

FINANCIAL INSTITUTIONS COMMISSION

Credit Union Supervision in British Columbia - Released March 2014

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Initial PAC Meeting - September 30, 2014

1st Action Plan Update - September 18, 2015

2nd Action Plan Update – October 5, 2016

Rec. #	OAG Recommendations	Action Planned	Target Date	Assessment of Progress by Entity	Action Taken
1.	Ensure that in its review of the Financial Institutions Act (FIA) and the Credit Union Incorporation Act (CUIA), it also review the standards set out in the Core Principles for Effective Banking Supervision and the Core Principles for Effective Deposit Insurance Systems.	NA	NA	Fully or substantially implemented	<p><u>2015 Report:</u></p> <p>The Ministry of Finance launched its formal review of the FIA and the CUIA in November 2014 with a series of initial stakeholder consultation meetings. These meetings were followed by the release of a public consultation paper on June 2, 2014. The paper highlights that one of the objectives of the legislative and regulatory framework is to “reflect international standards, while respecting the particular needs and circumstances of BC’s financial sector and taking into account the nature, structure, size, scope and complexity of institutions.” The paper poses a number of questions (generally and more specifically in relation to deposit insurance, capital requirements and liquidity requirements) about the application of national and international standards. The Ministry will be consulting stakeholders on this and other key policy questions throughout the review.</p> <p><u>2016 Update:</u></p> <p>The review of the legislation is underway, and the core principles referred to in the recommendation have been included in the public consultation paper, so this recommendation has been fully/substantially implemented.</p> <p>One of the key objectives of the review is to reflect international standards (core principles) while respecting the particular needs and circumstances of BC’s financial sector and taking into account the nature, structure, size, scope and complexity of institutions.</p>

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					<p>It is also important to note, however, that consideration of international standards is only one component of the review. Input from stakeholders – such as credit unions, insurers and intermediaries, trust companies, members of the public and other interested parties – is also an important component of the FIA Review.</p> <p>Both international standards and stakeholder input – along with independent staff research, practices of other jurisdictions, and the other principles and objectives set out in the consultation paper – will inform the analysis of review issues and development of policy options that is currently underway by Ministry staff.</p>
2.	<p>Work with FICOM to find ways to enable it to hire and retain the staff it requires to fulfill its mandate.</p>	<p>The Ministry of Finance, FICOM and the PSA are currently undergoing a detailed status review. Early indications are that progress has been made on a number of fronts; however, recruitment and retention remain a challenge in some key areas. Additional options are currently under review and the Ministry will continue to work with FICOM and the PSA to identify options within the approved human resource policies of government.</p>	<p>October 31, 2015</p>	<p>Partially implemented and additional action being taken</p>	<p><u>2015 Report:</u></p> <p>The Ministry of Finance referred FICOM to the Public Service Agency (PSA) for support in developing a comprehensive strategy to address its staffing shortages. PSA recommended FICOM retain an external consultant to conduct an in-depth review and make recommendations. The consultant’s report was completed in May 2014 and included 32 recommendations covering changes to training, hiring practices, performance management, organizational structure, and compensation. The PSA and FICOM then worked together on an implementation plan for the recommendations, supported by dedicated resources from the PSA in specialized areas such as hiring strategies.</p> <p>As of September 1, 2015, FICOM and PSA reported the following progress: 19 of the recommendations have been fully or substantially implemented; 9 of the recommendations are in progress or on-going; and 4 of the recommendations were deferred.</p> <p><u>2016 Update:</u></p> <p>The Ministry of Finance and the Public Service Agency continue to work with FICOM to recruit top talent. Demand for financial and regulatory skills is currently very high, making it a challenging environment for all financial regulators to recruit and retain staff.</p>

