After plans to stabilize unravelled, Ontario's financial regulator has once again taken over PACE credit union

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A regulator's plan to stabilize troubled PACE Savings and Credit Union is unravelling after six of the credit union's board members, its chief executive officer and chief risk officer all resigned.

The Financial Services Regulators Authority of Ontario (FSRA) announced late Friday that is has taken over daily oversight of PACE for the second time in two years.

The directors who resigned over a three-day span include board chair George Cooke, a former insurance executive who was hand-picked by FSRA to help turn PACE around after two years of turmoil. Also stepping down are CEO Barbara Dirks and head of risk Terri O'Brien, both of whom joined PACE in April.

The credit union, which is based in Vaughan, Ont., and has 40,000 members and about $1.2-billion in assets, has been ensnared in legal battles stemming from the alleged conduct of its former top executives. In the fall of 2018, a provincial regulator seized control of PACE and ousted the President and CEO, Larry Smith and his son Phillip Smith, over allegations of fraud and self-dealing.

Last January, PACE took a step toward recovery when members elected a new board of directors, endorsed by the regulator after a search by an executive recruitment firm. That allowed FSRA to gradually ease up on its supervision of the credit union and hand over some governance responsibilities.

More recently, however, regulators have been investigating whether a now-defunct investment dealer started by the previous executives, Pace Securities Corp., improperly sold $46-million in risky investment products to retail investors. Those investments plunged in value early this year, and another regulator, the Investment Industry Regulatory Organization of Canada (IIROC), is seeking to discipline the two former executives who led Pace Securities, Joseph Thomson and Gerald McRae.

In August, law firm Paliare Roland Rosenberg Rothstein LLP was appointed to represent investors in negotiating a settlement who say they were misled. Yet even after the deadline for talks was extended, no deal has been announced.

A FSRA investigation recently concluded that the sales of the investment products had breached the act that governs credit unions, and PACE's management agreed. But "there was not consensus on how best to address those breaches," said Mark White, FSRA's CEO, in a statement.

"The Board of PACE inherited problems created by the former PACE leaders, and worked hard to identify and resolve them - and I would like to thank the Board members for their leadership during this difficult time," Mr. White said. But he added that "it is with regret that I accept their resignations."

He also sought to assure PACE's members that the credit union has "ample liquidity and capital" and is financially viable, while deposits are protected under FSRA's insurance reserve fund.

Once again, the regulator will now try to chart a course to return PACE's governance to its members. A FSRA spokesperson, Judy Pfeifer, said the regulator has no plan to wind down the credit union.