

Friday, November 22, 2019

Dear Members,

Subject: Update on Administration and Next Steps

The Deposit Insurance Corporation of Ontario (DICO) amalgamated with the Financial Services Regulatory Authority (FSRA) on June 8, 2019 and continues as part of FSRA.

As the administrator of PACE Credit Union, we provided an update at the PACE Annual General Meeting last June (<https://www.pacecu.ca/SharedContent/documents/2019/FSRASlidesPACEAGM.pdf>). At that time, we committed to provide you with an update on the administration process.

Let me begin by assuring you that PACE Credit Union continues to be financially stable. Your deposits continue to be insured through the deposit fund administered by FSRA.

As the regulator of credit unions in Ontario, we require high standards of business conduct and effective governance to protect the rights and interests of credit union members.

DICO's supervision of PACE discovered failed governance and fraud – e.g. former senior executives acting in their own personal interest, and not in the best interest of the credit union, but at the expense of the credit union's members. Through its regulatory processes, DICO also found that there had been significant gaps in governance and oversight by the former Board of Directors. Therefore, to protect its members and their deposits, PACE was placed under administration. The purpose of the administration was to stabilize the credit union, allow for a thorough investigation into its affairs, and ensure that any financial harm which may have occurred was appropriately addressed.

We want to update you on our plans to remove PACE from administration, and return it back to member-controlled governance, as early as practicable in 2020. We also want to update you on certain other matters you may hear about concerning PACE, including certain litigation developments and steps taken by FSRA to identify whether it is able to improve its processes.

Board of Directors

To remove PACE from administration, a new Board of Directors needs to be put into place - one which has the necessary governance and other professional skills to ensure the long-term success of the credit union.

FSRA, as administrator, will work with *Oggers Berndtson*, a leading professional executive search firm being retained by PACE, to recommend candidates for the Board. We will present the recommended slate of Director candidates, and any other candidates duly nominated, for a vote by the PACE membership. Provided FSRA is confident that the elected Board has the ability to provide PACE with the required leadership and governance, FSRA will end administration and return PACE to member-controlled governance.

As it will be important to have both PACE/credit union knowledge and professional skills on the PACE board, *Oggers Berndtson* will recommend the best slate of Director candidates, regardless of whether such candidates are currently PACE members; it will also make recommendations as to the ideal size of the PACE Board. A meeting of members will be held in early 2020 to approve necessary by-law changes to permit this new Board.

By December 6th you can see the Director job postings (which include a description of desired skills, expertise and experience) and apply here: <https://www.odgersberndtson.com/en-ca/opportunities>. Applications to be part

of the recommended slate of Director candidates will be accepted by Odgers Berndtson at this site until December 20th.

Once the recommended slate of new Director candidates is identified, *Odgers Berndtson* will turn its focus to recommending a short list of CEO candidates for the new Board to consider as PACE's permanent CEO.

Once PACE is removed from administration, FSRA will continue to closely supervise the credit union and work with the new Board, PACE's CEO and PACE management to ensure an effective transition and that PACE has continued support from FSRA and effective oversight.

Members' Meeting

On January 27, 2020, FSRA plans that PACE will host a special members meeting. This will provide members an opportunity to approve any necessary by-law changes to put a newly constituted Board in place.

If Odgers Berndtson has completed its work on recommending a slate of Director candidates, we will present the recommended slate of Director candidates, as well as any other duly nominated candidates, for approval by the PACE members. An update on PACE's financial status will also be provided at this special meeting.

Legal Proceedings

PACE is, with our assistance and that of external counsel, vigorously pursuing a series of claims in a legal proceeding against Larry and Phillip Smith, as well as claims against others, to recover damages which were sustained by the credit union.

We requested that the other parties agree to unseal court documents related to the Smith legal proceedings so that the members of the PACE credit union could be better informed about the conditions that led to administration and the nature of the allegations in the Smith legal proceedings. This unsealing is scheduled to occur on Monday, November 25, 2019.

Based on the advice of external counsel, we are confident in the merits of PACE's claims and expect substantial recoveries to offset the costs of administration and litigation.

FSRA Internal Review – Process Improvement

FSRA has initiated an immediate focused review of whether certain employees of the Deposit Insurance Corporation of Ontario (DICO) appropriately handled concerns about PACE allegedly brought to their attention prior to 2017. This review was commenced immediately after FSRA became aware of what appears to be credible allegations that certain DICO employees may not have acted on relevant information provided to them. This focused review is being conducted by an outside law firm and will be completed as quickly as possible.

To ensure the integrity of the review, appropriate steps (including paid investigation leave) have been taken to ensure that FSRA employees, who are implicated by the allegations, are removed from the PACE administration and that there is no perception those impacted could impede the review.

This review will help ensure that FSRA, as DICO's successor, learns whether its processes can be improved for the benefit of the Ontario credit union system.

FSRA notes that the allegations are about DICO's processes and do not raise new concerns about PACE.

Financial

As a result of the regulatory steps taken, the operations of the credit union have continued without interruption. As evidenced by PACE's financial statements (audited by a new independent auditor selected by DICO), PACE was profitable in its last fiscal year and was in compliance with regulatory capital and liquidity requirements.

As administrator, we brought in new interim management and retained consulting resources which have improved internal controls and business processes, while continuing to serve PACE members and customers. We have worked closely with the credit union management to address many of the higher risk loans and significant progress has been made to date to de-risk the PACE loan portfolio.

We continue to expect the credit union to remain financially sound throughout this process.

* * * * *

Finally, we want to recognize the work of the interim management team who have been asked to continue in their operational and management duties while assisting FSRA in the administration of the credit union. All of PACE's employees play an essential role in serving PACE's members and we thank them for their ongoing work.

FSRA will provide you with updated information on a regular basis, using different approaches as appropriate, such as written and electronic communications, town hall meetings and tele-townhalls, whenever there are important developments.

We fully recognize that the last year has been highly unsettling for the credit union, its employees and you, the members. We thank you for your patience and support as we continue to take the steps necessary to protect your deposits and to support the long-term success of your credit union and its return to member-controlled governance.

If you have any questions about the administration of PACE, please direct them via email to pace.administration@fsrao.ca or by phone to 416-590-8450.

Yours truly,

Financial Services Regulatory Authority, as Administrator of PACE Credit Union



Mark E. White
Chief Executive Officer

cc Rubina Havlin, Interim CEO of PACE Credit Union