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of Deposit Insurers

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Ways to resolve a financial cooperative while keeping the cooperative structure

Guidance paper

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1 ABBREVIATIONS

AFCSIC	Agricultural and Fishery Co-operative Savings Insurance Corporation (Japan)
AMF	Autorité des Marchés Financiers (Québec, Canada)
BCC	Credit Cooperative Bank (“Banca di Credito Cooperativo”) (Italy)
BOJ	Bank of Jamaica
BRRD	Bank Recovery and Resolution Directive 2014/59/EU
BVR-ISG	National Association of German Cooperative Banks – Institutssicherung GmbH
CFF	Credito Cooperativo Fiorentino
CUDGC	Credit Union Deposit Guarantee Corporation (Alberta, Canada)
DBS	Dunfermline Building Society
DGS	Deposit Guarantee Scheme
DGSD	European Union Directive 2014/49/EU on Deposit Guarantee Schemes
DI	Deposit Insurer
DICJ	Deposit Insurance Corporation of Japan
DIDP Act	Deposit Institutions and Deposit Protection Act (Québec, Canada)
DIF	Deposit Insurance Fund
D-SIFI	Domestic Systemically Important Financial Institution
EU	European Union
FC	Financial Cooperative
FGA CONFIA	Fondo de Garantía de Ahorros Confía (Costa Rica)
FGCoop	Cooperative Credit Guarantee Fund (Brazil)
FGDBCC	Fondo di Garanzia dei Depositanti del Credito Cooperativo (Italy)
FGMICOOPE	Fondo de Garantía MICOOPE (Guatemala)
FITD	Fondo Interbancario di Tutela dei Depositi (Italy)
FOGACOOP	Fondo de Garantías de Entidades Cooperativas (Colombia)
FSA	Financial Stability Authority (Finland)
FSC Act	Financial Services Cooperatives Act (Québec, Canada)
FSCS	Financial Services Compensation Scheme (United Kingdom)

IADI	International Association of Deposit Insurers
IPS	Institutional Protection/Stabilisation Scheme
JCCUL	Jamaica Co-operative Credit Union League Ltd. (Jamaica)
JDIC	Jamaica Deposit Insurance Corporation (Jamaica)
LCA	Compulsory Administrative Liquidation (“Liquidazione Coatta Amministrativa”) (Italy)
M&A	Merger and Acquisition
NPL	Non-Performing Loan
P&A	Purchase and Assumption
RA	Resolution Authority
RFS Act	Regulation of the Financial Sector Act (Québec, Canada)
SA	Special Administration
RIFCTC	Resolution Issues for Financial Cooperatives Technical Committee
SIFI	Systemically Important Financial Institution
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SRR	Special Resolution Regime
UK	United Kingdom
UO	Umbrella Organisation/central organisation

3 LIST OF KEY TERMS¹

4 **Bridge Institution (Bridge Bank)*:** An entity that is established to temporarily take over and maintain
5 certain assets, liabilities and operations of a failed deposit-taking institution as part of the resolution process.

6
7 **Conservatorship (or temporary administration):** The legal procedure provided by law or agreement for
8 the interim management of troubled deposit-taking institutions. The deposit insurer and/or resolution
9 authority requests that the Court orders the appointment of a conservator or a temporary administrator.

10
11 **Demutualisation*:** Demutualisation is the conversion of a cooperative, such as a financial cooperative,
12 into an alternative organisational form (usually one owned by investors). Demutualisation can occur
13 through the conversion of equity into investment shares, or it can occur via a merger, takeover or buyout
14 involving companies that are not cooperatives or mutuals. Regardless of the form it takes, demutualisation
15 involves the transfer to private investors of the capital that has been built up in the cooperative over the
16 years.

17
18 **Early intervention:** Any actions, including formal corrective action, taken by supervisors, Resolution
19 Authorities or Deposit Insurers in response to weaknesses in a deposit-taking institution prior to entry into
20 Resolution.

21
22 **Financial Cooperative*:** In this paper, financial deposit-taking institutions such as credit unions, “caisses
23 populaires”, “cajas”, cooperative banks, “banche di credito cooperativo”, building societies or mutuals, are
24 collectively referred to as Financial Cooperatives.²

25
26 **Institutional Protection/Stabilisation Schemes:** Contractual or statutory liability arrangements for a
27 group of banks or financial cooperatives aimed at protecting the member institutions and, in particular,
28 ensuring their liquidity and solvency to avoid failure. Objectives, mandates, powers and organisations of
29 Institutional Protection/Stabilisation Schemes may vary between jurisdictions.

30
31 **Loss Minimiser:** A mandate in which the deposit insurer actively engages in a selection from a range of
32 least-cost resolution strategies.

33
34 **Merger and Acquisition:** A transaction involving two deposit-taking institutions that combine in some
35 form. Mergers and Acquisitions occur (between financial cooperatives) prior to the resolution stage and are
36 a commonly used tool that enables the cooperative structure to be kept.

37
38 **Pay-Box:** A mandate in which the deposit insurer is only responsible for the reimbursement of insured
39 deposits.

40
41 **Pay-Box Plus:** A mandate in which the deposit insurer has additional responsibilities, such as certain
42 resolution functions (e.g. financial support).

43
44 **Purchase and Assumption*:** A resolution method in which a healthy deposit-taking institution or a group
45 of investors assumes some or all of the obligations and purchases some or all of the assets of the failed
46 deposit-taking institution.

¹ Definitions of key terms are mainly taken from the IADI Glossary.

* Definitions of terms indicated by an asterisk (*) are from RIFCTC’s first research paper titled “[Resolution Issues for Financial Cooperatives – Overview of Distinctive Features and Current Resolution Tools](#)”

² Savings banks may have different legal forms depending on the jurisdiction. There are jurisdictions (like Finland) where they are FCs. For the definition of an FC, see the RIFCTC’s first paper “[Resolution Issues for Financial Cooperatives – Overview of Distinctive Features and Current Resolution Tools](#)”

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Risk minimiser: A mandate in which a deposit insurer has comprehensive risk minimisation functions, including risk assessment/management, a full suite of early intervention and resolution powers, and in some cases, prudential oversight responsibilities.

Umbrella organisation: A central organisation that brings financial cooperatives together to enable them to offer a wider range of financial services and achieve their goals of satisfying the needs and maximising the welfare of their customers/members. It provides its members with a variety of services, including representing the cooperatives to the central bank and other banking system authorities, state or federal administration, and international organisations. It may also include financial assistance when capital requirements are not met or when liquidity is needed, as well as legal, managerial and technical assistance, sometimes with a special focus on newly created financial cooperatives. It is a self-regulatory organisation which monitors the conduct of its members and may have supervisory responsibility over them. In some jurisdictions, there is no government oversight of the self-regulatory umbrella organisation.³

³ This is the case in Jamaica, where the Jamaica Co-operative Credit Union League Ltd. – Stabilisation Fund is the only organisation that oversees credit unions. In this jurisdiction, credit unions are not deposit-taking institutions licensed under the Banking Services Act. Consequently, they are not regulated and supervised by the Bank of Jamaica, nor members of the Deposit Insurance Scheme, Jamaica Deposit Insurance Corporation.

This paper is mainly based on case studies collected between March and June 2019 from Resolution Issues for Financial Cooperatives Technical Committee members and non-members. Since then, some respondents may have made changes to their legislative and resolution framework. Therefore, although some of the examples given in this paper may now no longer apply, they are useful references to how these issues have been approached in the past.

63 EXECUTIVE SUMMARY

64 Financial Cooperatives (FCs) have been shown to differ in some ways from banks. These differences have
65 been highlighted in the research paper developed by the Resolution Issues for Financial Cooperatives
66 Technical Committee (RIFCTC) and published by the International Association of Deposit Insurers (IADI)
67 in January 2018.⁴ The first RIFCTC paper also presented an overview of resolution tools applicable to FCs.
68 It indicated that resolution tools are almost the same for banks and FCs in most cases, but may need to be
69 used differently for FCs in other cases. Indeed, there are sometimes significant challenges associated with
70 the use of resolution tools for FCs. Some of those challenges make it difficult to keep the cooperative
71 structure of an FC in the aftermath of a resolution.

72
73 FCs bring diversity to financial services, foster a more competitive banking industry, and contribute to the
74 policy goal of financial inclusion in some jurisdictions for underserved or unserved communities. Indeed,
75 in some jurisdictions, FCs primarily serve specific segments of the economy, including certain low-income,
76 financially unserved or underserved communities as well as some small and medium-sized businesses. In
77 addition, in some cases, FCs are the only financial institution in remote or sparsely populated areas. As FCs
78 play an important role in the financial system of a large number of jurisdictions worldwide, the RIFCTC
79 has developed this guidance paper to analyse ways to resolve an FC while keeping the cooperative structure.

80 A case study template was distributed to IADI members and non-members through representatives of some
81 of the IADI regions,⁵ i.e. one regional representative per region. This process allowed the RIFCTC to reach
82 out to multiple Deposit Insurers (DIs)/Resolution Authorities (RAs) and Institutional
83 Protection/Stabilisation Schemes (IPSSs), and also allowed some members to be better involved in the
84 drafting process of the paper. The data pertain to 2019.⁶

85
86 The case study data reveal that no respondent jurisdiction is required by law to keep the cooperative
87 structure of an FC at the end of the resolution process. However, in several jurisdictions, every effort is
88 made to keep the cooperative structure when possible. The data also reveal that where umbrella
89 organisations or central organisations (UOs) and/or IPSSs exist, they can play an important role in keeping
90 the cooperative structure of a troubled FC after an intervention (preventive measure stage or resolution
91 stage).

92
93 Mergers and acquisitions (M&As) between FCs before the resolution stage are a commonly used tool that
94 enables the cooperative structure to be kept. To achieve that, frameworks for early detection of troubled

⁴ The first research paper titled "[Resolution Issues for Financial Cooperatives – Overview of Distinctive Features and Current Resolution Tools](#)" is available on the IADI website.

⁵ IADI has eight regional committees: Africa Regional Committee, Asia-Pacific Regional Committee, Caribbean Regional Committee, Europe Regional Committee, Eurasia Regional Committee, Latin America Regional Committee, Middle East and North Africa Regional Committee, and North America Regional Committee.

⁶ Data were collected between March and May 2019.

95 FCs and timely intervention need to be in place. At the resolution stage, purchase and assumptions (P&As)
 96 can also be used. However, to keep the cooperative structure, the assuming institution needs to be an FC.

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 99

100 GUIDANCE POINTS

101 Based on the results of the analysis conducted using case studies, the following guidance points are provided
 102 for consideration in the resolution process of FCs, especially when the cooperative structure is intended to
 103 be kept.

104 Some of these guidance points are general to all jurisdictions with FCs, while others are specific to
 105 jurisdictions where FCs unite under or collaborate with UOs and/or where IPSs are available.

106 Some prerequisites are important for the implementation of these guidance points. For example, some or
 107 all of the guidance points may not be applicable to certain DIs that deal with FCs, depending on the mandate
 108 of the DI, the structure of the financial sector, the respective roles of various financial safety-net
 109 participants, etc.

Guidance for FC DIs/RAs, regardless of the presence (or absence) of a UO/IPS (when the cooperative structure is intended to be kept)

1. To increase the chances of keeping the cooperative structure, DIs with extensive responsibilities, such as preventive action and risk minimisation/management should have a robust framework for an early detection and timely intervention for FCs, unless such powers are assigned to a UO/IPS or supervisory authority. Such frameworks may help to avoid the failure of an FC or help to find a way to merge it with another FC before failure, thereby keeping the cooperative structure. Early detection and timely intervention could also prevent the erosion of customer and depositor confidence in the financial cooperative sector.

2. In jurisdictions with few cases of FCs that have failed, FC DIs could participate in regular contingency planning and simulation exercises based on a wide range of scenarios with different particularities, especially when they have to deal with new powers. Lessons learned during simulation exercises could help DIs prepare for quick decision-making and may compensate for lack of experience.

110

Guidance for FC DIs/RAs in the presence of a UO/IPS (when the cooperative structure is intended to be kept)

3. In the case of the coexistence of DIs/RAs and UOs/IPSs, objectives, mandates and powers of each organisation should be clearly defined in law, regulation or agreements (such as Memoranda of Understanding).

- Deposit insurance/resolution legislation could give sufficient intervention powers to those UOs/IPSs to enable them to act at an early stage to restore a weak FC to viability or merge it with another FC. Those powers could allow issues to be internalised, minimise the risk of failure of a weak FC and reduce the cost to the DI/RA.

111

4. In jurisdictions where UOs/IPSs can be considered as a first line of defence and the DI/RA as the second line of defence, it is important that the financial strength of UOs/IPSs, and their actions regarding a specific FC, be monitored by the relevant authority. DIs/RAs could, to the extent possible, be more proactive in dealing with emerging weakness in UOs/IPSs, including having an internal contingency plan in place to determine in advance how the DIs/RAs might respond in the event that UOs/IPSs are no longer able to serve as the first line of defence to protect depositors.

- Notwithstanding the powers of UOs/IPSs, DIs/RAs could have the power to intervene when the UOs/IPSs do not take action in a timely and appropriate manner while there is an increasing risk on the cooperative system or on financial stability.

112

5. In jurisdictions where the powers of the DI and/or the UO/IPS allow it, P&A (including M&A) with a strong FC could be considered among the preferred strategies to deal with a troubled FC when the cooperative structure is intended to be kept.

- In jurisdictions where UOs/IPSs are available and have the necessary authority and responsibility, it may be desirable for the DI/RA to allow the UO/IPS to work towards facilitating M&As between troubled FCs and healthy FCs before direct intervention by the DI/RA.

- In jurisdictions where UOs/IPSs are available, DIs and/or relevant authorities could encourage FCs to join these UOs/IPSs if the FCs meet the conditions of membership of the UOs/IPSs, when the cooperative structure is intended to be kept.

113

114

115 1. INTRODUCTION

116 An FC is a member-owned financial institution, set up with the purpose of providing financial services such
117 as receiving deposits and making loans primarily to its members, in which membership is often based on
118 residence or another common bond and where each member participates to some extent in the decision-
119 making process, generally via the one member - one vote principle. Deposit-taking institutions such as
120 credit unions, “caisses populaires”, “cajas”, cooperative banks, “banche di credito cooperativo” and
121 building societies are FCs.

122
123 FCs play an important role in the financial system of a large number of jurisdictions worldwide. They bring
124 diversity to financial services and contribute to the policy goal of financial inclusion. They also contribute
125 to fostering a more competitive banking sector. In some jurisdictions, FCs primarily serve specific segments
126 of the economy, including certain low-income, financially unserved or underserved communities as well as
127 some small and medium-sized businesses. In addition, in some cases, FCs are the only financial institution
128 in remote or sparsely populated areas.

129 There are differences between FCs and publicly traded banks, for example, in terms of ownership, access
130 to capital, the feeling of belonging that customers may have towards their financial institution, and
131 participation of customers (and as such members) in the decision-making process. Due to some of these
132 differences, tools used for the resolution of banks cannot always be used directly for FCs. Sometimes, these
133 tools need to be adapted because their use for FCs raises challenges, such as the difficulty in accessing
134 external capital because of their cooperative nature or the need for demutualisation in some cases. Some of
135 these challenges make it difficult to keep the cooperative structure of an FC in the aftermath of a resolution.

136 The RIFCTC⁷ was set up by IADI in June 2014. Its mandate is notably to (1) highlight the importance of
137 FCs for the financial system of a large number of jurisdictions, (2) share ideas and expertise from DIs/RAs
138 around the world, and (3) discuss the need to adapt the tools used in the resolution of banks to Financial
139 Cooperatives, according to their distinctive features.⁸ In January 2018, the RIFCTC published its first paper
140 – a research paper – titled “[Resolution Issues for Financial Cooperatives – Overview of Distinctive Features
141 and Current Resolution Tools](#)”.⁹

142 The current paper – a guidance paper – is the second paper written by the RIFCTC. The purpose of this
143 paper is to analyse ways, tools and methods to resolve FCs while keeping their cooperative structure, taking
144 account of past experiences of DIs/RAs (or UOs and/or IPSs) and current developments within jurisdictions
145 regarding the resolution of FCs, and to provide guidance on the topic.

146 The data used in the paper were collected between March and June 2019. The RIFCTC created a drafting
147 group composed of regional representatives (from IADI regions) who were responsible for reaching out to,
148 and gathering information from, other DIs/RAs (or IPSs) of their respective region. This process allowed
149 the RIFCTC to reach out to multiple DIs/RAs and IPSs, and also allowed some RIFCTC members to be
150 directly involved in the drafting process of the paper.

151
152 The data reveal that, although no respondent jurisdiction is required by law to keep the cooperative structure
153 of an FC at the end of a resolution process, many jurisdictions aim for that goal. The FC structure can also
154 be kept in an indirect way through an intermediate involvement of a joint-stock company in the resolution
155 process (Bodellini, 2020).

156

⁷ The original name was “Subcommittee on Resolution Issues for Financial Cooperatives”.

