October 5, 2023

Submitted electronically

Neil Esho, Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Core Principles for Effective Banking Supervision

Dear Secretary Esho:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Basel Committee on Banking Supervision's (Basel Committee) **Core Principles for Effective Banking Supervision** (Core Principles).[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 87,000 credit unions in 118 countries with USD 3.4 trillion in total assets serving 393 million physical person members.[2]

World Council supports the Basel Committee's objective to update the Core Principles in accordance with supervisory and regulatory developments, structural changes affecting the banking system, and best practices learned over the last decade. Basel Committee's ongoing efforts to adapt the Core Principles to the evolving market environment and its related risks, is commendable. We support the Committee's updates to the Core Principles, which prove consistent with our desire to promote safety and soundness among our member institutions. Our comments support World Council's objective to enhance language regarding proportionality and further increase opportunities to strengthen supervisory systems through collaboration between international and national-level regulatory bodies.

Proportionality

World Council strongly supports the Basil Committee's inclusion of proportionality in the revised "Introduction to the Core Principles". Section 2.9 *Proportionality* is a welcome addition that reflects the best practice learnings since the last revision of the Core Principles released in 2012.

Our organization represents credit unions working in 118 countries, all with different operating environments and unique local financial service needs. We recognize it is challenging for

[1] *See* Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision *available at*: https://www.bis.org/bcbs/publ/d551.pdf.
[2] World Council of Credit Unions, *2021 Statistical Report* (2022), *available at*: https://www.woccu.org/about/statreport.

regulatory bodies to adapt international standards, designed to account for the risks of large banks operating across borders, for not-for-profit member owned local credit unions. Credit unions do not present a significant risk to the overall financial system but play a critical role in reaching underserved communities and promoting financial inclusion. Our first-hand experience with a wide range of regulatory environments confirms the effect proportionality has on the availability of safe and reliable financial services in a local community. Insisting that rules and supervision practices are consistent with risk profiles and individual financial systems is a key message needed throughout the Core Principles to ensure safely run credit unions are sustainable. World Council is requesting the Basil Committee include more specific language regarding proportionality in the description of Principle 16 (Capital Adequacy) and Principle 24 (Liquidity Risk). Proportionality is needed in both the early Principles concerning powers and responsibilities of supervisors as well as the later Principles concerning prudential regulations and requirements for financial institutions.

Many important documents produced by the Basel Committee on other subjects such as *Frameworks for early supervisory intervention* and *Sound Practices: implications of fintech developments for banks and bank supervisors*, were added as reference material in many different individual Principles. While these are important reference materials World Council notes the Basel Committee's information on proportionality is equally as important to include. At a minimum World Council requests the Basel Committee's High-Level Considerations on Proportionality[3] also be added to the reference material in Principle 8 (Supervisory Approach), Principle 9 (Supervisory Techniques and Tools), Principle 16 (Capital Adequacy), and Principle 24 (Liquidity Risk). Communicating the intent and necessity for proportionality explicitly within the Core Principles is critical to support national-level regulators in their individual supervisory frameworks for smaller financial institutions such as credit unions.

<u>Collaboration and Communication</u>

World Council appreciates the additional modifications to Principle 2 (Independence, Accountability, Resourcing and Legal Protection for Supervisors) to ensure supervisors engage in regular and publicly available communications. Publicizing supervisory priorities is helpful to strengthen a financial institution's understanding of supervisory expectations. While communication between the supervising authority and financial services industry is important, World Council also urges the international standard setting bodies to work closely with national-level supervisors on the implementation of proportionality. Guidance with practical examples of proportional application of stated requirements, as contained in the *High-Level Considerations on Proportionality,* are critically important for those institutions that do not represent systemic risk.

There is an opportunity to improve the application of Core Principles within national supervisory systems. World Council urges international standard setters to open a dialogue with national supervisors as they are adapting their individual systems and applying international standards. Communication is beneficial to the proportional tailoring of national and sector relevant supervisory systems. World Council requests the Basel Committee reference the opportunity for collaboration and communication with national-level supervisors within the Core Principles.

