CUPSA | ASPC

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CAPITAL ADEQUACY PRINCIPLES

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 policymakers on the development of regulatory and supervisory frameworks to ensure capital adequacy in the credit union system:

1. **Principle:** 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.

2. **Principle**: 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.

3. **Principle:** 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.

4. **Principle**: 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 policymakers.

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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.

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