⁸ The RIFCTC has been chaired by the Autorité des Marchés Financiers (Québec, Canada) since its inception in June 2014. Please refer to Annex 1 for a List of the RIFCTC members.

⁹ A [French translation of this paper](#) is also available on the IADI website.

157 The data also reveal that UOs and/or IPSs can play an important role in keeping the cooperative structure
 158 of a troubled FC after an intervention (preventive measures stage or resolution stage). M&As between FCs
 159 before the resolution stage are a commonly used tool that enables the cooperative structure to be kept. At
 160 the resolution stage, P&A with another FC can also be used.

161
 162 Based on the results of the analysis of case studies and discussions of the RIFCTC, the paper provides
 163 guidance points to help DIs/RAs keep the cooperative structure of FCs at the end of the resolution process,
 164 when possible.

165 The rest of the paper is structured as follows. Section 2 describes the methodology used in the paper and
 166 section 3 presents an overview of features of deposit insurance systems and membership structures of the
 167 case study respondents. Section 4 presents resolution powers and tools available to DIs/RAs and IPSs for
 168 the resolution of FCs, and section 5 presents ways, tools and methods actually used in the resolution of an
 169 FC while keeping the cooperative structure. Section 6 presents guidance points, and section 7 concludes.

170

171 2. METHODOLOGY

172 To draft this paper, the RIFCTC created a drafting group composed of regional representatives from some
 173 of the IADI Regional Committees, namely Asia-Pacific, Caribbean, Europe, Latin America, and North
 174 America.

175 Regional representatives were responsible for reaching out to, and gathering information from, other
 176 DIs/RAs (or IPSs) of their respective region that were willing to share their experience on resolving FCs,
 177 whether these jurisdictions are IADI members or not. They were also responsible for summarising the
 178 situation in their region, and then for submitting case studies and summaries to the Autorité des Marchés
 179 Financiers (Québec, Canada), which has been steering the drafting group. Table 1 gives a list of the
 180 designated regional representatives.

181 **TABLE 1: LIST OF DESIGNATED REGIONAL REPRESENTATIVES**

Regional Committee	Representative (Jurisdiction)	Organisation	Contact's name
Asia-Pacific	Chinese Taipei	Central Deposit Insurance Corporation (CDIC)	Ms Margaret Chuang
Caribbean	Jamaica	Jamaica Deposit Insurance Corporation (JDIC)	Ms Eloise Williams Dunkley
Europe	Italy	Fondo Interbancario di Tutela dei Depositi (FITD)	Mr Gianluca Grasso
Latin America	Brazil	Fundo Garantidor do Cooperativismo de Crédito (FGCoop)	Mr Cláudio Luis Medeiros Weber
North America	Québec (Canada)	Autorité des Marchés Financiers (AMF)	Mr Julien Reid (Chairperson)

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183 The data in the paper come mainly from case studies, which were distributed in February 2019 to
 184 organisations worldwide, including RIFCTC members and non-members, and returned between March and
 185 June 2019. The data in the paper reflect up-to-date information as of the date of receipt of the case studies,
 186 unless otherwise indicated. Since then, some respondents may have made changes to their legislative and
 187 resolution framework. Therefore, although some of the examples given in this paper may now no longer
 188 apply, they are useful references to how these issues have been approached in the past.

189 Table 2 gives a list of DIs/RAs (or IPSs) with FCs in their jurisdiction that participated in the case studies.
190 They are 15 in total.

191 **TABLE 2: LIST OF PARTICIPATING JURISDICTIONS IN THE CASE STUDIES WITH FINANCIAL COOPERATIVES**

	Jurisdiction	Organisation ¹	Year of Inception	Function	Mandate
Asia-Pacific					
1	Chinese Taipei	Central Deposit Insurance Corporation (CDIC)	1985	DI, RA	Risk Minimiser
2	Japan	Agricultural and Fishery Co-operative Savings Insurance Corporation (AFCSIC)*	1973	DI, RA	Loss Minimiser
3	Japan	Deposit Insurance Corporation of Japan (DICJ)	1971	DI, RA	Loss Minimiser
Caribbean					
4	Jamaica	Jamaica Co-operative Credit Union League Ltd. (JCCUL) – Stabilisation Fund*	1977	Self-regulatory UO, IPS	~Risk Minimiser
Europe					
5	Finland	Financial Stability Authority (FSA)	1970	DI, RA	Pay-Box Plus
6	Germany	National Association of German Cooperative Banks - Institutssicherung GmbH (BVR-ISG)*	1934 (IPS) 2015 (BVR-ISG)	DI, IPS	Risk Minimiser
7	Italy	Fondo di Garanzia dei Depositanti del Credito Cooperativo (FGDBCC)*	1997	DI	Risk Minimiser
8	Spain	Fondo de Garantía de Depósitos de Entidades de Crédito (FGDEC)	1977 (Banks & Saving Banks); 1982 (FCs); 2011 (Merger of the three systems - FGDEC)	DI, contribution to resolution	Pay-Box Plus
9	United Kingdom	Financial Services Compensation Scheme (FSCS)	2001	DI, contribution to resolution	Pay-Box Plus
Latin America					
10	Brazil	Cooperative Credit Guarantee Fund (FGCoop)	2013-2014	DI	Pay-Box Plus
11	Colombia	Fondo de Garantías de Entidades Cooperativas (FOGACOOP)	1998	DI, lender of last resort	Loss Minimiser
12	Costa Rica	Fondo de Garantía de Ahorros Confía (FGA CONFIA)*	2018-2019	DI, RA	Loss Minimiser
13	Guatemala	Fondo de Garantía MICOPE (FGMICOPE)*	2010	DI, RA	Pay-Box Plus
North America					
14	Alberta (Canada)	Credit Union Deposit Guarantee Corporation (CUDGC)*	1974	Supervisor, DI, RA	Risk Minimiser
15	Québec (Canada)	Autorité des Marchés Financiers (AMF)	1967 (DI); 2004 (Integrated regulator-AMF)	Supervisor, DI, RA	Risk Minimiser

* Non-IADI member organisations are indicated by an asterisk (*).

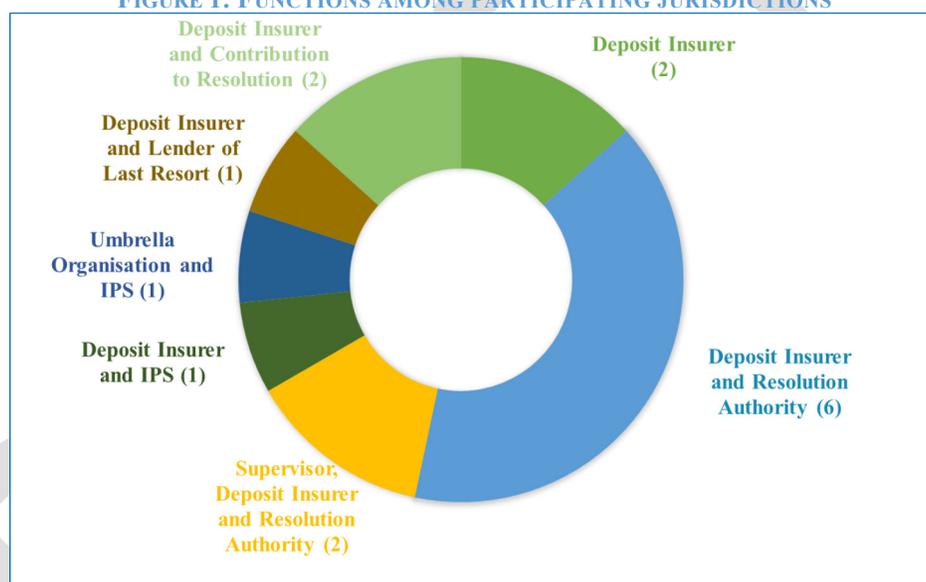
195 3. OVERVIEW OF KEY FEATURES OF DEPOSIT INSURANCE SYSTEMS AND 196 MEMBERSHIP STRUCTURES

197 Among the 15 respondent jurisdictions, even if the DI function is mostly their core business, the majority
198 assume other functions. Indeed, there are only two respondents that have only the DI function (Italy
199 (FGDBCC) and Brazil (FGCoop)). The most common combination of functions is the DI and RA with six
200 respondents having both (Chinese Taipei (CDIC), Costa Rica (FGA CONFIA), Finland (FSA), Guatemala
201 (FGMICOOPE), Japan (AFCSIC) and Japan (DICJ)). There are two jurisdictions that are integrated
202 regulators assuming three functions, i.e. DI, RA and supervisor (Québec-Canada (AMF) and Alberta-
203 Canada (CUDGC)).¹⁰ Two jurisdictions answered that they have the DI function, but can also contribute
204 to resolution, notably by assuming part of the cost of resolution (United Kingdom (FSCS) and Spain
205 (FGDEC)), and another one assumes the function of lender of last resort (Colombia (FOGACOOPE)). BVR-
206 ISG in Germany is run as an IPS, but assumes the DI function, while JCCUL in Jamaica is a self-regulatory
207 UO with an IPS.

208

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FIGURE 1: FUNCTIONS AMONG PARTICIPATING JURISDICTIONS



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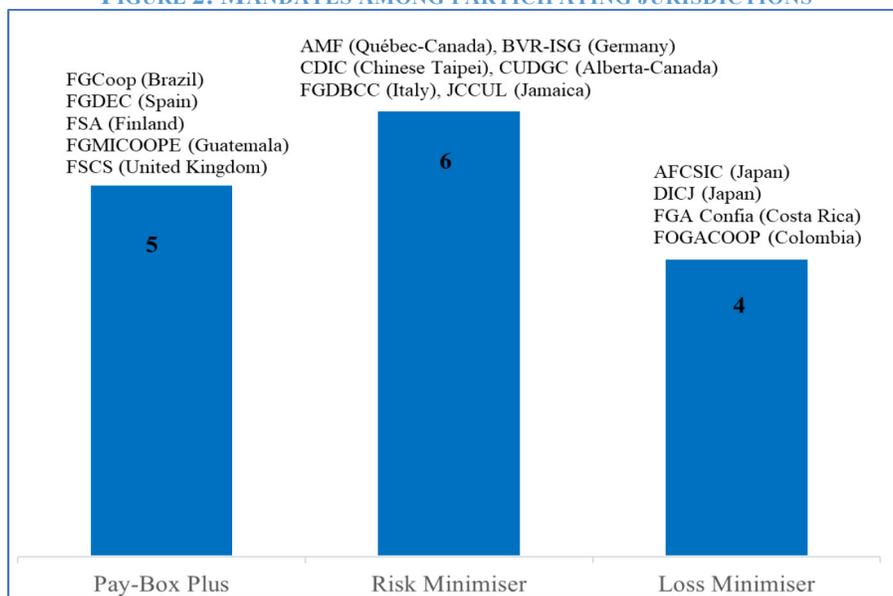
Source: RIFCTC's case studies (2019) and IADI Annual Survey (2018)

212 Risk Minimiser mandate is found in 6 out of 15 participating jurisdictions, followed by Pay-Box Plus
213 mandate and Loss Minimiser mandate with 5 and 4 out of 15 participating jurisdictions, respectively. None
214 of the respondent jurisdictions indicated having a Pay-Box mandate.

¹⁰ Some UOs/IPSs also have supervisory functions.

215

FIGURE 2: MANDATES AMONG PARTICIPATING JURISDICTIONS



Source: RIFCTC's case studies (2019) and IADI Annual Survey (2018)

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218

219 All respondents indicated having FCs as member institutions. For six of them, FCs are the only type of
 220 member under their jurisdiction, namely AFCSIC (Japan), BVR-ISG (Germany), CUDGC (Alberta-
 221 Canada), FGS CONFIA (Costa Rica), FOGACOOP (Colombia) and FGMICOPE (Guatemala). JCCUL
 222 (Jamaica) has also only FCs (i.e. credit unions) as members, but unlike other respondents, it is a self-
 223 regulatory UO which is entrusted the day-to-day operational management of the Stabilisation Fund, an IPS.
 224 The Stabilisation Fund is designed to stabilise FCs in need of capital and/or liquidity injection via loans,
 225 guarantees or grants. There is no government oversight of JCCUL, as FCs (i.e. credit unions) are not
 226 licensed as deposit-taking institutions, unlike commercial banks, merchant banks and building societies,
 227 which are licensed under the Banking Services Act (BSA). Therefore, FCs are not presently regulated and
 228 supervised by the Bank of Jamaica (BOJ), nor are they members of the Deposit Insurance Scheme, managed
 229 by the Jamaica Deposit Insurance Corporation (JDIC).

230 Germany (BVR-ISG) is the participating jurisdiction that has the largest number of FCs, with 875 FCs,
 231 followed by Japan (AFCSIC) with 787 FCs, Brazil (FGCoop) with 719 FCs, United Kingdom (FSCS) with
 232 501 FCs and Japan (DICJ) with 422 FCs.

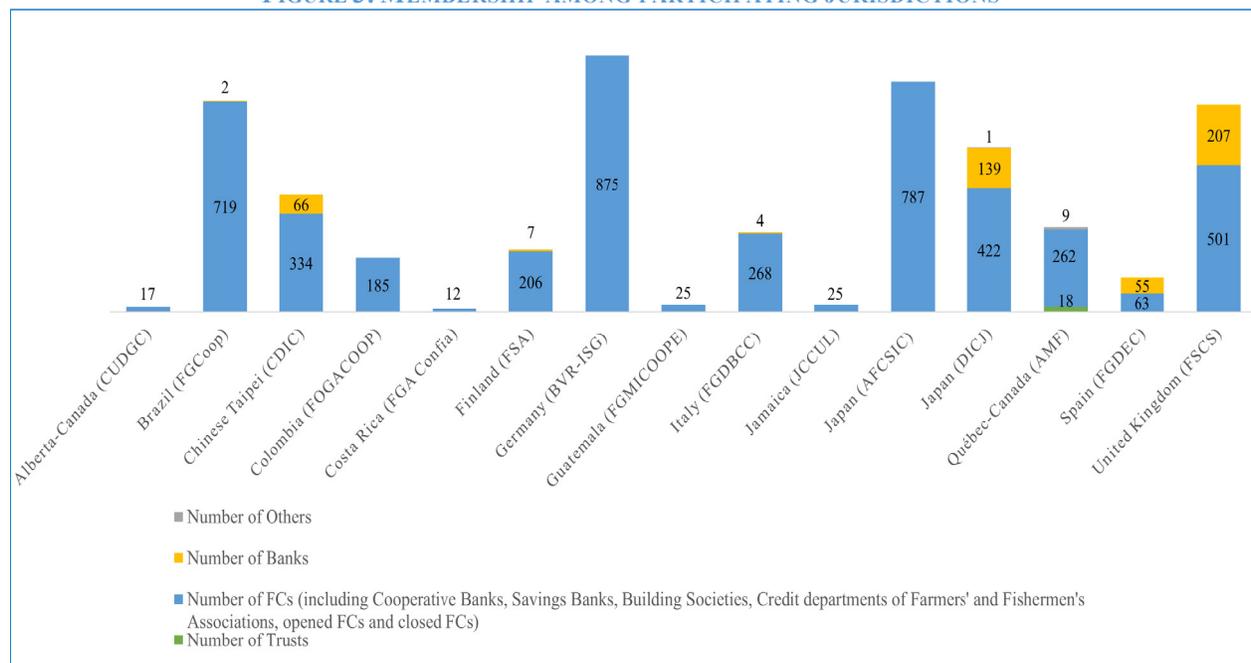
233 Some respondents reported that they have other types of members. This is the case of Québec-Canada
 234 (AMF) with two life insurers (which are authorised to take deposits) and seven loan companies. Seven
 235 respondents also have some banks as member institutions, namely Brazil (FGCoop), Chinese Taipei
 236 (CDIC), Finland (FSA), Italy (FGDBCC), Japan (DICJ), Spain (FGDEC) and United Kingdom (FSCS).
 237 Finally, for Japan (DICJ), there is another type of member (the Shoko Chukin Bank, Ltd) which is a special
 238 institution dedicated to small and medium-sized enterprises.

239

240

241

FIGURE 3: MEMBERSHIP AMONG PARTICIPATING JURISDICTIONS



Source: RIFCTC's case studies (2019) and IADI Annual Survey (2018)

242
243

244

245 As shown in Table 3, the complexity of FCs differs among jurisdictions.

246 **Asia-Pacific region**

247

248 In all three respondent jurisdictions of the Asia-Pacific region (AFCSIC-Japan, DICJ-Japan and CDIC-
 249 Chinese Taipei), there are UOs. Under the jurisdiction of AFCSIC, the Norinchukin Bank, which is
 250 designated as a D-SIB by the Japanese authorities,¹¹ is the UO of agricultural and fishery cooperatives,
 251 which includes 787 FCs (i.e. agricultural and fishery cooperatives). In terms of concentration for the DI/RA,
 252 the Norinchukin Bank and its FC members account for 100% of the deposits insured by AFCSIC. Under
 253 the jurisdiction of the DICJ, there are three UOs for FCs, one for Shinkin banks, one for Credit Cooperatives
 254 and another for Labour Banks.¹² The total number of FCs that are members of these UOs is 422. These 422
 255 FCs represent 16.63% of the eligible deposits insured by the DICJ. In Chinese Taipei (CDIC), an association
 256 (UO) called the National Federation of Credit Cooperatives is set up for the 23 FCs of the jurisdiction.
 257 Under the DICJ and CDIC, there is no FC designated as a systemically important financial institution (SIFI).

