



BULLETIN NUMBER:	CU-2006-01 (REPLACES INFORMATION BULLETIN CU-2001-001)
TITLE:	FORMATION OF A CREDIT UNION IN BRITISH COLUMBIA
LEGISLATION:	<i>CREDIT UNION INCORPORATION ACT, FINANCIAL INSTITUTIONS ACT AND COMPANY ACT</i>
DATE:	JUNE 2006
DISTRIBUTION:	All Interested Applicants

The requirements of the *Credit Union Incorporation Act* (“CUIA”), *Financial Institutions Act* (“FIA”), and the *Company Act* (“CA”) must be met in order to form a credit union in British Columbia. The process is a two-phased approval; first, the applicants must incorporate as a credit union in B.C. and second, the applicant credit union must apply for a business authorization.

PHASE ONE: INCORPORATION

The procedure for incorporation has three steps: application, evaluation and approval.

Application

An **Application for Incorporation** form must be completed and filed with the Superintendent of Financial Institutions at the Financial Institutions Commission (the “Commission”).

The following items must accompany the application:

1. Cheque for \$5,000 made payable to the Minister of Finance (this fee is non-refundable);
2. Constitution of the credit union subscribed to by a minimum of 25 subscribers who have agreed to be members of the credit union and who are residents of British Columbia;
3. Common bond of membership;
4. Proposed rules of the credit union;

5. Notice of the credit union's registered office, records office, and offices in which the credit union proposes to carry on business;
6. Completed Personal Information Returns for the proposed first directors. The credit union must have at least five directors, each one of whom must be a resident of British Columbia and a subscriber of shares in the proposed credit union, and must meet the statutory requirements to act as a director as outlined under the *CUIA*, *FIA*, and *CA*;
7. Completed Personal Information Returns for the proposed senior officers, each of whom must meet the qualification to hold office as a senior officer as defined in the *FIA*, Part 1, section 1 (please note for the purposes of this section, an "officer" is defined in the Regulations). Resumes for the senior officers must also be included;
8. Comprehensive Investment and Lending Policy ("ILP") covering the nature and scope of investments and loans the credit union intends to make; and
9. Business plan that provides the following information (please note that the business plan submitted at the time of incorporation is generally at a higher level and does not deal with the more detailed operational issues that will be addressed at the time of application for a business authorization):
 - Evidence of commitment of initial start-up capital, listing the names of initial shareholders and their commitment of the amount of investment in shares;
 - Financial plan for the credit union, including five-year *pro forma* balance sheets and income statements with detailed explanations about the assumptions used in the forecasts. The plan must also demonstrate compliance with statutory liquidity requirements and with the ILP;
 - Capital plan that provides evidence that the credit union will maintain adequate capital through the five-year start-up period and demonstrate compliance with statutory capital requirements. The required capital will depend upon the business objectives of the credit union but a minimum of \$1,000,000 is recommended. Evidence that these funds are held in trust at a specified financial institution is required;
 - Evidence to support that there is a market need;
 - Proposed credit union's location and rationale for choosing the location;
 - Complete list of services that the credit union proposes to offer to its members;
 - Proposed method of data processing;
 - Evidence supporting the financial and managerial capacity to properly carry on the business of the credit union;
 - Preliminary activities the proposed credit union will carry on prior to receiving a business authorization;
 - Time period after incorporation within which the proposed credit union will meet the requirements for being issued a business authorization. The Commission must be satisfied that the proposed credit union will be able to obtain a business authorization to enable it to offer to the public, within a reasonable time after the incorporation, the services outlined in its business plan; and
 - Any other information that may be required by the Commission.

Evaluation

Once the application and accompanying items have been received and evaluated, and the Commission staff are satisfied that the application meets the requirements of the *CUIA*, *FIA*, *CA*, and Regulations, the staff will forward the application to the Commission for its consideration.

