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January 4th, 2019.

Mark White
Chief Executive Officer
Financial Services Regulatory Authority
130 Adelaide Street West, Suite 800
Toronto ON
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RE: Proposed FSRA Fee Rule 2019 – 001

Dear Mr. White,

We appreciate the opportunity to respond to FSRA's request for comment on *Proposed FSRA Fee Rule 2019 – 001*. Thank you for your work to date on FSRA's development and we appreciate the open collaboration with the Ontario credit union and caisse populaire industry (hereinafter referred to as "credit unions") as we work together to create a regulatory framework that is efficient for credit unions and protective of the interests of the citizens of Ontario.

Please note that this response was created in tandem with our response to *Proposed FSRA Fee Rule 2019 – 001B (Interim)*. These responses complement each other and are being submitted to FSRA simultaneously.

Credit Union Overview

Ontario credit unions are democratically run financial institutions, owned and governed by our 1.5 million members, including 140,000 small business members. These members have chosen a cooperative business model for their banking, knowing it will generate greater mutual success for everyone involved in their local communities. There are 90 credit unions and caisse populaires in Ontario, holding over $67 billion in assets; credit unions exist in 210 Ontario communities, including 59 where a credit union is the only financial institution.

Credit unions have deep roots in Ontario with the first one established in 1908. Over that history, credit unions have been regulated in a number of different ways, but throughout, we have maintained ourselves as prudent financial institutions that have served the people of Ontario well. The partnership with the Province of Ontario, and its designated agencies as our regulator, is critical to our success: consumers need to know that we are well and properly regulated to have confidence in the system.

In 2009, the Ontario Government signaled that they intended to lower costs and merge boards and regulatory agencies in order to increase the competency and capabilities of the regulator. It has taken nearly a decade, but we are finally at the point where a new consolidated financial services regulator is ready to take over and realize this goal.

Going forward, credit unions need a regulator that exercises a culture of innovation and commitment to enhancing the strength of credit unions. FSRA can be assured that credit unions will work with it to develop policies that reflect the uniqueness and strength of the cooperative model. A well-regulated and prosperous credit union system benefits the future of Ontario.

FSRA Fee Rule Concerns and Recommendations

The regulatory fee structure and funding model imposed by the regulator is an integral part of developing any regulatory structure. Ontario credit unions applaud the collaborative and principles-based approach that FSRA has taken to develop and explain the rationale behind the proposed fee rule. All six principles identified in the document are relevant to creating a balanced and effective fee structure. Our consultation response will provide some general comments, representative of the credit union system's views toward the eventual fee structure, with specific reference to the principles-based paradigm outlined in *Proposed FSRA Fee Rule 2019 – 001*.

Overall, credit unions support FSRA's main recommendation to use a variable rate approach for regulated sectors with larger participants. As well, credit unions support, in principle, the move to Risk-Weighted Assets (RWA) as a part of the calculation for the eventual fee rule. Our concerns surround the speed of transition that would be affected by present unknown variables. We have three recommendations that Ontario credit unions would like to accompany the formulation and eventual implementation of the permanent FSRA Fee Rule:

1. Start the implementation of any new fee structure in 2020, after FSRA's first operational year and the completion of the Credit Union and Caisses Populaire Act modernization.

A consistent response from the credit union system since the summer of 2018, when FSRA first engaged the Credit Union Industry Advisory Group on this matter, is that credit unions cannot lend their support to any immediate fee change without first understanding its new regulatory environment. A legislative modernization process for the *Credit Union and Caisses Populaire Act* was begun by the previous government, based on the *Albanese Report*, and the new Ontario government has signaled that it intends to move forward with those plans, though a specific timeline has not yet been announced. A key outstanding question related to that legislative and regulatory modernization revolves around the capital adequacy rules and formula that the sector will be subject to. A key component of those rules will define the rating for risk-weighted assets (e.g. ambiguity around ratings for agricultural lending and small non-owner occupied mortgages), which is the basis for the fee rule.

Another key question, which will have a direct bearing on the FSRA budget, is the extent to which FSRA will have rule-making authority in a modernized regulatory environment. If FSRA is granted broader rule-making authority, presumably it will require more policy staff and need a higher budget. If that rule-making authority continues to reside in the Ministry of Finance, FSRA may need fewer staff.

