

Advisory

Capital Modernization Interim Measure: Commercial Lending

Date: June 26, 2024
Distribution: B.C. Credit Unions
Advisory Number: 24-020

PURPOSE

This Advisory informs B.C. credit unions that BC Financial Services Authority (“BCFSA”) is introducing an interim bridge measure (“Interim Measure”) to the new capital framework. The Interim Measure removes the higher risk weighting on commercial lending between 30 and 35 per cent of their assets to allow credit unions more flexibility in their commercial and retail lending mix and provide a transition period to the new framework which includes more granular risk weightings for commercial lending. In anticipation of the changes to risk weightings under the Interim Measure and the new capital framework, credit unions are expected to strengthen controls over the commercial lending activity to ensure risks are appropriately managed and in-line with the institutions’ risk appetite.

The Interim Measure does not require an amendment to the *Financial Institutions Act*. The *Capital Requirements Regulation* (“CRR”) will not be amended at this time for the Interim Measure. The Superintendent of Financial Institutions (“Superintendent”) will apply regulatory forbearance to allow a 100 per cent risk weighting to apply to commercial loans, up to 35 per cent of assets. Commercial loans over 35 per cent continue to carry a risk weighting of 200 per cent as set out in the CRR.

BCFSA’s monitoring of credit unions’ capital and the Capital Adequacy Ratios (“CAR”) will be adjusted for the Interim Measure. While the Interim Measure is in place, commercial lending will be subject to increased monitoring activities. Given the temporary nature of the Interim Measure, no changes will be made to the capital reporting templates or instructions. However, the Credit Union Performance Report will display CAR in accordance with the CRR and CAR adjusted for the Interim Measure. The Credit Union Deposit Insurance Corporation of British Columbia (“CUDIC”) Differential Premium System (“DPS”) Assessment will be adjusted for the Interim Measure.

The Interim Measure will be effective from July 1, 2024, and remain in effect until implementation of the new capital framework (expected January 2026). Credit Unions must separately consider whether any change to their investment and lending policy is required. BCFSA’s Regulatory Roadmap includes a Commercial Lending Guideline which will set out principles and expectations for commercial lending activities.

BCFSA and the Superintendent are not restricted from exercising any separate remedial or enforcement powers under the Acts that BCFSA administers, as the circumstances require.

ADDITIONAL INFORMATION

If you have any questions or concerns, please contact BCFSA at filings@bcfsa.ca, or your BCFSA Relationship Manager.

Classification: **Public**

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