



**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

# Guidance Note

## *Securitization*

March 2018

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**Ce document est aussi disponible en français.**

## Applicability

The Guidance Note: Securitization (Guidance Note) is for use by all credit unions and applicable beginning September 1, 2018. This timing allows for the reporting requirements outlined in this guidance note to capture the credit union's 2019 budget planning process. Reporting requirements to be submitted to DICO are effective for credit unions with a year end of December 31, 2018 or later. The first set of reports (both quarterly and annual as outlined in this guidance note under "Board Reporting") are due by April 21, 2019. It outlines the minimum expectations for the management of securitization and sets out the criteria that DICO will use when evaluating the effectiveness of securitization risk management practices.

This Guidance Note and accompanying Application Guide complement the information provided in, and should be read in conjunction with, other guidance notes and supporting publications available on DICO's website ([www.dico.com](http://www.dico.com)).

Requirements for reporting of information to DICO as outlined in this guidance note are in keeping with section 226 of the Credit Unions and Caisses Populaires Act, 1994 ("the Act").

Throughout this document:

- **The term "credit union" also refers to "caisse populaire" and "league".**
- The term "Board" refers to either the entire Board or a committee of the Board that has been delegated a particular element of Board oversight.
- The term "securitization" refers to any and all methods of secured wholesale funding, including the following, without limitation:
  - Government sponsored programs such as the National Housing Act Mortgage Backed Securities (NHA MBS), Canadian Mortgage Bonds (CMB)
  - Other common funding vehicles such as Asset Backed Commercial Paper (ABCP), Residential Mortgage Backed Securities (RMBS), Asset Backed Securities (ABS), Commercial Mortgage Backed Securities (CMBS);
  - Covered bonds;
  - Whole loan sales where there is an obligation to repurchase the loans or other contractual features that render the sale a method of financing in substance:
  - Any other vehicle or program, existing today or in the future, that in substance, constitutes a method of secured wholesale funding.
- Conversely, the term "securitization" excludes forms of financing that are either unsecured or non-wholesale in nature, for example:
  - Lines of credit;
  - Brokered and nominee deposits;
  - Repurchase agreements ("repos");
  - Whole loan sales where there is no material obligation to repurchase the loans; and
  - Other similar instruments.
- In the context of this guidance note for regulatory reporting purposes, the substance of any transaction will be interpreted at DICO's discretion with adequate rationale provided with respect to the interpretation made.
- All references to securitization within this document include those accounted for both on- and off-balance sheet.
- The guidance note applies to the credit union and all its subsidiaries on a consolidated basis.

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## Introduction

Securitization is the financial practice of pooling homogeneous types of assets and selling their related cash flows in the form of a security to third party investors to provide funding (i.e. liquidity) for the credit union. Pooled assets typically include residential mortgages, commercial mortgages, auto and equipment loans and leases, credit card receivables or other financial assets' receivables. Investors are repaid from the principal and interest cash flows collected by the credit union from the underlying assets. DICO expects credit unions to have a sustainable, well-diversified funding strategy to support their lending activities and prevent over reliance on any one source of external funding.

This Guidance Note outlines DICO's expectations for the appropriate identification and assessment of securitization risks, the governance over securitization strategies and use of securitization programs. It also provides an overview of the fundamental concepts that form the basis of the responsibilities of the credit union, its management and board in implementing effective securitization policies and risk management practices to ensure the continued viability of the credit union is in the best interest of its depositors. DICO recognizes that there are benefits to securitization which can be realized through prudent risk management.

The Board of Directors plays a critical role in setting risk appetite, reviewing and approving the credit union's securitization policy and providing oversight of senior management's role of managing the securitization framework, program and practices. This responsibility requires that the Board have the appropriate competencies obtained through training, experience and/or expertise to oversee management's prudent administration of the securitization program in which the credit union is engaged to ensure they are appropriately mitigating the risks and operating within the Board's risk appetite.

In this guidance note, DICO has developed a three level approach in determining its level of oversight and expectations depending upon the size and complexity of the securitization program as defined by the following criteria and outlined in Table 1 of the "DICO Expectations and Assessment Criteria" section at the end of this publication:

1. Total securitization obligations outstanding
2. Total amount of non-government sponsored securitizations
3. Amount of securitization obligations that become due in the next 12 months
4. Assets purchased from a third party for inclusion in securitization pools
5. Off-balance sheet securitizations

## Prudent Principles

The following principles should be followed when developing a prudent securitization funding program.

