the Registrar's primary focus is consumer protection and the public interest. The Registrar has the overarching responsibility of ensuring a safe and sound credit union system in Saskatchewan. The Registrar may delegate powers and authority to CUDGC. The Registrar may also issue and enforce directives to CUDGC.

Regulatory Roles Model



POLICY AND STATUTORY ROLES

THE GOVERNMENT AND THE REGISTRAR

The Government is responsible for public policy enactment which it fulfills through collaboration between the Ministry of Justice and the office of the Registrar of Credit Unions, CUDGC and SaskCentral. The Legislature is responsible to enact policy through the provisions in the CU Act and the CUCS Act. Cabinet has the authority to approve changes to the regulations.

The Government is kept informed of the operations of CUDGC in two ways:

1. having two deputy ministers, or their designates, on CUDGC's board; and
2. reporting from the Registrar

This provides the Government with the information it requires to remain informed as to the safety of member deposits and the financial stability of the Saskatchewan credit union system.

The Minister of Justice (the Minister) shares authority with CUDGC and the Registrar to compile statistics and release reports on aggregated statistics associated with the credit union system. The Minister also shares protection from the statutory immunity provisions with CUDGC, the Registrar and their employees respecting the exercise of authority under the CU Act and the CUCS Act.

The Minister is responsible for appointing the Registrar. Once appointed, the Registrar is responsible to the Minister for carrying out the duties of the Registrar as set out in the Acts. These responsibilities include:

1. report the findings of the Registrar's examinations of CUDGC to the Minister; and
2. if warranted due to inadequacy of the guarantee fund, to obtain the Minister's approval prior to applying to a court for the appointment of an administrator to take over CUDGC administration.

THE REGISTRAR AND CUDGC

The CU Act and the CUCS Act grant the Registrar two types of authority with respect to monitoring of CUDGC business:

1. the authority to monitor CUDGC through examinations and audits and, if required enforcement measures; and
2. the authority to advise CUDGC through consultations with CUDGC on the content of the Standards of Sound Business Practice/ Prudential Standards.

To monitor CUDGC, the Registrar is responsible for understanding the role of CUDGC and the manner in which CUDGC fulfills its role. Under section 446 of the CU Act, CUDGC has the mandate to guarantee the repayment to a depositor of the full amount of the deposit. CUDGC's business powers are designed to provide CUDGC with the authority to manage the adequacy of the fund by regulating credit unions for solvency risk.

THE REGISTRAR, CUDGC AND CUDGC'S BOARD

CUDGC's board is responsible for "managing the business and affairs of CUDGC" and this responsibility includes approving the CUDGC bylaws, the Standards of Sound Business Practice and approving the annual financial statement.

The CUDGC board has the authority to adopt bylaws which must be filed with the Registrar. The board may adopt bylaws involving:

- the appointment of officers
- remuneration or other payments to members of the board
- voting procedures including quorum
- establishment and role of committees
- administration
- management and control of the property and affairs of CUDGC
- matters respecting standards of sound business practice and financial and business practices

- matters respecting conflicts of interest
- the manner of holding hearings by the board
- matters that the board considers necessary for the proper conduct of the business and affairs of CUDGC

CUDGC AND PRFIS

CUDGC has the statutory tools that are required to ensure the ongoing regulation of PRFIs. CUDGC has the authority to control its resources by levying premiums that are considered necessary to maintain the fund. CUDGC has additional tools to facilitate the control of lending and investment practices, capital structure and their borrowing practices. CUDGC has authority to set lending and investment policies, to require a PRFI to divest itself of inappropriate investments and loans, to approve the granting of security interests and to determine whether a credit union can enter into a limited partnership as a general partner. CUDGC has the authority to specify the type and amount of capital and liquid assets to be held by a PRFI and to issue an order or place the PRFI under supervision, or administration if it fails to comply.

