



May 7, 2010

Mr. Nout Wellink  
Chairman  
Basel Committee on Banking Supervision  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel, Switzerland

***Re: Consultative document on Microfinance Activities and the Core Principles for Effective Banking Supervision***

Dear Mr. Wellink,

World Council of Credit Unions (WOCCU) is the leading trade association and development organization for the international credit union and financial cooperative movement, representing more than 54,000 cooperatively-owned, not-for-profit credit unions in 97 countries with assets of more than US\$1.2 trillion in the retail financial services market. Globally, all types of financial cooperatives by various names - credit unions, rural credit cooperatives, cooperative banks, savings and credit cooperatives - serve an estimated 857 million people.

In June 2006 during the consultations on the Core Principles for Effective Banking Supervision, we recommended the creation of Core Principles for Credit Union Supervision. We are pleased to see that the Basel Committee, while not exclusively dealing with financial cooperatives, has now addressed this issue. We very much welcome the consultative document and are happy to see that the proposal recognizes the need for having supervisors who truly understand microfinance and other deposit taking institutions (ODTIs). Please accept our comments on the consultative document on *Microfinance Activities and the Core Principles for Effective Banking Supervision*.

***Principle 1 – Objectives, independence, powers, transparency and cooperation***

We agree with the Committee's perspective that ODTIs should be subject to prudential supervision. Unfortunately, oversight of credit unions in developing countries is mostly done by insufficiently trained or understaffed ministries which are often also responsible for oversight of production, agricultural, consumer and marketing cooperatives. The skills needed to supervise a financial cooperative which engages in financial intermediation are distinct. We believe that prudential oversight of credit unions should be conducted by individuals who understand how financial cooperatives are similar and different from commercial banks.

***Principle 2 - Permissible activities***

Similar to how the term "bank" is a protected term that can only be used by licensed banks, the terms "credit union", "savings and credit cooperative", or "credit cooperative", depending on how financial cooperatives are known locally, should also be protected terms in a country's legislation which can only be used by licensed financial cooperatives. This is required because both financial cooperatives and banks are deposit takers.



### ***Principle 3 – Licensing criteria and Principle 19 – Supervisory approach***

These principles indicate that the number of financial cooperatives that are prudentially supervised/licensed should be a reflection of supervisory resources as opposed to market demand for these institutions. While there are practical restrictions regarding allocation of supervisory resources, we believe it is unacceptable from a public policy perspective not to provide the same level of oversight for depositors who are often rural and poor and deposit their money in smaller institutions.

The final document should clarify that financial cooperatives are unique with respect to their ability to generate reserves and to meet the requirements for initial start-up capital. Instead of calling for high amounts of initial start-up capital, as is the case with investor-owned firms, the requirements for new financial cooperatives should focus on minimum thresholds such as the number of members, solvency and capital adequacy. The Annex A below provides examples of initial capital requirements for credit unions in 11 countries.

### ***Principle 4 – Transfer of significant ownership***

We disagree that there are not unique items regarding principle 4 for microfinance activities. There are significant issues regarding the transfer of ownership that are unique to financial cooperatives which demutualize and/or NGOs converting to banks. The core issues revolve around to who benefits from these conversions, what are the disclosure requirements and are they done in a fair and forthright manner. The transformations of UK building societies in the early 1990s and Compartamos more recently are poignant cases. We are opposed to insiders unjustly benefiting from public funds claiming a stake to the cooperative's shared capital. For additional information on this, please see WOCCU's [International Credit Union Principles for Consumer Protection](#).

### ***Principle 6 – Capital adequacy***

We generally agree with the report's characterization of capital for financial cooperatives. However, we recommend that the application of Basel II, or any risk-weighted capital regime, has to take into account the competition between banks and ODTIs, the capacity of institutions and their supervisors.

### ***Principle 7 – Risk management processes***

In footnote 31 of the proposal there is a concern expressed regarding the risk of having the CEO and the board chairman positions held by one person. We would agree with the concern but having consulted several other credit union practitioners who have decades of experience with financial cooperatives globally and they too were unaware of this practice in financial cooperatives. Poor governance could happen in isolated cases among the 54,000+ financial cooperatives, but what was documented in the proposal is in no way the norm and the comment should be deleted.

### ***Principle 14 – Liquidity risk***

Principle 14 on liquidity risk entirely neglects the importance of ensuring that ODTIs have access to central bank liquidity, and payment and settlement systems. Institutions that are authorized to take deposits should be subject to prudential oversight and have access to central bank liquidity, payment systems and deposit insurance (if it exists). Excluding ODTIs from access to these systems exposes the financial sector and ODTIs to additional risk while not providing them the same tools as banks to manage their risk.

