STANDARDS OF SOUND BUSINESS PRACTICE

CAPITAL ADEQUACY REQUIREMENTS

CREDIT UNION DEPOSITS GUARANTEED SINCE 1953 DEPOSIT GUARANTEE CORPORATION

MANDATE

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral), together, Provincially Regulated Financial Institutions or "PRFIs", as directed in provincial legislation – *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016*. The Corporation instills confidence in the province's credit union system with a mandate of:

- guaranteeing the repayment of deposits in Saskatchewan credit unions
- establishing regulatory standards and ensuring PRFIs are performing to those standards
- promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system
- directing PRFIs to take remedial action on material deficiencies and any issue that may put depositors' funds at risk
- maintaining and managing a guarantee fund in a sound and prudent manner

VISION

To instill public confidence in the Saskatchewan credit union system.

VALUES

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct which provides a common frame of reference for staff, management, and the board in fulfilling the Corporation's mandate and strategic focus.

Co-operation:
As part of the co-operative financial services system, we respect co-operative principles and support credit unions and SaskCentral in enhancing their strength and development by working together.

Honesty & Integrity:
We perform our duties conscientiously with the highest level of honesty and professional integrity.

Fairness:
We approach issues and decisions with common sense, sound judgement, fairness, and consistency.

Responsible Regulation:
We act to protect the rights and interests of Saskatchewan depositors. We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing credit unions' ability to compete in the market.

Leadership:
We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of PRFIs.

Teamwork & Respect:
We work as a team to achieve goals and progress towards our common vision. We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness, and the highest standards of ethics. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

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This reference guide has been published for use by provincially incorporated Saskatchewan credit unions. It outlines the Standards of Sound Business Practice - Capital Adequacy Requirements, set by Credit Union Deposit Guarantee Corporation, in consultation with the Registrar of Credit Unions, under *The Credit Union Act, 1998*.

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Regulatory Guidance Documents, the Supervisory Framework and assessment criteria for reviewing credit unions are available on the Corporation’s credit union intranet. Information pertaining to the Corporation’s roles and responsibilities, deposit guarantee fund, and the legislative framework for Saskatchewan credit unions is available on both the Corporation’s credit union intranet and public website.

Changes to the Standards of Sound Business Practice – Capital Adequacy Requirements will be communicated when they take effect.

January 1, 2024

I. GENERAL INFORMATION

1. INTRODUCTION

The Credit Union Act, 1998 (the Act) empowers Credit Union Deposit Guarantee Corporation (the Corporation), in consultation with the Registrar of Credit Unions, to establish Standards of Sound Business Practice (the Standards). The objectives of the Standards are to:

- establish principles and minimum requirements for corporate governance and the control environment that contribute to the sound and prudent operations of credit unions and the protection of deposits
- prescribe limits and restrictions for credit unions in the context of sound business practices to manage and control exposure to risk

The Standards may be supplemented, expanded upon, and brought into effect by the other components that comprise the Corporation’s regulatory framework. These components include, but are not limited to, regulatory guidelines, directives, filing instructions, and bulletins (collectively, Regulatory Guidance Documents).[1] The Standards and the Regulatory Guidance Documents must be adhered to by Saskatchewan credit unions. Additionally, the Act and other provincial and federal legislation create legal requirements and obligations that credit unions must comply with. The Corporation’s supervisory processes are a component of the regulatory framework. The supervisory processes are used to assess the safety and soundness of credit unions and proactively respond to credit unions demonstrating elevated risk.

While the Corporation establishes prudential requirements for credit unions, boards of directors (boards) of credit unions are ultimately responsible for the sound and prudent operation of their organizations. Boards and senior management are required to establish strong risk management cultures, guided by sound risk management practices that support and provide appropriate standards and incentives for professional, prudent behaviour. As such, the Standards emphasize the careful and practical judgement that would be exercised by a reasonable person in the financial services industry, having regard to:

- the objectives of the credit union
- all the risks to which the credit union is exposed
- the amount and nature of the credit union’s liquidity and capital
- the regulatory compliance obligations of the credit union

The effective date of these Standards is January 1, 2024. New or revised principles, requirements, limits, and restrictions contained in these Standards are not retroactive.

