

Capital Modernization Consultation Launch

for B.C. Credit Unions

August 3, 2023

BCFSA BC Financial
Services Authority

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 sə'ílwətaʔt (Tsleil-Waututh Nation)

Speakers

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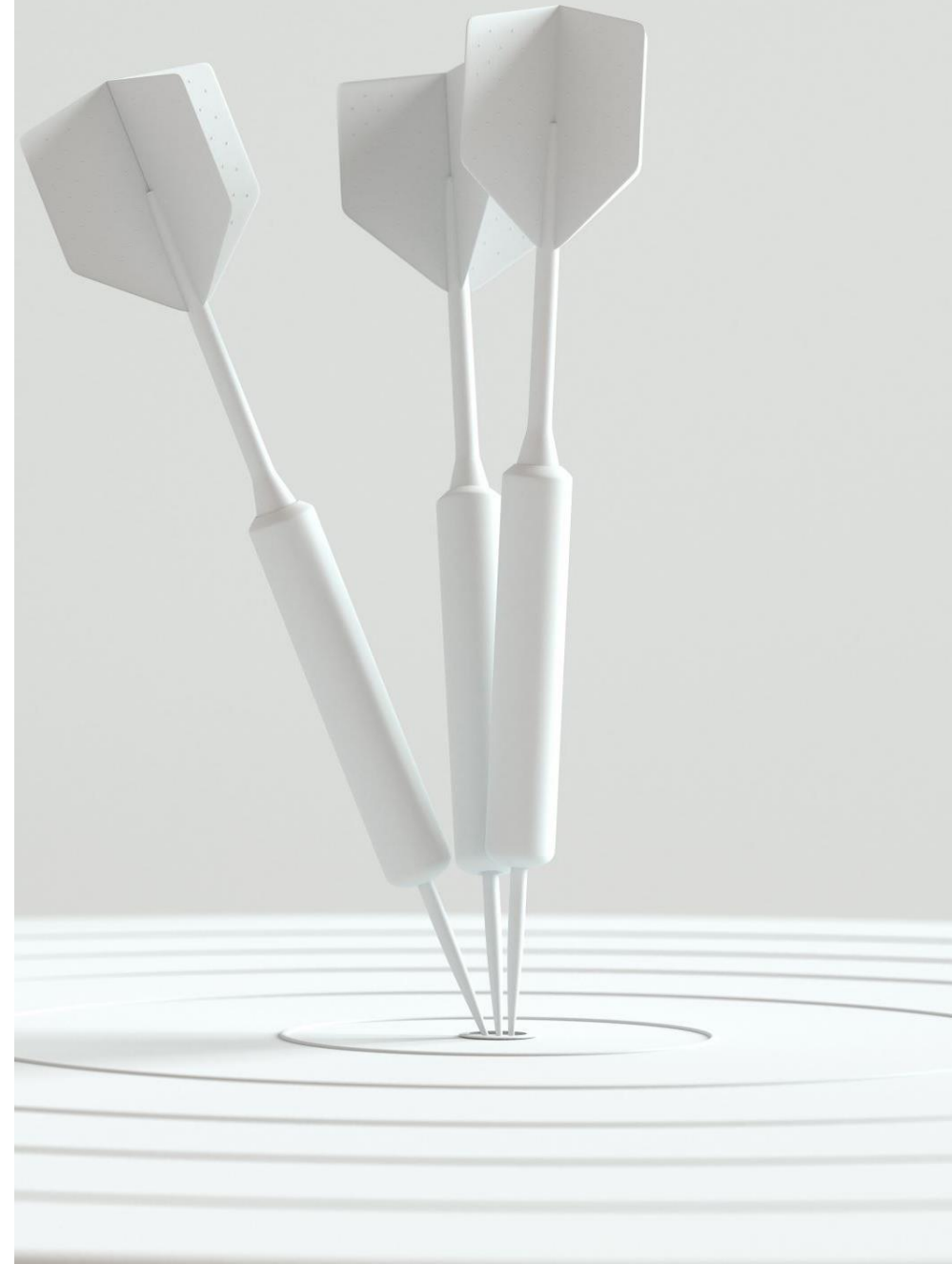
Agenda

1. Introduction
2. Project Overview
3. Consultation Approach
4. Consultation Paper Overview
5. Next Steps
6. Question and Answer

Introduction

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 transparent process for considering changes and provide appropriate time for transition



Why Review the Credit Union Capital Framework?