258 **Europe region**

259

260 For the Europe region, FCs are members of a UO in Finland, Italy and Spain. In Finland, the 206 FCs under
 261 the jurisdiction of the FSA are members of one of three UOs, namely OP Financial Group (OP Osuuskunta),
 262 POP Bank Group (POP Pankkiliitto osk) and the Saving Banks Group (Säästöpankkiliitto osk; Savings
 263 Banks' Union Coop). Among these three groups, the OP Financial Group is the only one designated as a
 264 SIFI in the European Banking Union. In Italy (FGDBCC), the FC system (i.e. BCCs - Banche di Credito

¹¹ Source: The Norinchukin Bank, Annual report 2018, p.41. https://www.nochubank.or.jp/en/ir/annual_report/pdf/ar_2018.pdf

¹² Labour Banks are defined as "Japan's only specialised financial institutions for workers, meeting the financial needs of workers and their organisations in keeping with the purpose of the banks' establishment." Source: A guide to Labour Banks, National Association of Labour Banks, 2011, p.8.

265 Cooperativo (Credit Cooperative Bank) - system) was reformed in 2016.¹³ The structure of the system
 266 entails two UOs (called “apex companies” in Italy), governing 229 FCs, within two distinct cooperative
 267 banking groups. The two groups are significant and supervised by the European Central Bank within the
 268 Single Supervisory Mechanism and under the remit of the Single Resolution Board (SRB) within the Single
 269 Resolution Mechanism (SRM). There are also 39 FCs that are part of an IPS within the province of Bolzano.
 270 In Spain, there are 63 FCs under the FGDEC, the deposit guarantee fund for credit entities such as FCs.
 271 Fifty-five (55) out of 63 FCs are members of one of the three UOs that are IPSs. No UO nor FC is designated
 272 as a SIFI. In Germany, there are 875 FCs (i.e. cooperative banks), all of which are owners of the DZ Bank
 273 AG, a cooperative central institution in the legal form of a joint-stock company (but not listed on a stock
 274 exchange), which is designated as a SIFI, but not a UO. Most of them are small or medium-sized, less
 275 complex, legally independent and mostly active only regionally. BVR-ISG, the officially recognised deposit
 276 protection scheme of the 875 German FCs, is run as an IPS. In the United Kingdom (UK), there are two
 277 types of FC under the jurisdiction of the FSCS: 457 credit unions and 44 building societies. There is no
 278 central or umbrella organisation for the building society sector although they are all members of a trade
 279 body, the Building Societies Association. One building society of the jurisdiction - Nationwide Building
 280 Society - has been designated by the Bank of England as a SIFI.

281

282 **Caribbean region**

283

284 For the Caribbean region, in Jamaica, all 25 FCs (i.e. credit unions) are autonomous entities with their own
 285 governance structure, but they are all members of the self-regulatory UO, JCCUL, which also manages an
 286 IPS. The JDIC manages the Deposit Insurance Scheme for deposit-taking institutions licensed by the BOJ.
 287 Legislation to bring credit unions under the regulatory ambit of the BOJ and admit credit unions as members
 288 of the deposit insurance scheme managed by the JDIC is pending.¹⁴

289 **Latin America region**

290

291 In the Latin America region, most FCs have a simple structure, notably in Colombia (FOGACOOPE),
 292 Costa Rica (FGA CONFIA) and Guatemala (FGMICOOPE). In the first two jurisdictions, there is no IPS
 293 or UO, and no FC is designated as a SIFI. However, there is a UO in Guatemala. This UO (FENACOAC –
 294 MICOOPE) is composed of 25 FCs. The FGMICOOPE is the DI and RA of these 25 FCs. As for Brazil,
 295 the type, size and level of complexity of FCs are diverse. In Brazil, there are 864 FCs, of which 719 are
 296 under the jurisdiction of FGCoop. In this group, 615 are organised into 29 credit centrals which are linked
 297 to four confederations. There are also five credit centrals not linked to any confederation that regroup 40
 298 FCs. Moreover, there are 64 FCs that are not affiliated with any credit central or any confederation. In terms
 299 of concentration for the DI, the 615 FCs linked to credit centrals and confederations account for 77.86% of
 300 the insured deposits of FGCoop, while those 40 FCs linked to credit centrals only account for 5.80%. The
 301 ten FCs with the largest deposit accounts hold 25.96% of the insured deposits of FGCoop, and they are not
 302 under the same system.

303

304 **North America region**

305

306 For the North America region, the two respondent jurisdictions have designated their largest FCs as SIFIs.
 307 In Alberta-Canada (CUDGC), the two largest FCs (out of the 17) designated as SIFIs account for 82% of
 308 the system assets. In Québec-Canada, there are a total of 262 FCs, including the Fédération des caisses
 309 Desjardins du Québec, a UO, which also takes deposits from some businesses. This UO and its 260 member
 310 FCs (i.e. Desjardins caisses) form a network of FCs. This network, together with the Fonds de sécurité
 311 Desjardins (i.e. the IPS), make up the Desjardins Cooperative Group (hereafter “Cooperative Group”).¹⁵

¹³ Source: European Association of Co-operative Banks, BCC: The Reform of the co-operative Banks in Italy is now law, 8 April 2016. <http://www.eacb.coop/en/news/members-news/bcc-the-reform-of-the-co-operative-banks-in-italy-is-now-law.html>

¹⁴ Once FCs are licensed by the Bank of Jamaica, they are required to apply to the Jamaica Deposit Insurance Corporation for deposit insurance and become members of the Deposit Insurance Scheme.

¹⁵ Under the Act Respecting Financial Services Cooperatives (FSC Act), s. 6.1 and 6.2.

312 All FCs in Québec-Canada, except one, are part of the Desjardins Group, a cooperative domestic
 313 systemically important financial institution (D-SIFI). In terms of concentration, the FC members of the
 314 Desjardins Group account for 99% of the deposits insured by the AMF.

315

316 **TABLE 3: COMPLEXITY OF FINANCIAL COOPERATIVES AMONG PARTICIPATING JURISDICTIONS**

Jurisdiction	Umbrella's name (s)	Numbers of the umbrellas' FC Members (if none, numbers of the DI's FC members)	SIFI	Umbrella features: with IPS	FCs' insured deposits as a percentage of total insured deposits of the DI
Asia-Pacific					
Chinese Taipei (CDIC)	National Federation of Credit Cooperatives	23 FCs (i.e. credit cooperatives)	×	×	2.0%
Japan (AFCSIC)	Norinchukin Bank	787 FCs (i.e. agricultural and fishery cooperatives)	✓	n/a	100%
Japan (DICJ)	Shinkin Central Bank	261 FCs (i.e. Shinkin banks)	×	n/a	12.98% ^a
	Shinkumi Federation Bank	148 FCs (i.e. credit cooperatives)	×	n/a	1.88% ^b
	Rokinren Bank	13 FCs (i.e. labour banks)	×	n/a	1.77% ^c
Caribbean					
Jamaica (JCCUL)	Jamaica Co-operative Credit Union League Ltd.	25 FCs (i.e. credit unions)	×	✓	Not applicable, as JCCUL is a UO, not a DI ^d
Europe					
Finland (FSA)	Op Financial Group (OP Osuuskunta)	156 FCs (i.e. cooperative banks)	✓	×	Not available
	POP Bank Group ((POP Pankkiliitto osk)	27 members (i.e. cooperative banks)	×	×	Not available
	The Saving Banks Group (Säästöpankkiliitto osk; Savings Banks' Union Coop)	23 FCs (i.e. saving banks)	×	×	Not available
Germany (BVR-ISG)	[DZ Bank AG] ^e	875 FCs (i.e. cooperative banks)	✓	✓ ^f	100 % ^g
Italy (FGDBCC)	Iccrea Banca S.p.A.	142 FCs (i.e. Banche di Credito Cooperativo), plus Iccrea Banca S.p.A. (Apex Company), plus Banca Sviluppo S.p.A. (bridge bank)	✓ ^h	✓ ⁱ	59.7%
	Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A.	87 FCs (i.e. Banche di Credito Cooperativo), plus Cassa Centrale Banca (Apex Company)	✓ ^h	✓ ⁱ	33.8%
	×	39 FCs (i.e. Banche di Credito Cooperativo), plus Cassa Centrale Raiffeisen S.p.A. (Second Tier bank))	×	✓ ^j	6.5%
Spain (FGDEC)	Banco Cooperativo Español, S.A.	30 FCs	×	✓	5.1%
	Banco de Crédito Social Cooperativo	19 FCs	×	✓	2.7%
	Caja Rural de Almedralejo	6 FCs	×	✓	0.2%
	×	8 FCs	×	×	3.0%
United Kingdom (FSCS)	×	44 FCs (i.e. building societies)	✓ ^k	×	Not available
	×	457 FCs (i.e. credit unions)	×	×	Not available

Jurisdiction	Umbrella's name (s)	Numbers of the umbrellas' FC Members (if none, numbers of the DI's FC members)	SIFI	Umbrella features: with IPS	FCs' insured deposits as a percentage of total insured deposits of the DI
Latin America					
	SICOOB (confederation) 16 credit centrals	391 FCs	✓	×	38.69%
	Sicredi (confederation) 5 credit centrals	110 FCs	✓	×	30.92%
	UNICRED (confederation) 4 credit centrals	35 FCs	✓	×	6.17%
Brazil (FGCoop)	CRESOL (confederation) 4 credit centrals	79 FCs	✓	×	2.08%
	5 credit centrals (AILOS, CECOOP, CECRERS, CREDISIS, and UNIPRIME)	40 FCs	✓	×	5.80%
	×	64 FCs	✓	×	2.66%
Colombia (FOGACOOP)	×	5 FCs (i.e. opened FCs) 180 FCs (i.e. closed FCs)	×	×	100%
Costa Rica (FGA CONFIA)	×	12 FCs	×	×	100%
Guatemala (FGMICOOPE)	FENACOAC - MICOOPE	25 FCs (i.e. credit unions)	×	×	100%
North America					
Alberta-Canada (CUDGC)	×	17 FCs (i.e. credit unions)	✓	×	100%
Québec-Canada (AMF)	Fédération des caisses Desjardins du Québec	260 FCs (i.e. Québec's Desjardins caisses)	✓	✓	99.0% ^l
	×	1 FC (not member of a federation)	×	×	0.02% ^l

317 Source: RIFCTC's case studies (2019)

318 Notes

319 ^a Figure here does not include the related figure of Shinkin Central Bank, and % of the eligible deposits of the DI.

320 ^b Figure here does not include the related figure of Shinkumi Federation Bank, and % of the eligible deposits of the DI.

321 ^c Figure here does not include the related figure of Rokinren Bank, and % of the eligible deposits of the DI.

322 ^d The Stabilisation Fund maintained by JCCUL is designed to ensure the financial stability of FCs (i.e. credit unions). Its
323 fundamental objective is to protect members' savings through stabilising their credit unions in distress rather than through
324 liquidation/payouts. Credit unions are not part of the deposit-taking institutions licensed by the BOJ, nor members of the deposit
325 insurance scheme (JDIC).

326 ^e The DZ BANK AG is the Cooperative Central Bank of the German Cooperative Banks, but it is not a legal UO. DZ Bank AG is
327 a SIFI and owned by the regional cooperative banks. All of the German Cooperative Banks are completely independent banks
328 with a full broad set of products and services and are fully supervised by BaFin with the Bundesbank.

329 ^f In Germany, the IPS is not a feature of DZ BANK AG but of BVR-ISG, which is run as an IPS.

330 ^g Insured deposits of German Cooperative Banks represent 28% of all German insured deposits.

331 ^h SIFI at group level.

332 ⁱ IPS as defined in art. 4, par. 127 of Regulation (EU) No 575/2013.

333 ^j BCCs are part of an IPS within the province of Bolzano.

334 ^k Nationwide Building Society, one building society of the jurisdiction, is designated by the Bank of England as a systemically
335 important institution.

336 ^l The remaining 0.98% (to sum to 100.0%) comes from deposits received by three other Québec-chartered deposit-taking institutions
337 that are not FCs (one trust and two insurers).

338

339 4. OVERVIEW OF CURRENT RESOLUTION POWERS AND TOOLS TO 340 RESOLVE FINANCIAL COOPERATIVES

341 Several respondent jurisdictions have a legislative framework for the resolution of FCs, namely Chinese
342 Taipei (CDIC), Colombia (FOGACOOOP), Japan (AFCSIC), Jamaica (JCCUL), United Kingdom (FSCS),
343 Alberta-Canada (CUDGC), and Québec-Canada (AMF). For Guatemala, the FGMICOOPE has put in place
344 its own private resolution schemes.

345 In Chinese Taipei, the CDIC's legislative framework pertaining to the resolution of FCs comprises the
346 Credit Cooperative Act, the Bank Act and the Deposit insurance Act, while in Japan, the main legal basis
347 for the savings insurance system under mandates of AFCSIC can be found in the Agricultural and Fishery
348 Cooperatives Savings Insurance Act, the Act on Special Provisions concerning Rehabilitation Proceedings
349 of the Agricultural and Fishery Cooperative Savings Insurance Corporation, the Civil Rehabilitation Act,
350 and the Bankruptcy Act.

351 In Colombia, the legislative framework of FOGACOOOP is composed of Law 454 (1998) and five decrees.
352 Notably, Decree 960 (2018) establishes the process whereby FOGACOOOP takes a mandatory decision to
353 support the financial sustainability of an FC that has financial problems in order to protect its depositors,
354 while Decree 2206 (1998) frames other operations available to FOGACOOOP to resolve a FC.

355 In Jamaica, the legal and operating frameworks governing the resolution of FCs are provided for in the Co-
356 operative Societies Act and the JCCUL Rules. The FC can ultimately be placed under temporary
357 management by JCCUL, with the approval of the Registrar of Co-operative Societies. The options usually
358 available to JCCUL (and its IPS), in order to stabilise a failing FC, include notably (1) providing
359 funding/liquidity support by way of a grant, loan or guarantee, (2) increasing the permanent share amount
360 which all members/savers of the FC are required to hold in order to be a member of the FC, (3) temporary
361 management by JCCUL, (4) compulsory dissolution, and (5) M&As.

362 In the United Kingdom (FSCS), the legal framework comprises the Banking Act 2009 which includes the
363 Special Resolution Regime (SRR) code of practice. The SRR was introduced following the financial crisis,
364 and it applies to building societies (a type of FC which are typically larger) but not to credit unions (another
365 type of FC which are typically smaller).

366 In Alberta-Canada, CUDGC operating under the Credit Union Act has responsibilities to (1) assist and/or
367 stabilise FCs to avert or alleviate financial difficulties, (2) supervise or administer the business affairs of
368 FCs, (3) assist with the purchase of assets and assumption of liabilities of an FC that is in need of assistance,
369 is in the process of liquidation or is being dissolved, and (4) act as a liquidator of a credit union, when
370 appointed. To resolve FC issues, the CUDGC's actions may include cease and desist orders, supervision,
371 administration, dissolution and/or liquidation, arrangement and dissolution, and compulsory amalgamation.

372 In Québec-Canada, the legal framework is notably composed of the Act Respecting the Regulation of the
373 Financial Sector (RFS Act), the Act Respecting Financial Services Cooperatives (FSC Act) and the Deposit
374 Institutions and Deposit Protection Act (DIDP Act), which are all administrated by the AMF. The AMF
375 assumes the supervision, the resolution and the deposit insurance functions for the deposit-taking
376 institutions operating in Québec (excluding banks, as defined by the Bank Act of Canada, which are under
377 the CDIC's purview). The FSC Act is the legislation governing the self-regulated network of FCs formed
378 by the UO and the FCs, plus the IPS. Special supervisory and intervention powers are given to the UO and
379 the IPS. Those powers were strengthened following the amendment to the legal framework of the financial
380 sector by the Government of Québec, in June 2018. Indeed, the FSC Act now includes the formal
381 recognition of the Cooperative Group and of the financial solidarity mechanism, applied via the IPS, and
382 the requirement to establish a recovery plan for the Cooperative Group. Under the DIDP Act, the AMF has
383 a wide range of powers and tools that could be used for resolution depending on the type of institution,
384 including some in early intervention. Since June 2018, the DIDP Act now includes all resolution features

385 aligned with the AMF's RA mandate. Therefore, in Québec-Canada the resolution of FCs may be carried
 386 out at the financial Cooperative Group level (UO and its IPS) and/or at the integrated regulator level (AMF).