- The Board should understand the role that securitization plays as part of their funding program and have the necessary skills to provide oversight to senior management's role of managing the securitization program;
- The Board should annually review and approve a comprehensive Securitization Policy (either as a stand-alone policy or contained within a larger liquidity and funding policy) that is commensurate with the size and complexity of the program and funding needs;
- The Securitization Policy should identify prudent limits within which the credit union will operate that are in keeping with the Board's risk appetite with due consideration given to the risk characteristics of each type of securitization funding vehicle/program;

- The securitization program may form part of a well-diversified funding program and should be managed as part of a comprehensive liquidity strategy designed to match terms of lending activities with funding sources;
- Management should have the appropriate skill set and experience to prudently manage securitization activities, understand the incremental risk that securitization may add to the credit union's funding activities and ensure appropriate staff or third-party expertise is used to manage the securitization programs;
- An appropriate securitization risk management framework should be developed and assessed regularly to ensure it is operating effectively;
- A prudent liquidity risk management policy and accompanying practices should be developed and stress tested to determine the sufficiency of funding sources under normal and exceptional operating circumstances; and
- The credit union should create a contingency funding plan that identifies strategies and options through which liquidity will be managed in the event of a liquidity stress event.

## Securitization Policy

The Securitization Policy should outline the broad approach to oversight, risk management, key responsibilities and reporting requirements for securitization activities. It should articulate senior management's goals for the use of securitization (liquidity, source of funding, growth, income, other) as part of the overall funding plan. Limits should be set to ensure management operates within the Board's approved risk appetite. DICO expects the securitization policy to align with the reporting requirements and expectations outlined in all other DICO guidance, including but not limited to: Corporate Governance, Liquidity, Stress Testing, Director's Training, Structural Risk Management and Enterprise Risk Management (ERM).

The level of sophistication of the securitization policy should be commensurate with the size and complexity of the securitization program, the nature of the assets securitized and the credit union's risk profile. The Securitization Policy can be either a stand-alone document or a subsection of a larger liquidity and funding policy.

The Securitization Policy and related risks should be reviewed and assessed at least annually.

At a minimum, Securitization Policy should address:

- The philosophy of the securitization program by clearly articulating the purpose, use, and the goals and objectives of the program;
- The lines of authority and responsibility for managing and overseeing the credit union's securitization risks;
- All key elements of securitization management, including individual and aggregate targets and limits for both government-backed and non-government-backed programs and related approval authorities;
- The securitization governance structure, including the roles and responsibilities of the Board, Audit Committee, and Management and those employees involved with the securitization programs, including the segregation of duties and minimum staffing requirements to ensure prudent management of the securitization program;
- The framework that ensures independence or adequate segregation of duties between the entities or individuals/departments responsible for the following tasks:
  - originating the assets; and
  - making strategic and business decisions regarding the credit union's use and monitoring of a securitization program;

- Contingency funding plans that contemplate potential funding shortfalls due to securitization related issues and cross-referenced to their liquidity policy, or refer to a Liquidity Policy that contains these elements; and
- The frequency, form and content of management and Board reporting to include all reporting outlined in this Guidance Note at a minimum.

## Securitization Framework

In assessing a credit union's implementation of its securitization risk management framework, attention will be paid to the prudent identification of limits and the content and frequency of reports by management or the internal auditor in compliance with Board-approved policies.

Credit unions should develop a securitization management framework that supports the Board's policy and implements prudent risk management techniques that include:

- A robust governance structure with appropriate management and Board knowledge and competencies that are commensurate with the level and complexity of the credit union's securitization program;
- Board-approved securitization risk tolerance and limits that are reflected in strategic funding plans, business strategies, reporting frameworks, and risk management (robust Enterprise Risk Management program) and control functions;
- Documented procedures;
- The identification and documentation of the types of assets securitized, including how and where these assets are originated;
- A rigorous internal control environment regarding securitization risk tolerance levels be established that is adequately tailored to the securitization environment. Controls should be developed which enable the identification and mitigation of real or apparent conflicts of interest. For example, credit unions that assume the role of originator should have controls in place covering relations with the other parties issuing or managing securitizations. Measures taken by the credit union to mitigate conflicts of interest should include timely disclosure to the Board;
- The ongoing measurement, management and monitoring of the securitization program that increases in size, complexity and level of oversight as the program grows;
- Liquidity testing metrics, including analysis of changes to funding requirements under alternative scenarios as applicable in Table 1 of the "DICO Expectations and Assessment Criteria" section of the guidance note;
- The performance of stress tests as outlined in the 'Stress-Testing' section of the Guidance Note;
- The oversight of management's operation of the securitization program by the Audit Committee. As the size and complexity of the securitization program increases, the level of understanding and competencies of the Audit Committee regarding the securitization structures being used by the credit union should also be enhanced (refer to the Securitization Application Guide for more information).

