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September 9, 2021

To the Readers,

First Ontario appreciates the opportunity to comment and respond to the public consultation surrounding FSRA's The Deposit Insurance Reserve Fund (DIRF) Adequacy Assessment Framework Report. FSRA's willingness to have a conversation around the framework is helpful and we appreciate the openness for dialogue. We hope that the following will help that discussion and ultimately provide for a robust framework and lead to a DIRF that appropriately balances risk and affordability.

Key FSRA Asks

1. Feedback on the overall approach of the DIRF Adequacy Review Feedback
2. Specific comments on the methodology used.
3. Feedback on obtaining and incorporating additional "risk data" to enhance the model and refine DIRF.

Our comments, feedback and questions are grouped in the following categories:

- Framework
- Model
- Data
- Additional future consultations

Framework

- FirstOntario generally agrees with the move from an actuarial model to a scenario model approach given current data and experience availability
 - As data is accumulated and system loss/stress experience occurs will the framework/methodologies be subject to re-evaluation?
- FirstOntario agrees with the goal of having data and analysis over a full economic cycle
 - Recommend defining the data points used to identify the start and end of a full economic cycle
 - Recommend the framework clarify the data timeframe used in the 2020 and 2021 analysis and the detailed steps taken, if any, to account for a timeframe that doesn't cover a full economic cycle
 - Recommend the framework articulate which specific data points have used industry data or expert opinion and what has been used

- Has there been any discussion among Regulators to sync scenarios across the nation while recognizing regional differences?
- Regarding Appendix 1 – Comparison of Provincial Reserve Funds – Has FSRA considered normalizing the comparison to account for those provinces that have seen material movement of deposits to the CDIC as a result of a credit unions going federal while the respective DIRF’s have retain the funds result in increased coverage from a percentage of insured deposits basis? The importance of this understanding will depend on the weighting this analysis has in the final recommendations for Ontario’s DIRF.

Model

- Will or has the model and assumptions used be subject to a critical review by independent modeling and data specialists?
- Has the model been subject to back testing or are there plans to back test? While credit union losses have been minimum, can the model “learn” from specific stress events that credit unions have from time to time?
- Are there any plans to supplement the modeling with cross sector analysis using sector geographic and industry concentration segments?
- As discussed at the information session on September 3, 2021, we recommend the model be “open sourced” to credit unions to use in the management of their portfolios
- Will the framework outcomes be used to determine the continued appropriateness of the current premium calculation model (64% capital, 36% corporate governance)?

Data

- FirstOntario generally agrees with use of anonymized record data for modeling purposes assuming:
 - An automated data collection and anonymization system is made available by FRSA
 - Data collected is limited to materially significant data for the model
 - Data is encrypted at all stages
- FirstOntario recommends only collecting data going forward
 - Significant expense and challenges are likely if CU’s are asked to provide historic data
 - Expense tied to staff time and possible consultants
 - Challenges created by
 - New banking systems and version upgrades that change data
 - Field dictionary changes over time
- Concerning the privacy concerns discussed at the information session, we recommend FSRA obtain a legal opinion on the use of individual financial records that have been subject to anonymization that encompasses all applicable legislation/regulations for all participants, including those FSRA are subject to
- FirstOntario recommends FSRA commission an assessment of the risk associate with the possibility of reverse engineering data back to identifiable data including how the inclusion of certain data fields impact this risk
- It is FirstOntario’s opinion that it is likely more challenging to provide segmented, non-instrumented level data rather than instrument level data

Additional Future Consultations

- As FSRA implements the analysis framework, FirstOntario recommends the following future consultations:
 - Optimization of investment returns and DIRF earnings reporting
 - How the analysis framework will be used to determine DIRF targets

- Time frame to achieve DIRF target if short falls should exist

If there should be any questions, please contact Barry Doan, CFO and CRO.

Regards,

A handwritten signature in black ink, appearing to read "Lloyd Smith". The signature is stylized with a large, sweeping initial "L" and a cursive "Smith".

Lloyd Smith, CPA, CGA, CCE Chief Executive Officer
FirstOntario Credit Union