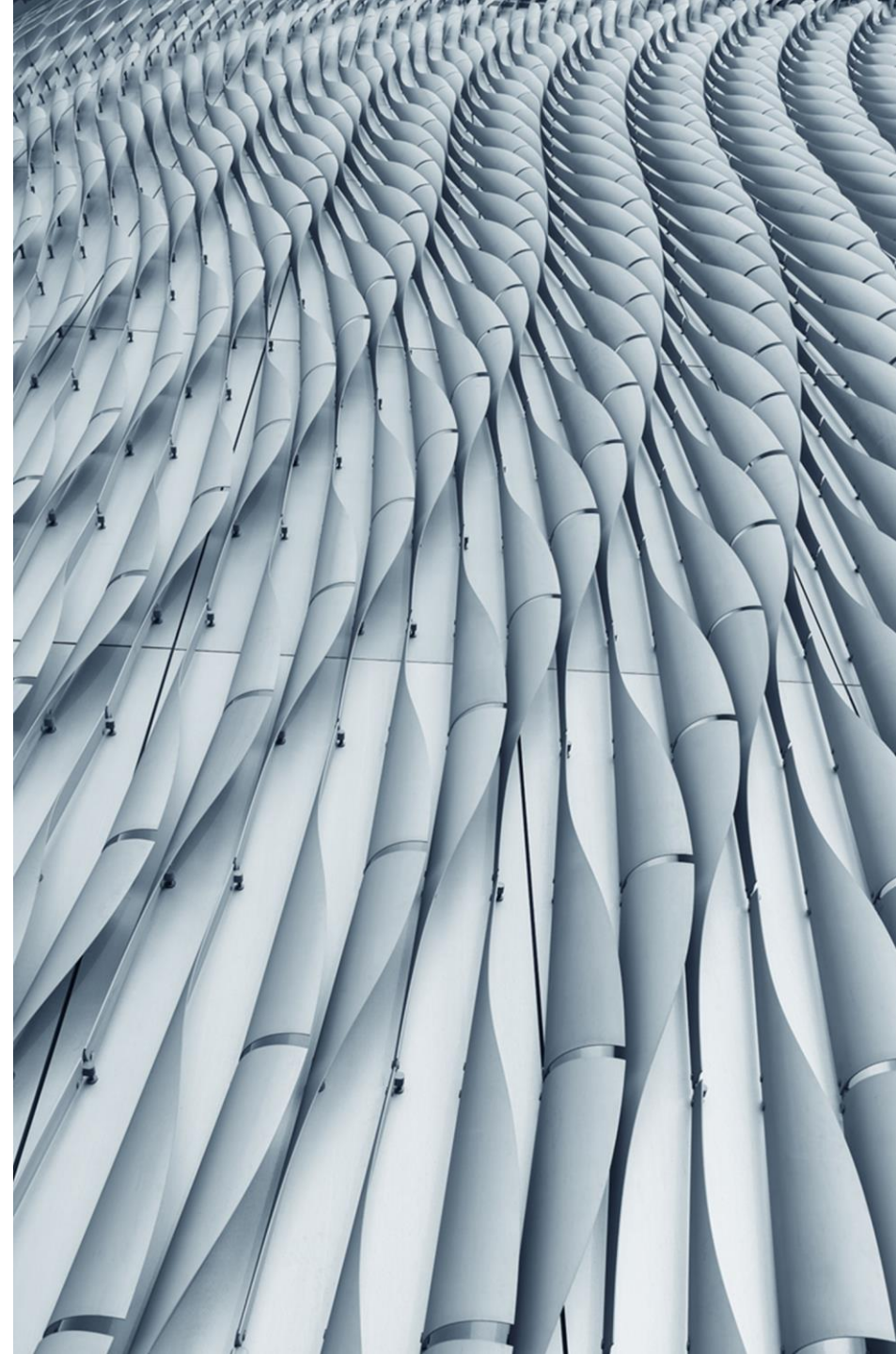
- Since the introduction of the current Capital Requirements Regulation (“CRR”) in 1990, the macro-economic market in which our credit unions operate has changed dramatically –
 - Globalization
 - Complexity of products and services
 - Consolidation within the segment
 - Competitive pressures
 - Volatility in risk drivers



Why Review the Credit Union Capital Framework?

