Financial Services
Commission of Ontario

Incorporating and registering a new credit union or caisse populaire in Ontario

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INTRODUCTION

The purpose of this guide

This guide is aimed at community groups interested in incorporating a credit union or caisse populaire, and outlines the basic steps required to set one up in Ontario. It also outlines how the Financial Services Commission of Ontario (FSCO) assesses applications for proposed new incorporations. FSCO's incorporation analysis framework is based on key factors that FSCO has identified as essential for credit unions to successfully operate in the current challenging environment.

After reading this guide, you should be able to determine whether your proposed credit union or caisse populaire would meet FSCO's requirements for approval. You will also understand the steps required to complete the application process.

Background

Credit unions and caisse populaires are member-owned financial institutions that provide services primarily for the benefit of their members. Members have a common bond of association; for example, the common bond could be based on residence in a certain geographic area, employment within a particular company or industrial sector, or membership in a cultural or religious group or trade union. Caisses populaires are controlled and managed in French to promote the interests of Ontario's French-speaking community.

Credit unions and caisses populaires may expand their bond of association that is set out in their by-laws to include new communities they did not serve before. Over the years, many credit unions and caisses populaires have grown this way. As new members join, credit unions grow and change to reflect an expanded membership.

In Ontario, all credit unions and caisse populaires are incorporated and regulated under the Credit Unions and Caisses Populaires Act, 1994 (CUCPA). FSCO and the Deposit Insurance Corporation of Ontario (DICO) are jointly responsible for regulating credit unions and caisse populaires and ensuring their compliance with the provisions of CUCPA.

The *Credit Unions and Caisses Populaires Act, 1994*

All credit unions and caisses populaires operating in Ontario must comply with the legal and regulatory requirements set out in CUCPA. As your group begins to plan a new credit union, you should become familiar with these requirements.

You can download a copy of CUCPA from the Government of Ontario's e-Laws website.

The Financial Services Commission of Ontario (www.fsco.gov.on.ca)

FSCO incorporates and regulates Ontario's credit unions and caisses populaires. FSCO monitors credit unions' and caisses populaires' compliance with legal and regulatory requirements designed to ensure the fair treatment of consumers and to promote a strong credit union and caisse populaire system. For further information on FSCO's regulatory approach, please refer to FSCO's Regulatory Framework.

The Deposit Insurance Corporation of Ontario (www.dico.com)

DICO regulates solvency and insures the eligible deposits in all credit unions and caisses populaires operating in the province. Members' eligible deposits are fully insured up to the prescribed limit of $100,000. Deposits in registered plans and tax-free savings accounts have unlimited insurance coverage.[1] Credit unions pay for this insurance through annual premiums.

CURRENT ENVIRONMENT

The credit union and caisse populaire sector in Ontario is a mature sector, with some institutions operating for more than 100 years. There has been a steady decline in the number of credit unions and caisses populaires over the past 30 years, as a result of ongoing consolidation through mergers and acquisitions. The consolidation trend is expected to continue, especially given the challenging socio-economic and competitive environment that continues to impact the sector.

INCORPORATING A NEW CREDIT UNION IN ONTARIO – AN OVERVIEW

Please note that in the rest of this document the term "credit union" or "credit unions" refers to credit union or caisse populaire.

Financial institutions are sophisticated corporate entities and barriers to entry in the sector are very high in Ontario. A new entrant should expect to face many challenges. Financial services are now widely available at affordable prices by many participants – for example, financial services firms and intermediaries are becoming increasingly active in multiple product lines, blurring the lines that once delineated the various financial services industries. Credit Unions will require a material amount of capital in the first few years of operation. They will also require a management team, executive team and board of directors with significant experience, knowledge and skill sets. The ongoing consolidation trend in the sector also poses a barrier to new entrants and must be considered in the business plan of a proposed new credit union. To be successful, potential new entrants need to identify a unique niche market that is either not being served or is underserved by other financial institutions and translate this need in a viable business plan.

Incorporating a new credit union is an extensive process. In FSCO's experience it may take up to two years for applicants to develop and complete an application for incorporation and registration.

Before deciding to set up a new credit union, your group should contact the appropriate league, federation or association to see if there is an existing credit union that can serve your community. Starting with an established credit union can significantly reduce the time and expense involved in providing your community with the financial services it needs. If you decide that your community's needs cannot be easily met by an existing credit union, you will still benefit from working with the credit union system to get your new credit union started.

