

MARCH 2023

Delegated Lending Authority

Consultation Summary Report

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Introduction

On March 21, 2023, BC Financial Services Authority (“BCFSA”) issued its Delegated Lending Authority Guideline (“Guideline”), outlining BCFSA’s expectations for credit unions regarding the practice of delegating lending authority to reduce the risk of conflicts of interest and minimize errors or fraud related to loan sales and approvals.

On October 11, 2022, BCFSA issued a draft Guideline seeking comment from all B.C. authorized credit unions. The 30-day consultation period for the draft Guideline was open from October 11, 2022, to November 10, 2022.

Where appropriate, input received during the consultation was used to amend and strengthen the final version of the Guideline.

Background

Many credit unions have a structure whereby their loan origination staff also possess a DLA as part of their lending operations. Loan origination staff generate loan assets and may also approve these assets. This may result in pressure on loan origination staff to approve credit applications and undermine credit risk management practices. Such a structure potentially creates an inherent conflict of interest when the performance of a DLA holder is directly or indirectly linked to growth targets. BCFSA has observed weak controls around DLA, including a lack of clarity around accountability for DLA and inappropriate segregation of duties, which could potentially lead to conflicts of interest.

Consultation Process Overview

The 30-day consultation was launched October 11, 2022, with the release of an advisory to introduce the draft Guideline. The consultation was held from October 11 to November 10, 2022. BCFSA provided credit unions with opportunities to learn more and ask questions about the expectations outlined in the Guideline.

BCFSA was particularly interested in feedback regarding concepts or language that required further clarification.

Some of the engagement activities BCFSA undertook include:

- An invitation welcoming all B.C. credit unions to reach out to their BCFSA Relationship Manager or to email BCFSA with any questions;
- A presentation about DLA at the Canadian Credit Union Association (“CCUA”) credit unions’ small and medium-sized committee on September 8, 2022;
- An email reminder to B.C. credit unions to provide their written feedback before the deadline;
- A consultation overview on BCFSA’s website; and
- Direct conversations with credit unions that had an interest in this topic during continuous monitoring discussions.

Summary of Feedback

BCFSA received aggregate written feedback from several credit unions through CCUA and direct written feedback from two individual credit unions in response to the DLA consultation outreach. The following table summarizes the feedback received during the consultation and categorizes it into three key themes.

STAKEHOLDER FEEDBACK TABLE

Theme	Summary of Issue/Comment	BCFSA Response
Specificity in language used within the Guideline	Some respondents felt the language of the Guideline appeared to be too specific and did not provide enough flexibility for credit unions of different sizes and complexity to implement a process that would meet their individual needs.	BCFSA incorporated this feedback and has revised the Guideline to allow credit unions an appropriate level of flexibility in applying the Guideline.
Clarification of regulatory expectations	Some respondents wanted clarification of certain regulatory expectations.	BCFSA updated the content of the Guideline to clarify these points and remove ambiguity.
Recognition of mitigating measures	Some respondents wanted the Guideline to consider that mitigating controls can meet the objectives of the Guideline should they not be able to fully implement an independent credit approval function.	Efforts by credit unions to implement mitigating controls around DLA will be considered in deciding whether they meet the Guideline objectives.

Consultation Outcomes and Next Steps

BCFSA thanks those who participated in the DLA consultation. The feedback has been reviewed and applied to the updated Guideline where appropriate.

BCFSA is releasing the final Delegated Lending Authority Guideline with this report. We recognize credit unions need time to meet the Guideline expectations and have set the effective date of the Guideline as March 31, 2024.



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