

10 Minutes

2021 MEW Town Hall Script

Introduction

- My name is Mark White, and I am the CEO of the Financial Services Regulatory Authority.
- This is the fifth time your regulator has spoken directly with PACE members¹ - and the 4th time I have spoken with you
- I am going to provide you with an update on activities by your regulator as we oversee PACE. This information was communicated in a members letter dated April 12th.
- In particular, I am going to outline the stabilization plan developed and implemented by PACE's management and FSRA so that PACE can continue to operate and serve your needs.

Why we regulate – p15

- As the regulator of credit unions in Ontario, we require high standards of business conduct and effective governance to protect the rights and interests of credit union members.
- We oversee the solvency of credit unions to protect depositors from loss and to contribute to the stability of the credit union sector
- This includes providing deposit insurance from the Deposit Insurance Reserve Fund, and minimizing losses to the DIRF so that there are funds to protect other depositors

Why was PACE put under administration – p16

- In September 2018, to protect PACE's members from failed board governance and misconduct by certain executives, the credit union was placed into Administration by FSRA's predecessor, DICO. This gave the regulator control of PACE.
- Since June 2019, FSRA has been responsible for supervising PACE's financial safety and soundness (prudential regulation) and its business conduct.
- We tried to return to member-controlled governance in January 2020, but unexpected adverse events – generally related to COVID-19 and the

¹ June 2019: Guy @ PACE AGM; Nov 2019: Mark @ teletown hall; Jan 2020: Mark @ Special meeting of members (new Board); April 2020 AGM;

disruption it caused – required us in late 2020 to return to directly overseeing the management team running the day-to-day operations of PACE.

Members Letter on Regulatory Activities – p17

- I wrote to PACE members on April 12 – shortly after receiving PACE’s 2020 financial statements – to describe the regulatory actions we were taking to stabilize PACE and to enable it to continue to operate and to meet its members needs
- As you will hear later, these financial statements showed a deterioration in PACE’s financial position and regulatory capital levels
- FSRA reviewed PACE’s financial position, and conduct related to preferred share sales to PACE’s members, and determined that with appropriate measures by FSRA and PACE’s management – which we generally call the stabilization plan – PACE is able to continue in operations to meet its members needs.

The Stabilization Plan – p18

- The stabilization plan includes 5 key elements:
 - 1) While you will hear later that PCU has a remarkably high level of liquid financial resources, FSRA provided a \$500M committed credit facility to PACE to give members confidence that PACE will continue in operations without interruption, including honouring its deposits.
 - 2) PACE is proactively working with its members to minimize their exposure due to uninsured deposits through active outreach, restructuring deposits where possible to provide insurance, and offering timely repayment where uninsured
 - 3) We recruited David Finnie, PACE’s CEO, in late 2020 and, to recognize our confidence in David and his management team, we formally recognized that they have the authority to operate PACE’s day to day business so they can better meet member needs
 - 4) We recognized that PACE can temporarily operate with reduced capital
 - 5) We agreed with PACE management how they will implement better governance, controls and training to ensure that members are well-treated when PACE provides them with financial products, such as

the preferred share investments which have caused losses to some PACE members.

Your deposits are insured - p19

- The stabilization plan is in addition to the protection your insured deposits have – we did not want uncertainty about what deposit insurance means, and how it would be accessed, to cause members to be concerned about whether they can rely on PACE to provide those funds when they are required
- In Ontario, the moment you become a credit union member and make a deposit, your **insurable deposits are protected** by FSRA.
- Access to more information on this is set out the FSRA website as described on p23 of this presentation

Recent Regulatory Decisions

Let me turn to providing a bit more information on our recent regulatory decisions described in our April 12 letter

1. Day to day management – Administration Order #4 – p20

- As mentioned, FSRA appointed David as PACE’s Chief Executive Officer in late 2020.
- FSRA has full confidence in David and the current PACE management team
- We documented this in a new Administration Order which gives David and his team more authority over the operations of PACE that serve your needs.

2. PACE Conduct & Preferred Share Investments - p21

- FSRA has completed its investigation into the sale of certain preferred shares issued by PACE Financial Limited (PFL), a subsidiary of PACE Securities Corp. (PSC), which was itself a subsidiary of PACE.
- In addition to working to initiate the mediation proceedings so that all investors in PSC preferred shares will be fairly treated, FSRA determined that a small number of PACE Credit Union employees sold about \$3M in preferred shares directly to certain PACE members. These direct sales contravened the law in Ontario governing credit unions - the legislation we call the CUCPA.

- Working with PACE management, we identified steps to ensure that this doesn't happen again. This includes training of PACE employees and putting better controls in place.
- PACE members harmed through the CUCPA breaches will be compensated through the mediation.
- I understand that around \$30M of preferred shares were sold to several hundred other PACE members - and I acknowledge that those members have also suffered losses on their preferred share investments.
 - The CUCPA permits PACE to refer its members to PSC - so this practice does not breach the CUCPA.
 - Further, FSRA is not a court or securities regulator so it would not be appropriate for us to adjudicate these other claims for compensation.
 - We did, however, work to create a process which can adjudicate those claims - and we will ensure that PACE works in good faith through the court-supervised mediation process to achieve fair treatment for all parties.
- I know that some members on the call invested in preferred shares issued by PFL or the other issuer, First Hamilton Holdings. I am pleased that is now in mediation. I believe that this court ordered mediation process can fairly address the claims of all preferred share investors.
- However, as this is, by court order, a confidential process, FSRA and PACE cannot comment on matters that are part of the mediation.

3. Capital Variance Decision – p22

- As mentioned above, PACE management advised FSRA that, based on PACE's 2020 financial results, at December 31, 2020, PACE did not meet regulatory capital requirements
- FSRA has varied the CUCPA capital requirements for PACE so that it can continue to operate to serve its members.
- We can grant this because of PACE's proposed business and capital recovery plans, our confidence in PCU management and anticipated proceeds from the Recovery Litigation - which PACE is, with FSRA's assistance, pursuing against the 2018 senior officers and Directors of PACE.
 - While the Recovery Litigation is taking longer than we would like, based on the advice of counsel, we continue to believe that PACE's

claims will be found to be meritorious and that PACE will benefit from significant recoveries.

- As these matters are actively before the courts, it would not be in the interests of PACE's members to comment further on the recovery litigation.
- The Capital Variation also protects PACE's capital during this period of uncertainty.
- You will soon hear from PACE's auditor, CFO and CEO on the financial background to the capital variation decision.
- Also, as mentioned above, FSRA has shown its confidence in PACE by extending a \$500M committed liquidity facility to ensure that PACE will, despite these uncertain times, be able to continue its ordinary course operations, without disruption to its members.

Conclusion - What does this mean to you?

- FSRA is working to protect the interests of PACE's members – and with the stabilization plan we have put in place, you can continue to rely on PACE without fearing for the safety or availability of your deposits.
- I understand that the administration of PACE and the litigation we discussed are taking longer to complete than members may have expected. Due to unexpected events in 2020, it is taking longer than I expected. Nevertheless, FSRA will keep working through this adversity to protect the interests of PACE and its members.
- We have – and I believe you can have - confidence in PACE's current CEO and management team - and that they are committed to serving your needs.
- With the arrangements discussed above, we believe you, the PACE members, can continue to rely on PACE as your financial partner.

There will be a chance for questions later – and I will now turn this over to Tamara Jones, the Price Waterhouse Coopers Audit partner.