



## **2021 Pre-Budget Consultation**

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House of Commons Standing  
Committee on Finance

*August 7, 2020*

## **SUMMARY OF RECOMMENDATIONS**

- 1) Ensure credit unions and their small business members be granted equal and timely access to all federal support programs delivered via the financial sector. We also propose a partnership with Finance Canada and CCUA to establish an educational program for federal officials on the credit union system.**
- 2) Re-launch the Department of Finance's work on Open Banking to promote the Financial Sector's stability and security, and credit unions be included in any open banking framework established at the federal level.**
- 3) Update the definition of a credit union in [section 137 \(6\) the Income Tax Act \(Canada\)](#) to reflect the reality of how credit unions serve Canadians today.**
- 4) Implement, at the earliest legislative opportunity, the Budget 2019 commitment to amend [s. 311 of the Bank Act](#) to dispense federal credit unions having to mail paper statements to each member, and other Bank Act amendment recommendations.**



## **INTRODUCTION**

The Canadian Credit Union Association (CCUA) is pleased to participate in the 2021 pre-budget consultation process of the House of Commons Standing Committee on Finance.

The credit union sector would like to express its appreciation to legislators and public servants for their tireless work in assisting Canadians over these past months.

We acknowledge the team at Finance and EDC for their hard work in ensuring as many small firms as possible, including those who bank with credit unions, were able to access federal COVID-19 relief programs such as the Canadian Emergency Business Account (CEBA).

CCUA is the national trade association for 236 credit unions and caisses populaires outside Quebec. Credit unions are full-service financial institutions that are completely Canadian-owned and are the only real competitors to the banks. Credit unions contribute \$6.5 billion to Canada's economy by providing deposit, loan and wealth management services to close to 5.8 million Canadians. Credit unions and regional centrals employ 29,500 people, and manage over \$250 billion in sector assets, representing 6.6 per cent share of domestic assets held by Canadian deposit-taking institutions. By market segment, excluding Québec, credit unions occupy 8.7 per cent of the mortgage lending market, 12 per cent of the small business market, and 11.3 per cent of lending to the agricultural market. Information about how we serve Canadians is available in our annual [Impact Report](#).

For government support programs delivered through the financial sector to reach all Canadians, credit unions must be at the table. This will continue as the government transitions to a post-COVID economic recovery program and return to economic growth.

Credit unions are important to the Canadian economy and provide choice to Canadians. They are key suppliers of financing to SMEs and serve Canadians, especially in smaller and rural communities. As financial co-operatives, credit unions are a different kind of financial institution. Unlike chartered banks, credit unions are not motivated solely by profit maximization but focus on serving the financial needs of their members, and their local community.

During COVID-19, this member focus has included offering reprieve or reductions in interest rates on credit cards, deferring mortgage payments, returning money to local communities, and offering financial literacy to millions of anxious Canadians. For example, a Saskatchewan credit union used revenue from CEBA to launch the Kindness Capital Fund, a \$200,000 fund to give financial support to continue acts of kindness people have shown across Saskatchewan during COVID-19.



### **ENSURING CANADIANS EQUAL ACCESS TO FEDERAL PROGRAMS**

Federal policy has helped cement the dominant position of the banks in the market, despite sporadic attempts to reverse the trend. Competition in the market has suffered and Canadians have fewer choices for their banking.

If the Department of Finance wishes to be successful in fostering competition and choice, the credit union perspective needs to be prominently embedded in the financial policy making process.

Our concerns were demonstrated when the CEBA program was launched, CEBA was to only be available through a small list of financial institutions. This included all six big banks, but would have prevented hundreds of credit unions and thousands of small businesses from accessing CEBA. CCUA advocated to ensure a process for onboarding credit unions to offer the program was implemented. EDC onboarded hundreds of credit unions relatively quickly, but delays remain. These delays have hurt Canadians, making them wait weeks to gain access to government funding.

Many Canadians were confused by language used by the Department of Finance regarding government programs, at times creating a reputational risk to the credit union sector. The Department referred to “banks” when it meant “banks and credit unions”. Although this situation has improved, work remains to ensure policy-makers understand the credit union and cooperative sector.

***RECOMMENDATION: We urge credit unions and their small business members be granted equal and timely access to all federal programs delivered via the financial sector. We propose a partnership with Finance Canada and CCUA to establish an educational program for federal officials on the credit union system.***



### **CONSUMER DIRECTED FINANCE (OPEN BANKING)**

If implemented correctly, Consumer Directed Finance has the potential to bring further innovation into the Canadian financial sector to the benefit of Canadian citizens, and make Canada more competitive internationally. CCUA has emphasized a robust open banking framework must be built on the principles of open standards, consumer protection and coherent regulation.

It is critical the government continues to take a harmonized and inclusive approach to Open Banking. If decisions for the Open Banking Framework are driven by the big banks and prevent provincially regulated FIs from participating, this will be anti-competitive and drive further concentration in what is already one of the least competitive financial sectors amongst OECD countries. It will also put consumers data at risk as entities can exploit regulatory disparities amongst jurisdictions. Consumers may continue using existing unsecure data sharing methods.

Both the Senate of Canada and the Department of Finance have recognized these risks, and the importance of including provincially regulated FIs. In the Senate's Report on Open Banking, a recommendation for pan-Canadian harmonization was made.

