

**INTERNATIONAL**  
**COOPERATIVE**  
**FINANCIAL INSTITUTION**  
**STRUCTURES**

A study of the corporate, governance,  
and decision-making structures of selected  
major cooperative financial institutions  
in the world for the Canadian credit union system.

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The purpose of this paper is to enhance the Canadian credit union system's awareness and understanding of the national business models employed by cooperative financial institutions in selected countries. This paper will analyze, compare, and contrast the national business models of the cooperative financial institution business models in:

1. The Netherlands – The Rabobank
2. Germany – DG Bank
3. France – Credit Agricole
4. Australia – Credit Union Services Corporation (Australia) Limited
5. Quebec – The Desjardins Movement

This paper provides the following information on each country:

- (a) **Background**: A brief description of the beginnings of the cooperative financial institutions and their evolution.
- (b) **Business**: The areas of the financial services business in which the cooperative financial institutions are involved.
- (c) **Organization, Governance, and Decision-Making Structure**: An outline of the corporate structures and policy decision making processes.
- (d) **Regulatory Environment**: The basic legislative framework under which the financial cooperative institutions operate.

# 1. The Netherlands – Rabobank

## (a) Background

The Rabobank organization grew out of the Raiffeisen cooperative banking movement started in Germany in the late 19<sup>th</sup> century. In the first three decades of the twentieth century local cooperative banks (called Raiffeisenbanks and Boerenleenbanks) were founded, mostly in rural communities as a place for farmers to deposit funds and obtain credit.

Until the early 1970's both the Raiffeisenbanks and the Boerenleenbanks (each with their own central bank) were primarily involved in the agricultural sector. Beginning in the early 1970's, as Dutch society became increasingly more urban, cooperative banks in The Netherlands targeted their activities on retail consumer banking and non-agricultural accounts.

In 1972, the Raiffeisenbanks ("Ra") and the Boerenleenbanks ("Bo") incorporated a new central bank (Cooperative Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank Nederland") to serve all of their needs) and, by 1972, the separate Raiffeisenbank and Boerenleenbank central banking organizations had been merged into Rabobank Nederland. Rabobank Nederland, its securities, mortgage, leasing, insurance, and investment subsidiaries, and its 450 member Rabobanks form the Rabobank Group, with total assets at December 31, 1998 of NLG550.3 billion.

## (b) Business

### Local Rabobanks

Generally, the Rabobank Group takes an "all-finance" approach to financial services, which is permitted in The Netherlands. Local Rabobanks provide Dutch consumers with

full financial services. The Rabobank Group has the largest market share in the Dutch domestic market. The local Rabobanks are independently owned by their members under cooperative principles. The local Rabobanks own Rabobank Nederland.

Most of the people who use the services of the local Rabobanks are not members. The decision to become a member or not is at the discretion of the local Rabobanks' customers. Any person may open an account, make deposits, obtain loans, and use the services of the local Rabobanks. The local Rabobanks do not issue membership or investment share capital. All of the local Rabobanks' profits are retained by them as their primary source of capital.

All deposits up to NLG40,000 are insured by mutual commitments from banks in The Netherlands to cover those deposits in the event of a bank failure. There is no government operated deposit insurer and no pre-funded deposit insurance reserve fund.

Within general prudential guidelines provided by Rabobank Nederland, the local Rabobanks have control over their pricing and personal services. In general, local Rabobanks sell products and services developed by Rabobank Nederland pursuant to formal policies and procedures issued by Rabobank Nederland to which the local Rabobanks must adhere. Local Rabobanks are, however, entitled to source products and services from other parties.

The local Rabobanks operate from a common technology platform and purchase their ATM's collectively, on a national basis. All product development charges incurred by Rabobank Nederland are recovered from the local Rabobanks through transaction surcharges.

The operations of the local Rabobanks are restricted to a specified trading area. Whenever competitive friction between local Rabobanks arises, their dispute is arbitrated by Rabobank Nederland. The local Rabobanks consistently honour the principle of non-

competition. Any new branch of a local Rabobank must be approved by Rabobank Nederland.

#### Rabobank Nederland

Rabobank Nederland is a cooperative corporation. The local Rabobanks are its only members and have capitalized it through share investments. The Rabobank Nederland is the “bankers bank” for the local Rabobanks. Among other things, the Rabobank Nederland:

- (i) Manages system liquidity (all local Rabobanks must maintain 15% of their deposits on deposit with the Rabobank Nederland).
- (ii) Provides support and advice on banking matters and bookkeeping.
- (iii) Supervises and, through delegated authority from the central bank of The Netherlands, regulates the operations of the local Rabobanks to ensure compliance with the central bank’s prudential rules, including solvency, capital, liquidity, management, and administrative rules.
- (iv) Provides management support, including personnel management, training, and union collective bargaining negotiation, all product development, and national marketing and promotion, to the local Rabobanks.
- (v) Acts as the settlement agent for the local Rabobanks in all payments systems and processes all payment items for the local Rabobanks through its investment in the banks’ collectively owned payments processing utility company.
- (vi) Acts as the holding company for the Rabobank Group’s investments in downstream financial services providers (i.e., insurance, securities, and investment).

The Rabobank Nederland pays a market rate on liquidity deposits and, following the principle of “user pay”, charges fees to the local Rabobanks for consultative and advisory services. Rabobank Nederland does not attempt to generate a profit from its transactions with its member Rabobanks. It prices to recover costs.

The Rabobank Nederland also provides financial services to large clients of the local banks and to its own clients. Through its international operations, Rabobank Nederland generates profits by financing international food trade and agribusinesses. The return on capital to the local Rabobanks comes from Rabobank Nederland’s international operations and the operations of its subsidiaries, although for the past ten years the local Rabobanks have agreed that all profits from the operations of Rabobank Nederland would be retained by Rabobank Nederland to create a solid capital base for the company. It is expected that Rabobank Nederland will pay a market rate of return on the invested capital of Rabobank Nederland once the agreement among the local Rabobanks expires.

(c) Organization, Governance, and Decision Making Structure:

The Rabobank Group is a two tier cooperative financial system. Through their proportionate share investment in the Rabobank Nederland, the local Rabobanks own and control Rabobank Nederland.

#### Local Rabobanks

Leadership in the Rabobank Group appear to have made substantial efforts to distinguish between the organizing cooperative principles which apply to the governance of the cooperative and the operations of the bank, which are focused on meeting the needs of the local Rabobanks’ customers.

Each local Rabobank operates as a cooperative under articles of association, which have been approved by Rabobank Nederland and the central bank of The Netherlands. In conjunction with the articles of association of Rabobanks Nederland, it is pursuant to

their own articles that the local Rabobanks agree to abide by the cross guarantees in support of the solvency of all of the other local Rabobanks and to comply with Rabobank Nederland's standards and practices.

Membership is voluntary and has no costs or investment requirement. Of the approximately 7 million customers of the Rabobank Group, only about 600,000 are members. Membership confers the right to vote in elections of the board and supervisory committees of the local Rabobank and to vote in special resolutions pertaining to fundamental changes (e.g., changes to the articles of association, merger). With certain disincentives to membership having been removed in 1998 (e.g., personal liability of NLG5,000 for all members), the Rabobank Group is attempting to encourage membership in order to enhance the grass roots of the movement.

Given that there is no share investment, members of the local Rabobanks have no expectations or rights to dividends from their local Rabobank and have no claim on the equity of their local Rabobank on dissolution.

The board of directors of the local Rabobanks is accountable for the management and direction of the local Rabobank. The board of directors is small, especially when compared to Canadian credit union system standards. A typical local Rabobank board of directors will have four members, including the general manager of the local Rabobank, who is a full-fledged director. One of the most important tasks assigned to the board of directors is to recruit people to submit their name to join the board. In each year when a director leaves the board, the board of directors nominates a replacement who is almost inevitably confirmed by the members.

The supervisory board of the local Rabobanks is elected by the members. It consists of eight to ten persons who are responsible for supervising the local Rabobank's compliance with regulatory standards and prudential rules. They are charged with monitoring the work of the board and have the authority to suspend the board of directors. In every case, the supervisory board of a local Rabobank utilizes the inspection and risk management



services at the Rabobank Nederland to provide them with reports that assist them in doing their job. The legally required external audit is completed by an external audit firm which is appointed by the Rabobank Group as the auditor for all of the organizations in the Rabobank Group, although most of the testing procedures and preliminary work is done by the Rabobank Nederland.

Membership in the Rabobank Nederland is not mandatory for cooperative banks. There are cooperative banks in The Netherlands which are not members of Rabobank Nederland or who have withdrawn from membership in the Rabobank Nederland. Services are not offered by the Rabobank Nederland to these cooperative banks.

The autonomy of the local Rabobanks combined with the assistance the local Rabobanks receive from Rabobank Nederland creates a decentralized, but strongly orchestrated, bottom-up decision process which aims at reaching consensus. It is this structure which, in the words of Jan Dost, a spokesperson for Rabobank Nederland, “most probably is the very reason for Rabobank’s dominant share in the domestic market”.

### Governance Structure of a Local Rabobank



Rabobank Nederland

The Rabobank Nederland is a cooperative under the laws governing cooperatives in The Netherlands. Like the local Rabobanks, efforts are made at Rabobank Nederland to create an organizational and governance structure, which distinguishes between the organization of the cooperative in accordance with cooperative principles and the operation of the bank according to the needs of its customers.

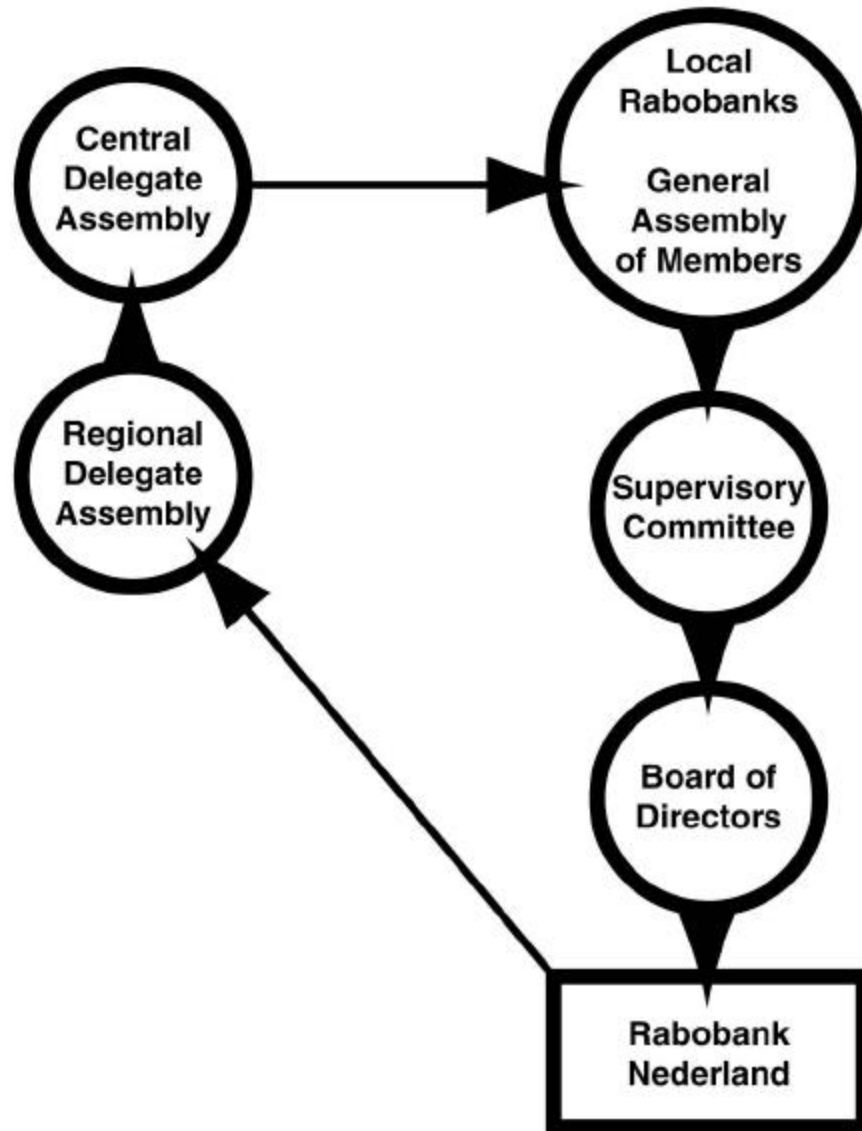
Rabobank Nederland carries out its business according to the organizational chart attached hereto as Schedule A.