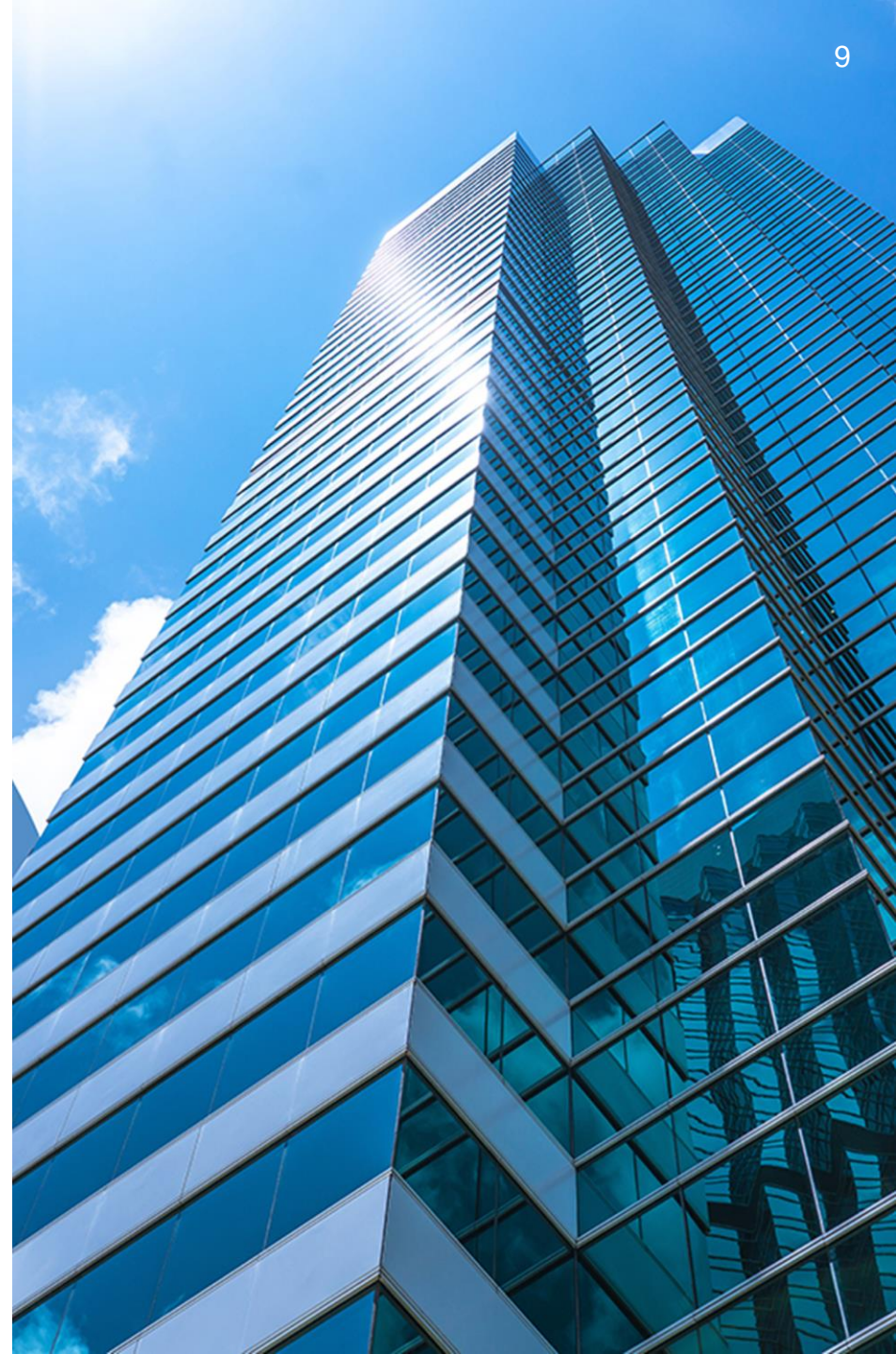
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- Operating in this evolving environment, B.C. credit unions face shifting risks which the current framework does not adequately address
- To fulfill BCFSA's mandate to be a modern, effective regulator, we too must evolve to ensure capital adequacy requirements for credit unions continue to capture underlying risks, while ensuring the overall safety and soundness, sustainability and stability of the credit union segment in B.C.



