

January 24, 2018  
File No.: 71000-10  
Ref. No.: 0994

**To: CFOs/Finance Managers, BC Credit Unions**

**Re: Revised Financial & Statistical Return - Final**

On May 17, 2017, the Financial Institutions Commission (FICOM) published a draft of the Revised Financial & Statistical Return (FSR) template and completion guide. The comment period for the draft ended on July 14, 2017 and FICOM is now publishing the final version of the template and completion guide, which comes into effect on June 1, 2018.

FICOM received many submissions from stakeholders following the release of the draft. The Annex attached to this letter summarizes these submissions and FICOM's response. Thank you to everyone who provided comments.

The revised FSR template and completion guide, including the change control log are posted on FICOM's [website](#).

FICOM will continue to monitor emerging issues and developments in the credit union industry and may periodically revise the FSR template and completion guide to ensure that the return continues to capture appropriate information.

Questions regarding the FSR template and completion guide should be addressed to Tiffany Mak at [Tiffany.Mak@ficombc.ca](mailto:Tiffany.Mak@ficombc.ca) or 604 398-5175.

Sincerely,



Mehrdad Rastan  
Executive Director  
Risk, Analytics & Reporting  
Regulation

Enclosure

cc: CEOs/General Managers, BC Credit Unions

- 
- Superintendent of Financial Institutions
  - Superintendent of Pensions
  - Registrar of Mortgage Brokers

2800-555 West Hastings  
Vancouver, BC V6B 4N6  
Telephone: 604 660-3555  
Facsimile: 604 660-3365  
[www.fic.gov.bc.ca](http://www.fic.gov.bc.ca)

**Summary of Industry Comments and FICOM's Response on the  
Credit Union Financial & Statistical Return – 2017 Revision**  
Consultation period ended July 14, 2017

Industry Comments	FICOM's Response
<b>1. Monthly Financial &amp; Statistical Return Template</b>	
<p>Would it be possible to have an extra tab in the worksheet which links all line items from pages 1-5 so that the report can be uploaded to FICOM site?</p>	<p>FICOM has added extra tabs in the worksheet that links all pages in the monthly and quarterly returns. Revised macro-enabled Excel will be posted on <a href="https://ficbc.ca">https://ficbc.ca</a> in 2018.</p>
<b>2. Implementation Date &amp; Timing Challenges</b>	
<p>Estimates of impacts of IFRS 9 would be better supported after completion of 2017 year-end financial audit, expected completion date March 2018.</p> <p>As IFRS 9 is effective for fiscal year beginning on or after January 1, 2018, public reporting of information based on IFRS 9 (audited financial statements) will be available within 90 days of year-end. We propose changes in Allowance for Impairment be deferred until January 2019 because:</p> <ul style="list-style-type: none"> <li>- this would allow time for credit unions to implement and refine expected credit loss (ECL) model during 2018</li> <li>- beginning balances will be from 2018 year-end audited statements hence more accurate</li> </ul> <p>Alternatively, deferring implementation until June 2018 Monthly and Quarterly Financial &amp; Statistical Return (FSR) will provide more time for credit unions to develop and refine their ECL model, and credit unions are busy with year-end audit during January-March 2018.</p>	<p>FICOM understands that credit unions would require adequate lead time for a meaningful implementation. FICOM has deferred implementation of new FSR to June 2018.</p> <p>All credit unions will start submitting new FSR for June 2018, the first return is due July 20, 2018.</p> <p>For credit unions with September year-end, IFRS 9 is not effective until fiscal year October 2018-September 2019; IFRS 9 related fields may be left blank until October 2018 FSR.</p> <p>For credit unions with December year-end, IFRS 9 related fields should be completed in the new FSR effective June 2018.</p>
<b>3. IFRS 9 Disclosure Requirements</b>	
<p>New disclosure requirements may be challenging for some credit unions. We recommend that FICOM takes into account the different sizes and resources of all credit unions, and the nature and frequency of new disclosure requirements be reviewed prior to finalization.</p>	<p>Timely determination of whether there has been a “significant” increase in credit risk subsequent to initial recognition is crucial. Credit unions should have processes in place that enable them to determine this on a timely basis so that provision is transferred to lifetime expected credit loss as soon as</p>

Industry Comments	FICOM's Response
	<p>credit risk has increased significantly, in accordance with IFRS 9 impairment accounting requirements.</p> <p>Credit unions need to develop an appropriate methodology that fully recognizes IFRS 9 requirements for determining expected credit loss provisions based on their own circumstances and complexity of their loan portfolio.</p> <p>FICOM expects all credit unions to review allowance for impairment at least quarterly.</p>
<p><b>4. Impact to Regulatory Capital</b></p>	
<p>Changes including addition of assets from transition to IFRS 16 and separately reporting personal insured and commercial insured securitizations will affect regulatory capital. We recommend updated CAR guidance be made available for review and comment prior to finalizing proposed FSR.</p> <p>Addition of IFRS 16 right-of-use assets may have an impact on capital, FSR 2017 revision does not outline risk weighting for those assets.</p> <p>New lines for securitizations may also have an impact on capital.</p>	<p>Right-of-use assets (Lines 1335, 1365, 1409) have the same risk weighting as their respective assets. For example, Premises &amp; Equipment right-of-use assets (Line 1335) have the same risk weighting as Property &amp; Equipment of 1.0.</p> <p>New lines for securitizations (Lines 1284, 1286, 1298, 1299) have the below risk weighting:</p> <ul style="list-style-type: none"> <li>• Lines 1284 and 1286 (Securitizations: personal insured and commercial insured) are risk weighted 0</li> <li>• Line 1298 (Securitizations: Personal Non-Insured Leases) is risk weighted 0.75</li> <li>• Line 1299 (Securitizations: Commercial Non-Insured Leases) is risk weighted 1.0.</li> </ul> <p>CAR template and completion guide will be updated to include new lines for IFRS 16 and securitizations.</p> <p>FICOM will continue to monitor developments in the credit union industry and may periodically revise the FSR and CAR templates and completion guides.</p>
<p><b>5. Line 4550 – Service Location Number</b></p>	
<p>Define service location. Would a call centre that has interaction with members over the phone count as a service location?</p>	<p>FICOM has clarified definition of service location in the <a href="#">FSR Completion Guide</a>.</p> <p>A service location is a branch with an address, a stand-alone administrative office or ATM would not be considered a branch. Service location does not</p>