MEMORANDUM OF UNDERSTANDING

The Registrar and CUDGC (individually a “Party”, collectively the “Parties”) are committed to working together in the regulation and supervision of PRFIs. In support of that commitment, a Memorandum of Understanding (“MOU”) between the Parties, documents their roles in regulating PRFIs; and sets out how they will cooperate and exchange information in fulfilling their respective roles. The MOU demonstrates a mutual desire to work together efficiently and effectively, with clear accountability for each stakeholder’s regulatory responsibilities under applicable provincial statutes and regulations. The guiding principles, description of regulatory roles, working arrangements, accountability framework, and operating practices contained in the MOU are provided in this document to support stakeholder understanding and transparency.

GUIDING PRINCIPLES

The MOU sets out an operational framework within which the Parties can effectively cooperate and coordinate the exercise of their respective powers and duties under Applicable Laws. However, it is not intended to supersede Applicable Laws.

The MOU is premised on the following guiding principles:

- Open and effective communication between the Parties;
- Clear accountability – each Party must be accountable for its actions, so each must have clearly defined responsibilities;
- Minimal duplication – each Party has defined roles to minimize inefficiency and duplication of effort;
- Checks and balances to manage risk and create confidence in the system;
- Forward looking – the Parties focus on anticipating and adjusting to developments; and
- Timely and appropriate information exchange to allow each Party to fulfill its responsibilities effectively and efficiently.

WORKING ARRANGEMENTS

- The Parties will work cooperatively together to resolve matters of ambiguity or dispute.
- If there is a dispute, the Parties will meet and work together to ensure the issue is resolved and stakeholders are not adversely affected.
- The Registrar and the CEO of CUDGC will meet periodically to discuss issues which may impact the strategic objectives for regulation of PRFIs.
- An operating committee composed of representatives of CUDGC and the Registrar's office will meet quarterly to review the financial performance of the Saskatchewan credit union system and deposit guarantee fund, emerging risks and trends, and to deal with issues of common concern.
- Representatives from CUDGC and the Registrar's Office will also meet as required to develop and implement legislation, regulation, strategic objectives and the MOU.
- The Parties may amend or update the MOU at any time to reflect changing circumstances or address other issues they consider necessary.
- The effectiveness and functioning of the MOU will be reviewed annually. It will be updated, as necessary, in light of experience of its operation in practice.
- To support monitoring regulatory risk, the Registrar will raise concerns with CUDGC's objectivity and independence to its CEO and/or board in a timely manner.

PUBLIC POLICY OBJECTIVES, MANDATE AND ACCOUNTABILITY

The MOU supplements and supports the existing legislative framework by setting out the Parties' public policy objectives and mandate, as well as an accountability framework. While public policy objectives and mandate can be inferred from the provisions of the CU Act and the CUCS Act, articulating them, and accountability to them, in the MOU are intended to provide greater clarity and certainty.

Public Policy Objectives:

The Province's public policy objectives for CUDGC are to protect depositors and contribute to the financial stability of the Saskatchewan credit union system.

Mandate:

CUDGC is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for PRFIs as directed in provincial legislation – *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016*. CUDGC instills confidence in the province's credit union system with a mandate of:

- Guaranteeing the repayment of deposits in Saskatchewan credit unions;
- Establishing regulatory standards and ensuring PRFIs are performing to those standards;
- Promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system;
- Directing PRFIs to take remedial action on material deficiencies, and any issue that may put depositors' funds at risk; and
- Maintaining and managing a guarantee fund in a sound and prudent manner.

Accountability:

Accountability to CUDGC's objectives and mandate includes both an internal review on a regular basis by the CUDGC board, as well as an external review with documented conclusions. A copy of the external review will be provided to the Registrar to whom CUDGC is accountable. The timing of the external reviews will occur at least every five years, or

more frequently as deemed necessary, and CUDGC will consult with the Registrar in advance of a review to confirm the scope of the review.

To support external monitoring and review, as well as the coordination of activities to protect depositors and contribute to financial stability, CUDGC will operate in a transparent and responsible manner. It will share information with the Registrar on an ongoing basis.

