Desjardins Comments : FSRA's New Risk Based Supervisory Framework for Credit Unions

February 2, 2022

Mr. Mark White
Chief Executive Officer
Financial Services Regulatory Authority of Ontario (FSRA)
25 Sheppard Avenue West, Suite 100
Toronto, ON M2N 6S6

Re: Public consultation on new Risk Based Supervisory Framework for Credit Unions, ID: 2021-020

Dear Mr. White:

The Desjardins Group ("Desjardins"), on behalf of the Desjardins Ontario Credit Union (DOCU), is pleased to respond to the request for comment on FSRA's new Risk Basked Supervisory Framework (RBSF) for credit unions and caisses populaires.

Desjardins is the leading cooperative financial group in Canada serving over 7.5 million members and clients across the country and with $389 billion in assets. For over 120 years, Desjardins has listened and responded to its members' needs and adapted to change. We provide Canadians with wealth management, life and health insurance, property and casualty insurance, and personal, business, and institutional financial services. In Ontario, the DOCU is the second largest credit union in the province with 130,000 members, 51 branches, and just shy of 10 billion in assets.

Overall, we hold a favourable view of the proposed RBSF. The framework aligns with industry practices, and we appreciate how it supports FSRA's goal of implementing a principle-based approach to its regulatory and supervisory work. From a credit union's perspective, it will be our responsibility to demonstrate the strength and effectiveness of our controls, oversight and governance, and the comprehensiveness of our risk management capabilities. We anticipate that new guidances will soon be published and these might provide additional details that will complement the framework. Our comments on the proposed RBSF are submitted with the aim of providing constructive feedback to support the achievement of FSRA's objectives.

Comments

Pdf Page	FSRA Draft	Comment #	Desjardins Comments
p. 6	Relationship management FSRA designates a relationship manager (RM) for each CU. The RM is the main point of contact for the CU and engages in ongoing dialogue with CU management. The RM is responsible for maintaining an up-to-date risk profile of the CU and is supported by specialists and other staff within FSRA in performing this function. The RM is	# 1	We suggest that FSRA consider establishing fixed terms for a RM as a method to maintain stability in monitoring responsibilities.

Pdf Page	FSRA Draft	Comment #	Desjardins Comments
	responsible for providing FSRA's feedback to the CU, leading discussions about the assessment and examination results, and the development, implementation, and monitoring of timely remediation plans by the CU.		
p. 7	Inherent risks are assessed for each significant activity of a CU. Inherent risk is intrinsic to a business (significant) activity and arises from exposure to, and uncertainty from, potential future events.	# 2	We note that the definition of inherent risk includes the notion of exposure to potential future events, while OSFI's Supervisory Framework includes "uncertainty related to exposure to a known or anticipated event." For greater clarity, are known events implicitly considered in the assessment of inherent risks?
p. 12	Credit unions must consider their exposure to Environmental, Social and Governance (ESG) risks and assess their effects on capital. Credit unions must consider their exposure to Environmental, Social and Governance (ESG) risks and assess their effects on liquidity.	# 3	Desjardins agrees that ESG risks are important, but since the assessment work in the Canadian regulatory landscape is still in its infancy and there is no established regulation nor guidance, we would like to understand why this specific risk is integrated in the RBSF. This being said, we commit to taking part in FSRA-led engagement opportunities for the credit union sector regarding guidance on ESG risk assessment and evaluation. This approach aligns with OSFI's plans[1] to develop guidance on risks associated with climate change, which notably, will only take effect at a future date. On this point, additional details on the proposed timeline (see comment #7) are requested, especially considering the absence of ESG-related guidance, criteria, and assessment mechanisms.
p. 14	FSRA is considering the use of the ORR as an input to the calculation of the deposit insurance premiums as part of the Differential Premium Score Determination model.	# 4	Desjardins has advocated for a stronger correlation between a credit union's deposit insurance differential premiums and its risk profile. In our view, this approach would provide an incentive for a credit union to better manage its risks while continuing to serve its members. It would promote a higher standard of business conduct, which ultimately, would benefit the entire sector and foster its sustainability. However, we wonder, about the rationale for this inclusion in the proposed RBSF as opposed to a Guidance. We understand that FSRA

