

Financial Services Regulatory Authority of Ontario
Attention: Stephen Power
25 Sheppard Avenue West, Suite 100
Toronto, ON M2N 6S6

December 6th, 2024

RE: Libro Credit Union (Libro) Responds to FSRA’s Proposed 2025-2026 Statement of Priorities and Budget (Consultation 2024-012)

Dear Mr. Power and Team,

Libro Credit Union is pleased to provide its response to the public consultation relating to FSRA’s Statement of Priorities and Budget for 2025-26. This consultation is important in setting the stage for future budgets, regulatory activity, and overall approach by FSRA and we trust that our comments will support you in those actions over the coming year. Our response will focus on commentary related to FSRA’s economic trends and monitored issues, cross-sector priorities, credit union specific priorities, and further recommendations we encourage FSRA to prioritize this coming year.

Libro remains committed to maintaining a strong relationship with FSRA that is rooted in being proactive, transparent, and highly communicative. Such a relationship will ensure the Owners and communities that Libro serves receive the safest, most stable, and most productive financial services experience possible. As we move into 2025, it is essential to acknowledge that the sector and its members are facing challenging economic conditions, rate uncertainty, and rising costs of business and living. FSRA must continue its efforts to reduce sector burdens, achieve a stable pace of change, and focus on initiatives that will enable credit unions to meet the needs of Ontarians within a rapidly evolving financial services environment.

Key Recommendations

1. Consider a data-informed approach to lower capital requirements for agricultural sector lending based on a materially different historical performance of the Loss Given Default (LGD) levels specific to this sector versus other industries.
2. FSRA should initiate a second round of consultations pertaining to the Unclaimed Deposits Rule and Guidance to address ongoing concerns and support transition time needed.
3. Consider other areas of regulatory oversight, like Recovery Planning, to achieve a more holistic approach to future assessments of the DIRF. Continue to ensure that high importance remains placed on premium differentials being accurately distributed across the sector to ensure an equitable and fair system.

4. Continue to support the sector's efforts to attain access to Emergency Lending Assistance (ELA)
5. Continue to collaborate with credit unions, Ministry of Finance, and the Federal Government to ensure the consumer-driven banking (open banking) federal framework is supportive of the credit union sector's unique needs. FSRA should prioritize an approach to guidance and oversight that minimizes regulatory burden/overlap as we aim to efficiently participate in an equal playing field with other industry participants and federal bank counterparts.
6. Provide sector with annual updates to the FSRA Work Plan.
7. Support a proportionate transition for credit unions relating to any ESG objectives (particularly Climate) items over a long-term outlook.

Response to Economic Trends and Monitored Issues

Libro agrees with FSRA's overall assessment of the economic trends, technological advancements, and monitored issues that our teams continue to experience firsthand every day. Concerns around cost of living and affordability, interest rates that remain historically elevated despite recent reductions, and rising geopolitical uncertainty are all macroeconomic factors that impact Libro Owners daily. With 2025 shaping up to be an increasingly uncertain year macroeconomically with geopolitical tensions high and the possibility for both a provincial and federal election domestically, we ask that FSRA keep these realities in mind as it develops any new guidance and requests for the sector. Libro is well positioned to face the upcoming year with strength and resilience and a continued positive relationship with FSRA will ensure regulatory and growth objectives are met efficiently and effectively to the benefit of all stakeholders.

We appreciate FSRA acknowledging artificial intelligence's continued rapid disruption of financial services and other key sectors of the economy. Libro looks forward to working and consulting with FSRA on this developing topic as the sector increasingly leverages AI and machine learning to increase operational efficiency in a safe and secure manner for better Owner outcomes.

We also appreciate FSRA's continued monitoring of issues and trends pertaining to fraud, IT risk, natural catastrophes, third parties, and vulnerable consumers. Libro has shown resilience and leadership in addressing many of these areas on an ongoing basis and we remain committed to working with FSRA and sector stakeholders to proactively address these issues as they evolve. We look to FSRA to continue to provide any relevant insights and information related to trends and emerging issues it monitors to enable Libro's continued preparedness.

Cross-Sectoral Feedback

We appreciate FSRA’s commitment to employing forward-thinking approaches to its regulatory and supervisory abilities. Strengthening stakeholder relations, prioritizing a consumer-centric approach, modernizing systems and processes using AI and machine learning align well with many of the approaches Libro and other credit unions are taking to enhance our own operational efficiency. Libro prides itself on putting our Owners and the communities we serve at the forefront of all we do and seeing FSRA prioritize a consumer-centric culture to inform its strategic direction and supervisory activities is greatly welcomed.

