

# Recovery Planning for Credit Unions and Caisses Populaires

# FSRA

Financial Services Regulatory  
Authority of Ontario

**Date:**

**September 29, 2021**

**Speakers:**

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Alena Thouin, Director, Policy Support & Approvals

Dan Padro, Director, Policy

Bradley Hodgins, Senior Manager, Policy & Research

Catherine Tam, Senior Manager, Resolution & Recovery



Ontario

## Speakers



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Resolution &  
Recovery



## Agenda

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- Welcome
- Rationale and Background for Recovery Planning
- FSRA's Recovery Planning Guidance
- Interim Submission due Jan 14, 2022
- FSRA's Interpretation to Recovery Planning
- Benefits of Recovery Planning
- Recovery Plans vs. Other Plans
- FSRA's Approach to Recovery Planning
- Final Submission due Jan 13, 2023 – FSRA's expectations
- Wrap up

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## Rationale and Background of Recovery Planning

- Recovery Planning will **enhance the crisis preparedness and resiliency overall of the credit unions and caisses populaires (CUs) sector**, which aligns with FSRA's statutory objectives to **protect deposits** held by members of CUs and to **contribute to the stability** of the sector in Ontario.
- A CU that can **recover from adversity** will be safer for its members, depositors and customers and is less likely to experience disruptions in core services.
- Recovery planning is a means through which the **Board and Senior Management** can demonstrate **resilience characteristics of prudent management and oversight**.

## FSRA's Recovery Planning Guidance

- FSRA has set out in its 2021-24 **Annual Business Plan priorities** on Recovery and Resolution for the CU sector.
- To promote CU **resiliency and readiness** to respond to financial stress and recover from financial losses:

### Public Consultation Ended

FSRA consolidated feedback and revised Guidance.

### Information and Q&A Sessions

FSRA is hosting information session and Q&A sessions for the following CU groups:

- greater than \$4 billion
- between \$500 million and \$4 billion
- between \$100 million and \$500 million
- less than \$100 million

### Final Submission

CUs are expected to submit their respective final Recovery Plans on or before this deadline

Jan. 27<sup>th</sup>  
2021

### Draft Guidance

FSRA released draft Recovery Planning Guidance which was opened for feedback from the public stakeholders.

Mar. 19<sup>th</sup>  
2021

Jul. 5<sup>th</sup>  
2021

### Final Guidance

After Ministry review and consent, FSRA published the final Guidance

Sep and  
Oct

### Interim Submission

CUs are expected to submit elements B,C, and D as described in the Approach section of the Guidance on or before this deadline

Jan. 14<sup>th</sup>  
2022

Jan. 13<sup>th</sup>  
2023

- FSRA plans to assess Recovery Plans as part of FSRA's **RBSF Resilience Assessment Framework** in 2022



## FSRA's Interpretation

- FSRA has identified the following **principles** for effective recovery planning which reflect FSRA's interpretation of requirements under By-Law No. 5 and the Credit Union and Caisses Populaires Act, 1994 (Act).
- 1. Effective Recovery Plan Development and Implementation:** The CU, through its Board and Senior Management, should create a recovery plan to prepare the CU to manage adversity.
  - 2. Transparent Governance:** The CU, through its Board and Senior Management, should evaluate risks in adverse scenarios and prepare to implement identified actions, if necessary.
  - 3. Periodic Reassessment:** The recovery plan should be periodically reassessed to ensure it is up to date with current information.
  - 4. Proportionality:** Recovery Plans should be developed based on the structure, size, complexity, and risk profile of a CU.