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					<p>As of August, 2016: 24 of the consultant’s recommendations have been fully or substantially implemented and 8 are in progress.</p> <p>In December 2015, a more competitive compensation plan was implemented for three Deputy Superintendent roles, increasing the position’s maximum salary rate from \$116K to \$140K. In turn, maximum salary rates for subordinate positions within the Credit Union Supervision team have been modestly increased (within the existing public service compensation system). As of August 2016, this updated salary structure has not improved FICOM’s ability to hire and retain the staff it requires to fulfil its mandate.</p> <p>The province is also giving public sector employers additional flexibility to manage compensation within their existing budgets. A modest and measured increase in flexibility will help employers begin to address demonstrated cases of compression, inversion or retention for excluded management employees, including at FICOM.</p>
3.	<p>Improve key supervisory areas of its Financial Institutions Division by recruiting staff with the required expertise and competencies.</p>	<p>See recommendation #2 above.</p> <p>FICOM is actively working with the PSA and the Ministry on identifying additional options, within government’s human resource policies, to improve recruitment in key areas.</p>	TBD	Partially implemented and additional action being taken	<p><u>2015 Report:</u></p> <p>See recommendation #2 above.</p> <p>FICOM worked closely with PSA over the past year and has implemented most recommendations. Many of these recommendations have brought operational improvements and value to FICOM. However, the hiring environment that FICOM is competing in remains very competitive and recruitment challenges persist in some key areas.</p> <p><u>2016 Update:</u></p> <p>Throughout much of 2015 and into 2016 FICOM has been developing a competency matrix system that more clearly identifies the specific expertise and competencies required to deliver within key supervisory areas. Currently position-specific competency matrices have been built for 95% of FICOM’s positions. This competency system better enables FICOM leaders to hire, performance manage, and provide targeted training to supervisory employees.</p>

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					<p>We continue to use contracted resources for targeted onsite review activities. When appropriate, we team these subject matter experts with an internal staff member to mentor and train.</p>
4.	<p>Implement policies and processes to ensure consistent documentation by staff when determining composite risk ratings.</p>	<p>Next steps are to improve processes and Quality Assurance (QA) for contracted examination work to ensure standards are consistent with those applied on reviews conducted by FICOM staff for the analysis and documentation supporting CRR recommendations. FICOM has been working with an out-sourced model for supervisory examinations for a full year now and has identified a range of improvements necessary to ensure consistency and quality. Those improvements are being worked on now.</p>	NA	Fully or substantially implemented	<p>FICOM has strengthened the Quality Assurance (QA) process used to set and adjust Composite Risk Ratings (CRR) for all regulated entities, including credit unions. Documentation supporting a CRR is reviewed at a minimum of three stages including by the Director in charge of the examination process, a subsequent Peer/Panel Review process and then by the Executive Director of Supervision. A fourth review and sign-off is required by the Superintendent where a CRR is being adjusted upward or downward.</p> <p>2016 Update:</p> <p>The panel review process (internal) continues to be applied and evolved. At the planning stage, additional review now takes place to ensure resource allocation is appropriate.</p> <p>There has been a consolidation of operating manuals and refinement of practices and processes. This has improved consistency and enhanced knowledge transfer effectiveness.</p>
5.	<p>Document the work processes to be used in supervising smaller credit unions.</p>	<p>FICOM is currently evaluating its overall approach to supervising small institutions to ensure supervisory resources that are currently constrained are applied to core areas of FICOM's mandate using a</p>	November 2016	Partially implemented and additional action being taken	<p>2015 Report:</p> <p>FICOM's work on documenting and scaling supervisory activities and ensuring standards and guidelines are applied proportionally to the range of institutions it supervises is continuous.</p>

