

The background of the top half of the page is a photograph of a modern building. The building has a light-colored stone or brick facade and a prominent blue awning over the entrance. Large, three-dimensional blue letters spelling 'CREDIT UNION' are mounted on the top of the awning. The sky is clear and blue, and there are some green trees visible in the background.

CREDIT UNION

Implications of the Federal Financial Sector Review for Credit Unions

Prepared for the Department of Finance

Annette Bester, Partner
National Credit Union Leader
T: 306.664.8327
E: annette.bester@mnp.ca
119 4th Avenue South
Saskatoon, SK S7K 5X2

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A black mug with the MNP logo is in the upper left. A hand holds a silver pen over a document in the lower left. Another hand rests on the document in the lower right. The background is a white surface.

MNP

MNP is a leading national accounting, tax and business consulting firm for Credit Unions in Canada. Our vision is to support and strengthen credit union leadership, knowledge and financial position, significantly enriching the communities in which we both live and work. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help Credit Unions succeed.

Department of Finance

Submitted electronically at: fin.legislativereview-examenlegislatif.fin@canada.ca

Dear Sir/Madam,

MNP is pleased to make a submission in response to the August 11, 2017 consultation paper regarding your review of the federal financial sector framework and the implications for credit unions. We appreciate the opportunity to provide our perspective due to our involvement in the financial services industry, especially as it relates to the use of the verb 'bank' and term 'banking' to describe credit union activities and services.

MNP is a leading national accounting, tax and business consulting firm in Canada. Established in 1958, with its head office in Calgary, MNP has over 4100 team members in over 60 offices located across Canada. Our dedication and commitment to the credit union industry has culminated in MNP being one of the largest providers of professional services in Canada.

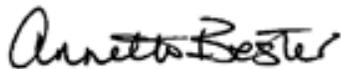
MNP is supportive of the department's proposal to review the *Bank Act* restrictions around the use of the terms 'bank,' 'banker' and 'banking'. We understand the intent of this section of the Act is to provide clarity to Canadian consumers to be able to distinguish between regulated and non-regulated financial service providers. We feel that allowing credit unions as provincially regulated financial institutions the ability to continue to use 'bank and banking' terminology to describe their financial services is an investment in Canada, in research and development, and innovation.

MNP recommends that the Department of Finance propose changes to the *Bank Act* that would allow non-bank regulated financial institutions to follow common-sense approach to using "bank" or "banking" as a descriptive verb. This approach could include reasonable limits to prevent non-bank financial institutions from purposefully misrepresenting themselves as federally-regulated banks. We further recommend that the Department of Finance provide additional clarity on how professional services providers and other suppliers would need to comply with said regulations.

By supporting our recommendation in the attached response, the Minister of Finance will be doing the right thing by applying a common-sense approach to how the *Bank Act* should be interpreted and enforced, while at the same time allowing credit unions to remain competitive with banks.

Attached you will find our detailed submission. Should you have any questions or if MNP can be of any further assistance in adding clarity, please don't hesitate to contact me.

Thank you,



Annette Bester, CPA, CA, Partner
National Credit Union Leader



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Executive Summary

Executive Summary

We are pleased to make a submission in response to the August 11, 2017 consultation paper regarding your review of the federal financial sector framework, and specifically asking Canadians for views on whether regulated non-bank deposit taking institutions should be given the flexibility to use the verb 'bank' and term 'banking' to describe their activities and services.

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients which include federally regulated and provincially regulated financial institutions, financial regulators, non-financial businesses and individual Canadians. Our brief discusses the impacts of the initial June 30, 2017 advisory issued by the Office of the Superintendent of Financial Institutions (OSFI) that adopted a strict interpretation of the *Bank Act*, and restrictions around the use of words 'bank,' 'banker' and 'banking' by non-banks.

Summary and Recommendations

MNP is supportive of the department's proposal to review the *Bank Act* restrictions around the use of the terms 'bank,' 'banker' and 'banking'. We understand the intent of this section of the Act is to provide clarity to Canadian consumers to be able to distinguish between regulated and non-regulated financial service providers. The terms being contemplated have an undertone of trust from the perspective of consumers and there have been recent violations of that trust by non-regulated financial service providers such as predatory lenders¹.

A recent survey by MNP² indicated that only a minority of consumers are confident that they wouldn't incur more debt if faced with a change in their personal situation like a divorce, unexpected repairs or a job loss. For reasons such as these, it is important that consumers understand the difference between non-regulated financial service providers, which do not bear the burden of regulatory compliance, and regulated financial institutions.

Credit unions are member-owned financial cooperatives, formed for the benefit of their member owners. Credit unions provide full-service financial solutions for consumers and provide an alternative to shareholder-owned banks, increasing competitive options available in many communities. Provincial credit unions are not regulated under the *Bank Act*, but regulated by provincial authorities. However, many provincial regulatory requirements mirror those of federally regulated financial institutions.

