

VIA EMAIL

To: CEOs, General Managers, Chief Financial Officers, and Chief Risk Officers of B.C. Authorised Credit Unions

RE: BCFSA Assessment of the Market Conduct Annual Report filings for year 2023

August 16, 2024

Overview

To enhance consumer protection and strengthen public trust and confidence in the credit union segment, all B.C. credit unions were required to adopt a Market Code of Conduct (“MCC” or the “Code”), file the Code with BCFSA, and comply with the Code’s provisions.¹

This purpose of this letter is to summarize BCFSA’s observations relating to credit unions’ 2023 MCC self-assessments. This letter also summarizes the next steps that BCFSA is planning to strengthen credit unions’ compliance and self-assessment against the MCC.

Background

To facilitate credit unions’ compliance with the MCC’s provisions, [BCFSA Regulatory Statement #22-003](#)² established reporting requirements under section 127 of the *Financial Institutions Act* (“FIA”) relating to the MCC. All credit unions are required to attest to compliance with the Code annually by filing a “B.C. Market Conduct Annual Report” with BCFSA.

In a Letter of Expectations issued on November 17, 2023, BCFSA stated its expectations for credit unions’ 2023 market conduct reporting. Specifically, BCFSA required credit unions to:

1. Use the correct template of the Market Conduct Annual Report (“self-assessment”);
2. Be objective in rating compliance with MCC principles and practices, using the rating scale established by BCFSA;
3. Include sufficient description of:
 - a. The rating rationale, including description of key controls and their effectiveness;
 - b. The internal control gaps that prevented compliance with MCC principles and practices; and
 - c. The actions to strengthen compliance with MCC principles and practices and the target date to implement the actions.

¹ Section 94.2 of the Financial Institutions Act (“FIA”)

² <https://www.bcfsa.ca/media/2867/download>

Overall Results of Market Conduct Annual Report 2023 Filings

Based on BCFSA's review of credit unions MCC self-assessments for 2023, BCFSA is pleased to report that:

- All credit unions have filed MCC self-assessments using the correct template; and
- Almost 50 per cent of credit unions demonstrated an improvement in further implementation of market conduct principles and practices, and an improvement in the quality of the self-assessments reported to BCFSA compared to the previous year.

However, the BCFSA analysis of self-assessments submitted by the remainder of credit unions preliminarily concluded that these credit unions experienced challenges in implementing market conduct principles and practices. The tentative nature of this conclusion is based on inadequate quality of self-assessment submissions due to insufficient information, which hindered BCFSA's ability to accurately assess compliance with MCC principles and practices.

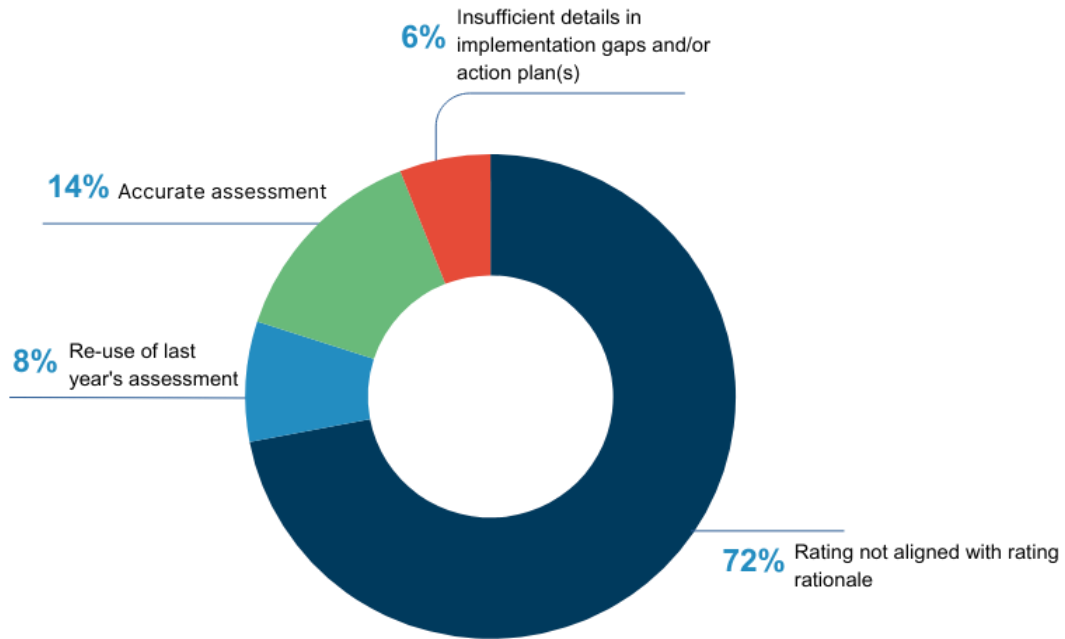
Common Weaknesses Identified in Market Conduct Code Self-Assessments