The local Rabobanks are the members of Rabobank Nederland. Within its governance structure, the local Rabobanks exercise their influence over governance through:

- (i) The articles of association of Rabobank Nederland.
- (ii) The supervisory board.

- (iii) The board of directors.
- (iv) The regional delegate assemblies.
- (v) The central delegate assembly.
- (vi) The general members' assembly.

## Decision Making Structure of Rabobank Nederland



- (i) *Articles of Association*

The articles of association is the legally binding multilateral agreement among the local Rabobanks and Rabobank Nederland which outlines the parties' rights, privileges, and obligations. Pursuant to the articles of association of Rabobank Nederland:

- only cooperative banks having articles of association approved by Rabobank Nederland may be members
- members of Rabobank Nederland must:
  - comply with the rules and regulations of Rabobank Nederland, including Rabobank's limitations on the local Rabobanks' authority to make loans, and liquidity and solvency rules
  - take part in arrangements which cross guarantee the obligations of the other local Rabobanks, Rabobank Nederland itself, and Rabobank Nederland's subsidiaries.

(ii) *Supervisory Board*

The local Rabobanks elect from the members of the local Rabobanks a supervisory board of eleven persons. In practice, there have never been any contested elections for the supervisory board. The composition of the supervisory board is purposely balanced by the members of the supervisory board to ensure that at the annual general meeting the members appoint supervisory board members who represent the various regions and cross sections (i.e., farmers, businessmen, special interests) of the membership.

The supervisory board of the Rabobank Nederland supervises the policy of the board and audits compliance with regulatory and system rules. It supports the work of the board and senior management with advice. In practice, the supervisory board appoints the senior management staff on the advice of the board of directors.

(iii) *Board of Directors*

The board of directors is accountable for the management and direction of the Rabobank Nederland. The board consists of between nine and eleven persons who are members of the local Rabobanks. Directors are elected for a five-year term. Candidates for the board are nominated by the supervisory board on the recommendation of the board of directors. In practice, there have never been any contested elections for the board of directors. The nominations and recommendations of the supervisory board and board of directors have always been confirmed by the members.

(iv) *Regional Assemblies*

The local Rabobanks are grouped into twenty-one Regional delegate assemblies in which each of the local banks is represented. Members of the regional assemblies elect a board for their region of six persons, four of whom are volunteers and two of whom are general managers from the local banks.

The Regional assemblies meet from time to time with members of the board of directors, the supervisory board, and the executive board of the Rabobank Nederland to discuss matters of policy affecting the operations, organization, and governance of the Rabobank Group.

(v) *Central Delegate Assembly*

The Central Delegate assembly (informally referred to by the Rabobank Group as its parliament), consists of the members of the Regional Delegate assembly boards (approximately 126 persons (21 regions X 6 board members)). The Central Delegate assembly meets at least four times a year to discuss all important matters relating to the Rabobank Group's policies. Before a proposal is presented to the Central delegate assembly by the board and management of the Rabobank Nederland, it will have been subject to intensive discussions and consensus building at the Regional delegate assembly.

(vi) *General Members Assemblies*

The general assembly of members of the Rabobank Nederland takes place on an annual basis. In a formal sense, the general assembly is the supreme authoritative body within the Rabobank Nederland governance and decision making structure. In a practical sense, because all of the proposals and nominations put before the general assembly have gone through the consensus building process involving the regional and central delegate assemblies, actions of the general assembly are typically “rubber stamps”. The meeting is largely ceremonial.

Rabobank Nederland’s articles of association provide for that the local Rabobanks would vote on a modified proportional voting system. Every local Rabobank has one vote in the general assembly of members, but a local Rabobank with assets of NLG124 million to NLG250 million has two votes. Voting scales up from this point on the basis of assets with the highest number of votes (10) being accorded to local Rabobanks with assets greater than NLG2.511 billion.

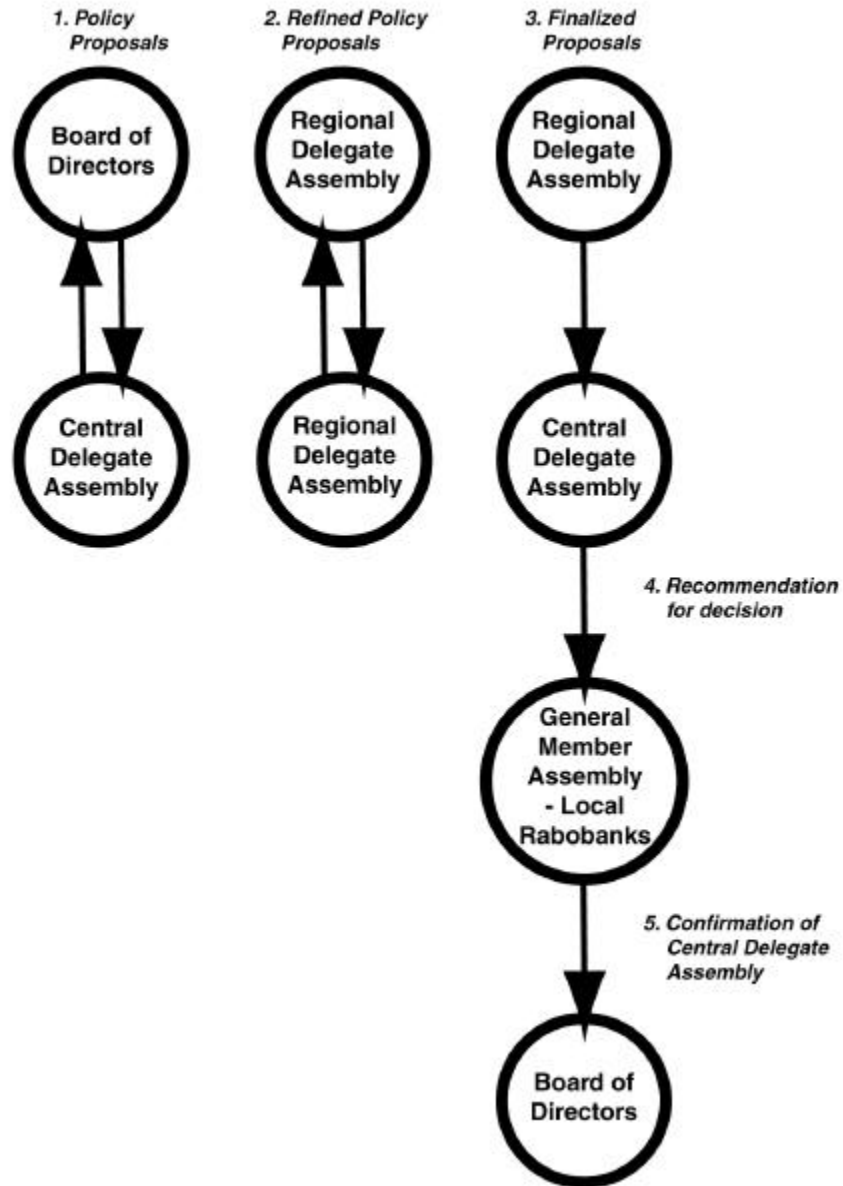
Because of the consensus driven nature of the Rabobank Group’s decision making and policy process, no vote on a proportionate basis has ever been held.

*Policy Making Process*

The Rabobank Group’s policy decision making process operates within a unique consultative structure. This consultative structure plays a dominant role in the policy making process. All important policy decisions are discussed in the decision making structure outlined below, before a decision is taken:



## The Decision Making Process



The directing mind of the Rabobank Nederland is the board of directors. In consultation with management and the supervisory board, the board of directors develops proposals.

A recent example of an important policy decision facing the Rabobank Group was the adoption of a new corporate logo. The concept of updating the Rabobank Group



corporate logo was first taken by Rabobank Nederland's regional directors, senior management, and board to regional delegate assemblies. Intensive discussions pertaining to the new logo ensued. Rabobank Nederland took feedback from the regional delegate assemblies, refined their approach and agreed that it was appropriate to take the new logo to the Central delegate assembly for confirmation. The central delegate assembly (made up of the elected board of the regional delegate assemblies) confirmed, by consensus as opposed to by vote, the choice of the logo, and the new logo was presented to the general assembly of members for ratification.

In this case, as in every case, although legal authority in the decision making process rested with the members, *de facto* decision making was done through a consultative, consensus driven model and once the central delegate assembly had indicated its acceptance of the proposal, the ratification of the general assembly of members was merely a formality.

(d) Regulatory Environment:

The Netherlands has a unitary government structure. The Rabobank Group is regulated by the central government through the central bank of The Netherlands under cooperative legislation, which is not specifically designed for cooperative financial institutions. The cooperative legislation mainly influences the governance structure of the cooperative. It has no influence on the way cooperatives run their business.

The central bank of The Netherlands establishes liquidity, solvency, and administrative organizational rules for both Rabobank Nederland and the local Rabobanks. Supervision of the local Rabobanks is delegated by the central bank of The Netherlands to Rabobank Nederland.

In addition to monitoring the liquidity, capital, and solvency of the local Rabobanks on behalf of the central bank of The Netherlands, Rabobank Nederland exercises a

considerable amount of influence over the operations of a local Rabobank as the manager of the Rabobank Group's system of cross guarantees.

The various corporate entities of the Rabobank Group stand surety for each other. The effect of this arrangement is that the aggregate funds of all the corporate entities in the Rabobank Group serve as a guarantee for the creditors/depositors of each member entity.

The Rabobank Group manages its cross-guarantee liabilities by imposing on itself higher standards than are imposed by the central bank of The Netherlands:

- (i) Capital Adequacy: The Rabobank Group strives for a BIS capital adequacy ratio which is 1.5 times the minimum or 12% of risk-weighted assets. When the capital adequacy of a local Rabobank falls below 8% of risk-weighted assets, Rabobank Nederland has a contractual right to insist on changes to the local Rabobank's operations. There is also the possibility that capital adequacy of the local Rabobank will be restored by a subordinated loan from Rabobank Nederland.
- (ii) Liquidity: Local Rabobanks must hold at least 15% of the deposits and borrowings on current account at Rabobank Nederland, which is slightly higher than the central bank's requirement of 13.5%.

Special arrangements in the lending area encourage prudent lending and protect local Rabobanks from losses. Rabobank Nederland approves the maximum limit for each type of a loan which a local Rabobank may make. If the local Rabobank stays within these limits, the local Rabobank will absorb the first 20% of the loss and will be compensated by Rabobank Nederland for 80% of the loss. If the local Rabobank makes a loan which exceeds the limits prescribed by Rabobank Nederland, the local Rabobank absorbs 100% of the loss.

## 2. Germany – DG Bank

### (a) Background

The cooperative financial system in Germany dates back to the 19<sup>th</sup> century. In order to allow small craftsmen, merchants, and farmers to have access to credit and the banking system, cooperative financial institutions were developed. In Germany, urban craftsmen and merchants were served cooperatively by *volksbanken*. Agrarian interests were served by *raiffeisenkassen*.

