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SECTOR RELEASE

No. 76

TO: All Board of Directors, Managers and CEOs

FROM: Suzanne Tucker, Manager, Policy & Research

DATE: July 29, 2016

SUBJECT: **Implementation of ICAAP and Stress Testing for Credit Unions with Assets in Excess of \$500 million**

In March 2014, DICO issued guidance requiring credit unions with assets in excess of \$1 billion to implement an Internal Capital Adequacy Assessment Process (ICAAP) and stress testing program (Sector Release No. 69). Also, DICO indicated implementation would be expanded to other credit unions as experience was gained with the Guidance. To that end, beginning in 2017, **credit unions with assets in excess of \$500 million will be required to submit an ICAAP report to DICO.**

Credit unions with assets between \$500 million and \$1 billion with fiscal year ends falling on or after December 31, 2016, must make their first ICAAP submission according to the following schedule:

- For 2017, credit unions must submit the Summary Key Metrics Report, as presented in Appendix 1 of the ICAAP Guidance Note, 270 days after their fiscal year end and include the mandatory stress tests as outlined in Section 4 iv Stress Testing.
- For 2018, credit unions must submit the full ICAAP Submission Report.

DICO has developed the following Guidance and Application Guides to assist credit unions in completing and filing their ICAAP Submission Report:

["Guidance Note: Internal Adequacy Assessment Process \(ICAAP\) – Class 2 Credit Unions \(March 2014\)"](#)

This document outlines DICO's expectations with respect to a credit union's ICAAP. It also reviews the criteria DICO will consider when evaluating and assessing inherent risks, the quality of risk management practices and the adequacy of capital. The ["Application Guide: Internal Adequacy Assessment Process \(ICAAP\)"](#) provides helpful information regarding the submission requirements, mandatory stress tests and summary key metrics report.

["Guidance Note: Stress Testing – Class 2 Credit Unions \(March 2014\)"](#)

This document outlines DICO's expectations with respect to stress testing and the criteria DICO will consider when assessing the credit union's risk management, business planning, and capital and liquidity management processes.

Also, a webinar will be scheduled in October to provide further assistance to credit unions making their first ICAAP submission. Topics covered will include an overview of ICAAP and stress testing and outline DICO's expectations.

Directors may wish to consider the following sample questions for discussion at an upcoming Board meeting:

1. Do we currently have an ICAAP policy and process in place?
2. If so:
 - a. When was our policy last reviewed?
 - b. Is it still appropriate for our credit union's size, complexity and risk profile?
 - c. Does it fulfill the minimum requirements as set out in DICO's Guidance Notes on ICAAP and Stress Testing?
 - d. Do capital reserves reflect the inherent risks of the credit union and support current and planned operations under regular and stressed scenarios?
 - e. Is capital sufficient in stress scenarios identified?
 - f. Is there an action plan to address the potential insufficiency of capital reserves under the stress scenarios?
3. If we do not have a policy or process, has a work plan been developed to create an ICAAP and Stress Testing program?

It is to be noted that while not currently required to submit an ICAAP report to DICO, credit unions with assets less than \$500 million may choose to voluntarily develop an ICAAP and stress testing program.

Should you have any questions, please contact your Relationship Manager.