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Delivered By Email: FSRA

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Dear FSRA,

On behalf of Ontario's credit unions, the Canadian Credit Union Association (CCUA) welcomes this consultation on recovery planning. We have organized our response into the following sections:

- General Comments
- Guidance Document Specific Comments
- Implementation Scheduling and Associated Requirements

GENERAL COMMENTS

Principles-Based Regulation:

We recognize that this guidance is principles-based. FSRA has outlined the purpose of recovery planning, the expected general outcomes and is leaving firms with significant flexibility on how to achieve them.

That said, a principles-based regulator can respond to specific questions and inquiries from individual firms on regulatory expectations and standards, especially regarding appropriate risk tolerance and risk mitigation for their size and complexity.

Proportionality:

We recognize FSRA's stated commitment throughout the guidance document (in both the Interpretation and Approach sections) to allow for credit unions' individual recovery plans to be proportional to their structure, size, complexity, and risk profile.

While the framework may be intended to be applied proportionally, many credit unions will not experience it that way. Regardless of assurance from FSRA that expectations will be proportional, it is difficult for a firm with $100M in assets to apply a framework that was primarily designed for a firm with $5B in assets. FSRA must be conscious of this in its expectations of credit unions and their recovery plans.

Integration, Coordination, Alignment with Current Reporting:

The draft Guidance references the various credit union documents, reports and processes that generate the information necessary to inform any recovery effort. For some credit unions, most aspects of recovery planning may already be accounted for and their Recovery Plan will be a thin instrument with rich links to:

- Enterprise Risk Management (ERM) framework
- Strategic Business Plan and associated Budgets and Capital Plans

- Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP & ILAAP)
- Board and management policies (reporting, delegation of authority and authority limits)
- Existing plans/protocols for Crisis Communications, Disaster Recovery, Business Continuity, Emergencies and Contingencies, etc.
- Contingency Funding Plan

FSRA should not expect the Recovery Plan to be a stand-alone document or start from scratch effort from credit unions. Firms invest significant resources into developing policies and procedures to mitigate risk and these should be considered as part of a firm's recovery plan to avoid duplication and added burden.

GUIDANCE DOCUMENT SPECIFIC COMMENTS

(A) Institutional Analysis:

A document with links to the Guidance, current Management Discussion and Analysis (MD&A) parts of financial statements, risk portions of most recent share offering statements, and others can be the starting point for the institutional analysis portion of the Recovery Plan. For many firms, this streamlined approach could be as effective as re-stating and/or re-incorporating information that is already present in other documents.

Similarly, the starting point for identifying and/or describing a credit union's core business can be the already documented Vision and Mission statements, objects included in Articles of Incorporation or Amalgamation, business descriptions in offering statements and the like.

Regular enterprise risk management processes include assessing supply chain weaknesses and considering potential remedies/alternatives if a critical vendor were to have a temporary or permanent disruption in service. We welcome FSRA's feedback on the points of weakness in a credit union's relationship with its vendors. However, exploring alternatives for some relationships is not casual exercise. For example, exploring alternatives to foundational relationships like Central1 or Collabria would be cost prohibitive and needn't appear in the first or second iteration of a recovery plan.

A table similar to Appendix B could be beneficial for credit unions to track potential supply chain weaknesses.

(B) Key Measures and Associated Triggers:

We recommend that the Guidance be explicit that the occurrence of a "trigger" (i.e. single data point or negative trend) will not automatically force a credit union to begin the remedial action described in its recovery plan. An immediate and meaningful Management discussion (likely with the Board) of the situation should be the first step of escalation if a trigger is breached.

Consistent with a proactive approach to risk mitigation, data trends should be considered equally as important, if not more, than a single, fixed data point or "trigger" to inform a credit union's financial and operational status.

(C) Recovery Options:

We anticipate that this will be the most challenging element for credit unions to satisfy FSRA's expectations. Compared to internationally and nationally systemically important banks, for whom recovery planning was first designed, the business lines of all Ontario credit unions are comparatively simple, and therefore recovery options are more limited.

We use the following examples to demonstrate how some potential responses are not practical:

Firms in other jurisdictions[1] have dismissed cost reduction as a recovery option because of the lead time (often regulatory in the case of closing branches or reducing staff) and the resulting short-term savings would not be significant.

For those few firms that issue dividends – approval is already dependant on the financial health/performance of the credit union. Those with outstanding investment shares can suspend or reduce payment without the fear of a stock price collapse. Furthermore, FSRA has the legislative power to block any dividend payments.

Finally, selling off assets, such as a subsidiary, is an option limited to a very small number of credit unions.

While recovery options are limited, government action is now an expectation in the case of a systemic crisis (as we have seen during the Covid-19 pandemic). While we recognize that FSRA does not want to put its cards on the table of what steps it can and is willing to take, prompt action from our regulator and government is expected and necessary to protect both credit unions and depositors.

