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February 2, 2022

RE: Libro Credit Union responds to FSRA consultation on new Risk Based Supervisory Framework for Credit Union, ID 2021-20.

To the Reader(s),

Libro Credit Union (Libro) is pleased to provide our response to the consultation on the newly proposed Risk Based Supervisory Framework (RBSF). We are generally in agreement with the proposed framework and believe that the RBSF Framework will be useful in determining risk-based planning, enhancing operations, and building a more resilient sector. While we are supportive, we offer feedback, questions, and concerns below based on themes seen within the guidance document, that we believe should be reviewed and considered. We appreciate that FSRA is moving towards a risk-based model which aligns with the desired goals of a principles-based regulatory environment for the sector. They key to the RBSF will be how the sector and FSRA work collaboratively to achieve proactive results for depositors (members) through ongoing engagement, learning, data, and proactive thinking.

Burden Reduction Concerns

Burden reduction remains a consistent concern from Libro when reviewing frameworks, guidance, and rule changes. FSRA has affirmed that burden reduction is also a goal of the regulator. Appendix C presents a burden concern. If a credit union were to receive a rating of “1” on the presented scale, there would be no burden reduction when it comes to supervisory actions and examinations. This would conclude that the only outcome for the sector would be equal or greater oversight with no reduction in supervisory work, conditions, or reviews. Libro believes FSRA should seek to find more of a balance when it comes to burden reduction and the presented rating scenarios, as it contradicts FSRA’s intended goals of reducing burden (where appropriate).

Within the framework FSRA notes “a higher level of supervisory engagement with larger and/or more complex CUs whose failure could materially impact the Ontario CU sector”. We recognized the complexity of larger credit unions and our importance on the sector as outlined by FSRA. A large credit union with appropriate risk management and internal controls should be able to be subject to Intervention “Level 1 - Normal.” It is important that the impact of size is only applied once in the assessment process. Based on our review of the framework, we are concerned that larger credit unions would be regularly assessed as moderate to moderate-high categories based upon size alone and therefore subject to Level 2 “Early Warning” intervention which is characterized as requiring an improvement plan to return to Level 1. We trust that FSRA will use an evidenced based approach ensuring that larger credit unions can reasonably achieve "Level 1 - Normal" intervention.

Transparency in Assessments

Libro believes that one of the keys to a strong RBSF is transparency between FSRA and the sector. We believe the following areas can be enhanced within the RBSF to build upon this transparency goal:

- Credit unions should be provided more specific information about what drives the various risk assessments (inherent, QCO, capital, liquidity, resilience) in advance of examinations and as part of reporting outcomes. Our experience is that these details are critical for us to improve upon our current ratings, risk policy, procedures, and processes. We recognize that this is a balancing act for FSRA from a principles-based perspective, but further transparency about the significant criteria driving the assessments would be beneficial.
- Transparency in relation to the link to DIRF premiums and timeliness of adjustments is a concern. We believe there is increasing subjectivity and ambiguity within the current approach as FSRA both calculates ORR, sets budgets, and in turn determines calculations for DIRF premiums, thus creating potential conflicts throughout the DIRF process. Having solidified calculations and methodology that is open and fair to both FSRA and the sector would go a long way in combating the inherent conflict that is present and to creating a more transparent environment.
- FSRA notes within the guidance that they will be using the new RBSF process to "help calculate DIRF assessments with greater accuracy and ensuring that premiums are better aligned to the risk profile of each credit union and the sector in aggregate". While we agree with the preposition it is difficult to offer proper feedback without being able to see the formula that will be used to calculate those premiums. To our knowledge this has not been presented to date for review or discussion. This would be an area that FSRA should discuss with the sector to ensure transparency in how premiums will be calculated using the measurements and ratings from the RBSF, and any other tools/platforms.
- Page five lists several supervisory standards. It is our view that transparency should be included as one of the standards or incorporated into the relationship management standard.

Consistency in Assessments

Given that there will be multiple relationship managers assigning risk ratings to credit unions, there is a concern that non-uniformities in each relationship managers assessment processes will lead to inconsistent risk ratings. We would like to see consistency as both a principle and goal within the assessment process. One opportunity to manage this challenge is to allow Relationship Managers the opportunity to spend at least 3 years with one credit union as part of the supervisory framework (where possible). This is an OSFI measure that we believe could offer a significant benefit to each individual credit union in building a trusted relationship with our Account Managers.

ESG Reporting Under Capital and Earnings

The RBSF brings forward exposure and risk considerations for ESG and its impact on capital. We believe that this framework is not the place for an initial placement of a critical assessment of ESG practices through a risk-based approach. We believe that references to ESG should be removed and that an independent discussion on this important issue should occur with the sector prior to placement within future guidance, rules, and frameworks. ESG risk and considerations have potentially significant implications to our operations and overall risk rating calculations, and without proper context, definitions, and understanding the sector would be going into ESG calculations blind. We hope that FSRA will remove language surrounding ESG and begin discussions on this important topic with the sector.

Supervisory Strategy

We appreciate that FSRA will be developing an annual supervisory strategy for each credit union. Will this strategy be made available to the credit union on an annual basis to align goals and direction? We believe that this sharing would be helpful from a principle of transparency and help ensure alignment between FSRA goals and individual credit union risk management.

Supervisory Work – Monitoring and Benchmarking Data

Will credit unions receive individual and sector data relating to the monitoring activities of FSRA through its supervisory work? We believe this would be helpful in further enhancing sector goals through data driven evidence, while building greater stability with a goal of protecting depositors.

Conclusion

We look forward to reviewing edits and changes from FSRA based upon sector consultation and working towards implementation over the next few years. If Libro can support our comments or thoughts further please do not hesitate to connect Libro, as we are happy to support FSRA in the development of this critical sector framework.
Kind Regards,

Sincerely,

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