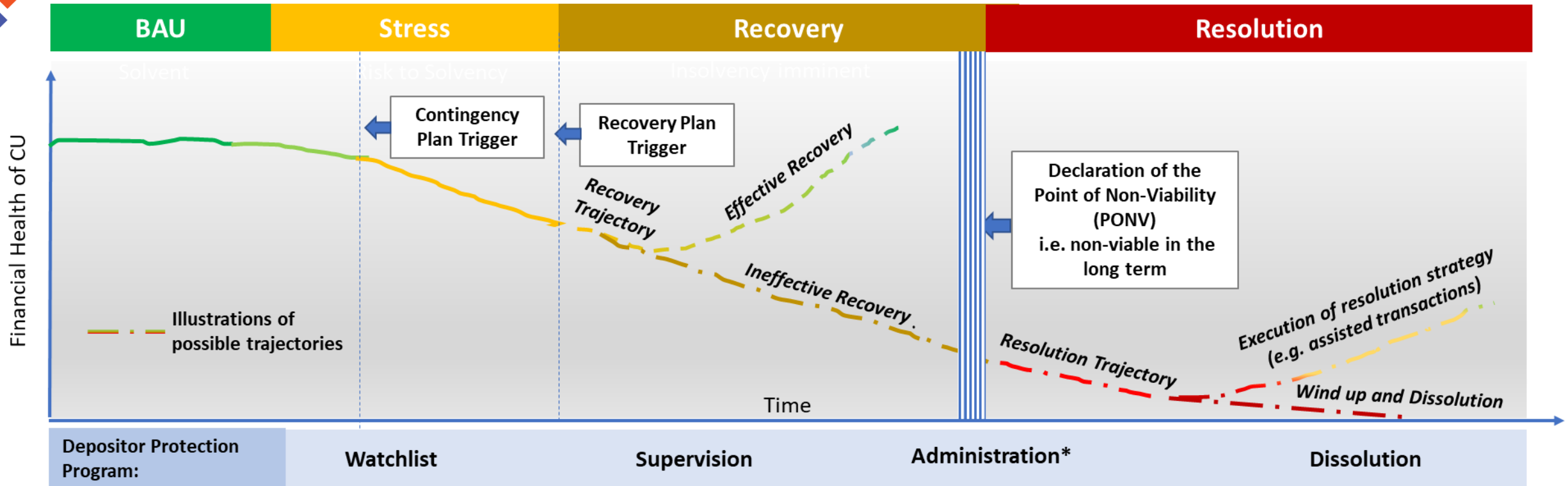
## Benefits of Recovery Planning

- Promoting safety, soundness, and confidence in the system.
- Improving resilience of CUs
- Protecting the Deposit Insurance Reserve Fund (DIRF)
- Reducing the likelihood of drawdown on the Ontario Financing Authority (OFA) Line of Credit
- Having a credible Recovery and Resolution Framework will satisfy one of the eligibility criteria for access to Bank of Canada (BOC)'s Emergency Liquidity Assistance (ELA) facility

## Mapping Recovery and Resolution to the Depositor Protection Programs (Supervision and Administration) under the CUCPA

- **Recovery** describes the state when a CU is under severe stress but viable. The supervisory authority places high intensity on the CU while the CU is trying to restore its financial health and return to Business As Usual (BAU).
- **Resolution** describes the state when a CU is no longer expected to be viable in the long term. The resolution authority will either restructure the CU through drastic measures (e.g., forced asset sale or merger) or wind-up the failing CU to maintain financial stability of the system, minimize disruption, and protect the deposit insurance fund.
- Although recovery and resolution are not explicitly defined in the Credit Unions and Caisses Populaires Act, 1994 (“CUCPA”), powers available in the CUCPA (Supervision, Administration, and Wind-up) can be mapped against a recovery and resolution process (see illustration on the next slide).

# Mapping Recovery and Resolution to the Depositor Protection Programs (Supervision and Administration) under the CUCPA



\*A CU can be put under Administration for reasons other than deterioration of financial health, e.g. misconduct, fraud, negligence

## Recovery Plans vs. Other Plans

- The Recovery Plan should be **fully integrated** with the CU's other key risk management policies, processes, risk appetite and frameworks.

### Contingency Funding Plan (CFP)

Liquidity focused

- Part of a CU's **liquidity management** framework
- Helps a CU navigate through a liquidity crisis when the CU experiences reductions to its liquidity position, either from causes unique to itself or from systemic events

### Business Continuity Plan (BCP) / Disaster Recovery Plan (DRP)

Operational focused

- Helps a CU continue the delivery of products or services at pre-defined acceptable levels following a disruptive event or incident.
- Contains **operational procedures** designed during threats. If properly executed, business operations can continue as intended

### Internal Capital Adequacy Assessment Process (ICAAP)

Capital focused

- Helps a CU set **the level of capital adequacy** and set an internal capital target that is consistent with its business plan, risk profile and operating environment.
- Ensures CU is adequately capitalized for given stress scenarios.