Almost from the beginning, local *volksbanken* and *raiffeisenkassen* formed cooperative central banks to assist them in managing their liquidity. The separate central banking systems for the *volksbanken* and the *raiffeisenkassen* were ultimately supported by the development of a third tier designed to assist the cooperative central banks manage their liquidity. This third tier was founded in 1895 as the predecessor to DG Bank. In addition, in 1972, the *volksbanken* and *raiffeisenkassen* formed a national federation (separate and distinct from their financial collaboration through DG Bank) called the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (the “BVR”), to which all of their regional federations belong. This distinction between the financial association and the trade association is similar to the distinction made in France between the CNCA and the FNCA and in Quebec between the confederation and the caisse centrale.

In some areas of Germany (namely, the southwest of Germany, including Stuttgart, Frankfurt am Main, and Dusseldorf), the *volksbanken* and the *raiffeisenkassen* have retained their second tier cooperative central banks, which, in turn, are served by DG Bank. In most of the rest of Germany, local *volksbanken* and *raiffeisenkassen* do not have a cooperative central bank. They obtain their wholesale financial products and services directly from DG Bank, making this part of the German cooperative financial system, a two tier system.

There are approximately 2,400 local cooperative banks in Germany with consolidated assets of DM438 billion. Together with DG Bank's own 21 branches, the cooperative credit sector serves Germany with more than 16,000 domestic branches. The corporate and association structure of the DG Bank is attached hereto as Schedule B.

(b) Business

*Volksbanken and Raiffeisenkassen*

The German cooperative financial system comprises approximately 2,400 local *volksbanken* and *raiffeisenkassen*.

A person need not be a member of a local cooperative bank in order to obtain financial products or services. The German cooperative financial system has approximately 14 million members, but has over 30 million customers.

The local cooperative banks offer the widest possible array of financial services, including insurance products, leasing, and securities trading. Many of the products and services available to customers are developed by DG Bank or by its subsidiaries.

Each of the local cooperative banks is restricted by its articles of association to a geographic trading area. This ensures that there is no competition between local cooperative banks and a rational distribution of service outlets.

Deposits in local cooperative banks are guaranteed as to 100% by the mutual assurance of all of the local and regional banks and DG Bank. There is no prefunded deposit insurance reserve fund. As a result, there is not annual premium cost to the banks.

*Central cooperative banks and regional federations*

The three regional banks provide their member local banks with liquidity management, including deposits and liquidity loans. They participate with their members in syndicated loans and generally support the local banks with backroom processing and international services, as required. These services are available on a “user-pay” principle.

Liquidity is attracted to the central cooperative banks on a voluntary basis. Local banks are entitled to invest their liquidity in any qualifying instrument. The central cooperative banks compete on the open market for local bank deposits.

In Germany, employee training is given a high priority. The regional federations and the BVR and its regional offices deliver training and development to employees of the local and central banks.

In addition, the regional federations execute the external audit and inspection functions on behalf of the regulator and the member/shareholders. The stabilization fund which assists in recapitalizing underperforming local banks is also managed at the regional federation level.

**DG Bank and the BVR**

Regardless of whether a *volksbanken* or a *raiffeisenkassen* comes from a three tier region or a two tier region, the DG Bank is positioned to provide services to it. In fact, DG Bank is the national focal point for the German cooperative financial services system.

DG Bank divides its business into three divisions, including a division which provides retail services:

	<b><u>Customer Divisions</u></b>	<b><u>Product Divisions</u></b>	<b><u>Service Divisions</u></b>
1.	Local and regional cooperative banks.	Foreign business.	Participations/ syndications.
2.	Small and medium-sized corporate customers.	Investment banking/ money and foreign exchange.	Compliance/audit legal
3.	Large corporate customers.	Investment banking/ securities.	IT/organization.
4.	International customers.	Credit.	Accounting.
5.	Agribusiness and food industry.	Leasing/factoring.	Administration/ personnel.
6.	Real estate investors.	Settlements/electronic banking/payments systems	Economics.
7.	Institutions.	Asset management.	

The DG Bank serves local banks which do not have a central cooperative bank with all of their backroom processing. It provides liquidity to those local banks and offers liquidity loans. It provides clearing and settlement to the local banks directly and through their central cooperative banks.

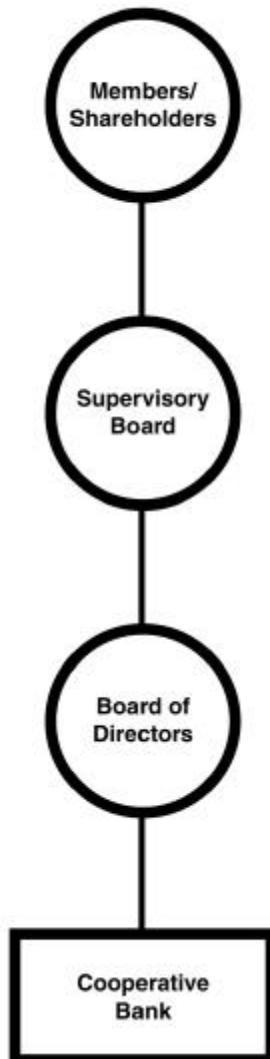
It is important to note that DG Bank is the international point of contact for the German cooperative banking sector. It has established many international offices to serve its international customers based in Germany. Further, it is positioned to participate in international money markets to assist it in its role as the focal point for clearing and settlement on behalf of the group. DG Bank's international services provide significant profits which assist in the delivery of products and services to its member/customers at reasonable prices and helps provide a financial margin to generate dividends for member/shareholders.

It is interesting to note that notwithstanding the lack of an express cross guarantee structure in the DG Bank group, the DG Bank issues a form of internationally traded debt, which is unique in the area of financial services. So-called “covered bonds”, are debt instruments which are secured by a revolving pool of assets on which the holders of the bonds have a preferred claim.

(c) Organization, Governance, and Decision Making

Except for the fact that the local cooperative banks are cooperatives and that DG Bank is a joint stock company, their organization and governance structures are identical:

**DG Bank Governance Structure**



The interrelationship among the DG Bank, the central cooperative banks, and the local banks was severely tested in the early 1990's. As a result of significant losses due to interest rate mismatches, the DG Bank, due to demands from regulatory, required additional capitalization from the central and local cooperative banks on the order of \$875 million. The recapitalization was successful.

### *Volksbanken and Raiffeisenkassen*

At the local level, the *volksbanken* and the *raiffeisenkassen* are organized and operated on cooperative principles. No share capital is invested. Each of the local cooperative banks capitalize themselves through retained earnings. Members elect the supervisory board (usually around 8 or 10 people) which appoints a board of directors of three people.

It is the board of directors of the local banks which are the directing minds of the local bank and are held accountable for its financial performance. The supervisory board monitors their performance, but also ensures that the local banks maintain strong links with the local communities, especially small and medium enterprises and agricultural businesses, and works to ensure that the local bank's products and service delivery are designed to serve its community's unique needs.

The local banks (and the entire system) pride themselves on fast decision making, close contact with their customers and trusting business relationships and believe that it is these qualities in addition to sound financial management which makes the DG Bank group a success.

### Central co-operative banks

The central co-operative banks are owned and controlled by their member local banks. The local banks elect the supervisory committee, which appoints the board of directors.



## DG Bank

DG Bank is not a cooperative. It is a joint stock company. The capital stock of DG Bank is mainly held by the central cooperative banks or the local cooperative banks (approximately 80%, 45% held by local banks and more than 30% held by central cooperative banks). Other shareholders include cooperatives and cooperative associations.

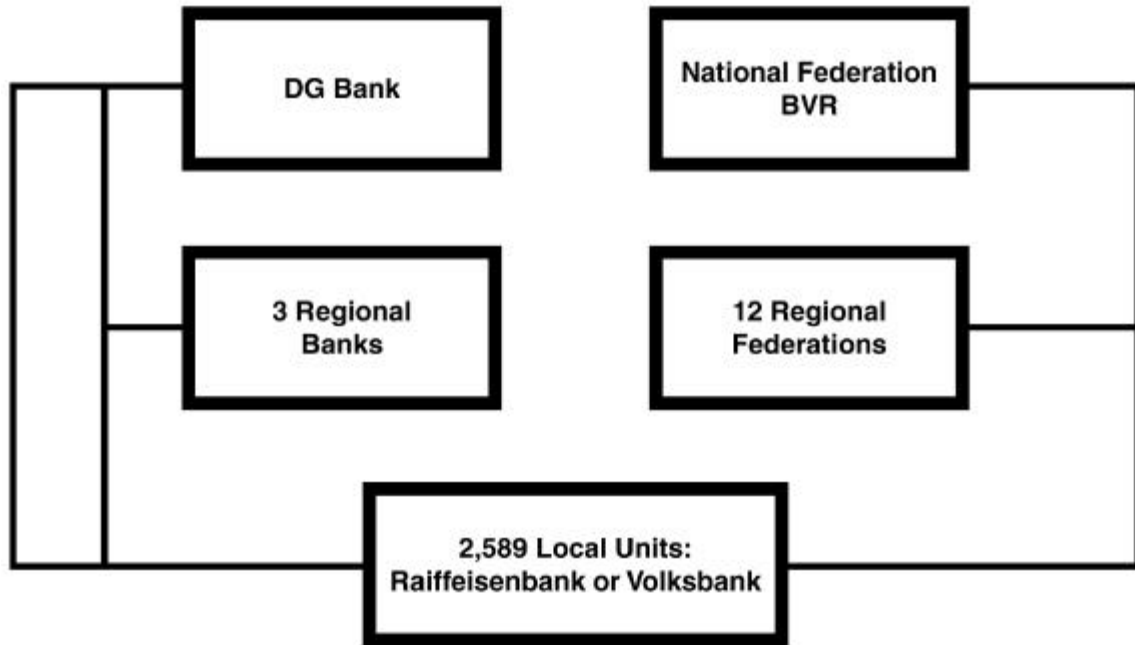
Participation in a central cooperative bank or in DG Bank is voluntary. Those who participate agree to provide guarantees of solvency and liquidity to DG Bank, which makes the same guarantees to other financial institutions on behalf of the *volksbanken* and the *raiffeisenkassen*.

The supervisory board of the DG Bank consists of 32 persons. Over half of the board is made up of representatives from the local and regional banks and the BVR. The federal government controls three seats on the board, the state governments (the “*landers*”) control 3 and the Bundesbank places one representative on the board. Other directors come from the minority owners, the non-financial cooperatives and agricultural interests. The president of the supervisory board is always the president of the BVR, the trade association for the German cooperative banks.

## Decision Making

With the elimination of all but three of the central cooperative banks, the DG Bank developed a series of regional head offices. This approach was designed to create a means for linking the local banks directly with the DG Bank. Each local bank was allocated to a regional head office and, as part of the regional head office, an elected advisory committee was formed. Input from the local banks is, therefore, accumulated at DG Bank’s regional head offices and communicated down the line to DG Bank’s headquarters in Frankfurt.

## Germany Raiffeisenbanken - Volksbanken



Votes on issues of strategic policy take place at the DG Bank annual general meeting. This meeting is attended by all of the shareholders, including local banks which directly own equity in DG Bank and the central cooperative banks which own equity in DG Bank on behalf of their members. Even though a number of local banks are represented by their local cooperative banks, all local banks are entitled to attend the DG Bank annual general meeting.

Generally, votes on money issues are decided on a one-vote per share basis. Non-money issues are normally decided on a one-member, one-vote basis.

