

# DICO Differential Premium Score Determination

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This document is issued by the Deposit Insurance Corporation of Ontario (the Corporation) to set out the rules it applies when determining the differential premium score of a credit union or league for a year, pursuant to section 105 of Ontario Regulation 237/09 (the General Regulation) made under the Credit Unions and Caisses Populaires Act, 1994 (the Act). It sets out the rules for determining the differential premium score of a credit union or league with a financial year beginning on or after January 1, 2018. The score will be used by the Corporation to calculate the annual deposit insurance premium payable by a credit union or league under section 105 of the regulation.

### 1. Differential Premium Score Determination

The differential premium score of a credit union or league is calculated with reference to the following components:

- Capital: as measured by the level of regulatory capital of the credit union or league; and
- Corporate governance as measured by the effectiveness of the corporate governance practices of the credit union or league as determined with reference to the Act and the by-laws of the Corporation.

The maximum score attainable is 100 points. A credit union or league may receive a maximum of:

- 64 points for the capital component; and
- 36 points for the governance component.

Where a credit union or league does not file its annual return or the resolution of the board of directors as required under the Corporation's By-law No. 5, as amended from time to time, respecting Standards of Sound Business and Financial Practices, the credit union or league will be assigned a score of **zero** points.

### 2. Capital Component

Points for the capital component of the score are calculated based on information from the annual return filed with the Corporation by the credit union or league.

For all credit unions or leagues, the number of points for the capital component will be determined as follows:

- Where regulatory capital expressed as a percentage of its total assets is **less than 4.00%**, the credit union or league will receive **zero** points for the capital component.
- Where regulatory capital expressed as a percentage of its total assets is **4.00% or more**, the points for the capital component for a credit union or league will be based on its regulatory capital expressed as a percentage of its risk-weighted assets, as follows:
  - Where regulatory capital expressed as a percentage of its risk weighted assets is **less than 8.00%**, the credit union or league will receive **zero** points.
  - Where regulatory capital expressed as a percentage of its risk weighted assets is **greater than or equal to 8.00% and less than 8.10%**, the credit union or league will receive **one** point.

- Where regulatory capital is **greater than or equal to 8.10% and less than 14.00%**, the credit union or league will receive points based on the following formula:

$$[(D - 8.00\%) \div 6.00\%] \times 64$$

in which, "D" is regulatory capital expressed as a percentage of its risk weighted assets

- Where regulatory capital expressed as a percentage of its risk weighted assets is **14.00% or more**, the credit union or league will receive **64** points.

### Transitional rule 2018

A credit union that was classified as a class 1 credit union as of December 31, 2017 or a league, and whose financial year-end falls on December 31, 2017, would calculate the capital component according to the Differential Premium Score Determination Document date April 12, 2014.

Credit unions or leagues subject to this transitional rule will revert to the standard calculation for the capital component effective for the 2019 premium billing.

### 3. Corporate Governance Component

Points for corporate governance will be based on ratings determined during the examination of the credit union or league conducted by the Corporation. Examination ratings will be based on an assessment of compliance with the Act and regulations made under the Act, orders made by the Superintendent of the Financial Services Commission of Ontario or the Corporation, the by-laws of the Corporation, and the credit union's or league's own by-laws and policies.

The maximum rating for each standard is set out in Table 1 below:

**TABLE 1:  
CORPORATE GOVERNANCE RATING ALLOCATIONS**

Standard	Maximum Rating
Board of Directors	30
Audit Committee	20
Management	50
Total	100

The ratings for each standard are totaled and then converted to points, based on the following formula:

$$(G \div 100) \times 36$$

in which, "G" is the total rating of all corporate governance standards

Each standard has a number of specific elements that will be separately assessed during the examination of the credit union or league by the Corporation. There are three ratings that can be obtained: Adequate, Needs Improvement, or Inadequate. Ratings will be assigned for each element within each standard as set out in Tables 2, 3 and 4 below:

**TABLE 2:  
BOARD OF DIRECTORS**

<b>EXAMINATION RATINGS</b>			
<b>ELEMENTS</b>	<b>ADEQUATE</b>	<b>NEEDS IMPROVEMENT</b>	<b>INADEQUATE</b>
<b>PRACTICES &amp; EXPERTISE</b>	12	6	0
<b>HUMAN RESOURCES</b>	4	2	0
<b>RISK MANAGEMENT</b>	9	4.5	0
<b>BUSINESS STRATEGY &amp; BUSINESS PLANS</b>	5	2.5	0
<b>MAXIMUM</b>	<b>30</b>		

At a minimum, the following will be assessed under each standard and element:

