



NATIONAL ASSEMBLY

SECOND SESSION

THIRTY-THIRD LEGISLATURE

Draft Bill

Savings and Credit Unions Act

**Introduced by
Mr Pierre Fortier
Minister for Finance and Privatization**



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EXPLANATORY NOTES

This draft bill proposes a reform of the legislative measures applicable to savings and credit unions, federations of savings and credit unions and confederations of such federations.

The draft bill specifies the objects that must be pursued by such financial institutions and establishes the rules governing their incorporation, organization and operation.

In the draft bill, the scope of the activities that a credit union or a federation may engage in while maintaining required rules of cooperative action is defined and the Government is given the power to permit or forbid a credit union or a group of credit unions to engage in other activities in the interest of the public and members of the credit union or credit unions.

The draft bill also introduces, in respect of the federations and the credit unions affiliated with one of the federations, the obligation to maintain, collectively, a capital base at the level determined by law and in certain cases by the Inspector General of Financial Institutions.

The draft bill amends the rule governing the distribution of surplus earnings by allowing, for instance, a credit union to apply part of its surplus earnings to the payment of interest on permanent shares or the setting up of a stabilization fund and by permitting credit unions to consider the nature of the transactions made by the depositors and borrowers in making the payment of dividends.

Various amendments to the existing system of inspection and audit are also proposed. The role played by the Inspector General with respect to the supervision and control of credit unions, federations and confederations, and of the legal persons controlled by them is clarified while his powers to conduct inquiries, inspections or other action are broadened.

The draft bill also proposes rules respecting the control exercised by the Government with regard to the management and operations of the said financial institutions, rules respecting conflicts of interest and self-dealing

and rules respecting the payment of expenses incurred for the administration of the Act by the federations and, in certain cases, by unaffiliated credit unions.

Finally, this draft bill contains transitional provisions pertaining to existing credit unions and federations and a certain number of concordance amendments including amendments to the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec.

ACTS AMENDED BY THIS BILL:

- Deposit Insurance Act (R.S.Q., chapter A-26);
- Act respecting insurance (R.S.Q., chapter A-32);
- Chartered Accountants Act (R.S.Q., chapter C-48);
- Act respecting security fund corporations (R.S.Q., chapter C-69.1);
- Consumer Protection Act (R.S.Q., chapter P-40.1);
- Securities Act (R.S.Q., chapter V-1.1);
- Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec (1971, chapter 80).

ACT REPLACED BY THIS BILL:

- Savings and Credit Unions Act (R.S.Q., chapter C-4).

ACT REPEALED BY THIS BILL:

- Act respecting caisses d'établissement (R.S.Q., chapter C-5).

Draft Bill

Savings and Credit Unions Act

THE PARLIAMENT OF QUÉBEC ENACTS AS FOLLOWS:

TITLE I

APPLICATION AND INTERPRETATION

1. This Act applies to every savings and credit union, federation of credit unions or confederation of federations incorporated or resulting from an amalgamation under this Act.

It also applies to every credit union, federation or confederation of federations formerly governed by the Savings and Credit Unions Act (R.S.Q., chapter C-4).

2. Credit unions are cooperatives operating according to the following rules of cooperative action:

- (1) the number of members is not limited;
- (2) no member is entitled to more than one vote, irrespective of the number of shares held;
- (3) no member may vote by proxy;
- (4) the payment of interest on the capital is limited;
- (5) amounts paid into the general reserve are not distributable to members even in the event of a winding-up or dissolution;
- (6) surplus earnings are allocated in accordance with this Act.

Federations are cooperatives operating according to the rules set forth in the foregoing subparagraphs 1, 5 and 6.

Confederations are cooperatives operating according to the rules set forth in the foregoing subparagraphs 1 and 4.

3. The objects of a credit union are

- (1) to receive the savings of its members and invest them for profit;
- (2) to grant credit to its members;
- (3) to promote cooperation among the members and the credit union and between the credit union and other cooperative bodies;
- (4) to further the development of knowledge in the economic, social and cooperative sectors.

4. The objects of a federation are, in addition to those of a credit union,

- (1) to protect the interests of its affiliated credit unions, foster the attainment of their objects and promote their development;
- (2) to act as control and supervisory body over its affiliated credit unions, to the extent provided for in this Act;
- (3) to furnish educational, promotional, consulting, technical assistance and other similar services to its affiliated credit unions;
- (4) to establish and administer funds in accordance with Chapter VIII of Title III.

5. The objects of a confederation are

- (1) to protect the interests of its affiliated federations, foster the attainment of their objects, promote their development, coordinate their activities and provide them with joint services;
- (2) to act as control and supervisory body over its affiliated federations and over credit unions affiliated with those federations, to the extent provided for in this Act;
- (3) to furnish educational, promotional, consulting, technical assistance and other similar services to its affiliated federations and to the credit unions affiliated with those federations;

(4) to enter into agreements, for the purposes of the attainment of the objects of its affiliated federations and of the credit unions affiliated with those federations, to which the federations or credit unions may elect to become a party.

6. A federation of federations of savings and credit unions is a confederation within the meaning of this Act.

7. A legal person is controlled by another legal person where the latter directly or indirectly holds over 50% of the voting rights attached to the shares of the former or may elect a majority of the directors of that legal person.

8. A confederation, its affiliated federations, the security fund corporation incorporated at the request of the confederation and any other legal person directly or indirectly controlled by the confederation form part of the same group.

A security fund corporation incorporated at the request of a federation not affiliated with a confederation and any other legal person directly or indirectly controlled by that federation form part of the same group as that of a federation not affiliated with a confederation.

TITLE II

CREDIT UNIONS

CHAPTER I

REPRESENTATION OF THE CREDIT UNION BEFORE ITS INCORPORATION

9. Every credit union is bound by any act performed in its interest before its incorporation, provided it ratifies it within 90 days after its incorporation.

The ratification transfers to the credit union the rights and obligations of the person who performed the act, but does not of itself effect a novation. The person who performed the act has the same rights and is bound by the same obligations in respect of the credit union as a mandatary.

10. The person who performs an act in the interest of a credit union before its incorporation is bound by that act unless the contract entered into for the credit union includes a clause excluding or limiting his liability and a statement to the effect that the credit union might not be incorporated or might not assume its obligations.

CHAPTER II

AFFILIATION

11. Every credit union must be affiliated with a federation.

12. No credit union may be incorporated unless a federation undertakes to accept it as a member and, at the request of the Inspector General of Financial Institutions, to furnish such guarantees as he may consider sufficient to ensure the protection of the members of the credit union to be incorporated.

A security fund corporation may furnish such guarantees as may be required for the purposes of the first paragraph.

13. The Minister may, if he deems it expedient and after obtaining the advice of the Inspector General, authorize, on the conditions he determines, the incorporation of a credit union even if no federation has undertaken to accept it as a member and exempt the credit union from compliance with section 11 if the founders have furnished guarantees considered sufficient by the Inspector General to ensure the protection of the members of the credit union to be incorporated.

14. The Minister may, if he deems it expedient and after obtaining the advice of the Inspector General, exempt, on the conditions he determines, a credit union affiliated with a federation from compliance with section 11 if the credit union establishes to his satisfaction that it has fulfilled all its obligations toward the federation and if it has furnished guarantees considered sufficient by the Inspector General to ensure the protection of its members.

15. Every application by a credit union for affiliation with a federation, other than an application prior to its incorporation, and every application for disaffiliation must be authorized by a resolution of its board of directors stating the name of the representative of the credit union who is authorized to sign the application and be ratified by two-thirds of the votes cast by the members present at a special meeting or, provided the object of the resolution is mentioned in the notice calling the meeting, at an annual meeting.

The credit union must, within 10 days of the ratification, transmit a certified copy of the resolution, with proof of its ratification, to the Inspector General.

16. A credit union which decides to disaffiliate from a federation or which is expelled following a decision of the federation with which it is affiliated must, within 60 days of the ratification of the resolution or decision, pass a by-law or resolution, as the case may be, to affiliate with another federation, apply for the incorporation of a new federation, amalgamate with an affiliated credit union, wind up or apply to the Minister for an exemption from compliance with section 11.

17. Every credit union affiliated with a federation that is wound up or dissolved, must, within 60 days of the publication of the notice of winding-up or dissolution in the *Gazette officielle du Québec*, pass a by-law or resolution, as the case may be, to affiliate with another federation, apply for the incorporation of a new federation, amalgamate with a credit union affiliated with another federation, wind up or apply to the Minister for an exemption from compliance with section 11.

18. A credit union shall remain affiliated with a federation

(1) until another federation has undertaken to admit it as a member or until the new federation for whose incorporation it has applied is incorporated and the credit union has obtained articles of amendment to that effect;

(2) until it has amalgamated with a credit union affiliated with another federation;

(3) until it is dissolved;

(4) until it has obtained an exemption from compliance with section 11 from the Minister.

19. The Inspector General shall not consent to amend the articles of a credit union to change its affiliation unless the credit union establishes to his satisfaction that it has fulfilled all its obligations toward the federation with which it is affiliated.

CHAPTER III

CORPORATE NAME

20. The corporate name of a credit union must not be liable to confusion with another corporate name or a firm name.

The corporate name of a credit union must not contain the terms “association” or “partnership”.

21. The corporate name of a credit union must include one of the following expressions or any combination of them: “caisse populaire”, “caisse Desjardins”, “caisse Desjardins de financement”, “caisse populaire Desjardins”, “caisse d’épargne”, “caisse d’économie”, “caisse de crédit” or “caisse d’établissement”.

No person or partnership other than a credit union governed by this Act, a federation of credit unions, a confederation of federations, a security fund corporation or a legal person directly or indirectly controlled by a confederation may include in his or its corporate name or firm name or use in his or its activities any expression or combination of expressions mentioned in the first paragraph. The same applies to the English version of a corporate name with respect to the expressions “credit union” and “savings union”.

22. No credit union may be incorporated under a corporate name that includes the expression “caisse populaire”, “caisse Desjardins”, “caisse populaire Desjardins”, “caisse Desjardins de financement” or “caisse d’économie”, unless the Confédération des caisses populaires et d’économie Desjardins du Québec has, by resolution, consented to its use and a federation which is a member of the Confederation has, by resolution, undertaken to accept the credit union as a member.

23. No credit union may be incorporated under a corporate name that includes the expression “caisse d’établissement”, unless the Fédération des caisses d’établissement du Québec has, by resolution, consented to its use and undertaken to accept the credit union as a member.

24. Every credit union whose corporate name includes one of the expressions mentioned in section 22 or 23 and which ceases to be affiliated with a federation that is affiliated with the Confédération des caisses populaires et d’économie Desjardins du Québec or with the Fédération des caisses d’établissement du Québec must, within 60 days from the date on which it ceases to be affiliated, submit articles of amendment to the Inspector General for the purpose of changing its corporate name.

25. The Inspector General may order a credit union to submit, within 60 days of service of the order, articles of amendment for the purpose of changing its corporate name where its corporate name is not consistent with the Acts in force at the time it was granted. If the credit union fails to submit such articles of amendment within the prescribed time, the Inspector General may, of his own motion, assign another corporate name to the credit union.

The Inspector General may also assign another corporate name to a credit union which ceases to be affiliated with the Fédération des caisses d'établissement du Québec or with a federation that is affiliated with the Confédération des caisses populaires et d'économie Desjardins du Québec if, 60 days after the date on which it ceased to be affiliated, it has not submitted articles of amendment for the purpose of changing its corporate name.

26. Where the Inspector General assigns a corporate name to a credit union of his own motion, he shall issue a certificate in duplicate establishing the change and publish a notice of the change in the *Gazette officielle du Québec*.

The Inspector General shall register one duplicate of the certificate and send the other to the credit union. The change becomes effective on the date appearing on the certificate.

27. No credit union may identify itself under a name other than its corporate name in carrying on its operations.

28. No change of name shall affect the rights and obligations of a credit union, and proceedings to which it is a party may be continued under its new name without continuance of suit.

CHAPTER IV

HEAD OFFICE

29. The head office of a credit union constitutes its domicile. It must be located in the judicial district specified in its articles.

30. A credit union may change the address of its head office within the boundaries of the judicial district specified in its articles by resolution of its board of directors.

The credit union must, within 10 days after the adoption of the resolution, give notice of the change to the Inspector General who shall cause a copy of the notice to be published in the *Gazette officielle du Québec* at the expense of the credit union.

31. A credit union may transfer its head office to another judicial district provided its articles are amended accordingly.

A notice of the change of address of the head office of a credit union must accompany any amendment to the articles providing for the transfer.

32. The Inspector General shall register every notice of change of address of the head office of a credit union.

CHAPTER V

INCORPORATION

33. Twelve or more founders may apply for the incorporation of a credit union.

34. Every natural person having his domicile, a residence, a place of business or regular work in the territory set out in the articles of the credit union or who is a member of the group described therein may be a founder, except

(1) a minor;

(2) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(3) an undischarged bankrupt.

35. The articles of a credit union shall set out

(1) its corporate name;

(2) the judicial district in which its head office in Québec is located;

(3) the territory in or group from which it may recruit its members;

(4) the surname, given name, address and occupation of each founder;

(5) where applicable, the corporate name of the federation with which the credit union will be affiliated;

(6) the conditions and restrictions, if any, concerning the exercise of certain powers or the pursuit of certain activities.

The articles may include any other provision that a credit union is authorized by this Act to adopt by by-law.

36. The articles of a credit union, signed by each founder, must be transmitted in duplicate to the Inspector General.

37. The articles must be accompanied with

(1) an application, signed by two founders, requesting the Minister to authorize the incorporation of the credit union;

(2) a notice of the surname, given name, address and occupation of the person designated as provisional secretary of the credit union;

(3) a notice of the manner in which the organization meeting will be called;

(4) a notice of the address of the head office;

(5) where such is the case, a certified copy of the resolution of the federation which has undertaken to accept the credit union as a member;

(6) for the purposes of section 22 or 23, a certified copy of the resolution of La Confédération des caisses populaires et d'économie Desjardins du Québec or of the Fédération des caisses d'établissement du Québec, stating that it consents to the use of the proposed corporate name;

(7) the documents constituting the guarantees provided for in section 12, 13 or 14;

(8) financial forecasts of the assets, liabilities and results for the credit union's first year of operation;

(9) a professional evaluation of the needs, within the territory or group described in the articles, which can be met by the incorporation of a credit union;

(10) any document required by regulation of the Government.

38. The Inspector General may require such additional document or information as he may consider necessary for the examination of the application.

39. Upon receipt of the articles and accompanying documents, the fees prescribed by regulation of the Government and any additional document or information he required, the Inspector General shall make a report to the Minister.

40. The Minister may, if he considers it advisable and after obtaining the advice of the Inspector General, authorize him to incorporate the credit union.

For that purpose, the Inspector General shall

(1) endorse on each duplicate of the articles the words "credit union incorporated";

(2) prepare in duplicate a certificate attesting the incorporation of the credit union and stating the date of its incorporation;

(3) attach a duplicate of the articles to each duplicate of the certificate;

(4) register one duplicate of the certificate and of the articles and accompanying documents;

(5) send the other duplicate of the certificate and of the articles to the credit union or its representative;

(6) where applicable, send a certified copy of the certificate and of the articles to the federation that has undertaken to accept the credit union as a member and to the confederation with which the federation is affiliated;

(7) cause a notice of the issue of the certificate to be published in the *Gazette officielle du Québec* at the expense of the credit union.

41. From the date appearing on the certificate of incorporation, which may be subsequent to the date on which the certificate is made, the credit union is a legal person within the meaning of the Civil Code.

CHAPTER VI

ORGANIZATION MEETING

42. The founders shall hold an organization meeting within 60 days after the incorporation of the credit union.

The Inspector General may grant an extension even after the sixty-day period has expired.

43. The meeting shall be called by the provisional secretary or, if he is unable to act, by two founders.

44. Every person or partnership who or which transmitted an application for membership to the provisional secretary before the notice calling the meeting was sent and who or which is accepted at the beginning of the meeting by the founders named in the articles is deemed to be a founder for the purposes of the meeting.

45. At the meeting, the founders must

(1) adopt internal management by-laws;

(2) subscribe and pay for the number of qualifying shares prescribed by by-law of the credit union or, in the absence of such a by-law, one qualifying share;

(3) pass a resolution ratifying the affiliation of the credit union with the federation that has undertaken to accept it as a member, where that is the case;

(4) elect the members of the board of directors, the board of supervision and the credit committee;

(5) appoint an auditor where this Act so requires.

The founders may, in addition, adopt any other by-law or take any other measure concerning the affairs of the credit union.

46. Within 30 days after the meeting, the credit union shall transmit to the Inspector General

(1) a list containing the surname, given name, address and occupation of each member of the board of directors, the board of supervision and the credit committee;

(2) a notice defining the fiscal year of the credit union;

(3) a certified copy of the resolution of the meeting of the founders ratifying the affiliation of the credit union with the federation that has undertaken to accept it as a member, where that is the case;

(4) a notice stating the name of the auditor or, as the case may be, of the federation or confederation responsible for the audit.

CHAPTER VII

AMENDMENTS TO ARTICLES

47. The articles of a credit union cannot be amended except by a by-law of the credit union.

The by-law must authorize one of the directors to sign the articles of amendment and accompanying application.

The by-law is subject to approval by the federation with which the credit union is affiliated, unless the object of the by-law is to change this affiliation.

48. The credit union shall transmit in duplicate to the Inspector General the articles of amendment signed by the director authorized for that purpose.

49. The articles of amendment must be accompanied with

(1) an application for the amendment of the articles signed by the director authorized for that purpose;

(2) a certified copy of the credit union's by-law approving the amendments to the articles;

(3) a certified copy of the federation's resolution approving the amendment by-law, where the credit union is affiliated with a federation;

(4) any other document required by regulation of the Government.

50. Where the object of articles of amendment is to change the corporate name of a credit union to include one of the expressions mentioned in section 22 or 23, they must be accompanied with a certified copy of the resolution of La Confédération des caisses populaires et d'économie Desjardins du Québec or of the Fédération des caisses d'établissement du Québec which states its consent to the use of the proposed corporate name.

51. The Inspector General may require such additional document or information as he considers necessary for the examination of the application.

52. Upon receipt of the articles of amendment and the required documents, the fees prescribed by regulation of the Government and any additional document or information he required, the Inspector General may amend the articles if he considers it advisable.

For that purpose, the Inspector General, in addition to the procedure set out in subparagraphs 3 to 7 of the second paragraph of section 40, shall endorse "articles amended" on each duplicate of the articles of amendment and prepare a certificate, in duplicates, attesting the amendment and stating the date on which it becomes effective, which may be subsequent to the date on which the certificate is made.

CHAPTER VIII

UPDATING OF ARTICLES

53. The Inspector General may issue updated articles to any credit union applying therefor.

For the purposes of this section, the Inspector General, in addition to the procedure set out in subparagraphs 3 to 6 of the second paragraph of section 40, shall endorse "articles updated" on each duplicate of the articles and prepare a certificate, in duplicates, attesting the updating of the articles and indicating their date of effect, which may be subsequent to the date on which the certificate is made.

54. The updated articles shall replace the original articles of the credit union from the date on which they take effect.

55. The updated articles shall prevail over the replaced articles for any event that occurred from the date on which they take effect, but the replaced articles shall prevail over the updated articles for any event that occurred before that date.

CHAPTER IX

AMALGAMATION

56. Two or more credit unions may amalgamate. The amalgamating credit unions shall prepare an agreement of amalgamation, in duplicate, setting out

(1) the corporate name of the amalgamated credit union, the judicial district of its head office, the territory in or group from which it may recruit its members, and, where applicable, the corporate name of the federation with which it will be affiliated;

(2) the surname, given name, address and occupation of each of the first members of the board of directors, board of supervision and credit committee;

(3) the mode of election of subsequent members of the board of directors, board of supervision and credit committee;

(4) the number of shares subscribed in each of the amalgamating credit unions, the price of each of the shares and the manner of converting the shares into shares of the amalgamated credit union;

(5) where applicable, the conditions and restrictions concerning the exercise of certain powers or the pursuit of certain activities;

(6) where applicable, the consent of the federation that has undertaken to accept the amalgamated credit union as a member;

(7) such other provisions as are necessary to perfect the amalgamation and to provide for the organization and management of the amalgamated credit union.

57. Each credit union shall adopt the agreement, by by-law, at a special meeting. The by-law must designate a director who will be authorized to sign the articles of amalgamation and accompanying application. The vote of the members shall be attested by the secretary on each duplicate of the agreement.

The by-law is submitted for approval to the federation with which the credit union is affiliated, where that is the case.

58. The notice calling the special meeting must be accompanied with a duplicate or a summary of the agreement of amalgamation.

A copy of the notice and accompanying document must be transmitted, within the time prescribed for calling the meeting, to the federation with which the credit union is affiliated, where that is the case. A representative of the federation may attend and be heard at the meeting.