(d) Regulatory Environment

Although Germany is a federal state, all levels of the cooperative financial system are federally regulated as cooperative banks under German federal banking law. The German Bundesbank (the German central bank) requires that all local and regional cooperative banks and that DG Bank itself maintain on deposit at the Bundesbank 2.5% of their assets as liquidity reserves. Deposits in the Bundesbank do not earn interest.

In the two-tier part of the system the DG Bank apply regulatory monitoring and supervision over the local banks. In the three-tier part of the system, this aspect of self-regulation is managed by the central cooperative banks. In either case, where a local bank suffers financial difficulty or is poorly managed, the DG Bank or the regional centrals intervene to ensure that the local bank's difficulties are managed and resolved.

In the same way, the DG Bank supervises the operations of the central cooperative banks and exercises the same level of supervisory management over the central cooperative banks.

### 3. France – Credit Agricole

#### (a) Background

Credit Agricole, which is a three-tier system of cooperatively operated and organized financial institutions, is acknowledged to be, in the aggregate, France's largest bank in terms of market share, earnings (US\$2.1 billion, for fiscal 1998), and total capital. Its total assets at December 31, 1998 were US\$455.5 billion.

Credit Agricole was founded at the local level in 1894 to serve France's farming community. The French Republic recognized the spontaneous private farmer initiatives in many areas of the country which had as their goal the provision of credit for farmers. By the turn of the century, the local caisses developed a need for a regionally based second tier and, as a result, during this time, the caisses regionales incorporated. In 1920, the national government of France established the Caisse Nationale de Credit Agricole ("CNCA"), the third tier, as a public agency/crown corporation aimed at:

- (i) reinforcing the unity of the local and regional caisses which formed the Credit Agricole group;
- (ii) controlling the operations of the local and regional caisses; and
- (iii) enhancing the availability of credit to the people of France.

State "sponsorship" through the CNCA and through favourable legislative and financial rules, solidified the strong financial footings upon which the Credit Agricole group is founded. In 1988, CNCA was transformed into a privately-owned joint-stock corporation. The French government sold its holdings to the regional caisses (approximately 90%) and to the employees of the Credit Agricole group (approximately 10%). La Federation Nationale du Credit Agricole ("FNCA") is a trade association separately incorporated from the CNCA.

It is important to note that state sponsorship for over 60 years led to a strong centralized model. During those 60 years, the chief executive officer of the CNCA was a government appointee, who was charged with ensuring that credit was available to agricultural interests. A large proportion of the deposits raised in local communities was, during this time, deposited with the CNCA for reallocation to communities as part of government policy. Despite the fact that CNCA was privatized in 1988, the culture of the Credit Agricole group is, therefore, quite different from any other cooperative financial institution.

The three tier structure is depicted by Credit Agricole in the diagram attached hereto as Schedule C.

(b) Business

### *Local Caisses*

At the local level, there are 2,775 local caisses with 5.5 million member shareholders consisting primarily of individuals, farmers, and agricultural cooperatives. The local caisses have evolved to become cooperative holding companies for the regional caisses. Their only asset is their investment in their regional caisse.

The local caisses no longer play a direct role in providing financial services. The members of the board of directors of these caisses represent community interests and ensure that the regional caisse respond to the need for special products and services for their local customers/members. The directors take a role in promoting Credit Agricole in their communities. Even though the local caisses are not operating banks, a position on the board of directors is still considered prestigious in the culture of the local communities they serve.

Regional caisses will confer with the board of directors of a local caisse on credit decisions relating to local small and medium enterprises or agribusinesses.

## *Regional Caisses*

The role of delivering financial services to members and customers has been assumed by the 57 larger regional caisses, which manage multi-branch operations throughout their assigned region of France. The largest regional caisse is the Credit Agricole de Paris with approximately FF100 billion.

While the business of the regional caisses was originally focused on the agricultural sector, beginning in 1959 the Credit Agricole group diversified its lending activity and progressively became a universal bank. Credit Agricole group's current portfolio of loans reflects the gradual change in its business:

Personal Loans	40%
International Corporate Clients	22%
Small and Medium Enterprises	12%
Agriculture	12%
Professionals	8%
Local Communities	7%

The 57 independent regional caisses operate a network of 8,200 branches. Each regional caisse provides a comprehensive range of banking products and financial services which are standardized through the direction of the CNCA, thus ensuring uniformity of image and policy from one region of France to another and from one regional caisse to another. Each regional caisse operates within a defined geographic territory. A person need not be a member in order to obtain products or services from a regional caisse. Credit Agricole group has 5.5 million people who are members of the local caisses, but over 15.5 million customers.

Competition between the regional caisses is eliminated by agreements among the regional caisses and the CNCA to restrict business to the territory defined by CNCA. These agreements are reflected in the articles of association of the regional caisses.

Each regional caisse generally sells the products and services developed by CNCA, although there is no formal mandatory rule to do so. In practice, decisions coming from the CNCA are generally adhered to because the CNCA consults with its members before acting and because by centralizing the administration of many of its services to regional caisses, the CNCA is able to capitalize on economies of scale and offer the best pricing to the caisses regionales, who would otherwise be able to buy products and services on the open market at much greater cost.

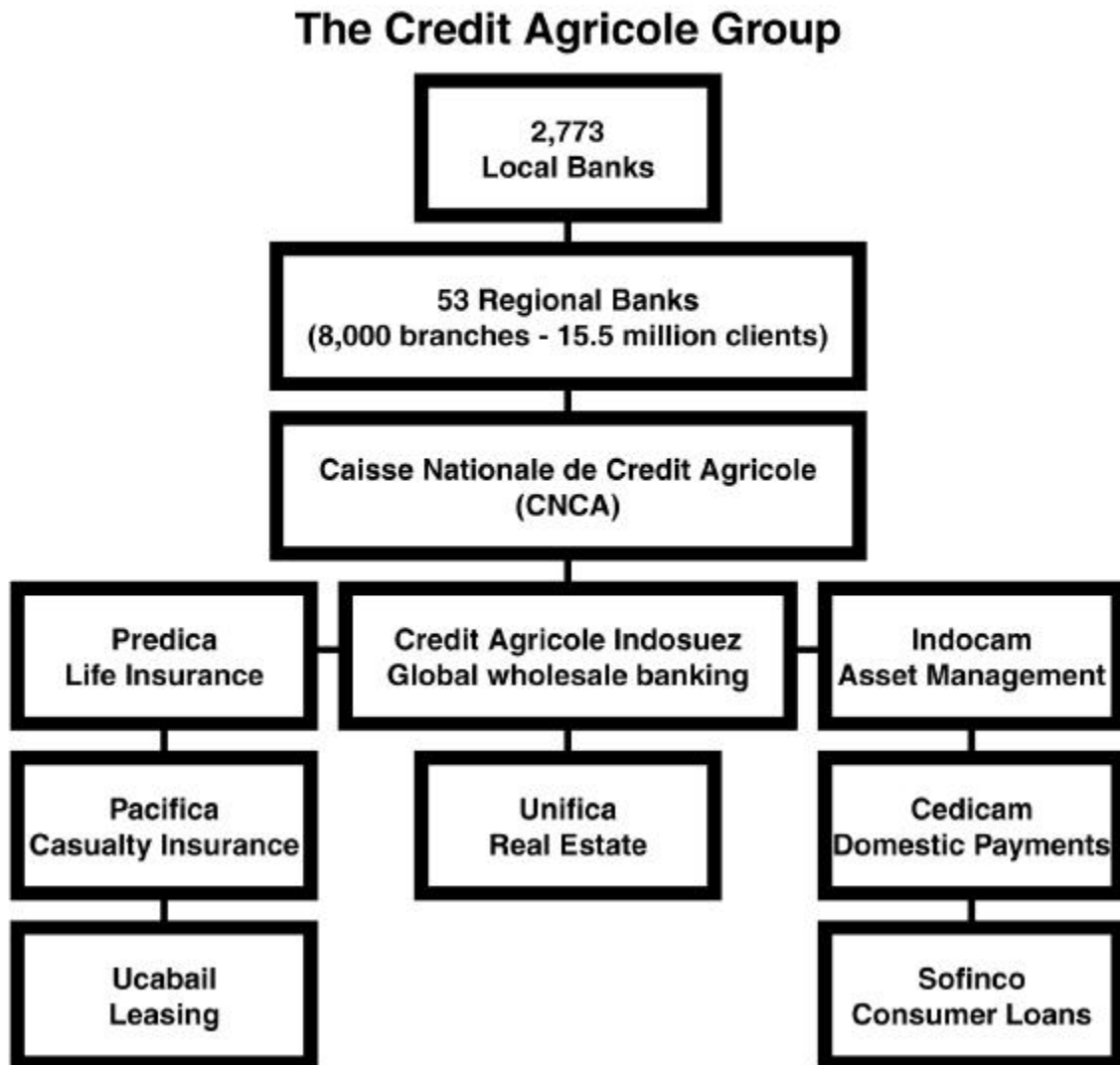
All deposits up to FF450,000 are insured by mutual commitments from banks in France to cover those deposits in the event of a bank failure. There is no government operated deposit insurer and no pre-funded deposit insurance reserve fund.

## *CNCA*

As the central body of the Credit Agricole group as prescribed by French law, CNCA balances four main roles:

- (i) central bank, treasury, and liquidity manager for the regional caisses;
- (ii) holding company for the Credit Agricole's group of financial service providers (investment banking, corporate banking, fund management, payment systems, leasing, and insurance);
- (iii) develops and coordinates the implementation of strategy and direction for the Credit Agricole, including the regional caisses; and
- (iv) regulates the regional caisses to ensure that each regional caisse maintains satisfactory levels of liquidity and solvency.

The organizational chart of CNCA indicates the businesses of CNCA:



Under the French Banking Law of 1984, CNCA guarantees the solvency and liquidity of the Credit Agricole group, including the regional caisses.



(c) Organization, Governance, and Decision Making Structures

*Credit Agricole prides itself on combining a decentralized decision making structure and a unified financial and commercial approach.*

Local Caisses

There are approximately 2,770 local caisses. A typical local caisse represents a defined geographic area with a population of approximately 25,000. It will have some 2,000 member/stockholders who will be entitled to vote to elect the thirteen person board of directors.

**Governance Structure Local Bank**



In total, there are over 35,000 French citizens who serve on the boards of the local caisses.

### Regional Caisses

The regional caisses are generally capitalized through investments by the local caisses and their retained earnings. The local caisses expect to be paid a return on their investments in their regional caisses so that they, in turn, can pay a dividend to their members.

Over the past decade, eighteen regional caisses have obtained funding in the capital markets by issuing non-voting preferred shares (certificats cooperatifs d'investissement) that are traded in the stock markets. Holders of these shares expect a market rate of return on their invested capital. While generally non-voting, these shares give the holders certain rights upon default and in fundamental changes in the regional caisse (e.g., merger).

Each regional caisse is owned by a group of local caisses from the region who meet to elect the regional caisse's board of directors. Each regional caisse is a company in itself, owned by the group of local caisses in their region, administered by the elected board of directors who appoint a professional management team to run the business.

Regional caisses have board of directors of between 12 and 15 people. These directors are elected at annual general meetings. All of the directors from the local caisses attend the annual general meeting of a regional caisse and each of them casts a vote in director elections and in other matters coming before the general meeting. Special meetings are called from time to time to deal with issues of importance or urgency.

## *CNCA*

Majority ownership of CNCA is held by the regional caisses. The regional caisses appoint delegates and along with the other shareholders, the employees, elect a board of directors of 15 persons, composed of:

- (i) eight chairs of the regional caisses;
- (ii) three chief executive officers of the regional caisses;
- (iii) three directors representing the employees; and
- (iv) one representative from the agricultural community.

