December 12, 2012

Dear Stakeholder:

Re: Credit Union Prudential Supervisors Association

Canadian credit union and caisse populaire deposit protection agencies and prudential supervisors have joined to create the Credit Union Prudential Supervisors Association (CUPSA). CUPSA's purpose is to cooperatively pursue effective regulation and supervision of the credit union and caisse populaire sector in Canada.

CUPSA will improve the regulation and supervision of credit unions across the country through enhanced information sharing and coordination to address emerging issues. CUPSA is committed to maintaining a sound and sustainable Canadian credit union sector through joint actions that:

- strengthen prudence in the governance of Canadian credit unions and caisses populaires;
- encourage effective risk management and capital planning;
- promote the adoption of national and international best practices while recognizing the unique cooperative structure of Canadian credit unions and differences in jurisdictional regulatory regimes;
- minimize those differences in regulatory regimes that create the opportunity for, or perception of, regulatory arbitrage and competitive disadvantages; and
- provide a framework for coordination and communication among regulatory authorities.

Canadian credit union and caisse populaire deposit protection agencies and prudential supervisors previously worked together on common initiatives with administrative support from Credit Union Central of Canada. To formalize the structure and objectives of the group, a CUPSA secretariat has been created; the secretariat is housed within the Financial Institutions Commission of British Columbia.

CUPSA meets formally four times per year, either by conference call or in-person. Working groups meet throughout the year and undertake projects and initiatives as determined by members. CUPSA welcomes engagement with the credit union system, other regulatory authorities and any interested parties on topics of interest related to the supervision of credit unions and the administration of deposit insurance.

The Chair of CUPSA is Carolyn Rogers, Superintendent and CEO of the Financial Institutions Commission of British Columbia. She is supported in her role by Vice-Chair Pat Ryan, CEO of the Credit Union Deposit Insurance Corporation of Nova Scotia.

CUPSA member organizations include:

Financial Institutions Commission of British Columbia

Credit Union Deposit Guarantee Corporation of Alberta

Credit Union Deposit Guarantee Corporation of Saskatchewan

Deposit Guarantee Corporation of Manitoba

Deposit Insurance Corporation of Ontario

Autorité des marchés financiers du Québec

Risk Management Agency of New Brunswick

Office de stabilisation de la Fédération des caisses populaires acadiennes

Credit Union Deposit Insurance Corporation of Nova Scotia

Credit Union Deposit Insurance Corporation of Prince Edward Island

Credit Union Deposit Guarantee Corporation, Newfoundland & Labrador

CUPSA's first initiative as a formal organization is the release of its Capital Adequacy Principles (see attached release). Quality of capital has been identified by national and international regulatory bodies as a key cause of the recent financial crisis. Ensuring prudent quality and quantity of capital within credit unions reflects CUPSA's goal of maintaining a sound and sustainable credit union system.

For more information, please contact Melanie Achtemichuk, Director of Policy, CUPSA at Melanie.Achtemichuk@ficombc.ca or Carolyn Rogers, Chair, CUPSA at Carolyn.Rogers@ficombc.ca.

CAPITAL ADEQUACY PRINCIPLES

December 12, 2012

The Basel Committee on Banking Supervision (Basel Committee), an international banking standards forum, identified quality of capital as one of the key causes of the recent financial crisis and an area of focus for regulation and supervision. Informed by guidance issued by the Basel Committee and the Office of the Superintendent of Financial Institutions (OSFI), the Credit Union Prudential Supervisors Association (CUPSA) has established the following set of common principles to advise policy makers on the development of regulatory and supervisory frameworks to ensure capital adequacy in the credit union system.

> **Principle 1:** Taking into account the unique structure of credit unions, capital adequacy standards and requirements should be modeled on the Basel framework for quality and quantity of capital, and OSFI's published guideline applicable to federal deposit-taking institutions for risk weighting, including charges for credit risk, operational risk and market risk.
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> **Principle 2**: Capital should be of high quality and loss absorbing. Quality of capital is determined through the application of the Basel III criteria for common equity, and additional tier 1 and tier 2 capital, with emphasis on retained earnings as the highest quality of capital. Given the unique structure of credit unions, retained earnings will parallel Basel III requirements for common equity.
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> **Principle 3:** Capital should adequately protect against unexpected losses. Quantity of capital should rest above regulatory minimums and sufficiently reflect a credit union's risk appetite and risk profile capturing all material risks and taking into account forward-looking factors such as the credit union's strategic plans. Quantity of capital should include appropriate capital conservation and countercyclical buffers reflecting international best practices.
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> **Principle 4**: Risk coverage for capital with system-related entities will consider the unique attributes of the cooperative model. Assets such as deposits with centrals and/or shares in centrals and other system-related entities should hold the appropriate risk-weighting in capital ratio calculations.

These principles have received broad-based support from CUPSA members. It is for each member to make a recommendation to its respective policy makers and stakeholders on aligning capital adequacy standards and requirements with these principles, taking into account the unique attributes of the jurisdiction. Where any appropriate changes are identified a suitable degree of consultation will be conducted. Results of the consultation process may then be shared when seeking the support of policy makers.

Each jurisdiction may apply the principles at its discretion through regulatory amendments and/or supervisory guidance, including a transition period providing a reasonable time for adoption.

For more information, please contact Melanie Achtemichuk, Director of Policy, CUPSA at Melanie.Achtemichuk@ficombc.ca or Carolyn Rogers, Chair, CUPSA at Carolyn.Rogers@ficombc.ca.