OPERATING PRACTICES

Regulatory Processes, Coordinated Contingency Planning, and Crisis Management

In dealing with a crisis in the Saskatchewan credit union system, the relevant participants in the crisis management group include the Registrar and CUDGC. The government of Saskatchewan does not explicitly backstop the deposit guarantee. However, it will be advised proactively.

CUDGC has responsibilities of deposit guarantor, supervisor and resolution authority in the crisis management group, playing the lead role in failure resolution with powers to place PRFIs under supervision or administration, enabling CUDGC to take control of a PRFI if required. CUDGC will advise the Registrar before using its intervention powers.

The Registrar has a responsibility for consumer protection and the public interest, and would be the key contact point with the provincial government during a crisis.

The following summarizes the key operating practices and roadmap for the individual roles and responsibilities of CUDGC and the Registrar in a crisis situation:

CUDGC and the Registrar jointly:

1. Review SaskCentral's crisis management plan, CUDGC's contingency plan and CUDGC's recovery and resolution framework annually. CUDGC's plan and framework should map the powers of the authorities to intervene, exchange information, and cooperate to enable prompt coordination and decision making in maintaining financial stability.
2. Annually undertake a gap analysis to identify differences between current and desired states with respect to the powers of the Parties to intervene, exchange information, and cooperate to enable prompt coordination and decision making in maintaining financial stability.
3. Undertake a crisis simulation exercise at least every two years to test the ability to contact and assemble the crisis management group on short notice, and make timely decisions to deal with a hypothetical situation.

CUDGC:

1. Leads the establishment and maintenance of a contingency plan¹ designed to manage a crisis.
2. Leads the establishment and maintenance of a recovery and resolution framework for PRFIs.
3. Receives statutory liquidity requirements from SaskCentral for consultation.
4. Provides feedback to SaskCentral regarding its management of the statutory liquidity pool, and management of participation in interprovincial or national liquidity programs.

¹ The plan should identify the necessary human resources, legal basis, lines of communication with other institutions and actions plans for failure of a systemically important financial institution or systemic crisis. The plan should also include formal communication channels with other supervisory agencies provincial and federal, and should be reviewed and updated regularly.

5. Establishes capital, liquidity and other regulatory requirements for PRFIs.
6. Monitors and enforces PRFIs' compliance with regulatory requirements.
7. When there is a material liquidity deficiency or potential solvency issue, assesses the viability of the PRFI and determines required action, including whether it will be allowed to operate.
8. Monitors the stability and soundness of the credit union system.
9. Informs the Registrar of compliance and enforcement issues that are critical or may create reputational risk, including risk to one or more PRFIs, CUDGC, or the Registrar.
10. Informs the Registrar of potential remedial interventions and interventions exercised.
11. Informs the Registrar of material system stability or soundness issues.
12. Acts as the key contact point during a crisis with provincial and federal supervisory agencies, and the general public, regarding the financial stability of the credit union system.
13. Supports the Registrar as necessary to communicate with the provincial government to respond to the public regarding the financial stability of the province as a result of a crisis in the credit union system.

Registrar:

1. Provides feedback to CUDGC regarding information received.
2. Acts as the key contact point with the provincial government during a crisis or otherwise.
3. Intervenes with CUDGC or credit unions when warranted to fulfill the Registrar's mandate, for instance if it is in the public interest or CUDGC is not complying with or fulfilling its responsibilities under the CU Act or the CUCS Act.

While SaskCentral is not a party to the MOU, its role and operating practices are summarized below for context:

SaskCentral is the statutory liquidity manager for the Saskatchewan credit union system and is regulated by CUDGC. In this role, it ensures credit unions hold liquidity at SaskCentral to enable them to participate in the national payments system, including clearing and settlement programs. SaskCentral monitors liquidity daily, and would activate its crisis management plan based on pre-established triggers.

