

# Credit Unions

BCFSA's regulatory priorities for provincially regulated credit unions are categorized into three main initiatives: (1) Capital and Liquidity Modernization; (2) Crisis Preparedness; and (3) Emerging Risks. The graphic below outlines BCFSA's anticipated regulatory priorities over the next three fiscal years, and identifies priorities from the previous year for which work is ongoing. Items in Year 1 identify the quarter in which a consultation, publication or implementation is expected to occur. For Years 2 and 3, the graphic notes that BCFSA anticipates doing work on the priority during the year with the specific quarter to be named later. The focus for credit unions in FY 2022/23 is on capital modernization.

Consultation	Implementation	Publication
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Topic	YEAR 1 FY 2022/23				YEAR 2 FY 2023/24	YEAR 3 FY 2024/25
	Q1 Apr 1-Jun 30	Q2 Jul 1-Sept 30	Q3 Oct 1-Dec 31	Q4 Jan 1-Mar 31	Q1-Q4 Apr 1-Mar 31	Q1-Q4 Apr 1-Mar 31
<b>Previous Year's Items in Progress</b>						
Credit Union Code of Market Conduct						
Recovery Plan Guideline						
Information Security Guideline						
Outsourcing Guideline						
CUDIC Target Fund Size Review	●					
CUDIC Differential Premium System (DPS)					●	
<b>Capital &amp; Liquidity Modernization</b>						
Capital Modernization Framework						●
Commercial Lending Guideline						
Revised Residential Mortgage Underwriting Guideline						
Operational Risk and Resiliency Guideline						
Liquidity Modernization Framework						
Capital Management Guideline						
<b>Crisis Preparedness Initiatives</b>						
Deposit Insurance Data Requirements			●			
Transfer of Registered Deposits						
Deposit Insurance Awareness Survey						
Resolution Plan Guideline						
<b>Emerging Risks</b>						
Information Security Incident Reporting						
Anti-Money Laundering						
Natural Catastrophe and Climate Risk						

## DETAILED SUMMARY OF REGULATORY PRIORITIES

### Capital and Liquidity Modernization

Capital Modernization is a multi-year initiative to modernize B.C.'s capital framework. These updates will ensure that capital adequacy requirements continue to reflect underlying risks, clarify BCFSAs expectations, and reflect, as appropriate, developments in international standards and best practices.

The ultimate outcome of this initiative is expected to be a new Rule, replacing the existing Capital Requirements Regulation. Credit unions will be consulted on the capital modernization framework in several stages. In Q2 FY 2022/23, BCFSAs will assemble a working group of representative credit unions. This group's work will inform a discussion paper to be published in FY 2023/24. Later in FY 2023/24, credit unions would be consulted on the draft capital rule, before Ministerial approval is sought, and the rule implemented.

Modernizing B.C.'s capital framework will set new capital adequacy requirements for credit, operational, and market risk that will impact the Internal Capital Adequacy Assessment Process ("ICAAP") and the determination of Internal Capital Target ("ICT"). This will in turn require changes to existing Guidelines. As a result, starting in FY 2023/24, BCFSAs plans to update or develop new Guidelines in the following areas to ensure expectations are communicated:

**Commercial Lending Guideline.** BCFSAs issued a data call in Q4 FY 21/22 to better understand credit unions' evolving risk profile in this area. This new Guideline will codify BCFSAs expectations for credit unions to manage associated risks, harmonize risk rating categories for commercial loans, and clarify expectations for participation in syndicated lending.

**Residential Mortgage Underwriting Guideline.** BCFSAs plans to enhance its existing Guideline to reflect changes in the residential mortgage market.

**Operational Risk and Resiliency Guideline.** BCFSAs does not currently have a Guideline that codifies expectations for the management of operational risks. BCFSAs will use the OSFI E-21 Guideline as a reference point. OSFI E-21 Guideline is currently being updated to include operational resiliency which is seen as an outcome of effective operational risk management.

**Capital Management Guideline (including revised ICAAP & ICT).** BCFSAs plans to develop a Guideline that include updates to existing Internal Capital Adequacy Assessment Process Guide & Internal Capital Target. Failure to update capital management policies may increase the risk of inadequate capital levels commensurate to a financial institutions' risk profile.