[1] Regulatory Guidance Documents can be found on the Corporation’s credit union intranet at https://cudgcsk.sharepoint.com/sites/CUIntranet.

2. NON-COMPLIANCE

Where the Corporation determines a credit union is not in compliance with the Standards or Regulatory Guidance Documents, the Corporation may take any necessary action. Necessary action may include, but is not limited to:

- reducing or restricting the credit union's authorities and limits
- subjecting the credit union to preventive intervention
- issuing a compliance order
- placing the credit union under supervision or administration
- issuing an amalgamation order

3. EXCEPTION APPROVALS

Requests by a credit union for exceptions to, or a waiver of, the requirements under the Standards and/or Regulatory Guidance Documents must be accompanied by a detailed business case analysis including:

- policy recommendations
- financial projections
- any additional information that may be required by the Corporation

Exception approvals will be granted in exceptional circumstances only.

II. CAPITAL STANDARDS

The Standards of Sound Business Practice – Capital Adequacy Requirements (Capital Standards) set out the principles and minimum requirements for the quantity and quality of capital that credit unions are required to hold and how it is calculated. The Capital Standards are to be applied in conjunction with other elements of the regulatory framework, including:

- The Act and *The Credit Union Regulations, 1999* (the Regulations), which specify requirements respecting capital adequacy.
- The Standards of Sound Business Practice, which set out the principles and minimum requirements related to credit union operations and business practices.
- The Standards of Sound Business Practice – Liquidity Adequacy Requirements (Liquidity Standards), which set out the principles and minimum requirements for the quantity and quality of liquid assets that credit unions are required to hold.
- Regulatory Guidance Documents.

1. REGULATORY CAPITAL

Eligible Capital consists of the sum of the following elements:

- Tier 1 Capital, consisting of:
  - Common Equity Tier 1 Capital
  - Additional Tier 1 Capital
- Tier 2 Capital

The criteria for the elements of capital, as well as the various limits, restrictions and regulatory adjustments that apply, are described in Section 4 – Calculating Minimum Capital Ratios.

2. TOTAL RISK-WEIGHTED ASSETS

Total Risk-Weighted Assets consist of the sum of the following elements:

- risk-weighted on- and off-balance sheet exposures
- risk-weighted assets equivalent for operational risk

3. LIMITS AND RESTRICTIONS

The following limits and restrictions are regulatory minimums. The Corporation expects credit unions to establish capital limits that:

- support prudent operations
- are appropriate for the credit union’s risk profile, risk appetite, and risk tolerance
- are aligned with the credit union’s stress testing program and internal capital adequacy assessment process (ICAAP)
- are stricter than regulatory minimums

Minimum Risk-Weighted Capital – as a % of Risk-Weighted Assets

	Regulatory Limits (as a % of risk-weighted assets)		
	Common Equity Tier 1	**Total Tier 1**	**Total Eligible Capital**
Minimum	4.5%	6.0%	8.0%
Conservation buffer	2.5%	2.5%	2.5%
Minimum plus conservation buffer	7.0%	8.5%	10.5%

Conservation Buffer

In addition to the minimum capital ratios, credit unions are required to hold a capital conservation buffer. This buffer of 2.5% is comprised of Common Equity Tier 1 Capital. It is established above the regulatory limit.

The capital conservation buffer is designed to avoid breaches of the minimum capital requirement. Outside periods of stress, credit unions are required to hold buffers of capital above the regulatory minimum. If the buffer is drawn down, credit unions will be required to implement a capital plan for rebuilding the buffer within a reasonable time frame.