[1] The Ontario Government has proposed changes to deposit insurance limits; these proposed changes were posted on the Regulatory Registry. The consultation period closed April 30, 2016, and comments are under review.

To conduct a feasibility study and prepare a business plan, you may want to get assistance from professionals familiar with Ontario's credit union system. Information and assistance is available from the credit union leagues, federations or associations listed in this guide. Once a feasibility study and a business plan are successfully completed, you will need to develop policies and procedures. Please consult DICO's website (www.dico.com) for details on what policies and procedures you should include.

The first step in starting a credit union is to assess its feasibility and determine your level of community support. Successful credit unions are built on strong community commitment and the ongoing work of volunteers who dedicate their time and skills by serving on the board of directors and other committees. As part of the feasibility study it is important to identify a **unique niche market** that is not being served or is underserved by other institutions.

Once there is sufficient community support, a business plan must be developed. This process is similar in many respects to other business enterprises; however, there are some important differences. Credit unions must meet regulatory requirements that ensure the safety of members' deposits. These requirements must be carefully observed in the planning process.

In order to ensure ongoing community support, the community must be involved in the credit union's planning of services offered to members.

STARTING A NEW CREDIT UNION

In many ways, starting a credit union is like starting any new business. It requires careful planning, a realistic assessment of market conditions and established competitors, and skilled management and directors able to get the credit union off the ground. However, there are some major differences between setting up an ordinary business venture and starting a credit union.

CUCPA requires credit unions to carry out certain business practices in order to ensure that the savings of credit union members are protected. For example, your credit union will have to maintain a minimum level of capital and liquidity reserves. You must also ensure that both its management and directors have the appropriate competencies, are adequately trained in running a financial institution, and understand the requirements of CUCPA. For more information on the sound business practices and standards of competencies for members of the board of directors that credit unions must follow, please visit DICO's website at www.dico.com.

Credit unions are financial institutions that are highly regulated. Therefore, they are required to submit complete financial statements, along with regular reports of their activities, to both FSCO and DICO.

Forming a steering committee

As the first step, your group should form a steering committee to take responsibility for coordinating all aspects of setting up your credit union. The committee members can gather information required, mobilize community support, organize community meetings, prepare a feasibility study and business plan, and serve as contacts for the community, government, the credit union system, media, and other interested parties.

Success depends on the credit union's ability to gain the support of the whole community; therefore it is critical that the community be involved in establishing your credit union from the very beginning. The steering committee should include representatives from as many groups in your community as possible.

Some members of your steering committee may become incorporating directors of the credit union. When choosing the members of the steering committee, you may wish to keep in mind that credit union directors are legally required to be familiar with the kinds of financial transactions credit unions perform. Training for credit union directors is available from the credit union leagues and federations listed in this guide. DICO has issued guidance as to the competencies required for directors of credit unions. Please become familiar with the material on their website.

Incorporating a credit union – FSCO's analysis framework

FSCO is responsible for approving the incorporation of your credit union once you have demonstrated that:

- the feasibility and business plan are sound and indicate that the credit union is viable;
- the credit union will operate in accordance with co-operative principles and promote community economic development;
- deposits will be safeguarded to minimize the risk of any claim against the deposit insurer;
- the management and directors have the skill and experience necessary to run a financial institution; and
- the incorporation of the credit union will serve the best interests of Ontario's co-operative financial system.

FSCO will consult with DICO prior to the incorporation of any new credit union as DICO is responsible for insuring member deposits and regulating solvency.

Given the high failure rate of credit unions incorporated in Ontario since 1980, ongoing consolidation in the sector and the current socio-economic environment, FSCO recently reviewed and has enhanced the assessment methodology for a proposed new incorporation of a credit union.

In consultation with the industry, FSCO identified key factors that determine either the success or failure of a credit union operating in the current environment.

Key success factors

Business plan

- A detailed, clear and executable business plan that identifies a potential niche market and includes financial objectives and performance indicators.

Capital management

- Sufficient capital resources to cover financial losses, especially within the initial years of operation.

Risk management

- A strong risk management framework including an overall enterprise risk management approach

Internal controls

- Well documented policies and procedures as well as internal controls to ensure that policies and procedures are followed.