The credit union sector is eager to resume work on a viable Open Banking framework and will continue to participate as the process continues.

#### ***RECOMMENDATIONS:***

**The government re-launch the Department of Finance's work on Open Banking to promote the stability and security of our Financial Sector.**

**CCUA and credit unions must be included at all steps of the process to ensure the interests of 5.8 million Canadians and their small businesses are represented.**

**In advance of the Open Banking Framework in Canada, it is pertinent gaps in Federal, Provincial and Territorial legislation are addressed to allow for credit unions and other provincially regulated financial institutions to participate.**



### **SUPPORTING COMPETITION: TAXING CREDIT UNIONS AS COOPERATIVES**

The definition of credit union in s. [137 \(6\) of the \*Income Tax Act\*](#) is 50 years old, from an era when credit unions' business practises and revenue sources were different than they are today. However, CRA continues to interpret credit union revenue in the same manner, as when our members engaged in simple deposits and loans. Today, no financial institution could survive on the deposit-loan model, and to provide Canadians with some level of choice in financial services, credit unions have evolved. The *Income Tax Act* – and CRA – have not, with detrimental effects for credit unions.

CCUA engaged a working group of CFOs and tax leaders representing credit unions to discuss federal tax policy and tax administration issues. They have identified four updates to the *Income Tax Act* which are undermining the ability of the credit union sector to offer Canadian consumers the broadest range of financial services at competitive prices and where the need for modernization is compelling and urgent. The most urgent recommendation is below.

***Recommendation: Update the definition of a credit union in [section 137 \(6\) of the \*Income Tax Act\*](#) to reflect the reality of how credit unions operate today. The simple solution would be to eliminate the revenue test and apply a definition that any incorporated credit union under federal and provincial law is in fact a credit union. The recent definition of a federal credit union in [S. 12.1 of the \*Bank Act\*](#) provides a useful model.***

### **REGULATORY MODERNIZATION FOR FEDERAL CREDIT UNIONS**

Federally regulated credit unions continue to divert time and money away from helping Canadians to mail out unnecessary and burdensome paper financial statements to every member due to [s. 311 of the \*Bank Act\*](#).

This is despite the 2019 Budget fixing this outdated requirement. Due to the election, this was not passed into law. Credit unions were promised the issue would be dealt with at the earliest legislative opportunity and expected the issue to be remedied in the Spring of 2020. This issue should be remedied at the earliest legislative opportunity.

We urge the government to amend s. 311 of the *Bank Act* to allow for financial statements to be "made available" (including on the federal credit union's website) rather than require paper mail out. British Columbia as well as other provincial jurisdictions have remedied this, no longer requiring mailed paper statements.



Solving this will allow federal credit unions to invest hundreds of thousands of dollars - per credit union - back to Canadians and their local communities. This is a simple and cost-free way to assist the credit union sector, and Canadians, while having positive environmental impacts as well.

The government should also remedy two outdated *Bank Act* provisions which require attention, in Budget 2021:

- a) Under [s. 192.04 of the \*Bank Act\*](#), a member of a federal credit union can propose a special resolution for consideration at the credit union's AGM. The comparable requirement for banks ([section 143 \(1.1\)](#)) requires registered bank shareholders/beneficial owners must hold a prescribed number of shares for a prescribed period, or have the support of persons who in aggregate meet these requirements to be eligible to submit proposals. Section 192.04 would allow a single individual member to present frivolous or costly proposals. The costs for a federal credit union to print proxy materials can be significant.

We recommend a threshold of the lower of one per cent of members or 500 members to bring a special resolution for consideration at members' meetings. It is worth noting such thresholds are in place under provincial credit union legislation, in British Columbia special resolutions must obtain a minimum of 300 signatures prior to being considered at a members' meeting.

- b) Under section [240 of the \*Bank Act\*](#), any member, shareholder or creditor of a bank (including a federal credit union), or their personal representatives, may examine and make copies of the shareholder/member register. This was designed for a joint-stock bank, where the owners are distinct from the customers, not a federal credit union where the member customers are also the shareholders/owners. It could result in an employee of a competitor becoming a member of a federal credit union and demanding delivery of the credit union's customer list. The membership list of a federal credit union is competitively sensitive information and disclosure could compromise privacy rights under *The Personal Information Protection and Electronic Documents Act*. The *Insurance Companies Act (Canada)* contains a prohibition on disclosing a policyholder list, the *Bank Act* should follow. We recommend the government amend section 240 of the *Bank Act* to only permit disclosure of a federal credit union's membership list to a third party as an intermediary to facilitate member communications.



**RECOMMENDATION: We recommend the government implement at the earliest legislative opportunity the Budget 2019 commitment to amend [s. 311 of the Bank Act](#) to dispense with the requirement on federal credit unions to mail paper statements to all their members, and other regulatory Bank Act amendment recommendations regarding access to member registers and voting thresholds at AGMs be enacted as well.**

On behalf of our members, thank you for the opportunity to participate in this process. CCUA and our members stand ready to partner with the federal government and this committee to ensure a sustainable and fair economic recovery program for all Canadian firms and individuals.

Regards,

Martha Durdin  
President & CEO  
Canadian Credit Union Association