Capital distribution constraints will be imposed on a credit union when its buffer is drawn down. The constraints imposed only relate to distributions, not operations of the credit union. The distribution constraints increase as capital levels approach the minimum requirements. For example, a credit union with a Common Equity Tier 1 capital ratio of 5.75% would be required to maintain the equivalent of 80% of its earnings. Distributions include patronage and dividend payments and discretionary staff bonuses. The constraint applies to the proportion of earnings that a credit union is required to retain. Earnings are defined as distributable profits and are calculated after taxes. The constraint is based on the level of capital held by the credit union as set out below:

Common Equity Tier 1 Ratio (% risk-weighted assets)	Minimum Capital Conservation Ratios (% of after tax earnings)
4.5% - 5.125%	100%
> 5.125% - 5.75%	80%
> 5.75% - 6.375%	60%
> 6.375% - 7.0%	40%
> 7.0%	0%

Minimum Leverage Ratio

Eligible Capital/Assets less deductions from capital plus specified off-balance sheet exposures > 5%.

Membership shares redemption and patronage

Provided Capital Standards, including conservation buffer, are maintained, credit unions are authorized to purchase membership shares (including membership shares required and not required as a condition of membership) for the purpose of cancellation.

A credit union's earnings shall be allocated in the following order of priority:

1. capital until the Capital Standards are met
2. additional capital to support growth, development, safety, and financial soundness
3. patronage and/or dividends

4. CALCULATING MINIMUM CAPITAL RATIOS

Regulatory Capital

Eligible Capital consists of the sum of the following elements. For each of the capital categories, there is a set of criteria that instruments are required to meet for inclusion in the relevant category. These are attached as Appendix A.

Tier 1 Capital (going concern capital)

Common Equity Tier 1 Capital consists of the following elements:

- retained earnings
- contributed surplus
- accumulated other comprehensive income

Deductions from Common Equity Tier 1 Capital include the following:

- goodwill
- intangible assets
- deferred tax assets (except those arising from temporary differences)
- securitization – increases in equity capital resulting from securitization transactions (includes capitalized margin and gains on sale)
- unconsolidated substantial investments
- fair value gains/losses on own-use property
- the amount of reverse mortgage exposures that exceeds 80% Loan to Value (LTV)[2]
- premiums paid for mortgage portfolio insurance and capitalized on the balance sheet

Additional Tier 1 Capital consists of the following elements:

- qualifying membership shares and other investment shares issued by the credit union that meet the criteria for inclusion in Additional Tier 1 Capital

Tier 2 Capital (gone concern capital) consists of the following elements:

- collective allowance (max of 1.25% of risk-weighted assets)
- qualifying membership shares and other investment shares issued by the credit union that meet the criteria for inclusion in Tier 2 Capital (and are not included in Tier 1 Capital)
- subordinated indebtedness

Note: Tier 2 instruments are subject to straight line amortization in the final five years prior to maturity or the effective dates governing holders' retraction rights.

Risk-Weighted Assets

Total risk-weighted assets consist of the sum of risk-weighted on- and off-balance sheet items plus a risk-weighted assets equivalent for operational risk.

[2] The remaining amount not deducted is risk-weighted at 100%.

On-Balance Sheet Exposures

Asset Class	**Risk-Weighting**	
Cash	0%	
Federal government guaranteed	0%	
Provincial government guaranteed	0%	
Local government[3] and other public sector entities	20%	
SaskCentral liquidity deposits/senior debt	0%	
Subordinated debt and preferred shares	150%	
SaskCentral shares	100%	
Equity investments	250%	
Deposit taking institutions	Short term exposure[4]	Long term exposure
Rated AAA to AA-	20%	20%
Rated A+ to A-	20%	30%
Rated BBB+ to BBB-	20%	50%
Rated BB+ to B-	50%	100%
Rated below B- or unrated	100%	150%
Unconsolidated substantial investments (equity accounting method)	0%	
Venture capital investments[5]		
• venture capital – community based initiatives[6]	150%	
• venture capital - other	400%	

[3]Local government body includes municipalities, school boards, hospitals, universities, and social service programs that receive regular government financial support.