The Commission shall not consent to the incorporation of a credit union if they:

1. have not received a report from the Commission staff that the legislative requirements have been met;
2. are not satisfied that the formation of the proposed credit union will be for the convenience and advantage of the members;
3. are not satisfied that the proposed credit union will be operated in a manner in which the investments and deposits of members will be safeguarded without likelihood of a claim on the deposit insurance fund; and
4. believe on reasonable grounds that it is contrary to the public interest.

Approval

If the Commission approves the incorporation, the Registrar of Companies will issue a Certificate of Incorporation.

PHASE TWO: OBTAINING A BUSINESS AUTHORIZATION

Before a newly incorporated credit union is permitted to carry on *deposit business* or *deposit and trust business* in British Columbia, it must obtain a business authorization from the Commission. The credit union must apply for a business authorization within one year of the date of its incorporation (a further 6 months extension may be provided by a Commission Order). The procedure for applying for a business authorization also has three steps: application, evaluation, and approval.

The completion of Phase Two is a significantly more substantive process and requires a higher level of commitment from the board and shareholders. Preliminary activities must show that the credit union is operating within their rules and in compliance with applicable legislation. Operational start-up requirements include the hiring of a general manager, securing premises and equipment, implementing data processing, accounting and information systems, and establishing specific policies and procedures.

In addition to reviewing the detailed business and operational plans, the Commission staff will meet with the general manager, visit the credit union premises and perform a preliminary on-site review to verify the accuracy of information provided, and to assess the business practices and the capability of the credit union to open its doors for business.

Application

An **Application for Business Authorization** form must be completed and filed with the Commission.

The following items must accompany the application:

1. Cheque for \$2,500 made payable to the Minister of Finance (this fee is non-refundable);
2. Details of any changes in the composition of directors and senior officers. If so, new PIRs must be submitted;
3. Details of any changes to the ILP;
4. Audit, conduct review and investment and lending committee members and each committee's terms of reference and policies and procedures;
5. Board policy and procedures manual (including such items as roles and responsibilities, frequency of meetings, nominations of directors, training, expense reimbursement, etc.);
6. Name and address of the credit union's auditor and the date of appointment;
7. Copies of the credit union's most recent financial statements (both monthly and audited year-end);
8. Business plan that covers the following operational requirements:
 - Hiring of a general manager who has financial institution experience and the skills necessary to manage a new credit union. It is expected that the general manager will be involved in the development of the business plans;
 - Location of initial branch(es) and copies of lease agreements;
 - Supporting market analysis and rationale for locations chosen and list of other financial institutions in the area;
 - Floor plans of branch(es) and contract estimates for required renovations;
 - Major fixed assets to be purchased;
 - Organizational chart outlining all staff positions and reporting lines;
 - Time line of when staff will be hired and what positions will be filled;
 - Detailed job descriptions and the salary range and benefits for each position;
 - Data processing requirements for the credit union banking system and contracts for all services to be provided;
 - Hardware and software requirements for other areas such as management reporting, payroll, etc.;
 - Comprehensive time line of the introduction of various products and services that will be offered to the membership and all necessary forms associated with each product or service;
 - Comprehensive marketing plan including cost projections;
 - Five years of pro forma statements (balance sheet, income statement, capital adequacy, and liquidity calculations) including detailed line by line general ledger accounts for a two year period. The assumptions made (interest rates, growth rates, etc.) must be indicated. The projections should address the possibility of different scenarios (optimistic, pessimistic, and most likely);
 - Capital plan that addresses the issue of membership and non-membership equity shares, disclosure statement (if required), share redemption, and a dividend payment policy;

- Management and board statutory and operational reporting requirements and the necessary forms to fulfil those requirements;
 - Operating policies and procedures that will be in place upon commencement of business covering areas such as hours of work, forms, human resources, administration, internal controls, security considerations, consultants, and other service providers; and
 - Any other information that may be required by the Commission.
9. Confirmation of membership in Stabilization Central Credit Union and Credit Union Central of British Columbia. Prior to being granted a business authorization, a credit union must obtain membership in Stabilization Central Credit Union and Credit Union Central of British Columbia (contact information is provided on pages 6 and 7). Each organization has its own membership requirements that have to be met, which may include receiving copies of some or all of the information supporting the applications for incorporation and business authorization.