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 segment
- The modernized framework will enhance the loss-absorbing capacity of B.C. credit unions and promote the adoption of stronger risk management practices by B.C. credit unions
- The ultimate outcome is expected to be a new Rule, replacing portions of the existing Capital Requirements Regulation for credit unions



BCFSA's Approach

- The proposed revisions are intended to:
 - raise both the quality and quantity of regulatory capital; and
 - enhance the risk coverage of the capital framework drawing on some elements of the Basel III framework, international standards, and best practices across other Canadian credit union jurisdictions
- Fundamental to the proposed revisions is the acknowledgement of the significant differences in the nature, structure, size, scope, and complexity between banks and the B.C. credit union segment



BCFSA's Approach (continued)

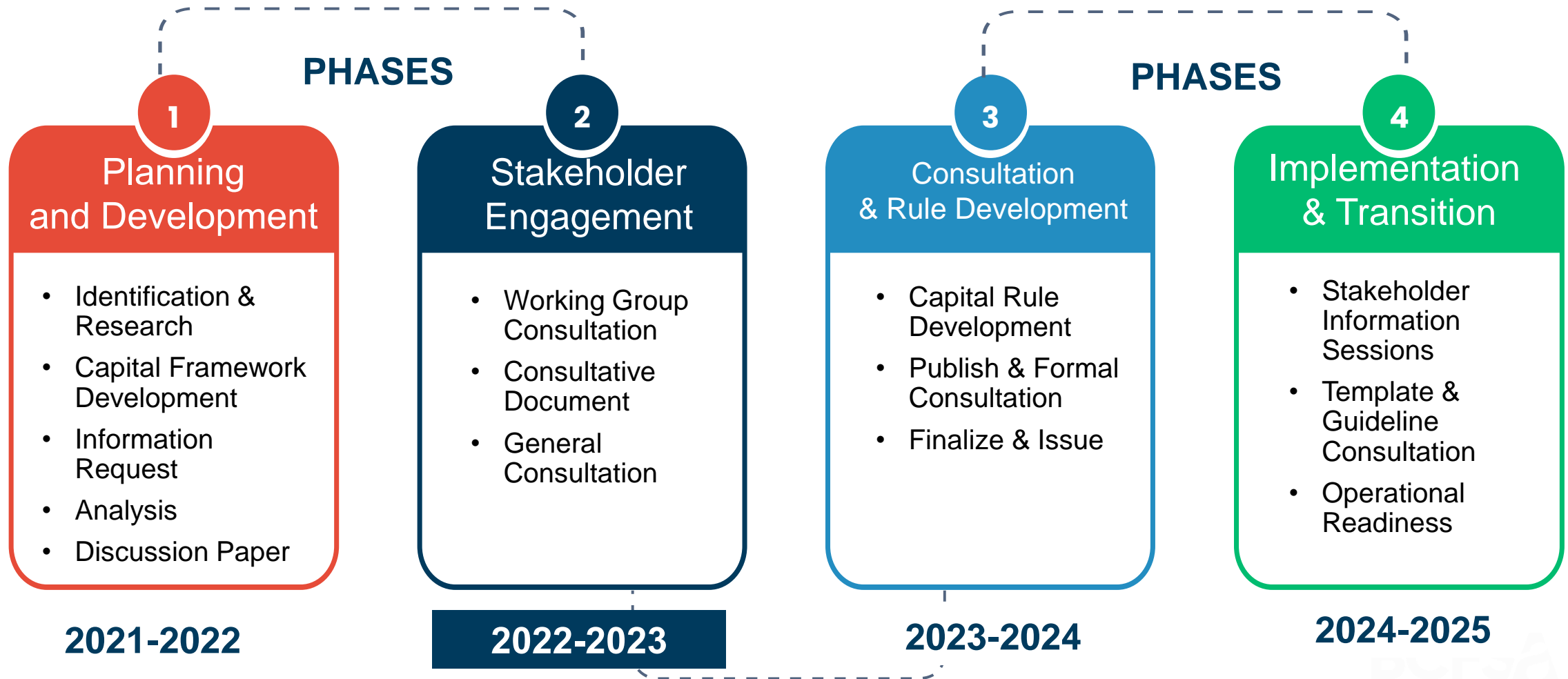
- Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09, aimed at strengthening both regulation, supervision, and risk management practices of financial institutions (“FIs”)
- Using these as guidelines, together with work done by OSFI, FSRA and other Canadian regulators, BCFSA has developed a custom-made capital framework proposal designed to work for the credit unions
- BCFSA is proposing a “made-for-B.C.” approach to capital adequacy of the credit union segment

