

# Capital Modernization Project

## Information Session #2

### Capital Rules Consultation

December 3, 2025

**BCFSA** BC Financial  
Services Authority

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(Squamish Nation) səŋlwətaʔt  
(Tsleil-Waututh Nation)  
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# Speakers

## NEZ AQUINO

Senior Vice  
President, Financial  
Institutions

## REBECCA LOWREY

Director, Reporting  
& Risk Assessment

# Agenda

1. Introduction
2. Background
3. Project Update
4. Questions about Proposed Capital Rules
5. Next Steps

# Background

# Background

## Why Change is Needed?

- The current CRR legislation was drafted in the 1990's and doesn't reflect the financial landscape and risks faced by credit unions.
- Increase the quality and quantity of capital to absorb losses for unforeseen events to ensure the continued resilience of the segment.

## Consultation & Readiness

- BCFSA consulted extensively throughout the project for transparency and to ensure the framework reflects the unique characteristics of the B.C. credit union segment.
- Parallel reporting is showing evidence of credit unions' readiness and compliance with the proposed requirements in advance of the new capital framework.





# Background- continued

## Highlights of the New Framework

- Enhanced risk-sensitivity for material exposures:
  - Refined lending categories to better reflect risk characteristics of lending products
  - Additional risk metrics capture the potential risk of losses in various economic scenarios using objective and consistent credit risk measurements
- The current 30% cap on Commercial Lending will be permanently eliminated under the proposed Rule.
- A portion of general loss allowance will be included in Capital.
- The quality of capital is strengthened by removing system capital.
- Membership share are a source of Tier 1 capital despite not meeting Basel III standards – under the “made for B.C.” approach.