59. Once the by-laws of amalgamation are adopted, the amalgamating credit unions shall jointly prepare articles of amalgamation which must contain, in addition to the provisions that may be included in articles of incorporation pursuant to this Act, those provided for in paragraph 1 of section 56.

60. The articles of amalgamation, prepared in duplicate and signed by the director of each of the amalgamating credit unions who is authorized for that purpose must be transmitted to the Inspector General within six months of the adoption of the first amalgamation by-law by one of the amalgamating credit unions.

61. The articles of amalgamation must be accompanied with

(1) a joint application for the amalgamation of the credit unions signed by the directors authorized for that purpose;

(2) a duplicate of the agreement of amalgamation;

- (3) a certified copy of each by-law approving the amalgamation;
- (4) a memorandum signed by the amalgamating credit unions or by the federations with which they are affiliated, where that is the case, setting forth the reasons for and objectives of the amalgamation;
- (5) a notice of the address of the head office of the amalgamated credit union;
- (6) a notice defining the fiscal year of the amalgamated credit union and stating the name of the auditor, if any;
- (7) a certified copy of the resolution of the federation that has undertaken to accept the amalgamated credit union as a member, where that is the case;
- (8) the financial forecasts of the assets, liabilities and results for the first year of operation of the amalgamated credit union;
- (9) a certified copy of each of the resolutions of the federations with which the credit unions are affiliated, approving the amalgamation;
- (10) any other document required by regulation of the Government.

62. The Inspector General may require such additional document of information as he may considers necessary for the examination of the application.

63. Upon receipt of the articles of amalgamation and the required documents, the fees prescribed by regulation of the Government and any additional document or information he required, the Inspector General may authorize the amalgamation if he considers it advisable.

For that purpose, the Inspector General, in addition to the procedure set out in subparagraphs 3 to 7 of the second paragraph of section 40, shall endorse "amalgamated credit union" on each duplicate of the articles of amalgamation, and prepare, in duplicate, a certificate attesting the amalgamation and stating the date on which it becomes effective, which may be subsequent to the date on which the certificate is made.

64. From the date of amalgamation, the amalgamated credit unions are continued as one and the same credit union.

The amalgamated credit union shall acquire all the rights and assume all the obligations of each of the amalgamating credit unions. Proceedings to which the amalgamated credit unions are a party may be continued without continuance of suit.

65. Credit unions may also amalgamate by absorption. A credit union may absorb another credit union provided the liabilities of the absorbed credit union, consisting of the deposits of its members, do not exceed 25% of its own such liabilities.

66. Sections 56 to 63, adapted as required, apply to an amalgamation by absorption.

Notwithstanding the foregoing, an absorbing credit union may approve the agreement of amalgamation by a mere resolution of its board of directors.

A certified copy of the resolution must be transmitted, within 10 days of its adoption, to the Inspector General and to the federation with which the credit union is affiliated, where that is the case.

67. From the date of amalgamation, the absorbing credit union shall acquire the rights and assume the obligations of the absorbed credit union.

The absorbed credit union shall then be deemed to continue as the absorbing credit union and its members shall become members of the absorbing credit union.

CHAPTER X

CAPITAL STOCK

DIVISION I

GENERAL PROVISIONS

68. The capital stock of a credit union shall consist of qualifying shares, permanent shares and preferred shares.

The capital stock is variable.

69. The shares shall be registered and may be allotted only to members or, where permitted by the by-laws of the credit union, to auxiliary members.

70. Only fully paid shares may be allotted. They must be paid for in cash, except in the case of

(1) shares allotted as a dividend;

(2) shares allotted as payment for or for the conversion of preferred shares;

(3) shares allotted in accordance with an agreement of amalgamation.

DIVISION II

QUALIFYING SHARES

71. The price of qualifying shares shall be determined by by-law of the credit union or, if the credit union is affiliated with a federation, by by-law of the federation. The by-law of the federation is subject to approval by the confederation with which it is affiliated, where such is the case.

72. No credit union may pay interest on the qualifying shares allotted by it.

73. No credit union may repay the qualifying shares it has allotted, except in the case of the death, withdrawal or expulsion of a member or in the case of the winding-up, insolvency or dissolution of the credit union.

DIVISION III

PERMANENT SHARES

74. A credit union, if authorized by by-law, may issue permanent shares.

The by-law of the credit union must prescribe the number of permanent shares the credit union is authorized to issue, the amount of the issue, the par value of each share, the preferences, rights and restrictions attached to them and the special conditions of their repayment or transfer.

The by-law is subject to approval by the federation with which the credit union is affiliated or, if it is not affiliated, by the Inspector General.

75. The credit union shall issue certificates attesting the issue of permanent shares. They must indicate the par value of the shares, the preferences, rights and restrictions attached to them and the special conditions of their repayment or transfer.

76. Permanent shares are transferable among members, including auxiliary members, if permitted by the by-law of the credit union and, as the case may be, between its members and the confederation with which the federation of which the credit union is a member is affiliated.

Permanent shares transferred to the confederation may be subsequently transferred only to members of the credit union which issued them.

77. A credit union shall cease to issue permanent shares where the confederation with which the federation of which it is a member is affiliated holds, in the fund set up for such purposes, permanent shares issued by the credit union.

78. In no case may permanent shares entitle their holders, in the event of the winding-up, insolvency or dissolution of the credit union, to be repaid before the deposits, the other debts of the credit union and the preferred shares have been repaid. However, permanent shares, except those held by the confederation, have priority over qualifying shares.

79. Except in case of winding-up, insolvency or dissolution, permanent shares issued by a credit union are repayable only in case of the death of the holder of such shares.

80. The only interest payable on permanent shares is the interest that may be determined by the general meeting. Where the credit union is affiliated with a federation, the rate of interest must not exceed the maximum rate prescribed by by-law of the federation or, as the case may be, of the confederation with which the federation is affiliated.

DIVISION IV

PREFERRED SHARES

81. A credit union may issue preferred shares if it is authorized to do so by a by-law.

The by-law of the credit union must prescribe the number of preferred shares the credit union is authorized to issue, the amount of the issue, the par value of each share, the preferences, rights and restrictions attached to those shares and the special conditions of their redemption, repayment or transfer.

The by-law is subject to approval by the federation with which the credit union is affiliated or, if it is not affiliated, by the Inspector General.

82. No unaffiliated credit union may issue preferred shares unless the sum of its general reserve and of the amount of its issued permanent shares is equal to at least 4% of its liabilities.

83. Preferred shares are transferable among members, including auxiliary members, if permitted by the by-law of the credit union.

84. The credit union shall issue certificates attesting the issue of preferred shares. The certificates must state the par value, preferences, rights and restrictions attached to the shares and the special conditions of their redemption, repayment or transfer.

85. In no case may preferred shares entitle their holders, in the event of the winding-up, insolvency or dissolution of the credit union, to be repaid before the deposits and other liabilities of the credit union have been repaid. However, preferred shares have priority over qualifying shares and permanent shares.

86. Except in case of the death of its holder or of the winding-up, insolvency or dissolution of the credit union, no preferred share may be redeemed at the option or repaid at the request of its holder before the expiry of a period of five years from its issue. However, the credit union may, at its option, redeem all or part of the shares it has issued, before the expiry of the period prescribed.

87. Except in case of death, a credit union may redeem or repay preferred shares it has issued only if such redemption or repayment does not cause its capital base or, as the case may be, that of the federation with which it is affiliated to fall to a level that is lower than that it is required to maintain under this Act.

88. Every repayment or redemption must be authorized by the federation with which the credit union is affiliated or, if it is not affiliated, by the Inspector General.

89. The interest payable on preferred shares shall be determined by the board of directors within the limits prescribed by by-law of the credit union, but shall in no case exceed the maximum rate prescribed by by-law of the federation with which the credit union is affiliated or, as the case may be, by by-law of the confederation with which the federation is affiliated.

CHAPTER XI

MEMBERS

DIVISION I

GENERAL PROVISIONS

90. To be a member of a credit union, a person or a partnership must

(1) have his or its domicile, a residence, a place of business or regular work in the territory of the credit union or belong to the group described in its articles;

(2) except in the case of a founder, apply for membership;

(3) subscribe and pay for the number of qualifying shares prescribed by by-law of the credit union or, in the absence of such a by-law, one qualifying share;

(4) undertake to comply with the by-laws of the credit union;

(5) except in the case of a founder, be admitted by the board of directors or by a person authorized by it.

91. A credit union may establish by by-law one or more classes of auxiliary member and determine conditions for their admission, their rights and obligations and criteria or conditions relating to their withdrawal, suspension or expulsion.

92. Any person or partnership who or which does not meet the conditions set out in paragraph 1 of section 90 may be admitted as an auxiliary member.

Any member who ceases to meet the conditions set out in paragraph 1 of section 90 becomes an auxiliary member. If he is an officer of the credit union, he may continue nevertheless to exercise his duties until the expiry of his term of office.

93. Auxiliary members may attend meetings; however, they are neither entitled to vote nor eligible to hold any office within the credit union.

94. Minors may subscribe for qualifying shares in a credit union, make deposits and withdraw the earnings and principal. However, they shall be admitted only as auxiliary members.

95. The by-laws of a credit union may provide for the admission of patrons or honorary members. Patrons or honorary members may attend meetings; however, they are neither entitled to vote nor eligible to hold any office within the credit union, nor are they entitled to any benefit afforded to members by the credit union.

DIVISION II

WITHDRAWAL, SUSPENSION AND EXPULSION

96. A member may withdraw from membership by applying for the repayment of his qualifying shares and withdrawal of his savings.

The withdrawal of a member becomes effective upon the total repayment of his qualifying shares and the total withdrawal of his savings.

A credit union may refuse to repay the qualifying shares of a member for such time as it has a certain, liquidated and exigible claim against him.

97. The board of directors, after informing a member of the grounds invoked for his suspension or expulsion and giving him an opportunity to present his views, may suspend or expel him if

- (1) he does not comply with the by-laws of the credit union;
- (2) he fails to fulfil his undertakings toward the credit union;
- (3) on two or more occasions, he presents or issues an order for payment without sufficient funds;
- (4) despite a notice from the credit union, he allows a savings account to remain overdrawn.

98. The minutes of the meeting of the board of directors at which a member is suspended or expelled must set forth the facts on which the decision is based.

Within 15 days after the decision, the credit union shall transmit to the member, by registered or certified mail, a notice of his suspension or expulsion, giving the reasons therefor.

99. No member may be suspended for over six months.

100. The suspension or expulsion of a member takes effect upon the adoption of the resolution of the board of directors.

101. A member who has been suspended or expelled or whose withdrawal has taken effect loses the right to receive notice of the meetings of the credit union, to attend such meetings, to vote thereat and to hold any office within the credit union.

However, a suspended member loses those rights only for the duration of the suspension.

CHAPTER XII

GENERAL MEETING OF THE MEMBERS

DIVISION I

GENERAL PROVISIONS

102. The members of a credit union constitute its general meeting, whether convened at an annual meeting or a special meeting.

103. Only a legal person, including a partnership, that is a member of a credit union may be represented at a general meeting.

No person may represent more than one legal person.

104. Unless otherwise prescribed by by-law, notice of a meeting must be given to the members, by regular mail, not less than 10 nor more than 45 days before the date fixed for the meeting, to their last address recorded in the registers of the credit union.

The notice shall state the place, date and time of the meeting and the matters to be considered. Where applicable, it shall be accompanied with a copy or summary of any draft by-law appearing on the agenda.

105. A member may waive notice of a meeting of the members. His sole attendance at a meeting is a waiver except where he attends a meeting for the express purpose of objecting to the holding of the meeting on the ground that it was not called or was irregularly called.

106. Unless otherwise prescribed by by-law, the members attending a general meeting constitute a quorum.

Any provision of a by-law fixing a quorum shall cease to apply after two successive meetings without a quorum.

107. No member is entitled to more than one vote, irrespective of the number of shares held.

108. A person who has been a member for less than 90 days is not entitled to vote at a general meeting.

109. Decisions are taken by the majority of the votes cast by the members present. In case of a tie, the chairman of the meeting has a casting vote. However, at the election of a director, or of a member of the board of supervision or of the credit committee the presiding officer has the casting vote.

110. By-laws of the credit union are adopted at the general meeting by a two-thirds majority of the votes cast by the members present.

111. Resolutions in writing signed by all the members are as valid as if they had been passed at a general meeting.

The resolutions shall be kept with the minutes of the general meetings.

DIVISION II
ANNUAL MEETING

112. The annual meeting of the members shall be held within four months from the end of its fiscal year. The members shall be convened to

- (1) examine the annual report;
- (2) decide upon the apportionment of the annual surplus earnings;
- (3) elect the members of the board of directors, the credit committee and the board of supervision;
- (4) appoint an auditor where this Act so requires;
- (5) determine the interest payable on permanent shares;
- (6) make any decision reserved for the general meeting by this Act.

DIVISION III
SPECIAL MEETINGS

113. The board of directors, the board of supervision, the president or the vice-president of the credit union or the board of directors of the federation with which the credit union is affiliated may order that a special meeting be held whenever he or it deems it expedient.

114. The board of directors must hold a special meeting upon the requisition of one-tenth or more of the members of the credit union if it has fewer than 3000 members, or 300 or more members if it has 3000 members or more.

The board of directors must also hold a special meeting if two vacancies occur on the board of supervision.

115. The secretary of the credit union shall call all special meetings. If the secretary is unable or refuses to act, the president of the credit union shall call the meeting.

116. If the meeting is not held within 30 days of the requisition made by the federation or the members, the federation or, as the case may be, two members who have signed the requisition may call the meeting.

Unless the members object thereto by resolution at the meeting, the credit union shall reimburse those who called the meeting for expenses reasonably incurred by them to hold the meeting.

117. Only the matters mentioned in the notice may be considered or decided at a special meeting.

CHAPTER XIII

DIRECTION AND MANAGEMENT

DIVISION I

PROVISIONS COMMON TO THE BOARD OF DIRECTORS, THE CREDIT COMMITTEE, AND THE BOARD OF SUPERVISION

118. Other than the general meeting, the organs of a credit union are the board of directors, the credit committee and the board of supervision.

119. The term of office of members of the board of directors, the credit committee and the board of supervision is three years.

The credit union must determine by by-law a mode of rotation so that one-third of the members of each of those organs, to the nearest whole number, are replaced each year.

The credit union may, for the purposes of this section, shorten the term of office of the members elected at the general organization meeting or elected because of an increase in the number of members of those organs.

120. At the end of his term of office, a member shall remain in office until he is reelected or replaced.

121. A decrease in the number of members does not end the term of those who remain in office.

122. A member may resign from office by giving notice to that effect.

123. No member may be dismissed at a special meeting except by those members of the credit union who are authorized to elect a director and only if he has been informed in writing, within the same advance time as that prescribed for calling the meeting, of the grounds for his dismissal and of the place, date and time of the meeting.

The member may give, in a written statement read by the chairman of the meeting, the reasons for his opposition to his dismissal. He may also address the meeting.

124. Where the director general of a credit union who may also be a member of its board of directors is dismissed, he becomes, as a result, disqualified from sitting as a member of the board of directors, the credit committee or the board of supervision of the credit union for a period of five years from his dismissal.

125. The minutes of the meeting at which a member is dismissed must record the facts on which the decision is based.

The credit union, within 15 days of the decision, shall send to the member, by registered or certified mail, a justificatory notice of his dismissal. The credit union shall also send, within the same time period, a copy of such notice to the federation with which it is affiliated.

126. A vacancy resulting from the dismissal of a member may be filled during the meeting at which the dismissal takes place provided that the notice calling the meeting mention that such an election may be held.

127. The members are not remunerated. They are nonetheless entitled to reimbursement of justifiable expenses incurred by them in carrying out their duties.

128. Subject to the by-laws of the credit union, the members may, if they all agree to it, take part in a meeting by the use of a means which allows them to communicate orally among themselves, particularly by telephone. These members are then deemed to have attended the meeting.

129. Written resolutions signed by all the members who are entitled to vote on such resolutions have the same force as if they had been passed at a meeting.

These resolutions shall be kept with the minutes of the proceedings.

130. A member present at a meeting is deemed to have approved every resolution passed or to have participated in every measure taken at the meeting, except

(1) if at the meeting he requests that his dissent be recorded in the minutes;

(2) if, before the adjournment or closing of the meeting, he informs the secretary of the meeting in writing of his dissent.

131. A member absent from a meeting is deemed to have approved every resolution or to have participated in every measure taken at such meeting unless, within seven days following the date on which he learns of the resolution or measure, he communicates his dissent by registered or certified mail or delivers it himself to the head office of the credit union and request that it be recorded in the minutes of the next meeting.

DIVISION II

BOARD OF DIRECTORS

132. The affairs of a credit union are managed by the board of directors, subject to any functions devolved upon another organ thereof.

The credit union may determine by by-law those powers that the board of directors may exercise only if so authorized by the general meeting.

133. The board of directors shall, in particular,

(1) observe and enforce the by-laws and instructions of the federation with which the credit union is affiliated and, where such is the case, of the confederation with which the federation is affiliated;

(2) provide the credit committee and the board of supervision with any personnel they require to carry out their functions;

(3) furnish the Inspector General, at his request, with a certified copy of the by-laws of the credit union;

(4) regulate the keeping and preservation of the registers;

(5) determine the rate of interest on savings and preferred shares, and the rate applicable to any form of credit;

(6) make or control the credit union's investments;

(7) require any person entrusted with the management or custody of funds of the credit union to give adequate security which is in compliance with the standards of the federation with which the credit union is affiliated, where that is the case;

(8) insure the credit union against the risks of fire, theft, embezzlement by its executive officers or employees, and civil and employer's liability;

(9) designate the persons authorized to sign contracts or other documents on behalf of the credit union;

(10) at the annual meeting, give an account of its management and submit the annual report;

(11) facilitate the work of the persons responsible for the inspection of the credit union and the supervision of the credit union's transactions or the audit of its books and accounts.

134. The credit union shall determine, by by-law, the number of directors, which shall not be less than five.

135. For the formation of its board of directors, a credit union may by by-law divide its members into groups, or its territory into districts, and grant to each of the groups or districts the right to elect a certain number of directors.

136. Every natural person who is a member of the credit union or who represents a legal person, including a partnership, that is a member of the credit union, may be a director, except

(1) a member or his representative who has been a member for less than 90 days, unless he is a founder;

(2) an employee of the credit union other than the director general;

(3) a member of the credit committee or board of supervision of the credit union;

(4) an officer within the meaning of section 186 or 187 or employee of another credit union;

(5) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(6) an undischarged bankrupt.

137. In case of vacancy, the directors may appoint a replacement for the unexpired portion of the term of office. If they fail to do so before the next general meeting, the general meeting may then fill the vacancy.

138. Every director who resigns for reasons relating to the conduct of the credit union's business shall submit a written statement of his reasons to the credit union and send a copy of such statement to the chairman of the board of supervision and, where applicable, to the federation with which the credit union is affiliated, where he has reason to believe that such conduct is in contravention of a provision of this Act, a regulation thereunder, a provision of any Act or an order or written instructions of the Inspector General.

He shall also submit such a written statement where he believes that such conduct will adversely affect the financial position of the credit union.

No director who in good faith makes such a statement shall incur civil liability by reason of that fact.

139. Where the directors remaining in office do not make a quorum, a director, two members of the credit union, a member of the board of supervision or the board of directors of the federation with which the credit union is affiliated may order the secretary of the credit union to call a special meeting to fill the vacancy.

If the secretary fails to act, those who ordered that the meeting be held may call it. Unless the members object thereto by a resolution at the meeting, the credit union shall reimburse those who called the meeting for reasonable expenses incurred by them in holding the meeting.

140. Within 30 days from any change in the membership of the board of directors, the credit union shall give notice of the change to the Inspector General, together with a list of the directors containing their surnames, given names, addresses and occupations.

141. At its first meeting after the organization meeting and at every annual meeting thereafter the board of directors shall choose from among its members a president, vice-president and secretary who shall be the president, vice-president and secretary of the credit union.

142. The board of directors shall also appoint a director general or manager, whom it may choose from among its members or from among non-members.

143. The board of directors may appoint from among its members or from among non-members any other officer necessary to ensure its proper operation and also an assistant-secretary to exercise the powers of the secretary where the latter is unable to act.

144. The powers and duties of the president, the vice-president and the secretary are determined by by-law of the credit union.

145. If the president is unable to act, the vice-president shall replace him.

146. In no case may the director general be the president or vice-president of the credit union although he may simultaneously hold the office of director general and that of secretary.

147. The director general shall carry out his duties under the direction of the board of directors. His powers and duties are determined by by-law of the credit union.

The board of directors shall determine the remuneration of the director general.

148. The director general may attend the meetings of the board of directors and address the members, even if he is not a member himself.

The director general must, however, withdraw from the meeting at the request of a director. He must also withdraw from the meeting when his conditions of employment are being discussed, even if he is a member of the board of directors.

149. The board of directors shall meet at the call of the president or two directors. Unless otherwise provided in the by-laws of the credit union, meetings are convened by written notice given at least five days before the date scheduled for meeting.