CNCA is not a cooperative. It is a joint stock company under French corporate law. Nevertheless, the CNCA recognizes that its owners are its customers and, as a result, recognizes the necessity of consulting with its members on matters of importance or urgency.

The CNCA maintains a number of standing committees on major issues, such as retail banking products and services, small and medium enterprise, and computer connectivity, which meet on a monthly basis to provide input to CNCA management on their areas of expertise.

### (d) Regulatory Environment

France has a unitary government structure. The local caisses, the regional caisses, and the CNCA are all incorporated and regulated pursuant to French banking laws, which is specifically designed for cooperative banking structures.

French banking laws establish liquidity, solvency, and administrative and management rules for all three levels of the Credit Agricole group. Through authority delegated to it by the Bank of France, the CNCA exercises regulatory authority over its regional caisses, particularly in the area of liquidity, solvency, and governance.

Because of the strong linkages between the operations of the regional caisses and their interdependence through a cross guarantee structure which culminates with the CNCA, the CNCA exercises considerable influence over the operations of the regional caisses over and above legislated rules and procedures.

A major part of the management of the liquidity and solvency of the interdependent regional caisses involves enforcing capital adequacy and liquidity standards:

- (i) Capital Adequacy: Each regional caisse is required to meet minimum capital adequacy standards which are based on the BIS risk-weighted capital adequacy test.
- (ii) Liquidity: Each regional caisse makes deposits in the CNCA, which uses the funds to clear and settle payment items on behalf of the Credit Agricole group and to make liquidity loans to regional caisses which require liquidity support. The CNCA liquidity pool is created by the regional caisses depositing  $2/3$  of all their deposits with a term to maturity of more than two years.

**4. Australia – Credit Union Services Corporation (Australia) Limited  
(“CUSCAL”)**

(a) Background

The credit union movement in Australia developed along the same lines as the credit union movement in Canada and the United States. Credit unions initially developed in the late 1940's to serve discreet market segments. They served industrial and agricultural bonds and then developed a community base.

There are approximately 200 credit unions in Australia. The majority of these credit unions are members of the Credit Union Services Corporation (Australia) Limited (“CUSCAL”).

(b) Business

Credit unions in Australia represent the seventh largest banking group in the country, with assets of approximately AUS\$18 billion, as at December 31, 1997. Australian credit unions provide a broad range of financial services.

The Australian credit union movement has found a challenge in staying rooted in the community while developing economies of scale to permit it to compete in an increasingly competitive financial services marketplace. Credit union mergers or alliances have been part of the solution, as validated by the following independent analysis:

. . . in an ideal world, a cooperative bank system can best function as a cohesive unit with mid-sized units which are large enough to provide a competitive service but not too large to be able to operate independently of the national system. Following their recent consolidation, the average Austrian volksbank has 70-90 in staff and AUS\$150 million in assets, while Rabobank is aiming at a minimum size of 30 employees and assets of AUS\$100 million. (Davis International Banking Consultants, *“Strategic Issues for the Australian Credit Union*

*Movement: The Lessons from Europe”*, April 1997, quoted in CUSCAL, *Review of Movement Performance and Future Structure: Issues Paper*”, May 1998)

Where mergers have not proven possible or desirable, the Australian credit union movement is looking to maintain local autonomy and economies of scale through alliances. Australians cite this example as justification for an alliance approach:

. . . two or more building societies would come together under a formal arrangement for some purposes while maintaining their constitutional independence . . . this arrangement (which is another way of securing economies of scale without being big) is quite common in continental Europe: examples of formal or loose confederations include Rabobank, Credit Agricole, and DG Bank . . . (David T. Llewellyn, “*Contract Banking and its Potential for Building Societies*”, LUBC-BSA Project Paper No. 7, June 1997, quoted in CUSCAL, *Review of Movement Performance and Future Structure: Issues Paper*”, May 1998)

CUSCAL, through its divisions and subsidiaries, is the central banker, trade association, and credit union system holding company. The CUSCAL corporate structure is depicted in the diagram attached hereto as Schedule D.

Banking services include:

- (i) treasury and liquidity management of credit union funds, including credit union loans, participation in the money markets on behalf of the credit unions, and development of securitization vehicles;
- (ii) undertaking the obligations for credit union settlements with external networks;
- (iii) participation in the Australian payments system on behalf of the credit unions;
- (iv) cheque clearing and settlement;
- (v) cash supply; and
- (vi) interest rate advisory services.

Other services carried out by CUSCAL include:

- (i) planning, development, and representation; and

(ii) direction on information technology.

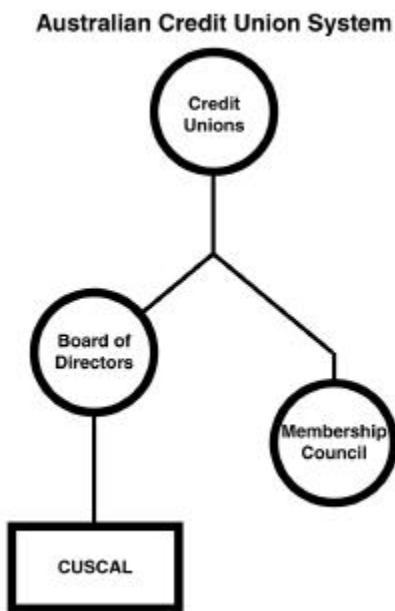
CUSCAL has maintained branch offices throughout the major centres of Australia in order to be on the ground to serve local credit unions. As the two-tier model has matured and evolved, these branches have become less and less important. In their stead, CUSCAL is adding relationship managers who give the credit unions a single point of contact at CUSCAL.

(c) Organization, Governance, and Decision Making Structure:

The Australian credit union movement evolved from a three-tier system to a two-tier system in or around late 1992. Like the Rabobank model, the Australian governance and decision making structure attempts to separate governance and management of the business in order to eliminate the burden of politics on the business. As is stated by the Australians:

The democratic governance system owns, directs, and controls a commercial business management system accountable to produce services to credit unions as its customers. (CUSCAL, “*Project Renewal*”, October 1989, at 16)

The organizational and governance structure is depicted on the schematic below:



## Members

Members own and control CUSCAL through two levels of membership: primary and commercial. Membership in CUSCAL is not mandatory.

Any credit union registered as a credit union under state legislation is eligible for primary membership in CUSCAL. As a **primary member**, each credit union must:

- (i) subscribe for a minimum number of membership shares (.05 per cent of assets, with a maximum contribution of \$60,000, adjusted annually);
- (ii) pay annual membership dues (calculated as the cost of core services, less revenue derived from earnings on primary membership share capital); and
- (iii) adhere to CUSCAL's code of conduct.

Primary membership share capital in CUSCAL is used to finance the infrastructural needs of CUSCAL's core services, defined as government relations, public affairs, research, and planning. Primary members have the right to one vote in elections to the board of directors and vote on a modified proportional basis calculated on asset size in elections for the membership council.

As a **commercial member**, a credit union has the right to access central banking system services. Commercial members, in addition to complying with the requirements applicable to a primary member must subscribe for an additional .85 per cent of its assets in secondary capital. Secondary capital is used to support the acquisition of financial service providers and the development of special services for credit unions. Commercial members have the right to vote in elections to the board of directors on a modified proportional basis calculated on asset size and in elections to the membership council on the same basis as primary members.

The returns paid on secondary capital contributed by commercial members, are generated by non-core services, and the performance of CUSCAL's operating subsidiaries.



## Membership Council

The Membership Council is elected by CUSCAL's member credit unions and is responsible for democratic control, with a key role in monitoring performance and ensuring the commercial endeavours of CUSCAL and its member credit unions meet the standards of movement values and move in the direction desired by the credit unions as owners. Among its key responsibilities are the following:

- (i) developing and maintaining the credit union system's mandatory code of conduct;
- (ii) exerting influence on the longer term direction and shape of the credit union system; and
- (iii) functioning as a consultative and advisory channel between the credit unions and the CUSCAL board of directors.

It is composed of 33 credit union officials (volunteers or management) elected by the membership on a rotational basis for a two year term. The number of members on the membership council has been reducing over the years as the number of credit unions has been reduced through closure and merger. A member of the council cannot also be a director on the board of directors of CUSCAL.

## Board of Directors

The ten person board of directors is responsible for the commercial management of the actual business of support services. Under Australian law, the directors are the legally accountable corporate board for CUSCAL.

Six positions on the board of directors are elected on a three-year rotational basis in open elections at the annual general meeting of members. To be eligible for election, a person may be a volunteer director at or a manager of a credit union. Three positions on the board are reserved for persons from outside of the credit union system who act as

independent directors. The chief executive officer of CUSCAL is also on the board of directors, but cannot be the chair. A director cannot also be on the membership council.

It has been stated that:

. . . while the membership council will do much to influence the vision about the longer term aspirations of the movement, it will be the board of directors that will have to give effect to such topics in the medium to short term. (CUSCAL, “*Project Renewal*” , at 54)

### Decision Making Processes

The general membership of CUSCAL meets once each year. This annual general meeting is the focal point of CUSCAL’s strategic policy decision making structure. Voting delegates are appointed by each credit union member. These voting delegates exercise all of their respective credit unions’ voting rights in the annual general meeting.

The decision making process in Australia is less formal and perhaps more *ad hoc* (as is the case in Canada) than the process employed in Europe, but the goal of maintaining a continuing cycle of contact between credit unions and CUSCAL and seeking consensus and commitment to decisions is identical.

### THE CUSCAL PLANNING CYCLE

MONTH	PARTICIPANTS	FUNCTION
January		
February	Credit Unions Reps from: Membership Council Board of Directors, System Management	District Meetings
March	Membership Council Board of Directors System Management	
April	Board of Directors System Management	Business Plans and Draft Budgets
May	Board of Directors System Management	Publish Strategic and Business Plans
June		
July		
August	Credit Unions Reps from: Membership Council	District Meetings
September	Membership Council Board of Directors System Management	National Planning Council
October		
November	Credit Unions Membership Council Board of Directors System Management	National Convention and AGM
December		
January		

There is constant communication between CUSCAL and its member credit unions in relation to operational and management issues. In addition, CUSCAL representatives meet with credit union district representatives on a regular basis to share ideas and discuss local issues. Many *ad hoc* task forces and committees are used by the system to address managerial and operational challenges.

Policy decisions on matters of strategic importance to the system are taken in the annual general meeting in November each year. The consensus building process begins in February with district meetings. Through February to August, business plans and budgets and policy issues are circulated to member credit unions for review and feedback. By September each year, the districts and *ad hoc* committees are required to provide input on the issues of the day sufficient to permit the membership council, board of directors, and senior management to hold their national policy council.

A strategic plan and policy proposals are adopted by the membership council, board of directors and senior management and then circulated to member credit unions to enable the credit unions to evaluate the implications for their own operations and start determining a position on such of the issues which require attention at CUSCAL's annual general meeting.

(d) Regulatory Environment:

Like Canada, Australia has a federal system of government. Credit unions are regulated by the state (6) and territorial (2) governments in which they are incorporated. CUSCAL is regulated by the Australian Financial Institutions Commission ("AFIC")

This separation of powers meant that various members of CUSCAL could operate under separate and distinct legislation regimes. To address the widest disparities, state and territory governments have developed a coordinated approach to credit union regulation. The result is that the legislative scheme in all of the states and territories is more or less based on a single legislative model.

On an ongoing basis, a committee with representation from each of the state and territorial governments meets to consult on the nature of regulations, which will be developed or amended to turn legislative principles into regulatory rules.

In Australia, the regulator has agreed with the movement that the use of the "credit union" brand will be conditional upon credit unions conforming to mutual principles, conditions, and requirements.

