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Introduction

This policy provides the framework for Vancouver City Savings Credit Union (Vancity) to identify, monitor and report on transactions with related parties in accordance with the *Financial institutions Act* (FIA).

In addition, the Credit Union Incorporation Act (CUIA) requires members of the Board to declare conflicts of interest. This policy provides a framework to identify, monitor, and report on conflicts of interest of directors and employees identified as related parties.¹

A conflict of interest occurs when an individual has a private interest that may compromise their duty to Vancity. This conflict may be an actual or a perceived² conflict of interest.

Vancity and its subsidiaries that are governed by the FIA, must enter into transactions with related parties only as permitted by the legislation

Related Party transactions are monitored to

- fulfill regulatory requirements
- prevent self dealing, and
- the exercise of undue influence by related parties

Due diligence in the identification, monitoring and reporting of related party transactions will serve to

- protect member and organizational assets
 - protect reputational risk, and
 - provide transparency on reporting of related party transactions
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Exclusion

Vancity Community Investment Bank is excluded from this policy as it is governed by the Bank Act. It has its own policies on related party transactions.

Legislation

Section 144 of the FIA defines a related party which includes both individuals and legal entities. In addition to complying with the FIA and this Policy, Vancity will ensure related parties are informed of their duties and have a clear understanding of their responsibilities on regulatory requirements pertaining to disclosure in conducting transactions or business with Vancity.

| Related Party | Summary of Definition under Section 144 of the FIA |
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¹ Employees who are not related parties should refer to the employee [Code of Conduct](#) for guidance on conflicts of interest.

² A perceived conflict occurs when an individual's private interest may appear to influence their actions at Vancity. Poor management of a perceived conflict can result in reputational damage for the organization, and therefore transparent reporting of perceived conflicts is essential for good governance.

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| Individuals | If they hold positions of responsibility or otherwise have an ability to influence transactions to the advantage of themselves or another entity over those of Vancity. |
| Entity | If it is controlled by a person who is a related party to Vancity. |

Section 82.2 of the CUIA sets out the requirements for directors to disclose conflicts of interest. Section 112 (2) (b) of the FIA, requires the conduct review committee to establish written procedures in order to identify, prevent, and resolve conflicts of interest situations.

Related Parties

The following table outlines the Related Parties as defined by the Financial Institutions Act and Vancity

| Type | Related Parties |
|---------------------|---|
| Board of Director | All Board Members |
| Senior Officers | <ul style="list-style-type: none"> • Members of the Executive Leadership Team (ELT) • Management with titles of Vice President • Corporate Secretary • Other Vancity management designated as related parties by the CFO, CRO or Corporate Secretary • Management appointed or elected as ex-officio to the Risk Committee. |
| Family Members | <ul style="list-style-type: none"> • Spouses or common-law partner of a director or senior officer • Children (under the age of 18 years) of a director or senior officer • Children (under the age of 18 years) of a spouse or common-law partner of a director or senior officer • Dependents of a director or senior officer • Dependents of a spouse or common-law partner of a director or senior officer • Any relative of a director or senior officer who resides in the same household |
| Enterprises | Enterprises (including sole proprietorships, partnerships, corporations, and trusts) in which Board members/senior officers or their spouses or children under the age of 18 have a material, direct or indirect ownership, interest (≥ 50%). |
| External Audit Firm | The partners of Vancity's external audit firm that are actively engaged in the audit of Vancity. |
| Corporate Solicitor | a solicitor who: <ul style="list-style-type: none"> (a) Is employed as the General Counsel of a credit union; (b) Is a sole practitioner who performs corporate legal services for a credit union; or (c) Is actively engaged in performing corporate legal services for the credit union and is a partner in the legal firm which is the credit union's corporate counsel. |

Note: Any person or party who has been a related party remains a related party for 12 months after they sever their relationship with Vancity. In cases where prior relationships involve significant transactions, insider knowledge, or reputational risk, the Corporate Secretary, upon discussion with the Governance Chair, may extend this period within reason