150. The board of directors of the federation with which the credit union is affiliated may call a meeting of the board of directors of the credit union. A representative of the federation may attend the meeting and address the members.

151. Every director may in writing waive notice of a meeting of the board of directors. His mere attendance at a meeting is a waiver except where he attends for the express purpose of objecting to the holding of the meeting on the grounds that it was called in an irregular manner or that it was not called.

152. Unless otherwise provided in the by-laws of the credit union, a majority of the members constitutes a quorum at meetings of the board of directors.

153. The decisions of the board of directors are taken by a majority vote of the directors present. In case of a tie, the chairman of the meeting has a casting vote.

DIVISION III

CREDIT COMMITTEE

154. The functions of the credit committee are

(1) to authorize the extension of credit to members of the credit union;

(2) to authorize the signing of releases, discharges or waivers of priority and applications for cancellation made under article 2157*b* of the Civil Code of Lower Canada.

155. Every credit union may determine, by by-law, the extent, limits and conditions of the powers of its credit committee.

Every by-law of a credit union pertaining to the credit committee is subject to approval by the federation with which the credit union is affiliated or, if it is not affiliated with a federation, to approval by the Inspector General.

156. The credit committee may, upon such conditions as it may determine, authorize the director general or any other person who may be designated by the board of directors, to exercise all or part of its powers.

The credit committee cannot, however, in the case of transactions with restricted parties, delegate its powers to authorize the extension of credit.

The board of directors shall exercise the powers of the credit committee where, on a given subject, a quorum cannot be reached because of a conflict of interest of one of its members.

157. A member of a credit union whose application for credit has been refused may appeal from the decision to the board of directors.

After giving the member an opportunity to state his views, the board of directors shall decide the appeal in accordance with the by-laws of the credit union.

The board of directors may confirm, change or quash the decision appealed from and take any decision which, in its opinion, should have been made in the first instance.

158. Depending on the by-laws of the credit union, the credit committee shall consist of three or five members.

159. Every natural person who is a member of the credit union or who represents a legal person, including a partnership, that is a member of the credit union, may be a member of the credit committee, except

(1) a member or the representative of a member who has been a member for less than 90 days, unless he is a founder;

(2) an employee of the credit union;

(3) a director or a member of the board of supervision of the credit union;

(4) an officer within the meaning of section 186 or 187 or an employee of another credit union;

(5) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(6) an undischarged bankrupt.

160. In case of vacancy, the members of the credit committee may appoint a replacement for the unexpired portion of the term of office. If they fail to do so before the next general meeting, the general meeting may then fill the vacancy.

If there is more than one vacancy to be filled, a member of the credit committee, a director, two members of the credit union or a member of the board of supervision or the board of directors of the federation with which the credit union is affiliated may order the secretary of the credit union to call a special meeting to fill the vacancies.

Where the secretary fails to act, the meeting may be called by the persons who ordered the holding of the meeting. Unless the members object thereto by a resolution at the meeting, the credit union shall reimburse those who called the meeting for expenses reasonably incurred by them in holding the meeting.

161. Every member of the credit committee who resigns for reasons relating to the conduct of the credit union's business shall state his reasons, in writing, to the credit union, by submitting a copy of such statement to the chairman of the board of supervision and another to the federation with which the credit union is affiliated, where he has reason to believe that such conduct is in contravention of a provision of this Act, a government regulation thereunder, a provision of any Act or an order or written instruction from the Inspector General.

He shall also submit such a written statement where he believes that such conduct will adversely affect the financial position of the credit union.

No member who in good faith makes such a statement shall incur civil liability by reason of that fact.

162. At its first meeting after the organization meeting and at every annual meeting thereafter, the credit committee shall choose a chairman from among its members.

The credit committee shall also appoint a secretary that it may choose from among its members or from among non-members. Where the credit committee fails to appoint a secretary, the director general shall perform the duties of secretary.

163. The credit committee may in addition appoint an assistant-secretary to exercise the powers of secretary where the secretary is unable to act.

164. A majority of the members constitutes a quorum at meetings of the credit committee.

165. The resolutions of the credit committee shall be adopted by unanimous agreement among members present at a meeting.

166. The director general of the credit union and any other person empowered to authorize the extension of credit may attend the meetings of the credit committee and address the members.

167. At the end of the fiscal year, the credit committee shall submit a report of its activities to the board of directors.

DIVISION IV

BOARD OF SUPERVISION

168. The function of the board of supervision is to supervise the operations of the credit union.

The board of supervision shall ensure, in particular, that

- (1) an audit of the cash in hand and all other assets is carried out;
- (2) the operations of the credit union are in compliance with this Act and the regulations or by-laws applicable to it under this Act;
- (3) the internal affairs and activities of the credit union are inspected according to the provisions of this Act;
- (4) the credit union follows the orders of the Inspector General, his written instructions as well as those of the federation with which it is affiliated and, where applicable, those of the confederation with which the federation is affiliated;
- (5) the rules adopted by the ethics committee which are applicable to the credit union are observed.

169. The board of supervision of an unaffiliated credit union shall also assume the functions of the ethics committee set out in sections 352 and 354, adapted as required.

The rules adopted by the board of supervision for the protection of the interests of the credit union and its members are subject to the approval of the board of directors of the credit union. The credit union shall transmit a copy of the rules to the Inspector General within 30 days of the approval thereof.

170. The board of supervision shall consist of three members.

171. Every natural person who is a member of the credit union or who represents a legal person, including a partnership, that is a member of the credit union, may be a member of the supervision committee, except

- (1) a member or a representative of a member who has been a member for less than 90 days, unless he is a founder;
- (2) an employee of the credit union;
- (3) a director or a member of the credit committee of the credit union;

(4) an officer within the meaning of section 186 or 187 or employee of another credit union;

(5) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(6) an undischarged bankrupt.

172. In case of vacancy, the members of the board of supervision may appoint a replacement for the unexpired portion of the term of office. If they fail to do so before the next general meeting, the general meeting may then fill the vacancy.

If there is more than one vacancy to be filled, a member of the board of supervision, a director, two members of the credit union or the board of directors of the federation with which the credit union is affiliated may order the secretary of the credit union to call a special meeting to fill the vacancies.

Where the secretary fails to act, the persons who ordered the holding of the meeting may call the meeting. Unless the members object thereto by a resolution at the meeting, the credit union shall reimburse those who ordered the meeting for expenses reasonably incurred by them in holding the meeting.

173. Where a member of the board of supervision resigns, he shall submit to the federation with which the credit union is affiliated, a copy of the notice which he addresses to the credit union.

174. At its first meeting after the organization meeting, and at every annual meeting thereafter, the board of supervision shall choose a chairman and a secretary from among its members.

175. A quorum at meetings of the board of supervision is constituted of two members.

176. The board of supervision has access to the books, records, accounts, and any other document of the credit union, and every person having custody of them must facilitate their examination. It may require the officers and employees of the credit union to furnish the documents and information necessary for the carrying out of its functions.

177. The board of supervision may, where it considers it necessary, require that a special inspection be carried out.

178. The board of supervision may suspend any employee of the credit union or any member of the credit committee by giving the person concerned a notice of at least three clear days indicating the grounds for the decision, the date on which it becomes effective and his right to be heard. Where the board of supervision is of the opinion that any delay could seriously compromise the interests of the members, it may render its decision without giving the person advance notice or an opportunity to be heard.

Within five days following the suspension, the board of supervision shall notify, in writing, the board of directors, the federation with which the credit union is affiliated and, where applicable, the confederation with which the federation is affiliated.

179. The board of supervision shall make a report of its findings to the board of directors and may, if it considers it appropriate, make recommendations to it.

The board of supervision shall also submit a report of its findings to the ethics committee of the federation with which the credit union is affiliated. The ethics committee shall also be notified, within 10 days, of any cases where the rules of ethics it adopted were not observed.

180. The board of supervision shall notify, in writing, the board of directors and, where applicable, the federation with which the credit union is affiliated, where

(1) in its opinion, the credit union is contravening a provision of this Act or the regulations or by-laws applicable to it under this Act, where such contravention relates to the operations of the credit union and might have an adverse effect on its financial position;

(2) it discovers financial or administrative practices which might have an adverse effect on the financial position of the credit union;

(3) it observes that the credit union is not complying with the orders or written instructions of the Inspector General, of the federation with which the credit union is affiliated or, where applicable, of the confederation with which the federation is affiliated.

Upon receipt of the notice, the federation shall send a copy of it to the confederation with which it is affiliated.

The board of supervision shall notify the Inspector General where, in its opinion, the board of directors and the federation are neglecting to take, as soon as possible, under the circumstances, the necessary measures to remedy the situation that it identified in its notice.

181. Upon receipt of the annual inspection report, the board of supervision shall submit its recommendations to the board of directors and may call a special meeting to lay any matter brought up in the report before the members.

182. At the end of the fiscal year of the credit union, the board of supervision shall transmit a report of its activities to the board of directors.

DIVISION V

SPECIAL COMMITTEES

183. To facilitate the proper operation of the credit union, the board of directors may form special committees, composed of members of the credit union, and determine their powers and duties.

The general meeting may require the formation of special committees.

184. No employee of the credit union except the director general may be a member of a special committee.

185. The special committees shall exercise their powers and duties under the direction of the board of directors.

DIVISION VI

OFFICERS

186. The president, vice-president and secretary of a credit union, and the assistant-secretary and the director general are officers of the credit union.

187. The members of the board of directors, of the credit committee and of the board of supervision and any employee authorized to extend credit or any other person designated as such by by-law of the credit union or by resolution of its board of directors are also officers of the credit unions.

188. The directors and officers of a credit union are deemed to be the mandataries of the credit union.

189. The board of directors shall furnish to the Inspector General the surname and given name, address and occupation of each of the officers of the credit union within 30 days of their appointment.

190. Every officer of a credit union shall in performing his duties act within the limits of the powers conferred on him.

He shall comply with this Act, the regulations made thereunder by the Government, the orders and written instructions of the Inspector General, the articles and by-laws of the credit union as well as the instructions and by-laws of the federation with which the credit union is affiliated and, where applicable, of the confederation with which the federation is affiliated.

191. Every officer of a credit union shall exercise the care, prudence and diligence that a reasonable person would exercise in comparable circumstances.

He shall also act honestly and in good faith in the best interests of the credit union and in view of its objects. In so doing, he shall take into account the interests of the members and shall avoid placing himself in situations where his personal interest is in conflict with his obligations.

192. An officer of a credit union is presumed to have exercised the care, prudence and diligence that a reasonable person would exercise in comparable circumstances if he acted in good faith and based his decisions on an expert's opinion or report.

193. No officer may communicate information on the credit union or its members except to the extent determined by the rules adopted by the ethics committee or, as the case may be, by the board of supervision and by regulations of the Government.

194. Every credit union shall assume the defence of any of its officers who is prosecuted by a third person for an act done in the performance of his duties and shall pay damages, if any, resulting from that act, unless he has committed a grievous offence or a personal offence separable from the performance of his duties.

In penal or criminal proceedings, however, the credit union shall assume payment of the expenses of its officers only where they had reasonable grounds to believe that their conduct was in conformity with the law, or if they have been freed or acquitted or if the proceedings have been withdrawn or dismissed.

195. Every credit union shall assume the expenses of any of its officers whom it prosecutes for an act done in the performance of his duties, if it loses its case and the court so decides.

If the credit union wins its case only in part, the court may determine the amount of the expenses it shall assume.

196. Every credit union shall assume its obligations under sections 194 and 195 in respect of any person who acted at its request as director or officer of a legal person in which it is a shareholder or of which it is a creditor.

197. The officers of a credit union who authorize the repayment or redemption of shares in contravention of this Act or any regulation made thereunder by the Government are jointly liable to pay the credit union the sums it has disbursed for such repayment or redemption.

198. The officers of a credit union who authorize any investment or credit in contravention of this Act, or the regulations and by-laws that are applicable to it under this Act are jointly liable for any resulting losses to the credit union.

199. Every person who accepts a deposit in contravention of section 243 or who extends credit in contravention of section 251 is liable for the sums lost by the credit union by reason of the more favourable terms granted.

200. The right of action arising from section 197, 198 or 199 is prescribed by two years from the date on which the board of supervision becomes aware of the alleged act.

201. The right of action arising from section 197, 198 or 199 may be exercised by

(1) the credit union;

(2) the federation with which the credit union is affiliated in its capacity as mandatory of the credit union, where the credit union has neglected to exercise this right of action after having been formally notified to do so by the federation;

(3) the Inspector General, if the federation with which the credit union is affiliated neglects to take any action following the service of the formal notice mentioned in subparagraph 2;

(4) the Inspector General, if the credit union is not affiliated with a federation and has neglected to exercise this right of action after having been served a formal notice to do so by the Inspector General.

Where a federation serves a formal notice in accordance with subparagraph 2, it must at the same time transmit a copy thereof to the Inspector General.

202. The sole fact that an investment or credit is in compliance with this Act and the regulations made thereunder by the Government does not release an officer of the credit union from his obligations.

203. A credit union may purchase insurance for the benefit of an officer or of any person who acts at its request as director or officer of a legal person of which the credit union is a shareholder or a creditor, against any liability that may be incurred by such person acting in that capacity, except liability resulting from failure to act honestly and in good faith.

204. Every officer of a credit union shall, within three months of his appointment, and each year thereafter, disclose, in writing and under oath or by solemn declaration, his interest in any enterprise.

No officer may exercise his duties until he has fulfilled his obligation under this section.

205. An officer of a credit union is deemed to have an interest in the enterprise in which a person associated with him has an interest.

206. A person is an associate of an officer of a credit union where that person is

(1) the spouse, minor child or the minor child of the spouse of the officer;

(2) the partner of the officer, or a partnership in which the officer is a partner;

(3) a legal person controlled by the officer or by his spouse, his minor child or the minor child of his spouse, individually or jointly;

(4) a legal person in which the officer holds 10 per cent or more of the voting rights.

207. "Spouse" means a person who

(1) is married to and cohabits with another person;

(2) cohabits with but is not married to another person, has been living with that person for at least one year, and is publicly represented as the person's spouse.

208. Every officer of a credit union whose interest in an enterprise comes into conflict with that of the credit union must, on pain of dismissal, disclose his interest, abstain from voting

on any matter related to the enterprise in which he has an interest, and avoid influencing any decision relating thereto. He must also withdraw from the meeting while the matters concerning the enterprise in which he has such an interest are being discussed.

209. Moreover, no officer of a credit union may, on pain of dismissal, make any decision on an extension of credit intended for him or any decision concerning a person who is his associate, or be present during the deliberations of a meeting or participate in decisions relating thereto.

210. An officer of a credit union who is dismissed for having contravened section 208 or 209 is no longer qualified to sit as member on the board of directors, the credit committee or the board of supervision of any credit union for a period of five years from his dismissal.

CHAPTER XIV

OPERATIONS

DIVISION I

GENERAL PROVISIONS

211. Every credit union has the full enjoyment of civil rights for the attainment of its objects.

It may engage in and carry on with any person such operations as are useful to ensure its proper operation and the attainment of its objects.

212. The productive activities of a credit union, being cooperative activities, shall be restricted to its members, subject to the exceptions provided for in this Act.

Such activities do not constitute the carrying on of trade or a means of earning a profit.

213. A credit union may

(1) receive deposits from a federation, a confederation or the Caisse centrale Desjardins du Québec;

(2) with the authorization of the federation with which it is affiliated or, if it is not affiliated, with the authorization of the Inspector General, receive deposits from or extend credit to another credit union;

(3) receive deposits from or extend credit to the Government of Québec or of Canada, a municipality or a school board in Québec and their mandataries;

(4) sell bonds or other debt securities issued or guaranteed by the Government of Québec or of Canada, a municipality or a school board in Québec;

(5) act, according to law, as a securities dealer for the distribution of permanent shares and preferred shares issued by it and for the distribution of securities of a holding company controlled by the confederation with which the federation of which the credit union is a member is itself affiliated, where that is the case;

(6) issue, endorse, accept and discount promissory notes, bills of exchange, drafts and other negotiable instruments and receive deposits transferable by order to third persons;

(7) transfer to another credit union or federation or cause another credit union or federation to transfer to it claims resulting from loans granted by the transferring credit union or federation;

(8) acquire and sell traveller's cheques;

(9) provide or offer payment card and credit card services.

214. A credit union may, in addition,

(1) receive the payment of tax accounts and electricity, gas and telephone bills and any other public utility account;

(2) with the authorization of the Minister, issue registration plates for motor vehicles;

(3) offer for sale lottery tickets and public transport tickets;

(4) subscribe for common shares of a cooperative and use the services offered by it;

(5) subscribe or guarantee, out of a social or community fund, funds for cooperative promotional and educational purposes or for charitable, benevolent, educational or artistic purposes;

(6) establish, in accordance with the Act respecting supplemental pension plans (R.S.Q., chapter R-17), a pension plan for the benefit of its employees and their spouses or dependants, or join any such plan established by another credit union affiliated with the federation of which it is a member or by that federation or the confederation with which the federation is affiliated.

215. A credit union that is a member of the Fédération des caisses d'établissement du Québec may, in addition, in order to contribute to the establishment of member credit unions, act on their behalf as a real estate broker in accordance with the Real Estate Brokerage Act (R.S.Q., chapter C-73).

216. The Government may authorize a credit union, a specific group of credit unions or all credit unions subject to this Act to carry on any other activity it considers expedient in the interest of the public or of the members; conversely, it may prohibit the carrying on of any activity.

The Government shall publish in the *Gazette officielle du Québec*, at least 45 days before the making of an order to that effect, a notice stating its intention. An order made under the first paragraph become effective 15 days after its publication in the *Gazette officielle du Québec* or on any later date indicated therein.

217. A credit union shall act, in respect of restricted parties and persons associated with any of its officers with whom it does business, in the same manner as when it is dealing at arm's length.

218. A person is a restricted party with respect to a credit union where that person is

(1) an officer of the credit union, of the federation with which the credit union is affiliated and of the confederation with which the federation is affiliated;

(2) a director or officer of La Caisse centrale Desjardins du Québec, where the credit union is affiliated with a federation that is affiliated with La Confédération des caisses populaires et d'économie Desjardins du Québec;

(3) a legal person of which a majority of the directors and officers are also the officers of a legal person mentioned in paragraph 1;

(4) the auditor of a credit union, a partner of the auditor and any employee of the auditing service of the federation with which the credit union is affiliated or, where applicable, of the confederation with which the federation is affiliated who is assigned to the audit of the credit union and who is responsible for the audit report;

(5) a shareholder holding 10% or more of the voting rights attached to the shares of a legal person controlled by a confederation belonging to the same group as the federation with which the credit union is affiliated;

(6) a credit union or legal person belonging to the same group as the federation with which the credit union is affiliated, and La Caisse centrale Desjardins du Québec, where that is the case;

(7) a legal person controlled by one or several persons mentioned in paragraph 1 or 2;

(8) any other person whose interests in or dealings with a credit union might, in the opinion of the Inspector General, influence the investments or transactions that may be made by that credit union.

219. Where the Inspector General designates a person as being a restricted party, he shall notify his decision to the person he so designates and to the credit union concerned by his decision.

The Inspector General may revise his decision on the application of the person so designated or of the credit union concerned.

Before rendering his decision or refusing to revise his decision, the Inspector General shall give the person and the credit union concerned an opportunity to be heard.

220. All transactions of a credit union with restricted parties or with a person who is an associate of an officer of the credit union must be in compliance with the rules adopted by the ethics committee or the board of supervision, as the case may be, and with the provisions of this Act.

221. Every transaction for the acquisition by a credit union of securities issued by a restricted party or the transfer of assets to or from a credit union and a restricted party must be approved by the board of directors of the credit union after it has obtained the advice of the board of supervision.

No bad debts, unproductive assets or assets repossessed from a debtor in default may be transferred to a credit union except in the case of a transfer of assets *en bloc* authorized by the Inspector General as part of a reorganization or except where such a transfer is a condition inherent in a contract entered into under paragraph 7 of section 213 or paragraph 11 of section 359.

222. Every service contract between a credit union and a restricted party must be made on favourable terms for the credit union or, if not, on competitive terms.

Every such contract must be approved by the board of directors of the credit union after it has obtained the advice of the board of supervision, unless it involves only minimal amounts.

In cases of contestation, the onus is on the credit union to show that the service contract to which it is a party meets the prescribed requirements.

223. The Inspector General or any person having a sufficient interest may apply to the court for the cancellation of a transaction with a restricted party or with a person who is an associate of an officer of the credit union made in contravention of the provisions of this Act and which might seriously prejudice the interests of the members of the credit union.

224. A credit union may, for the repayment of any specific, liquid and exigible claim it has against a member or depositor, withhold any sum of money it owes to him and use it to compensate the claim.

225. Third persons are not presumed to have knowledge of the contents of a document concerning a credit union by reason only that the document has been registered or is available for examination.