387 **BOX 1: THE TWO LEVELS OF INTERVENTION (QUÉBEC-CANADA'S CASE)**

In Québec-Canada, the financial Cooperative Group level could be viewed as the first line of defence, and the integrated regulator level as the second line of defence. Indeed, the special supervisory and intervention powers of the UO and the IPS allow issues to be internalised and minimise the risk of failure of a weak FC and the cost of intervention by the AMF. At the financial Cooperative Group level, the UO and its IPS jointly manage a mutual support scheme that implements and guarantees solidarity among members of the Cooperative Group (i.e. a cross-guarantee mechanism embedded into the financial Cooperative Group). The UO acts as treasurer/liquidity manager for the Cooperative Group, assesses the FCs (Monitoring Office), and acts as the temporary or provisional administrator or as the liquidator of an FC. For its part, the IPS's mission consists in (1) establishing and managing a security, liquidity or mutual assistance fund for FCs, (2) taking part in the FC network's capitalisation, (3) helping to pay for losses resulting from the liquidation of FCs, and (4) avoiding or reducing disbursements by the AMF under the DIDP Act. To FCs that are experiencing difficulties in improving their financial situation, the IPS may notably:

- make loans, grants and guarantees;
- acquire some or all of the assets of an FC;
- temporarily manage the affairs of the FC;
- act as the liquidator or sequestrator, and as the provisional administrator.

Over the past decades, hundreds of M&As have been carried out through the UO and the IPS, but even if the risk of failure of a weak FC is less likely, a major crisis involving the Cooperative Group is a risk that needs to be managed. Therefore, the AMF has a wide range of powers and tools under the DIDP Act that could be used for resolution depending on the type of institution (some in early intervention). The AMF assesses the recovery plan developed by the Cooperative Group and makes recommendations to improve it. The AMF also develops a resolution plan for the Cooperative Group.

For any deposit-taking institution, the AMF may notably:

- make advances of money and guarantees;
- acquire the assets of a deposit institution or any security issued by a deposit institution;
- constitute a legal person or a partnership to carry out the liquidation or winding-up of the assets acquired from a deposit institution;
- apply to the Superior Court for an order (1) to force the sale or amalgamation of a deposit institution, or (2) to order the appointment of a receiver (i.e. temporary administrator).

For the Cooperative Group, the DIDP Act provides for a chapter on the resolution process, including provisions for the:

- establishment of a resolution plan for the Cooperative Group specifying, in particular, the operations the AMF intends to implement in the event of failure of the institution;
- establishment of a resolution board to approve the resolution plan, order the implementation and closure of the resolution operations, and authorise any resolution operation that was not provided for in the plan;
- establishment of new powers: bail-in, bridge institution, temporary stays, etc.;
- amalgamation of all the FCs as well as the IPS belonging to the same cooperative group and have them continued as one Québec savings company (amalgamation/continuance);
- ability to carry out a winding-up of the Cooperative Group;
- establishment of a business corporation;
- adoption of specific regulations, which relate to the recapitalisation conversion, the indemnification and the financial contracts.

388
 389 Brazil (FGCoop) is on its way to establishing a specific framework for FCs. A bill is in preparation to deal
 390 specifically with the resolution regimes which will define more detailed and specific information such as
 391 available powers and tools.

392 Some jurisdictions do not have a specific resolution framework for FCs, as resolution methods are applied
 393 in the same way for FCs as for banks, regardless of their legal form. This is the case for the DICJ (Japan),
 394 but also for European member respondents, namely Finland (FSA), Germany (BVR-ISG), and Spain
 395 (FGDEC). As in other European respondent jurisdictions, in Italy (FGDBCC), there is no special provision
 396 for FCs. The standalone FCs (i.e. BCCs) are not eligible for the resolution procedure, while the two
 397 cooperative banking groups to which the FCs are affiliated may be subject to this procedure since they are
 398 SIFIs under the SRB jurisdiction. The resolution strategy of these two groups and the IPS is consistent with
 399 the features of cooperative structure.¹⁶ Nevertheless, as in the case of Québec-Canada, the resolution of an
 400 FC in Italy could be carried out at the FC level or at the DI level. Indeed, the apex companies of the
 401 cooperative banking groups (i.e. UOs) are entitled to provide support through a cross-guarantee mechanism,
 402 which could be viewed as the first line of defence, and the FGDBCC could also intervene following the
 403 provisions of the EU Directive 2014/49/EU on deposit guarantee schemes (DGSD), which could be viewed
 404 as the second line of defence.

405
 406

BOX 2: EUROPEAN FRAMEWORK – THE BANK RECOVERY AND RESOLUTION DIRECTIVE 2014/59/EU

The European resolution framework has been significantly reformed starting from 2014 through the issuing of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD), the Single Resolution Mechanism Regulation (EU) 806/2014 and the DGSD.

In brief, according to the EU recovery and resolution framework, the resolution procedure is applied to banks (including cooperative banks and may also be used for credit unions), which are declared as failing or likely to fail by the competent authority, if there is no reasonable prospect that alternative private sector measures (including measures of a private IPS) or supervisory action would prevent the failure of the bank within a reasonable timeframe, and if a resolution action is necessary in the public interest. In the presence of the first two conditions and when the public interest is not satisfied, the bank can be subject to a liquidation procedure, according to the national insolvency procedures. Different legal regimes in the EU countries may then imply different practices in dealing with the crisis of a bank at national level.

Within this context, the EU framework does not provide for specific requirements to resolve financial cooperatives while keeping the cooperative structure.

In Europe, an SRM (Regulation (EU) No 806/2014) has been introduced to ensure the orderly resolution of failing banks with minimal costs to taxpayers and to the real economy (the second Pillar of the Banking Union). The SRM consists of the SRB (the resolution authority for the Banking Union) and the national resolution authorities in Banking Union countries.¹⁷ The SRB is responsible for the Banking Union's common resolution fund (SRF), financed by the banking sector.

According to the BRRD, the Resolution Fund may intervene in the event of resolution of a bank, in support of the application of resolution tools (bail-in, sale of business to a third party, a bridge bank or an asset management vehicle).

According to the DGSD, deposit guarantee schemes intervene to reimburse depositors and contribute to financing the resolution of member banks, providing cash for the amount the covered deposits would be impacted, to absorb the losses of the bank in resolution in the case a bail-in is applied, or to cover the losses the covered depositors would have borne in the case of transfer of all or any assets, rights or liabilities to a third bank, to a bridge bank or to a special purpose entity for management of the assets.

Moreover, Member States may allow a Deposit Guarantee Scheme (DGS) to use the available financial means for alternative measures (commonly known as preventive measures) in order to prevent the failure of a credit institution (art. 11, par. 3 DGSD) and may decide that the available financial means may also be used to finance measures to preserve the access of depositors to covered deposits, including transfer of assets and liabilities and deposit book transfer, in the context of national insolvency proceedings, provided that the

¹⁶ The structure of the groups is based on the FCs (BCCs) owning the shares of the two holding parent companies (structured as joint-stock companies) that in turn control the FCs by means of a special coordination contract, also governing the cross-guarantee mechanism (so-called intra-group guarantee scheme). This guarantee scheme is meant to prevent the crisis of single institutions belonging to the group, through the intervention of the other institutions (which are intended to be more solid) providing support.

¹⁷ Banking Union countries are the Euro Area Member States, and Bulgaria and Croatia.

costs borne by the DGS do not exceed the net amount of compensating covered depositors at the credit institution concerned (art. 11, par. 6 DGSD).

407

408 Among respondent jurisdictions, none has explicit legislative requirements to keep the cooperative structure
 409 once the FC is resolved. While not mandatory, in some jurisdictions, every effort is made to keep the FC
 410 structure by choosing a relevant resolution strategy such as in Jamaica (JCCUL). Others have extensive
 411 legislative powers to do so, namely AMF (Québec-Canada), CUDGC (Alberta-Canada) and Colombia
 412 (FOGACOO). In Italy (FGDBCC), even if few legislative powers allow the FC structure to be kept once
 413 resolved, in order to preserve the cooperative nature, an FC (i.e. BCC) under restructuring should be either
 414 merged with other FCs or supported to remain standalone. The apex companies of the cooperative banking
 415 groups (i.e. UOs) are entitled to provide such support through a cross-guarantee mechanism but the
 416 FGDBCC could also intervene following the legal provisions of art. 11, par. 3 and 11, par. 6 of the DGSD.
 417 In Germany (BVR-ISG), there is a legal requirement in the BRRD and in the German Recovery and
 418 Resolution law (“Sanierungs- und Abwicklungsgesetz (SAG)”) to change the legal form of a bank only as
 419 a measure of last resort if a necessary resolution instrument could otherwise not be applied (not limited to
 420 FCs, i.e. cooperative banks, but applicable also to public savings and other public sector banks). In Poland,
 421 according to special law for credit unions, if the ratio of own funds to the value of assets is below 1%, and
 422 the UOs refuse to grant financial help, the Polish Financial Supervision Authority may decide, at a first
 423 step, on the assumption of the weak credit union by another (healthy) credit union. The decision may be
 424 taken by the Polish Financial Supervision Authority unless the ratio of own funds to the value of the assets
 425 of the healthy credit union after the assumption would fall below a given level. In the absence of such a
 426 healthy credit union, the Polish Financial Supervision Authority, taking into account the need to protect
 427 financial market stability and the weak credit union, may decide on the assumption of the weak credit union
 428 by a domestic bank or credit institution, with their consent, or decide to liquidate the credit union.

429

430 **5. OVERVIEW OF WAYS, TOOLS AND METHODS TO RESOLVE A**
 431 **FINANCIAL COOPERATIVE WHILE KEEPING THE COOPERATIVE**
 432 **STRUCTURE**

433 **5.1. AVAILABLE FUNDING OPTIONS FOR THE RESOLUTION OF FINANCIAL COOPERATIVES**

434 There are different funding options available for the resolution of FCs in respondent jurisdictions. Some of
 435 the options can be used in early intervention while others are used in resolution.

436 In some jurisdictions, such as Italy (FGDBCC) and Québec-Canada (AMF), the cross-guarantee mechanism
 437 is embedded into the cooperative groups (i.e. the UO and its IPS jointly manage a mutual support scheme
 438 that implements and guarantees solidarity among members of the Cooperative Group) and the preventive
 439 measures of the IPSs support FCs in the event of an operating deficit or a situation that could lead to
 440 insolvency. In both Québec-Canada and Italy, this mechanism aims to avoid the resolution of a single FC.
 441 In these jurisdictions, if recovery and restructuring actions were not successful, the FGDBCC or the AMF
 442 would intervene (via their Deposit Insurance Funds (DIFs)). In Jamaica, available funding options for the
 443 resolution of FCs are also provided by the self-regulatory UO, JCCUL which manages their IPS, while the
 444 respective FCs of JCCUL can seek to increase the permanent shares each member of the FC is required to
 445 hold.¹⁸ An IPS also acts as a preventive measure in Spain (FGDEC) and Germany (BVR-ISG) for the
 446 rehabilitation of weak FCs, while resolution, strictly speaking, takes place by using legally determined

¹⁸ This is subject to the membership rules of the respective credit union and a resolution vote by members at a special or annual general meeting.

447 resolution instruments, and in the case of the Euro Area, may include the use of funds from the Single
 448 Resolution Fund managed by the Single Resolution Authority. In the Euro Area, Member States may allow
 449 a DGS to use the available financial means for alternative measures (commonly known as preventive
 450 measures) to prevent the failure of a credit institution (including an FC) and may decide that the available
 451 financial means may also be used to finance measures to preserve the access of depositors to covered
 452 deposits, including transfer of assets and liabilities and deposit book transfer, in the context of national
 453 insolvency proceedings, provided that the costs borne by the DGS do not exceed the net amount of
 454 compensating covered depositors at the credit institution concerned.

455 Some jurisdictions have other sources of funding besides the DIF, such as ex post funding in case of crisis
 456 management (Japan (AFCSIC, DICJ)) or systemic financial crisis (Chinese Taipei (CDIC)), bonds issuance
 457 (Japan (DICJ), other forms of borrowing (Japan (AFCSIC, DICJ), Chinese Taipei (CDIC)), and a legislative
 458 government backstop if the DIF is insufficient (Alberta-Canada (CUDGC), Chinese Taipei (CDIC),
 459 Québec-Canada (AMF)). In Europe, the DGSD also expects alternative funding arrangements (bond
 460 issuing, borrowing, etc.) to be in place.

461 In some jurisdictions, DIs/RAs may use a large range of financial assistance tools: they may participate
 462 temporarily in the FC members' assets (Colombia (FOGACOOPE)), acquire credit rights (Brazil (FGCoop)),
 463 make loans (Colombia (FOGACOOPE) and Brazil (FGCoop)), make advances of money, with or without
 464 security, and guarantee the payment of debts (Québec-Canada (AMF)), acquire the assets (Colombia
 465 (FOGACOOPE) and Québec-Canada (AMF)), make a deposit or guarantee a deposit made and acquire any
 466 security issued by the institution (Québec-Canada (AMF)), or provide a letter of credit and financial
 467 assistance (Brazil (FGCoop)). The latter can also make donations with financial and non-financial charges.

468 For FGA CONFIA (Costa Rica), the most recently established respondent DI, no funding is available for
 469 the purposes of resolution, but negotiations are underway with FCs.

470 5.2. PRIORITISED TOOLS FOR KEEPING THE COOPERATIVE STRUCTURE

471 5.2.1. In early intervention

472 In the context of an early intervention, jurisdictions have some prioritised tools for keeping the cooperative
 473 structure. We observed the following:

- 474 • Prompt corrective measures are a way of keeping the cooperative structure in some jurisdictions,
 475 as they are taken early in the intervention process before any resolution tools. In Chinese Taipei
 476 (CDIC), they are the prioritised way for regaining the health of FCs. In Guatemala (FGMICOOPE),
 477 early intervention comprises two steps: (1) require an action plan from FCs, and (2) implement
 478 external measures if problem persists, which consists in providing FCs with funds to correct or
 479 accelerate their recovery. If these early intervention measures do not solve the problem,
 480 FGMICOOPE finally implements definitive measures to give the FCs a controlled way out of the
 481 FGMICOOPE system, by following a least-cost solution. In Brazil (FGCoop), emphasis is put on
 482 monitoring FCs as a preventive tool and allowing the DI to take action at an early stage, in
 483 collaboration with other participants of the financial safety-net.
- 484 • M&A, which is a variation of P&A involving the combination of a weak but still viable institution
 485 with a stronger one, is well used among respondent jurisdictions (six out of fifteen), and notably
 486 used when serious weaknesses are observed, necessitating early intervention:
 - 487 – In Jamaica (JCCUL), the technical assistance or other required assistance to stabilise an FC in
 488 financial distress is usually the first option. But if not successful/sufficient and the FC's operation
 489 appears heading for default, it can be placed under supervision/temporary management with the
 490 approval of the Registrar of the Department of Co-operatives and Friendly Societies. The aim at

491 this stage is usually to merge the weak FC with a stronger and financially viable FC. Therefore,
492 technical assistance and supervision (temporary management) followed by merger are the main
493 resolution tools used.

494 – In Germany (BVR-ISG), there are preventive measures of an IPS to prevent an institution from
495 failing or being likely to fail, e.g. by restructuring or by the merger of two institutions. In any
496 case, when applying these rehabilitation measures of the IPS, the cooperative legal form of the
497 institutions remains unchanged.

498 – In Italy (FGDBCC), the available tools for keeping the cooperative structure may consist of
499 M&A operations between the defaulting FC (i.e. BCC) and a sound and sizeable FC. In the case
500 of liquidation, a transfer of assets and liabilities to another FC may be carried out to preserve the
501 access to deposits and the continuity of bank relationships. However, members of the liquidated
502 FC are not transferred to the acquiring FC.

503 – In Québec-Canada (AMF), over the past decades, hundreds of M&As have been carried out
504 through the UO and its IPS, which are granted special supervisory and intervention powers by
505 law. For members of the less viable FCs, those M&As allow them to continue doing business
506 with a sound Cooperative Group that they know well. The UO and its IPS internalise issues and
507 minimise the risk of failure of a weak FC and the cost of intervention by the AMF. Indeed, all
508 those M&As have been carried out with no cost to the DIF.

509 – In Colombia, FOGACOOOP promotes the merger with another FC as a tool for resolving financial
510 cooperatives, but this is a model that requires the agreement of the institutions involved and the
511 supervisor's authorisation. Nevertheless, acting at the early intervention stage (i.e. before the
512 liquidation) can be useful for keeping the cooperative structure, even if it is not a priority.

513 – In Brazil, FGCoop requires a merger with another credit cooperative of the Brazilian National
514 Credit System as a prerequisite for providing financial assistance to cooperatives at risk of
515 discontinuity. However, there is no preferential way of providing it. When assessing the use of
516 a particular tool, FGCoop takes into account the economic-financial state and the causes of the
517 risk of discontinuity. The financial assistance focuses on maintaining FGCoop's equity and may
518 exceptionally consider the reputational risk of the cooperative system.

519 5.2.2. In resolution

520 In the context of a resolution, jurisdictions also have some prioritised tools for keeping the cooperative
521 structure. We observed the following:

522 • P&As were used as the main tool in resolving FCs in the past to maintain financial order and protect
523 the interests and rights of depositors (Chinese Taipei (CDIC)). The first option for the failing FCs
524 in Alberta-Canada (CUDGC) had been to seek another FC for an arrangement or amalgamation
525 (i.e. P&A). This has been a successful method for the Alberta FC system. From time to time,
526 CUDGC provides indemnity agreements to facilitate an arrangement.