Evaluation

Once the application and accompanying items have been received and evaluated, and the Commission staff are satisfied that the application meets the requirements of the *CUIA*, *FIA*, *CA*, and Regulations, the staff will forward the application to the Commission for its consideration.

The Commission may issue a business authorization if they are satisfied that:

1. the credit union has an adequate capital base, given the type and volume of the business that they intend to carry on;
2. the credit union has at least 5 directors; and
3. the credit union has a proposed plan of operations that is feasible.

Approval

Upon approval, the Commission will issue a Certificate of Business Authorization. At this time the credit union is able to open its doors for business.

IMPORTANT NOTICES TO APPLICANTS

Winding-Up Provisions

In accordance with the governing legislation, credit unions that have completed the incorporation stage are not permitted to continue indefinitely without completing the business authorization process.

If a newly incorporated credit union decides not to apply for a business authorization or if the application for business authorization is not consented to by the Commission, then this may result in the credit union having to wind up in accordance with the winding up provisions of the *CA* and *CUIA*. Costs incurred during the winding-up phase will be charged to the credit union.

Protection of Investors' Equity

The Credit Union Deposit Insurance Corporation of British Columbia does not protect the shareholders' equity shares in a credit union.

In the event of a wind-up of a newly incorporated credit union, some if not all of the shares may be at risk of loss depending on the financial condition of the credit union and the associated wind-up or liquidation costs.

CONTACTS

An *Application for Incorporation*, *Personal Information Return*, and an *Application for Business Authorization* can be obtained on our website or by phoning or writing the Commission at:

Financial Institutions Commission 1200 – 13450 102 nd Avenue Surrey, British Columbia V3T 5X3	Telephone: (604) 953-5300 Fax: (604) 953-5301 Web site: www.fic.gov.bc.ca E-mail: ficom@ficombc.ca
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Copies of the *Credit Union Incorporation Act*, the *Financial Institutions Act*, the *Company Act*, and Regulations can be obtained from:

Crown Publications 521 Fort Street Victoria, British Columbia V8W 1E7	Telephone: (250) 386-4636 Fax: (250) 386-0221 Web site: http://www.crownpub.bc.ca E-mail: crown@pinc.com
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You may wish to discuss the development of a new credit union with Credit Union Central of British Columbia ("CUCBC"). CUCBC serves as the credit union system's trade association, advocate, liquidity manager and clearing facility. All credit unions in British Columbia are required to be members of CUCBC. The contact person at CUCBC is:

Corporate Secretary Credit Union Central of British Columbia 1441 Creekside Drive Vancouver, British Columbia V6J 4S7	Telephone: (604) 734-2511 Fax: (604) 737-5085 Web site: www.cucbc.com
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You may also wish to discuss the development of a new credit union with Stabilization Central Credit Union of British Columbia ("SCCU"). SCCU is the self-governing body and designated "stabilization authority" for credit unions in British Columbia. All credit unions in British Columbia are required to be members of SCCU. The contact person at SCCU is:

Chief Executive Officer

Stabilization Central Credit Union

1700 - 750 West Pender Street

Vancouver, British Columbia

V6C 2T8

Telephone: (604) 331-4910

Fax: (604) 609-0906

Web site: www.stabil.com

At the Financial Institutions Commission, we issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions Act*, *Credit Union Incorporation Act*, and Regulations. While the comments in a particular part of an information bulletin may relate to provisions of the law in force at the time they were made, these comments are not a substitute for the law. The reader should consider the comments in light of the relevant provisions of the law in force at the time, taking into account the effect of any relevant amendments to those provisions or relevant court decisions occurring after the date on which the comments were made. Subject to the above, an interpretation or position contained in an information bulletin generally applies as of the date on which it was published, unless otherwise specified.