Corporate governance

- Solid corporate governance with clear separation of duties for the board of directors, the chief executive officer, the executive team and the management team.

Board of directors

- A knowledgeable, competent and fully engaged board of directors that will ensure that an adequate corporate governance structure is in place.

The executive and management teams

- A team that is very experienced in business administration and the financial services sector, has a strong understanding of risks and is aware of the socio-economic and regulatory environment. The executive team needs to set a relevant strategic direction for the credit union and the management team needs to demonstrate the ability to execute the business plan.

Community Involvement

- Giving back to the community and potentially sponsoring community and social initiatives.

FSCO's analysis framework

FSCO enhanced the analysis framework for new incorporations to improve and provide consistency in the review of applications for potential new credit unions. The following summarizes how FSCO will assess the information provided to support each of the criteria defined in CUCPA.

1. The plans for the conduct and development of the business of the credit union are feasible and sound.

FSCO needs to be satisfied that the credit union has a solid business plan that defines how it will achieve sustainable growth and be flexible to adapt to adverse events. The detailed business plan should include:

a) A defined niche target market that reflects a specific and unmet or underserved need
   - Competition in the financial services sector is sophisticated and very intense. In order to enhance a credit union's competitive position against more established financial institutions, new entrants will need to target a defined niche in the market for a specific and unmet or underserved need.

b) Plan for the next five to 10 years of operation including a thorough assessment of the target market, product offerings and profitability margins stress-testing scenarios, a technology and media plan, and an exit plan.
   - The start-up phase for credit unions appears to be at least five years on average and should be appropriately addressed in the business plan.
   - Traditionally, credit unions filled in gaps in the marketplace for products and services not available to specific communities. Given the expansion of products and services available from established financial institutions and alternate providers, these gaps are narrower and limited in scope.
   - An exit plan is needed to define when the credit union is not succeeding; the plan should outline the trigger mechanisms and steps to unwind the credit union at any point in time in order to minimize the negative impact of an operational failure on the community and the sector.

c) Minimum capital of $5 million and a plan on how to achieve a minimum of $10 million in capital within the first five years of operation.
   - The level of capital must be sufficient to support the entry costs (e.g. technology and competent personnel) and expected start-up losses.
   - Assessment of required capital would be case-specific but a starting capital of between $10 million and $15 million would be preferred. This is to provide the credit union the ability for sustainable growth and avoid the need to draw excessively on investment funds within the initial years of operation.

d) Demonstrate concrete plans on how to achieve a target minimum asset size of $100 million within the first five years of operation.
   - The current $50 million threshold for “Class 1” credit unions poses challenges to support a viable, sustainable long-term business plan.

Note: For details of the key elements that should be included in your business plan, review *Business Plan for Credit Union Incorporation* in Appendix B.

2. The credit union will be operated in accordance with co-operative principles.

FSCO needs to be satisfied that in addition to all customers being members of the credit union, the board of directors, executive team and management team are active and fully engaged members of the credit union.

a) Need to promote active members that show strong ties to the credit union and involvement in the community to increase loyalty to the credit union and long-term membership.

b) The executive and management teams must show that there is a co-operative culture that includes social responsibility and that giving back to the community is a part of the plan.

3. The credit union will be operated in such a way that deposits will be safeguarded without the likelihood of a claim against the Corporation.

FSCO needs to be satisfied that the credit union has a solid exit plan as well as the ability and willingness to execute the plan if required.

a) A solid enterprise risk management framework and detailed internal controls are required.

b) Drafted policies and procedures as well as proposed monitoring and control mechanisms are required.

c) A new credit union would need to demonstrate that it would have the ability to attract and retain staff with adequate knowledge and experience in risk management.

4. The credit union will be operated responsibly by individuals who, by virtue of their character, competence and experience, are suited to operating a financial institution.

FSCO needs to be satisfied that both the board of directors and the executive team demonstrate solid ethics, competence and experience as well as the commitment to a continuous involvement for at least the start-up phase (within the initial five years).

a) FSCO and DICO will conduct joint in-person interviews with all proposed members of the board of directors and the executive team.
   - The members of the board of directors and the executive team should be active and fully-engaged members of the credit union, demonstrating strong ties and involvement in the community.

5. The incorporation of the credit union will serve the best interests of the co-operative financial system in Ontario.

FSCO needs to be satisfied that the new credit union targets a specific niche and that serving the needs of that market niche is financially viable.

a) This is a key requirement that is tied to the business plan.
   - There must be a demonstrated need for financial services that is not presently met.