An independent review (for "Level 3" credit unions as outlined in Table 1 of the "DICO Expectations and Assessment Criteria" section and fully detailed on page 12) should be completed by an independent party that has superior demonstrable experience in securitization and overseen by the Audit Committee. The assessment should be completed prior to the commencement of the new securitization program or before securitizations reach the level of 25% of regulatory capital and deposits. The assessment should be made available for DICO upon request.

### Existing Securitization Programs:

For existing securitization programs, credit unions should:

- be able to demonstrate that appropriate policies and controls have been implemented in the management of the securitization; and
- have complete documentation on the risks and their mitigants of the securitization programs, as well as competent staff to manage the securitization program.

## Identification of Securitization Risks

Individual securitization structures may possess unique features. As part of the credit union's initiation and ongoing analysis of their securitization programs, they should identify all securitization risks and all mitigating controls to ensure risks are managed within the Board's risk tolerance levels in keeping with their Enterprise Risk Management policy and framework.

Refer to the **Securitization Application Guide** for a summary of the risks associated with the use of securitizations. The list is not intended to be an exhaustive list, with each credit union responsible for fully understanding any additional risks that may be associated with strategies and securitization programs with which it is involved.

## Internal Controls

Credit unions should have risk management systems in place that allow senior management and the Board to:

- review compliance with established securitization management policies;
- control securitization risk exposure; and
- evaluate risk tolerance using limits, funding targets, key performance indicators and early warning indicators.

The limit setting and compliance framework(s) should be calibrated to the credit union's risk tolerance and reflect the Board's risk appetite.

The credit union should have clearly articulated and documented procedures for:

- dealing with limit exceptions, permissions or authorization to set and change limits;
- notification responsibilities and escalation procedures;
- sign-off by senior management and/or the Board; and
- follow up on risk related issues.

In order to ensure the integrity of management reporting, credit unions should establish a framework whereby monitoring of performance against limits is reviewed by senior management personnel that are operationally independent of transacting securitizations. Such personnel should be trained to monitor whether securitization risk remains within the bounds set by senior management and the Board. This framework is expected to be reviewed regularly as part of the internal audit program.

## Stress Testing and Scenarios

The purpose of stress testing is to quantify the potential funding gap, resulting from a highly unlikely but plausible stress scenario, as well as to assess the adequacy of the credit union's contingency funding plan. The stress testing parameters described in this section are in addition to those outlined in DICO's Guidance Notes on Liquidity Guidance, Stress Testing and Internal Capital Adequacy Assessment Process (ICAAP).

Regardless of size, credit unions that engage in securitizations and are in "Level 3" as detailed in Table 1 in the "DICO Expectations and Assessment Criteria" section of this Guidance Note

should satisfy the minimum liquidity stress testing parameters noted in DICO's Stress Testing Guidance Note using each of the three liquidity metrics namely the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Net Cumulative Cash Flow (NCCF).

### **Securitization-specific Stress Test**

The purpose of the securitization specific stress test is to identify the magnitude of the funding shortfalls in the event of a stress event and the ability of the credit union's contingency funding plan to address the funding shortfalls. Refer to Table 1 of the "DICO Expectations and Assessment Criteria" section of the guidance note for reporting requirements.

DICO requires the credit union to submit a six-month balance sheet forecast, providing monthly totals for the six-month period, under both (a) the budget base case scenario ("Base Case") and (b) the securitization stress scenario incorporating the following assumptions:

- No access to securitization markets for six months (assumes no rollover of maturities, both on- and off-balance sheet);
- Access to Credit Facilities, but no increase in availability;
- No access to liquidity reserve deposits during the stress period;
- No increase to deposits during the stress period; and
- Loan growth and all other metrics according to the Base Case scenario.

In the event this stress test results in a funding shortfall at the end of the six-month period, the credit union must complete the following and provide to DICO:

1. a report on the adequacy of the contingency funding plan for the six-month "stress period" (excluding access to securitizations) identifying the amount and timing of each opportunity to address the funding shortfall, including, source of funding (or cutback in lending or other strategies to reduce funding requirements), the costs of funds, interest rates on loans and all related assumptions.
2. a pro-forma balance sheet and income statement that reflects the above noted contingency plan. Calculations for Return On Average Assets, leverage and Risk Weighted capital, and liquidity ratios should also be included.

