

Advisory

Guide to Intervention for Credit Unions

Date: September 7, 2021
Distribution: All Provincially Regulated Credit Unions (Chairs & CEO/GMs)
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PURPOSE

The purpose of this Advisory is to inform all provincially regulated credit unions that the current Guide to Intervention for Credit Unions (“Guide”) first introduced in 2013 has been updated and is now posted on BC Financial Services Authority’s (“BCFSA”) website.

ADDITIONAL INFORMATION

This [Guide](#) describes BCFSA’s intervention framework, promotes awareness, and enhances transparency of the supervisory actions BCFSA will take based on the credit union’s risk profile. This Guide should be read in conjunction with BCFSA’s [Supervisory Framework](#).

Recently, BCFSA reviewed the Guide and made some enhancements to the intervention framework. The key changes include adding:

- An additional stage called “Stage 1 – Elevated” to provide further flexibility and granularity when making distinctions between stages and to allow for better transparency when communicating with the credit unions; and
- Clarification when Recovery and Resolution options (in stages 4 & 5) will occur, further aligning BCFSA’s crisis management framework with that of the Credit Union Deposit Insurance Corporation (“CUDIC”).

The revision of the Guide will not impact the CUDIC 2021 premium assessments (based on 2020 year-end stage ratings). However, the qualitative score in the current methodology will need to be re-calibrated for the purposes of the 2022 premium assessment (based on 2021 year-end stage ratings). In addition, the qualitative score of Composite Risk Rating and new Intervention Stage Rating will need to be recalibrated in the DPS methodology.

BCFSA takes a proportionate approach when determining the level of intervention for each credit union and considers nature, scope, complexity, and risk profile. As such, not all supervisory actions outlined in the Guide will apply in every circumstance.

If you have any questions or concerns about this Advisory, please contact your BCFSA Relationship Manager or Chris Elgar at Chris.Elgar@bcfsa.ca.

Classification: **Public**

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Guide to Intervention

BC Credit Unions



Classification: Public

(Please note: this Guide should be read in conjunction with BCFSAs [Supervisory Framework](#))

Purpose

The Guide to Intervention (“Guide”) promotes awareness and enhances transparency of the intervention process used by BC Financial Services Authority¹ (“BCFSA”) to supervise credit unions. It outlines the type of involvement that a credit union can normally expect from BCFSA and summarizes the circumstances under which certain supervisory actions may take place.

Introduction

To establish an effective risk-based supervision framework, two key concepts must be addressed: risk assessment and intervention.

RISK ASSESSMENT

The [Supervisory Framework](#) is a structured process that sets out the principles, concepts, and core processes that BCFSA uses to guide its supervision of credit unions. It establishes a credit union’s risk profile and assigns a corresponding Composite Risk Rating (“CRR”).

Under the framework, BCFSA conducts the following normal supervisory activities:

- Periodic risk assessment reviews;
- Continuous monitoring of credit union specific information received and dialogue with management at the credit union;
- Review and consideration of macro-economic risk drivers that may influence the risk profile of the credit union; and
- Communicating CRR and Intervention Stage Ratings (“ISR”) to each credit union in supervisory letters.

The intensity of these activities may vary based on the size, scope and complexity of the credit union.

INTERVENTION

The Guide is a resource which sets out levels for ISR that align with the CRR and are commensurate with a credit union’s risk profile. Intervention strategies which are elements of the ISR help determine and organize supervisory actions, define specific supervisory expectations, outline clear timelines to meet those expectations and identify problems which may pose a risk to depositors² and/or the credit union sector.

A fundamental aspect of risk-based supervision is the relationship between the risk profile of a credit union and the nature of supervisory actions taken in response to that assessment. This relationship is outlined in BCFSA’s response matrix.

¹ References to BCFSA may include staff, the Superintendent, and the Authority.

² References regarding risk to depositors includes risk posed to the Deposit Insurance Fund.