Roles and accountabilities

This table outlines the roles and accountabilities within the Related Party Transactions & Conflicts of Interest Policy.

| Role | Accountabilities |
|---------------------------|---|
| Board of Directors | <ul style="list-style-type: none"> • Delegates review and monitoring activities to the Governance Committee. • Reviews and approves this policy and any amendments as recommended by the Governance Committee |
| Governance Committee (GC) | <ul style="list-style-type: none"> • Ensures organizational compliance to this policy. • Establishes management approval authority for related party transactions. • Reviews and approves related party transactions that exceed the authority limit for Management. • Reviews quarterly reports of all related party transactions • Acts as conduct review committee • Monitors conflicts of interest. • Escalates to the Board any concerns regarding the nature or volume of related party transactions |
| Vancity Management | <ul style="list-style-type: none"> • Ensures that Vancity staff correctly identify and report Related Party transactions, loans, and conflicts of interest. • Considers for approval Related Party transactions that meet the criteria under this policy. • Conducts reviews of Related Party Transactions. • Ensures that relevant and accurate reports are provided to the GC. • Audits related party transactions. |
| Corporate Secretary | <ul style="list-style-type: none"> • Ensures there is sufficient governance for managing related party transactions and the reporting of related party transactions to the GC is timely. • Ensures sufficient governance for conflicts of interest and determines conflict of interest reporting which requires the oversight of the GC. • Reports breaches of this policy to the GC. • Maintains any conflict of interest disclosure. • Prepares a schedule of related parties annually and provides access to authorized staff within Vancity for monitoring, tracking and reporting purposes of related party transactions. • Ensures that related parties submit Related Party Disclosure Statements upon notification of appointment/hire, and on an annual basis thereafter. • Must first review and approve any changes to this Policy, prior to escalating to the GC biennially. |

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| Chief Risk Officer (CRO) | <ul style="list-style-type: none"> Accountable for related party credit transactions. Ensures procedures and programs for their identification are in place. Ensures integrity of reporting to GC. |
| Chief Financial Officer (CFO) | <ul style="list-style-type: none"> Accountable for the non-credit related party transactions. Ensures procedures and programs for their identification are in place. Ensures integrity of reporting to GC. |
| Chief People Officer (CPO) | <ul style="list-style-type: none"> Ensures the process to collect Code of Conduct annual declarations is completed. Reports quarterly to the EP Committee on breaches of the Code of Conduct. The EP Chair will determine if reporting to the GC is warranted. |

Related Party Disclosure

All related parties are required to submit a Related Party Disclosure Statement to the Corporate Secretary that includes a listing of all personal and entity affiliations and known conflicts of interest upon the date of their appointment/hire, and upon an annual basis thereafter. They must also notify the Corporate Secretary within 30 days of any change to this information.

When taking on a new role, a Vancity staff member should review this policy to determine if they are a 'Related Party' and request a Disclosure Statement form from the Governance department/Corporate Secretary and return to the Corporate Secretary within 30 days of assuming the new role.

In addition, when transacting business with Vancity, Related Parties are required to disclose their Related Party status to Vancity staff.

Categories of Conflict of Interest

Private interests that may pose a conflict fall into two categories:

1) Non-pecuniary interest

Non-pecuniary interests include personal and family relationships, affiliations, positions or close associations in social groups such as sports clubs, cultural groups, business networks, political parties or other such related organizations. Non-pecuniary interest is an interest where there is no direct financial gain or loss but there may be a vested interest. Even a well-meaning person's judgement may be impaired when situations involve family, friends, and affiliations, or situations where enmity may exist. Acting on a non-pecuniary interest may adversely affect the reputation of Vancity.