226. Third persons may presume that

(1) the credit union pursues its objects and exercises its powers in accordance with its articles and by-laws;

(2) the documents transmitted to the Minister or the Inspector General and registered under this Act contain true information;

(3) the officers of the credit union validly hold office and lawfully exercise the powers arising therefrom;

(4) the documents of the credit union which purport to be from an officer are valid and binding on the credit union.

227. Sections 225 and 226 do not apply to third persons in bad faith or to persons who ought to have had knowledge of the situation by virtue of their position within or dealings with the credit union.

228. In no case may third persons invoke against a credit union that its actions are not in compliance with the pursuit of its objects or the exercise of its powers.

DIVISION II

CAPITAL BASE

229. Every credit union not affiliated with a federation must maintain a capital base equal to at least 5% of its total liabilities. The Inspector General may reduce or increase such percentage where he deems it necessary.

Before exercising his power under the first paragraph, the Inspector General shall notify the credit union of his intention and give it an opportunity to be heard.

230. The capital base of a credit union not affiliated with a federation shall include

- (1) its general reserve;
- (2) its stabilization fund;
- (3) its qualifying shares and permanent shares;
- (4) its preferred shares, up to 1% of its liabilities; and
- (5) any other element prescribed by regulation of the Government.

231. For the purposes of section 229, the liabilities of a credit union not affiliated with a federation shall consist of the deposits, loans, accrued and outstanding interest on deposits and loans and any other elements prescribed by regulation of the Government.

232. The capital base of a credit union not affiliated with a federation shall be reduced by the amount of any investment or credit that is not in compliance with this Act unless it was made or extended before (*insert here the date of coming into force of this section*) and as long as it is recognized as an asset by the Inspector General on the conditions he determines.

233. Where the Inspector General considers that the capital base of a credit union not affiliated with a federation is below the level applicable to it or where he is of the opinion that its capital base is inadequate in view of its operations, he may order the credit union to adopt, within the time he prescribes and for the reasons he indicates, a voluntary compliance program.

The Inspector General shall, before exercising his power under the first paragraph, notify the credit union of his intention and give it an opportunity to be heard.

234. The voluntary compliance program shall describe the appropriate measures to be applied by the credit union not affiliated with a federation to ensure the adequacy of its capital base, within the time limits indicated therein.

235. The voluntary compliance program adopted by a credit union not affiliated with a federation must be submitted for approval to the Inspector General who may approve it with or without amendment.

236. Where a credit union not affiliated with a federation fails to comply with the order of the Inspector General, the Inspector General may establish such voluntary compliance program as he deems appropriate.

237. A credit union not affiliated with a federation is bound to implement the voluntary compliance program approved by the Inspector General or the compliance program established by him.

238. Every credit union not affiliated with a federation that is required to implement a voluntary compliance program must furnish to the Inspector General any report he may require on the implementation of the program at such intervals, in such form and of such tenor as he may determine.

239. No credit union not affiliated with a federation may, after the order of the Inspector General, solicit or receive deposits for as long as it has failed

(1) to adopt a voluntary compliance program;

(2) to implement a voluntary compliance program;

(3) to provide the Inspector General with such report as he may require on the implementation of a voluntary compliance program.

240. The Inspector General may, while a voluntary compliance program is in effect, give the credit union not affiliated with a federation that is affected by the program, any written instructions he deems appropriate with respect to the powers exercised by its credit committee.

The Inspector General shall, before exercising his power under the first paragraph, notify the credit union of his intention and give it an opportunity to be heard.

241. Every credit union shall comply with the by-laws of the federation with which it is affiliated with respect to the adequacy of its capital base.

DIVISION III

DEPOSITS

242. Every credit union may, without the authority or intervention of any other person, receive moneys on deposit from any person whatever his age.

243. No credit union may accept deposits from a restricted party or from a person who is an associate of any of its officers on more favourable terms than those it grants in its normal course of business.

244. A credit union is not bound to see to the execution of any trust to which any of its deposits is subject.

Notwithstanding the foregoing, if the credit union is notified of the existence of a trust to which a deposit entered in the name of two or more persons is subject, the only valid quittance is the receipt or the order for payment given by all such persons or by those among them who, under the deed or Act creating the trust, may be entitled to the sums payable in respect of the deposit.

245. Any deposit in respect of which no transaction has taken place and no statement of account has been requested or acknowledged by the depositor for a period of seven years is an inactive account.

The amount of every order for payment, draft or bill of exchange issued, certified or accepted by a credit union and in respect of which no payment has been made for a period of seven years from its date of issue, certification or acceptance is considered to be an inactive account.

246. Every credit union shall send by registered or certified mail to each person to whom a deposit referred to in section 245 is repayable or to whom or at whose request an instrument referred to in the said section has been issued, certified or accepted, to his last recorded address, a notice stating that the account is inactive and that the balance of the account and the interest thereon will be transferred to the Minister of Finance if not claimed.

The notice must be given at least six months before any transfer is made.

247. At the expiry of the six months, the credit union shall transfer to the Minister of Finance the sums of money it owes on an inactive account, including the interest thereon.

248. Sums of money from an inactive account transferred to the Minister of Finance shall be paid into the consolidated revenue fund.

Any person entitled to such sums of money may require that the sums be returned to him by asserting his claim, without prescription being invoked against him. The Minister of Finance is authorized to pay the necessary sums of money out of the consolidated revenue fund.

DIVISION IV

CREDIT

249. Every credit union may in accordance with this Act and, where applicable, the regulations of the Government or the by-laws of the federation with which it is affiliated, extend credit, particularly by way of

(1) loans, lines of credit or advances, with or without security, loans granted or acquired by the credit union on the security of conditional sales agreements and the acquisition by the credit union of property related to such agreements, including the acquisition by the credit union of conditional sales agreements;

(2) the discount of a negotiable instrument;

(3) guarantees of payment or repayment of fixed sums of money.

250. No credit union may extend credit on the security of its shares or the shares of another credit union, except in the case of renewal of credit so extended before (*insert here the date of coming into force of this section*) and which entails no additional outlay for the credit union.

251. No credit union may extend credit to a restricted party or to a person who is an associate of any of its officers on more favourable terms than those it grants in its normal course of business.

252. No credit union may extend credit to a legal person belonging to the same group as the federation with which the credit union is affiliated, unless it is authorized by the board of directors after it has obtained the advice of the board of supervision.

253. No credit union may extend credit to any of its officers or to any person who is an associate of any of its officer in a total amount exceeding the annual salary of the officer if he is remunerated or, if not, the amount determined by the ethics committee, or, as the case may be, the board of supervision, unless the credit is secured by first hypothec on the principal residence of the officer.

254. A credit union which extends credit to a restricted party or to a person who is an associate of any of its officers shall disclose it to its board of supervision and to that of the federation with which it is affiliated where that is the case.

The disclosure must indicate the surname and given name of the restricted party or of the associate, the amount of credit extended, the maturity date, the rate of interest and the security offered.

255. The provisions of sections 252 to 254 do not apply to credit extended to restricted parties or to persons who are the associates of an officer of a credit union by way of a credit card or involving amounts within the limit usually granted to credit card holders.

DIVISION V

INVESTMENTS

256. Every credit union shall exercise, with prudence and diligence, the powers to make investments conferred on it by this Act as a reasonable person would in similar circumstances, and act honestly and in good faith in the best interest of its members and depositors.

257. In addition to credit extended in accordance with this Act and sums deposited with a bank, a registered institution within the meaning of the Deposit Insurance Act or in such funds of the federation

with which it is affiliated as are established under Chapter VIII of Title III, a credit union may make investments in the following property:

(1) bonds or other debt securities issued or guaranteed by the Government of Québec or of Canada, by a municipality or school board in Québec, by the Conseil scolaire de l'île de Montréal, by a *fabrique* in Québec, or by an ecclesiastical, religious or cemetery corporation in Québec;

(2) bonds or other debt securities issued by a legal person operating a public service in Canada and vested with the right to fix fees attached to the service;

(3) bonds or other debt securities secured by an undertaking to a trustee by the Government of Québec or of Canada to pay sufficient subsidies to pay the interest and principal at their respective maturity dates;

(4) bonds issued by a cooperative governed by the Cooperatives Act (R.S.Q., chapter C-67.2), a federation of such cooperatives or a legal person controlled by such a cooperative or by a federation of such cooperatives

(a) if they are secured by first privilege or hypothec on immovables and their equipment;

(b) if they are secured by first hypothec on immovables in Québec and if the amount of the debt is not more than 75% of the value of the immovables securing payment thereof; or

(c) if they are secured by first privilege on equipment and if the issuer has paid in full the interest on his other loans during the 10 years preceding the acquisition;

(5) preferred shares or any debt securities other than those described in paragraph 4 issued by a cooperative governed by the Cooperatives Act, a federation of such cooperatives, or a legal person controlled by such a cooperative or by a federation of such cooperatives;

(6) bonds or other debt securities issued by persons other than those described in paragraph 4 and secured by immovables situated in Québec, if the amount of the debt is not more than 75% of the value of the immovables securing payment thereof, after deducting the other debts secured by the same immovables and ranking equally with or prior to the debt;

(7) immovables securing payment of a debt owing to it, in order to ensure total or partial payment of such debt;

(8) immovables situated in Québec, other than those mentioned in paragraph 7, to the extent that the immovables are for its own use or are acquired out of the sums allocated to the social fund or community fund;

(9) unsecured shares or debt securities the acquisition of which is not provided for in this division, if they are issued by a person to whom the credit union is not prohibited from extending credit and provided that the purpose of their acquisition is the development of enterprises situated in the territory of the credit union.

258. A credit union may also acquire one non-participating common share of any holding company controlled by the confederation with which the federation of which it is a member is affiliated.

259. In no case may the aggregate of the investments described in paragraphs 5 and 9 of section 257 exceed, on the date of the investment, 2% of the assets of the credit union.

No investment referred to in the first paragraph may be made where it would allow a credit union to acquire, directly or indirectly, by itself or with other credit unions or federations of credit unions, more than 30% of the voting rights attached to the shares of a legal person contemplated therein, or allow it to elect more than one-third of the directors of the said legal person.

260. A credit union shall, within seven years from the date of acquisition or within any extension that may be granted by the Inspector General, sell any immovable acquired to secure the repayment of any sum owed to it.

261. No affiliated credit union may make an investment described in paragraph 5 or 9 of section 257 or make deposits into the investment fund of the federation with which it is affiliated, unless the credit union complies with the by-laws of the federation with respect to the adequacy of its capital base.

No unaffiliated credit union may make an investment described in paragraph 5 or 9 of section 257 unless its capital base meets the level required under this Act.

DIVISION VI

SECURITY

262. No credit union may hypothecate, mortgage, pledge or otherwise give as security property held by it, except to secure a loan contracted in order to meet short term requirements for liquid funds resulting from its operations or to acquire, keep or alter an immovable intended for its own use, or to obtain an advance of money under section 40 of the Deposit Insurance Act (R.S.Q., chapter A-26).

Before giving such security, the credit union must obtain the authorization of the federation with which it is affiliated or, if it is not affiliated, of the Inspector General.

DIVISION VII

LIQUID ASSETS

263. Every credit union not affiliated with a federation must at all times maintain such liquid assets as are adequate to meet its requirements. The Inspector General may give written directions to a credit union as to the adequacy and nature of its liquid assets.

The Inspector General shall, before exercising his power under the first paragraph, notify the credit union of his intention and give it an opportunity to be heard.

264. Every credit union affiliated with a federation must at all times maintain adequate liquid assets in the form of deposits with the liquidity fund of the federation, in accordance with the by-laws of the federation or of the confederation with which the federation is affiliated, where that is the case.

DIVISION VIII

SURPLUS EARNINGS

265. All annual surplus earnings of a credit union shall be allocated to

- (1) the general reserve;
- (2) the payment of interest on permanent shares;
- (3) the allotment of dividends to members, depositors or borrowers;

- (4) the establishment and maintenance of a stabilization fund;
- (5) the establishment and maintenance of a social or community fund.

Surplus earnings shall be allocated by the annual meeting after the members have considered the recommendations of the board of directors and taking into account the statement of results for the preceding fiscal year and the by-laws of the federation with which the credit union is affiliated or of the confederation with which the federation is affiliated where that is the case.

266. The sum of the amounts allocated to the general reserve and the amounts corresponding to the permanent shares issued by a credit union must represent at least 4% of its liabilities.

267. In no case may the general reserve be apportioned among the members or drawn upon for the allotment of a dividend.

268. Surplus earnings may be allocated in full to the general reserve. A credit union may decide not to pay any interest on the permanent shares issued by it or not to allot any dividend.

269. The by-laws of the credit union, of the federation with which it is affiliated or, where applicable, of the confederation with which the federation is affiliated may provide for the allocation of surplus earnings and any other amount to the general reserve.

270. The board of directors shall pay into the general reserve, out of the amounts allocated to the stabilization fund, such sums as are necessary to attain the percentage prescribed in section 266.

Where such sums are not paid into the general reserve, they may serve for the payment of interest on permanent shares.

271. A credit union may, by by-law, establish a fund for social or community purposes. Not more than 10% of the amount allocated to dividends may be paid into the fund. The sums allocated to the fund must be used by the board of directors within three years after their allocation to the fund, failing which they shall be paid into the general reserve.

However, the board of directors shall pay out of the fund for social or community purposes the sums that must be paid into the general reserve to attain the percentage prescribed in section 266, where the amounts allocated to the stabilization fund are not sufficient.

272. Dividends may vary according to the nature of the transactions made with the credit union. They may be paid in the form of permanent or preferred shares.

CHAPTER XV

BOOKS AND REGISTERS

273. Every credit union shall keep a register at its head office containing

(1) its articles and the related certificates of the Inspector General, its by-laws and any notice concerning the address of its head office;

(2) the minutes and resolutions of the general meetings;

(3) the minutes of meetings and the resolutions of the board of directors, the credit committee, the board of supervision and any special committee;

(4) a list containing the surname, given name, address and occupation of each officer of the credit union, with an indication, for each term of office, of the date on which it begins and the date on which it ends, or its duration, as the case may be;

(5) a list containing the corporate name, surname, given name and the last recorded address of each member or other shareholder of the credit union;

(6) the number of permanent or preferred shares held by each of them;

(7) the particulars of the subscription of each share and the date of its subscription, repayment or transfer;

(8) the management agreements made by the credit union with the federation with which it is affiliated or with the security fund corporation incorporated at the request of the federation or, as the case may be, the confederation with which the federation is affiliated;

(9) the voluntary compliance programs of the credit union;

(10) the orders of the Inspector General and of the Minister;

(11) the written instructions of the Inspector General, the federation with which the credit union is affiliated and the confederation with which the federation is affiliated, where that is the case.

274. Every credit union shall, in addition, keep at its head office

(1) the books, registers and accounting records necessary for preparing the financial statements;

(2) statements of account indicating, on a daily basis and for each depositor, the transactions between the credit union and that depositor and his credit or debit balance.

275. The registers, books and accounting records of the credit union may be entered or recorded by means of any information storage device capable of reproducing any information in intelligible written form.

276. In no case may a credit union destroy any order for payment discharged within less than 10 years or any book, register or other accounting records dating back less than 10 years.

The destruction by a credit union of any document described in the first paragraph must be carried out in accordance with the by-laws of the federation with which it is affiliated and of the confederation with which the federation is affiliated where that is the case.

277. Any member of a credit union may examine in the register of the credit union the documents described in paragraphs 1, 2, 4 and 5 of section 273 during usual business hours.

He may also obtain copies of the documents described in paragraphs 1, 2 and 4 of the said section. The credit union may require the payment of a fee for the reproduction and transmission of such documents.

CHAPTER XVI

AUDIT

278. Every credit union shall cause its books and accounts to be audited every year by an auditor.

The audit shall be conducted by the auditing service of the federation with which the credit union is affiliated or, where applicable, by the auditing service of the confederation with which the federation is affiliated.

Where the federation or, as the case may be, the confederation has no auditing service, it shall appoint an auditor.

279. A federation or confederation has, when conducting an audit, the powers and obligations of an auditor set out in sections 289 to 293 and 295 to 297.

280. The auditor of a credit union not affiliated with a federation shall be appointed at the annual meeting. His appointment expires at the next annual meeting.

If the office of auditor becomes vacant, the directors shall appoint a replacement. They may, in addition, appoint a person to exercise the functions of the auditor where the auditor is unable to act.

281. If a credit union fails to have its books and accounts audited or to appoint an auditor in accordance with this Act, the Inspector General may appoint an auditor to conduct the audit who shall be remunerated by the credit union.

282. The auditor entrusted with the audit of a credit union must be a member in good standing of a professional corporation of accountants recognized under the Professional Code (R.S.Q., chapter C-26).

283. In no case may the auditor entrusted with the audit of a credit union be an officer, a person who is an associate of an officer, an employee or a member of the credit union or, as the case may be, of the federation with which the credit union is affiliated or of the confederation with which the federation is affiliated. Notwithstanding the foregoing, the auditor may be a person employed in such capacity by the federation or the confederation.

284. The auditor of a credit union shall resign upon ceasing to be qualified for such office.

285. The Inspector General or any interested person may apply to the Superior Court to obtain the dismissal of an auditor who does not meet the requirements of section 282 or 283.

286. Every unaffiliated credit union must inform the Inspector General within 10 days of the resignation of the auditor or of the decision to propose his dismissal during his term of office.

287. The auditor shall have access to all the books, registers, accounts, other accounting records and vouchers of the credit union. Every person having custody of those documents must facilitate their examination by the auditor.

The auditor may require from the officers, mandataries and employees of the credit union the information and documents necessary to enable him to perform his duties as auditor.

288. The auditor shall submit his report to the board of directors of the credit union.

289. The auditor shall indicate in his report

(1) whether he conducted the audit in accordance with generally accepted auditing standards;

(2) whether, in his opinion, the financial statements of the credit union included in the report submitted to the annual meeting give a faithful account of the financial position of the credit union, the results of its operations and the changes in its financial position according to generally accepted accounting principles applied in the same manner as in the preceding fiscal year;

(3) any other information prescribed by regulation of the Government.

The auditor shall also give sufficient explanations in his report of any reservations he expresses in the report.

290. The auditor must report to the board of directors in writing any transaction or situation affecting the interest of the credit union that, in his opinion, is not satisfactory and requires rectification. In particular he must, as occasion requires, report to the board any transaction of the credit union and transaction between the credit union and restricted parties which have come to his notice that lead him to believe that the credit union is in contravention of this Act or the regulations of the Government.

He shall transmit a copy of the report referred to in the first paragraph to the board of supervision of the credit union, to the federation with which the credit union is affiliated, where that is the case, and to the Inspector General.

Every person other than an advocate or a notary who, within the scope of the audit of a credit union, provides professional services without being appointed therefor has, in respect of the transactions between restricted parties and the credit union, the same obligations as the auditor.

291. Where the auditor or the person referred to in the third paragraph of section 290 makes a report in good faith under the said section, he shall incur no civil liability by reason of that fact.

292. The auditor is entitled to attend any general meeting and address the meeting on any question related to his duties as auditor.

The secretary shall send notice of every general meeting to the auditor.

293. A director or 10 members may, by means of a notice sent at least five days before the holding of a general meeting, convene the auditor who is then bound to attend the meeting.

294. If a director, the director general or the assistant-secretary becomes aware of an error or misstatement in the financial statements on which the auditor reported, he shall immediately notify the auditor thereof and, if necessary, send him revised financial statements.

295. If the auditor is notified or becomes aware of an error or misstatement in a financial statement on which he reported, and if in his opinion the error or misstatement is material, he shall inform each director accordingly.

The directors who are informed of the error or misstatement shall, within 60 days, prepare and issue revised financial statements or inform the members, the federation with which the credit union is affiliated, where that is the case, and the Inspector General accordingly.

296. The auditor shall, in addition, audit the financial statements included in the annual statement submitted to the Inspector General and transmit his report to him and a copy thereof to the federation with which the credit union is affiliated, where that is the case.

297. The auditor shall indicate in the report required under section 296

(1) whether he has performed his work in accordance with generally accepted auditing standards;

(2) whether, in his opinion, the financial statements included in the annual statement give a faithful account of the financial position of the credit union, the results of its operations and the changes in its financial position on the basis of the accounting method indicated in his report and applied in the same manner as in the preceding fiscal year;

(3) whether, in his opinion, the method used to present particulars that may affect the security of depositors is adequate;

(4) whether, in the normal course of his audit, he has become aware of situations or transactions which lead him to believe that the credit union has not adhered to sound financial practices;

(5) whether, in his opinion, the rules established by the ethics committee as regards self-dealing and conflicts of interest are adequate and whether the credit union is complying therewith;

(6) any other information prescribed by regulation of the Government.

298. The Inspector General may order that the annual audit of the operations of a credit union be resumed or extended or that a special audit be made.

He may appoint for that purpose an auditor who shall be remunerated by the credit union.

