



Mr. Mark White
Chief Executive Officer
Financial Services Regulatory Authority
130 Adelaide Street West, Suite 800
Toronto ON, M5H 3P5

RE: Proposed FSRA 2019-20 Priorities and Budget

Dear Mr. White,

Thank you for the opportunity to provide feedback on FSRA's 2019-20 Priorities and Budget, which is the purpose of this letter. Kawartha Credit Union (Kawartha) acknowledges and appreciates the transparency demonstrated by FSRA, and the open and collaborative approach to the development of the foundational elements of this new organization. The formation of Industry Advisory Groups for consultation is a significant improvement over predecessor practices. We look forward to an ongoing relationship with FSRA that is mutually open, collaborative and respectful in supporting the financial success and well-being of our members.

About Kawartha Credit Union

Kawartha serves 49,000 members with access through online, mobile, telephone, a network of 23 branches throughout eastern Ontario and thousands of Exchange® Network surcharge-free ATMs in Canada. With more than 65 years of history, Kawartha makes a positive impact on our members' lives with service excellence through proactive, needs-based advice and financial solutions. Our Community Involvement Program has supported the well-being of the communities we serve with \$3 million in corporate donations and countless hours volunteered by our dedicated employees. Kawartha's Affinity Share profit sharing program has to date returned \$14 million to members as a reward for their patronage.

Priorities

Kawartha agrees with and supports the two cross-sector overall priorities of Burden Reduction and Regulatory Effectiveness. We support FSRA's objective of "*efficient, effective regulation and supervision by ensuring that the benefits justify the internal and external costs of regulation.*"¹

Kawartha supports the three priorities within Burden Reduction and offer the following comments to strengthen the specific initiatives:

¹ Page 11, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

Review inherited guidance² – We recommend you set a metric and measurable target for overall reduction, which would set a framework for expectations within the regulated sectors. We ask FSRA to consider that any change to guidance (even removing low-benefit guidance, which we applaud) has a short term cost to the regulated sectors in terms of adapting to the changes. This has implications for pace and prioritization of change and the regulated sectors' ability to absorb the changes.

Review data collection and filing requirements³ - As part of establishing the framework for data/filing requirements, make sector data available to sector participants at a granular level. For example, credit unions provide significant data to DICO, but we cannot access it for benchmarking purposes through the tool on DICO's website. We ask that FSRA also consider harmonization with other regulatory reporting requirements on each sector, where it makes sense. For example, credit unions are required to report extensively on residential mortgage lending to CMHC and to DICO. While there is overlap in the two sets of required data they are not the same, thus requiring duplication of effort. Please work hard to find opportunities to simplify and streamline requirements.

Kawartha supports the five priorities within Regulatory Effectiveness and offer the following comments to strengthen the specific initiatives:

Protecting the public interest⁴ – FSRA will be collecting information on consumer perspectives and priorities. We ask that FSRA consider sharing some of that information with the regulated sectors, where relevant, for the purpose of fostering alignment between the regulator and the regulated. We further request FSRA report consumer complaints by sector, as FSCO have been, on their website.

Modernize systems and processes⁵ - We agree with the intent as articulated, but are concerned about cost impacts of complex projects. Kawartha would like to see some articulation of the controls over this at the highest level, such as limits on budget increases or annual expenditures, to protect the regulated sectors from ever increasing costs.

With respect to the credit union sector specific priorities, overall we support the four priorities and approaches identified. Relative to ensuring appropriate resolution and DIRF framework, we agree DIRF preservation and governance is important. With that as the basis for our comments, we believe there should be transparency relative to the investment management of the DIRF and yield enhancement strategies. Kawartha encourages FSRA to closely examine historical DIRF usage and balance risk and liquidity with obtaining a reasonable return. Enhanced returns would benefit the sector and FSRA at no cost to the government.

Budget

We note that the overall revenue/expenditure budget of \$97MM is up 5.1% over combined FSCO/DICO budgets. After adjusting for timing differences between the years being compared, this increase is more than CPI. Respectfully, that is not aligned with FSRA's stated key principle of being cost-effective. Merging the two organizations should have resulted in savings (which are articulated in the paper⁶ at \$1.4 million). Recognizing there is a start-up/transition cost, we would like more transparency on the longer term expectations. For example, what was the CAGR of FSCO/DICO expenditure growth over the

² 7.1.1 Page 11, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

³ 7.1.2 Page 12, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

⁴ 7.2.1 Page 13, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

⁵ 7.2.5 Page 17, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

⁶ Waterfall chart on page 7, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

past 5 years, and what is FSRA's projected to be over the next five years? Is this short term pain for longer term gain, or are we just going to be paying more?

Relative to the credit union sector specific budget⁷ we note that it accounts for 13.9% of the total, which appears disproportionate to the size of the sector compared to the size of other regulated sectors. What analysis has FSRA done over the relative fairness of the sector specific budgets? Further, the proposed \$13.5MM is up 6.6%, or 3x CPI, over combined FSCO/DICO budgets and up 45% over DICO's 2017 actual operating expenses⁸, which were up 10% over 2016. Driving costs up hurts the sector, as we rely heavily on retained earnings to grow capital.

Kawartha strongly encourages FSRA to limit annual budget increases for the sector to a maximum of the annualized CPI increase over the previous four quarters.

Conclusion

Thank you again for the opportunity to provide feedback on FSRA's 2019 priorities and budget. Kawartha exists to support the financial success and well-being of our members and the communities we serve. In pursuit of that purpose we are aligned with FSRA's objectives and wish the organization success as you navigate the transition, and beyond.

Regards,



Robert Wellstood, CEO
Kawartha Credit Union Limited

cc. Canadian Credit Union Association

⁷ 5.3 Page 8, FSRA Proposed FY 2019-20 Priorities and Budget, Consultation Document, January 21, 2019

⁸ Summary of Key Financial Performance, page 24, DICO Annual Report, 2017