527 • A bridge institution can be established in the context of a resolution. For example, in Québec-
528 Canada, the AMF can establish a bridge institution to assume the liabilities, in relation to deposits
529 of money, of a deposit institution belonging to the Cooperative Group. The bridge institution can
530 be established as an FC, but also as a Québec savings company or trust company. The AMF can
531 also transfer the assets and liabilities of a legal person belonging to a cooperative group to any
532 acquirer, which could be the AMF itself, a bridge institution or an asset management company.

- 533 • Financial assistance can be provided to some FCs in the resolution process in jurisdictions like
534 Japan (AFCSIC, DICJ). In the case of AFCSIC, this results in the resolved FCs keeping their
535 cooperative structure.

536 In some jurisdictions, keeping the cooperative nature after the resolution of an FC is not considered a
537 priority (Costa Rica (FGA CONFIA)) nor a resolution objective (Germany (BVR-ISG)). In Japan, the
538 resolution tools applied for FCs by the DICJ are the same as for banks. In Spain (FGDEC), none of the
539 resolution tools guarantees keeping the cooperative structure, while Finland (FSA) and United Kingdom
540 (FSCS) do not have any prioritised tools for keeping it. In Guatemala, FGMICOOPE implements definitive
541 measures to give the FCs a controlled way out of the MICOOPE system, by following a least-cost solution.
542 In the UK, to bail in a failing building society, the Bank of England (1) may convert the society into a
543 company, or transfer all the property, rights and liabilities of the society to a company, and also (2) may
544 cancel shares and membership rights of the society, and convert shares of the society into deposits of the
545 successor company. A bail-in of a building society would result in demutualisation. In the UK, in addition
546 to the bail-in tool, there are four other resolution tools, including the transfer to a private sector purchaser,
547 the transfer to a bridge entity, the transfer to temporary public sector ownership, and the asset management
548 vehicle tool, according to the SRR code of practice included in the Banking Act 2009 and updated in 2017.
549 Likewise, in Spain, the same resolution tools listed for the UK are available under the BRRD, with the
550 exception of the transfer to temporary public sector ownership.

551 The FC structure can also be kept in an indirect way through an intermediate involvement of a joint-stock
552 company in the resolution process. The case of Banca di Romagna Cooperativa in Italy is interesting in this
553 regard. In 2015, Banca di Romagna Cooperativa was submitted by the Bank of Italy to Compulsory
554 Administrative Liquidation (LCA) and in that context the Italian DGS intervened to support the transfer of
555 some assets and liabilities to another bank belonging to the same group (Banca Sviluppo). Banca Sviluppo
556 is a joint-stock company, but interestingly those assets and liabilities have recently been transferred from
557 that bank to three other FCs (Bodellini, 2020).

558 5.2.3. Conservatorship

559 The conservatorship (or temporary administration), whereby the DI/RA or the UO/IPS takes over the affairs
560 of the FC, rehabilitates it through a number of tools and ultimately seeks to return it to the control of the
561 FC members is also used in some jurisdictions to keep the cooperative structure and to avoid a payout to
562 depositors, notably in the United States and in Québec (Canada). Many of the early intervention tools are
563 applicable during a conservatorship and past practices involve a wide variety of activities including
564 replacement of the management and governing body of the FC, technical assistance, purchasing of problem
565 assets by a UO/IPS or other parties, recapitalisation, sales of part of the business, providing liquidity
566 resources, etc. The end result of the conservatorship can be merger of the FC with another one, or if
567 successful, rehabilitation of the FC and return to private control by the membership. Thus, conservatorship
568 is another tool for the DI/RA to resolve FCs while keeping the cooperative structure. This option seeks a
569 least-cost alternative to a direct payout and provides actionable control of the affairs of the FC in cases
570 where the problems are beyond the capabilities of the existing management team. In jurisdictions
571 considering a conservatorship option, it is important that the authorising legislation provide an appropriate
572 level of liability protection for the DI/RA and the UO/IPS.

573

574 5.3. PAST RESOLUTION EXPERIENCES WHILE KEEPING THE COOPERATIVE STRUCTURE

575 Among the fifteen respondents, seven have cases of FC resolution while keeping their cooperative
 576 structures,¹⁹ namely Québec, Canada (AMF), Germany (BVR-ISG),²⁰ Brazil (FGCoop), Italy (FGDBCC),
 577 Colombia (FOGACOO), United Kingdom (FSCS) and Jamaica (JCCUL).

578 5.3.1. Background

579 Overall, the reasons that lead to the resolution of FCs are notably related to shortcomings in management
 580 practices or poor governance, plus declining profitability (Québec-Canada (AMF), Jamaica (JCCUL)), but
 581 also to severe irregularities in administration and regulatory violations, in the context of apparent solidity,
 582 plus high single-name concentration (e.g. a few top clients holding over 50% of the total loans),
 583 deterioration in the technical and organisational structure, and increase in credit loss provisioning resulting
 584 in capital shortfall (Italy (FGDBCC)). Non-performing loans in the context of loss of confidence (Colombia
 585 (FOGACOO) or problem loans (commercial and residential property)²¹ following diversification into
 586 commercial lending and loans for social housing are also some of the reasons given (United Kingdom
 587 (FSCS)).

588 5.3.2. Possible resolution options, justifications/drivers and implementation

589 5.3.2.1 Purchase and Assumptions and its variation, Merger and Acquisitions: a few cases

590 Most case studies received present cases involving P&A, or one of its variations, M&A. Contrary to P&A,
 591 M&A is often done at a time when the FC is weakened but has not yet failed and involves a change in the
 592 troubled FC's organisation and/or ownership (McGuire, 2012).

593 Among the four cases involving an M&A, three were carried out by a UO and/or IPS, as a preventive
 594 measure (Germany, Jamaica, Québec-Canada). The fourth was carried out at the resolution stage (Brazil).

- 595 • Germany's case (2011): Within the preventive measures of the private IPS, to avoid existing or
 596 imminent economic difficulties of member cooperative banks long before any non-compliance with
 597 prudential requirements, there had been a few cases in the past where the IPS had granted resources
 598 to a cooperative bank. In each case, this was done before prudential requirements had been violated.
 599 In some of these cases, mergers of institutions took place, which was the best way to carry out
 600 rehabilitation or restructuring measures.
- 601 • Jamaica's case (2013): The FC was initially placed under Temporary Management/Supervision by
 602 JCCUL and provided with management personnel and technical assistance aimed at restoring it to
 603 viability. However, after periodic assessments it was determined that a merger with another FC that
 604 had a similar interest (e.g. similar common bond²²) and was financially viable was the best option
 605 and in the best interest of the members of this Parish FC as well as the credit union movement in
 606 general. The merger would provide continuity of service to its members without them losing their
 607 existing benefits associated with a mutual/FC. It would also allow members to become part of a

¹⁹ Annex 2 presents the case studies in more detail.

²⁰ The experience of the BVR-ISG (Germany) is about recovery and rehabilitation of cooperative banks, not in the narrow meaning of "resolution". BVR-ISG (Germany) always keep their cooperative banks in business, sometimes within another cooperative bank after merger, and never shut them down.

²¹ In the UK, historically, the building society sector focused on deposits and mortgage loans for residential property, but Dunfermline Building Society (DBS) had diversified into commercial lending and loans for social housing.

²² Most FCs are based on a common bond between members of the organisation. Typical common bonds include geographical region, profession, industry or employer group, religious, cultural or ethnic affiliation, etc.

608 stronger FC. These options were assessed to be less arduous, less costly and would cause the least
609 dislocation/disruption in service to members.

- 610 • Québec-Canada’s case (2012): The best option for the UO to ensure the FC’s viability and to protect
611 its members was to proceed to a merger with another FC that was also part of the network of the
612 same Cooperative Group. Otherwise, the FC would fail, and the AMF would have to proceed to
613 deposit reimbursement. A merger represented an adequate intervention option for maintaining
614 access of members to services and for keeping, as much as possible, a strong feeling of belonging
615 among the FC community, and for limiting the impact on the DIF.

616 Among the major implementation steps, the weak FC mandated the UO to look for a merger with
617 another FC within the network. One FC was willing to merge, even if it did not share the same
618 common bond. The merger was ratified at the Extraordinary General Meeting, but the effective
619 date of the merger was set for a few months later. During those months, the situation of the weak
620 FC deteriorated. The AMF received an official application for a merger authorisation, but also a
621 complaint requesting a stay of merger. After dealing with the complaint, the AMF analysed the
622 application, formulated its merger recommendation, and issued a deposit insurance authorisation.

- 623 • Brazil’s case (2018-2019): To rely on the amount needed to cover accumulated losses, but also to
624 have short and medium-term liquidity and to limit the impact on the operations of the cooperative
625 at risk of discontinuity, FGCoop proceeded to a merger with another credit cooperative of the
626 Brazilian National Credit System, with financial intermediation by FGCoop. The option for the
627 type of financial assistance was loan operation (loan agreement) with the rate subsidised by
628 FGCoop, plus the credit central’s intervention. The intervention mitigated the risks associated with
629 the cooperative activity. The process of providing financial assistance is being implemented,
630 working together with the inspection bodies and institutions associated with FGCoop, sharing
631 knowledge and good practices.

632
633

BOX 3: IMPLEMENTING STEPS FOR MERGER BY AN UMBRELLA ORGANISATION (JAMAICA’S CASE)

In Jamaica, technical assistance and supervision/temporary management followed by merger are the main resolution tools used by JCCUL. For supervision, the Credit Union (CU) is normally written to and advised of the pending supervision including the reasons. However, if the situation is considered serious enough to warrant instant supervision, no prior warning is given. The CU Board may remain in place while the Supervision Team works with the Management Team to implement the required changes within an agreed timeline. However, where warranted, the Board and possibly some management personnel can be set aside, with the Supervision Team assuming the day-to-day responsibility for managing the CU. An Oversight Committee is also established to monitor the management and operations of the CU and make decisions as guided/referred by the General Manager. The JCCUL Board would be responsible for the review and approval of policy changes.

Where it is determined that a merger is the viable option, JCCUL holds a Special General Meeting (SGM) with the members of the failing CU to update them on the financial status of the CU and present the options/merger recommendation. The members are required to give their approval (vote) to allow JCCUL (as the temporary manager/supervisor) to administer the process to select a merger partner. Interested CUs are invited by JCCUL to submit a merger proposal via a “Request for Proposal (RFP)” document. An assessment of the proposal against the predetermined conditions (listed in the table “Criteria to select the merger partner FC” below) is conducted by a JCCUL In-house Selection Committee to shortlist CUs (usually three). The shortlisted CUs are required to make a presentation to the Stabilisation Committee and possibly some member representatives from the merging/failing CU. Following selection by the Stabilisation Committee, a recommendation of the selected CU is made to the JCCUL Board. Once ratified by the JCCUL Board, the shortlisted CUs are advised of the outcome.

Town Hall meetings are held to update members on the outcome of the merger selection process, present the potential merger partner and sensitise members about the merger process going forward.

A merger resolution is required to be presented to both the members of the failing CU and the members of the selected CU merger partner at an AGM or SGM for their approval before the merger can be effective. Final approval of the merger resolution by the Registrar of Co-operatives is also required following both CU meetings and will include a date by which the merger must be effective.

At least two committees, a Merger Oversight Committee and a Merger Working Committee, are established to implement the merger plan. Where necessary, a capital injection is made to the failing/merging CU from the Stabilisation Fund to cover any shortfall in the failed CU's assets versus liabilities. This is to ensure that at the merger date, each member is transferred (merged) with the full value of their savings/deposits held in the failed CU.

Criteria to select the merger partner FC

Criterion	Score
1. Potential for enhanced service to members and potential members	20%
2. Ease of integration of IT systems	10%
3. Synergies from the merger	25%
4. Capital adequacy and financial plan including assistance from the Stabilisation Fund	25%
5. Compatibility of the merger candidates	10%
6. Comprehensiveness of the merger plan	10%
TOTAL	100%

634

635 The fifth case involved P&A transactions.

636 • Italy's case (2010): The Special Administration (SA) procedure requested the FGDBCC to
 637 intervene in the perspective of liquidation, but it explored the possibility of resolving the Credito
 638 Cooperativo Fiorentino (CCF) through the involvement of other banks (orderly resolution), in
 639 coordination with the competent authorities and the FGDBCC. An expression of interest came from
 640 ChiantiBanca Credito Cooperativo for the acquisition of CCF's business (i.e. P&A).

641 – ChiantiBanca Credito Cooperativo purchased CCF's assets and liabilities, with the exception of
 642 Non-Performing Loans (NPLs) and deferred tax assets (DTA).

643 – The FGDBCC issued a guarantee covering ChiantiBanca Credito Cooperativo against the risk of
 644 deterioration of certain "unlikely to pay" purchased assets. The FGDBCC acquired CCF's NPLs
 645 and covered the negative balance between the transferred assets and liabilities resulting at the
 646 date of closure of the SA procedure. The FGDBCC also covered the liquidation costs.

647 *5.3.2.2 Takeover by the supervisor, Financial support and Transfers of part of the business*

648 The others two cases present a takeover by the supervisor followed by financial support (Colombia), and a
 649 transfer of part of the FC to another cooperative and to a bridge bank, plus a bank administration procedure
 650 (the United Kingdom).

651 • Colombia's case (2015): Coopetrol, a cooperative formed by workers, ex-workers and suppliers of
 652 Ecopetrol, was taken over and administered by the supervisory body and a special agent designated
 653 by FOGACOOOP. FOGACOOOP supported the operations with a direct loan and a 180-day loan

654 purchase agreement. In the jurisdiction, this tool is considered one of the best for solving financial
655 problems when there is a context of loss of confidence.

656 • The United Kingdom's case (2009): The competitive sale process for Dunfermline Building
657 Society (DBS)'s retail and wholesale deposits, branches, head office and originated residential
658 mortgages was conducted by the Bank of England under the Special Resolution Regime provisions
659 of the Banking Act 2009. Four bids were received. The resolution involved:

660 – Transfer of part of the bank to another cooperative: The retail and wholesale deposits, branches,
661 head office and residential mortgages were transferred to Nationwide Building Society, the UK's
662 largest building society. This part of the business was therefore transferred to another cooperative
663 body and depositors were thus retained within a member-owned organisation.

664 – Transfer to a bridge bank: The social housing loans were transferred temporarily to a bridge bank
665 owned by the Bank of England (Bridge Bank Limited). After a few months, Nationwide Building
666 Society had been the preferred bidder for the social housing loans and related deposits from
667 housing associations.

668 – Bank administration procedure: DBS's remaining business, mainly lower-quality loans
669 (commercial loans, acquired residential mortgages, subordinated debt and most treasury assets)
670 were put into the Building Society Special Administration Process where they were managed by
671 KPMG as the administrator. The bank administration procedure is the method for use where
672 there has been a partial transfer of business from a failing institution.

673 As part of the deal, the UK Government transferred an amount of public funds (GBP 1.6 billion)
674 to Nationwide Building Society, which took an amount of DBS's deposits (GBP 2.35 billion) in
675 return for absorbing GBP 1 billion of its prime residential mortgages. The transfer was made
676 because the assets that Nationwide Building Society took on were worth GBP 1.6 billion less than
677 the liabilities. However, the GBP 1.6 billion cost was split between the industry-funded FSCS and
678 the taxpayer. The FSCS contributed over GBP 500 million calculated against a cap of the
679 counterfactual net cost of payout less recovery.²³

680 5.3.3. Challenges in resolution

681 Challenges differ among case studies as they depend on how the FCs were resolved.

682 For the resolution of an FC using P&A and M&A, the main challenges and impediments encountered were
683 the following:

684 • Dealing with the lack of timely, complete and relevant information and determining the accuracy
685 of the financial statements (Jamaica's case).

686 • Getting directors and other volunteers, staff and members and the FC's representatives to
687 understand, accept and agree on the financial status of the FC and on the necessity to proceed to
688 the resolution (Jamaica's case).

689 • Facing unplanned costs for carrying out the resolution (Jamaica's case).

690 • Completing the required actions within the given timelines to stem further financial loss (Jamaica's
691 case).

²³ This is what the net cost of payout less recovery would have been if the institution had failed and the deposits had been paid out.

692 • Dealing with a complaint which alleged errors in the merger proceedings during the Extraordinary
 693 General Meeting approving the merger by absorption of the weak FC by the interested FC, and
 694 requested the suspension of the merger procedure. In reality, the complaint focused more on desired
 695 post-merger operating procedures, such as the preservation of the FC's name and the offer of
 696 services in the same language as before the merger (which is different from Canada's two official
 697 languages: French and English). All the integrated regulator's divisions involved in this merger
 698 case analysed the documentation and concluded that there were no irregularities that could
 699 undermine the merger (Québec-Canada's case).

700 • Considering the particularity of each case of financial assistance, creating an ideal initial model of
 701 financial assistance that meets the needs of cooperatives and preserves the financial structure
 702 indices required by government agencies, while the DI has no experience of doing so because it is
 703 a new power (Brazil's case).