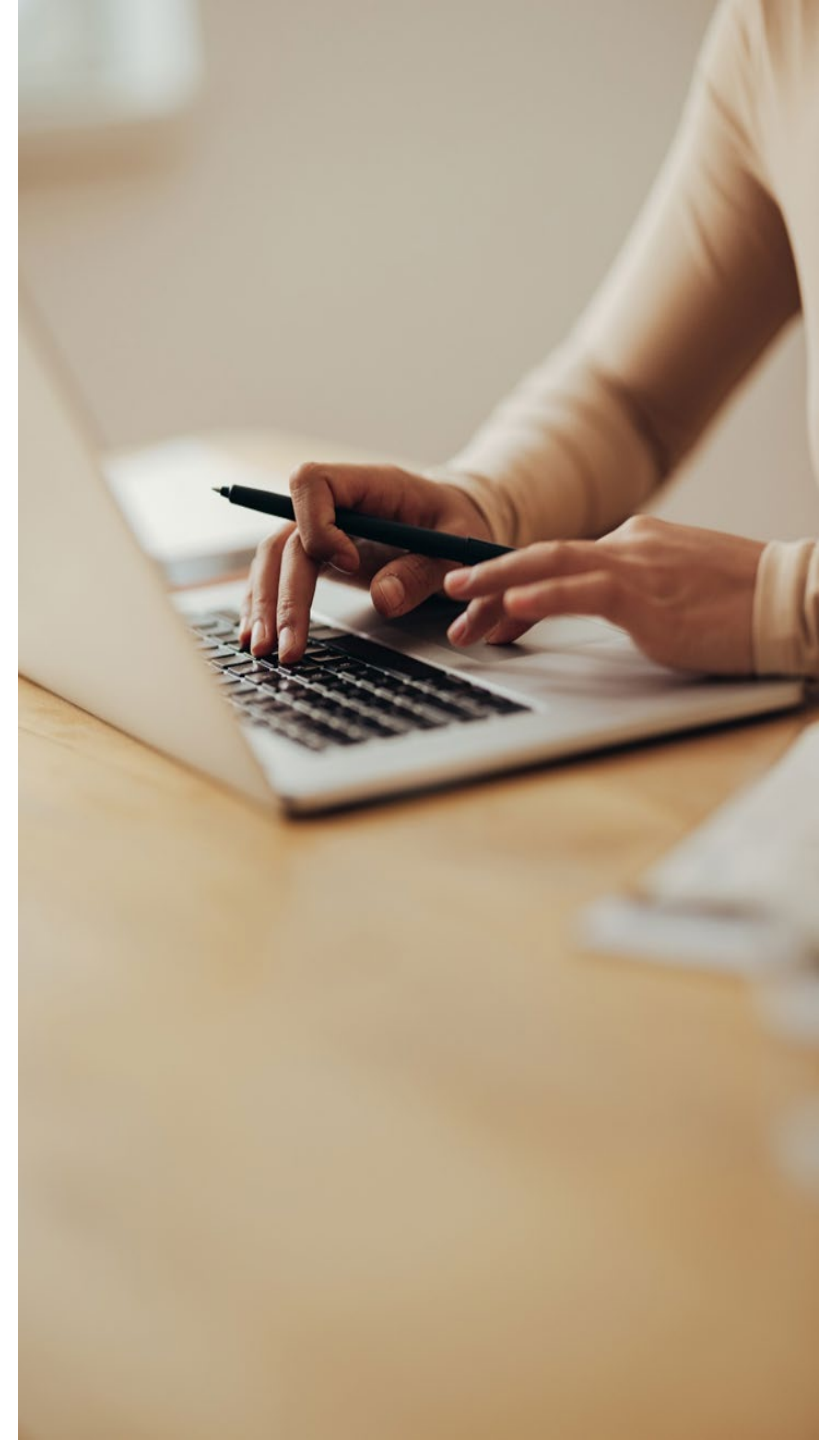
# Background- continued

## Highlights of the New Framework

- Under the proposed Rule, the system has higher amount of capital, higher quality of capital and lower Risk Weighted Assets:

<i>(dollars in millions)</i>	Proposed Rule	Current Rule*	Difference
Risk Weighted Assets (\$M)	\$38,169	\$39,312	(\$1,143)
Actual Regulatory Capital (\$M)	\$5,161	\$4,955	\$206
Capital Adequacy Ratio	13.52%	12.60%	0.92%
Capital required under ICT (\$M)	\$4,391	\$4,514	(\$123)
Capital surplus over ICT (\$M)	\$770	\$441	\$329

\* Excluding system capital





# Project Update

# Capital Rule Consultation

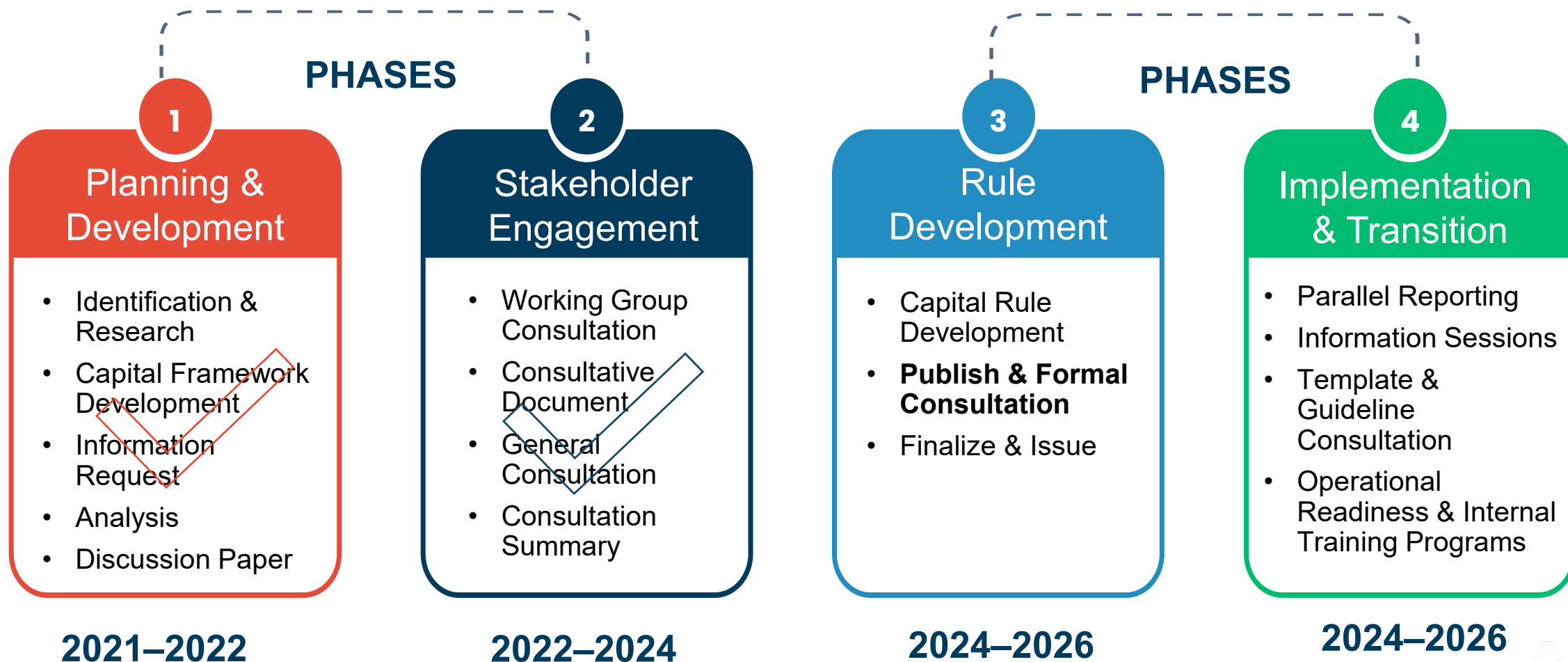
- BCFSA is providing a **90-day** period for the Consultation for credit unions to review and provide feedback.
- BCFSA provided a **30-day** extension. The consultation will run until **January 15, 2026**.
- Please provide your feedback using the [Consultation Feedback Form](#) in the Advisory.
- General feedback on any aspect of the Rule can be emailed to [CUCapital@bcfsa.ca](mailto:CUCapital@bcfsa.ca)