## 5. Quebec - Desjardins

### (a) Background

The caisse populaire movement in Quebec was born at the turn of the 19<sup>th</sup> century. For many years the caisses operated with relatively informal links. In the early 1930's, the need to institute an inspection system and add new services led to the creation of the second tier unions (which became the federations) and a provincial federation (which became the confederation). By the mid-1940's, the Desjardins three-tier structure was in place.

During the 1960's, the movement invested in financial services subsidiaries to complement the core products offered in the caisses.

The movement Desjardins is today the premier financial services provider in the Province of Quebec and the sixth largest in Canada. The network is composed of 1,351 caisses (the first tier), 11 federations, excluding three outside of Quebec (the second tier), and the confederation (the third tier) with cumulative assets amounting to \$60 billion, at the level of the cooperative sector (caisses populaires, federations, confederation, and caisse centrale) and \$10 billion in the corporate sector (subsidiary insurance companies, securities brokers, and trust companies as) at December 31, 1998. The corporate structure of the Desjardins movement is attached hereto as Schedule E.

### (b) Business

#### The caisses

The caisses deliver full financial services to their members. There are approximately 5.1 million members in Quebec. The caisses provide products and services to members only.

A person can become a member of a caisses by investing \$5 in a membership share. Becoming a member makes a person eligible to obtain financial products and services from the caisse and its affiliated suppliers and benefit from the Desjardins national and international network.

All deposits in the caisses up to \$60,000 are insured by the provincial deposit insurer, which is financed by premiums charged to the caisses. In fact, the movement's stabilization fund pays the premium to the deposit insurer out of funds that it collects from the caisses on an annual basis.

Within general prudential guidelines initially established by the third tier and often refined by the federations for use by their member caisses, the local caisses are expected to provide their members with all of the products and services developed by the movement. They do have the independence to establish their own pricing policies and strategies and develop their own approach to personal service. All caisses use the same logo and similar corporate names.

There are no restrictions on competition between caisses populaires. The membership requirement and the bond of association applicable to each caisse serves as an indirect means of restricting a caisse populaire to a particular trading area, but even this indirect restriction can be avoided by the use of associate members, who are able to use the services of a caisse populaire notwithstanding that he/she comes from outside the bond of association. Associate members do not have a vote at membership meetings.

The caisses are linked through a common data platform, which is further linked to the movement's supplier insurance, trust services, securities and mutual fund affiliates. The common data platform allows the federations to monitor the development of their member caisses and permits the confederation and the caisse centrale to monitor system performance and trends. A completely integrated inter-caisse network allows the caisses to deliver to members a seamless network of services.

A caisse populaire must be affiliated with a federation if it is to use the words “caisse populaire”, “credit union”, or “caisse d’économie” in its corporate name.

### The federations

There are eleven federations, which support and monitor the development of their member caisses. The primary role of the federations is to provide the caisses with joint services in various fields, including, training, communications, human resource management and development.

The federations also manage the liquidity of their member caisses populaires. Caisses populaires must deposit between 8% and 12% of their liabilities and borrowings with their federation. Excess liquidity on deposit from caisses populaires is maintained in a fund which is separate and distinct from the liquidity pool at the federation. The federation pays a market rate of return on these deposits. Funds on deposit are used by the federation to lend to caisses populaires which require liquidity.

When the federations have liquidity deposits in excess of their needs they deposit their funds in the caisse centrale to permit the caisse centrale to coordinate provincial liquidity needs and facilitate the movements participation in the payments systems.

The evolution of the movement has the movement reviewing the role of the federations with a view to develop a less costly structure and a streamlined decision making process.

### The confederation and the caisse centrale

The confederation plans, coordinates, and develops products, services, and standards. It also acts as the trade association and holding company for the movements subsidiary suppliers in the areas of insurance, trust services, securities, mutual funds, asset management, and international business.

The caisse centrale is the central banker and liquidity manager for the entire movement. Caisse centrale is the movement's direct clearer under the Canadian Payments Association, guaranteeing and settling payment items drawn on the local caisses. Caisse centrale is the movement's link with Canadian and international money markets.

Caisse centrale accepts deposits of excess liquidity from the federations. Each federation has a liquidity line of credit available to it from the caisse centrale to permit it to manage its member caisses populaires' liquidity needs. The function of the caisse centrale is to permit the movement to flow liquidity across the province from federations with excess liquidity to federations in need of liquidity.

The caisse centrale assists the local caisses in providing commercial loans to small and medium sized enterprises, the public sector (school boards, municipalities, & etc.). It does this by:

- (i) entering into loan participations and syndications with the caisses;
- (ii) directly managing account on its own; and
- (iii) purchasing loans from the caisses.

A subsidiary of the confederation called Capital Desjardins raises capital in the capital markets based on the strength of the movements combined balance sheet and invests the proceeds in subordinated notes issued by the caisses. These notes qualify as regulatory capital for the caisses.

(c) Organization, Governance, and Decision Making

Desjardins is a unique cooperative movement. Although each of the individual caisses is independently owned and operated by its members, their elected board of directors and the audit and ethics committee, under Quebec law, the balance sheets of the caisses are cumulated into a single balance sheet and capitalized on a collective basis.



The organizational structure of the Desjardins movement is depicted on the organizational diagram attached hereto as Schedule E.

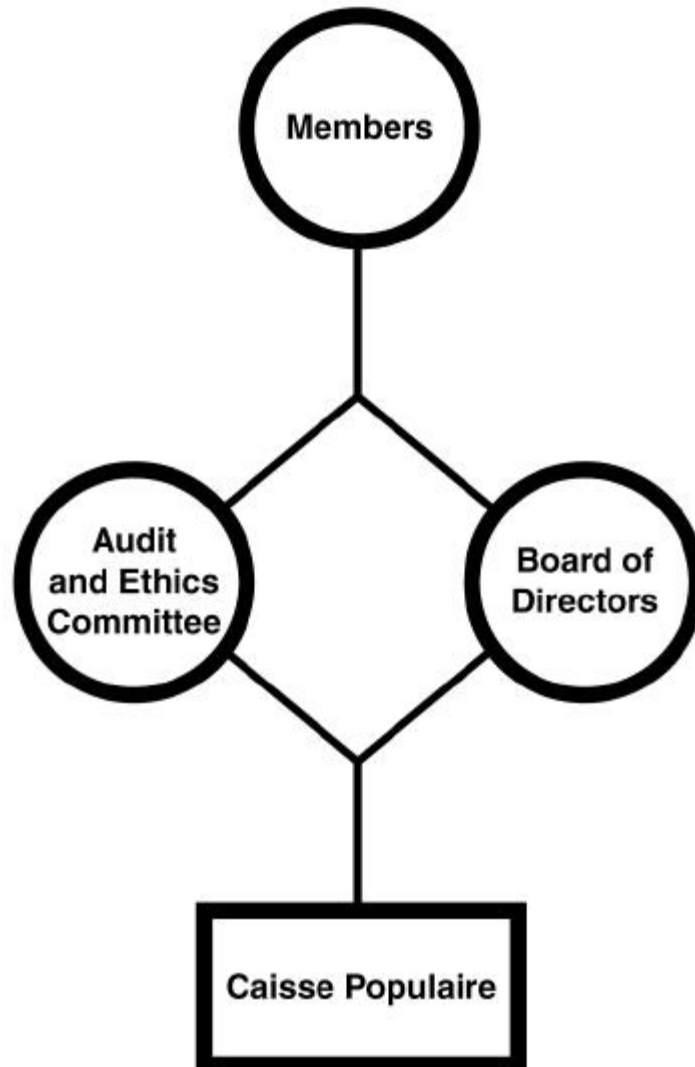
The governance structure prescribed in the *Caisses Populaires Act* is identical for each tier of the movement.

#### The caisses

The caisses are owned and controlled by their members. The members of the caisses elect the board of directors and the audit and ethics committee. The board of directors direct and manage the caisse, establish its orientation and policies, and hire and supervise the general manager.

The audit and ethics committee plays a unique role by overseeing the operations of the caisse to ensure that the caisse is managed in a sound and prudent manner and committed to its mission, philosophy, and values and the mission, philosophy, and values of the movement. The committee also reviews the caisse's compliance with laws, standards, and policies, specifically, the committee monitors the movement's code of ethics.

## Caisse Populaire Governance Structure



The federations

The federations are owned and controlled by their member caisses, which all come from defined regions of the province. The caisses populaires members of the federations send delegates to general meetings of the federations. At the meetings, the delegates elect the board of directors and the audit and ethics committee. Generally, the vote is on the basis of one member, one vote, but in at least three federations there is a modified proportionate voting system.

The board of directors direct and manage the federation, establish its orientation and policies, and hire and supervise the general manager. The audit and ethics committee plays a unique role by overseeing the operations of the caisse to ensure that the caisse is managed in a sound and prudent manner and committed to its mission, philosophy, and values and the mission, philosophy, and values of the movement. The committee also reviews the caisse's compliance with laws, standards, and policies, specifically, the committee monitors the federation's compliance with the movement's code of ethics.

The federations themselves have consultative mechanisms which allow them to operate the federation democratically and cooperatively, including *ad hoc* advisory committees and task forces and periodic regional meetings with caisses populaires in sub-regions of the federation's region.

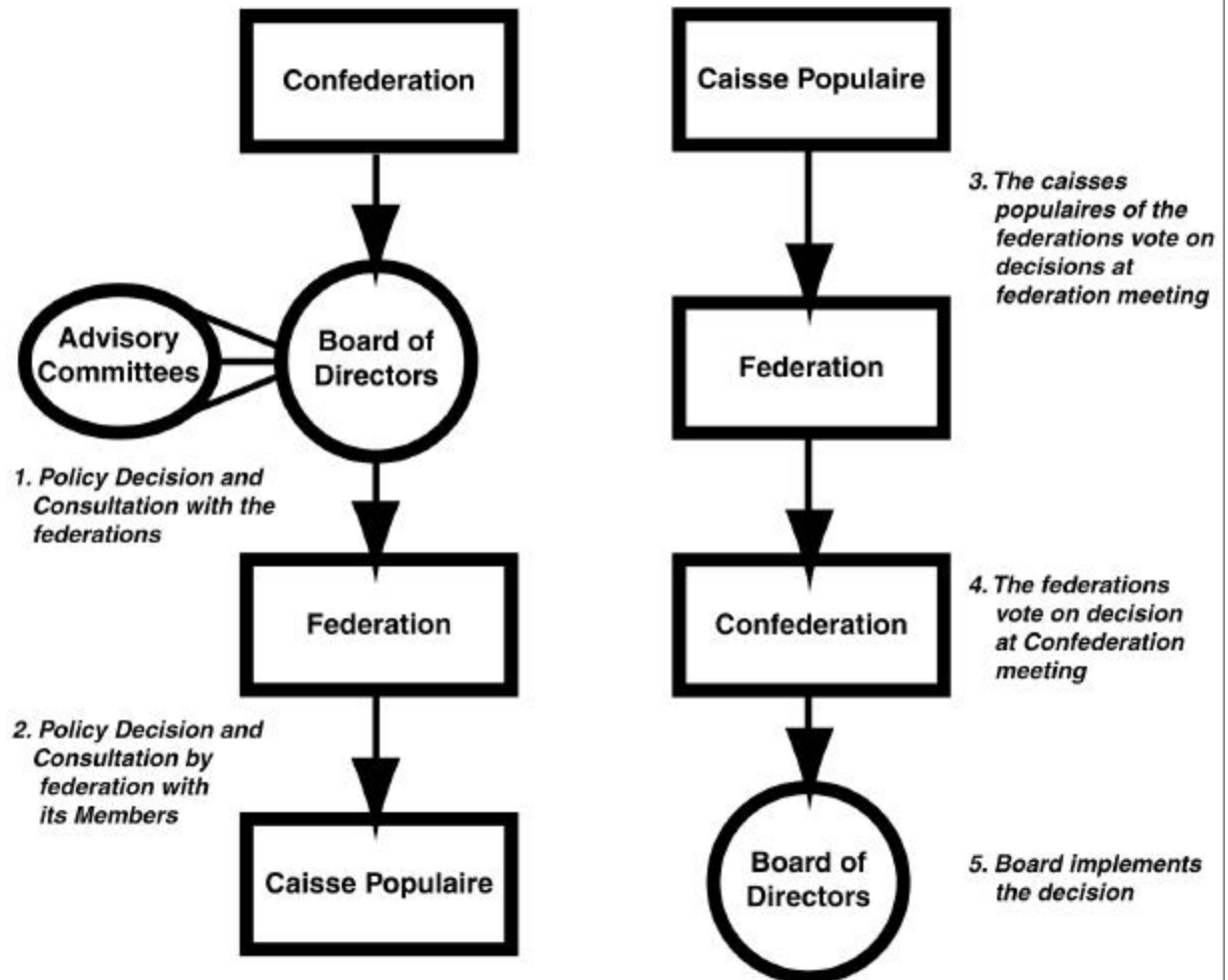
#### The confederation and caisse centrale

The confederation is owned and controlled by the federations. The federations invest share capital to capitalize the confederation and the caisse centrale and their related corporations.

