Meridian Credit Union Limited
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Financial Services Regulatory Authority of Ontario
5160 Yonge Street, 16th Floor
Toronto, Ontario
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Re: Consultation on the Proposed Risk Based Supervisory Framework for Credit Unions [ID 2021-020]

Meridian Credit Union Limited ("**Meridian**") welcomes this opportunity to participate in the above-noted consultation and to comment on FSRA's proposed Risk Based Supervisory Framework ("**RBSF**").

With more than 75 years of banking history, Meridian is Ontario's largest credit union and the second largest in Canada, helping to grow the lives of 380,000 Members and customers. Meridian has $27.6 billion in assets under management and delivers a full range of financial services online, by phone, by mobile and through a network of 89 branches across Ontario, and business banking services in 15 locations.

GENERAL COMMENT

Subject to our specific comments set forth below, Meridian generally supports FSRA's proposed new RBSF.

SPECIFIC COMMENTS

I. Transparency Relating to DIRF Assessments

The RBSF indicates an intention to use the Overall Risk Rating ("**ORR**") for an institution as an input to the calculation of deposit insurance premiums. We believe there should be a greater degree of clarity in relation to how insurance premiums are calculated, especially given that they have been increasing steadily over the past few years and are high compared to other Canadian jurisdictions. FSRA should be clear with the CU sector regarding how premium assessments are calculated, in the same way that other provincial regulators, such as British Columbia, are clear on this matter.

II. ESG Risks

In Section 6 of the RBSF, there are 3 references to "ESG risks" as follows:

> ***"6. Capital and earnings, liquidity, and resilience***
>
> *<u>Capital and Earnings</u>*
>
> *Credit unions must consider their exposure to **Environmental, Social and Governance (ESG) risks** and assess their effects on capital."*

Liquidity

*Credit unions must consider their exposure to **Environmental, Social and Governance (ESG) risks** and assess their effects on liquidity.*

Resilience

*A resilient CU is expected to anticipate future threats and opportunities including being able to identify and manage **ESG risks**. Inadequate or mismanagement of these could negatively impact a CU's franchise strength and risk profile, while more serious deficiencies could ultimately threaten a CU's reputation, capital and earnings, liquidity, and viability*."

Furthermore, ESG risks are being introduced in the ORR under Section 7:

"7. Overall Risk Rating (ORR)

The ORR is an assessment of the CU's overall risk profile, after considering the impact of Capital (including earnings), Liquidity, and Resilience on its SRR. It reflects FSRA's assessment of the safety and soundness and conduct of the CU. The ratings from the Capital, Liquidity, and Resilience assessments are used to determine modification needed to the SRR, if any, to arrive at ORR."

The RBSF does not define "*ESG risks*" nor does it provide any guidance as to how credit unions are expected to "*consider their exposure to ESG risks*".

More importantly, ESG is a broad concept with multiple stakeholders and many ramifications. We would quote OSFI Superintendent Jeremy Rudin who clearly highlighted the challenges of prudential regulation of ESG risks:

"*Many investors and consumers see climate as part of a larger suite of issues that are often grouped under the rubric of Environmental, Social and Governance, or ESG. It's a deliberately broad concept, much broader than the traditional financial risks that usually occupy the minds of a prudential supervisor like OSFI.*

That said, there is clearly a link between any issue that can preoccupy investors and consumers and the safety and soundness of financial institutions. That link is reputation risk. If a reputational issue becomes severe enough to affect peoples' willingness to invest in a financial institution, or to do business with that institution, it becomes a prudential issue.

Your clients, the institutions OSFI supervises, understand our expectations about risk management. We expect the institutions to be forward-looking and proactive, and to take into account all the ways that risk in all its forms can affect their operations. This includes managing their reputation risk.

I will stop to note that supervising reputation risk, including ESG issues, poses a very particular challenge for OSFI. Yes, if reputation issues become acute enough they can certainly affect the stability of a financial institution. However, we also have to recognize *that Parliament has set limits on our authority, and has assigned responsibility for many ESG-related issues to other arms of government. This means that we have to keep our focus on the risks that ESG issues pose to the safety and soundness of the institutions, and we have to be guided by the evidence about those risks*."[1]

We believe that the broad area of ESG risks requires a specific consultation process with the sector in order for FSRA to develop tailored guidance for credit unions.

Therefore, we recommend that FSRA either (a) remove the references to ESG risks in the RBSF and develop separate guidance on this issue, in consultation with the sector, or (b) develop separate guidance on ESG risks, in consultation with the sector, in relation to which the RBSF appropriately acts as *Approach Guidance*, which is the overarching intention of the RBSF as articulated within the document.

III. Miscellaneous

Rationale and Background

Under the "Rationale and background" section, the last bulleted statement indicates that the RBSF will support FSRA's efforts to "**pursue the objects of persons** having deposits with CUs…"

The statement quoted above is intended to relate back to s. 3(4)(c) of the *Financial Services Regulatory Authority of Ontario Act, 2016* (the "**FSRA Act**"). That section states that FSRA will pursue certain specific objects for "**the benefit of persons** having deposits with credit unions…" We would suggest that FSRA more accurately reflect the relevant FSRA Act section within the bulleted statement quoted above to avoid confusion.

We hope our above comments will assist you in finalizing the RBSF. Please let us know if you wish to discuss them further.

Sincerely,

Sunny Sodhi
Chief Strategy and Corporate Affairs Officer

Cc:
Jay-Ann Gilfoy, President and CEO, Meridian Credit Union
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