BCFSA identified two areas of the MCC that have been less developed across credit unions and require credit unions' attention:

1. Fair Treatment & Fair Sales Practices, specifically those aimed at supporting vulnerable members; and
2. Complaint Handling, specifically fair, transparent, timely complaints resolution process and a complaints record keeping system.

In addition, despite some improvements in the quality of annual MCC reporting to BCFSA, only 14 per cent of credit unions provided sufficient information in their market conduct filings and accurately rated themselves using the rating scale provided by BCFSA. The remaining credit unions had various gaps in the quality of its self-assessment against the Code. A summary of these gaps is presented in Figure 1.

Figure 1: Summary of BCFSA's observations of Credit Union's self-assessment filings



Self-Assessment 2023 Gaps	Description
<p>1. Rating not aligned with rating rationale</p>	<p>72% of the filings lacked a complete assessment of principles and practices against five rating criteria stated in the BCFSA Regulatory Statement, including:</p> <ul style="list-style-type: none"> (i) Written policies in place to support the relevant principle and section of the MCC; (ii) Procedures in place to ensure operationalization of such policies; (iii) Employee training on procedures in place; (iv) Testing of compliance with the procedures in place as part of its compliance program; and (v) Identification of outstanding issues and an action plan being in place. <p>These credit unions may have overstated their compliance with the market conduct principles and practices, as their self-assessment ratings did not accurately reflect the maturity of the reported practices and controls.</p>

2. Re-use of last year's assessment	8% of credit unions re-used their 2022 self-assessment for 2023 filings without any modifications. It is unclear if these credit unions conducted a self-assessment for 2023 and made improvements to their practices and processes.
3. Insufficient details in implementation gaps and/or action plan(s)	6% of credit unions did not provide sufficient description of the identified gaps and corresponding action plan(s) in the "Implementation Gaps" and "Action Plan" columns of the self-assessment.

In addition, 10 per cent of the credit unions reported some market conduct practices and principles as "Not Applicable" to their operations. However, these credit unions did not provide any explanations to justify this rating.

BCFSA Market Conduct Expectations

Credit unions are responsible for conducting their business in a proper and responsible way. One of the foremost responsibilities of credit unions is to treat consumers fairly.

The objective of establishing a Code of Market Conduct is to establish a culture of fair treatment of consumers within the credit union. Implementation of fair treatment of consumer principles in decision-making, business processes, and practices forms the foundation of a culture of fair treatment of consumers. Credit unions can measure and report the implementation of some of these principles through their self-assessments.

Credit unions' self-assessment of their adherence to the Code is an annual exercise that consolidates credit union's efforts of treating consumers fairly over a 12-month period. As outlined in the previous section, there are common gaps in the self-assessment and reporting processes that BCFSA would like credit unions to address. More specifically, BCFSA would like to see continuous improvements in credit unions' processes and practices related to their MCC implementation. Self-assessments should include ratings that are based on the rating criteria included in the regulatory statement³ and, sufficiently detailed descriptions for BCFSA to understand the credit unions' established processes and identified gaps. More detailed process guidance was included in the [BCFSA Letter of Expectations](#) dated November 17, 2023.

³ BCFSA Regulatory Statement #22-003



BCFSA Market Conduct Supervision Activities in 2024

BCFSA is committed to be working with credit unions and other stakeholders to support credit unions' efforts in establishing and implementing strong MCC processes. Over the next few months BCFSA:

1. Will provide selected credit unions with feedback on the weaknesses identified in their 2023 MCC self-assessments, and actions BCFSA expects credit unions to implement before filing their 2024 self-assessments, and
2. Is planning to review a sample of credit unions to validate the state of implementation of the MCC and assess the effectiveness of current market conduct practices against the results reported in its respective 2023 self-assessment.

In addition, BCFSA will be conducting a survey of credit unions to better understand how credit unions manage member complaints. This survey will collect information related to credit unions complaint management processes including, definition, tracking, internal reporting, and records retention processes. More information on the survey will be communicated to credit unions separately.

Should you have any questions or concerns, please contact the BCFSA Market Conduct Branch at CUandTrusts@bcfsa.ca.