CHAPTER XVII

FINANCIAL DISCLOSURE

299. Unless otherwise prescribed by the by-laws of a credit union, its fiscal year ends on 31 December each year.

300. At the end of the fiscal year, the credit union shall prepare an annual report containing

(1) the name and the address of the head office of the credit union;

(2) the surname, given name and occupation of each officer of the credit union;

(3) the number of members of the credit union;

(4) a statement of assets and liabilities, a statement of results, a statement of changes in the cash on hand, a statement of the stabilization fund and of the community or social fund, a statement of the unallocated surplus earnings, a statement of the general reserve, and a statement of provisions to cover losses on credit extended and investments, presented on a comparative basis with the corresponding statements for the immediately preceding fiscal year;

(5) a statement indicating the total amount of credit extended to restricted parties and to persons who are associates of an officer of the credit union;

(6) where applicable, a statement indicating the credit union's participating interest in the investment fund of the federation with which it is affiliated and the return on such interest;

(7) the auditor's report;

(8) the report of activities of the credit committee, the board of supervision and, where applicable, the reports of special committees;

(9) any other statements and information required by by-law of the credit union;

(10) any other information required by regulation of the Government.

301. The annual report must be submitted to the board of directors for approval. The approval must be certified by at least two of the directors.

302. Every member is entitled to receive, on request and free of charge, a copy of the annual report.

303. Within four months after the end of the fiscal year, the board of directors shall transmit a copy of the annual report to the Inspector General and to the federation with which it is affiliated and the confederation with which the federation is affiliated, where that is the case.

304. Within four months after the end of its fiscal year, the credit union shall prepare and transmit to the Inspector General and to the federation with which it is affiliated, where that is the case, an annual statement of its financial position setting out the results of its operations for the year.

The statement must, in addition, indicate, for each officer of the credit union and each person who is an associate of an officer, the amounts granted to them for credit purposes and the amounts involved in every transaction made between a restricted party and the credit union.

The statement must be signed by two directors.

305. Every credit union shall furnish to the Inspector General, at his request, on such dates and in such form as he may determine, such statements, statistics, reports and other information as he may deem appropriate to enable him to determine whether the credit union is complying with this Act.

The Inspector General may transmit copy thereof to the federation with which the credit union is affiliated and to the confederation with which the federation is affiliated, where that is the case.

CHAPTER XVIII

WINDING-UP

306. Divisions II and III of the Winding-up Act (R.S.Q., chapter L-4) apply to the winding-up of any credit union, subject to the provisions of this chapter.

For the purposes of the application of the said Act to a credit union, the word "company", in the said Act, means a credit union, the word "shareholder" means a member of the credit union and, where a provision of the said Act requires the vote of the shareholders representing a specified proportion of the capital stock of a company, that provision is deemed to require the vote of a number of the members of the credit union corresponding to the specified proportion in value.

307. The winding-up of a credit union may be decided by a resolution adopted by three-fourths of the members present at a special meeting.

The meeting shall then appoint, by a majority of the members present, a liquidator who is entitled to immediate possession of the property of the credit union.

The credit union shall thereafter exist and carry on business solely for the purposes of the winding-up of its affairs.

308. In order to guarantee the performance of his duties before taking possession of the property of the credit union, the liquidator shall give sufficient security and maintain it thereafter. At the request of the Inspector General or of any other interested person, a judge of the Superior Court may determine the amount and nature of the security and increase it according to circumstances where the liquidator is neither the federation with which the credit union is affiliated nor a security fund corporation.

309. Every credit union that has decided to effect its winding-up shall give notice to the Inspector General and to the federation with which it is affiliated, where that is the case, within 10 days after the passing of a resolution to that effect and forward to them, within the same time, a certified copy of the resolution. The credit union shall cause the notice to be published in the *Gazette officielle du Québec* and in a daily newspaper circulated in the locality where the head office of the credit union is situated.

The notice shall indicate the date of the passing of the resolution for the winding-up of the credit union, the surname, given name and address of the liquidator and the address where interested persons may send him their claims.

310. From the time the notice is published in the *Gazette officielle du Québec*, all proceedings against the property of the credit union, whether by seizure by garnishment, seizure before judgment or seizure in execution, shall be suspended.

The costs incurred by a creditor directly or through his attorney after the publication of the notice shall not be collocated out of the proceeds of the property of the credit union.

A judge of the Superior Court for the district in which the head office of the credit union is situated may, however, on the conditions he considers suitable, authorize the institution or continuance of any proceedings.

311. The liquidator shall first pay the debts of the credit union and the costs of winding-up. He shall then repay the preferred shares according to their respective ranks, followed by the permanent shares, and finally, the qualifying shares.

The sums representing the deposits or shares that cannot be repaid shall be transferred to the Minister of Finance and paid into the consolidated revenue fund.

Any person entitled to such sums may require that the sums be returned to him by asserting his claim, without prescription being invoked against him.

The Minister of Finance is authorized to make the payment of such sums out of the consolidated revenue fund.

312. After the payments referred to in section 311 are made, the balance of the assets devolves upon the federation with which the credit union is affiliated or, if it is not affiliated, upon a legal person designated by the Government.

313. Failing approval by the members of the account prescribed under section 16 of the Winding-up Act, the approval of a judge of the Superior Court stands in lieu thereof.

314. The liquidator shall, within the time and in respect of the period determined by the Inspector General, transmit to him, at his request, a summary report of his activities or any document or information required by the Inspector General concerning the conduct of the winding-up.

315. The liquidator shall transmit to the Inspector General a copy of the account he submits to the general meeting of members pursuant to section 15 of the Winding-up Act.

316. When the winding-up of the credit union is completed, the liquidator shall transmit a final report of his activities to the Inspector General.

The liquidator shall, in addition, forward to the federation with which the credit union was affiliated or, if it was not affiliated, to the Inspector General the documents of which he took possession for the purposes of the winding-up.

317. The Inspector General may, even if he alleges no particular interest, act before the courts in all matters respecting the winding-up and exercise, on behalf of the members or the creditors of the credit union, their rights against the credit union.

CHAPTER XIX

DISSOLUTION

318. The Minister may, if he considers it advisable and after obtaining the advice of the Inspector General, request the Inspector General to dissolve a credit union if

(1) the number of members is reduced to less than 12;

(2) the organization meeting is not held within 60 days after the date of incorporation or, as the case may be, within the time granted by the Inspector General;

(3) the credit union has failed, for three consecutive years, to hold the annual meeting of its members or to furnish a copy of its annual report to the Inspector General;

(4) the liquidator has failed to transmit to the Inspector General the reports or information required under sections 314, 315 and 316.

319. The Minister may, if he considers it advisable, request the Inspector General to dissolve a credit union if,

(1) within 60 days after the confirmation of the resolution provided for in section 16 or of its expulsion from a federation, the credit union has failed to pass a by-law or resolution, as the case may be, to affiliate with another federation, apply for the incorporation of a new federation, amalgamate with a credit union affiliated with another federation, wind up or apply to the Minister to be exempted from compliance with section 11;

(2) within 120 days after the confirmation of the resolution provided for in section 16 or of its expulsion from a federation, the credit union has failed to affiliate with another federation, incorporate a new federation, submit to the Inspector General an amalgamation agreement with a credit union affiliated with another federation or, failing that, to pass a resolution for its winding-up or has not obtained from the Minister the permission to be exempted from compliance with section 11;

(3) within 60 days after the publication of the notice of winding-up or dissolution of the federation with which it is affiliated, the credit union has failed to pass a by-law or resolution, as the case may be, to affiliate with another federation, apply for the incorporation of a new federation, amalgamate with a credit union affiliated with another federation, wind up or apply to the Minister to be exempted from compliance with section 11;

(4) within 120 days after the publication of the notice of winding-up or dissolution of the federation with which it is affiliated, the credit union has failed to affiliate with another federation, incorporate a new federation, submit to the Inspector General an amalgamation agreement with a credit union affiliated with another federation or if it has failed to pass a resolution for its winding-up or has not obtained from the Minister the permission to be exempted from compliance with section 11.

320. Before requesting the Inspector General to dissolve a credit union, the Minister shall give the credit union or the liquidator, as the case may be, notice of the alleged default and of the penalty that applies and give him or it an opportunity to be heard within 30 days after the date of the notice. Copy of the notice must be transmitted to the federation with which the credit union is affiliated, where that is the case.

If, after considering the representations of the credit union or of the liquidator or, failing that, at the expiry of the time limit provided for in the first paragraph, the Minister maintains the notice of default, and the default is not remedied within 30 days after the expiry of the time limit provided in the first paragraph, the Minister shall request the Inspector General to dissolve the credit union.

321. The Inspector General shall cause to be published in the *Gazette officielle du Québec* a notice of dissolution of the credit union, which shall become effective on the date of publication of the notice.

322. The Public Curator is, *ex officio*, the curator to property of the dissolved credit union. He shall be accountable to the Inspector General.

323. The balance of the assets of a credit union devolves in accordance with section 312.

When the dissolution of the credit union is completed, the Public Curator shall deliver to the federation with which the credit union was affiliated or, if it was not affiliated, to the Inspector General, the documents of the credit union of which he took possession.

324. On the application of any interested person, the Minister may, if he considers it advisable and after obtaining the advice of the Inspector General, request him to revoke the dissolution retroactively to the date on which it became effective, by publishing a notice to that effect in the *Gazette officielle du Québec*.

The Minister shall determine the conditions of the revocation of the dissolution. However, in no case may the revocation of a dissolution prejudice the rights acquired by any person after the dissolution.

TITLE III

FEDERATIONS

CHAPTER I

INTERPRETATION

325. Except where incompatible, the provisions of Title II and the regulations made thereunder by the Government for its application apply to federations, adapted as required.

Notwithstanding the foregoing, the following provisions do not apply to federations: sections 11 to 14, 16 to 19, 68 to 111, 229 to 241, 257 to 259, 261 and paragraph 5 of section 265.

326. For the purposes of Title II, the word “federation” means “confederation”. In addition, the provisions of any section relating to a confederation are to be ignored.

CHAPTER II

INCORPORATION AND CORPORATE NAME

327. Twelve or more credit unions may apply for incorporation as a federation.

328. To be a founder, a credit union must have obtained prior authorization by way of a resolution of its board of directors, setting out the name of the representative of the credit union for the purposes of the incorporation of the federation. The resolution must be ratified by the vote of at least two-thirds of the members or representatives present at a special meeting or, provided that the notice of the meeting sets out the object of the resolution, at an annual meeting.

The credit union shall notify the federation with which it is affiliated, where that is the case, of the holding of the meeting. A representative of the federation may attend and address the meeting.

329. A certified copy of the resolution of every founding credit union must accompany the articles of incorporation of the federation.

330. The corporate name of a federation must include the word “federation”.

CHAPTER III

CAPITAL STOCK

331. The capital stock of a federation shall consist of qualifying shares the price of which is determined by by-law of the federation.

The shares are registered and may be issued only to the members or, where permitted by the by-laws of the federation, to auxiliary members.

332. No interest is payable on qualifying shares issued by a federation.

333. No qualifying share issued by a federation may be reimbursed, except in cases of withdrawal or expulsion of an affiliated credit union, or winding-up, insolvency or dissolution of the federation.

No federation may pay dividends on qualifying shares if such payment would result in reducing its capital base to a level lower than that it is required to maintain under this Act.

CHAPTER IV

MEMBERS

334. Only credit unions may be members of a federation.

Any other legal person, including a partnership, may be admitted by a federation as an auxiliary member.

335. To become a member of a federation, a credit union must

- (1) apply for affiliation, except in the case of a founding credit union;
- (2) undertake to comply with the by-laws of the federation;
- (3) subscribe and pay for the number of qualifying shares prescribed by by-law of the federation or, in the absence of such a by-law, one qualifying share;
- (4) be admitted by the board of directors of the federation or a person authorized by the board, except in the case of a founding credit union.

336. An application for affiliation submitted by the founders of a credit union may be accepted by a federation. The affiliation shall become effective upon the incorporation of the credit union.

337. A federation shall, by a by-law which must be submitted for approval to the confederation with which it is affiliated, where that is the case, establish other conditions of affiliation applicable to its members, define their rights and obligations, and determine the conditions governing the withdrawal or expulsion of members.

338. The decision of a federation respecting the affiliation or expulsion of a credit union shall be transmitted to the credit union by registered or certified mail, with a copy to the Inspector General.

The decision of a federation to expel a credit union shall not become effective

(1) until another federation has undertaken to accept the credit union as a member, or until the new federation the incorporation of which the credit union has applied for is incorporated and the credit union has received articles of amendment for its affiliation;

(2) until the credit union has amalgamated with a credit union affiliated with a federation;

(3) until the credit union is dissolved;

(4) until the credit union is exempted from compliance with section 11 by the Minister.

339. A federation may, by by-law, establish one or more classes of auxiliary members and establish other conditions of affiliation applicable to its members, define their rights and obligations, and determine criteria or conditions governing the withdrawal, suspension or expulsion of members.

Auxiliary members are not entitled to vote, and their representatives are not eligible for office.

CHAPTER V

MEETING OF THE MEMBERS

340. The general meeting of a federation shall consist of the representatives of the credit unions affiliated with the federation.

The organization meeting shall, however, consist of the persons who have signed the articles of incorporation in their capacity as representatives.

341. A federation shall, by by-law, establish

(1) the manner in which its affiliated credit unions are to be called to and represented at the general meetings;

(2) criteria for determining the number of representatives and votes to which each credit union is entitled.

CHAPTER VI

DIRECTION AND MANAGEMENT

DIVISION I

BOARD OF DIRECTORS, EXECUTIVE COMMITTEE
AND ETHICS COMMITTEE

342. Unless otherwise prescribed by by-law, the directors of a federation shall be elected from among the directors of its affiliated credit unions.

Notwithstanding the foregoing, a director shall be a person who is not

(1) a representative of a credit union affiliated for less than 90 days, except in the case of a founding credit union;

(2) a member of the credit committee or of the board of supervision of the federation;

(3) an officer of another federation within the meaning of section 186 or 187, or an employee of another federation;

(4) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(5) an undischarged bankrupt.

Moreover, in no case may the majority of the members of the board of directors be employees of the federation or of an affiliated credit union and directors and officers of a holding company controlled by the confederation with which the federation is affiliated, where that is the case.

343. A federation may, by by-law, prescribe that the chairman of its board of directors is not the president of the federation. Where that is the case, the president of the federation shall be chosen by the board of directors from among its members.

The by-law may also prescribe that the president of the federation is to remain in office until the expiry of his term as director. In addition, the federation may, by by-law, determine the mode of appointment of the secretary of the federation, who need not be a member of the board of directors.

344. In no case may the general manager of a federation or an affiliated credit union be the president or vice-president of the federation or chairman or vice-chairman of its board of directors.

345. The directors, the secretary and assistant-secretary shall receive an attendance allowance fixed by the board of directors in addition to the reimbursement of the justifiable expenses they incur in the performance of their duties. In no case may the aggregate amount paid in that respect exceed the amount fixed by the general meeting. No allowance shall be paid before the amount is determined by the general meeting.

The president of a federation may be remunerated.

346. Where the board of directors consists of more than eight members, it may, if so authorized by by-law of the federation, appoint an executive committee consisting of not fewer than three directors, including the chairman.

In no case may the number of members of the executive committee exceed one-half of the number of directors.

347. The executive committee shall exercise the powers of the board of directors to the extent determined by by-law of the federation.

348. The board of directors may replace any member of the executive committee.

349. Sections 128 to 131 and 149 to 152, adapted as required, apply to the executive committee.

350. A federation shall appoint from among the members of the board of directors an ethics committee consisting of not fewer than three members.

351. The members of the ethics committee shall be persons who are neither employees of the federation, of the credit unions affiliated with it, nor directors, officers or employees of a holding company controlled by the confederation with which the federation is affiliated, where that is the case, of a legal person controlled by the holding company or, if the federation is affiliated with the Confédération des caisses populaires et d'économie Desjardins du Québec, or the Caisse centrale Desjardins du Québec, nor persons holding 10% or more of the voting rights attached to the shares of the legal persons belonging to the same group as the federation.

352. The ethics committee shall make rules concerning the protection of the interests of the federation, the credit unions affiliated with it and their members, in accordance with the policies of the confederation with which the federation is affiliated, where that is the case.

The rules shall concern, in particular, the procedure governing contracts with restricted parties, the conditions applicable to the credit extended to them, the disclosure requirements of the federation, the credit unions affiliated with it and restricted parties, the protection of confidential information held by the federation and its affiliated credit unions on their members, and the conduct required of the federation and its affiliated credit unions in cases where their interest or that of a legal person belonging to the same group as the federation is in conflict with that of the members of the credit union.

353. The rules made by the ethics committee shall be submitted to the board of directors of the federation for approval.

The federation shall transmit a copy of the rules to the Inspector General and to the confederation with which it is affiliated, where that is the case, within 30 days of their approval.

354. The ethics committee shall each year transmit to the Inspector General, within two months of the closing date of the fiscal year of the federation, a report of its activities to the closing date.

The report must indicate

(1) the surname, given name, address and occupation of each member of the committee;

(2) any changes in the membership of the committee;

(3) the terms of reference of the committee;

(4) the list of cases of conflict of interest and self-dealing in which the committee has intervened;

(5) the cases where the rules made by the committee have not been observed.

DIVISION II

CREDIT COMMITTEE

355. The members of the credit committee shall be elected at the annual meeting from among the members of the credit unions affiliated with the federation, except

(1) a member of a credit union affiliated for less than 90 days, except in the case of a founding credit union;

(2) an employee of the credit union or of the federation;

(3) a director or a member of the board of supervision of a federation;

(4) an officer of another federation within the meaning of section 186 or 187, or an employee of another federation;

(5) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(6) an undischarged bankrupt.

356. The members of the credit committee shall receive an attendance allowance fixed by the board of directors in addition to the reimbursement of the justifiable expenses they incur in the performance of their duties. In no case may the aggregate amount paid in that respect exceed the amount fixed by the general meeting. No allowance shall be paid before the amount is determined by the general meeting.

DIVISION III

BOARD OF SUPERVISION

357. The members of the board of supervision shall be elected at the general meeting from among the members of all the credit unions affiliated with the federation, except

(1) a member of a credit union affiliated for less than 90 days, except in the case of a founding credit union;

(2) an employee of the credit union or federation;

(3) a director or a member of the credit committee of the federation;

(4) an officer of another federation within the meaning of section 186 or 187 or an employee of another federation;

(5) an interdicted person or a person of unsound mind declared incapable by a court, even a foreign court;

(6) an undischarged bankrupt.

358. The members of the board of supervision may receive an attendance allowance fixed by the board of directors in addition to the reimbursement of the justifiable expenses they incur in the performance of their duties. In no case may the aggregate amount paid in that respect exceed the amount fixed by the general meeting. No allowance shall be paid before the aggregate amount is determined by the general meeting.

CHAPTER VII

OPERATIONS

DIVISION I

GENERAL PROVISIONS

359. In addition to the other powers which it may exercise under this Act, every federation may

(1) devise policies on any matter conducive to the attainment of the objects of the credit unions that are affiliated with it;

(2) examine the books and accounts of a credit union that is affiliated with it;

(3) make a convention with an affiliated credit union for the supervision, administration or management of its affairs, including those of the credit committee thereof, for a specified period;

(4) participate with an affiliated credit union in the establishment and management of the services that the latter may provide;

(5) establish a pension plan under paragraph 6 of section 214 in respect of the employees of an affiliated credit union and their spouses and dependants;

(6) act, for the purposes of this Act, as the provisional administrator or liquidator of a credit union that is affiliated with it;

(7) provide persons wishing to incorporate a credit union with appropriate services;

(8) acquire the qualifying shares required to become a member of a confederation;

(9) guarantee, according to law, the undertakings of any credit union that is affiliated with it;

(10) provide, in its capacity as a mandatary of an affiliated credit union and with the consent thereof, any service that the latter may provide;

(11) where it is affiliated with La Confédération des caisses populaires et d'économie Desjardins du Québec, transfer to La Caisse centrale Desjardins du Québec or acquire from it any loan granted by the federation or La Caisse centrale Desjardins du Québec.

360. Every federation may, by by-law applicable to its affiliated credit unions, establish classes of credit and determine, for all or one or more classes, or for one or more forms of credit of any such class, conditions and restrictions respecting the exercise of the powers of a credit union in matters of credit.

361. Every federation may make by-laws applicable to its affiliated credit unions in respect of

(1) the reports that a credit union is required to submit to fix the amount of the assessments exigible by it, as well as the form and tenor thereof;

(2) the security that a credit union must require from any person entrusted with the management or custody of its funds;

(3) any financial or administrative matter.

362. A federation not affiliated with a confederation shall adopt by-laws applicable to its affiliated credit unions in respect of

(1) the required reserves for bad debts and contingent losses;

(2) the requirements respecting their accounting system, the books, registers and accounting records which they are required to keep, and the preparation and auditing of their financial statements;

(3) the management, preservation and destruction of documents issued or received by the credit unions.

363. A federation not affiliated with a confederation may, by by-laws applicable to its affiliated credit unions, establish the amount to be allocated to their general reserve and the standards relating to the adequacy of their liquid assets.