---

[3] *See* Basel Committee on Banking Supervision's High-Level Considerations on Proportionality, July 2022, *available at* https://www.bis.org/bcbs/publ/d534.pdf

World Council recognizes the Basel Committee's continued efforts to provide clarity and context to support the proportional application of international regulatory standards at a national level. We encourage the Basel Committee to build on their existing work by expressly detailing the application of proportionality to specific Principles as described in this letter and consider future collaboration with national-level supervisors.

Correspondent Banking

Principle 29 addresses abuse of financial services and in particular the use of correspondent banking. We appreciate the Basel Committee's recognition of the guidance issued by the Financial Action Task Force (FATF) and the various efforts undertaken to address the continuing decline in the number of correspondent banks. For credit unions this often means less access to correspondent banks, which prevent access to payments systems, access to liquidity and ultimately a denial of services to their members. Credit unions are often "de-risked" with AML/CFT requirements used as a pretext for declining services. We urge the Basel Committee to update Principle 29 as FATF continues its important work to address this issue. From a supervisory perspective we urge national-level supervisors to ensure legitimate financial institutions are not improperly denied access to correspondent banks.

FATF has recognized that de-risking can affect access to financial services, therefore expanding obstacles related to financial inclusion. This remains a concern for many of our credit unions who are often challenged to establish relationships to provide effective banking solutions, often to underserved populations. Many of the issues arise out of anti-money laundering/countering the financing of terrorism (AML/CFT) regulations, specifically the lack of proportional application of these provisions, but also from the corresponding burden associated with many of the post-crisis regulatory reforms.

Further, financial institutions involved in de-risking oftentimes struggle with determining responsibility under AML/CFT requirements. Due to the fact that credit unions are member-owned financial cooperatives, banks often believe they are responsible for conducting due diligence on all credit union members. FATF has made it clear that due diligence is only necessary for credit unions board members, however, banks are often concerned that they may still incur some risk and elect to forego doing business with credit unions. Additionally, the ability to conduct information sharing on a cross-border basis for AML/CFT purposes is sometimes difficult due to differing privacy standards in different countries or a lack of understanding of privacy regulations on a cross-border basis. This contributes to the unwillingness to serve smaller financial institutions. While Principle 29 rightly addresses abuse, it should also emphasize the need to address inappropriate de-risking.

Regulatory Burden

We note the inclusion of various guidance surrounding operational risk and operational resilience, climate, digitization, and stress testing, all of which will likely result in increased regulatory burden that will fall disproportionately on smaller, community-based financial institutions such as credit unions. We support updating the guidance in these areas as they include reference to the guidance which includes clear language on proportionality, but we urge further emphasis of this framework.

Credit unions are not-for-profit, member-owned cooperatives governed by a board of directors who usually serve on a voluntary basis without receiving any renumeration for time and resources dedicated to the credit union. Many credit unions have few staff and many rural credit unions are entirely run by volunteers. Credit unions often have limited financial and staff resources because of their relatively small size. As a whole they are much smaller than their banking counterparts and often do not have the same capital or resources available as larger banks. They further do not have the economies of scale to gain cost efficiencies comparable to their larger banking counterparts or have the bargaining power to help reduce costs of third-party vendors. However, their not-for-profit cooperative model often sees them serving markets where banks choose not to compete. Therefore, the increased regulatory burden may be the difference between serving or not serving an unbanked population. Emphasis on the proportionality on which the Core Principles are built is therefore critical.

World Council greatly appreciates the Basel Committee considering the comments submitted in this letter. Should you have any questions, please contact me at aprice@woccu.org or +1 850-766-5699.

Sincerely,

Andrew T. Price
Sr. Vice President of Advocacy/General Counsel
World Council of Credit Unions