**BOARD OF DIRECTORS**

**Practices and Expertise**

- understands and fulfills its responsibilities
- exercises independent judgment
- establishes the training requirements and qualifications for directors and members of the audit committee
- establishes the responsibilities, accountability and authority of the CEO, the audit committee and other board committees, as applicable
- establishes standards of business conduct and ethical behaviour
- evaluates the effectiveness of the board and oversees the responsibilities of the audit committee
- affirms a control environment and ensures that the credit union or league is in control

**Human Resources**

- selects and evaluates the effectiveness of the CEO
- ensures that management is appropriately skilled and experienced to implement the board's objectives
- ensures that employee compensation plans are consistent with prudential incentives

**Risk Management**

- establishes appropriate and prudent risk management policies
- oversees risk management policies and obtains reasonable assurance that the credit union or league is adhering to its risk management policies for significant risks

**Enterprise Risk Management (ERM):**

- establishes appropriate and prudent enterprise risk management policies that set out the risk appetite and risk tolerances for all significant risk areas
- reviews and confirms that the credit union's or league's risk exposure is aligned with its risk appetite and risk tolerances

**Business Strategy and Business Plans**

- establishes business objectives of the credit union or league consistent with co-operative principles and approves the credit union's or league's business strategy and business plans

- evaluates the credit union's or league's actual operating and financial results against business plans and addresses any material variances

**TABLE 3:  
AUDIT COMMITTEE**

<b>EXAMINATION RATINGS</b>			
<b>ELEMENTS</b>	<b>ADEQUATE</b>	<b>NEEDS IMPROVEMENT</b>	<b>INADEQUATE</b>
<b>PRACTICES &amp; EXPERTISE</b>	6	3	0
<b>INTERNAL AUDIT</b>	6	3	0
<b>EXTERNAL AUDIT</b>	4	2	0
<b>RISK MANAGEMENT &amp; COMPLIANCE</b>	4	2	0
<b>MAXIMUM</b>	<b>20</b>		

At a minimum, the following will be assessed under each standard and element:

#### **AUDIT COMMITTEE**

##### **Practices and Expertise**

- develops a work plan for all meetings for the year that addresses all the duties and responsibilities set out in the Act and its regulations

##### **Internal Audit**

- oversees an independent internal audit function to evaluate internal controls and ensures that management has mitigated any material weaknesses

##### **External Audit**

- undertakes its duties with respect to the external audit as set out in section 27 of the General Regulation

##### **Risk Management and Compliance**

- takes all reasonable steps to ensure that the credit union or league is in compliance with the Act, regulations and other legislative requirements
- ensures appropriate follow-up on all outstanding issues, weaknesses and deficiencies, including findings and recommendations of examinations and internal and external auditors

##### **Enterprise Risk Management:**

- reviews management's identification of the significant risks of the credit union or league in accordance with the ERM policy
- ensures there are ERM processes in place to measure, monitor, manage and mitigate significant risk exposures, including appropriate policies, procedures and controls
- oversees the application of ERM practices and the ongoing identification of emerging risks
- reports to the board on risk exposure levels

**TABLE 4:  
MANAGEMENT**

<b>EXAMINATION RATINGS</b>			
<b>ELEMENTS</b>	<b>ADEQUATE</b>	<b>NEEDS IMPROVEMENT</b>	<b>INADEQUATE</b>
<b>RISK MANAGEMENT</b>	30	15	0
<b>BUSINESS STRATEGY &amp; BUSINESS PLANS</b>	8	4	0
<b>OPERATIONAL &amp; FINANCIAL RESULTS</b>	7	3.5	0
<b>BOARD REPORTS</b>	5	2.5	0
<b>MAXIMUM</b>	<b>50</b>		

At a minimum, the following will be assessed under each standard and element:

**MANAGEMENT**

**Risk Management**

- implements appropriate and prudent risk management policies, procedures and controls with respect to the following:
  - Capital Management
  - Credit Risk Management
  - Operational Risk Management
  - Market Risk Management
  - Structural Risk Management
  - Liquidity Risk Management
- monitors the effectiveness of risk management practices and controls for the credit union's or league's significant risks

**Enterprise Risk Management:**

- identifies, measures and evaluates significant strategic, business and process risk exposures
- mitigates risk exposures through appropriate risk responses
- monitors the application of risk responses and mitigation strategies
- reports on ERM processes and findings, including the level and direction of risk exposures and extent of risk management activities

**Business Strategy and Business Plans**

- develops and implements an appropriate and prudent business strategy and business plans

**Operational and Financial Results**

- effectively monitors and evaluates operational and financial performance and results
- addresses weaknesses in operational and financial results

**Board Reports**

- provides the board of directors with timely, relevant, accurate reports on the implementation of the credit union's or league's business strategy, business and financial plans and any material risk that may affect the business objectives and financial stability of the credit union or league