### ***Principle 22 – Accounting and disclosure***

It is disappointing that the draft does not mention the applicability of International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs). We have been discussing this item with the International Accounting Standards Board (IASB) for some time and it is now being [discussed](#) by the



## World Council of Credit Unions, Inc.

European Commission. The IASB has indicated in its July 2009 IFRS for SMEs paper that ODTIs cannot use this simplified standard because they are considered “public entities” that accept deposits from a broad group of outsiders. Many supervisors and the International Credit Union Regulators’ Network have disagreed with this position. We view it as a major issue for ODTIs. The consultative document should raise the issue and encourage supervisors to utilize discretion.

### ***Part II***

Various examples and data points regarding financial cooperatives in Peru, South Africa and South Korea are inaccurate:

Cajas Municipales of Peru are municipally-owned quasi-public institutions, not cooperatives.

South Africa is not delegating supervision, but has in place two different government agencies involved in supervision of cooperative banks. The Reserve Bank oversees the larger ones and the Cooperative Banks Development Agency oversees the smaller cooperatives. The smallest entities are not considered cooperative banks and are not supervised.

There are approximately 1000 credit unions in Korea and 100 credit unions in Australia. It is unclear how the two countries combined have 236 ODTIs as cited in the consultative document. For statistical information on credit unions in 97 countries visit [www.woccu.org/statreport](http://www.woccu.org/statreport)

### ***Conclusion***

We would be happy to provide additional resources that might be of use to the Committee as it revises the *Core Principles for Effective Supervision of Microfinance Activities*. These include several global surveys on access by financial cooperatives to payment systems, deposit insurance, capital standards, and card networks. In addition, we can provide you with our [Credit Union Regulation and Supervision Technical Guide](#), [Model Regulations for Credit Unions](#) and resources published by the [International Credit Union Regulators’ Network](#) which the Committee’s Deputy Secretary has interacted with over the years.

Thank you for considering our comments please feel free to contact me at +1 (608) 395-2087 or via email at [dgrace@woccu.org](mailto:dgrace@woccu.org) if you have any questions.

Sincerely,

Dave Grace  
Vice President



*Annex A - Initial Capital Requirements for Credit Unions*

Country	Legal reference	Requirement	Amount in US dollars	Country GDP per capita <sup>1</sup>
<b>Bulgaria</b>	Co-operative Act is silent	No requirement	0	\$6,500
<b>Great Britain *</b>	Credit Unions Act 1979 is silent.	Requirement is set by the regulator. The amount varies depending on the extent of services offered by the credit union	<b>\$1,774</b> – Version 1 (simple service) <b>\$8,871</b> – Version 2 (broader service)	\$25,500
<b>Ireland *</b>	Credit Unions Act 1997 is silent	The regulator/registrar does not set an initial minimum capital requirement as a condition of authorization.	0	\$29,300
<b>Latvia *</b>	Credit union Law 2002, Article 15(1)]	Minimum amount of share capital required	<b>\$3,721.76</b>	\$8,900
<b>Lithuania*</b>	Credit Union Law, Chapter 6, Article 41.1	Requirement set in law	<b>\$5,402</b>	\$8,400
<b>Macedonia</b>	Law on Banks and Savings Institutions 2003	National Bank sets requirement levels and types of guaranteed capital	<b>\$300,000</b>	\$5,100
<b>Poland *</b>	Cooperative Savings and Credit Union Act 1995 is silent	The regulator/registrar does not set an initial minimum capital requirement as a condition of authorization.	0	\$9,700
<b>Russia</b>	Citizen's Consumer Credit Cooperatives Law is silent	-	0	\$9,700
<b>Romania</b>	CAR Law 122/1996 Amended 2003; Emergency Ordinance No. 74, August 2003; Banking Act Law No. 357, June 2002; Credit Cooperative Organizations, Law 200, April 2002	The Credit Cooperative Law links the initial capital requirement to a requirement to have a minimum number of members holding not less than 100,000 lei (US \$3). The minimum number of members is stated within the bylaws of each CAR.	Nominal value is variable.	\$7,600

<sup>1</sup> Source – CIA World Factbook, 2002 data.

\* These countries are members and applicant members of the European Union. They are exempt from the European Union's Capital Requirements Directive (2006/48/EC). This directive requires a credit institution to hold a minimum of 5 million Euro as a condition of authorization.



Country	Legal reference	Requirement	Amount in US dollars	Country GDP per capita
<b>United States</b>	Law is silent	There is no initial capital requirement set in law or regulations. However, the regulator examines the initial business plan of a proposed credit union to ensure that it has sufficient start up capital to support itself and cover its initial operating expenses based on the financial services proposed to be offered by the CU.	<b>0</b>	\$36,300
<b>Uzbekistan</b>	Law is silent.	Minimum capital requirement set by Central Bank	<b>US \$20,000</b> – if CU is registered in Tashkent (capital city) <b>US \$10,000</b> – if CU is registered in other location	\$2,600