# Project Phases and Timeline

*(Capital Rule Anticipated Effective January 1, 2027)*



# Parallel Reporting Update

## Q2 AND Q3 SUBMISSIONS

- Submissions for Q3/2025 (ending September 30) were received from credit unions with assets greater than \$500MM
- Overall, the results for key metrics (i.e., Tier 1 Capital, Total Capital, Leverage Ratio) are similar to Q2/2025 results and demonstrate that credit unions are resilient and well-capitalized.
- Risk-weighted Assets are about \$1.1B lower under the Self Assessment Tool vs. Capital Adequacy Ratios under the current CRR – creating potential capital efficiency gains and freeing up capital for investment and lending activities.





# Questions about the Proposed Capital Rules

# Panelists

**KARI  
TOOVEY**

Manager,  
Policy

**VINCENT  
CHOW**

Director,  
Approvals

**FRANZISKA  
NIEGEMANN**

Director, Risk  
Surveillance &  
Analytics

**SILVANO  
TITTONEL**

Consultant



# Questions about the Capital Rules

**There are a few sections in the Rule that use the word “substantially”. Can you provide additional guidance?**

BCFSA Response – The word substantially will be looked at in the context of the credit union and the activity being undertaken. In two sections that use “substantially”, the reference relates to the risk-based capital ratio. Credit unions will need to exercise judgement, guided by objective requirements for adequate capital contained in the rule, and considering the credit union’s own size, complexity and risk profile.

Given that the determination of what is considered substantial is context specific, we cannot bind the Superintendent to any particular approach, but the credit union has some flexibility in how they satisfy the Superintendent that credit union capital remains strong after the call.



# Questions about the Capital Rules

**What are the small changes in the Capital Rule compared to the Consultation Paper and Summary report to the Credit Unions?**

Response – The content of the Capital Rule is consistent with the previously proposed framework as set out in the Consultation Paper and Summary Report, as well as questions received after the formal consultation ended. At a high level, some changes were made for corrections and simplification or to adjust for the rule-style format of the Rule. Examples including adding project finance related requirements raised by respondents; removing credit derivatives which are not a significant risk and would have required complexity to address.





# Questions about the Capital Rules

**The Rule Section 10(1)(b) mentioned the 10% threshold redemption cap. Please clarify if 10% may be redeemable, does this mean only 90% can be included in Tier 1?**

Response – That is correct. Only 90% of the capital associated with shares can be included in Tier 1, if the credit union can be required to redeem 10% of the outstanding shares, both in the related reporting period.



# Questions about the Capital Rules

**Given some differences with OSFI, will credit unions that have an OSFI-regulated bank subsidiary need to follow BCFSA risk weights to consolidate for CAR reporting?**

Response – If the subsidiary bank's assets are below the 10% threshold as defined in Section 2(3) of the proposed Capital Rules, the credit union has the option to follow the OSFI risk weights for the commercial or personal loans and leases of the subsidiary.



# Questions about the Capital Rules

**OSFI is undergoing a consultation on its Capital Adequacy Requirements Guideline that proposes changes to corporate exposures. OSFI's draft 2027 CAR guideline has similar requirements to those proposed by BCFSA in the new framework. Does BCFSA have any initial views on these proposed changes?**

BCFSA Response – OSFI's proposed changes are in draft with consultation period ending on February 18, 2026. BCFSA is monitoring OSFI's proposed changes and the outcome of its consultation and will consider their appropriateness for B.C. credit unions for future iterations of the rule.





