

Toronto Corporate Office
3280 Bloor Street West
Centre Tower, 7th Floor
Toronto, ON M8X 2X3
(416) 597-4400
MeridianCU.ca



March 1, 2024

Delivered via FSRA Portal

Financial Services Regulatory Authority of Ontario ("FSRA")
25 Sheppard Avenue West, Suite 100
Toronto, ON
M2N 6S6

To Whom it May Concern,

On behalf of Meridian Credit Union ("Meridian"), we are pleased to provide you with our commentary and feedback on the Proposed Guidance: Commercial Lending.

General Commentary

First, as a general comment, allow me to commend FSRA on its ongoing commitment and tangible action to modernize and streamline the regulatory regime for credit unions in Ontario. We especially appreciate the collaborative approach that FSRA takes with the sector and the meaningful consultation that is undertaken in these exercises.

Our second general comment is to commend the fact that much of the proposed guidance on commercial lending recognizes and entrenches as a regulatory best practice the existing practices of leading Ontario credit unions, such as Meridian.

And third, we applaud FSRA for recognizing the important role of environmental, social and governance factors in the lending decisions of credit unions. Credit unions are taking a leading role in advancing many environmental and social justice initiatives through their lending and general business practices. And, of course, our cooperative governance model already makes credit unions different from other financial institutions and that difference needs to be accounted for in our regulatory regimes. Thank you for calling these differences out. We hope FSRA will continue to stand with Ontario's credit unions in being a stalwart champion of these market and social differentiators.

Specific Commentary

Governance

We recognize that the Board, along with credit union management, play a critical role in developing, reviewing, and approving the overall framework around commercial lending activities. At the same time, the Board cannot and should not be involved in the specific decisions that are the purview of management when making commercial lending decisions. In other words, the numerous lending, product, and underwriting policies should remain operational and within management authority to execute on the established Board framework.

We believe that Meridian has prudent Board-approved commercial lending frameworks in place, including Board reviews of the Credit Risk Management Policy and lending limits which are reviewed annually. These frameworks outline credit granting principles, loan approval hierarchy, internal controls, and required monitoring and reporting.

Property Appraisals

The proposed FRSA requirement, that

FSRA will assess the extent to which a CU's commercial lending and underwriting policies:

- *operate with prudent and transparent commercial (real estate) property valuation policies and procedures that produce realistic and supportable valuations.*
- *provide a process for an independent and professional appraisal of commercial property by a qualified entity, such as those with credentials issued by the Accredited Appraiser of the Canadian Institute.*
- *specifies which of the three, or a combination of the valuation approaches of a commercial property appraisal should be used i.e., a direct comparison of market value, income, or cost to replace approach.*

Meridian's Credit Procedures Manuals and policy do not specifically dictate which of the three appraisal methods are to be used because each property and market has unique characteristics. Our senior management and risk teams are well attuned to the vagaries of the different methodologies and in which situations they are best applied. It is our belief that a sophisticated commercial lender such as Meridian should have latitude to use the most appropriate commercial property appraisal method – direct comparison income or cost to replace approach – or combination thereof, and apply to each unique situation in order to best demonstrate a fully informed valuation assessment reflective of market value from a lender's collateral standpoint.

Use of Technology for Commercial Lending

Meridian concurs with the CCUA perspective that cyber-insurance should be removed and shifted over to the IT Risk Management Guidance Note.

Rest assured that cyber-risk is well and thoroughly considered by Meridian as part of our overall operational risk management framework, and not just as part of our commercial lending policies.

We also note that this proposed guidance is silent on the use of artificial intelligence in commercial lending adjudication. As sophisticated financial institutions increasingly utilize intelligent tools to assist in adjudicating credit decisions, we expect there may be a desire by FSRA to examine these tools and perhaps limit their use. We would strongly object to any intrusion by FSRA or any other regulator that seeks to limit competitive advantages developed by the prudent use of advanced technology tools, such as artificial intelligence and decision support tools. FSRA should, of course, continue to apply the principles set out in the rest of the guidance, but recognize the novelty of the decision support tools that may be applied.

Commercial Risk Management and the Board

The proposed FRSA requirement that, "*FSRA will assess the extent to which the Board ... receives exception reports on related commercial lending risks*" was identified in FSRA's supervisory assessment of Meridian completed in 2023. The resulting action plan entails exception reporting being provided to our Board by the end of 2024, and is in the process of being implemented.

Risk Based Supervisory Framework ("RBSF") Considerations

The most important concerns or considerations for Meridian with respect to the proposed Commercial Lending Guidance is in how FSRA might consider commercial lending in the RBSF framework. Simply stated, we do not believe that a financial institution – particularly one the size and scale of Meridian – should be penalized in any way for having a larger commercial lending portfolio by shifting our RBSF rating to "medium" or "high", based solely on commercial portfolio size. The quality of the loans in the portfolio and the quality of the governance and credit adjudication practices of the credit union should be what is factored in the RBSF calculation. Simply

put, as the largest Ontario credit union by a wide margin, we expect our commercial lending book will naturally be larger – both proportionally and in absolute terms – than any other credit union. This proportionally larger book should never automatically put us in a higher risk category, and we trust that the RBSF calculations will be evaluated accordingly.

Conclusion

Once again, we applaud FSRA for undertaking this consultation and we appreciate the hard work that has gone into the development of this guidance to date. We understand that this will be a living document and that further changes may be considered as the market evolves.

We would be pleased to participate in any further discussion on this and any other topic that continues to modernize the regulatory framework for credit unions in Ontario.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Trivieri', enclosed in a thin black rectangular border.

John Trivieri

Chief Risk Officer