World Council of Credit Unions

February 2, 2018

<u>Filed Via E-mail: fsb@fsb.org</u>

Mark Carney
Chair
Financial Stability Board
Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Comments on Consultative Document: Funding Strategy Elements of an Implementable Resolution Plan

Dear Sir/Madam:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Financial Stability Board's (FSB) Consultative Document: Funding Strategy Elements of an Implementable Resolution Plan.[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 60,000 credit unions in 109 countries with USD 1.8 trillion in total assets serving 223 million physical person members.[2]

Applicability to Community-based Cooperative Depository Institutions:

World Council generally supports the additional guidance on the development of an implementable resolution plan to support the on-going work of authorities to implement resolution strategies. Our main concern with the guidance stems from the nature of World Council's members that are community-based cooperative depository institutions and are <u>not</u> systemically important on a global or domestic level. Applying rules designed for Global-Systemically Important Banks (G-SIBs) to community based institutions would not be consistent with the principle of proportionality in regulation.

[1] Financial Stability Board, Consultative Document: Funding Strategy Elements of an Implementable Resolution Plan (Nov. 2017), *available at* *http://www.fsb.org/2017/11/funding-strategy-elements-of-an-implementable-resolution-plan/*.
[2] World Council of Credit Unions, *2015 Statistical Report* (2016), *available at* https://www.woccu.org/documents/2015_Statistical_Report_WOCCU.

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National authorities, however, in some cases may apply FSB standards designed for G-SIBs to financial cooperatives that are considered large compared to other credit unions in that jurisdiction even if they are neither G-SIBs nor Domestic-Systemically Important Banks (D-SIBs). This is particularly true in jurisdictions that contain institutions that are of large size compared to other local credit unions or where the credit union is of large size relative to the capitalization of the local deposit insurance fund or stabilization fund for credit unions.

As credit unions are not generally regarded as G-SIBs and typically have much less risky and less complex operations than commercial banks, applying these standards can be problematic for credit unions as the costs and regulatory burden associated with such analysis can far outweigh any oversight benefit.

In the United States of America, for example, National Credit Union Administration (NCUA) regulations require all credit unions with more than US $10 billion in assets to undergo stress testing based on the agency's finding that these credit unions "pose the greatest risk to the [National Credit Union] Share Insurance Fund," the savings guarantee fund for US credit unions.[3] We note however that the NCUA is in the process of amending this threshold to a tiered approach providing relief from the stress testing requirements to those under US $20 billion in assets.[4] Of note in the rulemaking is NCUA's acknowledgement that "it is appropriate to differentiate the capital planning requirements applicable to such institutions based on their individual characteristics" such as size, complexity and financial condition as well as the credit union's ability to support sound capital planning and supervisory stress testing expectations.[5]

Similarly, Canada has limited the scope of its bail-in rules to D-SIBs, none of which are community based cooperative depository institutions. [6]

Accordingly, we request that the guidance to clarify that any adoption of these standards for community-based cooperative depository institutions that are <u>not</u> systemically important on a global or domestic level, be tailored appropriately and proportionally based on the size, complexity and financial condition of the institution.

[3] Capital Planning and Stress Testing, 79 Fed. Reg. 24311, 24312 (Apr. 30, 2014), *available at* http://www.gpo.gov/fdsys/pkg/FR-2014-04-30/pdf/2014-09814.pdf.

[4] Capital Planning and Supervisory Stress Testing, Proposed rule, 82 Fed. Reg. 50094 (October 30, 2017), *available at* https://www.ncua.gov/regulation-supervision/Documents/Regulations/proposed-rule-capital-planning-stress-testing-2017-oct.pdf.

[5] *Id.* at 50095.

[6] **:** The Canadian government finalized its bail-in framework in 2017 (*see* https://www.fin.gc.ca/n17/data/17-057_1-eng.asp

Temporary Public Sector Backstop Funding Mechanisms:

We support the guidance implementing the Guiding Principle that suggests establishing an effective temporary public sector backstop funding mechanism. We are concerned that the characterization of "temporary" may not reflect that the resolution of issues related to a crisis may require a substantial amount of time.

