

Directors Forum: Adapting to System Challenges and Opportunities

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FSRA

Financial Services Regulatory
Authority of Ontario

Presented by: Mehrdad Rastan, Head, Relationship and Risk Management



Ontario

OVERVIEW

- **Ontario Credit Union Sector Trends**
- **Principles-Based Regulation**
- **Transparency – Working with the Credit Union Sector**
- **How Directors Will Need to Adapt**

ONTARIO CREDIT UNION SECTOR TRENDS

- **Consolidation:** Declining number of Credit Unions from over 300 CUs twenty years ago to 65 currently, with total sector assets increasing from \$15 billion to over \$75 billion in the same time period.
- Sector is increasing in size, sophistication, and complexity.
- To support the continuous evolution of the sector and its increasing level of maturity, FSRA is in the process of transitioning to **principles-based regulation (PBR)**, a more mature and robust regulatory framework.



PRINCIPLES-BASED REGULATION (PBR)

FSRA

- FSRA became operational on June 8, 2019, when it assumed substantially all of the responsibilities of the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO).
- As FSRA evolves, it is shifting oversight from the traditional, primarily prescriptive method to PBR.
- FSRA is continuing to develop its Guidance Framework to ensure alignment with PBR and deliver on desired outcomes.

Credit Union Framework

- In 2019, the government reviewed the *Credit Unions and Caisses Populaires Act, 1994* (CUCPA). New legislation is anticipated, which would set out a more principles-based framework for credit unions.
- FSRA initiatives to move to PBR include:
 - Residential Mortgage Lending Guidance (public consultation ongoing)
 - Liquidity Guidance (public consultation expected to begin shortly)
 - Development of Risk-Based Supervisory Framework
 - Development of 3-year workplan to develop guidance and rules in a principles-based manner
 - Rule on Standards of Sound Business and Financial Practices
 - Potential rules under new legislation (e.g., capital/ liquidity)



TRANSPARENCY- WORKING WITH THE CREDIT UNION SECTOR

FSRA is committed to engaging the sector in all significant initiatives through communication, consultation and collaboration, which includes:

- Establishing and regularly convening a Credit Union Stakeholder Advisory Committee (SAC) to serve as consultative body to FSRA's Board of Directors. FSRA Management also engages the SAC to seek input on specific matters.
- Forming Credit Union stakeholder working groups to provide input during the development stage of guidance and rules. FSRA holds public consultations for all rules and substantive guidance prior to finalization.
- FSRA consults annually on its proposed Credit Union priorities and budget for the upcoming fiscal year.



HOW DIRECTORS WILL NEED TO ADAPT

PBR will change how Credit Unions adhere to the modernized regulatory framework. There will be greater expectations and **increased accountability for Boards** to ensure that Credit Unions:

- **have strong governance framework** to implement and adhere to principle-based guidance/rules developed by FSRA
 - Credit Union boards will need to ensure that their CUs are adhering to stated principles and **achieve intended outcomes effectively**
 - FSRA guidance/rules will generally not provide thresholds, checklists, or other prescriptive metrics for Credit Unions to meet.
 - Credit Unions will need to:
 - determine their own measures to achieve intended outcomes
 - demonstrate to FSRA that they are achieving the intended outcomes effectively
- **have strong and comprehensive risk management capabilities** to identify, measure, evaluate, monitor, report and mitigate all significant risk in a timely fashion.



Thank You