# Questions about the Capital Rules

**The financial landscape is dynamic and new risks are emerging that could impact credit unions. How does BCFSA plan to adapt to these changes?**

Response – BCFSA will continuously monitor for new and emerging risks, developments, best practices etc. and consider their suitability for B.C. credit unions. The Capital Rules will be updated as needed to address identified risks and incorporate future enhancements. BCFSA will also consider changes to “calibrate” the framework as needed. For any changes, BCFSA will engage with stakeholders as was done throughout the project.



# Questions about the Capital Rules

**Why does BCFSA's approach to capture Residential and Commercial Real Estate Secured Lending Exposures differ from OSFI's standardized approach?**



# Real Estate Secured Lending Exposures

## TAILORED TO SEGMENT-SPECIFIC RISK

As of September 2025

- **97%** of personal loans are **secured by real estate**
- **96%** of commercial loans are **secured by real estate**

- Unlike federally regulated banks, B.C. credit unions have highly concentrated balance sheets—dominated by residential and commercial real estate secured lending with limited exposure to trading, interbank, or fee-based activities.
- B.C. credit unions risk profile is acutely sensitive to local property market cycles, interest rate shifts, and borrower income stability—factors not fully captured by a one-size-fits-all standardized framework.
- BCFSA's approach reflects this reality by embedding metrics that directly assess both collateral quality (LTV) and borrower repayment capacity (TDS, DSCR), which are central to credit risk of real estate secured loans.
- This sector-specific calibration ensures capital requirements respond to the actual drivers of loss in credit union portfolios - not just broad regulatory categories designed for diversified banks.

Total Assets of \$82bn	Loans and Leases	Real estate secured Loans And Leases
Total	\$70bn	\$67.4bn (96%)
Personal	\$47.5bn	\$46.2bn (97%)
Commercial	\$22.1bn	\$21.2bn (96%)



# Real Estate Secured Lending Exposures

## RISK SENSITIVITY, SIMPLICITY & RELIANCE ON ESTABLISHED METRICS

- The goal is not to be more or less conservative than the federal regime, but to ensure capital aligns with *true economic risk*—particularly critical in a segment with high real estate concentration and limited portfolio diversification.
- BCFSA's framework leverages key risk metrics that all credit unions already derive, collect, validate, and act on—ensuring capital requirements are both practical to apply and aligned with existing workflows.
- Proportionate design avoids unnecessary complexity while maintaining sound risk sensitivity, making the regime feasible across the full spectrum of credit union sizes and capabilities.
- OSFI's standardized approach relies on LTV as a proxy for risk, which is inadequate for capturing borrower capacity for repayment, cash flow stability, or debt sustainability—especially in rising-rate or slowing-growth environments.
- By incorporating forward-looking metrics, BCFSA's risk weightings are more sensitive to strained repayment capacity, even if collateral values appear sound.

# Real Estate Secured Lending Exposures

## CONCLUSION

- BCFSA's framework does not impose uniformly higher capital charges; outcomes vary by risk profile and type of lending.
- In well-managed, lower-risk segments—such as commercial multi-residential lending with strong DSCR and moderate LTV—credit unions face capital requirements competitive with or lower than those implied under OSFI's standardized approach.
- At the same time, the framework appropriately addresses instances where risks are elevated (e.g., high TDS, extended amortization periods)
- Risk weighting is anchored in key risk metrics that each credit union, irrespective of its size, is expected to derive, collect, store, and report on under BCFSA's supervisory expectations.



# Questions about the Capital Rules

**Please provide an update on EBITDA as the prescribed DSCR for commercial -- for CRE Income producing and multi residential we use property lease (Net Operating Income) as the cashflow analysis.**

Response – We will follow industry best practice where Net Operating Income (NOI) is applied for product types where this is the main contributor to income. We will provide more information on expectations to derive DSCR, NOI and EBITDA as part of the reporting instructions and reporting template consultation that is planned for spring 2026.





# Questions about the Capital Rules

**When are credit unions expected to update borrower income information in the TDS ratio?**

Response – BCFSA will provide further guidance on refreshing the TDS ratio including confirmation that an update of borrower income information is not mandatory at mortgage renewal.



# Questions.

The Zoom Q&A function – this is where you can submit your questions (please don't use the chat box).

The Q&A icon is at the bottom of your screen

As you are in listen only mode, your questions will need to be typed in the Q&A

# Next Steps



# Next Steps

- Review the proposed Capital Rule in conjunction with the Consultation Package (i.e., Section Notes and Reference List).
- **Please provide your feedback by January 15, 2026** using the [Consultation Feedback Form](#).
- General feedback on any aspect of the Rule may be provided by email at [CUCapital@bcfsa.ca](mailto:CUCapital@bcfsa.ca)



Thank  
You.