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Financial Services Regulatory Authority
25 Sheppard Avenue West, Suite 100
Toronto, ON M2N 6S6

Dear FSRA,

**RE: Feedback on Proposed Guidance on Operational Risk and Resilience, and Proposed Guidance on IT Risk Management**

The Canadian Credit Union Association (CCUA) welcomes the opportunity to provide joint feedback on the proposed guidance on Operational Risk and Resilience, and the proposed guidance on Information Technology (IT) Risk Management

As the trade association for Ontario's credit unions and caisses populaires, we support the efforts made in these areas, as it will bolster the Ontario credit union sector. We express our support on both proposed guidance notes while offering some comments and feedback below for FSRA consideration.

Operational Risk and Resilience Consultation Submission

We acknowledge and appreciate the collaborative approach taken by FSRA in the development of the proposed guidance on Operational Risk and Resilience. The guidance aligns with the IT Risk Management Guidance and other guidance notes that have been put out. We would like to emphasize the importance of ensuring that all elements work together to reduce risk without adding regulatory burden.

*Principle 1: Governance*

We support the requirement for third-party providers to understand the policies, processes, and systems used to manage operational risk within credit unions. However, we suggest that third parties should only receive necessary information within that working relationship. Over sharing with third party providers could potentially place unnecessary harm and risk on credit unions. We believe the position within the guidance is too broad and open when it comes to required sharing with third parties and should be more controlled in its approach.

*Principle 2: Operational Risk Identification and Assessment*

We recommend that FSRA revises the language to this principle to prioritize risks that are significant and that have the potential to affect a credit union's business, operations, and overall resilience. Current language is quite broad and places unnecessary requirements and expectations on credit unions. We suggest clarifying the principle through further discussion with credit unions to ensure a principled and manageable risk identification process for the sector.

*Credit Unions' Information Technology Activities*

Our recommendation is that the Operational Risk and Resilience guidance document should direct IT risk items to the IT Risk Management Guidance note. This approach would ensure that future updates and/or revisions do not create misalignment, and that all IT risk requirements and expectations are consolidated in one document, thereby minimizing confusion and complexity for credit union management and directors.

*Assessing CUs' third-party risk management and concentration/contagion risk*

We appreciate FSRA's concerns related to managing and assessing third party risk within the sector. We do have concerns with how this will occur operationally and how FSRA will support a transition towards these important expectations. We understand that regulators, at the behest of the Basel committee, have focused on financial institutions' concentration/contagion risk since the 2008 financial crisis. However, the Basel principles do not fully account for the structure of co-operative systems. Concentration/contagion risk under Basel can strengthen and stabilize credit unions, as it reflects their interconnectedness and co-operative structure.

Pure Basel principles may erode this structure and weaken the credit union system if not adapted for co-operatives. In some cases, concentration/contagion risk may not be avoidable given the collaborative approach by credit unions to work together in the best interest of their members on areas of technology, information, data, among others. One example would be Interac and the need to work with them as a provider yet managing concentration risk as outlined by FSRA.

We trust that FSRA will take a balanced and principled based approach to these situations and work with the sector to reduce risk across third party providers, which is in the best interests of our members and institutions. In addition, understanding how FSRA intends to review and assess third party risk is an important discussion that would be worth having with the sector in a broader and more open context (I.e., webinar). This may help ensure a greater understanding around expectations and what FSRA will be looking for when it comes to assessments.

<u>Proposed Information Technology Risk Management Guidance</u>

We support the proposed Information Technology Risk Management Guidance, but we have some concerns that we would like to address.

*Definition of Material IT Incident*

One area of concern is the issue of how to define a material IT incident. While the guidance lists indicators such as breaches of internal risk appetite or thresholds, incidents requiring non-routine measures or resources, or incidents reported to senior management or the board of directors, we believe that these indicators are too broad. They may result in unnecessary regulatory burden with no value to the regulator. Specifically, breaches of internal risk appetite or thresholds could include internal key risk indicators (KRIs) and management limits that, if breached, would not necessarily be a material incident. Similarly, non-routine measures or resources that do not cause disruption to a service or the system or have financial impacts should not be material. Lastly, reporting to senior management or the board of directors may be a regular occurrence as part of routine reporting, and therefore, would not signify as a material incident.

We don't believe this is FSRA's intentions with the guidance note and wonder if language could be shifted to better reflect a more principled approach.

*Required Time to Report Incidents to Regulators*

Another concern is with the requirement to report incidents to the regulator within 48 hours. We suggest extending this timeframe to 72 hours, as the initial 24-48 hours after an incident is identified are crucial for addressing the incident. During this time, gathering relevant facts is essential, and the situation can evolve rapidly. The information required in the incident report may not be available, and spending time to complete the report may take away from scarce resources to address the incident itself. We propose that informing the regulator within 72 hours would provide credit unions with sufficient time to address the incident and gather as much information as possible so that the report to the regulator has the information needed.

*Effective Date and Future Review*

We strongly recommend that FSRA provides a reasonable and supportive approach to credit unions as they prepare to implement the changes. Despite some credit unions having implemented some of these elements, updating, altering, and transitioning reporting across multiple teams and areas will require significant time and resources. Furthermore, smaller credit unions may not possess these elements and would require additional time to implement the changes effectively. It is crucial that FSRA considers the time constraints and resource requirements associated with regulatory changes surrounding data, IT Risk Management Guidance, resolution planning, and more. We suggest that FSRA show leniency regarding the effective date, and we propose a one-year timeline for the transition period to ensure credit unions can offer high-quality implementation, while supporting ongoing RBSF reviews.

Conclusion

We appreciate the efforts made by FSRA in developing these proposed guidance notes. We suggest further discussions to refine both guidance notes to ensure that they do not introduce unnecessary regulatory burden on credit unions. Please do not hesitate to reach out to us should there be any questions or concerns.

Sincerely,

Damian Chiu
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Canadian Credit Union Association