2) Pecuniary interest

Staff, officers and board directors should consider whether they are directly or indirectly³ in a position to financially gain or lose from a decision or could adversely affect the reputation or earnings of the organization. If the answer is yes, no matter the dollar value, the pecuniary interest places them in a conflict position. An

³ Indirect pecuniary interest includes family, friends and affiliations.

individual could also ask themselves if the decision and outcome could be a “6 o’clock news story.”

Conflict Disclosure

Persons in conflict must declare for the purpose of the minutes of a meeting a conflict of interest and excuse themselves from the meeting for the duration of the decision making that is specific to that conflict. This avoids any perception of influencing the decision by their presence.

Where there is no meeting to declare one’s conflict, employees should report the conflict to their manager or next reporting level and excuse themselves from the decision making process. The conflict of interest declaration should be recorded with the intent to fully and completely disclose all facts and material information. This disclosure and recording of a conflict are crucial and will allow the organization to deal with any unfounded accusations that bias was involved in decision making, and furthermore upholds the integrity of Vancity.

Exceptions

As all staff and directors must hold membership shares, the requirements to disclose and recuse when the Board is deciding on membership share dividends is **not required**.

For directors who hold any other shares in Vancity they would disclose their conflict during a meeting but are **not required** to recuse themselves from the discussion or decision.

Further, any director or officer (as listed on the Certificate of Incumbency) holding shares other than membership shares, will have his/her shareholdings disclosed on Vancity.com to be updated annually.

Timelines

The CRO and the CFO will report to the GC on credit and non-credit transactions with related parties respectively during the previous quarter and as required.

Fair market value

Fair Market Value is the amount of the consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act.

For each related party transaction, Vancity must document how fair market value was determined.

Evidence of Fair Market Value is available in a variety of ways including:

- a properly designed and executed tendering process
- independent appraisals and valuations
- price comparisons, and
- historical purchase values

Required Evidence Based on Transaction Type:

- Purchase of services: minimum of three comparable quotes from non-related parties where possible
- Real estate transactions: independent third-party appraisal

- Lending transactions: comparison to similar facilities offered to non-related parties
- Securities transactions: market price documentation

Criteria for Related Party Transaction Consideration

Credit Transaction/ Loans

Related Party Loans include: Residential Mortgages, Personal Loans and VISA Credit facilities.

Commercial real estate transactions with related parties are prohibited under this policy.

Related Party Loans (including interest rate renewals) must meet the established terms and conditions of the relevant internal policies and programs.

Established Terms and Conditions refer to terms and conditions for lending outlined in the FIA, Vancity Lending Policy, Vancity Employee Mortgage Benefit Policy, regulatory guidelines and additionally, loan rate privileges granted to staff and Board Members outlined in their respective Benefit Plans.

A preferred Interest Rate Loan would include a loan that is granted or renewed at:

- In the case of mortgages the best member rate
- In the case of personal loans a rate set at 2% below the prescribed rate which is determined by the Federal Government OR 4%, whichever is greater. This rate is set at the beginning of each calendar quarter; January 1, April 1, July 1, and October 1.
- BCFSA will be provided with the interest rate changes as amended from time to time.

Loans to Related Parties must be in the best interests of the credit union and include the following determinant factors:

- a) fair market value paid or received
- b) the nature of transaction in relation to the usual business of the credit union
- c) the nature of security and its value in relation to the principal amount of the loan.

The Governance Committee has created 3 classes of credit transactions, approved by BCFSA (formerly FICOM), (retail, business, and Visa) and has delegated to Management the authority to approve any related party loan within these classes, so long as the loans meet the criteria and limits set out.

Management's approval limits within the classes of transactions are:

- The mortgage amount is determined by the same underwriting criteria used to qualify Vancity members
 - \$75,000 for all other retail loans.
 - \$750,000 for loans to entities when secured by real estate, and
 - \$250,000 for all other business loans.
 - \$75,000 for a Visa credit facility.