SaskCentral:

Credit Union Liquidity

1. Establishes liquidity requirements for credit unions in consultation with CUDGC.
2. Establishes investment policies for the statutory liquidity program in consultation with CUDGC to ensure adequate quality and sufficiency of the liquidity pool.
3. Provides CUDGC with information about the sufficiency and quality of the statutory liquidity pool and the potential for drawdowns.
4. Leads and tests a liquidity crisis management plan, and reviews plan and stress tests with CUDGC and the Registrar annually.
5. Monitors individual credit unions' compliance with statutory liquidity requirements;
6. Provides lines of credit, commercial paper or other liquidity support services to credit unions for normal operations, and extends liquidity support services during periods of stress;
7. Informs CUDGC when a credit union exceeds normal operating liquidity limits;
8. Informs CUDGC of potential liquidity issues;
9. Supports credit unions through liquidity or stress events, monitors to determine if the situation is escalating into an emergency event, and informs CUDGC of material events and actions taken.
10. Manages public relations related to potential issues.

National Clearing and Settlement

1. Manages the requirements and obligations of the Saskatchewan credit union system in the national clearing and settlement program.
2. Informs CUDGC of material or sustained shortages and payments under the national clearing and settlement program.
3. Seeks approval from CUDGC and the Registrar for any fundamental changes to the clearing and settlement program.

Market Conduct

Credit unions are responsible for adopting and complying with a market code of conduct.

Market conduct is regulated as follows:

CUDGC:

1. Monitors and enforces individual credit unions' compliance with market codes of conduct and other regulatory requirements.
2. Informs the Registrar of market conduct issues that are material or may create reputational risk.
3. Informs the Registrar of potential remedial interventions and interventions exercised.
4. Informs the Registrar of material system stability or soundness issues.

Registrar:

1. Review and determine the acceptability of the model market code of conduct from SaskCentral.
2. Review and determine the acceptability of custom market codes of conduct from credit unions who choose not to adopt the model market code.
3. Consults CUDGC and SaskCentral regarding any market code of conduct that deviates from the model.

While SaskCentral is not a party to the MOU, its role and operating practices are summarized below for context:

SaskCentral:

1. Develops the model market code of conduct.
2. Reviews the model market code of conduct with the Registrar and CUDGC at least every two years.
3. Prior to amending, consults the Registrar, CUDGC and credit unions regarding proposed changes.
4. Files model market code of conduct with the Registrar.

Licensing, Registration and Gatekeeping

Credit unions are responsible for obtaining and maintaining required licenses and registrations, and for managing their incorporation requirements.

Licensing, registration and gatekeeping (collectively, "Authorization") activities include:

- Incorporation of a new credit union;
- Amalgamation of Saskatchewan credit unions;
- Continuance of a Saskatchewan credit union to another jurisdiction; and
- Other fundamental changes, as set out in the CU Act and the CUCS Act.

These activities are regulated as follows:

CUDGC and the Registrar jointly:

1. Co-ordinate and align communications and review processes to efficiently set out requirements and carry out an effective review of any application.
2. Agree that where both CUDGC and the Registrar are directly involved in the same aspect of an application, CUDGC will generally be the point of contact between the two regulators and the credit union.
3. Recognize that CUDGC's approval is a core component of the Registrar's ultimate decision.

CUDGC:

1. Processes for Authorizations:
 - a. Establishes the processes and requirements for CUDGC's approval;
 - b. Reviews and assesses the applications, including the information provided to members;
 - c. Approves or rejects the applications; and
 - d. Informs the Registrar of approvals and rejections.
2. Manages processes for substantial investments.

The Registrar:

1. Processes for Authorizations:
 - a. Establishes the processes and requirements for the Registrar's approval;
 - b. Reviews and assesses the applications, including where the requirement has been set, the information provided to members;
 - c. Reviews documents and information held in the Information Services Corporation (ISC) corporate registry;
 - d. Approves or rejects the applications considering the applicant's adherence to legislative requirements and policy and considering CUDGC's approval; and
 - e. Informs CUDGC of approvals and rejections.
2. Provides feedback to CUDGC regarding information received.
3. Oversees the administration of the ISC corporate registry that accepts statutory filings such as articles and bylaws from credit unions.