We ask that with any changes and improvements to processes and stakeholder relations, FSRA prioritizes transparency and a clearly communicated and defined rationale for any implemented changes and all forthcoming requests. Pursuing transparent approaches with reasonable timelines will be paramount to achieve desired outcomes for all stakeholders including enhancements to security and consumer protection.

Credit Union Sector Priorities Feedback

6.1 Increase Resilience, Stability, and Promote Confidence

We appreciate FSRA’s continued commitment to advance its supervisory approach under the Risk Based Supervisory Framework for Credit Unions. FSRA’s commitment to improve the quality and availability of Credit Union data through the Enhanced Data Collection initiative is also welcomed as both modernized and integrated RBSF and EDC initiatives will enable stronger monitoring and management capabilities.

As discussed previously with FSRA, it would be beneficial to learn and gain insights from the data that FSRA is getting from the EDC project on a continuous basis. This can help enhance our practices and operations relating to risk, finances, governance, products, member support, and services. This should come in the form of proactive sector briefs, webinars, and reports. To effectively increase resilience, stability, and public confidence, we urge FSRA to continue its improved levels of communication relating to EDC. Libro looks forward to continuing to work with FSRA as we continue the EDC onboarding process this December. However, as credit unions work diligently to increase the data available for instrument-level reporting, we ask that FSRA focus on a revision of underwriting guidance to more efficiently collect needed data going forward and assess the cost of cleaning up historical data.

Libro welcomes FSRA’s objective to develop and implement AI-powered supervisory tools that will enhance the efficiency of continuous supervision. However, while new forms of achieving efficiency in the supervisory process are welcomed, further clarity will be needed on what these AI-powered tools will look like and what their specific functions will be. We welcome opportunities to provide feedback here. Additionally, as FSRA further integrates supervisory and regulatory approval functions to formalize the consideration of longer-term credit union and sectoral risks in approval decisions, we expect FSRA to proactively communicate any changes as they are being developed.

6.2 Enhance FSRA’s Regulatory Framework

Libro requests FSRA to consider a data-informed approach to lower capital requirements for agricultural sector lending based on a materially different historical performance of the Loss Given Default (LGD) levels specific to this sector versus other industries. The general and undifferentiated assignment of the risk weightings to this sector disregards the historical patterns, and results in an overall Agriculture portfolio overcapitalization given the data.

Given that both the liquidity adequacy and capital adequacy rules have undergone relatively recent updates, we expect that any impending reviews include the sector in a way that removes barriers towards enhancing sustainable growth and support for Ontario businesses, homeowners, community investments, and affordable housing. A collaborative approach will enable effective oversight while also ensuring a reduction in the overall burden experienced by credit unions.

Additionally, as FSRA continues to review its capital adequacy requirements framework, we ask that FSRA ensure appropriate timelines for consultation and understanding of the impact of any proposed changes, with appropriate transitions.

In issuing and operationalizing the Unclaimed Deposits Rule and Guidance, FSRA should consider the feedback and recommendations provided by the sector during their initial consultation including considering material changes to the proposed rule. Further clarity is needed in critical areas of the Rule and Guidance and a minimum two-year transition window is needed to ensure appropriate build time, testing, implementation, and remittance. Given the extent and nature of feedback from the initial consultation, a second round of consultations with the sector is strongly encouraged.

6.3 Enhance Financial Stability Structures

We thank FSRA for their ongoing work to advocate for credit unions to achieve access to ELA and STLF and actions in 2024 brought positive advancements towards making this a reality. The collaboration between the Ministry of Finance, FSRA, and the sector as it pertains to this file has enabled positive relationship building with key stakeholders in the sector as we all strive for the most stable system possible. We hope this momentum and collaborative advocacy will continue in 2025 and Libro is ready to be a part of these efforts. We would also like continued feedback on improving resolution and recovery planning which will serve to strengthen our ability for future ELA access.

We are grateful for FSRA's work with the sector in 2024 on the DIRF investment strategy and target and transition timeline. Ensuring continued consultation with the sector on the status and outcomes of both files in 2025 will be key in facilitating a fair approach for accurately assessing the DIRF's adequacy that supports both credit unions and deposit holders, while accounting for current and future economic challenges. We ask that FSRA considers other areas of regulatory oversight, like Recovery Planning, to achieve a more holistic approach to future assessments of the DIRF. Future assessments should also ensure that high importance remains placed on premium differentials being accurately distributed across the sector to ensure an equitable and fair system.