Non-Credit Transactions

Non-credit transactions include all transactions except loans. These include, but are not limited to:

- the purchase or sale of capital assets,
- the purchase of goods and services from persons and/or entities that are Related Parties, and
- the purchase of investments (securities) from, or the investment in, entities that are Related Parties.

Procurement includes the purchase of goods and services utilized in the conduct of the normal business activities at Vancity. Capital assets includes purchase of assets by related parties from Vancity, including the purchase of foreclosed property or real estate units related to developments in which Vancity has an interest.

The following valuation rules apply to procurement, investment, and capital asset transactions:

- Any procurement or investment must be related to the usual business of Vancity or its subsidiary.
- Procurement, investment, and capital asset transactions must be at fair market value.
- The monetary value of an operating expenditure contract spread over more than one year should be valued on a gross value over the entire contract period. The aggregated transaction amount is used to determine the reporting level required (see limits below).
- All capital assets transactions, such as the purchase of real estate, should be valued at their gross value and not at a “net” impact value.

The GC has created a class of non-credit transactions and has delegated to Management the authority to approve any related party transaction within this class so long as the terms and conditions set out above are met.

Management’s approval limit within this class of transaction is:

- \$10,000 for non capital goods or services and
- \$100,000 for capital assets, or investments.

Where the circumstances of the proposed non-credit transaction exceeds the parameters described above, approval from the GC is required.

Grants, Sponsorships and Donations

Grants, sponsorships and donations to related parties are not permitted.

In addition, any grants, donations or sponsorships to non-Related Parties that are recommended by Related Parties must follow the standards and procedures for disclosure outlined in the conflict of interest disclosure above.

Reporting

The following type of reports are provided to the GC.

| Report Type | Description |
|------------------------------------|---|
| Credit Transactions/ Loans reports | The related party credit reporting to GC, under the class of transactions (set out in the credit transaction section) will include information on the aggregated value of loan transactions. under each loan category. Any new loans during the reporting period will be accompanied by a summary report that includes the following information for each new loan transaction: |

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| | <ul style="list-style-type: none"> • the individual name(s) of the related parties involved; • the nature of each transaction; • the value of each transaction and other pertinent information that assists in assessing the extent and nature of the relationship; • fair market value; • interest rate; and • the nature of the security and its value in relation to the principal amount of the loan. <p>The Independent Credit Function, Business Credit & Administration and Visa will each provide a certification for their respective reports that the loans reported meet the established lending terms and conditions. These certifications are subject to independent review and approval.</p> |
| Delinquent loans | The GC will receive reports on related party loans that are delinquent over 90 days. |
| Loan Connections | <p>In reporting loans to related parties who are:</p> <ul style="list-style-type: none"> • Senior Officers • Board Members <p>Management must include loans to their spouses, children under 18 and/or enterprises controlled by these individuals.</p> |
| Non-Credit Transactions | <p>The related party non-credit reporting to GC, under the class of transactions (set out in the non-credit transactions section) will include information on the aggregated value of all transactions in connection with Related Parties during the year. Any new transactions during the reporting period will include the following information:</p> <ul style="list-style-type: none"> • the individual name(s) of the related parties involved; • the nature of each transaction; • the value of each transaction and other pertinent information that assists in assessing the extent and nature of the relationship and the fair market value requirements have been met; and • fair market value. |
| Individual Transactions/ Transactions outside of the classes of transactions | <p>Individual GC pre-approval must be sought for related party <u>loans</u> under the following circumstances:</p> <ul style="list-style-type: none"> • loans that fall outside Vancity’s internal policies • loans that may require Superintendent approval • loans that the Chief Risk Officer identifies as requiring approval (i.e. a loan to a public figure or that may pose a reputational risk) • loans that fall outside the classes of credit transactions delegated to Management <p>Individual GC Pre-approval must be sought for <u>non-credit transactions when</u> the aggregate dollar amounts in one year exceed the class of non-credit transactions delegated to Management.</p> |