704 For the resolution of an FC through takeover by the supervisor, financial support and transfers of part of
 705 the business, the main challenges and impediments encountered were the following:

706 • Dealing with the complexity of the competitive procedure for the sale of business (Italy's case).

707 • Assuring and/or regaining the confidence of customers and depositors at the defaulting FC during
 708 the procedure (Italy's case and Colombia's case).

709 • Deploying the procedure under a very strict timeline (i.e. authorisation by the Bank of Italy, Decree
 710 by the Ministry of Finance, appointment of the Receiver, and notary contractual arrangements)
 711 (Italy's case).

712 • Dealing with an error concerning the order of transfer of part of the business which resulted in some
 713 of the commercial property portfolio being transferred to Nationwide Building Society. This error,
 714 discovered by an Audit, Tax and Advisory services firm and corrected by a statutory instrument,
 715 occurred because resolution actions were executed quickly (over a weekend) and also because a
 716 new legislation was being used for the first time. Nationwide Building Society admitted that due
 717 diligence had not been as comprehensive as might have been the case if the transfer had not taken
 718 place over a weekend. This shows that the power to correct errors is important, in case resolution
 719 decisions need to be made urgently (United Kingdom's case).

720 • Conducting a valuation of the DI's contribution for the resolution of the FC (by an independent
 721 valuer) and requesting the valuer to reconsider the determinations of its report (by the DI) (United
 722 Kingdom's case).

723 5.3.4. Other resolution features

724 Depending on the jurisdiction, different tools have been used for the resolution of FCs, with different
 725 durations and different costs for the DI/RA. In Jamaica's case, the resolution process, from Temporary
 726 Manager/Supervision to the merger by JCCUL lasted approximately three years, but the merger process,
 727 strictly speaking, took approximately eight months. In Germany's case, the IPS guaranteed an initial amount
 728 in 2011, followed by another in 2012, notably for additional guarantees and for restructuring measures,
 729 such as closure of branches, reduction of employees, etc. In Québec-Canada's case, the duration of the
 730 merger was longer than usual due to the complaint, so the effective date of the merger was delayed but not
 731 for too long (a few months only). As this merger was done by the UO, within the FC network of the
 732 Cooperative Group, the cost was fully supported by the UO and FCs of the network, at no cost to the DIF
 733 maintained by the AMF. In Brazil's case, the process is still underway, but so far it has been difficult to
 734 reach an agreement among all the participants involved in the process, which is slowing the process down.

735 In the Colombian case, the takeover and management by the supervisory body and a special agent
736 designated by FOGACOOOP has been successful. The FC achieved the forecast financial, operational and
737 social targets, and returned to its sustainable path.

738 In the United Kingdom's case, the resolution process started in March 2009, with the exercise of the
739 stabilisation powers by the Bank of England, which comprised the transfer of part of the bank to another
740 cooperative and part to a bridge bank, and the activation of the bank administration procedure by the
741 Tripartite Authorities (i.e. the Bank of England, the Financial Services Authority and HM Treasury). After
742 making payments on account to HM Treasury, the FSCS paid the final due balance on March 2018, thereby
743 discharging in full its liabilities to HM Treasury for the DBS resolution.

744 5.3.5. Evaluations, observations and/or lessons learned

745 From those cases involving the resolution of FCs, the majority of jurisdictions learned lessons which could
746 be useful for other DIs/RAs.

747 Interventions in a weak/failing FC may raise particular issues, notably cultural issues (such as common
748 bond, values), political issues (such as rural footprint, democratic decision-making process), as well as
749 operational issues (size, systems, resources, etc.). It is in the interests of DIs/RAs to detect early and manage
750 those particular issues, especially as at the time of resolution, DIs/RAs often face a degraded economic
751 environment which may make the rescue of FCs difficult. This fact highlights the importance of having a
752 framework that provides for early detection and timely intervention. In the jurisdictions where there are
753 UOs and IPSs, these particular issues can be internalised within those structures as they take action early
754 with the deployment of preventive measures to avoid existing or imminent economic difficulties of FCs,
755 long before any non-compliance with prudential requirements. And if they do not act, the DI/RA has the
756 powers to intervene at an early stage. Maintaining an effective collaboration between the UO and the DI/RA
757 is also part of the key success factors mentioned. As highlighted by BVR-ISG (Germany), preventive
758 measures are far more effective than any kind of resolution instruments. M&As are generally part of these
759 preventive measures. In certain jurisdictions, such as Germany (BVR-ISG) and Québec-Canada (AMF),
760 M&As are the best way to conduct rehabilitation or restructuring measures of weak FCs, while minimising
761 the risk and the cost of intervention to the DI/RA.

762 By experience, Jamaica (JCCUL) noted that a timely intervention may reduce the fallout of the FC's
763 financial situation (usually already weakened), the cost of the intervention and the time taken to complete
764 the resolution process, as well as the level of loss of member confidence. Having an effective planning and
765 structured implementation are crucial for the success of a resolution. Key stakeholder participation, along
766 with clear and consistent communication, are critical to both the planning and execution of the plans.

767 Following the global financial crisis, many governments enhanced their legislative frameworks by granting
768 new powers to DIs/RAs. Carrying out the resolution of an FC in a context of new legislative frameworks
769 may be challenging for DIs/RAs. However, since the introduction of those legislative frameworks, there
770 have been few cases of resolution in most jurisdictions. For example, in the UK, the DBS's resolution case
771 in 2009 remains the only deposit-taking institution to have been resolved under the SRR. This highlights
772 the importance for DIs/RAs to regularly conduct simulations to get experience and be better prepared in the
773 event of crises.

774 In many jurisdictions, legislative enhancements have notably comprised the adoption of a range of
775 regulatory requirements, including larger capital buffers and liquidity requirements, which should ensure
776 deposit-taking institutions have more capacity to endure shocks. The introduction of recovery and
777 resolution planning has also focused both deposit-taking institutions (particularly SIFIs) and regulatory
778 authorities on preparing for recovery, and in the worst case, resolution. As highlighted by the UK, deposit-
779 taking institutions are also made aware of the likely resolution tool which would be used, were they to fail
780 in enabling the DI/RA to have effective plans in place in advance of any failure.

781 In Colombia, the weakness of the governance system resulting in financial issues which led to the FC
 782 resolution in 2015 has been identified in other FCs in recent years. Consequently, to reduce the risk of
 783 default cases among FCs, government bodies (Ministry of Economy, Supervisor and FOGACOOOP as risk
 784 minimiser), together with the World Bank, worked on a normative project concerning Government
 785 cooperative principles, which became mandatory. Following the implementation period that began in May
 786 2019, it is expected that the cooperative sector will adopt sound and prudent management practices, so that
 787 default cases in the sector will decrease.

788 5.4. RELATED ONGOING DISCUSSION/ANALYSIS WITHIN JURISDICTIONS

789 There are a few ongoing discussions or analyses within respondent jurisdictions concerning the resolution
 790 of FCs while keeping the cooperative structure. In Finland, Jamaica and Québec-Canada, these are related
 791 to new legislative frameworks pertaining to the resolution of FCs or new regulations.

792 • In Finland, in future, the FSA will establish whether BRRD II (i.e. Directive (EU) 2019/879, which
 793 is an amendment of Directive 2014/59/EU) provides new tools for resolving an FC while keeping
 794 its cooperative structure.

795 • In Jamaica, legislation is to be tabled to bring credit unions under the regulatory ambit of the Central
 796 Bank/Bank of Jamaica with subsequent admission to the Deposit Insurance Scheme. Additionally,
 797 the legal and operating framework for an SRR for all regulated financial institutions in Jamaica is
 798 being developed. The SRR will be applicable to FCs and will incorporate any necessary provisions
 799 to address the specific issues relevant to resolving FCs.

800 • In Québec-Canada, during the financial sector framework legal review (Bill 141), the AMF worked
 801 with the Ministry of Finance of Québec, notably regarding amendments to different laws relating
 802 to FCs to give the AMF the resolution powers needed to operationalise the resolution of a D-SIFI,
 803 notably the execution of a bail-in regime. Consequently, regulations on the bail-in tool were drafted
 804 by the AMF. Those regulations came into force on 31 March 2019.

805 • In Brazil, the law regulating the financial sector is being revised to allow the Fund, FGCoop, to
 806 provide direct capital injections when financial cooperatives with a high probability of liquidation
 807 are merged with other FCs. In those cases, after a set period, the funds will return to FGCoop
 808 through the proceeds obtained by FCs.

809 For some jurisdictions with FCs designated as D-SIFIs, recovery and resolution planning for those D-SIFIs
 810 is at a mature stage or underway. For example,

811 • In Québec (Canada), multiple cycles of a recovery plan prepared by the jurisdiction's D-SIFI
 812 (started in 2014) and a resolution plan prepared by the AMF (started in 2015) have been completed.
 813 Although the D-SIFI is currently very strong, the resolution plan specifies the operations the AMF
 814 intends to implement in order to ensure the maintenance of critical functions including deposit-
 815 taking in the event of failure of the Cooperative Group and without recourse to public funds.

816 • In Alberta (Canada), the CUDGC is in the early stages of working with its two largest FCs, both
 817 designated provincial SIFIs, in developing recovery and resolution plans. The CUDGC has also
 818 been incrementally working on its contingency planning for the credit union system.

819

820 6. FINAL REMARKS

821 This paper has presented some ways to resolve FCs while keeping the cooperative structure. Providing
 822 guidance on effective methods to resolve FCs is a major contribution to the main objective of financial
 823 stability. In some jurisdictions, the preservation of the cooperative structure may be desirable as these
 824 financial institutions often serve specific segments of the economy including small and medium-sized
 825 businesses and in some cases are the only financial institution in remote or sparsely populated areas. FCs
 826 also bring diversity to financial services, foster a more competitive banking industry, and contribute to the
 827 policy goal of financial inclusion in some jurisdictions for underserved or unserved communities.
 828

829 The data for the study come from case studies completed by DIs/RAs and IPSs from different regions of
 830 the world, both IADI members and non-members. Fifteen case studies were received between March and
 831 June 2019, including seven about actual interventions/resolutions of FCs in recent years.
 832

833 Results show that no respondent jurisdiction is required by law to keep the cooperative structure of an FC
 834 after resolution. However, in many jurisdictions, authorities try as far as possible to preserve the cooperative
 835 structure of FCs after their intervention. The analysis also shows that although DIs/RAs are the ultimate
 836 authorities mandated to resolve FCs, FC industry-run UOs/IPSs, where available, can play an important
 837 role in early intervention and the resolution of FCs while keeping the cooperative structure of those FCs,
 838 notably by merging weak or troubled FCs with stronger ones within the UOs/IPSs, especially at early
 839 intervention stages. It appears that M&As (at the early intervention stage) and P&As (at the resolution
 840 stage) with other FCs are the preferred tools by DIs/RAs and IPSs for keeping the cooperative structure of
 841 the FC after intervention or resolution, where possible.

842 Based on the results of the analysis conducted using case studies, the following guidance points are provided
 843 for consideration in the resolution process of FCs, especially when the cooperative structure is intended to
 844 be kept.

845 Some of these guidance points are general to all jurisdictions with FCs, while others are specific to
 846 jurisdictions where FCs unite under or collaborate with UOs and/or where IPSs are available.

847 Some prerequisites are important for the implementation of these guidance points. For example, some or
 848 all of the guidance points may not be applicable to certain DIs that deal with FCs, depending on the mandate
 849 of the DI, the structure of the financial sector, the respective roles of various financial safety-net
 850 participants, etc.

851 **Guidance for FC DIs/RAs, regardless of the presence (or absence) of a UO/IPS (when the** 852 **cooperative structure is intended to be kept)**

853 1. To increase the chances of keeping the cooperative structure, DIs with extensive responsibilities,
 854 such as preventive action and risk minimisation/management should have a robust framework for
 855 an early detection and timely intervention for FCs, unless such powers are assigned to a UO/IPS or
 856 supervisory authority. Such frameworks may help to avoid the failure of an FC or help to find a
 857 way to merge it with another FC before failure, thereby keeping the cooperative structure. Early
 858 detection and timely intervention could also prevent the erosion of customer and depositor
 859 confidence in the financial cooperative sector. (Reference Sections 5.3.3 and 5.3.5)

860 2. In jurisdictions with few cases of FCs that have failed, FC DIs could participate in regular
 861 contingency planning and simulation exercises based on a wide range of scenarios with different
 862 particularities, especially when they have to deal with new powers. Lessons learned during
 863 simulation exercises could help DIs prepare for quick decision-making and may compensate for
 864 lack of experience. (Reference Sections 5.3.3, 5.3.5 and IADI Core Principle 6 - Deposit insurer's
 865 role in contingency planning and crisis management)

866 **Guidance for FC DIs/RAs in the presence of a UO/IPS (when the cooperative structure is intended**
 867 **to be kept)**

868 3. In the case of the coexistence of DIs/RAs and UOs/IPSs, objectives, mandates and powers of
 869 each organisation should be clearly defined in law, regulation or agreements (such as Memoranda
 870 of Understanding). (Reference Section 4 and IADI Core Principle 2 – Mandate and Powers)

871 • Deposit insurance/resolution legislation could give sufficient intervention powers to those
 872 UOs/IPSs to enable them to act at an early stage to restore a weak FC to viability or merge it
 873 with another FC. Those powers could allow issues to be internalised, minimise the risk of
 874 failure of a weak FC and reduce the cost to the DI/RA. (Reference Section 4 and 5.3.5)

875 4. In jurisdictions where UOs/IPSs can be considered as a first line of defence and the DI/RA as
 876 the second line of defence, it is important that the financial strength of UOs/IPSs, and their actions
 877 regarding a specific FC, be monitored by the relevant authority. DIs/RAs could, to the extent
 878 possible, be more proactive in dealing with emerging weakness in UOs/IPSs, including having an
 879 internal contingency plan in place to determine in advance how the DIs/RAs might respond in the
 880 event that UOs/IPSs are no longer able to serve as the first line of defence to protect depositors.
 881 (Reference Section 4 and IADI Core Principle 6 - Deposit insurer's role in contingency planning
 882 and crisis management)

883 • Notwithstanding the powers of UOs/IPSs, DIs/RAs could have the power to intervene when
 884 the UOs/IPSs do not take action in a timely and appropriate manner while there is an increasing
 885 risk on the cooperative system or on financial stability. (Reference Sections 4 and 5.1)
 886

887 5. In jurisdictions where the powers of the DI and/or the UO/IPS allow it, P&A (including M&A)
 888 with a strong FC could be considered among the preferred strategies to deal with a troubled FC
 889 when the cooperative structure is intended to be kept. (Reference Section 5.2.1)

890 • In jurisdictions where UOs/IPSs are available and have the necessary authority and
 891 responsibility, it may be desirable for the DI/RA to allow the UO/IPS to work towards
 892 facilitating M&As between troubled FCs and healthy FCs before direct intervention by the
 893 DI/RA. (Reference Section 5.2.1)

894 • In jurisdictions where UOs/IPSs are available, DIs and/or relevant authorities could encourage
 895 FCs to join these UOs/IPSs if the FCs meet the conditions of membership of the UOs/IPSs,
 896 when the cooperative structure is intended to be kept.²⁴

897

898

²⁴ Reference: it seems relevant that for a UO/IPS to carry out M&As between the FCs, those FCs must be members of the UO/IPS.

