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SUBMITTED VIA EMAIL: commission.consultation@ficombc.ca

March 28, 2017

Dear Friends:

This letter is in response to the call for public comment on the Coast Capital Savings application for commission consent to allow Coast Capital to pursue continuance under the Bank Act (Canada).

First, we appreciate the invitation to comment but we request that the closing date for comments be extended. BC credit unions are meeting in April and at those meetings additional information will certainly be shared. Following those discussions, we believe credit unions will be better able to contribute.

At this time, CCEC Credit Union will express opposition to this application. Our comments are set out below:

The process for member approval, via Special Resolution, was biased, and disclosure was not full and fair. We have been made aware of the information provided to members and the materials provided no clear business case for a major corporate change. The information glossed over risks, mostly saying only that they had been considered by the board, and gave no real information to owners on the larger corporate plans, which one can only assume, federal continuance is only one part. There was also no disclosure of the differing governance and member control regimes between the two jurisdictions.

Further, the process provided no real forum for member-owners to share critical questions, voice dissent, or otherwise debate the substance of the proposal. The process, even if minimally in compliance with the technicalities of the CUIA, precluded the member-owners from completing their own due-diligence review of the proposal, and scrutinizing the Special Resolution brought forward by the directors and management.

The exit of Coast Capital, and potentially other large credit unions, threatens the viability of the BC credit union system. As BC's second largest credit union with @500k members, a departure reduces the pooled resources, the shared systems, and undermines the 'network' model of our BC credit union system. The deposit insurance scheme, stabilization, and liquidity pooling are all premised upon a joint and several approach. A variety of back office, payment processing and marketing programs are similarly rooted in a co-operative operating model.

Continuance at the federal level is an abrogation of the contracts, written and unwritten, among BC credit unions. On a business level there may be termination clauses and procedures, but it is not consistent with the social license which has allowed for the Coast Capital to grow and flourish.

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The proposal may indeed be an appropriation of member-owner capital. The proposal would take @\$1B in member-owner capital resources into a project that has not been well outlined to the member-owners and where Coast Capital would be the pioneering player, with the attendant risks. In particular, the pending changes to capital requirements for banks, and the transitional provisions of the Bank Act for 'federal credit unions' both imply potential need for the new entity to enhance its capital base. The dominant framework under the Bank Act does not foster the co-operative ownership model. Experience in other countries will lead one to foresee hybridization or demutualization.

It may be far more fair to Coast Capital members to deal with this set of issues now, while they have control of the enterprise rather than defer to some time in the future when their interests will be substantially diluted. We refer you to the work of [Kevin Davies](#) on demutualization in Australian credit unions.

A Coast Capital conversion, and other conversions to federal jurisdiction, will disadvantage the provincial government and leave our BC government, businesses, and consumers more reliant on the banking oligopoly supervised by the senior level of government. The joint and several principle has allowed government to rely on credit unions to take care of themselves; but the departure of large credit unions may leave the BC government more exposed. A smaller pool of credit unions would be less able to shoulder a dramatic event.

And contrary to the interest of BC citizens, consolidation at the federal level will erode competition and innovation in our province. A BC based financial services sector is both a counter-weight to the federal entities, and a potential partner in both good and bad times. National financial intermediaries have a built in 'pro-cyclical bias'; they restrict credit to depressed regions – extending periods of economic distress.

While we can acknowledge the business opportunity that the Coast Capital board sees in pursuing this strategy, it is likely taking the financial co-operative model to a scale where it does not function well. While the 'growth imperative' may be viewed as positive in many ways, at scale the ownership structure of credit unions exhibits weaknesses that need to be attended to if 'the members' interests' are to be truly best served. The interests of insiders – management and directors – must somehow be acknowledged as these grow more entrenched in larger credit unions. It is likely up to government and the commission to ensure that the primary position and interests of the owner-members are respected.

Thank you for your consideration. If we might expand on any of these observations, please feel free to contact us.

Sincerely:

Ross Gentleman

Ross Gentleman
Director, on behalf of the CCEC Credit Union Board of Directors