World Council

September 24, 2021

<u>Delivered Via E-mail: research@iadi.org</u>

International Association of Deposit Insurers
IADI Secretariat Research Unit
c/o Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Public Consultation on the draft IADI Guidance Paper: "Ways to resolve a financial cooperative while keeping the cooperative structure"

Dear Sir/Madam:

The World Council of Credit Unions ("World Council) is the leading trade association and development organization for the international credit union movement. Credit unions are cooperative depository institutions and worldwide there are over 86,000 credit unions in 118 countries with USD 2.6 trillion in total assets serving 291 million physical-person members.[1] We appreciate the opportunity to comment on the public consultation on the *Draft IADI Guidance Paper: "Ways to resolve a financial cooperative while keeping the cooperative structure".*

We greatly appreciate the IADI's focus on methods to maintain the cooperative structure and, in particular, we support the findings that cooperatives such as credit unions bring diversity to financial services, foster a more competitive banking industry, and contribute to the policy goal of financial inclusion in some jurisdictions for underserved or unserved communities. We believe this understanding is critical to the importance of maintaining the cooperative structure during a resolution. Financial cooperative systems also contribute substantively to diversity in the financial sector and, because of their mission to serve their members rather than to maximize profits, help promote financial stability through a conservative business outlook stressing long-term viability and community banking.

We support the discussion surrounding the use of early intervention measures and urge the paper to emphasize the use of supervisory tools available for prompt corrective action of financial cooperatives prior to their point of non-viability. World Council appreciates the findings of the paper to the extent that it identifies that in most cases, financial problems at a cooperative depository institution can be addressed at an early stage through prompt corrective action measures including capital building plans through increased earnings

[1] World Council, *Statistical Report* (2019), *available at* https://www.woccu.org/impact/global_reach/statreport.

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retention and/or issuance of capital shares, comparable to the US National Credit Union Administration's "Prompt Corrective Action" regulations[2] and rules on "Net Worth Restoration Plans."[3]

Under these National Credit Union Administration rules, an undercapitalized credit union can have its asset growth restricted and must generally add an amount equal to at least 0.1% of total assets to their reserves per financial quarter until they are "well capitalized" (which is defined as a seven percent leverage ratio relative to total assets). Many undercapitalized credit unions shed assets to "spin down" and meet their regulatory capital requirement to be "well capitalized" by reducing the denominator of their capital ratio instead of by increasing the numerator.

The agency can require the institution to exit unprofitable lines of business and can use supervisory contracts, such as Documents of Resolution of Letters of Understanding and Agreement, to require the institution to correct unsafe and unsound practices.

The National Credit Union Administration has also published publicly available guidance on credit union Prompt Corrective Action measures, administrative sanctions, and so forth, in the agency's *Examiners' Guide* Chapter 17 ("Prompt Corrective Action"), Chapter 29 ("Special Assistance, Letters of Understanding And Agreement, Conservatorships, and Special Actions"), Chapter 30 ("Administrative Actions")[4], in the agency's *National Supervision Policy Manual*, especially Chapter 1 ("Administrative Remedies") and Chapter 14 ("Prompt Corrective Action") of that supervision policy manual.[5]

We urge emphasis on the use of these early intervention measures such as Net Worth Restoration Plans, "spinning down" by reducing assets, and supervisory contracts. We believe this will help promote safety and soundness by helping prudential supervisors correct material weaknesses at financial cooperatives prior to the point of non-viability.

Finally, we would urge further emphasis on the concept that "Demutualization" should only be considered in the rare situation where there are no other financial cooperatives in the jurisdiction that can absorb the problem institution even with supervisory financial assistance or state aid. We would urge clarity in the Guidance Paper that business combinations between two financial cooperatives should be preferred over demutualization because financial cooperatives' mission to serve their members at fair rates, instead of maximizing profits, better promotes financial inclusion and the availability of credit to SME businesses, especially in areas that are underserved by commercial banks.

[2] 12 C.F.R. §§ 702.201-702.205, *available at* https://www.law.cornell.edu/cfr/text/12/part-702/subpart-B.
[3] 12 C.F.R. § 702.206, *available* https://www.law.cornell.edu/cfr/text/12/702.206.
[4] National Credit Union Administration, *Examiner's Guide*, Ch. 17, 29 & 30 (2016), *available at* https://www.ncua.gov/regulation-supervision/Pages/manuals-guides/examiners-guide.aspx
[5] National Credit Union Administration, *National Supervision Policy Manual*, at 1-29, 319-358 (July 2015), *available at* https://www.ncua.gov/Legal/GuidesEtc/GuidesManuals/SupervisionManual.pdf.

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Thank you for the opportunity to comment on the IADI's *Draft IADI Guidance Paper: "Ways to resolve a financial cooperative while keeping the cooperative structure".* If you have questions about our comments, please feel free to contact me at aprice@woccu.org or +1-850-766-5699.

Sincerely,

Andrew T. Price
Sr. Vice President of Advocacy and General Counsel
World Council of Credit Unions