Credit unions are significant contributors to the Canadian economy both through the financial services they provide and as consumers of the goods and services required to operate their businesses. Credit unions have existed in Canada since the early 1900's³ and, provided they are able to remain competitive with other financial institutions, are here for the long-term. Credit unions have been at the forefront of Canadian innovation and scientific research and experimental development, being the first to launch mobile pay in Canada in 2016⁴, the first to offer an alternative to payday loans in 2014, the first to provide full-service ATM's in 1977 and the first to provide home equity lines of credit in 1980.

Their unique cooperatively owned structure results in all of a credit union's after-tax surplus being invested back into retained earnings, which is collectively owned by the member-owners, Canadian consumers. Banks, in opposition, build their retained earnings for the benefit of shareholders, which may not be retained for the benefit of Canadian consumers.

¹ <https://www.alberta.ca/release.cfm?xID=41747840F017D-BA4D-A70A-741F47E398B7F6C4>

² <http://mnpdebt.ca/en/lp/sentiment-survey>

³ History of credit unions - <https://www.central1.com/about-us/credit-union-system>

⁴ Canadian Credit Union Association 2016 Credit Union Community & Economic Impact Report

https://www.ccu.ca.com/~media/CCUA/member_corner/publications/pdfs/2016CUCEReportDigital.pdf?la=en

Allowing credit unions as provincially regulated financial institutions the ability to continue to use 'bank and banking' terminology to describe their financial services is an investment in Canada, in research and development, and innovation.

The key points raised in this submission are:

1. It is in the best interests of all Canadians to support a strong, prudentially-sound and well-regulated credit union system. Credit unions are prudentially sound financial institutions.
2. It is critical that consumers be able to easily differentiate between doing business with regulated and unregulated financial services providers. The proposed changes make it more difficult to do so.
3. The impact on these proposed changes on professional services firms and other suppliers to non-bank financial institutions is not clear.

Recommendations

MNP recommends that the Department of Finance propose changes to the *Bank Act* that would allow non-bank regulated financial institutions to follow common-sense approach to using “bank” or “banking” as a descriptive verb. This approach could include reasonable limits to prevent non-bank financial institutions from purposefully misrepresenting themselves as federally-regulated banks. We further recommend that the Department of Finance provide additional clarity on how professional services providers and other suppliers would need to comply with said regulations.

By supporting this recommendation, the Minister of Finance will be doing the right thing by applying a common-sense approach to how the *Bank Act* should be interpreted and enforced, while at the same time allowing credit unions to remain competitive with banks.

1. It is in the best interests of all Canadians to support a strong, prudentially-sound and well-regulated credit union system. Credit unions are prudentially sound financial institutions

There are approximately 300 credit unions and caisses populaires outside of Quebec serving both urban and rural communities, reporting combined consolidated assets of almost \$209.1 billion. The top 100 credit unions serve almost five million members in over 1,400 locations and account for 90.9% of the total credit union system assets. Six-month growth for the 4th quarter ending December 31, 2016 was approximately 3.3%⁵. ***They are the only financial institution operating in 380 Canadian communities***⁶. The history of credit unions is that they were formed to serve a need in communities for cost effective financial services.

Credit unions are economic drivers in Canada, with impact on thousands of communities across Canada. ***The total economic investment associated with credit unions in Canada is approximately \$6.5 billion, with over 28,000 direct jobs created. On average credit unions contribute approximately 5.7% in pre-tax profits annually to communities, compared to just 1% for the banking industry***⁷.

The Government can rest assured that any additional after-tax funds that are left with credit unions as a result of our recommendations will be invested **IN CANADA** for the **BENEFIT OF CANADIANS** and will help grow our Canadian economy in a very positive and productive manner.

Credit unions are often the first to respond when communities need help. They are there to lend a hand, provide financing, or donate to relief efforts; whatever their communities need.

Not only is an amendment to the Act an investment in the economy, it is an investment in innovation and research which will continue to keep Canada among the leading nations in the world.

A ban would disadvantage the competitive marketplace for financial services in Canada, by limiting the ability of credit unions to compete with banks: new competitors enter the Canadian financial services space on a regular basis, which both banks and credit unions must compete with. The industry is rapidly changing with new technology and more efficient ways to serve consumers.

Due to the disproportionate size of credit unions compared to the country’s largest banks, credit unions use a higher percentage of their profits, just to ensure compliance with regulatory burden and safeguarding of consumer assets. Enforcing a letter of the law interpretation of Section 983(2) of the *Bank Act* for credit unions, irrespective of the intent of that section, will further disadvantage them as additional resources will need to be spent on compliance with use of the words ‘bank’ and ‘banking.’ All of

⁵ Canadian Credit Union Association Largest 100 Credit Unions/Caisses Populaires, 4th Quarter 2016 published April 2017.