The corporate governance objectives of the confederation and the caisse centrale are to achieve the objectives established by its members and to ensure its viability, not to enhance shareholder value. The board of directors is composed of nineteen persons. All directors are representatives nominated by the federations. Each federation has at least one director, but the largest federations have greater representation (e.g., Montreal 5; Quebec 3; and Trois-Rivieres 2). Interestingly, the final director, the president (who is also the chief executive officer of the confederation and the titular head of the movement), is elected by all of the directors of the federations in a general meeting, not the members of the confederation board.

The board of directors of the caisse centrale is appointed by the board of the confederation.

## Decision Making Process



There is no general meeting of all of the caisses, except that periodically there is a provincial convention. (It is to be noted that such provincial conventions are consultative meetings and not decision making meetings.) The confederation consults with the caisses through the federations. It uses meetings of the federations to communicate strategic policy issues to the local caisses. Like the Canadian credit union system outside of Quebec, decision making follows a stepped approach:

- (i) Policy decisions are generated by the confederation based on *ad hoc* advisory committees of caisses managers and directors and federation managers and directors.
- (ii) The confederation consults with the federations on policy decisions and refines and further defines them on the basis of feedback from the federations.
- (iii) The federations take the refined policy decisions and consult with their member caisses in regional meetings.
- (iv) Feedback from these regional meetings is communicated back to the confederation and the policy decisions are again refined and further defined.
- (v) The finalized policy decisions are then presented to the individual caisses for them to consider the impacts on their operations and to develop a position.
- (vii) The policy decision is then voted on at federation annual or special meetings.
- (viii) The final confirmation of the policy decisions are expressed by the votes of the federations at the annual or special general meeting of the confederation. Meetings of the general assembly of the confederation are attended by all of the directors of the federations. Votes are not on a proportionate basis. Each director registers his/her own vote. Like the Rabobank general assembly, the confederation general assembly is a large meeting with substantial *de jure* authority, but in practice it is largely a ceremonial body. Decisions are usually worked out in negotiations among the federations.

The movement appointed a restructuring committee at its 1999 annual general meeting to consider the efficacy and efficiency of the movement's governance structure and decision making process. The restructuring committee is made of 15 members, including

volunteers and local managers. The restructuring committee has been asked to produce a study of the costs and impact of three alternatives:

- (i) maintaining the status quo;
- (ii) reducing the number of federations; and
- (iii) elimination of all of the federations.

The restructuring committee is charged with presenting its report, recommendations, and a transition plan to the board of the confederation by the end of September 1999. The results will then be reported to the federations and the local caisses prior to the end of 1999. It is then expected that the movement will vote on the recommendations at the confederation's annual general meeting in 2000.

(d) Regulatory Environment

The caisses, the federations, and the confederation and caisse centrale are provincially chartered and regulated under the *Savings and Credit Unions Act* (Quebec).

The confederation is responsible for inspecting and auditing the operations of the caisses and the federations. It has the delegated authority of the Quebec credit union regulator. The confederation operates a stabilization fund for the caisses, which finances its operations by collecting annual dues from the caisses. The stabilization fund's financial strength is used to ensure the solvency of each of the caisses.

The stabilization fund has the power to intervene in the operations of a local caisses to prevent it from suffering a solvency crisis and, when it makes sense to do so, will grant funds in the caisse under strict conditions to recapitalize it. In the event a member of a caisse suffers a financial loss as a result of a liquidation of a caisse, the stabilization fund supplements Quebec's deposit insurance regime and helps cover any losses incurred by the member. Because of the intervention of the security funds, the deposit insurance reserve fund in Quebec has never been needed to compensate a member.

Although the movement cumulates its balance sheet and its capital adequacy is measured on a system basis, the confederation and the stabilization funds impose a BIS and leverage capital adequacy test to the individual caisses.

Every federation and its member caisses populaires must maintain adequate capital for the group. A caisse populaire within a federation could, therefore, be undercapitalized on its own, but be supported by the excess capital of the other members of the federation. A caisse populaire which falls below capital adequacy standards established by its federation, may not declare or pay a patronage dividend to its members.

## CONCLUSIONS

This review of the organizational, governance, and decision making structures of cooperative financial systems around the world allows us to draw the following broad preliminary conclusions:

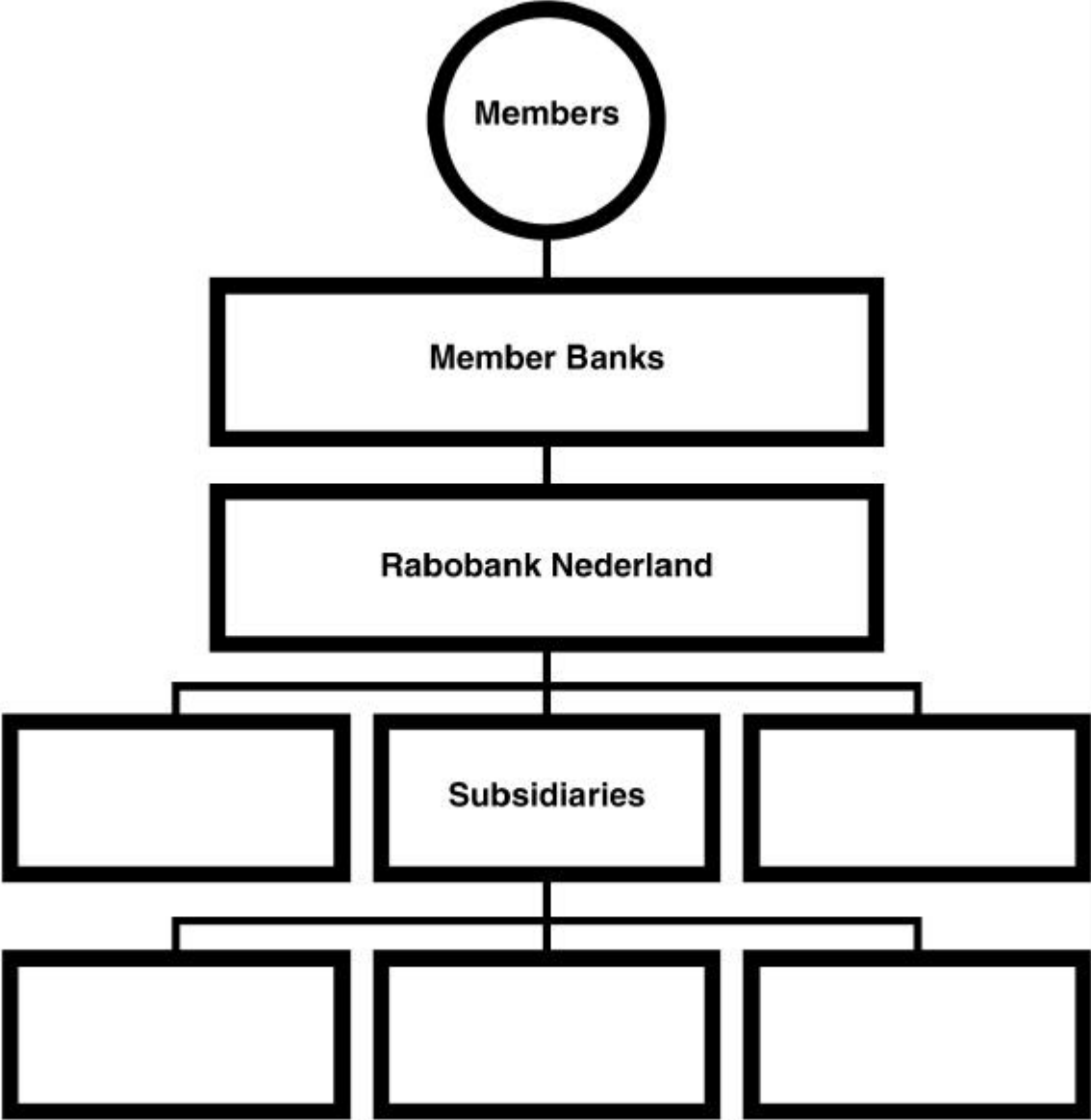
1. No structure adopted in another jurisdiction is immediately adaptable to the Canadian credit union system. While there are individual elements and approaches in the various jurisdictions which should be considered and there are elements and approaches which are common to many cooperative financial systems in the world, the structures which work in other jurisdiction work because of the unique culture and history of both the cooperative financial system in that country and of the movement itself.
2. Determination of which decision making process to use is generally an ad hoc process. No jurisdiction has provided in its decision making process the criteria which would make a decision one on which the broadest and most extensive decision making processes would apply. While the legislation in each jurisdiction prescribes a process for fundamental changes (e.g., mergers, dissolution), in no case did a jurisdiction attempt to define other fundamental decisions which require certain levels of approval, as is the case, generally, in privately-held joint stock corporations who define levels of decision making in shareholders agreements.
3. In many of the jurisdictions (specifically, Holland, Germany, France, and Australia), a stated goal of the governance and decision making structures has been to create two governance vehicles – one to focus on ensuring adherence to cooperative principles and democratic values, the other to run the business. In many cases, most notably Holland, it seems to be clearly understood that the business of providing financial services from a Rabobank is not much different than the business provided by any non-cooperative financial services supplier. What sets Rabobank (and most of the other structures studied in this report) apart from the non-cooperative financial