364. A federation may, when adopting by-laws under this Act, establish various classes of credit unions or operations and prescribe appropriate standards for each class.

365. The by-laws of a federation shall be submitted to the confederation with which it is affiliated for approval. No by-law may become effective before it is submitted to the Inspector General.

Where a federation is not affiliated with a confederation, its by-laws shall be submitted to the Government for approval.

366. Where a federation considers that the financial position of one of its affiliated credit unions is not satisfactory, that the assets of that credit union are not sufficient to give adequate protection to its depositors, creditors and members, it may

(1) give written instructions to the credit union respecting the measures it considers appropriate to remedy the situation and specify the period within which the credit union is required to comply therewith;

(2) order the credit union, within the period prescribed and for the reasons specified by it, to adopt and implement a voluntary compliance program in accordance with its instructions.

The federation shall, within 10 days, transmit to the confederation with which it is affiliated or, if it is not affiliated, to the Inspector General a copy of the instructions or orders given or issued under the first paragraph.

367. Every federation shall notify the Inspector General and, where applicable, the confederation with which it is affiliated of any failure of a credit union to comply with the written instructions or order it has given or issued thereto.

368. The Inspector General may, after giving the credit union an opportunity to present its views in writing within the time fixed by him, approve the instructions or order of the federation with or without amendment.

Once approved, the instructions or order of the federation are considered to be written instructions or order of the Inspector General.

369. If, in the opinion of the Inspector General, a federation fails to exercise the powers conferred on it by section 366, he may, after giving the federation an opportunity to present its views in writing within the time fixed by him and after obtaining the advice of the confederation with which the federation is affiliated, where that is the case, give the credit union concerned the instructions he deems expedient.

370. A federation shall make good any operating deficit of its affiliated credit unions in case of a deficiency in their general reserve, unless the credit unions are also affiliated with a security fund corporation and the latter makes good the deficiency.

371. Every federation not affiliated with a confederation shall establish and maintain a service to audit the financial statements of its affiliated credit unions or, if it does not establish such a service, designate an auditor for each of its affiliated credit unions.

Every federation not affiliated with a confederation shall also establish and maintain an inspection service for its affiliated credit unions.

372. Every federation not affiliated with a confederation shall, at least once a year, inspect the internal affairs and activities of its affiliated credit unions.

373. The purposes of the annual inspection of a credit union are in particular, to evaluate the financial policies and practices of the credit union and of its internal control system, and to ascertain the accuracy of its financial statements and its compliance with this Act and the regulations and by-laws which are applicable to it under this Act.

374. Every person conducting an inspection under this chapter may

(1) enter the place of business of the credit union concerned at any reasonable time;

(2) examine and make copies from books, registers, accounts, records and other documents relating to the activities of the credit union;

(3) require any information or document relating to the enforcement of this Act.

Every person entrusted with the custody, possession or control of the books, registers, accounts, records and other documents shall, at the request of the person conducting the inspection permit access to such documents and facilitate their examination.

375. The person conducting an inspection shall identify himself on request and produce a certificate of the federation attesting his quality.

376. No person may hinder the work of any person conducting an inspection, in particular by misleading him.

377. The federation shall render an account of its inspection to the Inspector General and to the board of directors and board of supervision of the credit union concerned. It shall, in addition, transmit to the Inspector General a copy of its inspection report.

378. The federation may convene, separately or jointly, the directors and members of the credit committee or board of supervision of the inspected credit union to submit and explain its inspection report to them.

379. Following the inspection of a credit union, the federation may order that a special meeting be called to inform the members.

380. The person conducting the inspection of a credit union on behalf of a federation shall in no case be the person entrusted with the audit of the credit union.

DIVISION II

ASSESSMENTS

381. A federation may, by by-law, fix for each fiscal year a regular assessment and any other assessment it considers necessary.

Every affiliated credit union is bound to pay the assessments.

382. A federation may also fix by resolution of its board of directors an assessment in respect of an affiliated credit union which agrees to avail itself of special services offered by the federation.

383. Affiliated credit unions shall furnish to the federation any report that it may require pursuant to its by-laws to fix the amount of the assessments.

DIVISION III

CAPITAL BASE

384. Every federation shall maintain a capital base equal to at least 5% of its total liabilities. The Inspector General may reduce or increase the percentage where he deems it necessary.

Before exercising his power under the first paragraph, the Inspector General shall notify the federation of his intention and give it an opportunity to be heard.

For the purpose of maintaining its capital base, a federation may, by by-law, impose on its affiliated credit unions standards respecting the adequacy of their capital base.

385. The capital base of a federation shall include

- (1) its general reserve and that of each of its affiliated credit unions;
- (2) the qualifying shares issued by each of its affiliated credit unions;
- (3) the preferred shares issued by each of its affiliated credit unions not exceeding 1% of the liabilities of the federation;
- (4) the permanent shares issued by each of its affiliated credit unions, except the permanent shares held by the confederation with which the federation is affiliated, where that is the case;
- (5) the fraction of the security fund, the liquidity fund or the mutual aid fund established and administered by the security fund corporation for the benefit of the credit unions that are affiliated with the federation, equivalent to the amount corresponding to the ratio between the sum of the deposits received by the federation and its affiliated credit unions and the sum of the deposits received by all the credit unions that are members of the corporation and all the federations with which they are affiliated;
- (6) its stabilization fund;
- (7) the fraction of the general reserve of the Caisse centrale Desjardins du Québec equivalent to the amount corresponding to the ratio between the aggregate of the liabilities of the federation and the aggregate of the liabilities of all the federations which are affiliated with the Confédération des caisses populaires et d'économie Desjardins du Québec;
- (8) any other element determined by regulation of the Government.

386. For the purposes of section 385 or 386, the liabilities of a federation shall consist of the deposits received and loans contracted by the federation and its affiliated credit unions, accrued and outstanding interest on such deposits and loans, and other elements determined by regulation of the Government.

In the case of a federation affiliated with the Confédération des caisses populaires et d'économie Desjardins du Québec, the fraction of the liabilities of the Caisse centrale Desjardins du Québec equivalent to the amount corresponding to the ratio between the total indebtedness of the federation and the total indebtedness of all the federations that are affiliated with the said confederation shall also be taken into account.

387. The elements constituting the capital base and the liabilities of a federation and its affiliated credit unions and, where applicable, the Caisse centrale Desjardins du Québec shall be presented in combined form according to generally accepted accounting principles and, where applicable, standards prescribed by regulation of the Government.

388. A federation may, with the authorization of the Inspector General and for the time and on the conditions determined by him, transfer to another federation affiliated with the same confederation all or part of its rights in the fund described in paragraph 5 of section 385.

In such case, the value of the rights transferred shall, for the duration of the transfer and for the purposes of section 385, be deducted from the capital base of the transferring federation and added to the capital base of the federation to which the transfer is made.

Before authorizing the transfer, the Inspector General shall obtain the advice of the confederation.

389. The capital base of a federation shall be reduced by the amount of any investment or credit that is not in compliance with this Act made or extended by the federation or an affiliated credit union, unless it was made or extended before (*insert here the date of the coming into force of this section*) and as long as it is recognized as an asset by the Inspector General on such conditions as he may determine.

390. Where the Inspector General considers that the capital base of a federation is below the level applicable to it or that it is inadequate in view of the operations of the federation or its affiliated credit unions, or where he ascertains that the federation has requested additional assistance from the security fund corporation of which it is a member, he may order the federation or, as the case may be, the confederation with which it is affiliated to adopt to his satisfaction, within the time he prescribes and for the reasons he indicates, a voluntary compliance program for the federation and its affiliated credit unions.

The Inspector General shall, before exercising his powers under the first paragraph, notify the confederation or the federation, as the case may be, of his intention and give it an opportunity to be heard.

391. The voluntary compliance program shall describe the appropriate measures to be applied by the federation to ensure the adequacy of its capital base, within the time limits indicated therein.

392. The voluntary compliance program adopted by a confederation or a federation shall be submitted for approval to the Inspector General, who may approve it with or without alteration.

393. A federation and its affiliated credit unions are bound to implement the voluntary compliance program approved by the Inspector General. In addition, the federation shall be responsible for the implementation of the program by its affiliated credit unions.

The Inspector General may, while a voluntary compliance program is in effect, give to the credit union that is affected by the program and to the federation any written instructions he deems appropriate with respect to the powers exercised by their credit committee.

The Inspector General shall, before exercising his power under the second paragraph, notify the credit union and the federation of his intention and give them an opportunity to be heard.

394. A federation and its affiliated credit unions must furnish to the Inspector General any report he may require on the implementation of the voluntary compliance program, at such intervals, in such form and of such tenor as he may determine.

395. Where, by order of the Inspector General under section 390, a federation is bound by a voluntary compliance program, the powers provided for in section 366 shall, while the program is in effect, be exercised by the confederation with which it is affiliated or, if it is not affiliated, by the Inspector General after he has obtained the advice of the federation.

396. Where a federation fails to implement a voluntary compliance program, the confederation with which the federation is affiliated may, after 15 days from the date of mailing of a formal notice to that effect, implement the program in the place of the federation.

In the same manner, the Inspector General may implement the voluntary compliance program that a federation not affiliated with a confederation has failed to implement.

DIVISION IV

INVESTMENTS

397. A federation may invest in any kind of property.

398. No federation may acquire or hold voting shares issued by a legal person if, as a result of such acquisition, the federation holds or is deemed to hold shares carrying more than 30% of the voting rights attached to all the shares issued by the legal person or to hold shares allowing it to elect more than one-third of the directors of that legal person.

If, following an acquisition of shares by a legal person belonging to the same group as a federation, such federation is deemed to hold shares carrying more than 30% of the voting rights attached to all the shares issued by a legal person or to hold shares allowing it to elect more than one-third of the directors of a legal person, the federation shall divest itself of the shares carrying voting rights in excess of 30% or allowing it to elect more than one-third of the voting rights within two years of their acquisition by the legal person belonging to the same group, unless the federation, within that time, ceases to be deemed to hold such excess.

A federation not affiliated with a confederation may, however, with the authorization of the Minister and on such conditions as he may determine, hold shares carrying more than 30% of the voting rights attached to all the shares issued by the same legal person or allowing it to elect more than one-third of the directors of such legal person.

A federation is deemed to hold the shares held by a legal person belonging to the same group as the federation and by the credit unions affiliated with it, except shares held by a confederation in a holding company controlled by the confederation or shares held by such company.

399. No federation may acquire shares in a holding company controlled by the confederation with which it is affiliated, where that is the case, or shares in a legal person controlled by such a company.

400. No federation may acquire shares in a legal person where such shares are already held, directly or indirectly, by a holding company controlled by the confederation with which it is affiliated.

401. A federation must divest itself of any share it holds in a legal person where the holding company controlled by the confederation with which the federation is affiliated acquires, directly or indirectly, any of such shares.

The federation shall divest itself of the shares within a two-year period. This period shall run from the date of acquisition of the shares by the holding company or the legal person controlled by it.

402. A federation may invest

(1) without any limits, in deposit certificates and promissory notes issued, guaranteed or accepted by the Government of Québec or of Canada, by a municipality or a school board in Québec, by the Conseil scolaire de l'île de Montréal, by a *fabrique* in Québec, by an ecclesiastical, religious or cemetery corporation in Québec, by a savings bank or by an institution registered with the Régie de l'assurance-dépôts du Québec;

(2) an amount corresponding to not more than 3% of the assets of its affiliated credit unions, in units, shares, bonds, debentures or other evidences of indebtedness issued by a legal person of private right and, where the federation is affiliated with the Confédération des caisses populaires et d'économie Desjardins du Québec, in bonds issued by the Confédération;

(3) not more than 7% of its assets in property not contemplated by paragraphs 1 and 2.

403. Every federation shall notify the confederation with which it is affiliated before acquiring voting shares.

404. Every federation not affiliated with a confederation shall keep a register of its own investments in shares and of those of the legal persons belonging to the same group and of its affiliated credit unions.

405. Every federation not affiliated with a confederation shall transmit to the Inspector General, within 30 days of the end of each semester of its fiscal year, a report on the investments in shares entered in the register provided for in section 404, accompanied with a report of the board of supervision attesting that the investments are in compliance with this Act.

406. A federation may demand any information required for the purposes of this division from any legal person belonging to the same group.

407. Where, following an amalgamation, securities held by a federation are replaced by securities which cause the federation to cease to comply with this division, the federation is required to take such action as is necessary to ensure its compliance with the said requirements within five years from the date of amalgamation.

The same rule applies if, as a result of a change concerning the affiliation with a confederation, securities held by a legal person are deemed to be held by a federation.

CHAPTER VIII

FUNDS OF A FEDERATION

DIVISION I

GENERAL PROVISIONS

408. Every federation shall establish, by by-law, a liquidity fund, a deposit fund and an investment fund.

Every federation affiliated with a confederation must comply with the by-laws adopted by the confederation for that purpose. The by-laws of the confederation may require that a federation establish any other fund, and standards for the management of such funds.

Where the federation is not affiliated, its by-laws must be submitted for approval to the Government which may approve them with or without amendment. The by-laws of the federation may provide for the establishment of any other fund.

409. A federation may, with the approval of the Inspector General and on such conditions as he may determine, entrust all or part of the management of the funds it has established to any other person.

The person must undertake, in writing, to transmit to the Inspector General annual statements and any other statement or information he requires and, to allow, for the purpose of verifying the accuracy thereof, the Inspector General to exercise his powers under section 476.

410. Any sum of money deposited into a fund by a credit union constitutes a claim against the federation. However, deposits made into the investment fund constitute a claim only for their net value.

Every deposit becomes payable upon the winding-up of the depositing federation or credit union or upon the disaffiliation of the credit union.

411. The assets of the funds are not separate from those of the federation. However, the federation shall keep separate books and accounts of the operations relating to each fund.

412. Subject to the by-laws governing them, sums of money paid into a fund may be invested only in accordance with the investment and credit powers of a federation.

DIVISION II

LIQUIDITY FUND

413. The liquidity fund of a federation shall consist of the sums that its affiliated credit unions are required to deposit therein under section 264, as well as the income derived from the operations pertaining to such a fund. The object of the fund is to provide to the credit unions affiliated with the federation the liquid assets needed for their operations.

414. No federation may provide any form of advance out of the liquidity fund other than advances to the credit unions which are affiliated with it, made in accordance with the standards prescribed by the regulations and by-laws that are applicable to it.

415. The board of directors shall determine the rate of interest payable on any balance of funds deposited into the liquidity fund by a credit union.

416. No federation may hypothecate, mortgage or pledge or otherwise give as security any asset of the liquidity fund, except to secure a loan made in order to meet short terms requirements for liquid funds arising from its operations or in the case of an advance granted to it under section 40 of the Deposit Insurance Act.

DIVISION III

DEPOSIT FUND

417. The deposit fund of a federation shall consist of the sums deposited by the credit unions which are affiliated with the federation and by auxiliary members, and of the income derived from the operations of the fund.

418. The board of directors shall determine the rate of interest payable on the sums deposited into the deposit fund.

DIVISION IV

INVESTMENT FUND

419. The investment fund of a federation shall consist of the sums entrusted to it by the credit unions which are affiliated with the federation as share deposits, and of the income derived from the operations of the fund.

The sums entrusted to the fund constitute the share of the credit unions of the net assets of the fund and do not bear interest. However, the credit unions shall share the net income therefrom in accordance with the by-laws of the confederation with which the federation of which they are members is itself affiliated or, if it is not affiliated, with the regulations of the Government.

420. The criteria used to establish the credit union share of the investment fund of the federation with which it is affiliated are determined by the by-laws applicable to it pursuant to section 408.

421. The investment fund shall be made up of assets determined by the by-laws applicable to it under section 408, including all the federation's investments in shares, subordinated securities, shares or preferred shares and preferred equity shares and any contributions to a mutual insurance company.

CHAPTER IX

RESERVE AND LIQUID ASSETS

422. Every federation shall, in relation to its operations, establish and maintain a general reserve and maintain such amount of liquid assets as is adequate to meet its requirements, in accordance with the by-laws of the confederation with which it is affiliated or, if it is not affiliated, with the regulations of the Government.

423. The Inspector General may give written instructions to a federation not affiliated with a confederation as to the amount of its general reserve and liquid assets he considers adequate.

Before exercising his powers under the first paragraph, the Inspector General shall inform the federation of his intentions and give it the opportunity to be heard.

424. In determining whether the general reserve and liquid assets of a federation are adequate, the Inspector General shall exclude from it all or part of any credit extended or of any investment made by a

federation contrary to this Act, except if the credit or investment was extended or made before (*insert here the date of coming into force of this section*) and as long as it is recognized as an asset by the Inspector General on the conditions he determines.

425. In the event of the winding-up or dissolution of the federation, the liquidator or Public Curator, as the case may be, shall, after the payments referred to in the first paragraph of section 311 are made, divide the remaining assets, among its affiliated credit unions in proportion to the number of qualifying shares held by each credit union. Where there remains no credit union affiliated with the federation, the liquidator shall transfer the remaining assets to the confederation with which the federation was affiliated or, if it was not affiliated, to a legal person designated by the Government.

CHAPTER X

AUDIT

426. Every federation shall cause its books and accounts to be audited each year by two auditors.

Where the Inspector General appoints an auditor pursuant to section 281, the auditor may act alone.

One of the two auditors shall be appointed by the confederation with which the federation is affiliated, where that is the case.

427. Where the office of the auditor appointed by the federation becomes vacant, the directors shall appoint a replacement. The directors may also appoint a person to exercise the functions of the auditor if the auditor is unable to act.

428. In no case may an auditor of a federation be an officer or an associate of an officer, or an employee of the federation, of a credit union affiliated with it or of the confederation with which the federation is affiliated, unless he is employed in his capacity as auditor by the confederation, or of any other legal person belonging to the same group as the confederation.

429. The Inspector General or any interested person may apply to the Superior Court to obtain the dismissal of an auditor who does not meet the requirements of section 428.

CHAPTER XI

FINANCIAL DISCLOSURE

430. The fiscal year of a federation ends on 31 December each year.

431. The annual report of a federation must include, in addition to the information prescribed under Chapter XVII of Title II,

(1) a statement of the deposits made by its affiliated credit unions in each of its funds, and established by classes of deposits, according to their maturity dates, indicating the average annual yield obtained by each class;

(2) a statement of the credit granted and investments made out of each fund, established according to the various classes of credit or investments and their respective maturity dates, and indicating the average annual yield obtained by each class;

(3) the net value of the investment fund and the method for calculating the value of the fund;

(4) a statement indicating the consolidation value of any investment in shares of the same legal person carrying 20% or more of the voting rights and any investment in voting shares of a controlled legal person;

(5) the statements prescribed under paragraph 4 of section 300, presented in combined form, according to generally accepted accounting principles.

432. At least ten days before the date of the annual meeting, the board of directors shall send to each member a copy of the annual report.

TITLE IV

CONFEDERATIONS

CHAPTER I

INTERPRETATION

433. Except where incompatible, provisions of Title II and Title III and of the regulations made thereunder by the Government for their application apply to a confederation, adapted as required.

The following sections do not apply to a confederation: sections 11 to 19, 68 to 111, 154 to 182, 229 to 255, 257 to 259, 261, 265 to 272, 299, 302, 351, 353 to 358, 385 to 429 and 431.

434. For the application of Title II to a confederation, the provisions of any section relating to a federation or a confederation must be ignored.

For the application of Title III to a confederation, the words “credit union” mean “federation”. In addition, the provisions of any section relating to a confederation must be ignored.

CHAPTER II

INCORPORATION AND CORPORATE NAME

435. Six or more federations may apply for the incorporation of a confederation.

436. The corporate name of a confederation must include the word “confederation”.

CHAPTER III

CAPITAL STOCK

437. The capital stock of a confederation may include preferred shares.

CHAPTER IV

AUXILIARY MEMBERS

438. A federation of savings and credit unions or of cooperatives with objects similar to those of a savings and credit union, incorporated outside Québec, may be admitted as an auxiliary member of a confederation to benefit from the services offered by the confederation.

CHAPTER V

DIRECTORS

439. Unless otherwise prescribed in the by-laws of a confederation, the directors of a confederation shall be elected from among the directors of its affiliated federations.

In no case may the majority of the members of the board of directors be employees of the confederation and of a federation affiliated with it.

CHAPTER VI

OPERATIONS

DIVISION I

GENERAL PROVISIONS

440. In addition to the powers it may exercise under this Act, a confederation may

(1) issue to its members preferred shares of one or more classes, evidenced by certificates stating the amount, the conditions of redemption and the privileges, rights and restrictions or containing a summary and indicating that the full text is available on request, free of charge;

(2) establish a pension plan under paragraph 6 of section 214 for the benefit of the employees of an affiliated federation or a credit union which is a member of such a federation, and their spouses or dependants;

(3) contribute to the establishment and management of any service that may be offered or provided by an affiliated federation or a credit union affiliated with such a federation.

441. A confederation may, by by-law applicable to its affiliated federations and the credit unions affiliated with such federations, establish the amount that shall be allocated to their general reserve and standards relating to the adequacy of their liquid assets.