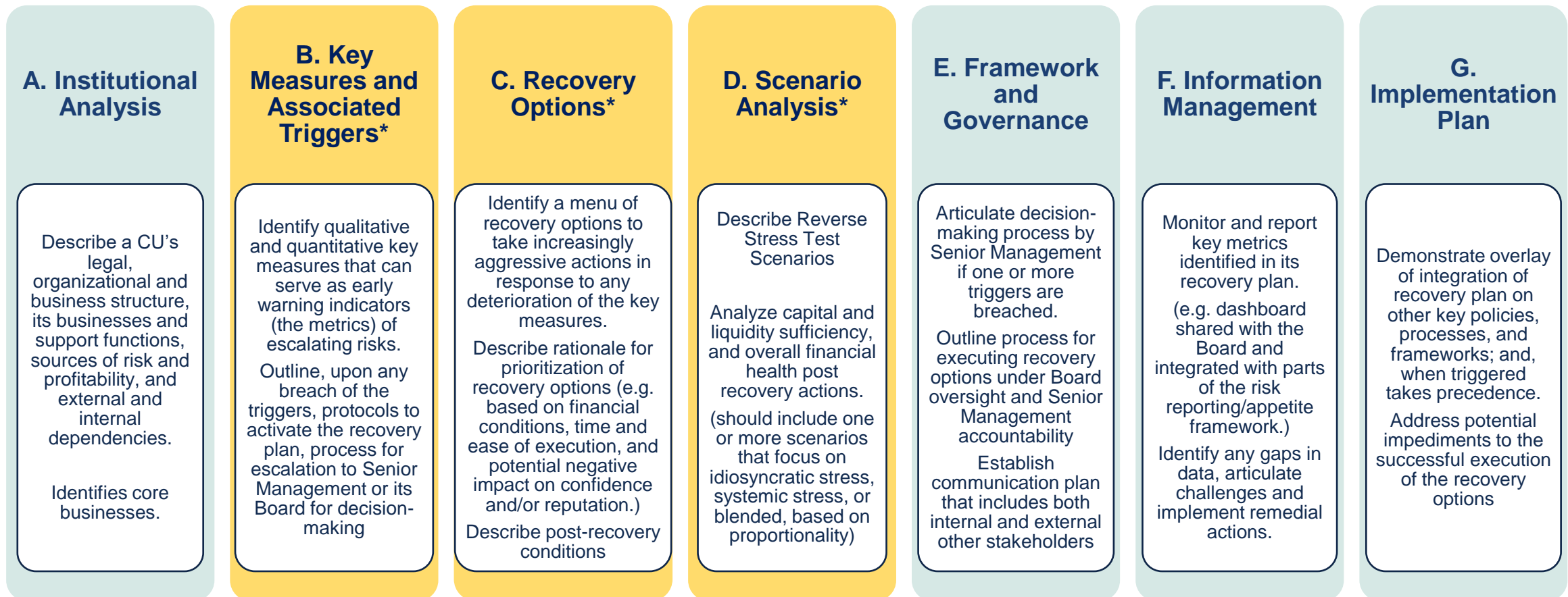
### Recovery Plan (RP)

Capital, Liquidity, Operational, Strategic, Legal  
cross-focused

- Helps a CU navigate through a **severe financial stress** (could be liquidity and/or capital based) either from idiosyncratic (CU-specific) or systemic (market-wide) events
- Identifies recovery options** and serves as a "**playbook**" for CUs to follow in restoring financial health, stability, and long-term viability
- Focuses on **separability of non-core assets** and structural ability to sustain remaining core business

## FSRA's Approach

- FSRA has developed an Approach to define the practices and procedures that it will employ when assessing the CU's adherence with the Interpretation. FSRA considers the following elements essential in a CU's recovery planning process and output.



\*Elements B, C, D are required in Jan 14, 2022 Interim Submission

Note: Above is for illustrative purposes only. Please also refer to the Recovery Planning Guidance posted on the FSRA website



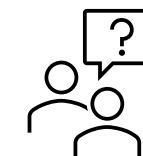
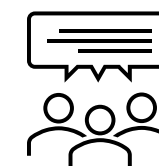
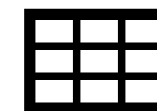
## Interim Submission

- FSRA will require that CUs submit credible recovery plans by January 13, 2023. There will be a transition period between now and this deadline
- The intent of an interim submission by January 14, 2022 is to provide CUs with an opportunity to receive directional feedback
- The interim submission should include the following:
  - B. A description of the categories of **key measures and associated triggers** that may cause the activation of the recovery plan and escalation to the credit union's senior management or Board for decision making
  - C. Identification of **draft recovery options** which can be presented in the format as suggested in Appendix B to the guidance. This will lead into the comprehensive analysis to be performed after the interim submission
  - D. A description of the credit union's **stress testing procedures** in accordance with FSRA's Stress Testing guidance, issued on January 1, 2021, and a brief description of how these scenarios (backdrop) will impact the execution of recovery options identified. Based on proportionality, this includes an outline of **one or more than one type of scenarios** that the credit union is planning to consider which should also align with the Reverse Stress Test scenarios in its ICAAP.

For more information, please refer to “B. Key measures and associated triggers, C. Recovery options, and D. Scenario Analysis” in the approach section of the guidance

## Interim Submission – B. Key Measures and Associated Triggers

- Has the CU identified **material risks/vulnerabilities** that are specific to the institution?
- Can the impact of these risks be measured by **metrics** that serve as **early warning indicators** of escalating risks?
- Are these **quantitative/qualitative metrics and triggers** measurable, reasonable, and well-defined?
- Has the CU established **protocol** upon any breach of the triggers, causing **activation of the recovery plan**?
- What happens after **Senior Management and the Board** have been informed? What is the decision-making process?