[4]Short term exposures are those with the time between the issue date and maturity date of 90 days or less.

[5]Venture capital investment is defined as an investment opportunity that assumes risk in anticipation of gain but recognizes a higher than average possibility of loss. The range of investments may include financing for new business, early stage development, expansion, restructure, or buyouts. On a transition basis, a 150% risk-weight can continue to be applied to all venture capital holdings and commitments made prior to January 1, 2023.

[6]Venture capital investments in community services corporations and specialized financing corporations that benefit the province of Saskatchewan as determined by the Corporation, in accordance with the *Credit Union Act, 1998* and *Credit Union Regulations, 1999.* Exposure is capped at 10% of eligible capital. Any amounts above 10% eligible capital are risk-weighted at 400%.

<table>
<tr><th>Asset Class</th><th colspan="2">Risk-Weighting</th></tr>
<tr><td>Own use investment property[7]</td><td colspan="2">100%</td></tr>
<tr><td>Retail portfolio exposures (consumer, commercial, and agricultural non-mortgage loans)
Meets retail portfolio criteria
Does not meet retail portfolio criteria</td><td colspan="2">

75%
100%</td></tr>
<tr><td>Retail portfolio exposures that arise from transactors[8]</td><td colspan="2">15%</td></tr>
<tr><td rowspan="2">Commercial and corporate exposures (including investments and non-mortgage loans)

Includes:
• corporate senior debt
• asset backed securities
• cooperatives</td><td colspan="2">Weighting is based on the credit rating</td></tr>
<tr><td>Rating
AAA to AA-
A+ to A -
BBB+ to BB-
Below BB-
Unrated</td><td>Weight
20%
50%
100%
150%
100%</td></tr>
<tr><td>Exposures secured by residential real estate[9] (including mortgages)

• insured
• uninsured</td><td colspan="2">

0%
35%</td></tr>
<tr><td rowspan="2">Exposures secured by commercial and agricultural real estate[10] (including mortgages)

Meets retail portfolio criteria
Does not meet retail portfolio criteria</td><td colspan="2">Weighting is based on Loan-to-Value (LTV) ratio[11]</td></tr>
<tr><td>LTV
≤ 60%
> 60% ≤80%
> 60% ≤80%
>80%</td><td>Weight
60%
75%
100%
150%</td></tr>
<tr><td>Land Acquisition, Development, and Construction Exposures[12]</td><td colspan="2">150%</td></tr>
</table>

[7]Own use property includes property held for future use as credit union occupied property, property held for future development, and subsequent use as credit union-occupied property and credit union property awaiting disposal.

[8]Transactors are obligors in relation to facilities such as credit cards and charge cards with an interest free grace period, where the accrued interest over the previous 12 months is less than $50. Obligors in relation to overdraft facilities or lines of credit would also be considered as transactors if there has been no drawdowns over the previous 12 months.

[9]Residential real estate is defined as immovable property that has the nature of a dwelling and satisfies all applicable laws and regulations enabling the property to be occupied for housing purposes.

[10]Commercial and agricultural real estate is immovable property that is land, including agricultural land and forest, or anything treated as attached to land, in particular buildings, in contrast to being treated as movable/personal property.

[11]The Loan-to-Value ratio should be calculated upon origination, at time of any refinancing, and whenever deemed prudent.

[12]Land acquisition, development, and construction exposures refers to commercial loans for financing of land acquisition for development and construction purposes, or development and construction of any residential or commercial property. This applies to exposures where the source of repayment is either the future uncertain sale of the property or cash flows which are substantially uncertain.

