

Capital Modernization

June 28, 2022

Territorial Acknowledgment

We acknowledge we are on the traditional territories of the Musqueam, Squamish and Tsleil-Waututh Nations.

Speakers

**BLAIR
MORRISON**

CEO and B.C.'s
Superintendent
of Financial
Institutions

**CHRIS
ELGAR**

Senior Vice
President,
Supervision

**SASKIA
TOLSMA**

Vice President,
Stakeholder
Engagement

**REBECCA
LOWREY**

Director,
Reporting &
Standards

Agenda

1. Introduction
2. Project Background
3. Engaging with the Sector
4. Phase I Project Overview
5. Questions and Answers

A Modern, Effective, Efficient Regulator

- Integrated regulator of B.C.'s financial services sector.
- Positioned to instill confidence as a **modern, effective, and efficient** financial services regulator.
- Responsible for 10 statutes, including the *Financial Institutions Act* and *Credit Union Incorporation Act*

AREAS OF REGULATION (AS OF AUGUST 2021)

- Insurance Companies
- Credit Unions
- Mortgage Brokers
- Pension Plans
- Real Estate Services
- Real Estate Development Marketing
- Trust Companies

BCFSA is also accountable for administering the Credit Union Deposit Insurance Corporation of British Columbia (“CUDIC”).



BCFSA goals for this Project

- Modernize B.C.'s capital regime to ensure system resiliency.
- Provide opportunities for discussion and consultation on proposed approach and what changes may mean for credit unions.
- Deliver a clear and predictable process for considering changes and provide appropriate time for transition.



Project Background

What is Capital Modernization?

- Modernizing the regulatory capital framework to align more closely with international standards, with modification to accommodate the unique characteristics of the B.C. credit union system.
- Ultimate outcome is expected to be a new Rule, replacing the existing Capital Requirements Regulation.
- Will address capital adequacy requirements for credit and operational risk that will impact the Internal Capital Adequacy Assessment Process (“ICAAP”) and the determination of Internal Capital Target (“ICT”).



Why Does B.C. Need Capital Modernization?

Canadian provincial regulators (2021)

AB - \$29B: Basel III (effective 2015)

SK - \$28B: Basel III (effective 2013)

MB - \$40B: Basel III (effective 2015)

ON - \$84B: Basel III (effective 2022)

BC - \$75B: Basel I Plus Capital

Requirements Regulation

B.C.

System growth: 51% (2010 – 2021)

- Near Banks vs Classic Credit Unions

Increased risks:

- BC CU System: Operational & Concentration
- Provincial economies, Housing Markets
- Canadian Financial System Emerging Risks

Capital modernization on BCFSA'S regulatory roadmap

- This project is a priority for BCFSA and its work with the CU system for the next year.
- Changes to the capital program will have impacts on other regulatory instruments.
- Starting in FY 2023/24, BCFSA plans to update or develop new Guidelines:
 - Commercial Lending Underwriting Guideline
 - Residential Mortgage Underwriting Guideline
 - Operational Risk and Resiliency Guideline
 - Capital Management Guideline (including revised ICAAP & ICT).



