March 19, 2021

FSRA Policy Division
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Delivered by e-mail

Dear FSRA Policy Team,

RE: Response to FSRA Guidance on Recovery Planning

Thank you for the opportunity to provide our thoughts on the draft Guidance regarding Recovery Planning. Alterna is pleased to share our comments for consideration. We appreciate FSRA's efforts to enhance crisis preparedness and resiliency of the Ontario credit union system. We share FSRA's view that ensuring the safety and stability of our sector is paramount to protecting deposits held by members.

While there is merit in recovery planning, we believe the benefits for our sector may not outweigh the amount of time and resources that must be allocated to this activity as suggested in the draft Guidance. In context, recovery planning is something we have seen in larger financial institutions, typically those that have systemic importance, either globally (G-SIFIs) or domestically (D-SIBs). These designations are given to those financial institutions whose viability may threaten the stability of the financial system. As you are aware, OSFI has identified the six largest banks in Canada as domestically systemic important banks. Yet the Canadian credit union system as a whole is only as large as the smallest of the big six banks.

We would kindly ask FSRA to consider this proportionality in its planning from the perspectives of credit union resource allocation and focus, development and use, as well as timing of implementation.

Resource Allocation and Focus

As noted, financial institutions that would typically be subject to recovery planning tend to be much larger and, as such, would have resources, sometimes full departments, dedicated to this activity. This is not realistic nor cost effective for credit unions. In our case, oversight functions are structured and staffed based on the organization's size and complexity and these resources' primary focus is on risk identification, measurement, monitoring and mitigation. We are concerned that the effort necessary to address the proposed requirements as set-out in FSRA's draft guidance may take away from that focus. Given the industry and business risk knowledge alterna savings

required to perform this extensive activity, recovery planning will draw on existing resources from the first and second lines of defense, i.e. those that are in place for preventative risk management activities such as ERM frameworks, monitoring and reporting the credit union's risk profile, stress testing, ICAAP, liquidity contingency planning, business continuity and disaster recovery. In our view, their efforts are best focused on these proactive risk management activities, which are already required by FSRA, in order to maximize resilience and diminish the risk of a recovery plan ever needing to be invoked.

Use and Development

We understand that FSRA is looking to require all credit unions to develop a recovery plan, and that this plan will form part of the Resilience Assessment component of their Overall Risk Rating (ORR). Given the need to focus our scarce resources, we believe that, rather than imposing recovery planning as a standard for all, this tool may be best used in on-off circumstances where an individual credit union poses higher risk. This would mean that the recovery plan would be consequential to certain risk ratings rather than being part of the initial assessment and ORR.

If FSRA proceeds with the guidance for all credit unions, the manner in which it is implemented will be key. This should be seen as an evolutionary exercise and, as noted in the draft Guidance, an iterative process. Only if approached in a constructive manner, supported by FSRA and with openness to dialog, can the exercise be successful. As a result, we would again recommend that the recovery plan not be a component of the ORR.

Timing

Assuming FSRA proceeds with implementation, we suggest the following dates for rollout of the Recovery Planning Guidance and subsequent discussions and implementation:

- 2022 – Develop a clear framework for defining the key elements to be included in the recovery plan, along with the practices and procedures to be employed. Once complete, we would recommend that credit unions have touchpoint discussions with FSRA to solicit their feedback before embarking on preparing draft recovery plans
- 2023 – Requirement by end of year to have recovery plan in place
- 2024 – 2027 – Ongoing annual discussions and updates until plans are in a strong position, then shift to bi-annual reviews for those credit unions with $1 Billion or more in assets.

Building separate reporting, policies, processes, training, governance, and other items to produce a strong recovery plan will take time, resources, and careful planning. As such, this proposed timeline provides more runway to properly build the framework.

Other

Finally, the Guidance positions recovery planning as a means to satisfy the duty and standard of care required of credit union directors and officers under sections 144 (1) and 144(2) of the Act. As credit unions typically provide director & officer liability insurance to mitigate the risk to these individuals, it would be important that FSRA reconcile any regulatorily imposed standards of prudent person and duty of care with industry and insurance norms. If FSRA sets a higher bar than would be considered by an insurer adjudicating a potential claim due to an unforeseen event, this may ultimately expose the credit union (and in the extreme scenario, the DIRF) to losses not covered by insurance.

Conclusion

To summarize, our ask is that FSRA consider approaching recovery planning as a tool to be applied outside of the ORR. Requiring recovery planning, as needed, based on a credit union's risk rating, rather than an integral part of it, would avoid the redirection of resources that are ultimately best focused on risk assessment and mitigation activities. If system-wide implementation proceeds, we kindly ask that it be done in a supportive manner and with sufficient time allocated to the roll-out.

We trust that our comments are constructive and helpful. Thank you once again for the opportunity to share our thoughts, and please feel free to reach out to us if you would like to discuss these in greater detail.

Best Regards,

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SVP & Chief Administrative Officer

cc. Rob Paterson, President & CEO

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