REPORT ON BUSINESS

Ontario's financial regulator puts struggling PACE credit union up for sale, sources say

JAMES BRADSHAW

PUBLISHED JUNE 2 2021, 6:25PM

UPDATED JUNE 2 2021, 6:26PM

Ontario's financial regulator has launched a process to explore a sale or merger of troubled PACE Savings and Credit Union, inviting other credit unions to signal their interest in merging by the end of this month, sources said.

Ontario's financial regulator gives PACE $500-million credit facility to ensure it can keep operating

PACE has been battling deteriorating financial results and attempting a comeback since regulators seized control of the credit union in 2018, alleging they had uncovered an array of governance problems and a pattern of fraud and self-dealing by former PACE executives.

The Financial Services Regulatory Authority of Ontario, or FSRA, acting as PACE's administrator, has retained accounting and professional services firm KPMG Canada to manage the discussions about a possible merger, according to three sources familiar with the process. That included setting up a data room to allow executives from other credit unions to assess PACE's assets and financial position, the sources said.

Those visits are now under way and the regulator has set a June 30 deadline for interested parties to submit letters of intent, according to the sources. But there is no certainty that the discussions will lead to a sale.

The Globe and Mail is not identifying the sources because they are not authorized to discuss the confidential sale process.

FSRA spokesperson Judy Pfeifer said in an e-mail that the regulator "is working with PACE management on options – ranging from ongoing independent operation to the possibility of a merger – which best advance the interests of the PACE members."

In a newsletter sent to members this week, PACE chief executive officer David Finnie said that in light of the challenges the credit union is facing, "we can and should assess PACE's options for moving forward," and outlined the same two scenarios.

As recently as mid-April, FSRA said there were “no discussions or agreements to merge or sell PACE and no need to wind it down.” Two weeks later, at the credit union’s annual meeting of members on April 28, Mr. Finnie acknowledged for the first time that a merger with another credit union could be an option. But he assured members the credit union is stable and viable, and that PACE was focused on a recovery plan to gradually return to profitability.

Within days of the annual meeting, FSRA was putting the process to pursue a sale in motion, two sources said.

In an e-mail, Mr. Finnie said the credit union’s “management is working on a recovery plan as I talked about at the [annual meeting],” and referred questions about a sale process to FSRA.

Ms. Pfeifer said FSRA is overseeing PACE management’s work on that recovery plan and the regulator “is pleased with the progress being achieved.”

KPMG spokesperson Caroline Van Hasselt declined to comment.

Based in Vaughan, Ont., PACE has $1.1-billion in assets and about 40,000 members, but lost $22.7-million in 2020 after earning a $364,000 profit the year before. The credit union breached its minimum capital thresholds in April, and in response FSRA stepped in to provide an unusual lifeline that included extending a $500-million credit facility to make sure PACE could meet demands from members to withdraw deposits.

The credit union’s future is likely to be defined by the outcome of two continuing lawsuits, each of which could weigh heavily in any decision about a sale or merger. The first legal action is against the former senior executives and directors who ran the credit union until they were ousted in 2018, and FSRA is hoping to recover “significant” funds on PACE’s behalf.

At the same time, PACE is in mediation over a claim filed on behalf of retail investors who lost a combined $49-million on investment products sold through a now-defunct investment dealer subsidiary, Pace Securities Corp. Those investors are seeking as much as $60-million in compensation.

The strategy to settle those lawsuits was a major point of contention when PACE’s first attempt at a turnaround unravelled last November, as two top executives and an entire board of directors chosen by FSRA to revive PACE resigned after clashing with the regulator.