Liquidity Management Framework is also a multi-year project, already underway that seeks to move B.C. credit unions toward liquidity standards based on Basel III. The Framework will outline Liquidity Adequacy Requirements in line with international standards and best practices to ensure credit unions continue to maintain adequate and appropriate forms of liquidity. BCFSAs published its Liquidity Management Guideline in 2020 and has subsequently updated its reporting templates to include modern liquidity ratios. Engagement with industry on potential Rules is anticipated to start in FY 2023/24.

### Crisis Preparedness Initiatives

Effective crisis preparedness can minimize the effects of events that threaten the ongoing viability of a financial institution. BCFSAs issues Guidelines, such as the recently published Recovery Plan Guideline, to communicate its expectations for effective risk management and crisis preparedness, based on international and national standards. These expectations are meant to increase the resilience, relevance, and sustainability of credit unions to financial stress events. In the unlikely event of a credit union failure, BCFSAs is responsible to ensure a sustainable and effective deposit insurance program is in place. As part of maintaining the deposit insurance fund and guarantee, Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC") proactively plans for unlikely credit union failures which requires depositors to be paid out from the fund. BCFSAs and CUDIC are committed to working collaboratively with stakeholders to maintain preparedness and confidence in the credit union system in the face of changes such as consolidations and federal continuances, innovative technologies, natural catastrophe and climate impacts, and economic disruption.

**Payout Preparedness.** CUDIC must ensure that it has the appropriate data required to complete a prompt depositor payout in a crisis. Two initiatives will help CUDIC respond, if needed.

**Deposit Insurance Data Requirements.** CUDIC will update its data requirements for deposit insurance determinations for depositor reimbursement in an event of a credit union failure. These requirements will be the subject of a consultation in Q1 FY 2022/23.

**Transfer of Registered Deposits.** CUDIC will develop options for transferring registered deposits from a failing credit union. CUDIC will engage the credit union system in Q3 and Q4 FY 2022/23 before finalizing an approach to develop a pre-qualified list of those institutions who may assume a registered deposit product.

Deposit Insurance Awareness Survey. CUDIC will conduct a deposit insurance awareness survey, working with credit unions, to assess members' understanding of the deposit insurance guarantee. This survey is targeted for Q1 FY 2023/24.

**Resolution Plan Guideline.** Building on the work undertaken with credit unions on the recovery plan guideline, BCFSAs will develop and consult on resolution plans, which are implemented when a credit union is insolvent or approaching insolvency. Resolution plans are an important stabilizer for the entire credit union segment. The development of this Guideline is targeted for FY 2023/24.

### Emerging Risks

BCFSA closely monitors current and emerging risks that have the potential to have a material impact on financial institutions and its members or customers. Based on continuous risk monitoring, including surveys and data calls, BCFSA will consider how to respond and whether new initiatives are required.

**Information Security Incident Reporting.** Reporting of material information security incidents in a timely manner is of critical importance for BCFSA. As part of its consultation on an information security incident reporting rule, BCFSA received feedback that before proceeding to a rule, there should be sufficient time for all financial institutions to implement and demonstrate compliance with existing expectations contained in BCFSA's recently released [Information Security Guideline](#). In recognition of this and other feedback, BCFSA plans to revisit its guidance and expectations for the reporting of information security incidents beginning in Q3 FY 2022/23.

**Anti-Money Laundering.** BCFSA will continue with its efforts to strengthen B.C.'s Anti-Money Laundering ("AML") regime, building on the cross-sectoral AML review completed in spring 2021, and taking into consideration the final report of the Cullen Commission of Inquiry into Money Laundering in B.C. which is expected in FY 2022/23. Depending on the outcomes of the Cullen Commission, engagement on enhanced guidance could occur in Q4 FY 2022/23.

**Natural Catastrophe and Climate Risk.** Natural catastrophes, including earthquakes, floods, and wildfires, pose a significant risk to the financial services sector in B.C. As well, it appears that consumers lack information to make informed decisions to mitigate financial loss. BCFSA will outline its proposed approach to managing natural catastrophe and climate risk for the financial services sector in a discussion paper in Q4 FY 2022/23, followed by consideration of necessary regulatory instruments.