Asset Class	Risk-Weighting
Loans secured by cash or equivalent[13] and loans secured by federal or provincial government guarantee[14]	0%
Past due loans > 90 days, net of specific allowance: • insured residential mortgages • uninsured residential mortgages • all other loans, specific allowance >20% • all other loans, specific allowance < 20%	 0% 100% 100% 150%
• Fixed assets • Accounts receivable • Accrued interest • Foreclosed property • Deferred tax assets arising from temporary differences that the credit union can realize through net operating loss carrybacks • Other assets	100%
Deferred tax assets arising from temporary differences (except those previously mentioned)	250%
Intangible assets and goodwill	0%
Derivative assets related amounts	20%
Securitization – unrated retained securitization exposure Exceptions are made for: • the most senior exposure in a securitization • exposures that are in a second loss position or better in asset-backed commercial paper programs eligible liquidity facilities	1250%

Retail Portfolio Exposures

To be included in the retail portfolio, the loan must meet the following criteria:

- **orientation** – the exposure is to an individual person, or persons, or to a small business
- **product** – the exposure takes the form of any of the following: revolving credits and lines of credit, term loans, mortgage loans, and leases. Securities, whether listed or not, are specifically excluded from this category
- **granularity** – the Corporation must be satisfied that the regulatory retail portfolio is sufficiently diversified to a degree that reduces the risks in the portfolio, warranting the 75% risk-weight
- **low value of individual exposures** – the maximum aggregated retail exposure to one counterparty cannot exceed an absolute threshold of $1.5 million

[13]Cash or equivalent secured loan is defined as a loan secured by assignable:

- credit union deposit; term certificate (credit union and other financial institution); irrevocable letters of credit issued by Schedule 1 Canadian Chartered Banks; provincial or federal government guaranteed bond; or deferred grain ticket based on the credit union's policy and credit risk tolerance.

[14]Government guaranteed loan is a loan defined under federal or provincial programs or acts. This includes the: *National Housing Act (Canada)* residential and commercial mortgages; *Canada Small Business Financing Act (Canada)*; or *Canadian Agricultural Loans Act (Canada)*.

Off-Balance Sheet Exposures

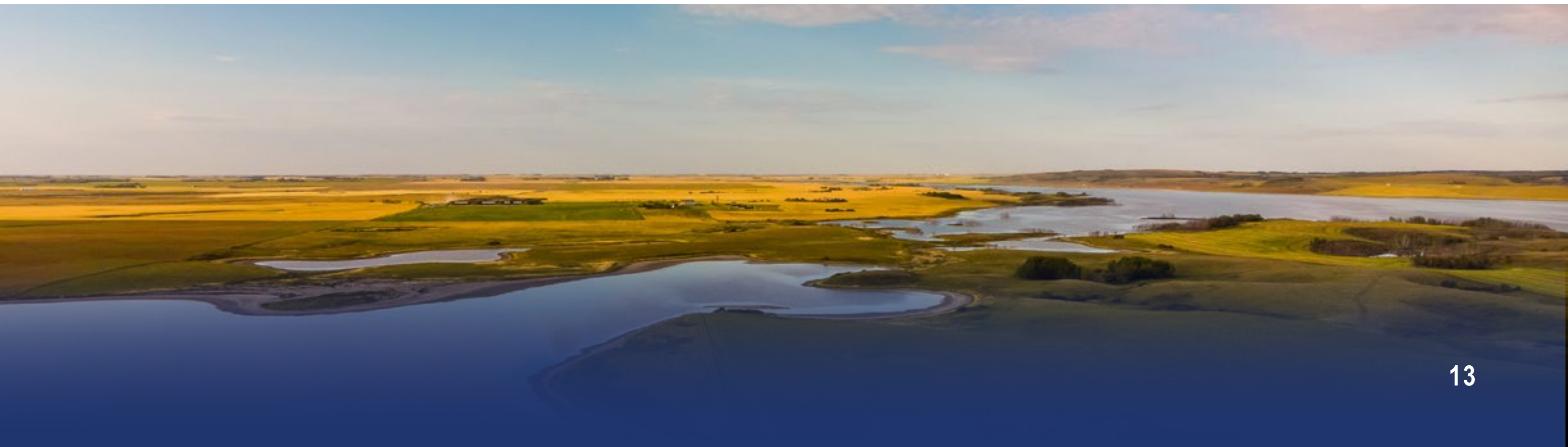
Notional Amount x Conversion Factor x Risk-Weighting