Cost and Budget Feedback

We are overall very pleased with the proposed budget and believe it to be very reasonable compared to previous years. We would appreciate further clarity on costs relating to new initiatives and a way to track and understand FSRA's progress in implementing and realizing these initiatives. Providing consistent updates to the sector on FSRA's Work Plan could be an efficient way to achieve this.

FSRA notes that the proposed business plan is presented at a high level and that "management is developing a detailed budget for FY2025-26, which will include specific spending and benefits of new initiatives and revenue impacts on individual sectors. This will be included in the upcoming Annual Business Plan." We look forward to the release of the Annual Business Plan and having the opportunity to provide our feedback to FSRA at that time.

Continued Support for Credit Union Access to ELA and STLF

As noted, Libro greatly appreciates FSRA's ongoing work done to support the sector's ability to access ELA and STLF. In June, Libro and the credit union sector welcomed the amendments to the *Canadian Payments Act* that allows credit union locals to acquire direct membership to Payments Canada; a key requirement for provincially regulated FIs to access ELA. We urge FSRA to do everything it can to support the sector in satisfying the remaining eligibility criteria required to gain access to these resources.

As FSRA is aware, access to these resources would further enhance the stability of the sector and we appreciate these resources being continuously prioritized once again. We look forward to being involved in any future dialogues relating to this file and providing input and feedback where possible.

Continued Collaboration on Developments Relating to Consumer-Driven Banking (Open Banking)

2024 included many positive and material updates to the direction that the Federal Government is taking regarding its approach to implementing a fully operational consumer-driven banking framework in the near future. We appreciated FSRA's September webinar on the status of where the sector stands as we all await updates to the Federal Government's Framework in FES 2024 and/or Budget 2025 and beyond. Similar initiatives are always welcomed.

Libro actively participated in Finance Canada's consultations on the Federal framework that occurred from June to August which were highly productive in addressing our concerns. We ask that FSRA remains highly engaged with both the sector and Federal Government counterparts such as Finance Canada and FCAC on this file. Emphasis should be placed on the credit union sector's unique needs, especially its reliance on third-party service providers as holders of data. A unified and collective approach to advocacy will ensure that credit unions are treated fairly and equally through both the development and operationalization of the final Federal framework.

Libro continues to prioritize consumer-driven banking (open banking) readiness. We ask that should FSRA move forward with developing and implementing guidance specific to consumer-driven banking, it considers the significantly high costs that Libro and other credit unions are undertaking to ensure a competitive and secure consumer-driven banking regime is experienced for our Owners. We also ask that FSRA continues to work with the sector and the Federal Government to ensure there is no regulatory overlap and excess burden is mitigated and avoided, to not inhibit credit unions and their ability to thrive once consumer-driven banking is live.

Provide Sector with Annual Updates to the FSRA Work Plan

Libro would like FSRA to consider providing the sector with consistent updates to its Work Plan, perhaps on an annual basis. This would help Libro, and other credit unions stay informed on FSRA's strategic initiatives, priorities, and timelines, allowing for the proactive engagement and meaningful feedback that all stakeholders value. Regular updates would foster transparency and trust, ensuring that the sector is aligned with regulatory developments and can prepare adequately for upcoming changes. This approach would also facilitate better planning and resource allocation within credit unions, leading to a more stable and resilient sector.

Support a Proportionate Transition for Credit Unions Relating to ESG (Particularly Climate) Items Over a Long-Term Outlook

2024 brought significant advancements from the Federal Government as it pertains to mandated climate-related disclosures and scenario exercises for federal bank counterparts and federally incorporated private companies. To address various climate-related goals and decarbonization initiatives, we expect to steadily see similar disclosure requirements trickle down to proportionately smaller sectors and industries that the credit union sector thrives at serving.

Libro remains highly proactive and intentional in our ongoing work to ensure ESG and climate-related risks and opportunities are addressed meaningfully. We ask that FSRA remains highly cognizant of the large capacities and extended timelines required to execute ESG and climate objectives effectively and accurately when considering any new future guidance for these areas. Should any guidance be issued, we request that FSRA ensure fulsome consultation processes are involved.

Concluding Remarks

Libro looks forward to participating in continued dialogue with FSRA on the key issues included in this year's Statement of Priorities and any new areas of focus that arise in 2025-26. We strongly value FSRA's role in our sector and their ongoing work to achieve positive outcomes for credit unions and the members we serve.

We always welcome the opportunity to connect with FSRA around any concerns and recommendations included in this response. We look forward to engaging in proactive discussions over the coming year.



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Sincerely,

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