To that end we would point to the United States where the NCUA established the Temporary Corporate Credit Union Stabilization fund in May 2009 to account for losses from five failed corporate credit unions and account for the costs of the Corporate System Resolution Program that provided short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset backed securities, and corporate bonds (Legacy Assets)[7]. While set up as a "temporary" fund, the closing of this fund will not occur until 2021[8], some 12 years after the financial crisis. This program proved to be quite successful in assisting the system to absorb the costs of the failed corporate credit unions during the economic crisis.

What is also noteworthy is the Corporate System Resolution Program did not bail out corporate credit unions. Instead resolution costs where funded through the Stabilization Fund from two primary sources: The Stabilization Fund assessments paid by insured credit unions and borrowings on the NCUA's line of credit with the U.S. Treasury. This model could prove to be instructive to other jurisdictions in planning for temporary public sector backstop funding mechanisms.

Information Sharing and Coordination Between Authorities:

WOCCU agrees with the importance of Information Sharing and Coordination between authorities for the purposes of providing resolutions on a cross-border basis. The guidance should stress that engagement with other jurisdictions on a regular basis for the purposes of planning a developing policies and procedures are essential to an effective program. This should also be transparent, to the extent

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[7] Information on the Temporary Corporate Stabilization Fund can be viewed at: https://www.ncua.gov/regulation-supervision/Pages/stabilization-fund-closure.aspx. Also *see* US National Credit Union Administration, "Corporate Stabilization Fund Implementation", Letter to Credit Union 09-CU-14 (June 2009), available at https://www.ncua.gov/Resources/Documents/LCU2009-14.pdf.

[8] Public Law 111-22, *Helping Families Save Their Homes Act of 2009 (Helping Families Act), signed into law by President Obama on May 20, 2009* created the Stabilization Fund. The Act specifies that the Stabilization Fund will terminate 90 days after the seven-year anniversary of its first borrowing from the U.S. Treasury. 12 U.S.C. § 1790e(h). The first borrowing occurred on June 25, 2009, making the original closing date September 27, 2016. However, the Act provided the NCUA Board, with the concurrence of the Secretary of the U.S. Treasury, authority to extend the closing date of the Stabilization Fund. In June 2010, the NCUA Board voted to extend the life of the Stabilization Fund and on September 24, 2010, NCUA received concurrence from the Secretary of the U.S. Treasury to extend the closing date to June 30, 2021.

possible, to the regulated industry which will allow them to more fully develop their resolution plans.

In particular the Bank of England's Approach to Resolution[9] is instructive in this regard. Further, we believe reference to the establishment of resolution colleges,[10] including reference to the Basel Committees Principles for Effective Supervisory Colleges[11] should be referenced.

Firm Assets and Private Sources of Resolution Funding:

When considering private sources of resolution funding, the concept of risk-sharing through mutual support systems is a feature common to community-based cooperative depository institutions. Cross-guarantee schemes or protection schemes may vary from country to country but generally are designed to provide protection to a network of institutions. Many of these have been successful in preventing failures and can allow an institution to be recapitalized or restructured prior to failure.

We appreciate the opportunity to comment on this Consultative Document. Should you have any questions or require any further information, please feel free to contact me at aprice@woccu.org or +1-202-508-6776.

Sincerely,

Andrew T. Price
Regulatory Counsel
World Council of Credit Unions

[9] Bank of England's Approach to Resolution (October 2017) *available at* https://www.bankofengland.co.uk/-/media/boe/files/financial-stability/resolution/boes-approach-to-resolution.pdf?la=en&hash=8213BE00D67C4CADB948D51FEBD164E136A70BE6

[10] *See* EBA (2015b), 'EBA Final draft Regulatory Technical Standards on resolution colleges under Article 88(7) of Directive 2014/59/EU', EBA/RTS/2015/03.

[11] Basel Committee Principles for Effective Supervisory Colleges (June 2014) *available at* https://www.bis.org/publ/bcbs287.pdf.