This leads to our second reason for recommending a delay: the FSRA budget and operational plan is not yet known. Without knowing what the FSRA budget and operational plan will be, the sector cannot know if the fees being requested are going to be fairly and judiciously spent. When our Members present a business plan as part of a commercial lending application, they cannot leave out their budget and ask us to "trust them" before we make the investment. Likewise, we cannot in good conscience endorse a plan that has us paying for something without knowing what it is we are paying for.

Furthermore, when our credit union members apply the formula to their operations, several of the largest credit unions see increases upwards of 25%. Since one of the main goals of consolidating the two agencies is the reduction of regulatory cost, we cannot support a formula that increases those costs without knowing for certain that the money is being applied to make the system better and more efficient. In other words, our members may be willing to pay a few more dollars, but need assurance of better performance, quicker turnaround for regulatory decisions, and a higher level of sophistication from the regulator.

Therefore, our recommendation is that funding for the credit union sector within FSRA for 2019-20 fiscal year remain frozen at the existing 2018-19 levels using the "old" formula, at least until we can better understand the budget and plan. A pause would allow FSRA to build its fee structure around a modernized *Credit Union and Caisses Populaire Act* and associated regulations. We acknowledge that FSRA, nor the credit unions for that matter, have direct control over the timeline of an Act review, but the fee is not being imposed on the sector in isolation. It is being imposed by an agency of the government of Ontario and so we believe should be implemented only once the entire policy landscape is known.

Furthermore, this pause would help ensure that a fee rule based on these potential significant changes would remain in line with FSRA's fee rule principles of consistency and future focus. It would be imprudent to rush to move to a new fee model that may soon need further changes following its implementation. The additional benefit to a one-year pause is that FSRA could move the Deposit Insurance Reserve Fund (DIRF) actuarial assessment, scheduled for 2020, up to 2019, which would allow credit unions to better understand FSRA's approach to funding the DIRF. Without clearer articulation of how the DIRF will be managed within FSRA, there is concern for potential overlap or duplication of administration efforts between the proposed fee and the DIRF fees.

Finally, our approach offers a more realistic timeline that both regulators and credit unions can easily understand and plan for. Rather than dealing with the uncertainty of budgeting for an interim fee rule that may or may not be implemented, or a fee structure without a budget – both of which would be implemented mid-fiscal year – this suggestion is clear in both *when* the fee structure would change and *what* the effects would be. The transition to FSRA is a major undertaking for both FSRA and the credit unions, with multiple operational uncertainties that credit unions are forced to deal with.

2. Maintain overall credit union system fees at present level.

Part of the rationale behind the creation of FSRA was to create a more effective and efficient regulator. Previously, credit unions have been regulated by both the Financial Services Commission of Ontario (FSCO), for market conduct and miscellaneous activities, and the Deposit Insurance Corporation of Ontario (DICO), for prudential regulation and deposit insurance. By merging the administrative and other back-office functions, the resulting efficiencies should ensure that the overall fee for credit unions would at least remain constant and should decrease to what credit unions paid DICO and FSCO in FY2018 (accounting for sector growth). In addition, our proposal above to use the current fee structure for FSRA's first year guarantees that FSRA will have adequate funding for credit union regulation. By our calculations this amount could be as high as $12.7 million[1] – higher than the budget estimates we've received from FSRA in the past.

[1] Assuming 8.5% annual deposit growth on 2018 deposit assessments.

We are pleased that FSRA highlighted effectiveness and efficiency as two of the principles built into the formulation of the fee rule. Credit unions also welcome FSRA's commitment to ensuring the credit union fees separated from other FSRA regulated industries. It is important for the purposes of fairness and transparency that credit unions' fee structures are proportionate to sector and that the fees paid by credit unions are attributed toward the cost of regulating the credit union industry only.

Given the acknowledged separation of credit union fees, any change in fees to the credit union system must be directly related to changes within the system (i.e. RWA growth). If there are any proposed budgetary increases on the credit union sector~~s~~, it is important that these are communicated and explained clearly. Moreover, credit unions want to ensure the FSRA fee structure includes the ability for credit unions to track cost, quality, and assess improvement. To have this ability, we support the continuance of the Credit Union Industry Advisory Group to be used as a formal mechanism for consultation on operational plans, fees, and budgets.

