World Council

April 24, 2020

Volodymyr Kuchyn
Head of the office for European Integration and International Programs
National Bank of Ukraine
9 Instytutska St.
Kyiv 01601
Ukraine

Re: White Paper on the Future Regulation of Credit Unions

Dear Mr. Kuchyn:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the National Bank of Ukraine's (National Bank) White Paper on the Future Regulation of Credit Unions approved by the Board on March 5, 2020 (draft White Paper) and published on March 31 by the National Bank. Worldwide, there are over 85,000 credit unions in 119 countries with USD 2.2 trillion in total assets serving 274 million physical-person members.[1]

At the outset, we applaud the efforts to date of the National Bank to transition jurisdiction over oversight of Ukraine's credit unions. We strongly agree with the position of the White Paper that the new model of credit union regulation proposed will have a positive impact on the sector itself and the economy as a whole. As such we support the general direction taken by the White Paper.

The credit union member-owned and controlled cooperative model is uniquely qualified to provide affordable, reliable, and self-sustainable financial services to improve the lives of Ukrainian citizens on many different levels. If allowed to function properly, the member-owned capital structure, as compared to stockholder capital, can allow the credit union to offer lower interest rates on loans, higher interest rates on savings or new product and service development. This is essential to maximizing the economic benefit for the citizens of Ukraine.

It is our deep conviction that for the rapid development of credit unions it is very important that the National Bank supports the mentioned not-profit model and particularly supports tax exemption for credit unions to encourage greater safety and soundness of the institutions, but furthermore, to allow better access to services for those of modest means.

[1] World Council, *Statistical Report* (2018), *available at* https://www.woccu.org/impact/global_reach/statreport.

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We recognize the White Paper appears to be in line with international principles and best practices. We particularly note the embrace of proportionality that regulations be commensurate with the size, risk, and complexity of a credit union. This is key to creating a regulatory framework that will allow credit unions to thrive in Ukraine. The Basel Committee on Banking Supervision likewise notes the importance of setting standards for financial institutions that encompass both prudential and the associated administrative (eg reporting) requirements that are commensurate with their risk profiles in order to achieve the desired (common) objective of prudential supervision.[2] We note the Basel Committee's focus on providing proportionality in both the regulations and the associated administrative requirements and we see in the draft White Paper that the National Bank embraced this approach for credit unions.

We also note that in the approach to licensing, there does not appear to be a clear path for those institutions that do not mobilize deposits, but instead utilize shares as instruments to capitalize the credit union. We urge consideration of how to transition those institutions to the new regulatory framework.

In the section on governance, we note the proposal to provide for the Institute of Independent Directors for the riskiest credit unions. While we acknowledge that the ability to remove directors or other key personnel is an appropriate supervisory tool for troubled or insolvent credit unions, we caution that the decision to replace a member of the governance structure of a credit union should be used with caution and only for those credit unions where a member's deposit is at risk, or where insolvency is imminent or likely in the near future. Democratic participation and member control by credit unions members with elected officials responsible for a credit union's safety and soundness is crucial to the operating model of a credit union. Substituting that control for that of a regulator should be used with caution and with proper checks and balances to guard against abuse.

On the Deposit Guarantee System, we agree that a transition period is required for the guarantee system implementation. However, we stress that the importance of providing such a system is crucial for the long-term success of the credit union sector. We urge the National Bank to prioritize this effort to establish the fund, concurrently with proper prudential standards and advocate for the adoption of the new draft Law Amending the Law of Ukraine "On the Deposit Guarantee System for Individuals" in order to include credit unions into the guarantee system. The inclusion of credit unions to the DGF for individuals is crucial and will result in: providing and strengthening of guarantees to credit union members on the return of their deposits in case of the credit union's failure to settle its obligations with them; suspending possible money withdrawal from deposit accounts in the period of systemic crises; increasing public confidence in credit unions and expanding the field of membership

[2] *See Proportionality in Bank Regulation and Supervision – a Survey of Current Practices*, Basel Committee on Banking Supervision (March 2019) *available at* https://www.bis.org/bcbs/publ/d460.pdf.

in credit unions; developing the financial services market in Ukraine, mobilizing temporarily surplus financial resources and national economic growth; contributing to financial stability of the mutual lending system; increasing the level of protection of the most vulnerable layers of population from the loss of their savings; raising the level of social stability in the state and the step of convergence of Ukrainian legislation with EU Directives: 2014/59 / EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and 2014/49/ EU of 16 April 2014 on deposit guarantee schemes.

Section 4.7 on the role of united credit unions combines the roles of liquidity management, solvency management and self-regulation and self-control into one entity. World Council continues to be of the opinion that while an independent self-regulatory organization with delegated authority from the government may be appropriate for registering, supervising and regulating credit unions in some environments, we recommend that these activities are best carried out by an independent financial regulator accountable to government. World Council's Model Law on Credit Unions in Section 11.1 further supports this approach. While we acknowledge that for purposes of transition, delegating certain functions to a united credit union may be a practical solution, the long-term goal should ultimately have the supervision and regulatory functions carried out by the National Bank.

On Market Exit, World Council supports the National Bank having numerous tools at its disposal to address issues of an institution exiting the market, either voluntarily or with supervisory assistance. We urge the National Bank, however, to prioritize allowing the assets and member deposits to remain in the credit union system to the extent possible. Further, we suggest consideration of the numerous tools outlined in the International Association for Deposit Insurers' Research Paper that includes such items as liquidation, purchase and assumption transactions, recapitalization, bail-in, receivership and others.[3]

Finally, we acknowledge that the transition will require an immense amount of work prior and during, but most importantly post July 1, 2020 on behalf of the National Bank. We note that regulatory burden often can play a significant role in the success and ability to grow so we urge close monitoring and careful restraining when increasing regulatory burden. For example, the study conducted in 2018 by Credit Union National Association (CUNA) with Cornerstone Advisors found that the combined effect of increased costs and reduced revenues due to regulation amounted to at least $6.1 billion in financial impact to credit unions and total credit union regulatory burden costs translate to $115 per credit union household.[4] World Council supports the competent effort that has been demonstrated by the National

[3] *See Resolution Issues for Financial Cooperatives-Overview of Distinctive Features and Current Resolution Tools*, International Association of Deposit Insurers (January 2018), *available at* https://www.iadi.org/en/assets/File/Papers/Approved%20Research%20-%20Discussion%20Papers/SRIFC_Resolution_Issues_for_Financial_Cooperatives_January2018.pdf

[4] *See* CUNA, Regulatory Burden Survey *available at* https://www.cuna.org/regburden/.

Bank to date. We stand in support of your attention to this transition and believe the results will be benefited by and embraced by the non-banking financial market of Ukraine and especially CUs.

World Council appreciates the opportunity to comment on the National Bank of Ukraine's White Paper on the Future Regulation of Credit Unions. If you have questions about our comments, please feel free to contact me at aprice@woccu.org or +1-850-766-5699.

Sincerely,

Andrew T. Price
Vice President of Advocacy
World Council of Credit Unions

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