Desjardins

January 23rd, 2022

Mr. Mark White
Chief Executive Officer
Financial Services Regulatory Authority of Ontario
5160 Yonge Street, 16th Floor
Toronto, Ontario M2N 6L9

Re: Consultation: Proposed Differential Premium Score (DPS) Methodology for Credit Unions

Dear Mr. White:

On behalf of the Desjardins Group, I am pleased to respond to your request for comment on Financial Services Regulatory Authority of Ontario's (FSRA) Proposed Differential Premium Score Methodology (DPSM) for Credit Unions.

Desjardins is the leading cooperative financial group in Canada serving over 7.5 million members and clients across the country. For over 120 years, Desjardins has listened and responded to its members' needs and also adapted to change. We provide Canadians with banking, wealth management, life & health insurance, property & casualty insurance, and personal, business, and institutional financial services. In Ontario, the Desjardins Ontario Credit Union (DOCU) is the second largest credit union in the province with over 132,000 members, 48 branches, and over 10 billion in assets.

We support FSRA's objective of making the deposit insurance reserve fund (DIRF) premiums more equitable and fairer by implementing a correlation with each individual credit union's risk profile. Our comments are intended to assist FSRA in achieving this objective.

Maintaining a competitive business environment for credit unions in Ontario

The purpose of the DIRF is to protect the deposits of credit union members. As such, it requires adequate funding. We believe FSRA's assessment of the current state of the DIRF funding and future economic outlook justifies actions to ensure the DIRF be adequately funded to fulfill its role. However, as the various fees, premiums, and compliance spendings accumulate, the cost of doing business in Ontario as a credit union is consistently increasing.

Credit unions must remain competitive with the federally regulated banking sector to adequately serve their members and clients. For example, with the arrival of a new open banking framework, there is a general perspective that provincial frameworks would benefit from consistency and alignment with the federal framework in this regard.

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Keeping premium affordable allows credit unions and *caisses populaires* to better invest into their operations and growth, thus ensuring their long-term viability. As such, harmonizing the maximum deposit amount insured by the DIRF with the amount insured by the Canadian Deposit Insurance Corporation (CDIC) could strike the right balance to make FSRA's funding targets more easily achieved, providing benefits to the sector while maintaining an adequate protection for members and clients.

FSRA's new DPSM would weigh the Risk based supervisory framework (RBSF) corporate governance component at 70% of the final score while the capital component would be set at 30%. This would be the inverse of the weighing used by CDIC. We believe the corporate governance component could be overweighed, and as a result devaluate the importance of the capital requirement. Adequate capital level may prove crucial in providing resilience to credit unions while navigating in this uncertain risk environment and to face future challenges.

Recognizing the DOCU's relationship with the Desjardins Group

It is important for us to mention that DOCU is an integral part of the Desjardins Group, and the interconnectedness of Desjardins Group's integrated business model allows for many activities to be centralized to the benefit of the entire Desjardins ecosystem.

Since 2013, the Desjardins Group is designated as a "domestic systemically important financial institution" ("D-SIFI") in accordance with the criteria set out by the *Basel Committee on Banking Supervision*. The D-SIFI status results in greater supervision and a specific bail-in regime, as well as additional capitalization and disclosure requirements.

As a result, the DOCU, with its activities in Ontario and thus regulated and supervised by FSRA, benefits from a strict regime of requirements and enhanced supervision due to the combination of the D-SIFI designation of the Desjardins Group, and the legislative and regulatory framework in place in Ontario. This reality contributes to the DOCU's financial stability and low risk profile, which in turn benefits the entire Ontario credit union and *caisse populaire* sector.

As such, when determining our DPS level within the new methodology to properly reflect DOCU's risk profile and its financial strength, we believe that DOCU's relationship with the broader Desjardins Group should be fully considered.

Proposed transition period

We fully support FSRA's proposal for a transition period. We believe this proposal will help make the impact of the new methodology clearer as more credit unions get assessed under the new methodology and opportunities arise to evaluate if and how FSRA's objectives are being achieved by the new proposed methodology. In our opinion, in addition to regular communications between credit unions and their relationship manager, the technical advisory committee for the DIRF should be regularly convened during this period to keep the dialogue going and to ensure a smooth transition and a good comprehension of FSRA's expectation under the new methodology.

We thank you for giving us the opportunity to provide feedback on the proposed Differential Premium Score (DPS) Methodology and welcome the opportunity to discuss our comments in greater detail.

Sincerely,

Giuseppina Marra
Regulatory Affairs
Desjardins Group

CC Mr. William Boucher, Chief Executive Officer, Desjardins Ontario Credit Union

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