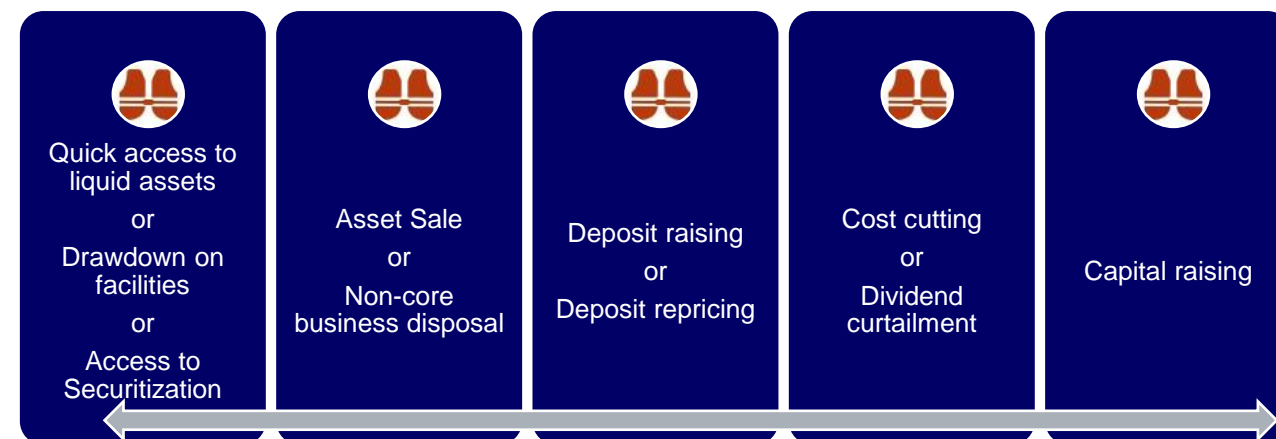
Note: Above is for discussion purposes only. Please also refer to the Recovery Planning Guidance posted on the FSRA website

## Interim Submission – C. Recovery Options

- Can the CU demonstrate that it is **ready** to take increasingly aggressive actions in response to any deterioration of the key measures?
- Has the CU identified a **menu of recovery options**, and considered how the potential proceeds from the recovery options will impact its balance sheet, **capital ratios and liquidity profile**?
- Has the CU outlined its **operational readiness** in executing these recovery options? Is there a **Playbook**?
- Has the CU **prioritized** these recovery options based on overall impact on the CU's **financial condition, time and ease of execution**, and potential **negative impact on confidence and/or reputation**?
- How would the **post-recovery** conditions look like?

- CUs may consider the following sample format in **Appendix B of the Guidance** for documenting details of recovery options. CUs may develop their own format as well.

Recovery Option	Capital Impact (in \$)	Liquidity Impact (in \$)	Other Impact (franchise value, reputation issues, etc.)	RWA Impact (in \$)	Timing to realization of benefits (days/ months)	Operational readiness (H/M/L)	Key Impediments to Implementation	Ownership, Execution, and Communication protocol
Option 1								
Option 2								
...								



Sample recovery options for illustrative purpose only

Note: Above is for illustrative purposes only. Please also refer to the Recovery Planning Guidance posted on the FSRA website

## Interim Submission – D. Scenario Analysis

- Has the CU gauged the sufficiency of recovery actions to recover from **adversity as severe as the Reverse Stress Test scenario** in its ICAAP?
- Consider one or more scenarios that focus on **idiosyncratic stress (CU-specific), systemic stress (market-wide), or blended**. What is the “storyline” of these scenarios?
- Has the CU considered the **impact on capital and liquidity**?
- Large and complex CUs are expected to perform financial forecast on these stress scenarios demonstrating how execution of recovery options is **able to restore financial health, stability and long-term viability**





## Final Submission – FSRA’s Expectations

- The development of an effective recovery plan is **an iterative process** that requires significant interactions between the CU senior management and its Board, with Senior Management having the responsibility to improve the plan, address self-identified gaps and issues, and address concerns raised by FSRA.
- FSRA intends to work with CU during the **transition period** in order to promote understanding of the guidance and ensure the development of credible recovery plans. FSRA will provide directional feedback to the CUs’ Interim Submissions.
- FSRA expects **incremental improvements** with each iteration of the recovery plan. The plan should be **periodically reviewed and refined** by the CU to ensure that it remains relevant given changing conditions within the CU and in the broader financial environment.
- FSRA’s **Risk Based Supervisory Framework (RBSF)** will lead to accurate and consistent assessments of CUs’ significant activities, inherent risk, quality control and oversight, capital and liquidity, resilience and overall risk profiles. FSRA will assess Recovery Plans as part of FSRA’s RBSF **Resilience Assessment** Framework

 Thank you

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**Questions/Comments?**