BCFSA’s RESPONSE MATRIX

The response matrix, shown below, illustrates the alignment of the CRR and ISR. The CRR and ISR are provided to a credit union’s board of directors and senior management in BCFSA’s supervisory letters.

Stage Rating	Composite Risk Rating (CRR)			
	Low	Moderate	Above Average	High
0				
1				
2				
3				
4				
5				

Intervention Stages—Response Matrix Definitions

This Guide describes the risk profile for each stage rating and indicates supervisory actions that may typically occur at any given stage. The intervention process is not fixed as circumstances vary from case to case nor is it a rigid regime under which every situation is necessarily addressed with a predetermined set of actions.

The Guide aims to communicate at which stage an action would typically occur. However, the actions described at one stage are also used in later stages and, in some situations, certain actions may also take place at earlier stages than set out in the Guide. Staging occurs at the discretion of the Senior Vice President, Supervision.

The table below outlines risk profiles and typical supervisory actions for each stage rating:

<p>STAGE 0</p> <p>Normal</p>	<p>RISK PROFILE</p> <p>The credit union has a sound financial position (including capital and liquidity) and sufficient governance and risk control frameworks commensurate with its nature, scope, complexity, and risk profile.</p> <p>BCFSA has determined that the credit union’s financial condition, policies and procedures are sufficient, and that practices, conditions and circumstances do not indicate significant problems or control deficiencies. BCFSA will continue its normal supervisory activities.</p> <p>The credit union is not expected to fail or pose any undue loss to depositors or pose a threat to the BC credit union sector in any foreseeable circumstance.</p> <p>TYPICAL SUPERVISORY ACTIONS</p> <p>Stage 0 actions may include:</p> <ul style="list-style-type: none"> identifying issues or problems, from ongoing supervisory work (including continuous monitoring), and making recommendations for enhancements in risk management, governance, or internal controls; and carrying out other supervisory actions as required or at the discretion of the supervision and specialist teams.
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STAGE 1**Elevated****RISK PROFILE**

The credit union has a sound financial position (including capital and liquidity); however, there are aspects of its operations or business model that expose vulnerabilities that if left unaddressed may lead to a deterioration in the risk profile under certain future circumstances.

At Stage 1, the credit union is made aware of these vulnerabilities and expected to develop sufficient contingency plans or strengthen its capabilities to control and manage identified risks or concerns and commit to reducing its stage rating.

BCFSA requires more intense monitoring of the credit union in order to determine when or whether early intervention is necessary. BCFSA expects a credit union to return to stage 0 (normal) within the agreed to timeframes established by the supervisory letter.

A credit union categorized at this stage is not expected to fail or pose any immediate undue loss to depositors and/or the credit union sector.

TYPICAL SUPERVISORY ACTIONS**In addition to normal activities, Stage 1 actions may include:**

- More frequent and/or more targeted monitoring together with targeted follow up reviews by supervision and specialist teams;
- More frequent and detailed collection and analysis of data;
- Communicating concerns to directors, senior management and internal and external auditors;
- Requests for stress testing, revised business plans and risk appetites;
- Special examinations by external experts; and
- Receipt of a detail action plan, with timelines to address identified items.

STAGE 2

Early Warning

RISK PROFILE

The credit union's exposure to vulnerabilities is predicted to lead to a deterioration in the risk profile. Improvements are needed as the credit union's business operations or circumstances may potentially put depositors and/or the credit union sector at risk.

At Stage 2, the credit union must address identified problems and implement remediation plans to reduce its stage rating. The board and senior management must demonstrate a commitment to improvement by establishing detailed mitigation plans with specific timelines for implementation. BCFSA expects a credit union to reduce its stage rating within this timeframe.

In this stage, BCFSA expects that remediation plans will advance the credit union toward returning to the "normal" or "elevated" stage rating within a specified timeframe.