<table>
<tr><th></th><th>Conversion Factor</th><th>Risk-Weighting</th></tr>
<tr><td colspan="3">Derivatives</td></tr>
<tr><td>Interest rate swaps</td><td>0.5%</td><td>20%</td></tr>
<tr><td>Forward rate agreements</td><td>0.5%</td><td>20%</td></tr>
<tr><td>Purchased options</td><td>8.0%</td><td>20%</td></tr>
<tr><td>Credit derivatives</td><td>100%</td><td>100%</td></tr>
<tr><td colspan="3">Commitments</td></tr>
<tr><td>Unused portions of revolving credit facilities:
• unconditionally cancellable, annual review
• all others</td><td>
10%
40%</td><td rowspan="5">Equivalent on-balance sheet weighting factor</td></tr>
<tr><td>Undrawn balances of credit and charge card exposures</td><td>25%</td></tr>
<tr><td>Approved loans not yet disbursed, regardless of maturity</td><td>40%</td></tr>
<tr><td>Commercial letters of credit</td><td>100%</td></tr>
<tr><td>Asset purchase agreements</td><td>100%</td></tr>
</table>

Risk-weighted assets equivalent for operational risk

Risk-weighted assets equivalent for operational risk = 12.5 x capital charge for operational risk

Capital charge for operational risk = 15% x 3 year average of net interest income and non-interest income



5. CALCULATING THE LEVERAGE RATIO

$$\text{Leverage Ratio} = \frac{\text{Eligible Capital}}{\text{Total assets less deductions from capital plus specified off-balance sheet exposures}}$$

Eligible Capital is calculated as described in Section 4 – Regulatory Capital.

All items deducted from capital are excluded from total assets.

In calculating off-balance sheet exposures as specified below, the notional principal is multiplied by the following conversion factors:

	Conversion Factor
Derivatives	
Credit derivatives	100%
Commitments	
Unused portions of revolving credit facilities: • unconditionally cancellable, annual review • all others	 10% 40%
Undrawn balances of credit and charge card exposures	25%
Approved loans not yet disbursed, regardless of maturity	40%
Commercial letters of credit	100%
Asset purchase agreements	100%

APPENDIX A

CRITERIA FOR INCLUSION IN COMMON EQUITY TIER 1 CAPITAL

1. Represents the most subordinated claim in liquidation of the credit union.
2. Entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation (i.e., has an unlimited and variable claim, not a fixed or capped claim).
3. Principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law).
4. The credit union does nothing to create an expectation at issuance that the instrument will be bought back, redeemed, or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.
5. Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that a credit union is unable to pay distributions that exceed the level of distributable items).
6. There are no circumstances under which the distributions are obligatory. Non-payment is therefore not an event of default.
7. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including with respect to other elements classified as the highest quality issued capital.
8. It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari passu with all the others.
9. The paid in amount is recognized as equity capital (i.e., not recognized as a liability) for determining balance sheet insolvency.
10. The paid in amount is classified as equity under the relevant accounting standards.
11. It is directly issued and paid in, and the credit union cannot directly or indirectly have funded the purchase of the instrument.
12. The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity or subject to any other arrangement that legally or economically enhances the seniority of the claim.
13. It is only issued with the approval of the owners of the issuing credit union, either given directly by the owners, or if permitted by applicable law, given by the board of directors or by other persons duly authorized by the owner.
14. It is clearly and separately disclosed on the credit union’s balance sheet.