Note: Please refer to Appendix C for criteria that FSCO will use when assessing a new application for incorporation.

Services offered by a credit union

Credit unions usually begin by providing members with basic financial services such as savings accounts, cheque cashing, and small personal loans. As a credit union grows and its management develops the necessary expertise, it may begin to offer more services such as home mortgages, chequing accounts, RRSPs, RRIFs, tax-free savings accounts, commercial lending, automated teller machines, mobile banking and foreign exchange accounts.

Well-established credit unions with a solid deposit base, adequate capital, and experienced lenders may increase the size of their loans and expand to a full range of financial services. The range of services a credit union offers will depend on its ability to earn enough from the deposits it holds to support the resource requirements and finance these additional services.

FILING A REQUEST TO INCORPORATE A CREDIT UNION

The request to incorporate and register a new credit union or caisse populaire must, at a minimum, contain the following information:

- a cover letter that explains the intent to incorporate and register a new credit union or caisse populaire;
- the results from the feasibility study;
- a business plan;
- the proposed articles of incorporation and proposed by-laws;
- the proposed offering statement to raise the required level of capital; as applicable, and
- all applicable application fees (as outlined in the **Minister's Schedule of Required Fees**).
- For further details on supporting materials to include with your application, please refer to Appendix A, B, C and D.

More information

If you have any questions about the information in this guide, please contact FSCO at:

Financial Services Commission of Ontario
Licensing and Market Conduct Division
5160 Yonge Street
Toronto, ON M2N 6L9
Tel: (416) 250-7250
Fax: (416) 590-7070
Toll free: 1 (800) 668-0128
Email: contactcentre@fsco.gov.on.ca

You may also wish to contact one of the following credit union leagues or federations:

Central 1
2810 Matheson Boulevard East
Mississauga, ON L4W 4X7
Tel: 1-800-661-6813
Fax: (905) 238-8691
Email: communications@central1.com

L'Alliance des caisses populaires de l'Ontario
1870 Bond Street, P.O. Box 3500
North Bay, ON PIB 4V6
Tel: (705) 474-5634
Fax: (705) 474-5326
Email : support@acpol.ca

Fédération des caisses populaires de l'Ontario
214 Chemin Montreal, 3rd Floor
Ottawa ON KIL 8L8
Tel: (613) 746-3276
Fax: (613) 746-6035
Email: scpo@caissepop.com

APPENDIX A

COMMUNITY PROFILE QUESTIONNAIRE

Below is an example of a questionnaire designed to help you assess the feasibility of setting up a credit union in your community. You would include your completed questionnaire, along with any other information you think would support the feasibility of your project, as part of your application.

Tip: Statistics Canada is a useful resource if filling out the questionnaire. You may contact Statistics Canada by calling 1 (800) 263-1136 or accessing their website at www.statcan.gc.ca. You may also contact Statistics Canada by email at infostats@statcan.gc.ca. In addition, you may obtain important demographic and economic information from your local public library, economic development office or municipality.

Target market

- What is the unmet or underserved need that the proposed new credit union would satisfy?
- What are the unique characteristics of the target market?

General community information

- Describe the community your proposed credit union would serve. This community may be residents of a geographic area, people with a common bond (e.g., an ethno-cultural community) or a common interest (e.g., members of a particular occupation, profession, religion or labour union).
- What is the population and geographical area of the community your credit union would serve?

Potential market for credit union

- Why does your community want a credit union? In answering this question, please indicate how you expect your community would benefit from a credit union.
- What other financial institutions currently serve the target members of the proposed credit union? What financial services do they offer your community?
- If your credit union would serve a geographic community with no other financial institution, how far is it to the nearest financial institution?
- Has a financial institution recently closed or reduced its services in your community? If yes, please provide details.
- If there is another credit union within your community, why does it not meet your community's needs?
- Describe your community in as much detail as possible.

- Include any statistical information available on the age, sex, occupation, and income of members of the community that your credit union would serve. Highlight any demographic changes in your community (e.g., rapid growth due to recent immigration, significant rise or fall in the number of seniors, youth, etc.).
- Describe the main industries in your community (if applicable).
- If possible, list the names and types of businesses in your community, the number of people they employ, and other significant information such as whether they are new or expanded businesses, or locally-owned.
- What is the unemployment rate in your community?
- Describe any significant economic events or trends affecting your community (e.g., the closing or opening of a major plant, the construction of a new transportation link, etc.).

