

August 24, 2017  
File No.: 72000-01  
Ref. No.: 0836

Mr. Rick Hoevenaars  
Chair, Board of Directors  
Central 1 Credit Union

Ms. Marilyn Loewen Mauritz  
Interim President & CEO  
Central 1 Credit Union

Dear Mr. Hoevenaars and Ms. Mauritz:

**Re: Revised D-SIFI Requirements for Central 1 Credit Union as a Domestic Systemically Important Financial Institution**

The Financial Institutions Commission (FICOM) is issuing updated supervisory requirements for Central 1 Credit Union (Central 1) as part of Central 1's designation as a Domestic Systemically Important Financial Institution (D-SIFI). These requirements were established to provide prescriptive directives for the liquidity pools managed by Central 1. Appendix 1 outlines the updated D-SIFI requirements which will ease certain prescriptive capital, liquidity, and other risk management requirements effective August 16, 2017. Specific changes are summarized in Appendix 2.

In February 2014, FICOM identified Central 1 as a D-SIFI. *Notice CU-14-001* (Notice) outlined FICOM's criteria used for the identification, as well as the corresponding supervisory expectations. The Notice also states that "*the identification of Central 1 as a D-SIFI as well as regulatory and supervisory requirements will be periodically reviewed and updated as needed*".

Significant improvements have been made to the liquidity management within Central 1 and the broader credit union system. As such, FICOM will revisit the prescriptive requirements on an annual basis to determine the need for transitioning to broader principle based standards. Any future changes will be directly communicated to Central 1 and BC credit unions.

If you have any questions regarding this letter, please contact Mehrdad Rastan, Executive Director, Risk, Analytics & Reporting, at [Mehrdad.Rastan@ficombc.ca](mailto:Mehrdad.Rastan@ficombc.ca).

Sincerely,

A handwritten signature in blue ink that reads "Frank Chong". The signature is written in a cursive style with a large, sweeping initial "F".

Frank Chong  
A/Superintendent of Financial Institutions  
Financial Institutions Commission

Enclosures

cc: Board Chairs and CEOs of BC credit unions

## **Appendix 1: Supervisory Requirements for Central 1 Credit Union**

- 1. Target ratios and calculation methods for the capital held against the mandatory<sup>1</sup> liquidity pool and wholesale financial services (WFS) business line<sup>2</sup>. Central 1 will:**
  - a. Apply a borrowing multiple, as defined and calculated by the federal Office of the Superintendent of Financial Institutions (OSFI), to the mandatory liquidity pool and the WFS;
  - b. Maintain a borrowing multiple not exceeding 17:1 for the mandatory liquidity pool and not exceeding 15:1 for the WFS;
  - c. Submit a copy of the borrowing multiple calculations to FICOM no later than 30 days after each calendar quarter; and
  - d. Ensure that the borrowing multiples are not exceeded without the prior consent of FICOM.
  
- 2. Investment and lending policies for the mandatory liquidity pool. Central 1 will:**
  - a. Maintain high quality liquid assets within the mandatory liquidity pool that meet the current Bank of Canada Standing Liquidity Facility eligibility requirements, where:
    - i. assets are unencumbered<sup>3</sup>. This includes no commitments or pledging under normal (non-stressed) business conditions, except for the case of posting required collateral for plain vanilla interest rate swap transactions for the purpose of risk management;
    - ii. assets are not yield enhancing or speculative. This includes the prohibited use of derivatives, repurchase agreements and short selling, except for the use of plain vanilla interest rate swaps for the purpose of risk management.
  - b. Maintain an asset portfolio duration of no greater than 2 for the mandatory liquidity pool.
  
- 3. Capital management including ability to move excess capital from the mandatory liquidity pool to other business lines and the criteria for capital calls on Class A members. Central 1 will:**
  - a. Restrict transfer of capital from the mandatory liquidity pool to other business lines during normal (non-stressed) business conditions;
  - b. Establish and report a board approved Internal Capital Adequacy Assessment Process (ICAAP) and file the ICAAP report to FICOM at least annually; and
  - c. Establish and implement board approved policies for capital calls.
  
- 4. Central 1 will provide detailed monthly reporting on the following:**
  - a. Balance sheet (by line of business);
  - b. Investment portfolios;
  - c. Mandatory and WFS deposit information;
  - d. Borrowings (including debt securities issued, subordinated debt, repurchase agreements);
  - e. Loans and funding commitments; and
  - f. Pledged and encumbered assets.

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<sup>1</sup> Mandatory also refers to the statutory liquidity pool.

<sup>2</sup> The wholesale financial services business line was previously called the excess liquidity pool.

<sup>3</sup> Unencumbered assets are assets that are not pledged to secure or collateralize any transaction.

## **Appendix 2: Summary of Changes**

**Section 1(b):** borrowing multiple limits are amended from not exceeding 16:1 for the mandatory liquidity pool and not exceeding 14:1 for the wholesale financial services (WFS) business line (previously named excess liquidity pool, which funds part of the WFS business line) to not exceeding 17:1 for the mandatory liquidity pool and not exceeding 15:1 for the WFS;

**Section 2(a)(i) and (ii):** use of plain vanilla interest rate swaps is now permitted for the purpose of risk management;

**Section 2(b):** asset portfolio duration limit is amended from no greater than 1 to no greater than 2 for the mandatory liquidity pool;

**Section 2(c):** section is removed; and

**Section 3(b):** Central 1 is to establish and report on its Internal Capital Adequacy Assessment Process (ICAAP) based on the ICAAP standards that FICOM issued on March 16, 2016.

Note: The identification of Central 1 as a D-SIFI has not changed.