CRITERIA FOR INCLUSION IN ADDITIONAL TIER 1 CAPITAL

1. Issued and paid in.
2. Subordinated to depositors, general creditors and subordinated debt of the credit union.
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis credit union creditors.
4. Is perpetual (i.e., there is no maturity date and there are no step ups or other incentives to redeem).
5. May be callable at the initiative of the issuer only after a minimum of five years:
   a. To exercise a call option a credit union must receive prior supervisory approval. A credit union must not do anything which creates an expectation that the call will be exercised; and
   b. Credit unions must not exercise a call unless:
      i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the credit union; or
      ii. The credit union demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
6. Any repayment of principal (e.g., through repurchase or redemption) must be with prior supervisory approval and credit unions should not assume or create market expectations that supervisory approval will be given.
7. Dividend/coupon discretion:
   a. The credit union must have full discretion at all times to cancel distribution/payments.
   b. Cancellation of discretionary payments must not be an event of default.
   c. Credit unions must have full access to cancelled payments to meet obligations as they fall due.
   d. Cancellation of distribution/payments must not impose restrictions on the credit union except in relation to distributions to common stockholders.
8. Dividends/coupons must be paid out of distributable items.
9. The instrument cannot have a credit sensitive dividend feature (i.e., a dividend/coupon that is reset periodically based in whole or in part on the banking organization’s credit standing).
10. The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.
11. Instruments classified as liabilities for accounting purposes must have principal loss absorption through either:
    a. Conversion to common shares at an objective pre-specified trigger point; or
    b. A write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects:
       i. reduce the claim of the instrument in liquidation
       ii. reduce the amount re-paid when a call is exercised
       iii. partially or fully reduce coupon/dividend payments on the instrument
12. Neither the credit union nor a related party over which the credit union exercises control or significant influence can have purchased the instrument, nor can the credit union directly or indirectly have funded the purchase of the instrument.

13. The instrument cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

14. The instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g., a special purpose vehicle), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 Capital.

CRITERIA FOR INCLUSION IN TIER 2 CAPITAL

1. Issued and paid in.
2. Subordinated to depositors and general creditors of the credit union.
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general credit union creditors.
4. Maturity:
    a. Minimum original maturity of at least five years.
    b. Recognition in regulatory capital in the remaining five years before maturity will be amortized on a straight line basis.
    c. There are no step-ups or other incentives to redeem.
5. May be callable at the initiative of the issuer only after a minimum of five years:
    a. To exercise a call option a credit union must receive prior supervisory approval.
    b. A credit union must not do anything that creates an expectation that the call will be exercised.
    c. Credit unions must not exercise a call unless:
        i. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the credit union; or
        ii. The credit union demonstrates that its capital position is well above the minimum capital requirements after the call is exercised
6. The investor must have no rights to accelerate the repayment of future scheduled repayments (coupon or principal), except in bankruptcy and liquidation.
7. The instrument cannot have a credit sensitive dividend feature (i.e., a dividend/coupon that is reset periodically based in whole or in part on the banking organization’s credit standing).
8. Neither the credit union nor a related party over which the credit union exercises control or significant influence can have purchased the instrument, nor can the credit union directly or indirectly have funded the purchase of the instrument.
9. If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g., a special purpose vehicle) proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all other criteria for inclusion in Tier 2 Capital.

OPERATING PRINCIPLES

Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

Effective Regulation

As the primary prudential and solvency regulator, we support and encourage a successful credit union system by working with stakeholders to balance prudential regulation with market forces.

We recognize the need for PRFIs to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving to implement industry best practices where it is reasonable to do so
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention including:

- analyzing PRFIs' performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

Authority, Responsibility, Accountability

Authority

We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of PRFIs.

Responsibility

We exercise great care and judgement in carrying out the authority that has been granted to us.

We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

Accountability

We demonstrate accountability through fiscal responsibility.

We pursue economical business solutions to protect deposits and minimize costs to PRFIs.

Our operating methods demonstrate effective and efficient use of system resources.

Objectivity and Independence

Our actions are free of influence, interest, or relationship that would impair professional judgement or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

Openness

We communicate openly with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

Collaborative Relationships

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.