Organization sponsoring the credit union

- What is the name of your organization(s)?
- How many members does your organization have?
- Is your organization a non-profit corporation, business corporation, co-operative, or some other kind of corporation, association, or community group?
- Does it have a board of directors or other governing body? If yes, is this board or governing body elected or appointed? Who elects or appoints your board or governing body?
- If your organization is membership-based, describe how you attract members. Are all members of the community to be served by the credit union eligible to join? Is membership in your organization voluntary or compulsory?
- What other associations or organizations connected to your community are represented on the committee proposing the credit union?

Steering committee

- List the names, mailing addresses, and telephone numbers of all members of the steering committee.
- List the name(s) of the person(s) who we should contact about the proposed credit union.

APPENDIX B

BUSINESS PLAN FOR CREDIT UNION INCORPORATION

In order to approve a new incorporation, the Superintendent has a statutory responsibility to be satisfied of the following matters:

1. The plans for the conduct and development of the business of the credit union are feasible and sound.
2. The credit union will be operated in accordance with co-operative principles.
3. The credit union will be operated in such a way that deposits will be safeguarded without the likelihood of a claim against the Corporation.
4. The credit union will be operated responsibly by individuals who, by virtue of their character, competence and experience, are suited to operating a financial institution.
5. The incorporation of the credit union will serve the best interests of the co-operative financial system in Ontario.

A business plan needs to address all these requirements.

Key elements to be addressed in your business plan:

Introduction, vision, mission, objectives and organization structure

- Organization chart
- Brief description of the activities of organization
- Discussion of the rationale for the proposed structure.

Barriers to entry are very high for the credit union sector in Ontario and there are many challenges for potential new entrants. Financial services are now widely available at affordable prices. In addition, capital requirements are very high for the first few years of operation, and the experience, knowledge, and skill set required for successfully operating a credit union is extensive. The ongoing consolidation trend in the sector is also a hindrance to new entrants. To be successful, potential new entrants need to identify a unique niche market that is either not being served or is underserved by other financial institutions.

Capital plan

Capital requirements for new credit unions

A credit union must, at all times, maintain a minimum amount of capital measured as prescribed in Ontario Regulation 237/09 Section 15. A new credit union will anticipate growth that will increase the statutory capital requirement over time, and must plan for operating losses to be expected to occur until it reaches an operationally viable performance level. For this reason, a new credit union must plan its start-up phase appropriately with adequate capital reserves.

Assessment of required capital would be case-specific but for sustainable growth, a starting capital of between $10 million and $15 million would be preferred. It is advisable for a new credit union to have minimum capital of $5 million with a clear plan for how to achieve a minimum of $10 million in the first five years.

Components of capital

The capital of an Ontario credit union may consist of three components:

- Membership shares required to be held by every member
- Special investment shares
- Retained earnings from operational profits

The capital plan should outline the proposed structure for membership shares. If you are proposing to attract a significant amount of deposits, you should also include a plan for raising capital. This can be in the form of a ‘share offering’.

Restriction on a new credit union taking deposits until fully capitalized

Prior to taking any deposits, a credit union must prepare, and have approved by the Superintendent of Financial Services, an offering statement that will be ready for issuance upon incorporation. Immediately after the credit union is incorporated by the Minister, an order is issued by the Superintendent restricting it from accepting deposits (or making loans) until it has raised the minimum capital required in the plan.

As soon as the credit union is incorporated and the receipted offering statement is issued it can start issuing membership shares and selling special shares under the offering statement. These funds will be held in trust until the minimum amount of the offering statement is raised. Once the minimum amount of capital required in the approved business plan has been raised, the order is lifted and the credit union may commence its full operations including taking deposits and making loans.

Retained earnings

A new credit union will have no retained earnings and, in its early years, is likely to experience losses on operations which must be netted off the other capital components in calculating its total regulatory capital.

Services

Detailed descriptions of the activities of the below are to be carried out within the initial years, and over the long term, if applicable:

- Liquidity
- Legal support
- Deposit and lending products
- Investment counselling
- Credit counselling
- Interest rate risk management
- Service delivery

Marketing strategy

Do you expect to attract new members? If so, what is the strategy?