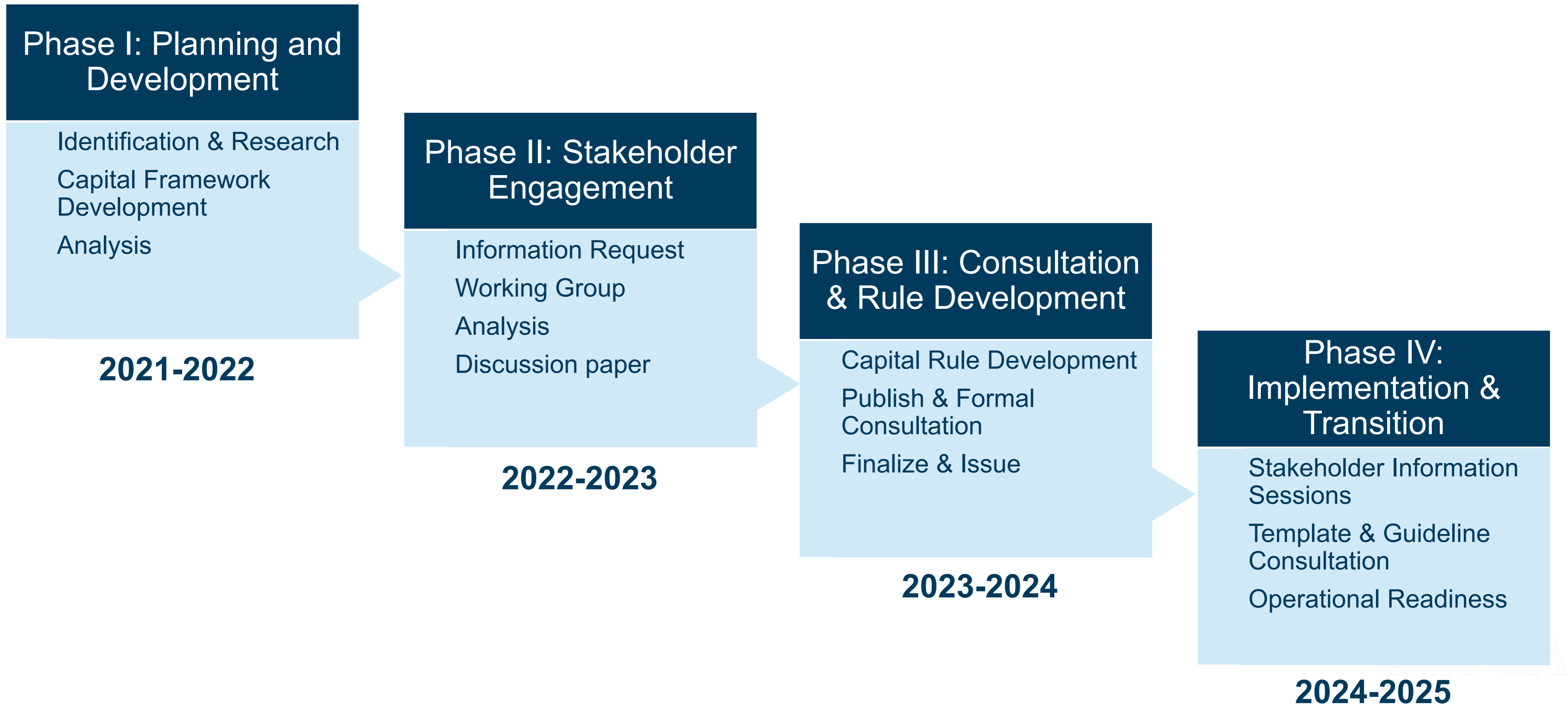
Engaging with the Sector

A Multi-Year Project

- Modernizing B.C.'s capital framework for credit unions to:
 - Ensure that capital adequacy requirements continue to reflect underlying risks
 - Clarify BCFSA's expectations, and
 - Reflect, as appropriate, developments in international standards and best practices.
- BCFSA will hold a comprehensive series of consultation periods for transparency and to factor in views and considerations of our stakeholders.

Project Summary

Project Overview



Step I - Information Request Residential Loan Portfolios

PURPOSE

- Assess residential credit risk
- Provide input for new capital requirements

TIMING

- BCFSA will issue Information Request June 29
- Based on feedback, credit unions will be asked to submit the information mid-August (approximately 6 weeks).



Step 2 – Working Group

- The objective of the working group is to engage credit union participants in focused discussions, with the credit unions providing feedback and analysis on targeted topics
- After the information request and analysis of the data is complete, BCFSA will assemble a group of representative credit unions
 - Observers in this group will be CCUA, Ministry of Finance
- We plan to send out a call for working group members in mid-August.



Step 3 – Consultation on Discussion Paper

- BCFSA will publish a Capital Modernization Discussion Paper in Fall 2022
- A 60-day consultation period will follow
- Stakeholders will have the opportunity to provide feedback to discussion questions within the paper.



Phase I Project Overview

Key Considerations

Basel III + Best Practices + B.C. specific measures

- Consolidated reporting
- Definitions of capital
- Treatment of B.C. specific measures
 - System capital
 - Concentration risk adjustments
 - Residential mortgages risk weighting
 - Central 1 Credit Union equity shares
- Applicability of Basel III specific measures
 - Credit risk
 - Operational risk
 - Market risk
 - Leverage ratio
- Adequacy of the current minimum statutory capital requirement

Working Group Details

- Working Group to be convened at various points during the multi-year process.
- Role of the Working Group
 - Engage credit union participants in focused discussions
 - Examine the impact of the proposals on business strategies and level of risk exposures in B.C.
 - Provide firsthand impact analysis including responses to some specific questions



Criteria for Working Group Members

- Geographical representation
- Asset size representation
- Operational complexities
- Business strategies & risk appetite
- Resources and expertise
- Accounting and banking systems



Frequently Asked Questions

Q: Why is Capital Modernization needed at this time?

A: We are part of an evolving credit union system, and an updated framework would ensure that we are meeting Canadian regulator best practices and aligning with international standards.

Q: Will this affect all credit unions?

A: This framework will be applicable to all B.C. credit unions, with modifications to recognize the cooperative nature of the system including complexity and size difference among credit unions.

Q: How is proportionality going to be interpreted?

A: BCFSA continues to address proportionality by means of a risk-based supervisory framework and reporting requirements by asset size for a B.C. tailored approach. This will be discussed with the working group and credit unions are welcome to provide feedback during the consultation process.

Questions?

Contact at BCFSA

- General questions about the Capital Modernization Project:
- Email: **CUCapital@bcfsa.ca**



Thank you.