442. Every confederation shall make by-laws concerning the establishment and management by its affiliated federations of the funds mentioned in Chapter VIII of Title III and pertaining, in particular, to

(1) the share of a credit union in the liquidity fund;

(2) the kinds of property eligible as investments out of the assets of the liquidity fund and the proportion to be maintained between the different kinds of property;

(3) the standards according to which the federation may make advances to a credit union out of the assets of the liquidity fund;

(4) the forms or classes of credit that a federation may extend or of investments it may make out of the assets of the deposit fund;

(5) the kinds of property eligible as investments out of the assets of the investment fund;

(6) the terms and the conditions applicable to the deposits made in each fund;

(7) the method for calculating the rate of interest payable on deposits made into the liquidity fund and in the deposit fund;

(8) the manner of calculating the share of a credit union in an investment fund;

(9) the conditions, restrictions and prohibitions relating to the transfer of assets from one fund to another.

In addition, a confederation may, by by-law, prescribe the establishment of other funds by a federation which is affiliated with it and prescribe standards for their management.

443. Every confederation may, by by-law, establish a separate fund for the purchase of permanent shares issued by the credit unions that are members of its affiliated federations.

The by-law may in addition

(1) prescribe the conditions and method of operation of such a fund;

(2) designate the trust company entrusted with the management of the fund, determine its powers and duties, fix its terms of reference and the method for establishing its remuneration;

(3) prescribe the maximum amount that the trust company may borrow for the purposes of the fund or the method for establishing such amount, the maximum term of the loan, the conditions under which it may be made and the nature of the related security;

(4) fix for each fiscal year of the fund the assessment that each credit union must pay into the fund, or the method for calculating such assessment;

(5) order the winding-up of the fund and determine the procedure therefor;

(6) prescribe any other measure required for the management of the fund.

444. A fund established under section 443 shall receive the sums borrowed for its funding and the proceeds of the sale by the confederation of the permanent shares held by the fund.

445. The sums which constitute a fund established under section 443 shall be deposited with a bank or an institution registered with the Régie de l'assurance-dépôts du Québec and shall be used exclusively for payment of the management costs of the fund, the capital and interest on any amount borrowed for its financing and the purchase price of the permanent shares issued by the credit unions which are members of the federations affiliated with the confederation which has established the fund.

446. The assets of a fund established under section 443 shall be separate from those of the confederation and shall alone serve for the performance of the obligations contracted for the purposes of the fund by the trust company entrusted with the management of such fund.

Notwithstanding the first paragraph, in the event of the winding-up of the confederation, any balance remaining in the fund, after all its debts have been paid, shall be used for the payment of other debts of the confederation.

447. The by-laws of a confederation made under section 441 or 442 shall be submitted to the Government for approval. The Government may approve them with or without amendment.

448. A confederation may exercise, in the place and stead of an affiliated federation and after obtaining its advice, the regulatory powers provided for in section 360.

449. Every confederation shall adopt by-laws applicable to its affiliated federations and the credit unions affiliated with such federations, pertaining to

- (1) reserves for bad debts to be maintained by the credit unions;
- (2) requirements relating to their accounting operations, the books, records and other accounting records they must keep and the preparation and audit of their financial statements;
- (3) the management, conservation and destruction of documents issued or received by a credit union.

450. A confederation may, when making by-laws or decisions by way of resolutions concerning its affiliated federations or the credit

unions affiliated with such federations, establish classes of credit unions, federations or operations, and prescribe standards appropriate to each class.

451. A confederation may give to its affiliated federations, to the credit unions affiliated with such federations and to the holding companies controlled by it, written instructions in order to ensure that the investments they make are in compliance with the provisions of this Act. For this purpose, it may require any pertinent information from them.

The instructions of a confederation are binding on the persons to which they are addressed. The confederation shall send to the Inspector General a copy of such instructions within 10 days of their adoption.

452. Every confederation must establish and maintain an auditing service to audit the financial statements of its affiliated federations and the credit unions affiliated with such federations or, if it does not establish such a service, designate an auditor for each federation and each credit union.

A confederation must also establish and maintain an inspection service for such federations and credit unions.

453. Every confederation shall, at least once a year, inspect the internal affairs and activities of its affiliated federations and the credit unions affiliated with such federations.

454. The purpose of the annual inspection is, in particular, to evaluate the financial policies and practices of the federations and their affiliated credit unions, as well as their internal control system, verify the accuracy of their financial statements and ascertain their compliance with this Act and the regulations that are applicable to them under this Act.

455. The confederation shall render an account of its inspection to the Inspector General, the board of directors and the board of supervision of the federation or credit union concerned.

The confederation shall also render an account to the security fund corporation incorporated at its request of its inspection of the affairs of the credit unions that are members of its affiliated federations.

456. The confederation may convene, separately or jointly, the directors and the members of the credit committee or board of supervision of the inspected credit union or federation to submit and explain its inspection report to them.

457. Following the inspection of a credit union, the confederation may order that a special meeting be called to inform the members.

458. The person conducting the inspection of a federation or of an affiliated credit union, on behalf of the confederation, shall in no case be the person entrusted with the audit thereof.

DIVISION II

INVESTMENTS

459. In no case may a confederation acquire shares in a legal person, except in the case of the shares of a holding company incorporated under the laws of Québec which is or becomes as a result of that acquisition a legal person controlled by the confederation.

Where a confederation ceases to control a holding company, it shall, without delay, divest itself of all shares held by it in that holding company.

460. In no case may a holding company acquire shares in a legal person except

(1) shares in a legal person whose principal activities are those of a trust company, insurance company, mutual fund, securities dealer or savings company where such legal person is or becomes as a result of such acquisition and remains a legal person controlled by the holding company, unless the Minister authorizes, on the conditions he determines, the acquisition of a minority interest;

(2) shares in a legal person whose principal activities consist in leasing or factoring or in providing the confederation, its affiliated federations, a savings and credit union incorporated in Canada or any federation of such savings and credit unions or a legal person belonging to the same group as the confederation, with computer services, management, consulting or supply services or other services that are similar or, in the opinion of the Minister, auxiliary services for the federations affiliated with the confederation or their affiliated credit unions, where such legal person is or becomes as a result of such acquisition and remains a legal person controlled by the holding company;

(3) shares in a legal person whose principal activities consist in holding and managing immovables or, in the case of joint ventures or partnerships, in enterprises whose principal activities consist in holding

and managing immovables, where such legal person is or becomes as a result of such acquisition a legal person controlled by the holding company;

(4) shares in a legal person engaging in commercial or industrial activities or, in the case of joint ventures or partnerships, in enterprises engaging in commercial or industrial activities.

When a holding company directly or indirectly acquires shares in legal persons engaging in activities mentioned in any of the subparagraphs of the first paragraph, in no case may it acquire or hold shares, directly or indirectly, in legal persons engaging in the activities mentioned in another of such subparagraphs.

Subject to the exception provided for in subparagraph 1, where a holding company ceases to control a legal person mentioned in subparagraph 1, 2 or 3, it shall without delay divest itself of all the shares it holds in such legal person.

461. With the exception of the sums deposited in a bank or an institution registered with the Régie de l'assurance-dépôts du Québec and the short-term investments it is authorized to make in accordance with the rules respecting the investment of property belonging to others provided in the Civil Code of Lower Canada, no holding company may invest its funds except in a legal person in which it may acquire shares or an interest.

462. No holding company may acquire shares in a legal person mentioned in subparagraphs 1 to 3 of the first paragraph of section 460 for the purpose of acquiring control of it unless the legal person, by a resolution of its board of directors, a copy of which shall be sent to the Inspector General, makes an undertaking to the confederation and the Inspector General

(1) not to engage in any activity other than those it was exercising at the time of the acquisition as long as it remains controlled by the holding company, unless it has obtained prior authorization in writing from the Inspector General;

(2) to submit to the Inspector General its annual financial statements and any other statement or information he requires and to allow, for the purpose of verifying the accuracy thereof, the Inspector General to exercise his powers under section 476.

463. The directors and officers of a holding company who authorize an investment which is not in compliance with the provisions of this division shall be jointly liable for any resulting losses to the company.

464. Any right of action arising from section 463 may be exercised by

(1) the holding company whose directors or officers authorized the investment;

(2) the confederation which controls the holding company, acting as the mandatary of the holding company, if the holding company has neglected to exercise such right of action after having been formally notified to do so by the confederation;

(3) the Inspector General, acting as the mandatary of the holding company, if the latter and the confederation which controls it have both neglected to exercise such right of action after having been formally notified to do so by the Inspector General.

Where a formal notice is served by a confederation pursuant to subparagraph 2 of the first paragraph, a copy of the notice must be transmitted, at the same time, to the Inspector General.

465. The sole fact that the investments of a holding company are in compliance with this Act does not release the directors of the company from the obligations that are otherwise incumbent upon them.

CHAPTER V

AUDIT

466. Every confederation shall cause its books and accounts to be audited every year by an auditor appointed for that purpose at the annual meeting.

467. In no case may the auditor be an officer, an associate of an officer or an employee of the confederation or of a federation affiliated with it, of a credit union affiliated with such a federation, or a director, an officer or an employee of a legal person belonging to the same group as the confederation.

TITLE V

SUPERVISION AND CONTROL

CHAPTER I

VALUATION OF ASSETS

468. Where the Inspector General is of the opinion that the value of an immovable property securing a claim of a credit union or federation is less than the amount of the loan granted, including accrued and outstanding interest, or where he considers the immovable property to be insufficient security, he may require the credit union or federation, as the case may be, to cause an appraiser approved by him to appraise the property or cause it to be appraised himself.

Following the appraisal, the Inspector General may reduce the book value of the loan of the credit union or of the federation.

469. Where the Inspector General is of the opinion that the market value of any of the assets of a credit union, federation or confederation is less than the book value, he may require the credit union, federation or confederation, as the case may be, to cause an appraiser approved by him to appraise that asset or cause it to be appraised himself.

Following the appraisal, the Inspector General may reduce the book value of the asset of the credit union, federation or confederation.

470. Before requiring an immovable property or any of the assets to be appraised or before appraising it himself, the Inspector General shall notify the credit union, federation or confederation concerned by such an appraisal of his intention and give it an opportunity to be heard. The Inspector General must do the same before assigning to any of such assets a value different from that determined by the appraiser.

The Inspector General shall, in writing, notify the credit union, federation or confederation and its auditor of the reduction made to the book value of one of its assets.

471. Unless the Inspector General decides otherwise, the appraisal shall be made at the expense of the credit union, federation or confederation concerned.

CHAPTER II

INSPECTION, EXAMINATIONS, INVESTIGATIONS AND INQUIRIES
BY THE INSPECTOR GENERAL

472. The Inspector General shall ensure that the operations of every credit union, of the federation with which it is affiliated, and of the confederation with which the federation is affiliated, are audited in accordance with the provisions of this Act.

473. The Inspector General shall also ensure that the internal affairs and activities of every credit union and of the federation with which it is affiliated are inspected.

The Inspector General shall carry out or commission, at least once a year, the inspection of the internal affairs and activities of every confederation.

474. The Inspector General shall carry out or commission, at least once a year, the inspection of the internal affairs and activities of every credit union not affiliated with a federation and of those of every federation not affiliated with a confederation.

475. The annual inspection shall be carried out, in particular, for the purposes of evaluating the financial policies and practices of a confederation, of the federations and of the credit unions and their internal control system, and to verify the accuracy of their financial statements and to ascertain their compliance with this Act and the regulations applicable to them under this Act.

476. The Inspector General may, on his own initiative, carry out or commission such examination and investigation as he considers necessary or expedient into the internal affairs and activities of any credit union, federation, confederation, or holding company with subsidiaries exercising any of the activities mentioned in subparagraph 1 or 2 of the first paragraph of section 460, in order to ensure compliance with this Act, the regulations made thereunder by the Government, his written instructions or a voluntary compliance program.

477. At the request of a credit union's board of directors, of its board of supervision, of 100 of its members if there are 300 or more members or of one-third of its members if there are fewer than 300 members, or of the federation with which the credit union is affiliated, the Inspector General may, in addition, carry out or commission

such examination and investigation as he considers necessary or expedient into the internal affairs and activities of the credit union.

The Inspector General shall render an account of his examination and investigation to the member of the credit union who made the request and to the credit union's board of supervision, to the federation with which it is affiliated and, where applicable, to the confederation with which the federation is affiliated.

The expenses incurred by the Inspector General for any examination or investigations carried out under this section shall be at the expense of the credit union.

478. For the purposes of this Act, every person conducting an inspection or examinations and investigations under this chapter may

(1) enter, at any reasonable time, the place of business of any legal person who is the object of the inspection or an examination and investigation;

(2) examine and make copies from the books, registers, accounts, records and other documents relating to the activities of the legal person;

(3) require any information or document relating to the enforcement of this Act.

Every person entrusted with the keeping, possession or control of the books, registers, accounts, records and other documents shall communicate them to the person conducting the inspection, or the examination and investigation, at his request, and facilitate his examination of them.

479. The person conducting an inspection or an examination and investigation shall identify himself on request and produce a certificate, signed by the Inspector General, attesting his capacity.

480. No person may hinder the work of any person conducting an inspection or an examination and investigation, in particular by misleading him.

481. The Inspector General or his representative, in exercising his powers of inspection, may, if he has reasonable grounds to believe an offence has been committed under this Act or another Act under the administration of the Inspector General or a regulation thereunder made or a by-law approved by the Government, seize any relevant

document provided he leaves a copy with the person from whom it is seized; the Inspector General shall have the safekeeping of the seized document.

The Inspector General shall not detain the seized document for over 90 days unless proceedings are brought within that time. The chief judge or associate chief judge of the Court of the Sessions of the Peace may order the detention period reduced or extended for a further 90 days.

482. The Inspector General may order an inquiry into any matter within his jurisdiction, if he is of the opinion that the public interest requires it.

The Inspector General and any person authorized by him in writing have the powers and immunity of commissioners appointed under the Act respecting public inquiry commissions (R.S.Q., chapter C-37), except the power to order imprisonment.

483. Subject to sections 522 and 523, no person employed by the Government or authorized by the Inspector General to make inspections or inquiries shall communicate or allow to be communicated to anyone any information obtained in accordance with the provisions of this Act or a regulation made thereunder by the Government, or allow anyone to examine a document filed thereunder, except to such extent as he may be authorized by the Inspector General.

Notwithstanding sections 9, 23, 24 and 59 of the Act respecting Access to documents held by public bodies and the Protection of personal information (R.S.Q., chapter A-2.1), only a person generally or specially authorized by the Inspector General himself may have access to such information or document.

CHAPTER III

ORDERS

484. Where, in the opinion of the Inspector General, a credit union, a federation, a confederation, a holding company controlled by a confederation or a legal person controlled by such holding company does not adhere to sound financial practices or is not complying with this Act, the regulations of the Government thereunder, a voluntary compliance program, an undertaking given under this Act or the rules of ethics concerning self-dealing and conflict of interest, the Inspector General may order them to cease such practices and to remedy the situation.

485. The Inspector General's order shall state the reasons which support it and shall be sent to each director of the legal person contemplated by such order. The order shall become effective on the day it is served or on any later date indicated therein.

Before making an order, the Inspector General shall give the contravener at least 15 days' notice indicating the grounds which appear to justify the order, the date on which the order is to take effect and the right of the contravener to be heard.

486. However, the Inspector General may, without prior notice, make a provisional order valid for a period not exceeding 15 days if he is of the opinion that any delay to allow a hearing may be detrimental.

Every order must state the reasons on which it is based and shall become effective on the day it is served to the person contemplated by it. The latter may, within six days of receipt thereof, apply in writing to the Inspector General for a hearing.

487. The Inspector General may revoke an order made under this chapter.

CHAPTER IV

INJUNCTION

488. The Inspector General may, by a motion, apply to a judge of the Superior Court for an injunction in respect of any matter relating to this Act or the regulations made by the Government thereunder.

The motion for an injunction is an action.

The procedure prescribed in the Code of Civil Procedure applies, except that the Inspector General cannot be required to give security.

CHAPTER V

PROVISIONAL ADMINISTRATION

489. The Minister may, on the recommendation of the Inspector General, suspend the powers of the board of directors, the credit committee or the board of supervision of a credit union, federation or confederation, as the case may be, and appoint a provisional administrator to exercise the powers thereof for such period as the Minister may determine if he has grounds to believe

(1) that the credit union does not maintain a capital base which is in compliance with the by-laws of the federation with which it is affiliated or, where the credit union is not affiliated with any federation, with the provisions of this Act;

(2) that the federation does not maintain a capital base which is in compliance with the provisions of this Act;

(3) that the assets of the credit union or the federation are inadequate to ensure efficient protection of the depositors, creditors and members;

(4) that the credit union, the federation or the confederation, as the case may be, does not adhere to sound financial or administrative practices;

(5) that the credit union or the federation does not comply with the Inspector General's written instructions concerning a voluntary compliance program;

(6) that there has been misappropriation of property;

(7) that there has been a serious offence, especially embezzlement or breach of trust by one or more members of the board of directors, of the credit committee or of the board of supervision, or that such members have been seriously remiss in the performance of the obligations imposed on them by this Act or the regulations made thereunder by the Government.

The person appointed by the Minister may authorize any person to exercise the powers provided for in the first paragraph.

490. Before exercising his powers under section 489, the Minister shall give the members of the board of directors, of the credit committee or of the board of supervision whose powers are suspended the opportunity to be heard. He shall also give the federation or the confederation with which the credit union or the federation is affiliated, as the case may be, the opportunity to be heard.

However, where it is imperative to do so, the Minister may order the suspension, for a period not exceeding 15 days, without giving the members referred to in the first paragraph, and the federation or the confederation, as the case may be, the opportunity to be heard.

491. Where the powers of the board of directors are suspended, the provisional administrator shall exercise, in addition to the powers of the board of directors, those of the general meeting.

492. The provisional administrator shall remain in office until the expiry of the period for which he has been appointed, unless the Minister prolongs his term of office or terminates it earlier.

493. The provisional administrator cannot be prosecuted by reason of any act done in good faith in the performance of his duties.

494. The provisional administrator shall submit to the Minister, as soon as possible, a detailed report of his findings, together with his recommendations.

He shall also submit, at the Minister's request, any supplementary report.

495. The provisional administrator shall, at the end of his term of office, make a complete report of his administration to the Minister.

496. The Minister, after considering the report of the provisional administrator, may

(1) rescind, on such conditions as he may determine, the suspension of the powers of the board of directors, of the credit committee or of the board of supervision, or extend such suspension for such period as he may determine;

(2) dismiss from office the members of the board of directors, of the credit committee or of the board of supervision and order the provisional administrator to call a special meeting to elect new members;

(3) order, on such conditions as he may determine, the winding-up of the credit union, the federation or the confederation and appoint a liquidator.

Any member of the board of directors, of the credit committee or of the board of supervision who is dismissed from office under this section becomes disqualified from sitting as a member of the board of directors, of the credit committee or of the board of supervision of any credit union, federation or confederation for a period of five years from the date of his dismissal.

497. The decision of the Minister ordering the winding-up of the credit union, the federation or the confederation has the same effect as an order made by a judge of the Superior Court under section 24 of the Winding-up Act. Division IV of the said Act and sections 308 and 310 to 317 of this Act, adapted as required, apply to the winding-up.

For the application of the Winding-up Act, “company” means a credit union, federation or confederation, as the case may be, and “shareholder” means a member of a credit union, federation or confederation. In addition, where a provision of the said Act requires the vote of shareholders representing a fixed proportion of the capital stock of a company, the provision is considered to require the vote of a number of members of the credit union, federation or confederation, corresponding to the proportion specified in value.

In the case of such a winding-up, the order is final. However, the Minister may terminate the winding-up where the interest of the members justifies it.

498. The costs, fees and outlays of the provisional administration shall be borne by the credit union, federation or confederation concerned by the provisional administration, unless the Minister orders otherwise.

CHAPTER VI

REPORTS OF THE INSPECTOR GENERAL

499. The Inspector General shall each year submit a report to the Minister on the financial position of the credit unions, federations and confederations. The report shall include any other information considered appropriate by the Inspector General or that the Minister may require.

500. The Minister shall on or before 30 June each year table in the National Assembly a report of the Inspector General on the state of affairs of the credit unions, federations and confederations. If the National Assembly is not sitting at the appointed date, the report shall be tabled within 15 days from the beginning of the next session or resumption.