Industry Comments	FICOM's Response
	include a call centre that has interaction with members over the phone.
<p><b>6. Lines 6720 &amp; 6770 – Borrowing Facilities: Maximum Utilized</b></p>	
<p>Please provide intended use of this information. Deposit insurance premium assessment methodology is very important to the CU system and this disclosure may impact the assessment result.</p>	<p>FICOM is collecting this information to better understand credit unions' borrowings. Data collected is for internal use and will not be published.</p> <p>Borrowings disclosure requirements do not affect the deposit insurance premium assessment methodology.</p>
<p><b>7. Line 6350 – Internal Capital Target (ICT)</b></p>	
<p>What is the purpose of disclosing ICT? There is no reason for ICT if CU has to maintain capital ratio &gt;8%. What if credit unions do not have an ICT?</p> <p>Will this number be published on CAR for all credit unions to see?</p>	<p>FICOM stated in 2013 <a href="#">Internal Capital Target Guideline</a> that credit unions are expected to establish their own internal capital target. Each credit union is expected to establish an ICT. The internal target is used as a trigger for a credit union to take its own corrective action before capital erodes to the supervisory target. Credit unions should not rely on regulatory and supervisory target ratios alone.</p> <p>ICT is confidential and sensitive information, FICOM will not share this information with other credit unions.</p>
<p><b>8. Lines 4111 to 4246: Loans &amp; Leases in Arrears</b></p>	
<p>New cut-off time period differs by 1 day from current reporting. Consider amending the schedule to:</p> <p>1-29 30-59 60-89 90-179 180-364 &gt;364</p>	<p>FICOM is changing loans in arrears cut-off time periods to align with the <a href="#">Capital Requirements Regulation</a> of the <i>Financial Institutions Act</i>. Loans that are past due for more than 90 days have a higher risk weighting than loans that are past due for less than or equal to 90 days.</p>
<p><b>9. Lines 4430 to 4490: Unfunded Loans &amp; Leases</b></p>	
<p>Details for unfunded loans and leases are currently included in the annual supplemental information return. We recommend continuing to provide this information annually.</p>	<p>This FSR section is replacing the annual supplemental information return.</p>
<p><b>10. Lines 4600 to 4985: Allowance for Impairment – Loans &amp; Leases</b></p>	
<p>For most credit unions, ECL provision process will not occur monthly and will require significant ongoing effort and analysis. ECL provision will be monitored and adjusted throughout the year, but disclosure will be prepared annually as part of the year-end audit. We recommend this detail to be reported annually.</p>	<p>Please refer to comments in section 3 above. FICOM expects credit unions to report Allowance for Impairment at least quarterly. FICOM is moving the Allowance for Impairment – Loans &amp; Leases section to the quarterly FSR.</p>

Industry Comments	FICOM's Response
<p><b>11. Lines 6241 and 6244: AOCI – Fair Value Reserve</b></p>	
<p>Request for additional accumulated other comprehensive income (AOCI) information monthly is significant. We recommend this detail be reported annually to coincide with completion of audited financial statements.</p>	<p>FICOM expects credit unions to report AOCI at least quarterly. FICOM is moving the AOCI section to the quarterly FSR.</p>
<p><b>12. IFRS 16 Leases</b></p>	
<p>As IFRS 16 is effective for fiscal year beginning on or after January 1, 2019, we propose IFRS 16 changes be deferred until January 2019.</p>	<p>FICOM has clarified in the FSR Completion Guide that IFRS 16 is effective for annual periods beginning on or after January 1, 2019.</p> <p>For credit unions with September year-end, lines related to IFRS 16 may be left blank until October 2019.</p> <p>For credit unions with December year-end, lines related to IFRS 16 should be completed effective January 2019.</p>
<p><b>13. Quarterly Financial &amp; Statistical Return – Commercial Loan Risk Rating</b></p>	
<p>Commercial loans are risk rated 1 to 5 in the quarterly FSR. With new IFRS risk rating, we need to have more than 5 ratings (minimum 8, preferably 10). Is there any intent to change the rating system to be more in line with IFRS?</p>	<p>FICOM expects a disciplined, high quality approach to assessing and measuring expected credit loss. Some entities estimate credit losses as the product of probability of default and loss given default. IFRS 9 does not prescribe how credit losses are estimated. FICOM's commercial risk rating guideline (guideline) does not use probability of default as a risk factor. Please continue to use the guideline posted on <a href="https://ficbc.ca">https://ficbc.ca</a> to complete the quarterly FSR.</p>