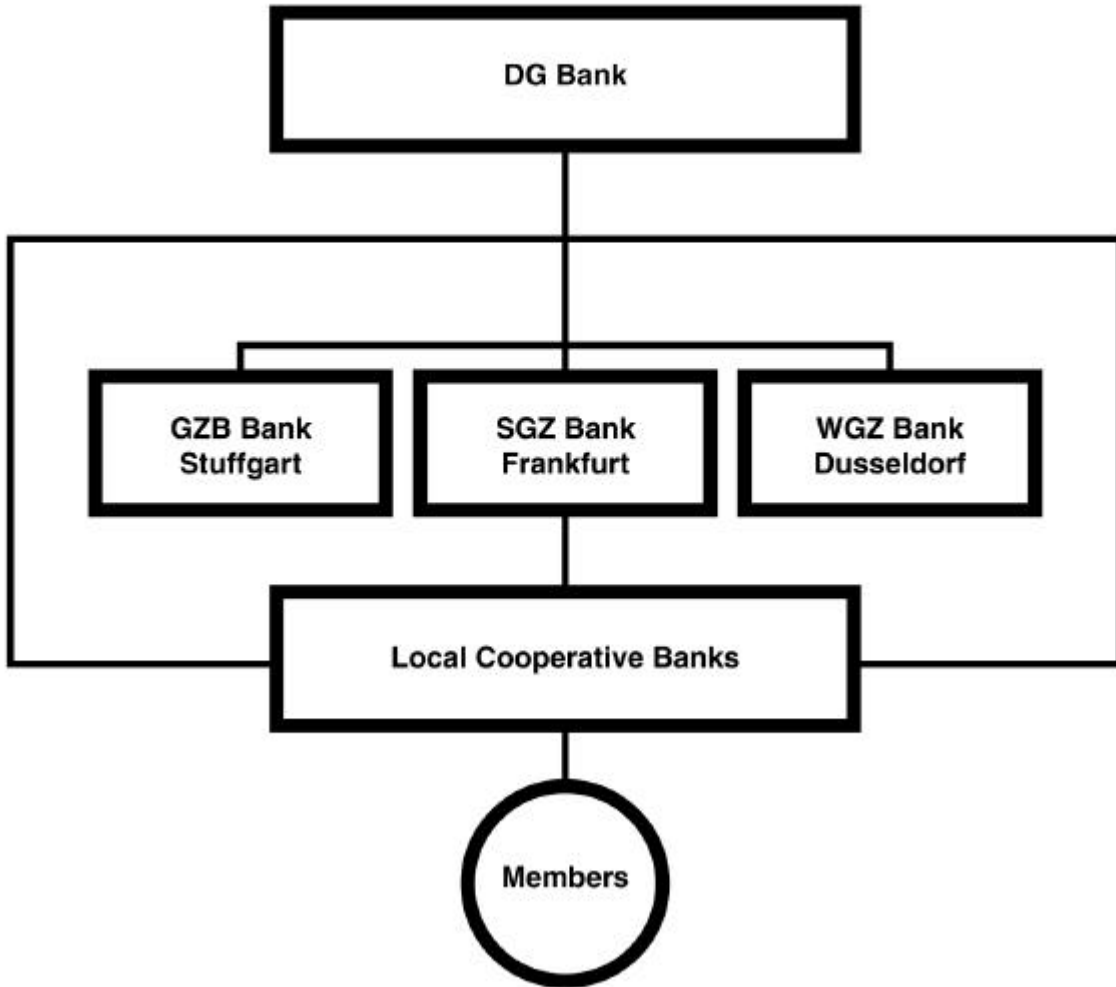
institutions is the cooperative and democratic manner in which its owners have decided to associate themselves.

4. In most of the jurisdictions (Australia and Desjardins being the clear exceptions), the system has determined that local cooperative financial institutions cannot compete with each other. The local cooperative financial institutions generally trade within a defined geographic area and compliance with this rule is monitored and enforced by the national central cooperative financial institution.
5. In all of the jurisdictions, the national central cooperative financial institution engaged in complementary retail powers both within the jurisdiction and outside of it. In most cases, the national central cooperative financial institution exercised retail powers through a division, in others, subsidiaries were used. Profits from these operations assisted the national central cooperative financial institution in deferring the costs of programs to its members and building a strong capital base of retained earnings.
6. In the majority of circumstances (Holland, Germany, and France), the local cooperative financial institutions and their national central cooperative financial institution and its subsidiaries cross guaranteed solvency. Permitting access to international financial markets with the strength of the group and allowing the group to allocate capital from regions with excess capital to regions requiring capital either as a result of losses or as a result of growth. Even in Quebec, where the cross guarantee is less explicit, the use of cumulated balance sheets and capital adequacy tests allow the movement to manage capital on a province-wide basis, instead of at the local level.
7. In almost every case, it was unnecessary to be a member in order to obtain services (Holland, Germany, and France) or very easy to become a member (Quebec, which requires a \$5 membership share investment).

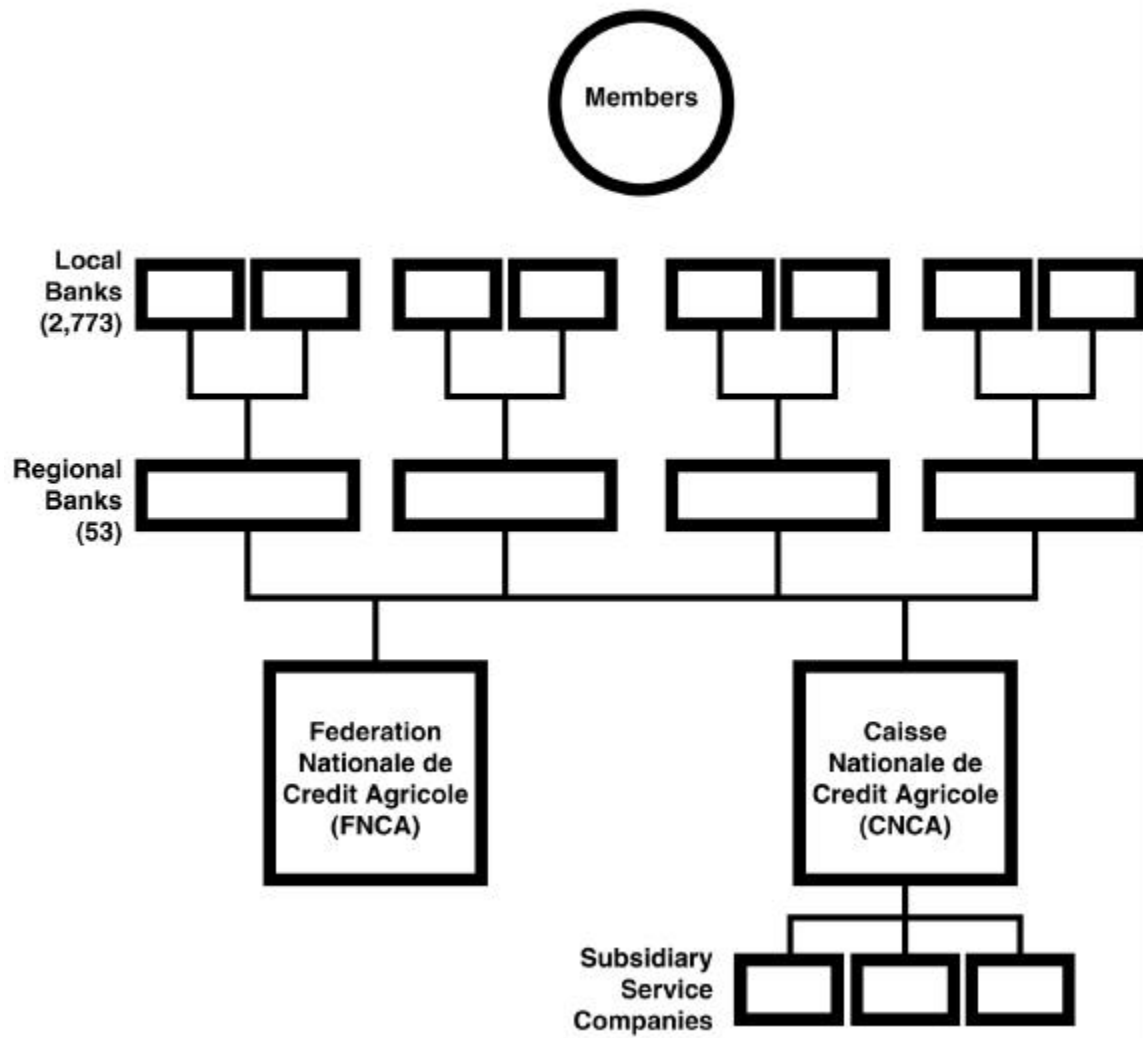
**Schedule A  
Rabobank Group Structure**



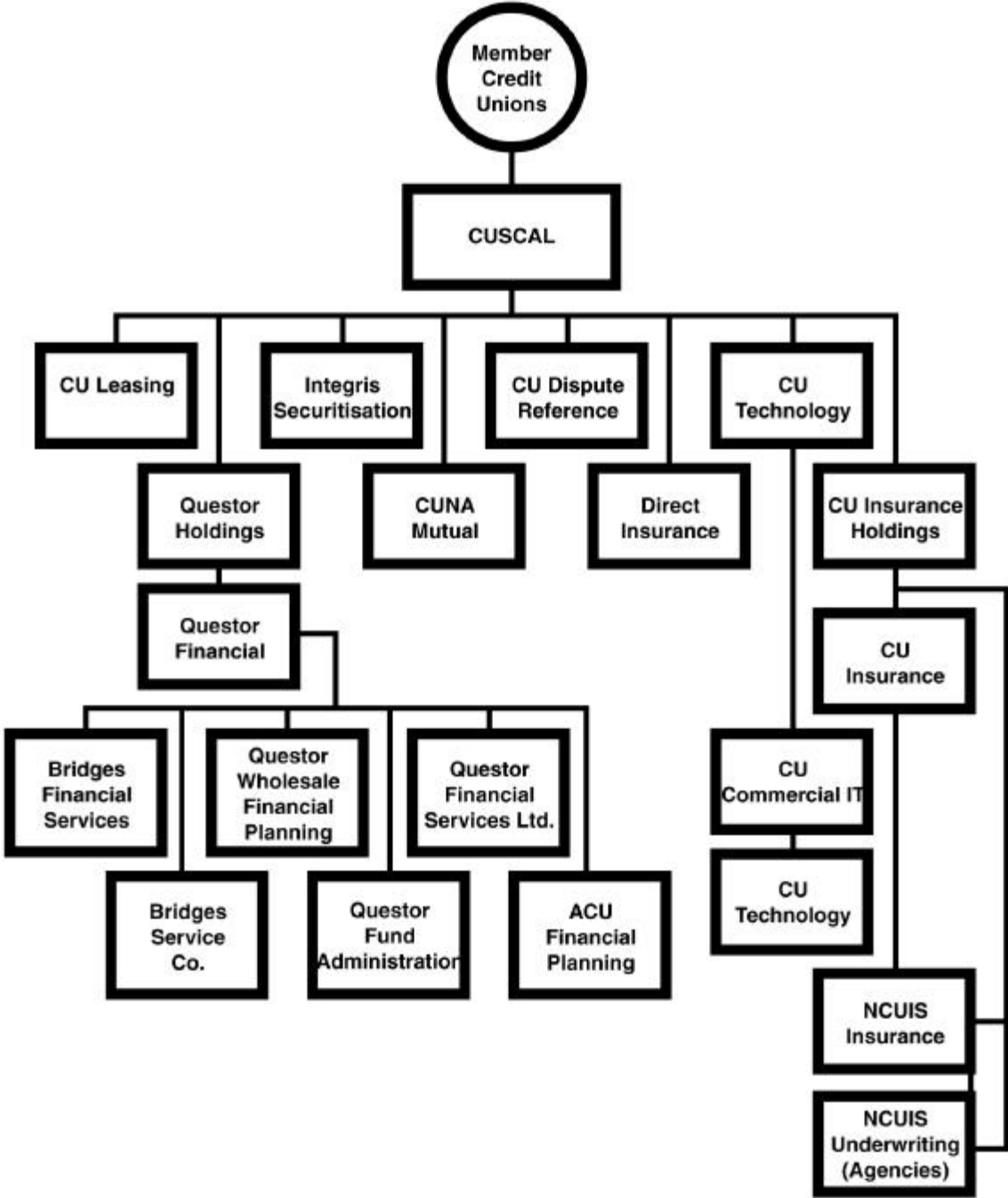
**Schedule B**  
**The Cooperative, Corporate and Association Structure**  
**of DG Bank**



# Schedule C Credit Agricole's Structure



# Schedule D CUSCAL Group Structure



**Schedule E  
Desjardins Structure**