Refer to the **Securitization Application Guide** for additional details about the stress testing process.

## **Board Responsibilities**

The Board should have a sound understanding of the risks of the securitization vehicles in use, approve the risk appetite for securitization and ensure that effective policies, controls and frameworks are implemented to mitigate the risk to within acceptable risk tolerance levels.

To achieve this, DICO expects the Board to:

- Confirm that the Prudent Principles outlined herein are followed;
- Review and approve the business strategies for the use of securitization programs and confirm that they are aligned with the purpose of the securitization programs in use at least annually;
- Provide effective oversight of management in the identification, measurement, monitoring and control of securitization risks to ensure the credit union is operating in accordance with its securitization risk tolerance and key performance indicators;
- Review the effectiveness of the management of risks associated with securitization programs including but not limited to the risks involved in dealing with adverse liquidity events and potential stress situations;

- Ensure management has included the assessment of the securitization program in the annual ERM review;
- Understand the risk profiles of key counterparties, as appropriate;
- Review the results of the stress testing program and sign off on any changes to policies and funding plans as a result of the stress testing program; and
- Review reports and other commentaries completed by external stakeholders and other external parties (i.e. the annual CMHC Special Procedures Review, the CMHC Monitoring Report, independent reviews and the annual audit done by bank sponsors) that may indicate any potential increase in risk and addressing any shortcomings noted. This would include reviewing reporting based on ERM, internal audit, external reviews, results of stress tests (as outlined in this guidance), and contingency funding plans; and
- Review additional recommendations and remediation plans developed by senior management from reports and other commentaries completed by external stakeholders and other external parties to ensure management adequately addresses the issues noted.

## Management Responsibilities

DICO expects senior management to implement a robust securitization risk management framework, which includes:

- A risk assessment process;
- Prudent and documented securitization procedures aligned with Board-approved Securitization Policy;
- Resource planning; and
- Monitoring, reporting, and risk mitigation activities.

Management should:

- Ensure the securitization programs and structures in use through the funding plan are aligned with the Board-approved limits as outlined in the securitization policy;
- Conduct a full risk assessment of the securitization program and submit results to the Board as part of the ERM program. The Securitization Application Guide provides a sample list of risks that should be considered as part of the assessment;
- Perform matching and funds flow analysis to identify risks that could impact liquidity and how they will be mitigated to ensure all cash outflow commitments (on- and off-balance sheet) are honoured as they come due;
- Implement controls to ensure limits, targets and diversification of securitizations both on- and off-balance sheet are adhered to;
- Generate regular management and Board reports to monitor the performance of the program and illustrate that these limits have not been exceeded and risk is being managed within Board tolerances; and
- Obtain external legal advice and financial advice (external auditor) as required.
- Ensure that all the securitization terms and underlying documentation have been subject to appropriate review by experienced legal counsel including any changes to such documents that have an impact on the structural risks in the securitization program prior to execution; and
- Document securitization criteria and map the criteria to key risks associated with the assets, the structure of the securitization, and any key contractual responsibilities including the servicing of the assets. Criteria should include the:
  - nature and selection of the assets identified for securitization, including credit quality, underwriting, and historical performance of the assets;

- cash flow profile and payment priorities of the securitization structure in relation to the cash flow and payment priorities of the underlying assets to ensure that the credit union can fund its commitments on an ongoing basis;
- structural elements such as priority and timing of payments, true legal sale of the assets, refinancing obligations, residual risks; and
- risk profiles and capabilities of key counterparties, liquidity providers and service providers.

In some cases, securitization transactions may qualify for off balance sheet treatment. Notwithstanding the accounting treatment, for the purposes of determining the adequacy of liquidity, DICO will assess the risk of these transactions based on their economic substance<sup>1</sup>.

DICO's expectations and the level of scrutiny will increase as the size and complexity of the credit union's securitization program grows.

DICO may require a credit union to have a special audit of the securitization program conducted by a qualified auditor at the credit union's expense in accordance with sections 171 and 171.1 of the Act and may request additional information as specified by DICO.

## Board Reporting

Credit unions should develop detailed Board reporting packages for review at each Audit Committee and Board meeting that provide a complete and ongoing update of its securitization program (i.e. a distinct "Securitization Report").