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		risk-based approach.			<p><u>2016 Update:</u></p> <p>A risk based analysis was conducted to sort financial institutions into three categories; Large (4), Mid-sized (6), and Small - Pooled (27). This allows smaller (pooled) financial institutions to receive targeted risk reviews, versus full onsite reviews, thus providing increased oversight where needed.</p> <p>Due to limited resources early intervention activities are limited. Only high level reviews of each category are conducted and financial institutions with potential solvency issues are identified. From these reviews monitoring frequency is adjusted and onsite review/follow-up is only conducted if high risk concerns are identified.</p> <p>Results are documented and reporting is provided monthly and quarterly.</p> <p>Practice customization has taken place to address the differences in small sized institutions:</p> <ul style="list-style-type: none"> • Documentation is limited to a single Risk Assessment Document • Reviews are limited in scope • Enhanced early warning system was developed to provide risk based monitoring • Monitoring cycles are varied based on major risk factors associated with the institutions <p>KEWI visual.</p>
6.	Establish policies and guidance for determining an appropriate target size for the deposit insurance fund.	NA	NA	Fully or substantially implemented	<p><u>2015 Report:</u></p> <p>The Commission approved a revised target fund size and accompanying funding policies at its October 2014 meeting. The revised policies are posted on FICOM's website.</p>

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					<p><u>2016 Update:</u></p> <p>The Fund Target Policy requires the Commission to review the fund target range every four years and the fund target point within the fund target range and the funding timeline annually.</p> <p>The Policy requires the fund target review incorporate principles and best International Association of Deposit Insurers (IADI) and Credit Union Prudential Supervisors Association (CUPSA) guidelines.</p>
7.	Implement the guidance on target fund size being prepared by the International Association of Deposit Insurers, once it is available.	NA	NA	Fully or substantially implemented	<p><u>2015 Report:</u></p> <p>The IADI principles were fully Incorporated into the policies approved by the Commission at its October 2014 meeting.</p> <p><u>2016 Update:</u></p> <p>FICOM continues to monitor IADI principles and guidance and will incorporate updates in the fund target review.</p>
8.	Annually review and, if needed, adjust the deposit insurance target fund size to ensure it remains sufficient for its purpose.	The first annual review will take place in November 2015. Under the policies approved by the Commission in 2014, and consistent with IADI standards, the review will consider any changes to the operating environment for insured credit unions and FICOM's capacity to undertake supervisory	November 2015	Partially implemented and additional action being taken	<p><u>2015 Report:</u></p> <p>Policies approved by the Commission at its October 2014 meeting include the requirement for an annual review.</p> <p><u>2016 Update:</u></p> <p>The annual review was completed in March 2016 with changes approved by the Commission to the fund target point and funding timeline.</p>

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		activities in a timely way and in a manner consistent with best practices.			
9.	<p>Ensure that the joint FICOM and Ministry of Finance group finishes the operational plan for payments to insured depositors by an agreed-to date, and ensure that the plan includes:</p> <ul style="list-style-type: none"> • operating protocols; • a target timeframe for reimbursing depositors; and • formal funding mechanisms including back-up funding options. 	<p>The vacant position of Executive Director and CFO, Deposit Insurance was recently filled (July 2015). FICOM intends to re-convene the joint working group in early 2016.</p>	2017	No (minimal) action taken.	<p>2015 Report: Progress has been slow / delayed due to resource constraints; however, some technical work was initiated with credit unions on data requirements that will be necessary to develop and execute a pay-out plan.</p> <p>2016 Update: The Commission formed a sub-committee to oversee and direct staff to set high priority on development of the operational plan to initiate a deposit insurance pay-out. Additional resources are being acquired to complete the required work. The Commission will be provided a plan on how this work will be undertaken at its next meeting. The Joint Working Group between the Province and FICOM will be re-engaged in latter 2016.</p>
10	<p>Establish a policy for reviewing the operational plan for payments to insured depositors on a regular basis once it has been prepared, and for updating the plan as needed.</p>	<p>Pending completion of Recommendation 9.</p>	2017	No action taken	No activity/progress to report.
11	<p>Inform the public of the reimbursement process, explaining how, when and where depositors may file claims and receive reimbursements in the event of a credit union failure.</p>	<p>Pending completion of Recommendation 9.</p>	2017/2018	No action taken	No activity/progress to report.

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Prepared by: the Financial Institutions Commission and the Ministry of Finance