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Mr. Bradley Hodgins
Senior Manager, Policy & Research
Financial Services Regulatory Authority

Dear Mr. Hodgins,

The Canadian Credit Union Association is the trade association for Ontario's credit unions and caisses populaires. Following extensive discussion with our membership – we make the following response to Rule 2021-006 – Liquidity Adequacy Requirements for Credit Unions and Caisses Populaires.

1. Does the Proposed Rule reflect effective, clear, and appropriate liquidity adequacy rules for Ontario's credit unions?

Yes, overall, the Proposed Rule provides appropriate regulatory liquidity adequacy requirements for Ontario credit unions. However, we have some elements that require clarification, confirmation and/or adjustment before we can fully endorse the Rule.

2. Is there any major topic that should be addressed by the Proposed Rule that is currently not included?

As FSRA provided advance notice of its longer-term regulatory intentions with respect to liquidity in 2020, the great majority of Ontario credit unions, as members of Central 1 Credit Union, moved their holdings of HQLA assets from Central 1's Mandatory Liquidity Pool into trust and escrow arrangements (arm's length, unencumbered and bankruptcy/creditor proof) effective 31 December 2020. The majority of the remaining Rule 2021-006 provisions (Liquidity Coverage Ratio/LCR, Net Cumulative Cash Flow/NCCF, Net Stable Funding Ratio/FSFR reporting etc.) represent moderate changes from current Guidance, Interpretation and Completion Guide documents and remain consistent with Basel III when applied on a "proportionate and appropriate" basis.

The results of the three ratios, in addition to ILAAP, should guide an individual credit union's liquidity position with the Board and senior management taking a prudent person approach. FSRA shouldn't have a predetermined expectation of liquidity that is not derived from the aforementioned ratios.



3. Is the Proposed Rule sufficiently clear to ensure compliance with its requirements? If not, please specify what is unclear and add clarifying language that should be considered.

As noted above, most of the provisions in the current Proposed Rule reflect incremental change from current Guidance. However, two provisions do engender some uncertainty among Ontario credit unions.

- Section 3 Proportionality: Credit unions with less than \$500 million assets must decide whether to calculate and report NSFR and NCCF as well as implementing an ILAAP and, if not, to “take appropriate compensating actions and implement controls to allow the credit union to appropriately manage liquidity risk”. We seek clarity as to what compensating actions and controls would suffice. This would allow firms to compare ‘compensating action’ to the cost of implementing NSFR and NCCF reporting.
- Section 10 Internal Liquidity Adequacy Assessment Process: The ILAAP requirements described in the Proposed Rule are consistent with ICAAP provisions and, indeed, any ILAAP program must be coordinated and aligned with both ICAAP and more general Enterprise Risk Management (ERM) policies and processes in any case. However, it is difficult, in advance, to determine whether current Section 10 language is sufficiently clear. As Ontario credit unions start to develop and implement ILAAP programs, we suggest that FSRA remain open to further consultation and potential Rule amendments in the medium to longer term arising from actual experience.

4. Are there compliance costs that would be associated with the Proposed Rule which FSRA has not considered? If so, please describe the specific costs, as well as the quantum.

Consistent with comments in our response to Question 3 above, the cost of implementing new requirements is difficult to assess in advance.

We thank you for the opportunity to comment on this proposed Rule. We look forward to continued engagement.

Kind regards,

Nick Best
Director – Government Relations
Canadian Credit Union Association

