libro.ca
4th Floor
217 York Street
London ON N6A 5P9

T 519-672-0130
F 519-672-7831
1-800-361-8222

January 3, 2018

Mark White
Financial Services Regulatory Authority
130 Adelaide Street West, Suite 800
Toronto ON, M5H 3P5

RE: Proposed FSRA Fee Rule 2019 – 001 and Interim Fee Rule 001-B (Joint Submission)

Dear Mr. White,

Libro Credit Union (Libro) would like to thank you and the FSRA Board for the opportunity to provide direct commentary and feedback on the proposed FSRA Fee Rule (001) and Interim Rule (001B - Interim). We are appreciative of the work done to date by the FSRA Team, and like the Canadian Credit Union Association (CCUA), are open to further continued collaboration to support our collective efforts to ensure the protection of our Owner-Member deposits. The trust and confidence of Libro Owners is paramount, and we look to the FSRA as a partner in supporting and building greater trust and confidence in Libro and our system. This submission supports a response to both Fee Rule 001 and 001B jointly and respectively.

Overview of Libro Credit Union

Libro Credit Union (Libro) is a purposed based credit union that operates solely in southwestern Ontario. We are focused on growing prosperity in the region and investing 100% of profits back into the people, businesses and communities we serve. At Libro, we ensure that our decisions have a positive impact on our Customer-Owners, who choose to bank within a co-operative model. Libro has been committed to our communities for over 75 years, as the largest credit union in southwestern Ontario.

Currently 105,000 Owners and over 9000 businesses bank with Libro, across 31 branches. Helping our Owners achieve their goals is why we exist. As a purpose driven organization we are focused on delivering results for our Owners, growing prosperity in southwestern Ontario and investing more funds back into the communities that we serve.

Libro Desires a Strong Relationship

Libro values our relationship with our regulatory body and representatives. The importance of a strong regulator working relationship is critical to the success and trust of our Libro Owners. We know that when the relationship is strong our Owners, communities and industry win together. As we enter into a new regulatory environment we first and foremost want to ensure an effective transition for both credit unions and the FSRA. Ensuring our continued ability to effectively service Owners, our communities and the businesses that rely on us is crucial within this regulatory body transition.

We welcome the principles based approach shared within the consultation documents. **We agree that all six principles identified within the document are relevant in creating a balanced and effective fee structure**. However, we also believe that more dialogue and collaboration is needed before a fee rule is approved and implemented. The following sections will highlight our concerns, provided evidence and rationale, while seeking continued dialogue and partnership as we work through these challenges together.

<u>Libro will Experience a Large Cost Increase</u>

Using the Risk-Weighted Assets (RWA) formula outlined within the consultation, Libro will experience an increase of 8.19% respectively. We feel this is a significant increase given the approach and vision shared by the FSRA within the consultation documents. While we respect the RWA approach as a best practice it is important to highlight that the method will negatively impact the largest credit unions, and will have a direct impact on our ability to continue to grow and compete within the Ontario financial services space. Libro agrees with other large credit unions, and with the CCUA that a moderating function must be included to ensure significant increases are avoided, while also supporting smaller credit unions with a cost reduction.

Libro is open to further discussion with the FSRA in regards to a moderating function and how it might support larger credit unions who will experience these significant increases.

<u>Scale and Efficiencies</u>

With this transition there is an opportunity to take advantage of economies of scale and organizational efficiencies. Throughout this collaborative process we have been advised that these elements are a key consideration of the FSRA, and we continue to trust that this approach is paramount within transition planning.

As we review the fee structure and increase to Libro we have some concerns with the fee approach on larger credit unions compared to the vision elements shared within the consultation. This disconnect is evident within Vison Elements 1.1 and 6.2.

Vison Element 1.1 – Low administrative burden for regulated entities

Libro agrees with the desire that "administrative burdens associated with paying assessments or fees should be minimized". DICO and FSCO's established models, recognized costs/fees, and operational budgets should provide strong understanding of annualized costs and considerations. With the merger of the two entities we do not believe that there is justification at this time to increase overall operating costs within the new FSRA. At minimum we would expect a freeze on current fee structures as the FSRA works through its first year of operations to determine full needs through evidence based operations and examinations.

Vision Element 6.2 – Cost effective

We appreciate FSRA's commitment towards being an "effective steward of resources in achieving its regulatory objectives, while seeking to minimize costs where practicable." While this commitment is commendable, the results have not highlighted this achievement for larger credit unions. Based upon the proposed fee formula Libro will see an increase in our premiums. We do not believe it to be unreasonable to expect cost effectiveness in relation to the FSRA's desire for effective stewardship of resources.

