

September 1st, 2021

Mr. Guy Hubert
Executive Vice President, Credit Union, and Prudential
Financial Services Regulatory Authority of Ontario (FSRAO)
25 Sheppard Avenue West, Suite 100
Toronto, ON
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Dear Mr. Guy Hubert,

The Canadian Bankers Association (CBA)¹ is pleased to have this opportunity to provide the views of the banking industry as part of the FSRAO's Consultations on the Proposed Rules - Sound Business and Financial Practices, Capital Adequacy and Liquidity Adequacy for Credit Unions and Caisses Populaires with the goal to make the regulatory framework more transparent, dynamic, and flexible. This work is also consistent with FSRAO's broader priorities of transitioning to principles-based regulation and supporting the modernization of the credit union framework consistent with national and international requirements.

The CBA believes that a strong financial system, based on sound internal risk management and an effective prudential policy, supervisory and regulatory framework, is vital to the Canadian economy. The credit union system is an important part of Canada's dynamic financial sector, contributing to competition and the choice available to consumers. As the global financial crisis demonstrated, disruption to the financial sector can spread quickly, even to institutions who would consider themselves immune. As a result, it is important that all financial institutions, credit unions as well as banks, have sound internal risk management and operate within a robust prudential policy, supervisory and regulatory framework to ensure the continued safety and soundness of Canada's financial system as a whole.

Credit unions are evolving into increasingly sophisticated, large and mature institutions that offer a wide array of products and services supported by operations that resemble those of banks. In Ontario, there has been much consolidation through mergers and acquisitions. The number of credit unions operating in the province has declined from 86 (in June 2015) to 61 (in March 2021), with the average size of an Ontario-based credit union growing from \$464.8 million to \$1.15 billion over the same period of time². This is a common trend across Canada. The prudential policy framework must adapt to these forces.

Indeed, the federal credit union regime was created to address the increasingly sophisticated, large and mature nature of credit unions. The federal government introduced amendments to the Bank Act and other

¹ The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca

² CBA estimates based on Canadian Credit Union Association (CCUA) data. Caisses populaires statistics have been omitted.

federal acts to enable credit unions to incorporate and continue federally. The federal regime was created to support growth, consumer choice and seamless expansion of the Canadian credit union system across provincial boundaries, and to do so within an appropriate prudential framework that protects the safety and soundness of Canada's financial system. Credit unions that choose to adopt the federal model benefit from a robust prudential framework based on the bank model, while recognizing the unique cooperative elements of credit unions.

In general, the banking industry supports the FSRAO's efforts to transition to principles-based regulation and modernize credit unions' prudential policy framework. The FSRAO's adoption of broad priorities of principles-based regulation and modernizing the credit union framework consistent with national and international requirements is consistent with the Office of the Superintendent of Financial Institutions' (OSFI) approach and should lead to a reduction of transitional concerns for Ontario-based credit unions who may later choose to adopt the federal credit union charter.

While commendable progress is being made in Ontario to modernize the prudential regulatory framework for credit unions, more can and should be done to ensure that the framework is fully effective in maintaining and enhancing financial stability. One area in particular where we believe the Ontario framework falls short is transparency and public reporting requirements for Ontario credit unions. In addition to regulatory reporting requirements, federally regulated deposit-taking institutions such as banks and federal credit unions that are supervised and regulated by OSFI have public disclosure requirements (Pillar 3 requirements) mandating that they report and disclose key financial statements and regulatory ratios to the general public. OSFI makes this information available on its website³ so that savers, investors, and analysts can assess the financial health of each federally regulated financial institution. This market discipline provides an important additional layer of oversight for financial institutions. At present, this additional layer is absent in the Ontario framework, limiting the ability of the general public to make informed decisions about where to place their money and limiting the ability of analysts and other observers to ask important questions based on these financial disclosures. Of particular note, OSFI is currently consulting on a proportionate framework for Pillar 3 disclosures for small and medium-sized banks (SMSBs)⁴ – i.e. for financial institutions that are of a similar size and scale to Ontario credit unions. This framework incorporates sound disclosure principles and various disclosure requirements based on the SMSB's size and complexity. We encourage FSRAO to implement similar mandatory public disclosure practices for those credit unions that it supervises and regulates to complement FSRAO's internal efforts to ensure that credit unions are financially sound and acting in a prudent manner.

If you have any further questions, please feel free to contact me.



³ <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/FINDAT.aspx>

⁴ <https://www.osfi-bsif.gc.ca/Eng/Docs/plr3-dft23-smsb.pdf>