[1] https://www.osfi-bsif.gc.ca/eng/fi-if/in-ai/Pages/clrsk-mgm_let.aspx

Pdf Page	FSRA Draft	Comment #	Desjardins Comments
			has established a new Technical Advisory Committee (TAC) to work on the DIRF and to complement the work of the Data Strategy and Digital Transformation TAC and look forward to contributing to the work of these committees.
p. 15	There is a continuum of supervisory work that ranges from lesser to greater supervisory intensity: • document review • meeting with senior management and board • monitoring • off-site desk review • limited scope off-site or on-site review/examination • expanded scope off-site or on-site review/examination • comprehensive on-site review/examination	# 5	FSRA's Credit Union Market Conduct Framework Guidance (CU0070INT) references three types of examinations: comprehensive examinations, targeted examinations, and thematic examinations. However, in subsection 2 of the RBSF, titled "Executing supervisory work", targeted and thematic examinations are omitted. Clarity would be welcomed to understand whether supervisory work performed in the context of the Market Conduct Framework Guidance will be different than the work performed based on the RBSF.
p. 16-17	4. Reporting and communication to CUs In addition to ongoing discussions with CU management through the RM, FSRA communicates to CUs through Supervisory Letters, when warranted. Supervisory Letters summarize FSRA's key findings (including those resulting from examinations), recommendations, and requirements, as necessary based on the supervisory work (both prudential and market conduct) that was completed since issuing the last Supervisory Letter. The Supervisory Letter may require the CU to develop, implement and report on a remediation plan to address the issues arising from this review. FSRA may also choose to meet with the CU senior management and/or directors to discuss its supervisory findings and any issues of concern. The Supervisory Letter also reports the CU's ORR. During the year FSRA may also issue an Interim Letter to the CU to provide the CU with timely feedback on issues arising from a specific body of supervisory work, especially if the CU is on the Watchlist or in a Depositor Protection Program8. With both types of letters FSRA will discuss the findings, recommendations, and requirements with the CU before	# 6	Additional details in subsection "Reports and communications" would provide clear expectations regarding the deadlines assigned to each communication, e.g., for the production (FSRA) and the response (CU), as well as the details of the intended recipients of the supervisory letters or reports, i.e., the Board of Directors, senior managers, external or internal auditors, etc. These details could also align with the supervisory frameworks of other regulatory bodies such as OSFI and AMF.

Pdf Page	FSRA Draft	Comment #	Desjardins Comments
	issuing the letter. FSRA's considers communication and the provision of feedback to the CU an important part of its supervisory process.		
p. 18	This guidance will be effective as of (date TBD – upon issuance) and will be reviewed on or before (date TBD).	# 7	A clear timeline for the effective date of the RBSF will help the sector prepare for its new obligations. Some of the new elements introduced in the RBSF, such as ESG-related requirements, must be further defined, and thus, will need time for the sector to adapt and implement the necessary internal mechanisms.
p. 19	The Risk Matrix (as shown below) is used to record all the assessment ratings described above. The purpose of the Risk Matrix is to facilitate a holistic risk assessment of a credit union. This assessment culminates in an Overall Risk Rating (ORR), which represents the overall risk profile of the credit union.	# 8	We recommend adding a glossary that includes, for example, the definitions of the categories used in the risk matrix, as done in OSFI's Supervisory Framework. We believe this would facilitate the understanding of each of the criteria and align with other regulatory peers. Another example could be with non-financial inherent risks (p. 8). We understand the risk categories provided are broad in coverage and include sub-categories, yet there may be value in offering additional details.

Lastly, we believe the confidentiality of the supervisory work as well as the relations and exchanges between FSRA and credit unions should be more explicit. Our position is based on our experience with the supervisory framework of another provincial regulatory body. Here are the corresponding extracts from their framework[2]:

> *"In the context of its supervisory activities, the [regulatory body] cooperates, as needed, with other regulatory authorities and organizations set up to protect insureds and depositors, in particular with respect to an institution's condition and best supervisory practices. These exchanges remain confidential." (…)*
>
> ***Confidentiality of supervisory activities***
> *In the context of the [regulatory body's] supervisory activities, financial institutions are required to disclose confidential, and sometimes sensitive, information about their operations. In order to encourage complete and honest disclosure, the law protects the confidentiality of certain types of information held by a financial institution in connection with the [regulatory body's] supervisory activities, including any [regulatory body] recommendations or reports relating to the institution, any reports prepared by an institution at the [regulatory body's] request (including self-assessments) and any correspondence between the [regulatory body] and the institution's officers and directors regarding such*

[2] https://lautorite.qc.ca/fileadmin/lautorite/reglementation/assurances-inst-depot/2020/cadre-surveillance-2020_an.pdf

information. Note that a financial institution may not disclose such information in civil or administrative proceedings, except where provided by law.”

In conclusion, we continue to appreciate FSRA’s engagement of the sector on such important matters and welcome the opportunity to discuss our comments in greater detail. It is with pleasure and in the spirit of cooperation that we will continue to take part in FSRA’s initiatives to ensure strong, resilient, and competitive financial services sectors in Ontario.

Yours sincerely,

Bernard Brun
Vice-President, Institutional and Government Relations
Desjardins Group

Cc:

Billy Boucher, Chief Executive Officer, Desjardins Ontario Credit Union