Human resources

- Organizational chart
- Implication for costing
- Board of directors – experience and background of proposed members
- Audit committee – experience and background of proposed members
- Management – experience and background of proposed members
- Similar information for the credit committee if available
- Future staffing requirements should be consistent with long-term objectives

Overview and financial assumptions

Provide assumptions for the following, if applicable:

- Membership targets and asset growth
- Capital components and levels
- Funds allocation (i.e. through loans or investments)
- Borrowing needs, including growth and cost assumptions
- Loan products (if you intend to provide a borrowing facility to your members), including growth and rate assumptions
- Other income, whether by annual assessment or fee for service
- Operational expenses, including details of occupancy costs, salaries, depreciation, audit fees, start up, advertising, etc.

You need to project: balance sheets, income statements and cash flow statements. Once completed, a ratio analysis should be prepared based on those projections. The specific types of ratios should closely match key ratios monitored by DICO. Detailed investment and lending policies and procedures will also be required as part of the business plan.

Technology plan

- Planned technology infrastructure i.e. networks, workstations, peripherals, and operating systems
- Staff training
- Major initiatives including timelines and costs
- Data security

Media plan

- Target Audience
- Media type(s)
- Social media plan including staffing and training

Exit plan

- Criteria to start a winding up procedure
- Steps to unwind the credit union

APPENDIX C

FSCO'S CRITERIA FOR ASSESSING AN APPLICATION FOR INCORPORATION

Business plan

Target market

- What is the unmet or underserved need that the proposed new credit union would satisfy? Can this need be otherwise satisfied by any other existing financial institution presently or in the foreseeable future?
- What is the target market (i.e. geography, unique characteristics of the membership, relevancy)? What are the unique characteristics of the target market? What is the size of the market? What is the estimated penetration rate for the start-up phase and the longer term?
- Has the proposed new credit union performed a feasibility study on the target market?
- What are the characteristics of the community in which the proposed new credit union's members operate? What are the economic prospects of the community for the next 10 years and the longer-term horizon (10 years, 20 years and beyond)?
- What is the implementation timeline for the business plans? What are the financial goals?
- Who are the direct competitors for the proposed new credit union? What is the differentiation strategy for the proposed new credit union?
- Are any economies of scale to be achieved as part of the business plan and what is the timeline associated with such economies of scale? How will economies of scale be achieved?

Products

- What are the core types of products and services to be offered? What are the main characteristics of these products and services? How do they compare against similar products and services available on the market? What are additional products and services that may be needed?
- What is the overall portfolio mix and what is the expected profitability of each component?
- What is the retail vs. commercial portfolio balance? Does the proposed new credit union have the expertise for commercial products and services presently or in the foreseeable future? If the expertise is not available what is the plan, including compensation package, to satisfy this need?

- What pricing models will be used? (correlate assessment with the risk management framework)
- What disclosures are anticipated to include and cover for members? Have the key disclosure requirements been identified and considered?

Marketing and distribution

- What type of channels will the proposed new credit union utilize to serve its members? (i.e. bricks and mortar, virtual, electronic, phone, etc.)
- What is the marketing plan for the proposed new credit unions? (assess details on product, price, distribution channels, advertising strategy)

Financial plan

- What are the expected revenue sources? What are the additional sources of revenue identified?
- How many branches will the proposed new credit union open? How will the branches be funded? Will branches be individually profitable? Is there an individual business case for each branch or is there an umbrella profitability framework applied? Is it justified?
- What is the market share that the proposed new credit union is expected to acquire? What is the cost per one per cent of additional market share? Are there any economies of scale?
- What is the 'share of wallet' for the expected members of the proposed new credit union?
- Strategic partnerships: are any needed? What kind? Why? What will be the financial impact? Does the proposed new credit union have a solid strategic plan? Execution milestones identified?
- What type of growth? Organic versus acquisitions? If organic how will the growth be sustainable? If growth is planned by acquisitions, what is the integration strategy? Any integrations experience?

Technology plan

- Is there a detailed technology plan? Does it include details on how the operational business model is supported by technology applications?

Exit plan

- Does the proposed new credit union have an exit plan? How is the entity demonstrating the willingness and ability to execute the exit plan if and when required (for example by DICO)?

- Has the negative impact of a potential failure been quantified as part of the exit plan, and how?