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- 922

923 8. ANNEXES

924 ANNEX 1: LIST OF THE RIFCTC MEMBERS

	Jurisdiction	Name	Organisation
1	Québec (Canada)	Julien Reid, <i>Chairperson</i>	Autorité des Marchés Financiers
2	Barbados	Justice W. LeRoy Inness	Barbados Deposit Insurance Corporation
3	Brazil	Cláudio Luis Medeiros Weber	Cooperative Credit Guarantee Fund
4	British Columbia (Canada)	Antonia Prlic	BC Financial Services Authority
5	Chinese Taipei	Margaret Chuang	Central Deposit Insurance Corporation
6	Colombia	Adriana McAllister Braidy	Fondo de Garantías de Entidades Cooperativas
7	Czech Republic	Martin Hlavnicka	Financial Market Guarantee System
8	Germany	Dr Ralf Benna	National Association of German Cooperative Banks
9	Ghana	Ignatius Martin Kojo Wilson (from July 2019)	Ghana Deposit Protection Corporation
10	India	Amulia Chenduluru (from October 2019)	Deposit Insurance and Credit Guarantee Corporation
11	Iran	Mohammad Talebi	Islamic Republic of Iran Deposit Guarantee Fund
12	Italy	Gianluca Grasso (from January 2021) Giuseppe Boccuzzi (until December 2020)	Fondo Interbancario di Tutela dei Depositi
13	Jamaica	Sherene Lewis Bailey	Jamaica Deposit Insurance Corporation
14	Japan	Yuichi Fujimura	Deposit Insurance Corporation of Japan
15	Kenya	Mohamed Ahmed Mohamud	Kenya Deposit Insurance Corporation
16	Poland	Joanna Smolarek	Bank Guarantee Fund
17	Trinidad and Tobago	Noel Nunes	Deposit Insurance Corporation
18	Ukraine	Viktoriiia Stepanets (from February 2021) Nataliia Lapaieva (until January 2021)	Deposit Guarantee Fund
19	United Kingdom	Karen Gibbons	Financial Services Compensation Scheme
20	United States	Mike Hanson (from September 2019)	Massachusetts Credit Union Share Insurance Corporation
21		Ryan Defina (from November 2020) Kumudini Hajra (until May 2020)	IADI Secretariat Research Unit

925

926

927 **ANNEX 2: PAST RESOLUTION EXPERIENCES (SUMMARY)**

928 **Brazil's case (2018-2019)**

929 Since receiving authorisation to provide financial assistance operations, FGCoop has changed the
930 ways it provides resources. Currently it has three well-defined forms of contribution:

- 931
- 932 1) Loan directly to incorporating FC;
 - 933 2) Loan through credit central or confederation;
 - 934 3) Transfer of funds based on the apportionment of accumulated losses.
- 935

936 The merger (resolution) took place at an opportune time and therefore before the settlement was
937 declared by the Central Bank (1 September 2018). Due to difficulties in obtaining reliable financial
938 information to assess the amount needed for financial assistance, special audit work was required to
939 obtain solid data. These are some key data:

- 940
- 941 • Net financial result: (USD 1.4 million);
 - 942 • Total amount of deposits: USD 5.9 million;
 - 943 • Amount of insured deposits: USD 4.2 million;
 - 944 • Volume of the loan portfolio: USD 2.9 million;
 - 945 • Share of non-performing loans in the loan portfolio: USD 1.06 million;
 - 946 • Number of branches: 3;
 - 947 • Number of employees: 1-50;
 - 948 • Number of members: 490;
 - 949 • State: São Paulo;
 - 950 • Segment: Health professionals and plan operators;
 - 951 • Incorporator: Cooperative of doctors from another state.

952 ***Possible resolution options and justifications/drivers***

953 The reversal of shareholders' equity was the determining factor for the merger, together with
954 FGCoop's financial intermediation. In addition to the amount required to cover accumulated losses,
955 there was a need to access liquidity in the short and medium term and to limit the impact on the
956 operations of the merged cooperative.

957 The type of financial assistance operation that presented the best resolution for the case in question
958 was the contribution of resources equivalent to the accumulated losses. However, as a mechanism to
959 effect the reversal of losses had not been established, a mutual credit operation was contracted with
960 the cooperative, at a subsidised interest rate, to provide additional revenue over the term of the
961 transaction.

962 ***Implementation of the resolution process***

963

964 With the growing accumulation of assets and the non-utilisation of the amount available to cover
965 deposits, FGCoop decided to implement the process of financial assistance to cooperatives at risk of
966 discontinuity, mitigating the risks associated with cooperative activity and incorporating a better
967 financial cooperative and management structure for the business (governance).

968 The process of providing financial assistance was implemented, through joint work with the Central
969 Bank, the supervisory area, and the institutions associated with FGCoop, sharing knowledge and good
970 practices. Since its implementation, the process has undergone changes in both internal rules and form,
971 with an emphasis on the establishment of standardised conditions for mutual credit operations,

972 including preference for lending through credit central or confederation, and the establishment of a
973 new form of contribution, the apportionment of losses with return through future surpluses earned by
974 the incorporated associates.

975 ***Challenges***

976 With the recent authorisation to provide financial assistance, and the particularity of each case of
977 financial assistance, one of the main challenges was to create an ideal initial model of financial
978 assistance that meets the needs of FCs, while preserving the structural financial ratios required by
979 government agencies.

980 Another challenge is the timing of the resolution and convincing the managers of the cooperative that
981 is at risk of discontinuity, maintaining members in the segment, and not damaging the image of the
982 cooperative movement.

983 ***Conclusion of the case***

984 The execution of the financial assistance operations was very assertive and fulfilled its main objectives
985 of protecting the members, preserving the resources to cover deposits, mitigating the negative impacts
986 on the member FCs and, indirectly, guaranteeing the totality of the depositors' resources.

987
988 The process brought gains for all those involved: the incorporated cooperative's financial losses were
989 covered and it was able to participate in a very well-structured organisation; the incorporating
990 cooperative gained a foothold in an area in which it previously did not operate, and was perceived as
991 a "saviour" of the troubled institution.

992
993 In general, the existing means for solving FCs in difficulty have shown good results in the context of
994 financial security in FCs.

995 ***Evaluation, observations and/or lessons learned***

996 The entire resolution process demonstrates that time is needed for the tool to mature internally and
997 externally but, with practice and real cases, the structure, rules and essence of assistance is taking
998 shape and consolidating as a concept in the minds of FC managers.

999
1000 Another lesson learned is the need for transparency and the establishment of clear rules and minimum
1001 standards, with limited exceptions, in order to have a timely and agile resolution.

1002
1003 Detection as early as possible and the exchange of information with the protection network levels is
1004 very important. The establishment of cooperation terms or agreements helps to improve the fluidity of
1005 information transfer.

1006

1007 **Colombia's case (2015)**

1008 Coopetrol is a cooperative created in 1953 by workers, ex-workers and suppliers of Ecopetrol. In
 1009 February 2015, it was taken over and administered by the Supervisor (Superintendencia de la
 1010 Economía Solidaria), and FOGACOOOP supported the operations with a direct loan. The intervention
 1011 ended after 30 months.

1012 ***Possible resolution options and justifications/drivers***

1013 This cooperative's triggers were governance structure, the fact that in the medium term it had made up
 1014 to 27% non-performing loans, and the consequent loss of confidence among stakeholders. The entity
 1015 was taken over to be managed by the supervisory body and a special agent designated by FOGACOOOP.
 1016 The resolution included a 180-day loan purchase agreement. During the 180-day period, a direct loan
 1017 was granted. This tool is considered one of the best for solving financial problems when there is a
 1018 context of loss of confidence.

1019 As a risk minimiser, FOGACOOOP had to do a least-cost evaluation between rescue operations and
 1020 payout of insured deposits.

1021 ***Implementation of the resolution process***

1022 In Colombia, the law allows the possibility to take over one entity to do diagnostic evaluation if there
 1023 is evidence of economic sustainability and a forecast medium-term path. Consequently, the risk
 1024 minimiser FOGACOOOP coordinates the rescue operation and intermediate targets with the supervisory
 1025 body and its own appointed special agent, and keeps track of progress.

1026 ***Challenges***

1027 Following administration and with the institutional back-up of FOGACOOOP, the cooperative had to
 1028 develop an effective communication plan to restore confidence in its operations, formalise the
 1029 negotiations with financial institutions and get promises of support from the main depositors, in
 1030 accordance with the viability plan developed.

1031 ***Conclusion of the case***

1032 The cooperative Coopetrol, with the help of FOGACOOOP (with a risk minimiser mandate), achieved
 1033 the forecast financial, operational and social targets, returned to its sustainable path, and repurchased
 1034 the rescue operation. The total cost of the resolution was COP 6 billion at the annual effective rate of
 1035 8% over six months.

1036 ***Evaluation, observations and/or lessons learned***

1037 The cooperative Coopetrol had displayed financial weaknesses deriving from its governance system
 1038 during several periods. This problem has been identified in other cooperatives in recent years. The
 1039 Ministry of Economy, the Supervisor, FOGACOOOP as risk minimiser and the World Bank worked on
 1040 a normative project concerning Government cooperative principles, which was released in November
 1041 2018 and the implementation period began in May 2019. This normative frame is mandatory, and it is
 1042 expected that the cooperative sector will learn good practices for decision-making and the number of
 1043 defaults will decrease.

1044

1045 **Germany's case (2011)**

1046 In the history of the German cooperative banking sector there had been no kind of resolution of a
 1047 cooperative bank according to the legally-based resolution framework or even a liquidation under
 1048 normal insolvency law. Therefore, Germany's case study refers to a merger supported by the IPS (BVR
 1049 Sicherungseinrichtung), but not by the BVR-ISG. This relevant real-life case study started in the year
 1050 2011.

1051 These are some key data:

- 1052 • Number of branches: 18;
- 1053 • Number of employees: 125;
- 1054 • Customers/Clients: Ca. 32,500 / ca. 30%, (inhabitants in micro-region: 108,000);
- 1055 • Total amount of deposits: EUR 460 million (eligible deposits);
- 1056 • Amount of insured deposits: 100%;
- 1057 • In the specific relevant regional part of Germany (micro-market share): deposits 16,6% / loans
 1058 17.7%;
- 1059 • Volume of the loan portfolio: EUR 486 million.

1060 ***Possible resolution options and justifications/drivers***

1061 In the context of the preventive measures of the private IPS to avoid existing or imminent economic
 1062 difficulties of member banks long before any non-compliance with prudential requirements, there had
 1063 been few cases in the past where the IPS had granted funds to a cooperative bank. This was done in
 1064 any case before prudential requirements had been violated. In some of these cases, mergers were
 1065 carried out as the best way to conduct rehabilitation or restructuring measures.

1066 ***Implementation of the resolution process***

1067 No details given.

1068 ***Challenges***

1069 No details given.

1070 ***Conclusion of the case***

1071 Guarantee of the IPS was EUR 27.6 million in 2011 plus EUR 34.2 million in 2012, notably for
 1072 additional guarantees and for restructuring measures, such as the closing of branches, reduction of
 1073 employees, etc.

1074 ***Evaluation, observations and/or lessons learned***

1075 Preventive measures are far more effective than any kind of resolution instruments.

1076

1077 **Italy's case (2010)**

1078 In Italy, the FGDBCC resolved the Credito Cooperativo Fiorentino (CCF). Despite its apparent
 1079 solidity, CCF was put under the Special Administration (SA) procedure on 27 July 2010 for “severe
 1080 irregularities in administration and regulatory violations” – art. 70, 1, letter a) of the Italian banking
 1081 law (TUB).

1082 The SA financial report (2010 - March 2012) showed:

- 1083 • high exposure to real estate sector: 52.1% of total loans as at 31 July 2010;
- 1084 • high single-name concentration: top 50 clients represented 54.6% of total loans as at 31 July
 1085 2010;
- 1086 • severe administration shortfalls;
- 1087 • marked deterioration in the technical and organisational structure;
- 1088 • increase of credit provisioning resulting in capital shortfall at March 2012.

1090 ***Possible resolution options and justifications/drivers***

1091 On 9 February 2012, the SA procedure requested the FGDBCC intervene pursuant to the provisions
 1092 of FGDBCC's Statute, in the case of CCF's liquidation (LCA), as provided for under Italian banking
 1093 law (TUB). The SA procedure explored the possibility of resolving the crisis through the involvement
 1094 of other banks (orderly resolution), in coordination with the competent authorities and the FGDBCC.
 1095 An expression of interest came from “ChiantiBanca Credito Cooperativo”.

1096 ***Implementation of the resolution process***

1097 ChiantiBanca Credito Cooperativo formulated an offer for the acquisition of CCF's business. The
 1098 operation entailed the following measures:

- 1099 • ChiantiBanca Credito Cooperativo purchased CCF's assets and liabilities, with the exception
 1100 of NPLs and deferred tax assets (DTA);
- 1101 • The FGDBCC issued a guarantee covering ChiantiBanca Credito Cooperativo against the risk
 1102 of deterioration of certain “unlikely to pay” purchased assets;
- 1103 • The FGDBCC acquired CCF's NPLs and covered 1) the negative balance between the
 1104 transferred assets and liabilities resulting at the date of closure of the SA procedure and 2) the
 1105 liquidation costs of the Bank;
- 1106 • The FGDBCC reimbursed ChiantiBanca for a set amount of costs related to the operation.

1107 On 27 March 2012, CCF was placed under Compulsory Administrative Liquidation (LCA). The Bank
 1108 of Italy authorised the sale of CCF's business to ChiantiBanca Credito Cooperativo and the
 1109 intervention of the FGDBCC, notably to proceed to the transfer of assets and liabilities.

1110 ***Challenges***

1111 The main challenges can be summarised as follows:

- 1112 • Complexity of the competitive procedure for the sale of business;
- 1113 • Assuring the confidence of customers and depositors at the defaulting BCC (and in general)
 1114 during the procedure;

- 1115 • Very strict timing for the deployment of the procedure (authorisation by the Bank of Italy,
 1116 decreed by the Ministry of Finance, appointment of the Receiver, notary contractual
 1117 arrangements).
 1118

1119 ***Conclusion of the case***

1120 The FGDBCC granted the intervention to CCF under the following terms:

CCF intervention	€/million
a. Negative balance resulting at the date of closure of the SA procedure (reimbursement to ChiantiBanca Credito Cooperativo), including liquidation costs	15.0
b. DTAs (non-transferable tax assets)	24.9
c. Purchase of CCF's non-performing loans (net book value)	78.38
d. Guarantees issued to ChiantiBanca Credito Cooperativo	39.1
e. Costs reimbursed to ChiantiBanca Credito Cooperativo	0.5

1121

1122 ***Evaluation, observations and/or lessons learned***

1123 No details given

1124

1125 [Another Italy's case \(2015\)](#)

1126 (Provided during the IADI Advisory Panel Review in June 2021 by Dr Marco Bodellini, Associate
1127 Lecturer in Banking and Financial Law, Queen Mary University, London, and part of the IADI
1128 Advisory Panel)

1129
1130 In 2015, Banca di Romagna Cooperativa was submitted by the Bank of Italy to Compulsory
1131 Administrative Liquidation (LCA) and in that context the Italian DGS intervened to support the
1132 transfer of some assets and liabilities to another bank belonging to the same group (Banca Sviluppo).

1133 “In 2015, the Mutual Banks’ DGS, facing the crisis of one of its members—namely, Banca di
1134 Romagna Cooperativa—put in place an intervention that the Commission considered to be
1135 compliant with the State aid framework. Particularly, Banca di Romagna Cooperativa was placed
1136 under compulsory administrative liquidation, and the DGS supported the transfer of its assets
1137 and liabilities to Banca Sviluppo, after both shareholders and subordinated creditors were made
1138 to bear the previous losses.²⁵

1139 However, after the decision to oblige Italy to recover the aid granted in the Banca Tercas case, a
1140 solution compliant with the new view of the Commission had to be found in order to properly
1141 handle that crisis. The Italian DGS, then, decided to set up a voluntary scheme to be funded on
1142 a voluntary basis by the Italian banks.²⁶ (...) Since its creation, the voluntary scheme has
1143 intervened also in favour of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini, and
1144 Cassa di Risparmio di San Miniato (cumulatively providing €784 million) and of Cassa di
1145 Risparmio di Genova (providing €318 million).²⁷” (Bodellini, 2020: 246)

1146 This case is interesting because the Italian DGS implemented an intervention under article 11.6 of the
1147 DGSD which was authorised by the Commission on the premise of applying burden-sharing measures
1148 to shareholders and subordinated creditors (it was the time of the Commission decision on the Tercas
1149 case). Banca Sviluppo is a joint-stock company, but interestingly those assets and liabilities have
1150 recently been transferred from that bank to three other financial cooperatives.

1151 This case supports the argument that the financial cooperative structure could also be kept in an indirect
1152 way through an intermediate involvement of a joint-stock company in the rescue process.

1153
1154

²⁵ European Commission, State aid: Commission approves liquidation aid for Italian bank Banca Romagna Cooperativa. European Commission - Statement 15/5409. Brussels, 18 July 2015, *passim*.

²⁶ The Voluntary Scheme was established with a separate management, but relies on the DGS’s administrative bodies. The Scheme is financed by a group of banks representing 84.4% of the DGS’s member banks and 96.1% of the DGS’s covered deposits (31 December 2017).

²⁷ Information on the Voluntary Intervention Scheme is available at https://www.fitd.it/Schema_volontario/Lo_Schema_volontario_di_intervento. Last access 19 August 2020.

1155 [Jamaica's case \(2013\)](#)

1156 In 2013, the Jamaica (JCCUL) resolved a non-viable Parish CU. Parish CUs represent members/savers
1157 who share a specific bond by residing and/or living in a specific geographic location.

1158 ***Possible resolution options and justifications/drivers***

1159 Declining profitability coupled with poor governance practices including questionable decisions and
1160 member complaints were among the main reasons that triggered the resolution action. The CU was
1161 initially placed under Temporary Management/Supervision by JCCUL and provided with management
1162 personnel and technical assistance aimed at restoring it to viability. However, after periodic
1163 assessments it was determined that a merger with another CU that had a similar interest and was
1164 financially viable was the best option.

1165 Limited resolution options were available including compulsory dissolution, downsizing, supervision
1166 and merger. Temporary Management/Supervision followed by merger was considered to be in the best
1167 interest of the members of this Parish CU as well as the credit union movement in general. The merger
1168 would provide continuity of service to its members without them losing their existing benefits
1169 associated with a mutual/CU. It would also allow members to become part of a stronger CU. These
1170 options were assessed to be less arduous, less costly and would cause the least dislocation/disruption
1171 in service to members.

