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Submitted Electronically

ATTN: Libro Credit Union Response to FSRA Proposed Guidance on Recovery Planning

March 16, 2021

To the Reader,

Libro Credit Union (Libro) is pleased to offer our thoughts and feedback on FSRA's proposed guidance on recovery planning (ID 2021-001). We were happy to see the guidance was in a principles-based regulatory format (PBR). We continue to learn how to read and interpret PBR guidance and offer our feedback, with that notion in mind. Our comments seek to identify possible areas of enhancement, clarity, and opportunities for greater efficiencies for the sector.

## Proactive Versus Reactive Planning

We recognize that recovery plans are necessary within our environment, but to what breadth and scope? We would request that FSRA consider the ramifications of the efforts of recovery planning versus proactive strategic foresight and business planning, coupled with appropriate risk management. **We anticipate an increased cost to staffing on the recovery side and that resources will be drawn away from risk mitigation towards recovery planning** due to the high degree of work required early on within the planning and building stages.

In reviewing the guidance note, **we feel it is important that the requirements are proportionate, limit duplication, and reflect a valuable use of human resources.** Libro's priority is currently to identify, monitor, and manage risks to prevent the need to implement a recovery plan. We would expect this to be the same across the sector. In contrast to the intent of the guidance we feel a higher degree of value should be placed on proactive and preventative measures rather than extensive recovery planning documentation, reporting and review.

Effective risk mitigation practices and strategies at the outset, would negate the requirement for extensive recovery planning and burden on the sector. We trust that FSRA will keep this in mind as it reviews feedback and considers where to place regulatory time and energy.

## Possible Efficiencies

In our review we noted that several of the requirements may already be performed through various current reporting functions and procedures. These include the following:

- ICAAP planning and reporting
- Capital stress testing and FSRA reporting
- ERM frameworks and reporting
- Liquidity contingency planning requirements
- Business continuity plans
- Disaster recovery plans

**We trust that FSRA has considered all current practices, reports, and requirements to ensure overlap will not occur within any new reporting, governance, or ongoing requirements.** We recognize we are early in the building phase; however, we want to ensure that if there is an opportunity to utilize current practices within existing reporting, that we take advantage of the possible efficiencies, as to not create significant burden for the sector through the building of new requirements.

Our objective would be that a recovery plan would complement the above documents without duplication and be an additional tool for credit unions in scenario planning and mitigation of risk. Recovery planning can be integrated, coordinated, and aligned to current documents with potentially less burden.

## Stress Triggers and Metrics

We appreciate the interest by FSRA to ensure that triggers for recovery planning are reviewed and considered within the guidance. We are curious if FSRA would be open to highlighting (in a principles based format) an example of how a stress trigger would be utilized as part of a recovery plan review and whether or not a small list of what FSRA believes to be the most important triggers could be shared with the sector?

Additionally, **an application guide may be useful in helping the sector recognize and understand the outcomes desired by FSRA.** We found Appendix A and B to be helpful in our review. We recognize that this may be a bit more prescriptive in nature and as such we hope there may be a principles-based way to support the request. We would be open to a discussion approach between FSRA and individual credit union to understand regulatory outcome goals via triggers.

## Recovery Options

The guidance note requires the specification of a menu of recovery options to be implemented under high stress severity that could threaten the viability of the credit union. The consideration of various courses of actions and prioritization of those options based on considerations related to the impact of the recovery plan is reasonable. The guidance note also prescribes several elements that must be described for each recovery plan. Some of these include the following:

- The costs (e.g. discounts on asset sales) and time to execute the recovery options and extent to which the identified recovery options are mutually exclusive and/or dependent

- Regulatory approvals required and the timeline for those approvals
- Description of how the credit union would look post-recovery, assuming the successful implementation of the recovery option

The primary focus of the credit union is on risk identification and mitigation. We are concerned that the effort required to model out these specifics will take away from that priority. We would also appreciate more clarity regarding FSRA's expectation of the detail required for above items. While we can consider ramifications and outline a plan for each recovery option, we expect it may be challenging to play out every option far into the future with sufficient detail, accuracy, and reliability. **We believe that recovery options would need to be principles based in its goals to ensure the sector does not end up chasing unobtainable outcomes.**

## Plausible Idiosyncratic and System Stress Burden

Page eleven of the proposed guidance provides, in our opinion, a prescriptive approach around plausible and idiosyncratic systemic stress indicators and requirements. We have some concerns that this area appears burden heavy and we trust that FSRA has considered the proportionality of credit unions versus banks within these requirements. We are not opposed to stress testing or scenario planning as part of the recovery framework, in fact we feel it is important, however, the depth within the three bullets appears laden with potential burden and extensive work that will require additional resources and time. We are also curious as to the impact on capital and liquidity requirements over time through the recovery planning process. A "highway of data" between FSRA and the sector should help created desired outcomes within this area over time, as well as the sharing of best practices.

## Discussion and Support in Early Years of Implementation

We were pleased to see FSRA focus so much on initial early discussions with the sector and credits unions as we seek to implement recovery plans. **This focus and open dialogue around incremental improvements to the plan will be critical to its success.** Strong recovery planning and frameworks will help lead to better outcomes for our Owner/members and deposit holders across Ontario. We look forward to learning sector best practices through discussion and building upon early successes.

## Dates and Timelines for Implementation

We suggest the following dates for rollout of the recovery plan guidance and subsequent discussions and implementation:

- 2022 – Develop draft recovery plans and begin early discussions around goals and outcomes
- 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 with \$1 Billion plus credit unions.

Libro may need to build some separate reporting, policies, processes, training, governance, and other items to produce a strong recovery plan, this will take time, resources, and careful planning. We believe that open discussions will be critical to the success of these plans with relationship managers and FSRA, as such we tried to create a draft timeline that includes early discussions in a draft state before full implementation.

Libro is supportive of CCUA's implementation table for credit unions under \$1 billion in asset size as presented within their response.

## Conclusions

Libro believes that recovery planning is an important part of a resilient credit union sector and strong environment for our Owners, depositors, and the province. As the COVID-19 pandemic has demonstrated, it is important to understand risks and be prepared to act when faced with adversity and uncertainty. We recognize that recovery planning is an international best practice and that it will help build a stronger and more resilient credit union sector in Ontario however, we as noted early in our response we believe that the most effective way to manage risk is upfront by not allowing excess risks to develop within the system. This is where we hope the majority of FSRA's time and energy remains over the course of this new guidance development and future state.

We trust that FSRA will consider our feedback, posed questions, and draft timeline. Recovery planning could be a resource intense initiative, especially in the early years of development. Finding efficiencies and already existing reports to help satisfy the plans would be beneficial to the sector. We were pleased with the principled approach to the guidance and continue to learn expectations of FSRA and how new guidance will be drafted, interpreted, and considered through the lens of principled based regulation.

Should you have questions regarding our response please do not hesitate to connect with us on any topic.

Sincerely,



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