Co-operative principles and community involvement

- What will connect the member to the co-operative values of the credit union?
- What are key characteristics and values of the community in which the proposed new credit union would operate?
- How do the community values align with the values of the proposed new credit union?
- Does the proposed new credit union have a clear vision and mission?
- How are the vision and mission being communicated to the community and how are they aligned with the community in which the proposed new credit union would operate?
- How will the proposed new credit union be giving back to the community? Who on the proposed board has expertise in co-operative principles?
- Would the proposed new credit union be involved in or create any specific programs for the community in which it would operate?

Risk management and internal controls

- Does the proposed new credit union have a detailed enterprise risk management framework? Who on the proposed board has risk management expertise? Who on the proposed board has credit risk management expertise?
- Has the proposed new credit union developed detailed valuation and pricing models?
- Does the proposed new credit union have proper policies and procedures developed?
- Are the strategic plans based on solid operational considerations over the long term?
- What are the main sources for deposits? What is the expected deposit mix?
- How is the proposed new credit union making itself aware of all compliance requirements? Does it have realistic plans on how to address legislative compliance aspects? Is the proposed new credit union able to attract and retain staff with adequate compliance knowledge and expertise? Who on the proposed board has compliance expertise?
- How will the proposed new credit union ensure high quality of service in a consistent manner? What will be the measure for the quality of service?
- How much risk is the proposed new credit union willing to take? How much risk is the proposed new credit union able to take?
- How will the proposed new credit union add value for its potential members?

- Does the proposed new credit union have a solid capital management plan?
- Does the proposed new credit union have a solid liquidity management plan?
- Would the proposed new credit union have adequate internal controls in place to prevent and address fraud situations?
- What are the policies and procedures related to “know your client” requirements?

Corporate governance and the board of directors

- Assess the career profiles for the members of the board of directors, executive team, and operational management team in order to determine whether the individuals selected provide sufficient diversity of complementary knowledge and experience required for the proposed new credit union. Complement the desk assessment with an in-person interview with both FSCO and DICO.
- Describe the level of expertise of each board member individually, and how their knowledge, skills and experience serve the proposed credit union collectively.
- Who on the proposed board has financial services and deposit-taking business expertise? Who on the proposed board has legal expertise? Who on the proposed board has financial expertise?

Executive and management teams

- What plans do the board of directors, executive team, and operational management team have to monitor the ongoing execution against the business plan?
- What are project management capabilities of the executive team and the management team?
- How would the members of the board of directors, executive team, and operational management team demonstrate active involvement in the community in which the proposed new credit union would operate?
- How will the proposed new credit union employees be trained?
- How would the proposed new credit union ensure that it will be able to attract and retain the appropriate knowledge and experience required at all levels of the organization?

APPENDIX D

COMMUNITY FINANCIAL SERVICES NEEDS

Before you set up a new credit union/caisse populaire, you must first be able to prove adequate community support for your proposal. You can do this by issuing a survey to your community members. Your survey should include:

- Introductory paragraph that explains what the survey is for
- Instructions on where to send the survey once completed (they send to you, and then you send to steering committee and FSCO)
- Question asking whether the respondent would be interested in becoming a member of your credit union/caisse populaire; also determine if they would be willing to volunteer to help get it started, and if so, what their area of expertise is and the hours they are willing to commit to
- Question asking whether they would consider running for election the board of directors
- List of services typically offered by financial institutions, which survey participants rank by importance to them, e.g., they can specify whether they think a service is “very important”, “somewhat important”, or “not important”.
- Determine which services participants would be willing to transfer over from their existing financial institution
- Request for respondents to describe, in order of preference, the reason(s) they would transfer their account(s), i.e., community support, higher interest rate on deposits, lower fees, services, other. Determine how much the participant would be willing to invest in membership shares, i.e., $25, $50, $75, greater than $75; and preferred shares, i.e., $500, $5,000, $1,000, $10,000.00 or greater
- Should also determine: 1. Which factors the survey participant considers important in deciding whether to join the planned credit union, i.e. convenient location, evening/weekend hours, competitive interest rates etc.; 2. Which location they would prefer, i.e. a community centre; 3. Which community the participant works in, and which financial institutions are available to them there; 4. space for any additional comments

For more information on what to include in your survey, or for any questions regarding other supporting documentation that should be included with your application, please contact FSCO.