3. Strike a fair balance between credit unions based on size.

As stated above, credit unions are generally supportive of the use of risk-weighted assets as the basis for calculating fees. We acknowledge the correlation between RWA and the work effort required for prudential regulation. That said, there is substantial diversity within our sector (size, geographic focus, and scale of operations) – and so regulations must be scalable and proportionate while remaining equitable.

FSRA should consider the distributional effects application of the fee might have within the credit union system. More specifically, a consequence of moving to this new calculation is that – given the disparity of credit union RWA – some credit unions may pay vastly more, and some may pay significantly less. While some change amongst credit union fee levels is expected, moderating functions should be added to the proposed fee rule calculation for two reasons. First, to ensure that there is a reasonable floor for what smaller credit unions (or credit unions with disproportionately lower RWA) will pay. Second, to make sure the largest credit unions – who often also have a higher proportion of RWA on their balance sheets because of the diversity of their business – have their fees maintained in line with the purported goal to be a proxy for the level of effort required to conduct prudential regulation.

Based on the current proposed rule, some of the larger credit unions *would see upwards of 25% increases in their fees*. This would have consequential adverse effects on these credit unions. Moreover, this level of increase for some credit unions seems to contradict the proposed principles of effectiveness and efficiencies. While the sector welcomes lower fees for smaller credit unions (who face disproportionate compliance costs), it is important that the proposed fee structure balance this with a degree of fairness.

Conclusion

Credit Unions of Ontario appreciate the opportunity to work with FSRA to achieve our shared vision of simplicity, consistency, transparency, future focus, as well as efficiency and effectiveness. The proposed fee structure must ensure that FSRA's credit union mandate is appropriately focused and that the organization has a capacity to adequately regulate our unique structure. Our three recommendations outlined above represent our view of how FSRA can best satisfy your stated principles balanced with credit unions' needs.

In summary, with the level of uncertainty around FSRA's timeline and budget, credit unions cannot support the immediate implementation of a new fee structure. To provide consistency and fairness to credit unions, we firmly recommend implementing any new fee structure in 2020, after FSRA's first operational year and the completion of the *Credit Union and Caisses Populaire Act* modernization. In the interim, credit union fees and the formula used to calculate them should remain frozen at the existing 2018 regulatory funding model.

Second, we maintain that the resulting efficiencies that occur when merging two separate administrations should be enough for FSRA to confirm that overall credit union system fees will remain at their current level – if not lower over time. We appreciate that without an operational plan and budget in place and approved by its Board, FSRA cannot offer this assurance. However, this fact underscores why our first recommendation of waiting until after FSRA's operations and budget are fully formed is so important.

Finally, while credit unions generally supportive of an RWA-based model, there are amendments that FSRA should consider, in order to ensure equity amongst the credit unions. While the expectation is that credit union fees overall with remain constant or decrease, variable change within the credit union system is expected, but should be moderated to ensure equity.

Taken together, these recommendations will result in a clearer transition for both credit unions and FSRA. Once again, we thank you for the opportunity to participate in FSRA's consultation process related to new fee rules. We strongly recommend FSRA incorporate these recommendations into the new fee rules and continue to provide additional guidance on the ongoing work towards your future structure, governance, and budget. Thank you for the opportunity to provide feedback. CCUA looks forward to working with FSRA on building an effective regulatory relationship for Ontario credit unions.

Kind Regards,

Eric de Roos	Bernard Brun
Director of Government Relations (Ontario)	Director of Government Relations (Canada)
Canadian Credit Union Association	Desjardins Group

cc. Minister of Finance, Hon. Victor Fedeli
CEOs of Ontario credit unions and caisses populaires

Canadian Credit Union Association

Canadian Credit Union Association is the national trade association for Canada's credit unions and caisses populaires outside Quebec. These financial institutions offer a full-range of retail banking services to over 5.7 million Canadians. Collectively Canada's 250 credit unions generate over $6.5 billion in economic impact, are leaders in small business lending, and have assets of over $225 billion.

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