

Guide to Intervention

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BC CREDIT UNIONS



Financial
Institutions
Commission

Guide to Intervention – Credit Unions

(The guide should be read in conjunction with FICOM’s supervisory framework)

PURPOSE

The guide to intervention (guide) promotes awareness and enhances transparency of the intervention process used by the Financial Institutions Commission¹ (FICOM) to supervise credit unions. It outlines the types of involvement that a credit union can normally expect from FICOM and summarizes the circumstances under which certain supervisory actions may take place.

INTRODUCTION

In order to establish an effective risk-based supervision framework two key concepts must be addressed: risk assessment and intervention.

Risk Assessment

The supervisory framework is a resource that sets out the principles, concepts, and core processes that FICOM uses to guide its supervision of credit unions. It establishes a credit union’s risk profile and assigns a corresponding composite risk rating (CRR).

Intervention

The guide to intervention is a resource which sets out levels of intervention² commensurate with a credit union’s risk profile. It helps determine and organize supervisory actions, outlines clear timetables and identifies problems which pose a risk to depositors³.

A fundamental aspect of risk-based supervision is the relationship between the risk profile of a credit union and the nature of supervisory actions taken in response to that assessment. This relationship is outlined in FICOM’s response matrix.

FICOM’s RESPONSE MATRIX

The response matrix, shown below, is an alignment of the CRR and intervention stage ratings. The CRR and intervention stage ratings are provided to a credit union’s board of directors and senior management in FICOM’s supervisory letters.

Stage Rating	Composite Risk Rating (CRR)			
	Low	Moderate	Above Average	High
0				
1				
2				
3				
4				

¹ References to FICOM may include staff, the Superintendent and the Commission.

² Referred to as intervention stage ratings in FICOM’s response matrix.

³ References regarding risk to depositors includes risk posed to the deposit insurance fund.

INTERVENTION STAGES

This guide describes the risk profile for each stage rating and indicates supervisory actions that typically occur at any given stage. The intervention process is not fixed as circumstances may vary from case to case. It is not a rigid regime under which every situation is necessarily addressed with a predetermined set of actions. The guide aims to communicate at which stage an action would typically occur. However, the actions described at one stage are also used in later stages and, in some situations, certain actions may also take place at earlier stages than set out in the guide. Staging occurs at the discretion of the Superintendent or Commission.

The table below outlines risk profiles and typical supervisory actions for each stage rating:

<p>Stage 0 Normal</p>	<p>Risk Profile The credit union has a sound financial position and sufficient governance and risk control frameworks for its nature, scope, complexity and risk profile. Its practices do not indicate significant problems or control deficiencies. The credit union is not expected to fail or pose any undue loss to depositors in any foreseeable circumstance.</p> <p>Typical Supervisory Actions <i>Stage 0</i> actions may include:</p> <ul style="list-style-type: none"> • periodic on-site reviews; • monitoring of information received on a monthly, quarterly and/or annual basis; • providing the credit union with a supervisory letter; and • other supervisory activities as required or at the discretion of the supervision and specialist teams.
<p>Stage 1 Early Warning</p>	<p>Risk Profile A credit union categorized at this stage is not expected to fail or pose any immediate undue loss to depositors; however, there are aspects of its risk profile that may create vulnerabilities under adverse circumstances and as such requires more extensive oversight by FICOM.</p> <p>At stage 1, the credit union is expected to implement an improvement plan to rectify or address identified concerns and commit to reducing its stage rating. FICOM expects a credit union to return to stage 0 (normal) within the timeframes established by its improvement plan.</p> <p>Typical Supervisory Actions In addition to normal activities, <i>Stage 1</i> actions may include:</p> <ul style="list-style-type: none"> • more frequent and/or more targeted on-site reviews by supervision and specialist teams;

	<ul style="list-style-type: none"> • more frequent and detailed collection and analysis of data; • communicating concerns to directors, senior management and internal and external auditors; • requests for stress testing, revised business plans and risk appetites; • special examinations by external experts; and • establishing or issuing expectations under an undertaking or voluntary compliance agreement.
<p>Stage 2 Risk to Financial Viability or Solvency</p>	<p>Risk Profile Improvements are needed as the credit union’s business operations or circumstances potentially put depositors at risk. In this stage, these improvements will be mandated by FICOM. The credit union is unlikely to fail in the short-term but this expectation relies on FICOM’s view that supervisory intervention is necessary to help avert any failure.</p> <p>At stage 2, the credit union must address identified problems or implement improvements to quickly reduce its stage rating. The board and senior management must demonstrate a commitment to improvement by establishing urgent timelines. FICOM expects a credit union to reduce its stage rating within this timeframe.</p> <p>Typical Supervisory Actions In addition to activities in preceding stages, <i>Stage 2</i> actions may include:</p> <ul style="list-style-type: none"> • requiring recovery or restructuring plans; • revising business plans; • increasing capital; • issuing other orders; • placing the credit union under statutory supervision; • considering potential merger opportunities; • entering into an undertaking or voluntary compliance agreement; and • placing conditions or prohibitions on business authorization.

<p>Stage 3 Future Financial Viability and Solvency in Serious Doubt</p>	<p>Risk Profile The credit union has severe safety and stability concerns and is experiencing problems that are expected to pose an undue loss to depositors unless corrective measures are promptly undertaken. The credit union failed to remedy the issues identified in stage 2 and its situation is worsening.</p> <p>At stage 3, the credit union will be directed to immediately resolve issues or implement mandated improvements. FICOM expects immediate actions to reduce its stage rating.</p> <p>Typical Supervisory Actions In addition to activities in preceding stages, <i>Stage 3</i> actions may include:</p> <ul style="list-style-type: none"> • placing the credit union under administration; • winding down or merging; • sale of assets/branch closures; • requesting financial assistance from the Credit Union Deposit Insurance Corporation (CUDIC); and • preparing contingency plans.
<p>Stage 4 Non- viability / Insolvency Imminent</p>	<p>Risk Profile The credit union is experiencing severe financial difficulties and has deteriorated to such an extent that there is insufficient capital to protect depositors from undue losses.</p> <p>Typical Supervisory Actions In addition to activities in preceding stages, <i>Stage 4</i> actions may include:</p> <ul style="list-style-type: none"> • withdraw business authorization; • placing credit union into liquidation; and • deposit payout by CUDIC.



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