

AUGUST 2022

Capital Modernization Framework Project For B.C. Credit Unions

Working Group Terms of Reference

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Introduction

BC Financial Services Authority ("BCFSA") is a Crown agency responsible for the supervision and regulation of the financial services sector. As a modern, effective, and efficient regulator, we promote high standards within the sector we regulate and provide information and guidance to enable industry participants to comply with legislative requirements and best practices.

The Capital Modernization Framework Project for B.C. Credit Unions is a multi-year initiative of BCFSA to modernize B.C.'s capital framework and ensure that capital adequacy requirements continue to reflect underlying risks and BCFSA's expectations; and incorporate, as appropriate, developments in international standards and best practices. The ultimate outcome of this initiative is expected to be a new Rule, that will replace portions of the existing Capital Requirements Regulation respecting credit unions.

BCFSA is committed to an open, transparent, and collaborative approach to regulation. The Capital Modernization for B.C. Credit Unions Working Group ("Working Group") is established as part of BCFSA's stakeholder engagement with credit unions affected by its actions as a regulator. The Working Group is intended to provide preliminary feedback and is separate from the requirements of the Financial Services Authority Rule-Making Procedure Regulation (the "FSA Rule-Making Procedure Regulation").

These Terms of Reference inform the creation, operation, and expectations of the Working Group, which will consist of representatives from both credit unions and BCFSA, and be chaired by BCFSA's Director, Financial Reporting and Standards. Third-party participants may be invited to attend the Working Group as observers.

Purpose

The purpose of the Working Group is to: identify the impacts of proposed changes to B.C.'s capital framework on credit unions; the level of relevant risk exposure in B.C.; and additional issues or unintended consequences (if any) which require further consideration prior to public consultation by BCFSA and/or engagement with the requirements of the FSA Rule-Making Procedure Regulation.

Background

The *Financial Institutions Act* ("FIA") and related enactments - including the Capital Requirements Regulation - provides the legislative framework for the regulation of credit union capital in B.C. It is supplemented by BCFSA's Regulatory Information.

The FIA requires that every 10 years, the government must initiate a review of the Act. As part of the government's most recent 10-year review of the FIA, the Ministry of Finance issued Preliminary Recommendations in March 2018 on each of the FIA and *Credit Union Incorporation Act* ("CUIA") (the "2018 Review").

Preliminary recommendation number 24 of the 2018 Review proposed that BCFSa (formerly and then known as the Financial Institutions Commission) "adopt a Basel III¹ -like capital framework and guidance/rules-based approach for capital standards, applicable to all provincial credit unions, with modifications to recognize the cooperative nature of credit unions and size differences among credit unions". All new rules are subject to Ministerial approval and to the FSA Rule-Making Procedure Regulation.

Appointment Process

As set out in the Introduction and the Composition detail below, the Working Group will include representatives from provincial credit unions. BCFSa will publish a call for members, which will be sent to all provincial credit unions and published on BCFSa's website.

BCFSa's Director, Financial Reporting and Standards, will have sole discretion to select member representatives from among the expressions of interest received by BCFSa. Selection will be based upon the relevant skills, experience, and perspectives of applicants. To ensure that a diversity of credit unions is represented, BCFSa will rely on the selection criteria set out below.

BCFSa may also directly invite the participation of individual credit unions as required to ensure the Working Group includes diverse voices, comprehensive data and the input required to for the success of the Capital Modernization Framework Project.

Working Group Composition

The Working Group chair is the BCFSa Director, Financial Reporting and Standards, and will include BCFSa staff members in BCFSa's sole discretion.

Third-Party observers will participate in the Working Group continuously or from time to time, including but not limited to staff/ representatives of the Ministry of Finance and Canadian Credit Union Association (CCUA).

¹ Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. The measures aim to strengthen the regulation, supervision and risk management of banks.

Importantly, the Working Group will bring together representatives from up to 14 B.C. credit unions with varying risk capacity and tolerance levels. BCFSa is seeking qualified credit union representatives in a senior management capacity with treasury-related knowledge and experience, and who possess an understanding of the components of capital management in their respective credit unions.

BCFSa will use the following criteria to assess credit union representatives for the Working Group:

- Complete geographical representation
- Full asset size representation
- Diverse operational complexities
- A variety of business strategies including risk appetite
- Varying resources and expertise
- Differing accounting and banking systems
- Providing an opportunity to participate in this working group to credit unions with no or limited experience participating in a BCFSa (or FICOM) focus or working group.

BCFSa will:

- Not remunerate or pay the expenses of Working Group members
- Publish the names of working group members related organization on its website, together with these Terms of Reference

Responsibilities

The Working Group will be engaged in fall 2022 and reconvened in 2024/25. The time commitment is expected to be several hours monthly while the Working Group is active. The “active” period for the Working Group is subject to change, as required.

Responsibilities of Working Group members will include:

- Reviewing background materials in preparation for meetings
- Attending meetings and participating in discussions
- Providing timely written responses, including data analytics, to both specific questions for within the Working Group and for general or additional consultation, including publications, in connection with the Capital Modernization Project

It is expected that the Working Group members will participate in, at minimum, the following meetings during the fall of 2022:

- An introductory meeting and discussion in October 2022
- Follow-up meetings in November/December 2022

Additional meetings and one-on-one discussion sessions with BCFSa staff members will be scheduled as required.

Meeting requirements for the Working Group in 2024/25 will be outlined in advance of the launch of that phase of the project.

Responsibilities of BCFSa staff members of the Working Group include:

- Chairing the Working Group meetings (the Director, Financial Reporting and Standards and/or their designate will act as Chair)
- Preparing meeting agendas and distributing the agenda and related material to Working Group members approximately one week in advance of each meeting
- Taking minutes at each meeting and distributing minutes to Working Group members following the meetings
- Reviewing input provided by the Working Group.

Conduct of Meetings

Meetings will be held virtually, via Microsoft Teams.

Minutes will be distributed to Working Group members following each meeting and will outline the general topics of discussion and feedback or input for BCFSa's consideration or other action items required.

Meetings will be recorded, and personal information will be collected under section 26(c) of the *Freedom of Information and Protection of Privacy Act* and will be used for the purposes identified under "Purpose" and for review and reference. If you have any questions or concerns regarding the collection of personal information, please contact Director, Financial Reporting and Standards at CUCapital@bcfsa.ca.

Guidelines for Participation for non-BCFSA Staff Members

Working Group members are required to commit to:

- Regularly attend all meetings, and arrive prepared
- Treat each other with respect and courtesy at and outside of Working Group meetings, and listen to alternate viewpoints with an open mind and respectfully
- Consider wider sectoral impact in their responses
- Disclose to BCFSA and manage any conflicts of interest, and not attempt to use participation in the Working Group to obtain improper gain or advantage from BCFSA or its staff
- Sign a Participation Agreement in which they acknowledge these Terms of Reference and agree to provisions including but not limited to confidentiality and use of information obtained through their participation in the Working Group
- Failure to follow these Guidelines may result in removal from the Working Group, in the sole discretion of the Chair (the Director, Financial Reporting and Standards and/or their delegate).

Confidentiality

Working Group members (and their related credit unions or organizations) who receive information and records from BCFSA during their participation in the Working Group, are expected to keep such information and records confidential in accordance with the Participation Agreement and section 218 of the FIA. The *Freedom of Information and Protection of Privacy Act* applies to all records in the custody or control of BCFSA.



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