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November 11, 2022

Mark White
Chief Executive Officer
Financial Services Regulatory Authority
5160 Yonge Street, 16th Floor
Toronto, Ontario
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Delivered by e-mail

Dear Mark,

RE: Response to FSRA's Proposed FY2023-24 Statement of Priorities

Thank you for the opportunity to provide our thoughts on FSRA's Proposed FY2023-2024 Statement of Priorities ("**Proposed Priorities**"). We generally support FSRA's strategic priorities including strengthening the consumer focus, modernizing systems and processes and enabling innovation. Further, with respect to credit union priorities, we appreciate FSRA's goals to achieve supervisory excellence for Ontario's credit union sector and to enhance financial stability structures. However, we believe that these priorities need to be balanced against the increasing regulatory burden in the credit union sector. We also wish to express our concern with respect to the budgetary increases that are outlined in the document. Lastly, we want to emphasize the need for FSRA to fully engage in the upcoming open banking framework to ensure that credit unions are not placed at a competitive disadvantage.

Regulatory Burden

As noted in the Proposed Priorities the regulatory and legislative landscape for Ontario credit unions has experienced significant change with the coming into force of the *Credit Unions and Caisses Populaires Act, 2020* ("CUCPA 2020", "Act") and the introduction of new guidance and rules.

Furthermore, in the environmental scan it is stated that FSRA expects that Ontario's credit unions will be subject to a prolonged period of economic uncertainty and volatility, resulting from rising inflation and interest rates, continuing socioeconomic impacts of the pandemic and geopolitical unrest which may put pressure on the profitability of Ontario's credit unions in the short-to-medium term. It is further noted in the priority to enhance FSRA's talent management framework and strategy that there have been record levels of pandemic-related resignations and retirements.

Credit unions are very appreciative of the work to proclaim CUCPA 2020 earlier this year. The new Act will help our sector compete in the modern economy and meet the needs of our members. While the Act is welcome, the pace of implementation of ancillary rules, guidance and other regulatory requirements has been challenging and at times confusing due to evolving reporting requirements to FSRA, particularly on capital adequacy. We believe that FSRA must consider how quickly credit unions can absorb the regulatory framework as well as additional regulatory changes in the current environment. Increasing regulatory requirements need to be balanced against the sector's overall competitiveness and ability of credit unions to support their communities.

Key deliverables under the priority to achieve supervisory excellence for Ontario's credit union sector include completing and maintaining accurate risk assessment for each credit union every year, incorporating risk data received through the Enhance Data Collection system, initiating a review of FSRA's Capital Adequacy Requirements Rule and issuing a new Unclaimed Deposits Rule. FSRA dialog with the sector revealed that, in addition to these elements, FSRA will also be looking to introduce an Operational Risk and Resilience Guidance as well as develop a workplan for the development of other guidance and rules contemplated in the Act. All these changes necessitate considerable effort on the part of credit unions. In recent months, data requests from FSRA for various purposes under the Enhanced Data Collection project have been challenging due to the extent of the requests and short submission deadlines. A lot of resources have also been consumed in the last year on implementing the three new Rules approved in February, as well as new guidance such as the Resolution Planning and Market Code of Conduct. We submit that the desire to achieve supervisory excellence must take into account the sectors' ability to keep up with increasing regulatory expectations. It is very difficult to continually prioritize compliance requirements given deteriorating economic conditions and ongoing labour shortages.

We would also point out that the increasing regulatory demands on credit unions erodes profitability by diverting resources to activities not associated with member service, growth or profitability. Credit unions are not large enough nor complex enough to bear unlimited regulatory demands. With this in mind, FSRA may wish to determine which regulatory activities provide the most benefit, and limit rules and guidance to those that the credit unions can reasonably ingest.

Increased Costs

The document sets out that FSRA's costs for our sector will increase by $1.6 million in FY2023-2024, representing an increase of 8.5%. However, assessment fees for credit unions have been limited to 4% by allocating surplus to offset the difference. We appreciate FSRA's efforts to limit the impact of FSRA's budgetary increase for our sector. Nonetheless, the cumulative impact of raising the assessment fees over the last three years has been very significant. These ongoing increases outpace the sector's ability to create offsetting revenue or cost reductions. This is not sustainable, and the problem is amplified as the sector braces for a prolonged period of economic uncertainty. We suggest that the level of increase should be re-examined given the looming risk of an economic recession.

Under the enhanced financial stability structures priority, key deliverables include an update to the Differential Premium System Methodology and considering whether the current target funding level for the DIRF, as well as existing deposit insurance premiums, are adequate. Increasing deposit insurance is another expense that would be difficult for the credit union sector to absorb given the current economic environment, and would further impact competitiveness. We note that the cost of deposit insurance for Ontario's credit unions is already multiples of the cost of CDIC coverage for federal deposit-taking institutions.

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Open Banking

Open banking is a key development that needs to be monitored. Open banking is ultimately about consumer choice and making financial services more accessible and less expensive for small businesses and consumers. The federal government is expected to consult on the complete open banking framework in early 2023. This is a key file that would be transformational if done successfully. A significant amount of the implementation will ultimately rest on FSRA aligning with the federal requirements once they are finalized. This will likely require a review of how fintechs may enable the credit union sector's participation and whether the current regulatory regime unnecessarily penalizes fintech investments to achieve this goal. We believe that ensuring a level playing field for Ontario's credit unions is imperative and we urge FSRA to engage the sector as early as possible in the process.

Other

We continue to support FSRA working with the Bank of Canada and other partners to implement the new structural liquidity framework to facilitate access for credit unions to emergency liquidity, if necessary.

Conclusion

We trust that our comments are constructive and helpful. We believe that consideration of these items is important in order to foster a strong, sustainable, competitive and innovative financial services sector. Thank you once again for the opportunity to share our thoughts, and please feel free to reach out to us if you would like to discuss these in greater detail.

Best Regards,

José Gallant
SVP & Chief Administrative Officer

cc. Rob Paterson, President & CEO