BCFSA will intensify its supervisory and/or regulatory monitoring of key risk and governance metrics. Contact with management and the board will increase to ensure open, effective communication is maintained as the credit union's risk profile improves.

The credit union is unlikely to fail in the medium-term.

TYPICAL SUPERVISORY ACTIONS

In addition to activities in preceding stages, Stage 2 actions may include:

- Requiring detailed, time sensitive remediation strategies / plans;
- Revising business plans;
- Increasing capital or liquidity;
- Issuing other orders;
- Placing the credit union under statutory supervision;
- Entering into an undertaking or voluntary compliance agreement; and
- Placing conditions or prohibitions on business authorization.

STAGE 3**Risk to Financial
Viability or
Solvency****RISK PROFILE**

The credit union shows signs of safety and stability issues or concerns under normal circumstances. This situation poses a threat to its financial viability or solvency unless effective corrective action is implemented promptly.

BCFSA has identified problems that are deteriorating into an escalating situation if not addressed promptly through corrective actions. Although the problems are not serious enough to present an immediate threat to financial viability or solvency.

In this stage, these corrective actions will be mandated by BCFSA. More intensified supervisory intervention is necessary to assist the credit union avert further risk or governance issues in order to avoid undue stress on its operations, ensuring ongoing sustainability.

At Stage 3, the credit union must address identified problems and implement corrective actions to rapidly reduce its stage rating. The board and senior management must demonstrate a commitment to improvement by establishing detailed mitigation plans with specific completion timelines. BCFSA expects a credit union to reduce its stage rating within this timeframe.

The credit union is unlikely to fail in the short-term.

TYPICAL SUPERVISORY ACTIONS**In addition to activities in preceding stages, Stage 3 actions may include:**

- Reviewing and updating recovery plans;
- Revising business plans;
- Increasing capital or liquidity;
- Issuing other orders;
- Placing the credit union under statutory supervision;
- Considering potential merger opportunities;
- Entering into an undertaking or voluntary compliance agreement; and
- Placing conditions or prohibitions on business authorization.

<p>STAGE 4</p> <p>Future Financial Viability and Solvency in Serious Doubt</p>	<p>RISK PROFILE</p> <p>The credit union has serious safety and stability issues or concerns and is experiencing financial problems that are expected to pose an undue loss to depositors and/or the credit union sector unless corrective measures are immediately undertaken.</p> <p>At Stage 4, the credit union has failed to remedy the issues identified in Stage 3 and its situation is worsening. BCFSA will direct the credit union to immediately resolve issues or concerns and implement mandated improvements. BCFSA expects the credit union's recovery plan actions to be immediately enacted to reduce its stage rating within mandated timelines.</p> <p>The credit union's future viability or solvency is in serious doubt.</p> <p>TYPICAL SUPERVISORY ACTIONS</p> <p>In addition to activities in preceding stages, Stage 4 actions may include:</p> <ul style="list-style-type: none"> • Enacting the recovery plan; • Placing the credit union under administration; • Voluntary wind up or merger; • Sale of assets/branch closures; • Requesting financial assistance from the Credit Union Deposit Insurance Corporation (CUDIC); and • Reviewing and updating its resolution plan.
<p>STAGE 5</p> <p>Non-viability / Insolvency Imminent</p>	<p>RISK PROFILE</p> <p>The credit union is experiencing severe financial difficulties and has deteriorated to such an extent that there is insufficient capital to protect depositors from undue losses. The credit union is not expected to recover or remedy the issues or problems identified.</p> <p>BCFSA has determined that the credit union will become non-viable on an imminent basis. The credit union must execute its resolution strategy.</p> <p>TYPICAL SUPERVISORY ACTIONS</p> <p>In addition to activities in preceding stages, Stage 5 actions may include:</p> <ul style="list-style-type: none"> • Initiate BCFSA resolution powers; • Withdraw business authorization; • Placing credit union into liquidation; and • Deposit payout by the Credit Union Deposit Corporation.



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