In the extremely unlikely event where the recovery options activated fail and a merger/purchase becomes necessary, we recommend that FSRA has its own internal protocols in place to quickly provide regulatory certainty to both firms.

Credit unions would benefit from additional and increased clarity from FSRA on the following:

- Temporary waiving of mandatory capital and liquidity minimums.
- Process to emerge from the watchlist/supervision/administration once a recovery plan has been initiated.

<u>(D) Scenario Analysis:</u>

We believe this will become the most valuable contribution of the guidance to the safety and stability of the credit union system. All Boards and Management teams benefit from testing their processes. Over time, the lessons learned in these scenarios will improve the recovery plans, creating a continuous positive feedback cycle.

As the potential to predict even a recent event like Covid-19 or a decade of near zero interest rates is unlikely, the purpose of a systemic stress scenario should be to test how recovery break options can be/are deployed (speed, approvals, potential side-effects) and not what series of events would lead to a credit union going under minimum capital requirements.

[1] Recovery plans – initial observations | FCA

While the Recovery Plan should include impactful recovery options, determining the monetary benefit of some of the more extreme responses (for example, the sale of a business, sale of loan portfolios, staff reductions) would be unfeasible without guessing the market and economic conditions (including for government intervention). FSRA should be clear to the degree credit unions are expected to test the monetary value of these extreme scenarios.

Furthermore, we recommend that FSRA structure and share appropriate data sets with credit unions so that they can measure themselves against benchmarks and set appropriate scenarios.

(E) Framework and Governance & (F) Information Management:

We have no comment on this section.

(G) Implementation Plan:

We recommend that FSRA better outline its expectation for "effective challenge". For example, to what level are internally raised and resolved challenges to be documented? Will FSRA require evidence of external agents (auditors, accredited consultants) to be involved in the challenge or vetting process?

IMPLEMENTATION SCHEDULE AND ASSOCIATED REQUIREMENTS

We recommend that FSRA consider implementation of its Recovery Planning Guidance as per the following:

CU Size Assets $billions	(First per Guidance) Recovery Plan	Official/Formal Review Frequency	Plan Complexity
> $4B	31 Dec 2023	Biennial	Comprehensive
$1B- $3.9B	31 Dec 2023	Biennial	Extensive
$0.2B -- $0.9B	30 June 2024	Biennial	Simple, robust
< $0.5B	31 Dec 2024	Biennial for the first 4-6 years, then every 3 years	Template/coaching

We recommend a biennial formal review frequency for all firms above $500M. This is consistent with FSRA's stated commitment to burden reduction and burden avoidance.

While foregoing the requirement of a comprehensive recovery plan for any group may be considered beyond the bounds of due diligence, any overly complex requirement becomes a compliance exercise and not one of reasonable self-assessment.

For that reason, we recommend the adoption be done in stages: largest credit unions to the smallest, with consideration of a firm's RWA and recent examination findings. This approach would be consistent with FSRA's risk-based supervisory approach and give smaller firms (and FSRA) the ability to learn from the experience of larger firms. This approach also has precedent in Ontario as ICAAP was rolled out starting with the largest firms and is still only mandatory for firms with over $500M in assets.
We recommend that >$1B firms be given 18 months from the proclamation of the new *Credit Union and Caisses Populaires Act* to submit their completed Recovery Plans to FSRA.

Once a first plan is complete, FSRA will have questions/comments/suggestions and changes will be required. Credit unions will likely need to resubmit before FSRA is comfortable and the process may take several months. If the requirement is annual re-filing, it could only be a few more months before the cycle begins again.

If FSRA is concerned about a specific systemic stress event developing between reporting cycles – a sector communication can be made asking firms to review a specific element of their plans and report back to FSRA.

Finally, we recommend that credit unions be given 120 – 180 days to submit a new Recovery Plan in response to questions and challenges stemming from FSRA's review. Additionally, a specific service standard for feedback and approvals would add certainty for firms.

Conclusion

Ontario credit unions already have varying degrees of plans and procedures in place to identify exposure to predictable and unpredictable system shocks and return operations to normal levels. There is a complementary role for FSRA to help credit unions hone these plans and augment their prominence within their risk management framework.

Credit unions with proactive recovery prompts, protocols and options embedded within their strategic business plans and enterprise risk management frameworks are more resilient and should benefit from lessened regulatory intensity in other areas. FSRA should proactively communicate this to firms.

In conclusion, we view recovery planning as a tool to improve existing internal processes and identify realistic recovery options. We expect that this guidance will help firms develop stronger controls and in turn improve the resilience of the system.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Nick Best
Director, Government Relations (Ontario)
Canadian Credit Union Association