⁶ Canadian Credit Union Association 2016 Credit Union Community & Economic Impact Report
https://www.ccu.com/~media/CCUA/member_corner/publications/pdfs/2016CUCEIReportDigital.pdf?la=en

⁷ Canadian Credit Union Association 2016 Credit Union Community & Economic Impact Report
https://www.ccu.com/~media/CCUA/member_corner/publications/pdfs/2016CUCEIReportDigital.pdf?la=en

this would follow decades of OSFI having interpreted the *Bank Act* in a common-sense way, using proper judgement and discretion in the enforcement of the Act.

2. It is critical that consumers be able to easily differentiate between doing business with regulated and unregulated financial services providers.

OSFI's advisory of June 30, 2017 differentiates between federally regulated banks and all other financial services providers. However, the more significant division from a consumer standpoint is between prudentially-regulated and unregulated entities. There is no question that credit unions and trusts are broadly similar to banks from a safety, security and market conduct perspective; and much less in common with semi-regulated or unregulated entities such as money service businesses. Canadians use "bank" and "banking" terminology to describe financial services: These are terms that Canadians use and understand to describe their dealings with a deposit-taking institution like a bank or a credit union.

Any government action that creates market confusion between regulated and unregulated entities is contrary to sound public policy. Blurring the lines between regulated and unregulated entities also makes it more difficult for MNP to advise our clients on how to choose the right providers for their specific needs.

MNP further recognizes that federally regulated banks and OSFI have a legitimate requirement to protect the term "bank" from inappropriate use. Unregulated entities and non-bank regulated entities can and should be prevented from attempts to present themselves as regulated banks. Therefore, while MNP supports a wider usage of "bank" and "banking" by non-bank regulated financial institutions to *describe their products and services*, we also support enforcement of regulations to prevent non-bank financial institutions from misrepresenting themselves to the public as regulated banks.

3. The impact on these proposed changes on professional services firms and other suppliers to non-bank financial institutions is not clear.

It was not clear from OSFI's original guidance how these changes would affect suppliers of services to non-bank financial institutions. As one of Canada's largest professional services firms, MNP delivers audit, tax, risk and advisory services both federally regulated and provincially -regulated financial institutions. In doing so we must be experts in all of Canada's regulatory regimes, and be able to educate our clients on the impacts and obligations of regulatory compliance.

To do so, MNP uses common sense language such as "bank" and "banking" to describe products and services regardless of the type of financial institution. This allows us to deliver consistent levels of services and apply common standards across the financial services sector. For example, our Technology Consulting Practice has helped our credit union clients choose and implement "core banking systems." Our Anti-Money Laundering practitioners assist credit unions identify high-risk banking transactions. Our audit and assurance practitioners have reviewed the commercial banking operations of trust companies.

Any move to restrict generally-accepted verbs such as "bank" and "banking" has the potential to complicate our servicing of these clients. For example, we may be required to modify training materials, briefing notes and other internal documents to comply with regulations. Our audit reports and other documents provided to trusts and credit unions and subsequently made public would need to be stripped of any banking colloquialisms. If a strict interpretation of these proposed changes were adopted for professional services providers, the impact would be to drive up the cost of delivery, reduce the readability and effectiveness of our documents and potentially open credit unions and their service providers to legal liability.

MNP is also responsible for helping credit unions, trusts and other non-bank regulated financial institutions understand and comply with International Financial Reporting Standards (IFRS) as issued by CPA Canada, such as IFRS9. These standards are international and applicable for publicly accountable entities such as credit unions and banks and do not specifically address the unique Canadian structure of multiple regulatory regimes. Any requirement for professional accounting firms to customize these standards to place further restriction on the use of certain terms would require significant costs, increase the complexity of compliance for our clients and MNP's practitioners and defeat the purpose of observing common international accounting standards.

Our Recommendations:

1. MNP recommends that the Department of Finance propose changes to the *Bank Act* that would allow non-bank regulated financial institutions to follow common-sense approach to using “bank” or “banking” as a descriptive verb. This approach could include reasonable limits to prevent non-bank financial institutions from purposefully misrepresenting themselves as federally-regulated banks. We further recommend that the Department of Finance provide additional clarity on how professional services providers and other suppliers would need to comply with said regulations.
2. That following the adoption of these amendments, OSFI provide additional clarity, if required, as to how professional services providers and other suppliers may use these terms. For example, an independent auditor should not be restricted from using common banking terms in the standard language of their public reports.