At inception, the credit union should develop a business case outlining the securitization program including the strategy to be followed, an analysis of benefits, risk assessment and mitigating controls to be implemented.

On an on-going basis, the credit union should undertake regular reporting on a frequency as outlined in Table 1 in the DICO Expectations and Assessment Criteria section of the guidance:

- **Securitization Status Update:** The annual business plan updated for any changes in market conditions or environment, allocations, planned maturities, risks, changes to specific instruments or products affecting future size of securitizable asset pools, etc. This should also include Management Discussion and Analysis on any other relevant points of interest relating to the credit union's securitization program. The expectation is that the update will be a brief document outlining only the changes that have occurred since the previous update;
- **Financial Forecast Base Case (Budget Plan):** As part of the credit union's annual budgetary process, a detailed financial forecast for the upcoming year should be created, providing a monthly breakdown of forecasted results. It should include an income statement, balance sheet and cash flow statement with segregated securitization information.
- **Securitization Reporting Template:** This template is provided as part of the Securitization Guidance documents and includes the completion of the Securitization Coverage Ratio and Securitization Capital Buffer Ratio;
- **Financial Forecast Variance Analysis:** This analysis takes the annual Financial Forecast and compares the latest quarter's actual information to the financial forecast (i.e. maturities, refinancing, allocations, etc.). Any material variances should be identified and explained. It should also include the projections of the result for the remaining quarters of the fiscal year; and

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<sup>1</sup> Economic substance refers to the similar *substance over form* principle found and applied with GAAP.

- LCR, NSFR, NCCF and Securitization Specific Stress Test, as provided in the “Stress Testing and Scenarios” section of the Guidance Note, are to be submitted to DICO.
- Internal audit work plan that includes a review of securitization activities and strategies which is conducted by independent internal or external audit staff that have the demonstrable knowledge and experience in securitization to ensure adequate controls are in place to manage the risks.

Annually, the credit union should provide:

- An updated risk assessment which contains a summary of all applicable risks and corresponding mitigants. Discussion of whether the risks are within the Board’s risk tolerance should be included in the assessment; and
- A detailed plan outlining how securitization is used and managed within the credit union which should cover such things as dedicated / specialized credit union staff, ongoing training, policies, procedures and protocols in place to deal with the various stages of securitization, and risk management framework at a minimum.

## Independent Review

Due to the inherent complexity of securitization programs, both internal and external auditors have a role in overseeing the programs as do securitization program sponsors such as CMHC or a privately sponsored program supported by for example a major bank.

The independent review should be conducted by a consultant with expertise in the assessment of securitization programs. The review should, at a minimum:

- consider whether management has identified risks inherent in the securitization programs;
- assess whether adequate procedures and controls are in place within the context of the credit union’s risk management framework to mitigate the risk to Board accepted levels;
- assess the appropriateness of the use of securitization programs and those planned;
- assess the reasonableness of stress testing assumptions, projections and models; and
- review all external sponsor monitoring evaluations and audit reports.

## DICO Expectations and Assessment Criteria

DICO expects all credit unions to maintain a prudent securitization program which would provide for sufficient funding for new loans while providing for a reasonable and sustainable level of long term growth. Reliance on high levels of funding and/or income through securitization activities requires extensive risk management practices to be in place and may impact liquidity during periods of stress.

- 1) DICO’s expectations of the credit union and the level of oversight will increase as the size and complexity of the securitization program grows as outlined in Table 1.

The criteria for the **highest inherent risk for either aggregate outstanding securitizations or amounts of securitization due in the next 12 months are used to determine the “level” (1, 2, or 3) for the credit union.**

For example, the inherent risk of a credit union with aggregate outstanding amount of only government sponsored securitizations of 12% (Level Two) with all 12% due in the next 12 months (Level Three) will be categorized as **Level Three**.

Credit unions with annual maturities of securitization greater than 10% of deposits and regulatory capital are considered to have a high concentration that could potentially lead to a liquidity event. Credit unions should ensure that maturities be appropriately laddered to reduce the potential impact of concentrated levels of future funding requirements which may become restricted or limited and result in a possible liquidity shortfall. Annual maturities of less than 10% of deposits and regulatory capital provide a reasonable buffer against potential liquidity events related to the availability of securitization as a funding source.