The "made-for-B.C." approach is based on Basel III and tailored to the B.C. credit union segment

Project Overview

Project Overview and Timeline

Capital Rule effective Jan 1, 2026



Consultation Approach

Consultation Approach

Working Group (Nov 2022 to May 2023)

Consultation (July 25 to October 23, 2023)

Industry Information Sessions (September 2023)

Rule-Making Consultation (Spring 2024)

Template and Guideline Consultation (Spring 2025)

Information Sessions (2025 as needed)



Consultation Timeline



Consultation Feedback

WHERE TO FIND INFORMATION

- Information is available on BCFSA website (www.bcfsa.ca)
- Search Capital Modernization Project

HOW TO SUBMIT FEEDBACK AND RESPONSES

- Feedback and responses can be submitted through the online Consultation Feedback Form until October 23, 2023
- Please refer to the Advisory posted on July 25, 2023 for the form



Consultation Paper Overview

Key Elements

The proposed revisions include changes to:

- Current definitions
- Minimum capital requirements
- Adoption of consolidated reporting
- Inclusion of operational risk
- Leverage ratio requirements

Key elements also include:

- Definition of Tier 1 and Tier 2 capital
- Refinement of credit risk weights – reflective of the credit union segment business model
- Introduction of a capital conservation buffer
- Increase in the total minimum capital requirements with buffer
- Introduction of B.C. tailored lending categories
- Consideration of capital adjustments
- Capture of Operational Risk in the total capital calculation
- Deferring inclusion of market risk

Contents of Consultation Paper

1. Raise the quality and consistency of capital (Section 1)
2. Strengthen risk coverage of the capital framework:
 - credit risk (Section 2.1)
 - operational risk (Section 2.2)
 - market risk (Section 2.3)
3. Promote the build-up of the capital buffers (Section 3)
4. Adopt an internationally harmonized leverage ratio (Section 4)
5. Transitional arrangements (Section 5)
6. Consultation questions (Section 6)
7. Appendices (A, B, C & D)



Topics of Interest to B.C. Credit Unions

- Share classification
- Contributed surplus
- Accumulated Other Comprehensive Income
- Capital buffer
- Amortization 30 years to reflect B.C. market
- Clarification on securitizations
- Operational risk & market risk
- Removal of system capital and concentration risk adjustments
- Transitional arrangements



Next Steps

SEPTEMBER INFORMATION SESSION SERIES

Session 2: Capital Overview

Thursday, Sept 7, 2023, 1 – 3 pm PST

Please submit your questions in the Ask Us form by August 30

Session 3: Capital Buffers, Operational Risk, Leverage Ratio & Market Risk Overview

Thursday, Sept 14, 2023, 1 – 3 pm PST

Please submit your questions in the Ask Us form by September 6

Session 4: Credit Risk Overview

Thursday, Sept 21, 2023, 1 – 3 pm PST

Please submit your questions in the Ask Us form by September 13

Questions?

Contact: CUCapital@bcfsa.ca



Thank you.