Authors



Annette Bester

CPA, CA
Partner, National Credit Union
Leader

Contact



800, 119 4th Avenue South
Saskatoon, SK S7K 5X2



T: 306.664.8327



annette.bester@mnp.ca

Biography

Annette Bester, CPA, CA, Partner, National Credit Union Leader

Annette Bester, CPA, CA is MNP's National Credit Union Leader and an audit risk partner in MNP's Saskatoon office. Partnering and working with credit unions and business clients for over 18 years, Annette helps to support and strengthen their leadership. As a business advisor, she helps to ensure financials remain strong and compliant with reporting requirements by providing expert advice on both technical accounting and business issues.

Annette has significant experience helping credit unions with their financial reporting requirements and excels at helping her clients interpret their financial statements. Through innovative thinking, Annette has succeeded in helping clients see behind the numbers.

Annette is committed to the credit union niche within MNP, and is instrumental to the co-ordination of our efforts in delivering exceptional client services to all clients within this niche and her remaining areas of practice. Through her leadership MNP has significantly expanded the scope of MNP's services to credit unions, offering additional training to directors in partnership with CUSOURCE and dedicating our experts to the credit union system nationally through working with Canadian Credit Union Association (CCUA).

Annette obtained her Bachelor of Commerce degree (Honours) from the University of Saskatchewan in 1999 and her CPA, CA designation in 2002.



Doug Macdonald

MBA, PMP
Regional Financial Services
Leader, Eastern Canada

Contact



300, 111 Richmond St West
Toronto, ON M5H 2G4



T: 416.515.5087



doug.macdonald@mnp.ca

Biography

Doug Macdonald, MBA, PMP, Regional Financial Services Leader, Eastern Canada

Doug Macdonald has spent 20 years helping to transform how Canadians bank in an increasingly digital world. Doug's focus areas are enterprise strategy, digital strategy, product strategy and change management for financial institutions, fintech disruptors and payments providers.

A consulting partner with MNP, Doug leads the Financial Services practice for Ontario Advisory and serves as the National Consulting Leader for Credit Unions. Doug has worked with organizations in Canada, the United States and the UK to successfully delivered critical initiatives such as enterprise planning, market entry strategies, product growth strategies, M&A transactions, advanced analytics and IT strategies.

Doug has authored a number of reports that are helping to restructure the Canadian credit union system and was lead author of the authoritative Canadian Payments Landscape on behalf of the Task Force for the Payments System Review. Doug is an in-demand speaker and presenter at financial services industry conferences across Canada and is a frequent media commentator on payments innovation.

Doug earned his Master of Business Administration from the Richard Ivey School of Business and completed his undergraduate studies at the University of Toronto. Doug holds the Project Management Professional (PMP) Certification. Doug serves on the Audit and Governance Committee for the University of Toronto's Trinity College and on the Board of Directors for ACT Canada, Canada's national payments association.



About MNP

About MNP

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.

Canadian Locations

MNP has more than 60 full and part-time offices strategically located in urban and rural centres throughout Canada. Our locations are a direct reflection of Canada's economic landscape to ensure we are in the markets to support local business and key industry sectors.



International Expertise – About Praxity

MNP is an independent member of Praxity, AISBL, which is the seventh largest global alliance of independent accounting firms around the world. With more than 610 offices in 97 countries, Praxity participant firms share a united vision and entrepreneurial attitude, delivering client service and quality solutions. Core to the strength of the alliance is the ability to contribute senior-level expertise and local knowledge of laws and customs to provide practical, tailored and timely solutions of the highest quality.



MNP Services

Our comprehensive suite of business services combines industry expertise, market knowledge and professional insights. These include:

- Assurance and Accounting
- Consulting
- Corporate Finance
- Enterprise Risk
- Corporate and Consumer Insolvency
- Succession
- Tax
- Technology Solutions
- Valuation, Forensics and Litigation Support

Industry and Specialty Groups

Credit Unions

MNP is a leading national accounting, tax and business consulting firm for Canada's credit unions. Knowing the important role they play in all of our communities, we have invested more time and resources into understanding this dynamic sector than any other firm in the country. MNP delivers a diverse suite of services to protect credit unions and their members while ensuring continued evolution and prosperity for today and the future.



MADE ^{IN} CANADA

And Proud of it!

At MNP we're proud to be the national accounting, tax and business consulting firm that is 100% Made in Canada.

Why is this important? Because it defines who we are and our approach to business. It has helped shape our values, our collaborative approach and the way we work with our clients, engaging them every step of the way.

Our history gives us a unique perspective. We know Canada because we are a part of Canada. All of our decisions are made here – decisions that drive Canadian business and help us all further achieve success.

And the sense of strong Canadian commitment, being a part of every community we live and work in, and always being there through prosperous and challenging times.

Being 100% Canadian is something we wear proudly because we know the great opportunities that exist here. The opportunities that have been afforded to our firm, the same opportunities that we deliver to our clients.



Thank you for the opportunity to submit our Proposal.



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