Non-government sponsored programs are much riskier for many reasons:

- Unlike government sponsored programs that use standard master agreements, the contracts are unique to each type of securitization deal and require greater scrutiny to ensure the terms, responsibilities and risks are properly understood and that the credit union's interests are properly protected;
- The complexity and variety of securitization deals that the credit union can enter into requires personnel with a higher level of expertise to properly manage the different securitization structures;
- The lack of the government's involvement makes the securitizations more susceptible to market forces and counterparty risk.

Due to these reasons, the use of non-government securitization programs places the credit union into "Level 3".

- 2) Credit unions should forecast future securitization obligations and ensure that the predicted funding obligation relative to deposits and regulatory capital is in line with the risk appetite of the credit union;
- 3) Credit unions should calculate a **Securitization Coverage Ratio** which is the ratio of (A) the sum of cash, cash equivalents excluding LRD and MBS and undrawn availability on credit facilities, to (B) maturing securitization obligations (on- & off- balance sheet, bullet maturity amounts only) for the next three (3) months, to be no less than 1.00, and calculated monthly on a rolling basis (reported to DICO as outlined in Table 1).

Credit unions should calculate a **Securitization Capital Buffer Ratio** designed to determine if there is sufficient minimum regulatory capital so that if all off-balance sheet securitizations with scheduled maturities within the next 24 months came back onto the Balance Sheet, minimum capital coverage would be maintained.

The purpose of these ratios is for senior management, the Board and the regulator to understand the significance and impact of securitization to the overall funding program.

- 4) As part of its on-going review process, DICO undertakes an assessment of the inherent risks within each significant activity undertaken by a credit union and evaluates the quality of corporate governance and risk management practices. DICO's review of a credit union's securitization management program is included as part of this assessment.

As part of DICO's overall assessment, DICO will also consider:

- the Board's involvement and understanding of the strategies and securitization programs that the credit union is involved in as well as those being contemplated;
- the appropriateness and risk profile of the existing or proposed securitization programs as well as its forecasted evolution as part of the credit union's overall funding plan required to support its strategic growth objectives.

- the completeness of the securitization risk management framework, including an assessment of the policies and procedures in place to adequately manage the risk in the securitization program;
  - the extent and quality of reporting and analysis as it pertains to the securitization program and provided to senior management and the Board in compliance with Board-approved policies and risk tolerance levels;
  - the level of conservatism in the internal estimates of the risks faced by the credit union;
  - the extent to which material risks and mitigants are fully captured by the credit union's ERM program, including both credit union specific and market events;
  - the use and concentration of securitization within the credit union's funding plan;
  - the level of experience and understanding of the credit union employees involved in the securitization programs, as well as segregation of duties;
  - the extent and quality of stress testing programs (including the back testing of their liquidity projections), tools and techniques, and the validity and reasonableness of assumptions and scenarios used;
  - the adequacy of contingency funding planning and validity of assumptions used;
  - the form and content of Board reporting including the discussion and analysis of the current and forecast use of securitizations and risk assessments;
  - the reports from the internal auditor and any special audit assessment outlining the credit union's adherence to the controls put in place as part of the securitization risk framework;
  - the explicit documentation relating to the identification and assessment of director competencies related to securitization risk management, in accordance with the Guidance Note: Director Training and Qualifications;
  - the continuing education of directors to ensure that they are properly educated as to the risks and operational characteristics of the securitization program and the various vehicles used by the credit union;
  - the level of analysis completed by senior management and approved by the Board, prior to beginning, or expanding the size of, the securitization program, including an ERM assessment of the program;
  - the policies and controls in place to maintain the level of the securitization program within the limits set out and approved by the Board;
  - the documentation of the Board's assessment of securitization and how it fits into the business strategy and the business plan for the credit union; and
  - the Internal Auditor's role in reviewing the policies and controls that govern the securitization program.
- 5) DICO expects the Audit Committee to oversee the management of the securitization program. As the size and complexity of the securitization program increases, the level of understanding and competencies of the Audit Committee and Board regarding the securitization structures being used by the credit union should also be enhanced (refer to the Securitization Application Guide for more information).

**Table 1: DICO CRITERIA and OVERSIGHT EXPECTATIONS FOR SECURITIZATION PROGRAMS  
(includes On- and Off-Balance Sheet exposures)**

DICO has developed a three level approach in determining its level of oversight and expectations depending upon the size and complexity of the securitization program as defined by the following six criteria. The level of oversight expectations will be determined using the highest level identified for any of the following criteria. For example: If a credit union participates in non-government securitizations, regardless of the total amount of securitization obligations outstanding, they would be categorized as being in Level Three.

