



BULLETIN NUMBER:	CU-2006-02 (REPLACES INFORMATION BULLETIN CU-1997-001)
TITLE:	DEPOSIT INSURANCE COVERAGE FOLLOWING A CREDIT UNION MERGER
LEGISLATION:	<i>THE FINANCIAL INSTITUTIONS ACT, AND CREDIT UNION DEPOSIT GUARANTEE REGULATION, SECTION 3</i>
DATE:	JUNE 2006
DISTRIBUTION:	All Interested Parties

INTRODUCTION

The purpose of this Bulletin is to advise credit unions and credit union members of the special rules regarding deposit insurance coverage when there is a merger of two or more credit unions.

SEPARATE DEPOSITS PRIOR TO MERGER CONTINUE WITH SEPARATE DEPOSIT INSURANCE FOR 5 YEARS

Where a depositor has deposits with two credit unions that merge, the status of each of the depositor's separate deposits prior to the merger shall remain intact for 5 years following the merger or until the money is withdrawn, whichever is earlier. In other words, a separate deposit from one credit union which is the same type as a separate deposit from the other credit union will not be aggregated as they would otherwise be.

EFFECT OF WITHDRAWALS FROM SEPARATE DEPOSITS FOLLOWING A MERGER

The rules for withdrawals are quite complex and can best be explained by way of example.

Credit union A acquires all the assets of credit union B and credit union B no longer exists following the merger. Prior to the merger, the depositor has the following accounts and balances in credit union A and credit union B:

Credit Union A

chequing account	\$10,000
savings account	\$20,000
term deposit	\$70,000
joint account with spouse	\$100,000
RRSP account	\$100,000

Credit Union B

chequing account	\$10,000
savings account	\$20,000
term deposit	\$70,000
joint account with spouse	\$100,000
RRSP account	\$100,000

Prior to the merger, the chequing, savings and term deposit would have been aggregated to form one separate deposit in credit union A and the chequing, savings and term deposit would have been aggregated to form another separate deposit in credit union B for the purpose of the \$100,000 deposit insurance limit. Therefore, the depositor had three separate deposits in credit union A (*i.e.*, one deposit is the aggregate of chequing, savings and term accounts; the second is the joint account and the third is the RRSP) and three separate deposits in credit union B. Prior to the merger, the depositor had an aggregate of \$300,000 deposit insurance coverage at credit union A and an aggregate of \$300,000 deposit insurance coverage at credit union B for a total of \$600,000 deposit insurance coverage.

Following the merger, by virtue of these special rules, the depositor would have six separate deposits in credit union A and an aggregate of \$600,000 of deposit insurance coverage.

If, following the merger, the depositor withdraws \$20,000 from his savings account then the aggregate of all the guarantees for all the depositor's separate deposits will be reduced to \$580,000 from \$600,000. Any withdrawal of guaranteed funds from any of the accounts will reduce the aggregate amount of all the guarantees. If the depositor then withdraws \$100,000 from the joint account, the deposit insurance coverage will be further reduced to \$480,000. The total deposit insurance coverage will be reduced in this way until the depositor has deposit insurance coverage totalling \$300,000 or, if the deposits are not reduced, then the deposit insurance coverage would reduce to \$300,000 five years following the merger.

EFFECT OF MAKING DEPOSITS TO SEPARATE DEPOSITS FOLLOWING A MERGER

Any additional funds deposited after a merger will not have the benefit of additional deposit insurance unless the depositor is entitled to deposit insurance in the normal course, for example:

Scenario 1

A depositor has the following accounts and balances at two credit unions just prior to a merger of these two credit unions:

Credit Union A

chequing account	\$10,000
savings account	\$10,000
term deposit	\$10,000

Credit Union B

chequing account	\$10,000
savings account	\$10,000
term deposit	\$10,000

Following the merger, the depositor has an aggregate of \$60,000 of deposit insurance coverage and could deposit up to an additional \$40,000 and receive a maximum deposit insurance coverage of \$100,000.

Scenario 2

A depositor has the following accounts and balances at two credit unions just prior to a merger of these two credit unions:

Credit Union A

chequing account	\$10,000
savings account	\$20,000
term deposit	\$50,000

Credit Union B

chequing account	\$10,000
savings account	\$20,000
term deposit	\$50,000

Following the merger, by virtue of these special rules, the depositor has an aggregate of \$160,000 of deposit insurance coverage for all funds on deposit. However, any additional funds that the depositor adds to the chequing, savings or term deposits following the merger will not be eligible for additional deposit insurance coverage.

ROLL-OVER OF TERM DEPOSITS FOLLOWING A MERGER

The special rules also provide that term deposits can be rolled over without affecting the level of deposit insurance coverage. When a term deposit is renewed for an additional period of time, it is not considered to be withdrawn and the deposit insurance coverage extends to the time when the term deposits are withdrawn or five years from the date of the merger, whichever occurs first.

CONTACTS

For more information, contact:

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
--	--

Copies of the *Financial Institutions Act* and Credit Union Deposit Guarantee Regulation 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
---	---

At the Financial Institutions Commission, we issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions 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.