



Deposit Guarantee Corporation of Manitoba
La Société d'assurance-dépôts du Manitoba

Guideline

Subject: Prudent Person (CUCM)

Guidance on Investment and Lending

Effective Date: July 1, 2022

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1.0 Overview

On July 1, 2022, DGCM issued new Prudential Standards pursuant to s. 159.2 of The Credit Unions and Caisses Populaires Act. Credit Union Central of Manitoba (CUCM) must comply with the Prudential Standards (s. 159.2).

The Prudential Standards are available at this link:

<https://web2.gov.mb.ca/laws/regs/annual/2022/090.pdf>

The purpose of these Prudent Person Guidelines is to describe CUCM's obligations under Part 4 of the Prudential Standards which require CUCM to follow a prudent person approach respecting investment and lending.



2.0 Prudent Person Approach

CUCM's board of directors must follow a prudent person approach for investing and lending. CUCM must establish and adhere to investment and lending policies, standards, and procedures that a reasonable and prudent person would apply to a portfolio of investment and loans to avoid undue risk of loss and to obtain a reasonable return.

A key risk facing CUCM is the risk of loss, capital impairment, or liquidity deficiency associated with managing the Liquidity Pool. As the liquidity manager for credit unions and the caisse (cu/caisse), CUCM manages a substantial portion of cu/caisse liquid assets. CUCM should align its investment and lending risk management practices with its liquidity risk management framework.

Another investment risk facing CUCM is the risk from holding foreign currency. Unpredictable changes in currency rates may negatively impact earnings and net asset values.

Under CUCM's current business model, material lending is restricted to loans provided to cu/caisse as part of CUCM's role as the manager of the liquidity pool.

DGCM's **Systemic Liquidity Risk Guidelines (CUCM)** describes additional requirements for managing systemic liquidity risks which includes providing loans to cu/caisse.

2.1 Investment and Lending Policies

CUCM must have written investment and lending policies. These policies should ensure that investing and lending decisions consider CUCM's capital position, ability to absorb losses, overall risk philosophy, risk tolerances and risk appetite statements.

The policies should also establish exposure limits to counterparties and to market, interest rate, and currency risks.

CUCM's board should regularly review the investment and lending policies and approve prudent investment strategies. It should also establish appropriate risk tolerances and targets. The board may delegate to management the responsibility for the day to day implementation and monitoring; however, ultimate responsibility rests with the board.



2.2 Investment Policy Requirements

CUCM's Investment Policy should prioritize the goal of meeting the liquidity needs of cu/caisse and mitigating systemic liquidity risk.

CUCM's Investment Policy should set limits for investing in different types of instruments, including, cash, equities, bonds and debentures, and real property. Limits should also be established based on exposure to specified industries and geographic regions.

The Investment Policy should also set limits on investments according to their quality. For example, CUCM may use ratings from recognized rating agencies in establishing quality criteria for its investments. Internal criteria should be established for non-rated investments.

CUCM's Investment Policy should contain restrictions on investments in cases or identified stress scenarios where investment losses could impair CUCM's capital or its ability to meet other regulatory or internal capital and liquidity targets.

CUCM's Investment Policy should establish limits to contain the risks arising from potential changes in currency or interest rates. CUCM's investment policy should outline the circumstances in which derivative instruments can be used. In addition, it should establish limits on the use of and exposures to derivative instruments by type of instrument (e.g. swaps, options, futures, foreign exchange contracts) and by counterparty.

CUCM's Investment Policy should establish limits on investment in subsidiary or affiliated entities.

2.3 Procedures

CUCM must have written internal procedures outlining how investment and lending policies will be implemented and monitored. Implementation should be by persons, either on staff or under contract, with the appropriate level of expertise. Procedures should address exposures arising from both on-balance sheet and off-balance sheet items.

The procedures should:

- identify responsibilities and accountabilities;
- set out the process for recommending, approving, and implementing decisions;
- set out a process for identifying and monitoring exposures and risks; and
- prescribe the frequency and format of reporting.



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Potential sources of conflict of interest should be identified. Procedures should be in place to ensure that those involved with the implementation of investment and lending policies understand how conflict situations could arise and how they should be addressed. This should include provisions for reporting conflict of interest situations.

2.4 Regulatory Approval: Investment Policy

CUCM must obtain DGCM approval of its Investment Policy and DGCM may require CUCM to amend its Investment Policy. This approval requirement is restricted to policy that deals with CUCM investment of cu/caisse liquidity reserves. Sections 4.4 to 4.6 of the Prudential Standards sets out the framework for these rules.

CUCM cannot make any investments contrary to its Investment Policy.

