

**FSRA Consultation on  
the Proposed Sound Business  
and Financial practices of  
Credit Unions and Caisses Populaires Rule**

**Desjardins Group submission**



**Submitted to the Financial Services Regulatory Authority of Ontario**

**September 14, 2021**

The Desjardins Group (“Desjardins”) is pleased to respond to the request for comment on the Proposed Sound Business and Financial practices of Credit Unions and Caisses Populaires Rule (the “Rule”) for the Ontario credit union and caisse populaire sector (the “sector”).

Desjardins is the leading cooperative financial group in Canada serving over 7.5 million members and clients and with \$389 billion in assets<sup>1</sup>. We provide Canadians with wealth management, life and health insurance, property and casualty insurance, and personal, business, and institutional financial services such as payment processing. In Ontario, the Desjardins Ontario Credit Union (“DOCU”) is the second largest credit union in the province with 130,000 members, 51 branches, over \$8 billion in assets, and over \$17 billion in assets under management. For over 120 years, Desjardins has listened and responded to its members’ needs and adapted to change.

As the largest independent Canadian cooperative financial group, we often partner with the Canadian Credit Union Association (CCUA) to work on shared needs and common issues. With regards to this consultation, we are in general agreement with CCUA’s comments and recommendations and wish to highlight the following areas.

### **Composition of the Board**

A fundamental characteristic of a co-operative<sup>2</sup> is its “democratic member control” whereby its members elect individuals to the Board of Directors. Hence, with regards to Article 4(2)(i), senior management should not have the power to appoint members to the Board. However, senior management can suggest candidates to the Board’s election committee, but the responsibility of co-opting individuals must remain with the Board.

There appears to be a conflict between Articles 4(3) and 4(4) and Articles 5(1) to 5(3). In accordance with the articles dealing with the independence of persons, the CEO would be in a conflict of interest if he or she is responsible for oversight of the credit union’s management. As per the Guidance Notes to the Co-operative Principles by the International Co-operative Alliance (ICA):

“Elected members should take care to distinguish the governance responsibility of elected members and officers and the day-to-day business management responsibility of chief executives and senior managers. Elected members ought not to interfere with the day-to-day responsibility of executives to manage a co-operative business efficiently and put member-approved business strategies into effect.”<sup>3</sup>

### **Fair and Responsible Remuneration**

We appreciate FSRA’s principles-based supervisory approach that is proportionate and adaptable to changing circumstances. However, our interpretation of the proposed new Rule leads us to find several areas that are overly prescriptive, particularly section 9. We fully agree that a fair and responsible compensation program should be “structured appropriately to attract, retain and motivate high-quality” resources, but the requirement that such a program be established based on a specific set of criteria poses a challenge for a well-established credit union like DOCU.

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<sup>1</sup> Based on Q2 2021 results.

<sup>2</sup> <https://www.ica.coop/en/cooperatives/cooperative-identity>

<sup>3</sup> <https://www.ica.coop/sites/default/files/publication-files/ica-guidance-notes-en-310629900.pdf>

The DOCU is affiliated with our integrated cooperative financial group and operates under the Desjardins brand. The DOCU's compensation program is benchmarked within the Desjardins Group and compared to the median of the Canadian financial market<sup>4</sup>. Desjardins established a total compensation policy with guiding principles that serve as a foundation for a framework that supports our performance culture, while ensuring cross-functional consistency across the organization. These guiding principles include:

- “Desjardins Group alignment” to support the directions, goals, and priorities of the Group, to promote collaboration across the organization, and most importantly, to embody our cooperative values and the interests of our members and clients.
- “Performance” to ensure the long-term success of Desjardins Group, and to promote sound and prudent risk management for all total compensation components, i.e. to ensure a fair balance between risk and expected return.
- “Talent management”, including attraction and loyalty, simplicity and flexibility, engagement, and equity.

This last factor is particularly important for us as we strive to ensure internal organization-wide equity, while considering the geographic realities of different markets. Additionally, we also aim to ensure external equity by considering the workforce supply and demand, the compensation offered by competitors in the Canadian financial sector and, when required, market specifics for certain strategic or specialized functions.

It is impossible to compare DOCU to another Ontario credit union because no other credit union in the sector is an affiliated component of a Canadian co-operative financial group with a D-SIFI designation like Desjardins. This very important factor significantly affects DOCU's nature, size, complexity, operations, and risk profile. It is important to note that some credit unions may be similar in size and operations, yet can still be quite different in nature, complexity, and risk profile. Considering this fact, we recommend that the remuneration program to be adopted by the Board reflect the function of the positions in question, specifically their role, responsibility, and competency, as well as the business model of the credit union. In this spirit, we anticipate a principle-based approach will continue to be adopted on this matter. Furthermore, in the case when an oversight function is outsourced, it should be clarified that the senior management of the credit union remains accountable.

As mentioned prior to the launch of this consultation, experience in other organizations has shown that the disclosure of remuneration (Article 9(3)) has the insidious effect of increasing executive compensation. This may be misaligned with a credit union's policies and practices, as well as with its members' interests, and could have long-term negative impacts on the credit union. Our assumption is that such a scenario would also conflict with the intent of the guideline.

In conclusion, we continue to appreciate FSRA's engagement of the sector on such important matters. We hope our comments are helpful and welcome the opportunity to discuss them in greater detail.

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<sup>4</sup> The Canadian financial market is made up of Canadian banks, insurance companies and other financial services companies (finance, investment).