<b>SECURITIZATION CHARACTERISTICS</b>			
<b>CRITERIA:</b>	<b>LEVEL ONE</b>	<b>LEVEL TWO</b>	<b>LEVEL THREE</b>
TOTAL SECURITIZATION OBLIGATIONS OUTSTANDING <i>(as a% of Regulatory Capital and Deposits)</i>	≤10%	>10% and ≤ 25%	> 25%
TOTAL AMOUNT OF NON-GOV'T SPONSORED SECURITIZATIONS <i>(as a% of Regulatory Capital and Deposits)</i>	0%	0%	>0%
SECURITIZATION OBLIGATIONS THAT BECOME DUE IN NEXT 12 MONTHS	≤ 5%	>5% and ≤ 10%	>10%

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<i>(as a% of Regulatory Capital and Deposits)</i>			
ASSETS PURCHASED FROM THIRD PARTY FOR INCLUSION IN SECURITIZATION POOLS	NONE		YES
OFF BALANCE SHEET SECURITIZATIONS (Derecognition)	NO		YES
<b>OVERSIGHT EXPECTATIONS</b>			
<b>EXPECTATIONS:</b>	<b>LEVEL ONE</b>	<b>LEVEL TWO</b>	<b>LEVEL THREE</b>
BOARD	Board should oversee the clear definition of strategic and business objectives with respect to securitizations and its role in liquidity and growth strategies. Business strategies are aligned with the purpose of the securitization programs used by the credit union.		
	Board should oversee that there is a clearly formulated policy that they approve which includes a comprehensive statement reflecting the Board's risk appetite with identified risk tolerances and limits that support that appetite.		
	Board receives annual securitization training with training activities included as part of the By-Law No. 5 attestations.		
	Evidence of director competencies in securitization with at least one board member rated as "good". Independent external consultants with "good" competencies in securitization may be hired by the Board to provide assistance. Consultants should be	Evidence of director competencies in securitization with at least one board member rated as "strong" OR an independent external consultant with "strong" competencies in securitization may be hired by the Board to provide this level of expertise to assist the Board. Consultants should be involved in all	Evidence of director competencies in securitization with at least one board member rated as "strong" and one member rated as "expert" in securitization programs and products in use OR an independent external consultant with "expert" competencies in securitization may be hired by the Board to provide this

	involved in all aspects of the review of securitization programs	aspects of the review of securitization programs	level of expertise to assist the Board. Consultants should be involved in all aspects of the review of securitization programs
	Evidence of competent oversight of the securitization programs by the Audit Committee including comprehensive review and discussion at the Audit Committee and Board Level.		
	Board approval of all new securitization programs or structures		
BOARD REPORTING  (With Reports provided to DICO within 14 days after the Board meeting)	At inception of each new securitization program, a business case outlining the securitization program including the strategy to be followed, an analysis of benefits, risk assessment and mitigating controls to be implemented.		
	<p>Quarterly:</p> <ol style="list-style-type: none"> <li>1. Securitization Reporting Template</li> </ol> <p>Annually:</p> <ol style="list-style-type: none"> <li>2. Securitization Status Update</li> <li>3. Financial Forecast Base Case (Budget Plan)</li> <li>4. Financial Forecast Variance Analysis</li> <li>5. LCR/NSFR/NCCF</li> <li>6. Securitization Specific Stress Test</li> <li>7. Internal Audit Work Plan</li> <li>8. Updated Risk Assessment including how securitization is utilized and managed</li> </ol>	<p>Quarterly:</p> <ol style="list-style-type: none"> <li>1. Securitization Status Update</li> <li>2. Financial Forecast Base Case (Budget Plan)</li> <li>3. Securitization Reporting Template</li> <li>4. Financial Forecast Variance Analysis</li> </ol> <p>Annually:</p> <ol style="list-style-type: none"> <li>5. Securitization Specific Stress Test (more frequently if changes in market conditions warrant)</li> <li>6. LCR/NSFR/NCCF</li> <li>7. Internal Audit Work Plan</li> <li>8. Updated Risk Assessment including how securitization is utilized and managed</li> </ol>	<p>Quarterly:</p> <ol style="list-style-type: none"> <li>1. Securitization Status Update</li> <li>2. Financial Forecast Base Case (Budget Plan)</li> <li>3. Securitization Reporting Template</li> <li>4. Financial Forecast Variance Analysis</li> <li>5. LCR, NSFR, NCCF</li> <li>6. Securitization Specific Stress Test</li> </ol> <p>Annually:</p> <ol style="list-style-type: none"> <li>7. Internal Audit Work Plan</li> <li>8. Updated Risk Assessment including how securitization is utilized and managed</li> </ol>