TITLE VI

REGULATIONS OF THE GOVERNMENT

501. The Government may, by regulation,

(1) prescribe the fees exigible for any formality or procedure prescribed under this Act and the regulations made thereunder by the Government and for the examination or reproduction of documents as well as the terms and conditions of payment of such fees;

(2) prescribe, for the purposes of sections 37, 49 and 61, the documents which must be filed with the articles;

(3) prescribe standards, conditions and restrictions relating to the credit that an unaffiliated credit union may extend to its members;

(4) prescribe the items which, in addition to those provided for in this Act, may be added to or deducted from the capital base of a credit union or federation;

(5) prescribe the items which, in addition to those provided for in this Act, constitute the liabilities of a credit union or federation;

(6) prescribe standards relating to the valuation of the assets and liabilities of a credit union or federation;

(7) prescribe the additional information that must be stated by the auditor in a report under section 288 or 296;

(8) prescribe the additional information that must appear in the annual report of a credit union, a federation or a confederation;

(9) prescribe standards relating to the accounting, on a combined basis, of the elements which constitute the capital base and the liabilities of a federation, of the credit unions affiliated with the federation and, where applicable, of the Caisse centrale Desjardins du Québec;

(10) prescribe standards relating to the adequacy of the general reserve and liquid assets that must be maintained by a federation not affiliated with a confederation;

(11) prescribe conditions and restrictions governing the flow of information within a credit union or a federation of credit unions, to and from a credit union and legal persons belonging to the same group as the federation with which it is affiliated or to and from a credit union, or a federation, and a restricted party, with a view to reducing the risks of conflicts of interest;

(12) prescribe standards designed to ensure the protection of the public and the confidentiality of information where a credit union or a federation of credit unions offers for sale the products of a financial institution;

(13) prescribe standards governing arrangements between a credit union and a federation with which it is affiliated and legal persons belonging to the same group as the federation with which it is affiliated, for the sale of their financial products, and conditions permitting such arrangements to be made;

(14) prescribe the time when and the manner in which the depositors of a credit union must be informed of the charges which relate to their deposits, and the other requirements for their valid information;

(15) prescribe the time when and the manner in which depositors must be informed of the rates and method of computing interest on their deposits, and the other requirements for their valid information;

(16) determine the maximum charge that a credit union may require from a person for the services it provides to him;

(17) limit, in the cases it determines, the total par value of permanent shares that credit unions may issue to each of their members;

(18) prescribe standards relating to the disclosure of the characteristics of the various shares which credit unions may issue and conditions governing their issue on the market;

(19) determine the provisions of the regulations under this section which it will be an offence to contravene.

502. The Government may make regulations on subject-matters referred to in section 419 or 442 which are applicable to a federation not affiliated with a confederation and to the credit unions which are affiliated with such a federation.

503. The Government may, in the place and stead of a federation not affiliated with a confederation and after obtaining the advice of the federation, exercise the regulatory powers conferred on the federation under section 360.

Notwithstanding the foregoing, no regulation made by the Government under the first paragraph may amend, replace or repeal the prescriptions of a by-law of the federation except to such extent as may be expressly indicated therein.

Such a regulation is deemed to be a by-law of the federation and the federation may amend, replace or repeal it.

504. The Government may, in the place and stead of a confederation and after obtaining the advice of the confederation, exercise the regulatory powers conferred on the confederation under sections 442, 443 and 448.

Notwithstanding the foregoing, no regulation made by the Government under the first paragraph may amend, replace or repeal the prescriptions of a by-law of the confederation except to such extent as may be expressly indicated therein.

Such a regulation is deemed to be a by-law of the confederation and the confederation may amend, replace or repeal it.

505. In exercising its regulatory powers, the Government may establish various classes of credit unions, federations, confederations and holding or investment companies and prescribe appropriate rules for each class.

TITLE VII

PENAL PROVISIONS

506. Every person who contravenes any provision of the second paragraph of section 21, of section 24, 27, 72, 73, 79, 82, 87, 260 or 274, of the first paragraph of section 276 or of section 284, 332, 333, 372, 414, 452 or 467 is guilty of an offence.

507. Every legal person who, through his title, his designation or other means, represents himself falsely as an institution governed by this Act is guilty of an offence.

508. Every person who omits or refuses to furnish any information, report or other document that are required to be furnished under this Act is guilty of an offence.

509. Every person who knowingly gives the Minister, the Inspector General or any other person false or misleading information, reports or other documents that are required to be furnished under this Act, is guilty of an offence.

510. Every person who omits or refuses to keep a book or a register required under this Act or to make a required entry therein is guilty of an offence.

511. Every person who knowingly makes a false or misleading entry required under this Act in a book or register is guilty of an offence.

512. Every person who hinders a person conducting an inspection or an investigation, filing an application or making an audit under this Act in the exercise of his duties, is guilty of an offence.

513. Every person who fails to comply with an order or written instruction issued or given by the Inspector General under section 25, 233, 240, 263, 368, 394, 423, 484 or 486 is guilty of an offence.

514. Every person found guilty of an offence described in sections 506 to 514 is liable, in addition to costs, to a fine of not less than \$200 nor more than \$2 000 in the case of a natural person and of not less than \$600 nor more than \$30 000 in the case of a legal person.

Every person found guilty of an offence described in the regulations made under paragraph 19 of section 501 is liable, in addition to costs, to a fine of not less than \$200 nor more than \$2 000 in the case of a natural person and of not less than \$600 nor more than \$30 000 in the case of a legal person.

In determining the fines, the court shall take particular account of the damage involved and the benefits derived as a result of the commission of the offence.

515. Every credit union or federation which, contrary to sections 243 and 251 to 254, engages in a transaction with a person whom it knows to be a restricted party, and every officer who authorized such a transaction, are guilty of an offence.

Every person found guilty of an offence described in the first paragraph is liable, in addition to costs, to a fine of not less than \$600 nor more than \$30 000.

516. For each subsequent offence within two years of conviction for an offence under the same provision, the minimum and maximum fines provided for in sections 514 and 515 shall be doubled.

517. Every person who, by act or omission, aids another in committing an offence may be found guilty of the offence as if he had committed it himself, if he knew or should have known that his act or omission would probably result in aiding in the commission of the offence.

518. Every person who abets, counsels or commands another to commit an offence may be found guilty of the offence and of any other offence committed by the other as a result of the abetment, counsel or command, if he knew or should have known that his action would probably result in the commission of the offence.

519. Proceedings taken under this Act are instituted by the Attorney General or by a person generally or specially authorized by him in writing to that effect.

TITLE VIII

MISCELLANEOUS PROVISIONS

520. The Inspector General is the custodian of all registers and records required for the administration of this Act.

521. The Inspector General shall register all documents the registration of which is required under this Act by depositing them in a register together with a certificate establishing, over his signature, that it is an authentic document, the date of registration and the numbers of the volume and folio of the register in which that document is deposited.

522. The Inspector General shall preserve and keep open for examination by the public, during office hours, the registers used for registration purposes under this Act.

523. The Inspector General shall furnish and deliver copies of the documents he registers pursuant to this Act and of the certificate of their registration and issue, over his signature, to all persons requiring them, certificates relating to those objects.

524. The certificates issued by the Inspector General, the duplicates of articles attached thereto and all documents issued by the Inspector General under this Act shall be held to be authentic.

The signature of the Inspector General on copies of documents, registers and records is proof of the fact that these documents exist and are lawfully in his possession.

Any copy signed by the Inspector General is equivalent to the original itself in any court of justice, and any document or copy purporting to bear his signature is deemed to do so until proof of the contrary.

Every copy of the registration made at full length of articles and other documents the registration of which is required under this Act, duly certified by the Inspector General, is deemed authentic and is evidence of their registration, and has the same effect as the production in court of these articles or documents.

525. The Inspector General may correct an incomplete certificate or a certificate containing an error.

The completed or corrected certificate is deemed to have been issued on the date shown in the certificate that it replaces or on the date that should have been shown in it, where such is the case.

526. If a completed or corrected certificate materially amends the incomplete certificate or the certificate containing an error, the Inspector General shall give notice thereof in the *Gazette officielle du Québec*.

527. It shall not be necessary in any proceedings to produce the original of any book, document, order or register in the possession of the Inspector General; a copy or extract certified true by him shall be sufficient proof of the original.

528. The production of the affidavit of a member of the personnel of the Inspector General makes proof before the court of the signature and quality of the signatory.

529. The Inspector General may, of his own motion and without notice, intervene in any civil action respecting a provision of this Act or the regulations of the Government thereunder to take part in the investigation or hearing as if he were a party.

530. The costs incurred for the administration of this Act, determined each year by the Government, shall be charged to the unaffiliated credit unions and to the federations.

531. The amount of costs exigible from each unaffiliated credit union shall correspond to the sum of the following amounts:

(1) a minimum amount fixed each year by the Government for each credit union;

(2) an amount corresponding to the product obtained by multiplying the sum of the average assets of all the credit unions at the end of the preceding year by the fraction corresponding to the average assets of the credit union at the end of the same year over the said sum.

532. The amount of the costs exigible from each federation shall correspond to the sum of the following amounts:

(1) a minimum amount fixed each year by the Government for each of its affiliated credit unions;

(2) an amount corresponding to the product obtained by multiplying the sum of the average assets of all the credit unions at the end of the

preceding year by the fraction corresponding to the sum of the average assets of all of its affiliated credit unions at the end of the same year over the sum of the average assets of all the credit unions at the end of the same year.

533. For the purposes of sections 531 and 532, the average assets are considered equal to the amount represented by the sum of the assets from the beginning and end of the preceding year, divided by two.

534. To determine the amount of the costs exigible for the purposes of this Act, the unaffiliated credit unions and the federations must furnish to the Inspector General such report or information as the latter may require.

535. Every credit union affiliated with a federation must, at the request of such federation, pay to it an amount calculated in accordance with section 531.

TITLE IX

AMENDMENTS

536. Section 25 of the Deposit Insurance Act (R.S.Q., chapter A-26) is amended by replacing the words “make loans” in the last line of subparagraph *a*, by the words “extend credit”.

537. Section 42 of the said Act is amended by adding, at the end of the second paragraph, the following sentence: “The Inspector General may, in place of an examination of the affairs of an institution governed by the Savings and Credit Unions Act, transmit to the Régie a report on the inspection or the examinations and investigations carried out under Chapter II of Title V of the said Act with reference to the period that the Régie determines.”

538. Section 44 of the said Act is repealed.

539. Section 245 of the Act respecting insurance (R.S.Q., chapter A-32) is amended by inserting the words “permanent shares” before the word “or” in the second line of subparagraph *a* of the first paragraph.

540. The Act respecting caisses d'établissement (R.S.Q., chapter C-5) is repealed.

541. Section 29 of the Chartered Accountants Act (R.S.Q., chapter C-48) is amended by replacing the figures “43, 82, 89, 93 and 135” in the first line by the figures “112, 278 to 298, 372 to 375, 378 to 381, 426 to 429, 452 to 458 and 477”.

542. Section 26 of the Act respecting security fund corporations (R.S.Q., chapter C-69.1) is amended by adding, at the end, the following paragraph:

“(7) provide in the place and stead of a federation guarantees for the purposes of section 12 of the Savings and Credit Unions Act.”

543. Section 3 of the Consumer Protection Act (R.S.Q., chapter P-40.1) is amended by replacing the figure “77” in the second line of the first paragraph by the figure “212”.

544. Section 3 of the Securities Act (R.S.Q., chapter V-1.1), amended by section 1 of chapter 41 of the statutes of 1984, is again amended

(1) by replacing the word “share” in the first line of paragraph 4 by the words “qualifying share”;

(2) by inserting, in the second line of paragraph 4 and after the word “federation”, the words “or a confederation”.

545. Section 154 of the said Act is amended

(1) by replacing the word “or” in the seventh line of paragraph 1 by a comma;

(2) by inserting the words “or a confederation” after the word “federation” in the seventh line of paragraph 1.

546. Section 156 of the said Act, amended by section 19 of chapter 40 of the statutes of 1987, is again amended

(1) by replacing the word “or” by a comma in the first line of paragraph 6;

(2) by inserting after the word “federation” in the first line of paragraph 6 the words “or a confederation”.

547. Section 1 of the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec (1971, chapter 80), amended by section 2 of chapter 90 of the statutes of 1979 and by section 1 of chapter 60 of the statutes of 1980, is replaced by the following section:

1. In addition to its objects under section 5 of the Savings and Credit Unions Act (1988, chapter *insert here the chapter number of that Act in the annual volume of statutes for 1988*), the Confédération des caisses populaires et d'économie Desjardins du Québec shall also pursue the objects of a savings and credit union.

Notwithstanding any contrary provision of the Savings and Credit Unions Act, paragraphs 1 to 4 and 6 of section 213, sections 242, 244 to 250 and 422 to 425 of the said Act adapted as required apply to the Confederation, except where incompatible."

548. Section 2 of the said Act, amended by section 1 of chapter 102 of the statutes of 1978 and by section 2 of chapter 60 of the statutes of 1980, is again amended by replacing the second paragraph by the following paragraph:

"These corporations are deemed to belong to the same group as the Confederation, for the purposes of section 8 of the Savings and Credit Unions Act and section 335 of the said Act, adapted as required, applies to these corporations."

549. Section 5 of the said Act is repealed.

550. Section 7 of the said Act, amended by section 4 of chapter 60 of the statutes of 1980, is again amended by striking out the second sentence of the third paragraph.

551. Section 9 of the said Act, amended by section 2 of chapter 102 of the statutes of 1978 and by section 6 of chapter 60 of the statutes of 1980, is again amended

(1) by replacing, in subsection 1, the lines preceding paragraph *a*, by the following:

9.(1) Notwithstanding section 459 of the Savings and Credit Unions Act, the Confederation may acquire the shares or member shares held by the members referred to in section 2. It may, for that purpose:";

(2) by striking out paragraphs *c*, *d* and *e* of subsection 1;

(3) by replacing the words "The savings and credit unions" in the first line of the first paragraph of subsection 2 by the following: "Subject, with regard to credit unions, to section 259 of the Savings and Credit Unions Act, credit unions";

(4) by replacing subsection 3 by the following subsection:

“(3) Notwithstanding section 262 of the Savings and Credit Unions Act, the Confederation and the member federations, with the authorization of the Confederation, may guarantee the financial engagements of the members referred to in section 2 and of the corporation mentioned in Schedule B.”

552. Section 9*b* of the said Act, enacted by section 2 of chapter 78 of the statutes of 1975 and amended by section 7 of chapter 60 of the statutes of 1980, is repealed.

553. Section 9*c* of the said Act, enacted by section 2 of chapter 78 of the statutes of 1975, is repealed.

554. Section 9*d* of the said Act, enacted by section 1 of chapter 46 of the statutes of 1979, is repealed.

555. Section 21 of the said Act, amended by section 17 of chapter 60 of the statutes of 1980, is again amended by replacing the second paragraph by the following paragraph:

“Such percentage must include investments referred to in paragraph 3 of section 402.”

556. Section 35 of the said Act, enacted by section 2 of chapter 46 of the statutes of 1979, is repealed.

557. Section 43 of the said Act, enacted by section 2 of chapter 46 of the statutes of 1979, is amended by striking out the words “for such purposes, they may hypothecate their immoveables and mortgage and pledge their moveable property”.

TITLE X

TRANSITIONAL AND FINAL PROVISIONS

558. The Savings and Credit Unions Act (R.S.Q., chapter C-4) in force on (*insert here the date of the day preceding the day of coming into force of this section*) applies to the applications for the incorporation and amalgamation of credit unions, federations and confederations filed with the Minister responsible until that date.

559. Declaration of foundation and deeds of agreement for the amalgamation of credit unions, federations and confederations that have

been approved by the minister responsible before (*insert here the date of coming into force of this section*) are deemed to be the articles of such credit unions, federations and confederations for the purposes of this Act and of section 564.

560. A director of a credit union, federation or confederation, elected in accordance with the provisions of the Savings and Credit Unions Act (R.S.Q., chapter C-4), in office at the time of the coming into force of the provisions of this Act which pertain to the capacity of a director and which would apply to him, shall remain in office until the expiration of his term.

The same applies to a member of a credit committee or a board of supervision elected in accordance with the provisions of the Savings and Credit Unions Act (R.S.Q., chapter C-4), in office at the time of the coming into force of the provisions of this Act which pertain to the capacity of these members and which would apply to them.

561. Sections 246, 247 and 248 shall apply only with regard to accounts which become inactive accounts within the meaning of section 245 after (*insert here the date occurring seven years from the date of assent to this section*).

562. Shares issued by a credit union, federation or confederation, other than qualifying shares, remain shares to which the provisions of the Savings and Credit Unions Act (R.S.Q., chapter C-4) that pertain to their repayment and to the payment of interest on the amounts paid for these shares shall apply. Interest which has been calculated on these shares before (*insert here the date of coming into force of this section*) shall remain payable.

563. A credit union or a federation extending credit or granting loans otherwise than in accordance with this Act on (*insert here the date of coming into force of this section*), shall have two years from that date to comply with it.

However, an unaffiliated credit union or a federation that holds shares that, by virtue of the second paragraph of section 259 and section 398, it would not be authorized to acquire or hold shall have five years from that date to dispose of them.

The Inspector General may grant an extension on the conditions he determines.

564. An unaffiliated credit union or a federation whose capital base is not at least equal to the level prescribed by this Act on (*insert here the date of coming into force of this section*) shall have two years from that date to comply with it.

The Inspector General may grant an extension on the conditions he determines.

565. The Inspector General may for the first fiscal year ending after *(insert here the date of coming into force of this section)* exempt a credit union, federation or confederation, on the conditions that he determines, from compliance with all or some of the provisions of sections 300 and 431.

566. A federation shall, if on *(insert here the date of coming into force of this section)* its fiscal year does not coincide with the calendar year, extend it until it ends with the calendar year.

567. A federation affiliated with a confederation must, before *(insert here the date occurring three months after the date of coming into force of this section)*, provide the confederation with a list of its own investments in shares, indicating the percentages of voting rights attached to these shares.

A federation unaffiliated with a confederation and a confederation must, within six months following *(insert here the date of coming into force of this section)*, transmit to the Inspector General a list of their own investments in shares and those of the legal persons belonging to the same group. This list must indicate the percentages of voting rights attached to these shares.

568. A federation shall, in the year following the adoption of the by-laws of the confederation with which it is affiliated, where that is the case, or following approval by the Government of a by-law providing for the establishment of its liquidity fund, deposits fund and investment fund:

(1) establish, in conjunction with the confederation with which it is affiliated, where such is the case, a plan for allotting its assets to each of these funds;

(2) carry out, after approval of the plan for allotment by the Inspector General, the allotting of its shares in accordance with the plan and the by-laws which are applicable.

No by-law referred to in the first paragraph may come into force before one year from the date of its adoption or, as the case may be, its approval.

569. In any Act, or statutory instrument, or in any contract or other document, unless the context indicates otherwise

(1) a reference to the Savings and Credit Unions Act or to any of its provisions is a reference to this Act or to the corresponding provision of this Act;

(2) the expression “federation within the meaning of the Savings and Credit Unions Act” means “a federation and a confederation” within the meaning of this Act;

(3) the expression “bodies governed by the Savings and Credit Unions Act” means a “credit union, federation and confederation” governed by this Act;

(4) the expression “legal person who is not governed by the Savings and Credit Unions Act” includes a holding company referred to in section 459.

However, a reference to the Savings and Credit Unions Act or to any of its provisions in the Act respecting the caisses d’entraide économique (R.S.Q., chapter C-3), the Act respecting certain caisses d’entraide économique (R.S.Q., chapter C-3.1), the Act respecting the sociétés d’entraide économique (R.S.Q., chapter S-25.1), the Cooperative Syndicates Act (R.S.Q., chapter S-38) and Division III of the Act respecting La Confédération des caisses populaires et d’économie Desjardins du Québec (1971, chapter 80) remains a reference to the Savings and Credit Unions Act (R.S.Q., chapter C-4) or to one of its provisions.

570. The Minister shall, on or before (*insert here the date of the day occurring five years after the date of coming into force of this section*), make a report to the Government on the implementation of this Act and every five years thereafter on the advisability of keeping it in force, or of amending it, as the case may be.

The report shall be tabled before the National Assembly within the ensuing 15 days if it is sitting, or if not, it shall be filed with the President of the National Assembly.

[[**571.** The sums required for the administration of this Act shall be taken, for the financial year (*insert here the two years covered by the financial year in which this section comes into force*) and to the extent that the Government determines, out of the consolidated revenue fund.]]

572. The Inspector General of Financial Institutions is responsible for the enforcement of this Act.

573. The Government shall designate the minister responsible for the administration of this Act.

574. The Savings and Credit Unions Act (R.S.Q., chapter C-4) is replaced by this Act, to the extent indicated by the orders made pursuant to section 575, except for the purposes of the Act respecting the caisses d'entraide économique (R.S.Q., chapter C-3), the Act respecting certain caisses d'entraide économique (R.S.Q., chapter C-3.1), the Act respecting the sociétés d'entraide économique (R.S.Q., chapter S-25.1) and Division III of the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec.

575. The provisions of this Act come into force on the date or dates fixed by the Government, except those of section 342, of the second paragraph of section 439 and of section 555 which shall come into force on (*insert here the date of the day occurring two years from the date of assent to this Act*).

Every order made under this section shall indicate which provisions of the Savings and Credit Unions Act (R.S.Q., chapter C-4) are replaced by the provisions of this Act which are put into force by the order.

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