Approach to Development

Libro asks the FSRA to reconsider the notion that it is "not in a position to develop a comprehensive budget". Historical data should provide accurate illustrations of sector expenses and expenditures, and be able to produce an accurate and detailed budget. Within the document it is also shared that "Potential common costs (i.e., costs not directly attributable to a particular sector based on available data) were allocated to regulated sectors". This suggests that regulated sectors (i.e., credit unions, pensions etc..) are bearing the burden of "common costs". We see these common costs as items that should be fairly paid by the specific industry it derives from. These common costs will add to Libro's overall increase of expenses related to this transition. We ask that a continued commitment to work collaboratively around these development issues remains a priority between both sides.

Industry Specific Recommendations

Libro supports the FSRA's main recommendation to use a variable rate approach for regulated sectors with larger participants. As well, we are not opposed to the use of Risk-Weighted Assets (RWA) in determining calculations for the eventual fee rule. With that said there are three industry recommendations that Libro supports:

1. Postpone the implementation of the new fee structure until the end of FSRA's first operational year.

Libro along with other credit unions have been consistent in our response around this recommendation. Without a shared and transparent budget, we do not understand the immediate urgency to adopt a new fee model. We are asking that 2019 fees remain frozen with the existing regulatory funding model of 2018. We have concerns in relation to common costs (noted above), contingency costs and fee reapportionment. We believe a freeze supports a better understanding of these unknown costs to ensure full transparency and ensure that we can continue to work while the FSRA gains the necessary evidence to build a stronger and accurate structure towards fees moving forward.

2. Maintain overall credit union system fees at present level

Libro also supports the ask of the CCUA in maintaining system fees at their current level. We have provided reasoning based on your vision elements above, but also would like to highlight that we desire the ability to track cost, quality and assess improvements within the FSRA. We are not opposed to using Risk-Weighted Assets to determine future changes to cost structure, however, we feel that a one year consideration would ensure greater accountability and understanding for both the FSRA and for credit unions of Ontario.

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

The proposed fee rule will hinder the ability of larger credit unions within Ontario to give back, re-invest and continue to grow and support our Owner-Members. There is substantive diversity within the Ontario credit union sector (size, demographics, focus, scale of operations), we believe that regulations must be scalable and proportionate wile remaining equitable.

A consequence in moving towards the proposed RWA calculation (with disparity recognized) is that large credit unions will be paying vastly more, while other smaller credit unions pay significantly less. We recognize that some change is needed within the system however, we believe that a moderating function should be attached to the fee calculation formula. Firstly, this would ensure a reasonable floor for smaller credit unions, the second is to ensure that the largest credit unions remain in line with the purported goal to be an appropriate proxy for the level of effort required to conduct prudential regulation. Libro agrees with CCUA's recommendation around balancing this need as the adverse effects will be a significant burden in our ability to deliver as a leading financial institution within Ontario. We agree with CCUA that a base fee level would sufficiently support credit unions in covering their own costs.

Conclusion

Libro seeks a strong regulator who is transparent, accountable and relationship focused. We see the transition to the FSRA as a great opportunity to develop a strong regulator that partners with credit unions to deliver return value for our Owners and the communities that we serve.

We expect to continue dialogue with the FSRA in relation to the above recommendations, concerns and opportunities presented. The increase shared impacts more than just our bottom line, it negatively impacts the communities that we serve, the organizations we support, and the Owners who rely on our world class advice and service in southwestern Ontario.

Should the FSRA have questions or comments in relation to Libro's submission please do not hesitate to contact us. Libro believes in the consultation process and is confident that the FSRA will continue to work with credit unions as we work collaboratively to an effective transition of regulatory power and duties, that supports both the mandate of Libro, in building prosperity within southwestern Ontario, as well as for the FSRA, who seeks to be a prudent regulator that is reputable in supporting Ontario consumers who choose to bank with a credit union.

Sincerely,

Steve Bolton
Head Coach, CEO and President
Libro Credit Union
Stephen.Bolton@libro.ca

Rhonda Choja
VP Corporate and Advisory Services
Member of FSRA Credit Union Advisory Group
Libro Credit Union
Rhonda.Choja@libro.ca

CC; Eric de Roos - CCUA Regional Director Ontario
Jillian Fernandez – CCUA Policy Analyst Ontario
Fred Blaak – Libro Corporate Secretary, EVP Risk and Corporate Services
Rick Hoevenaars – Libro CFO, EVP Finance
Kathleen Grogan – Libro VP Finance