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SECTOR RELEASE

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To all Boards of Directors, Managers and CEOs

REVISED BY-LAWS #5 AND #6

DICO is seeking input on proposed changes to its By-laws #5 and #6. The proposed revised by-laws are being made available for comment to all credit unions and caisses populaires, leagues and associations as well as other industry stakeholders. DICO plans to make final recommendations to the Government in early November and anticipates proclamation of these revisions by the end of 2010. In order to help meet this timeline, please provide any comments or questions on these proposals to the attention of Richard Dale, Director, Regulatory Affairs at by-laws@dico.com by October 31, 2010. Further information and guidance on these changes will be provided in the coming months.

By-law #5: Standards of Sound Business and Financial Practices

Following a comprehensive review of By-law #5, it was revised to reflect recent changes to the Act and to ensure that it appropriately reflects industry best practices and emerging issues. As part of the review process, an ad-hoc committee of industry representatives was convened to assist with the development of an Enterprise Risk Management (ERM) framework which is included in the proposals for Class 2 institutions. The following is a summary of the proposed revisions to By-law #5:

- Modifying the standards that apply to both Class 1 and Class 2 institutions;
- Amalgamating the current seven standards into three “Governance” standards;
- Adding a new Governance standard addressing the specific requirements of the Audit Committee;
- Removing specific elements of the risk management standards which will be more thoroughly addressed in supporting publications including a revised Reference Manual, revised Self-Assessment Workbooks, ERM Framework and Examination Manual;
- Adding additional requirements for Class 2 institutions for implementing ERM; and
- Including a new section on compliance and clarifying the linkage between material non-compliance and DICO’s intervention criteria and deposit insurance coverage.

Once proclaimed, each insured institution will be required to be in compliance with this by-law by the end of its first financial year ending on or after December 31, 2011.

However, DICO proposes phasing in the ERM requirements for Class 2 institutions over the next three years starting with larger institutions with assets of \$250 million or more in the first year. Further information on ERM implementation will be provided in early 2011.

DICO would like to thank the following members of the ERM Ad-Hoc Committee for their advice and suggestions in the development of an ERM framework:

ERM AD-HOC COMMITTEE – SECTOR PARTICIPANTS	
CHAIR OF THE COMMITTEE Mr. Richard P. Adam Senior Vice President, Finance and Administration Northern Credit Union Limited	
Mr. Gérald Morin Vice President, Finance and Risk Management Alterna Savings and Credit Union Limited	Mr. Ron Hodges Vice President, Finance and Administration Italian Canadian Savings & Credit Union
Mr. Martin Blais Chef d'équipe Direction exécutive Intégration et Mesure des risques Fédération des caisses Desjardins du Québec	Mr. Luc Racette Directeur des opérations L'Alliance des caisses populaires de l'Ontario Limitée
Ms. Sandy Shaw Chair of the Board of Directors First Ontario Credit Union Limited	Mr. Leo Gautreau Vice President, Risk Management Meridian Credit Union Limited
Mr. Julian Sellers Chief Financial Officer Kawartha Credit Union Limited	Ms. Gay Chong Executive Vice President, Operations Windsor Family Credit Union

DICO would also like to thank Ms. Fay Booker of Booker and Associates who has been acting in an advisory capacity.

By-law #6: Reserves and Monthly Provision for Doubtful Loans

This by-law has been revised to reflect changes in accounting rules and terminology under International Financial Reporting Standards (IFRS) which take effect on or after January 1, 2011 and also to better align this by-law with the Act, Regulations and current industry practices. The following is a summary of the proposed revisions to By-law #6:

- The name of the By-law has changed and is now linked to Section 90 of the Act and Section 24 of the Regulations;
- Minor changes have been made to the conditions for the individual (currently called “specific”) loan loss allowance including individually significant loans and exceptions for up to one year for government guaranteed or insured loans;
- Additional requirements regarding the collective (non-specific) allowance including an annual review of the methodology and assumptions;
- Detailed accounting rules and discussions have been removed as these are dealt with in the International Accounting Standards under IFRS; and
- Minimum disclosure requirements have been outlined.

Once proclaimed, By-law #6 will become effective for all insured institutions with a financial year that starts after December 31, 2010. Further information regarding the application of the by-law is provided in the Guidance Note: Impaired Loans and Loan Provisioning Templates which are also being made available for review and comment at this time.