MANAGEMENT EXPERTISE	Demonstrable understanding of accounting, legal, financial and risk implications of securitization.	Demonstrable understanding of accounting, legal, financial and risk implications of securitization, with at least one member of the management team with a minimum of two years of transactional experience. Equivalent experience should also be present in internal audit or risk function within the credit union.	Demonstrable understanding of accounting, legal, financial and risk implications of securitization, with at least two members of the management team with a minimum of three years of experience. Equivalent experience should also be present in internal audit or risk function within the credit union.
	Documented and tested systems and processes that are appropriate for the scale and complexity of the securitization program.		
POLICIES AND RISK APPETITE	Prudent Board-approved policies and risk appetite that meet the principles outlined throughout this Guidance Note. Policy should include board approved limits for (a) total aggregate securitizations (on- and off-balance sheet), and (b) total amount of securitizations that are due in the following 12-month period.	Prudent Board-approved policies and risk appetite that meet the principles outlined throughout this Guidance Note. Policy should include board approved limits for (a) total aggregate securitizations (on- and off-balance sheet), (b) total non-government sponsored securitizations, and (c) total amount of securitizations that are due in the following 12-month period.	
NON-GOVERNMENT SPONSORED SECURITIZATION PROGRAMS	Board approved policy that states that the credit union will not be participating in any non-government sponsored securitization programs	Credit union to provide the following information to DICO prior to commencement of any non-government sponsored securitization programs: contracts governing the program, legal reviews completed to review the securitization contracts, business case analysis of the new program, "plain	

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		language” summary of the proposed program including full description of the structure, counterparties and any other pertinent information in order to provide DICO a full understanding of the proposed program.
RISK MANAGEMENT	Inclusion of securitization as part of the comprehensive ERM considerations and discussion including full risk inventory, risk mitigants, analysis, and assessment (minimum of annual review, or as changes in market conditions require)	
INTERNAL AUDIT	Securitization included as part of the internal audit scope on an annual basis for the first 2 years, with the first review within 12 months of the effective date of the securitization guidance. Securitization included as part of the internal audit scope at a minimum of every 2 years after the initial 2-year period.	Securitization part of the internal audit scope on an annually basis with the first review within 12 months of the effective date of the securitization guidance.
INDEPENDENT REVIEW	No requirement for independent review	Additional independent reviews required before government sponsored programs reach 25% of regulatory capital and deposits, as well as prior to utilizing a new, non-government sponsored, securitization program or conduit.
MANAGEMENT REPORTING AND ANALYSIS	Agenda item for senior management on a monthly basis to review securitization programs (outlining the level of securitization versus plan, risk assessment update, revised forecasts, etc.) to senior executive with minutes of meetings provided to DICO.	
ADDITIONAL REPORTING	N/A	Credit unions to provide a 3-year business plan (updated and provided to DICO on annually) outlining the overall funding program and the part that securitization is forecast to provide over the planning horizon.

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The first submission date for the “Securitization Reporting Template” is January 21<sup>st</sup>, 2019 based on December 31<sup>st</sup>, 2018 data. Subsequent submissions are due 21 days after quarter end as follows:

- Due by April 21<sup>st</sup> for March 31<sup>st</sup> reporting date
- Due by July 21<sup>st</sup> for June 30<sup>th</sup> reporting date
- Due by October 21<sup>st</sup> for September 30<sup>th</sup> reporting date
- Due by January 21<sup>st</sup> for December 31<sup>st</sup> reporting date

The first submission date for all other reports (as outlined in this guidance note under “Board Reporting”) is May 15<sup>th</sup>, 2019.

Thereafter, Board reporting packages, including all “quarterly reports” as outlined in Table 1 should be provided to DICO by:

- **February 15<sup>th</sup>** based on December 31<sup>st</sup> reporting results;
- **May 15<sup>th</sup>** based on March 31<sup>st</sup> reporting results;
- **August 15<sup>th</sup>** based on June 30<sup>th</sup> reporting results;
- **November 15<sup>th</sup>** based on September 30<sup>th</sup> reporting results.

Board reporting packages for “annual reports” as outlined in Table 1 should be provided to DICO **within 14 days** after the Board meeting at which the annual business plan is approved.