1172

1173 ***Implementation of the resolution process***

1174 Technical assistance and supervision²⁸ followed by merger are the main resolution tools used. For
1175 supervision the CU is normally written to and advised of the pending supervision including the reasons.
1176 However, if the situation is considered serious enough to warrant instant supervision, no prior warning
1177 is given. The CU Board may remain in place while the Supervision Team works with the Management
1178 Team to implement the required changes within an agreed timeline. However, where warranted, the
1179 Board and possibly some management personnel can be set aside, with the Supervision Team assuming
1180 the day-to-day responsibility for managing the CU. An Oversight Committee is also established to
1181 monitor the management and operations of the CU and make decisions as guided/referred by the
1182 General Manager. The JCCUL Board would be responsible for the review and approval of policy
1183 changes.

1184 Where it is determined that a merger is the viable option, JCCUL holds an SGM with the members of
1185 the failing CU to update them on the financial status of the CU and present the options/merger
1186 recommendation. The members are required to give their approval (vote) to allow JCCUL (as the
1187 temporary manager/supervisor) to administer the process to select a merger partner. Interested CUs
1188 are invited by JCCUL to submit a merger proposal via a "Request for Proposal (RFP)" document. An
1189 assessment of the proposal against the predetermined conditions (listed in appendix 1 below) is
1190 conducted by a JCCUL In-house Selection Committee to shortlist CUs (usually three). The shortlisted
1191 CUs are required to make a presentation to the Stabilisation Committee and possibly some member
1192 representatives from the merging/failing CU. Following selection by the Stabilisation Committee, a
1193 recommendation of the selected CU is made to the JCCUL Board. Once ratified by the JCCUL Board,
1194 the shortlisted CUs are advised of the outcome.

1195 Town Hall meetings are held to update members on the outcome of the merger selection process,
1196 present the potential merger partner and sensitise members about the merger process going forward.

²⁸ The term "supervision" in this context refers to JCCUL assuming the day-to-day responsibility for managing the CU.

1197 A merger resolution is required to be presented to both the members of the failing CU and the members
1198 of the selected CU merger partner at an AGM or SGM for their approval before the merger can be
1199 effected. Final approval of the merger resolution by the Registrar of Co-operatives is also required
1200 following both CU meetings and will include a date by which the merger must be effected.

1201 At least two committees, a Merger Oversight Committee and a Merger Working Committee, are
1202 established to implement the merger plan. Where necessary, a financial injection is made to the
1203 failing/merging CU from the Stabilisation Fund to cover any shortfall in the failed CU's assets versus
1204 liabilities. This is to ensure that at the merger date, each member is transferred (merged) with the full
1205 value of their savings/deposits held in the failed CU.

1206 ***Challenges***

1207 Challenges and impediments encountered in resolving the Parish CU included: lack of timely,
1208 complete and relevant information; determining the accuracy of the financial statements; getting
1209 Directors and other volunteers, staff and members and the credit union's representatives to understand,
1210 accept and agree on the financial status of the credit union and the need for resolution; unanticipated
1211 costs to effect the resolution; completion of the required actions within the given timelines to stem
1212 further financial loss.

1213 ***Conclusion of the case***

1214 The resolution process from Temporary Manager/Supervision to effecting the merger was
1215 approximately three years. The merger process from making the initial decision to effecting the merger
1216 was approximately eight months. The cost of temporary management/supervision and ultimate
1217 resolution was approximately USD 3 million.

1218 ***Evaluation, Observations and/or Lessons learned (if any)***

1219 Timely intervention/resolution could reduce: the financial fallout, cost of and time taken to effect a
1220 resolution as well as the level of loss of members' confidence. Effective planning and structured
1221 implementation are crucial for the success of a resolution. Key stakeholder participation, along with
1222 clear and consistent communication, are critical to both the planning and execution of the plans.

1223

1224 Québec-Canada's case (2012)

1225 In Québec (Canada), since 1997, the year of the closure of the last AMF intervention, all interventions
 1226 have taken place in advance of “caisses” experiencing difficulties, which is explained by the early
 1227 intervention of the Fédération des caisses Desjardins du Québec and the Fonds de sécurité Desjardins.
 1228 Consequently, the AMF decided to present a contemporary case of the merger of a weak credit union
 1229 with another credit union, both part of the same network.

1230 Established in the early 1950's, the ABC Credit Union of Québec²⁹ has for a common bond a
 1231 nationality affiliation. It is one of the smallest credit unions in Québec's D-SIFI network, a financial
 1232 cooperative group. For years, this credit union had been the subject of various alerts from the
 1233 Monitoring Office responsible for inspecting the network, notably: repeated shortcomings in its
 1234 management practices, recovery measures imposed but, year after year, an absence of permanent
 1235 measures to strengthen its capital.

1236 In July 2011, the credit union prepared and adopted a Capital Reinforcement Plan, which concluded
 1237 that the credit union had no choice but to merge with another credit union. However, the credit union
 1238 failed to meet this commitment. A few months later, given the seriousness of the situation, the AMF
 1239 met with ABC Credit Union officers and stakeholders from the Federation. The AMF urged the officers
 1240 to submit a recovery plan, plus an implementation schedule.

1241 *Possible resolution options and justifications/drivers*

1242 The best option to ensure the ABC Credit Union's viability and to protect its members was to proceed
 1243 to a merger with another credit union which was also part of Québec's D-SIFI network. Otherwise, the
 1244 credit union would fail, and the AMF would have to proceed to deposit reimbursement.

1245 The ABC Credit Union's Board of Directors wanted to maintain the community services. For Québec's
 1246 D-SIFI network and the AMF, a possible liquidation of the credit union could have weakened the
 1247 feeling of belonging, which was not desirable. A merger would support the sustainability of the ABC
 1248 Credit Union activities to the national community members. This option also required the participation
 1249 of members in the decision-making process.

1250 A merger represented an adequate intervention option for maintaining the access of members to
 1251 services, for keeping, as much as possible, a strong feeling of belonging among the national
 1252 community, and for limiting the impact on the DIF.

1253 *Implementation of the resolution process*

1254 The resolution process took place between December 2012 and March 2014. The main implementation
 1255 steps were the following:

- 1256 • ABC's Credit Union mandated the Federation to look for some potential credit unions for a
 1257 merger. The XYZ Credit Union was willing to merge.
- 1258 • The merger was ratified at the Extraordinary General Meeting, but the effective date of the
 1259 merger was set for a few months later. During those months, the situation of the ABC Credit
 1260 Union deteriorated.
- 1261 • The AMF received an official application for a merger authorisation, but also a complaint
 1262 requesting a stay of merger. After dealing with the complaint, the AMF analysed the

²⁹ The names of the credit unions have been voluntarily anonymised.

1263 application, formulated its merger recommendation, and issued a deposit insurance
1264 authorisation.

1265 ***Challenges***

1266 A few months before the merger, the AMF's Complaint Examination Service received a complaint
1267 which alleged errors in the merger proceedings during the Extraordinary General Meeting approving
1268 the merger by absorption of the ABC Credit Union by the XYZ Credit Union. The complaint focused
1269 more on desired post-merger operating procedures, such as the preservation of the credit union's name
1270 and the offer of services in the same language as before (which is different from Canada's two official
1271 languages: French and English).. The complainant mandated a law firm, which sent a letter of formal
1272 notice to the ABC Credit Union and the Federation, requesting the suspension of the procedure given
1273 alleged irregularities. In the following months, all the AMF's divisions involved in this merger case
1274 analysed the documentation and concluded that there were no irregularities that could undermine the
1275 merger. Therefore, the authorisation process concerning the merger continued as planned.

1276 ***Conclusion of the case***

1277 The duration of the merger was longer than usual due to the complaint, so the effective date of the
1278 merger was delayed. As this merger was done within the network of Québec's D-SIFI, no costs were
1279 incurred for the Deposit Insurance Fund maintained by the AMF.

1280 ***Evaluation, observations and/or lessons learned***

1281 This case demonstrated that the AMF took advantage of its integrated model which allows synergies
1282 to be developed between its different functions, by promoting collaboration and knowledge sharing. It
1283 also showed the importance of maintaining an effective collaboration with the Federation and the
1284 different stakeholders.

1285 Interventions for a failing financial cooperative may raise particular issues, notably:

- 1286 • Cultural: common bond, values, etc.;
- 1287 • Political: rural footprint, democratic decision-making process, etc.;
- 1288 • Operational: size, systems, resources, etc.

1289
1290 It is therefore in the interests of the DI/RA to detect early and manage those particular issues. One way
1291 is to help foster a structure within/among FCs that will internalise those issues and minimise the risk
1292 and the cost of intervention by the DI/RA.

1293

1294 **United Kingdom's case (2009)**

1295 The DBS was established in 1869 in the town of Dunfermline from which it took its name. DBS was
 1296 a mutual organisation. Prior to 2009, it was the largest building society in Scotland and the 14th largest
 1297 in the UK based on total assets of GBP 3.3 billion and 231,136 members at 31 December 2007. In
 1298 March 2009, it served more than 350,000 customers and employed around 550 staff in 34 branches
 1299 across Scotland. It was now the 12th largest building society in Britain. Historically, the building
 1300 society sector focused on deposits and mortgage loans for residential property. However, DBS had
 1301 diversified into commercial lending and loans for social housing.

1302 DBS collapsed over the weekend of the 28–29 of March 2009 because of problems with the loans it
 1303 had made on commercial and residential property. DBS had hoped for a government bailout of between
 1304 GBP 60 million and GBP 100 million in order to remain in business, but the regulators decided it was
 1305 no longer viable, with a GBP 26 million loss expected to be announced the week after the collapse was
 1306 announced. In fact, in March 2009, it was announced that DBS would make an expected loss of GBP
 1307 24 million in 2008.

1308 ***Possible resolution options and justifications/drivers***

1309 Following the financial crisis, the UK had introduced an SRR via the Banking Act 2009, and
 1310 Dunfermline Building Society became the first firm resolved under this legislation.

1311 At the time, options available under the SRR were:

- 1312 • transfer all or part of a bank to a private sector purchaser;
- 1313 • transfer all or part of a bank to a bridge bank (a subsidiary of the Bank of England) pending a
 1314 future sale;
- 1315 • transfer a bank into temporary public-sector ownership.

1316 The SRR also gave the Tripartite Authorities (i.e. the Bank of England, the Financial Services
 1317 Authority and HM Treasury) the powers to:

- 1319 • apply to put a bank into the Bank Insolvency Procedure which is designed to allow for rapid
 1320 payments to FSCS insured depositors, and
- 1321 • apply for the use of the Bank Administration Procedure to deal with a part of a bank that is not
 1322 transferred and is instead put into administration.

1323 The reason given at the time for the intervention by the Tripartite Authorities was that “if the transfer
 1324 powers had not been exercised, DBS would be unable to satisfy depositors’ claims against it.” More
 1325 specifically, they explained that DBS was failing, or was likely to fail, to satisfy the threshold
 1326 conditions for operating as a deposit taker under the Financial Services and Markets Act 2000, and
 1327 that it was reasonably unlikely that action would be taken by or in respect of DBS that would enable
 1328 it to satisfy the threshold conditions. In essence, whilst DBS had no immediate cash flow problems, in
 1329 the judgement of the regulators, its problems related to “future possible solvency under stressed
 1330 conditions”.

1332 ***Implementation of the resolution process***

1333 The competitive sale process for DBS’s retail and wholesale deposits, branches, head office and
 1334 originated residential mortgages was conducted by the Bank of England over the weekend of 28–29
 1335 March under the Special Resolution Regime provisions of the Banking Act 2009. The Tripartite
 1336 Authorities received four bids.

1337 The retail and wholesale deposits, branches, head office and residential mortgages were transferred to
 1338 Nationwide Building Society (the UK's largest building society) after negotiations over the weekend
 1339 of 28–29 March. This part of the business was therefore transferred to another cooperative body and
 1340 depositors were thus retained within a member-owned organisation. Moreover, GBP 500 million of
 1341 social housing loans were transferred temporarily into a bridge bank owned by the Bank of England.

1342 DBS's remaining business, mainly lower quality loans (commercial loans, acquired residential
 1343 mortgages, subordinated debt and most treasury assets) were put into the Building Society Special
 1344 Administration Process where they were managed by KPMG as the administrator. On 30 March the
 1345 following parts of DBS were transferred to Nationwide:

- 1346 • GBP 2,353 million of retail deposits, representing the accounts of approximately 300,000 DBS
 1347 members;
- 1348 • DBS's 34 branches and retail sites, and all related employees, plus DBS's head office at
 1349 Dunfermline;
- 1350 • DBS's GBP 1,022 million prime mortgage lending book.
 1351

1352 As part of the deal, the Government transferred GBP 1.6 billion of public funds to Nationwide Building
 1353 Society, which took GBP 2.35 billion of DBS's deposits in return for absorbing GBP 1 billion of its
 1354 prime residential mortgages. The transfer was made because the assets Nationwide took on were worth
 1355 GBP 1.6 billion less than the liabilities. However, the GBP 1.6 billion cost was split between the
 1356 industry-funded FSCS and the taxpayer.

1357 On 17 June 2009, the Bank of England announced that it had selected Nationwide Building Society as
 1358 the preferred bidder for the social housing loans and related deposits from housing associations held
 1359 by the Bank of England's wholly-owned subsidiary, DBS Bridge Bank Limited.

1360 *Challenges*

1361 In regard to the competitive sale process for DBS's retail and wholesale deposits, branches, head office
 1362 and originated residential mortgages, it came to light that an error had been made in the transfer order
 1363 which resulted in some of the commercial property portfolio being transferred to Nationwide Building
 1364 Society. The error was discovered by KPMG and corrected by a statutory instrument. Nationwide
 1365 admitted that due diligence had not been as comprehensive as might have been the case if the transfer
 1366 had not taken place over a weekend. However, Nationwide had completed a limited amount of due
 1367 diligence prior to the weekend in March, and then had a four-week period in which to complete in-
 1368 depth due diligence. Nationwide then confirmed to HM Treasury that the findings were "satisfactory
 1369 within the parameters [that Nationwide] had expected." Nationwide stressed that it was the first time
 1370 the legislation had been used, so as events unfolded, there was some issue in terms of the transfer order
 1371 but that had been corrected.

1372 In regard to the contribution to the resolution of DBS, the FSCS as a deposit insurer with a pay-box
 1373 plus model was asked to contribute towards the costs of resolution. It was agreed by the UK Authorities
 1374 and the FSCS that costs would be contributed on a net basis at the end of the resolution. The SRR
 1375 builds in a protection for the deposit insurer requiring an independent valuation. The valuation process
 1376 allows for challenges.

1377 The valuation was conducted by an independent valuer. The valuer issued a report and determination
 1378 dated 31 July 2012. Under regulation 13(7) of the Financial Services and Markets Act 2000
 1379 (Contribution to Costs of Special Resolution Regime) Regulations 2010, the FSCS now publishes the
 1380 determination notice. Under regulation 14, the FSCS may require the valuer to reconsider the
 1381 determinations, and to do so must make a request within three months. The FSCS made such a request
 1382 of the valuer. The independent valuer delivered his report on the 'Request for reconsideration of

1383 determination' on 30 April 2013. On 5 June 2013, the FSCS announced that, following a review of the
1384 reconsideration and report, the FSCS had decided not to refer it to the Upper Tribunal.

1385 ***Conclusion of the case***

1386 On 30 March 2009, the Bank of England exercised 'stabilisation powers' under the Banking Act 2009
1387 in respect of DBS through the Dunfermline Building Society Property Transfer Instrument 2009, by
1388 which certain property, rights and liabilities of DBS were transferred to Nationwide Building Society.

1389 HM Treasury served notice on the FSCS, revised during 2011/12, placing an obligation on the FSCS
1390 to contribute to the costs of the resolution, and interest, net of recoveries, which were funded by levies
1391 on the Deposits class. The FSCS had previously made payments on account to HM Treasury totalling
1392 GBP 500 million, which were taken into account in determining the final amount due.

1393 On 26 March 2018, HM Treasury wrote to the FSCS with a determination of the final balance due, of
1394 GBP 21,190,000. The FSCS paid this amount on 29 March 2018, thereby discharging in full its
1395 liabilities to HM Treasury for the DBS resolution.

1396 ***Evaluation, observations and/or lessons learned***

1397 Following on from the immediate impact of the global financial crisis and the introduction of the UK's
1398 SRR, DBS remains the only deposit-taking institution in the UK to have been resolved under the SRR.
1399 Due to the economic environment at the time, the rescue of DBS was always going to be difficult, but
1400 the transfer of depositors to another cooperative was successful.

1401 Lessons have been learned with regard to the independent valuation, the process itself and what can
1402 be expected. Importantly, alongside other jurisdictions, the UK has adopted a range of regulatory
1403 requirements, including larger capital buffers and liquidity requirements, which should ensure deposit-
1404 taking firms have more capacity to endure shocks. The introduction of recovery and resolution
1405 planning has also focused both firms and regulatory authorities on preparing for recovery and, in the
1406 worst-case scenario, resolution. Deposit-taking firms are also made aware of the likely resolution tool
1407 which would be used were they to fail, enabling the RA to have effective plans in place in advance of
1408 any failure.

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