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CDIC Differential Premiums System Review — Conclusions

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Canada

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Foreword

On July 25, 2022, CDIC launched a public **consultation paper** outlining proposed changes to our Differential Premiums System (DPS). The DPS is a risk-based ratings system used to set premiums paid by member institutions into CDIC's *ex ante* fund, which supports the payout of depositors in the event of a member failure or timely resolution.

CDIC's mandate and the operating and risk environment for members have changed significantly since the DPS was last reviewed in 2014. This document concludes CDIC's review of the DPS and provides an overview of the changes, which are anticipated to be implemented in the 2025 premium year.

The DPS changes are based on 90 days of public consultations, held with member institutions and industry organizations in fall 2022. CDIC published a **summary** of the feedback on January 16, 2023. CDIC continued consultations with members in early 2023 to explore more targeted and technical areas of feedback. This document reflects those discussions.

Respondents acknowledged the need for structural changes, such as improving differentiation and fairness through the introduction of a fifth premium category, increasing the weight of the CDIC component of the Regulatory Criteria, and giving resolvability considerations greater prominence. CDIC thanks all the members and industry organizations who participated in the review and provided feedback.

Once implemented, these changes will modernize and improve the effectiveness and ability of the DPS to determine risk-based premiums payable by members to CDIC.

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Overview of DPS Changes[1]

Changes to the DPS reflect the evolving statutory, supervisory, risk, and operating environment for members. They aim to:

(i) Enhance the risk sensitivity of score results to improve differentiation and minimize cross-subsidization of risk

(ii) Adapt metrics to better reflect key financial regulatory and resolvability developments (e.g., Basel III changes, bail-in, liquidity/funding metrics, etc.)

(iii) Improve the core objective of the DPS to send an early warning signal — with financial consequences — to the management and board of directors of a member institution concerning the risk (i.e., likelihood of failure and resolvability) they pose to CDIC

Risk Categories: A key policy objective of the DPS is to differentiate members based on the relative risks they pose to CDIC. This, in turn, incentivizes them to avoid excessive risk-taking. To improve differentiation and reduce cross-subsidization of risk, members will be classified into one of five risk-based premium categories, rather than four. The addition of a fifth category will also provide CDIC with more flexibility to reduce the current "cliff effect" of premium rates associated with the current four categories.

As with the current system, each category will have a specific premium rate[2] associated with it and members will be categorized according to their DPS score:

Table 1: New Premium Categories

Score	Premium Category
≥ 90	1
≥ 80 but < 90	2
≥ 65 but < 80	3
≥ 50 but < 65	4
< 50	5

1 Refer to **Annex A** for full set of DPS changes, including any adjustments made to proposals following consultation feedback.

2 Premium rates for each category will continue to be determined annually by CDIC's Board of Directors based on ex ante funding needs. Refer to s. 3 of the ***Differential Premiums By-law*** for details on calculation of annual premium.

New Member Policy: CDIC's current policy for new members[3] does not include a way to reflect changes to a financial institution's risk profile within its first two years of membership. Under the new DPS, the policy will be adjusted to allow changes in risk to be captured during this two-year period, while providing new members, who meet a specific set of requirements, an opportunity to improve their category ahead of the usual two-year timeframe.

Under the new five-category system, a new member will be placed in category 2 for their first year of membership, unless staged by the Office of the Superintendent of Financial Institutions (OSFI), in which case they would be downgraded to category 3. After their first year of membership, the member will have the option to "opt out" of the new member policy and be assessed against individual differential premium measures, provided the requisite data is available through the Regulatory Reporting System (RRS). If the data is unavailable through RRS, they will continue to be subject to the new member policy (i.e., placed in category 2 unless staged) for the second year.

Frequency of Assessment: In order to reflect CDIC's risk exposure in a timelier manner, the frequency with which CDIC classifies members into premium categories will increase from annually to semi-annually. This will also incentivise members to correct issues identified by CDIC or the regulator quicker, allowing them the opportunity to make adjustments to potentially reduce their overall annual premiums. The frequency and dates associated with all other aspects of the premium cycle (i.e., completion of the return of insured deposits, payment of premiums) will remain unchanged.[4]

Under the new system, members will be classified as at October 31 and April 30 and receive notification of their differential premium score and associated category shortly after both dates. A member's annual premium rate will be determined using a weighted average of the rates that correspond to the applicable premium category or categories a member was classified into for each semi-annual period. This rate will then be multiplied by the member's total volume of insured deposits as at April 30 to determine their annual premium.

Regulatory Criteria (referred to as Qualitative Criteria under the current DPS): The "Other Information" component will be replaced by the "CDIC Risk and Resolvability Rating" (CDIC RRR) and expanded to incorporate:

- CDIC's assessment of factors contributing to the likelihood of failure
- CDIC's assessment of resolvability challenges for a member institution

3 Per the Differential Premiums By-law, a new member is "A member that has been operating as a member institution for less than two fiscal years consisting of at least 12 months each determined as of the end of the fiscal year ending in the year preceding the filing year." Refer to s. 7 of the ***Differential Premiums By-law*** for further details.

4 Refer to **Annex D** for overview of new premium cycle timelines.

The weight will be increased from 5 to 15 points. Sections of the current By-law relating to premium penalties for non-compliance with the *Resolution Planning By-law* (RPB) and *Data and System Requirements By-law* (DSRB) will be repealed. Instead, non-compliance with the RPB and DSRB will be reflected in the CDIC RRR. The increase in CDIC's component will be offset by an equal reduction in the weight of the Examiner Rating component (i.e., from 35 to 25 points). Refer to **Annex B** for full scorecard, including Regulatory Criteria point allocations.

Financial Criteria: The DPS scorecard's Financial Criteria (referred to as Quantitative Criteria under the current DPS) will be updated to improve its risk sensitivity and ensure it reflects appropriate risks given the latest financial sector regulatory developments. This includes the removal of certain metrics, adjustments to formulae and thresholds, and the introduction of liquidity and funding-related metrics. Refer to **Annex B** for full scorecard.

Next Steps

CDIC has started the By-law amendment process, and the internal work to operationalize the new Differential Premiums System. CDIC is targeting premium year 2025 for the new DPS to come into effect. Work to operationalize the new DPS is a multi-step process involving the drafting of amendments, Board approvals, publication in the Canada Gazette, and approval of the Minister of Finance. As we proceed with next steps, CDIC will keep members informed to ensure that changes to the DPS and timelines for compliance are well understood.

Annex A: DPS Review Proposals

This Annex outlines proposals detailed in CDIC's DPS consultation paper and subsequent adjustments where applicable.

Number of Premium Categories

Initial Recommendation:

PROPOSAL #1:

CDIC proposes amending the *Differential Premiums By-law* to increase the number of premium categories from 4 to 5, with the following scoring ranges:

Premium Category Scoring Ranges

Score	Premium Category
≥ 90	1
≥ 80 but < 90	2
≥ 65 but < 80	3
≥ 50 but < 65	4
< 50	5

CDIC will proceed with this change.

New Member Policy

Initial Recommendation:

PROPOSAL #2:

CDIC proposes amending the new member policy in the *Differential Premiums By-law*. New members will be placed in category 2 for the first two years of membership, unless staged by OSFI, in which case they would be downgraded commensurate to their risk profile.

Adjustments to Proposal:

CDIC received comments indicating that, in some cases, new members entering the federally-regulated financial system have the necessary historical data to compute the scorecard's Financial Criteria. It was recommended that a mechanism be created to assess new members through the usual DPS process after their first year.

Given that assessing members through the usual process earlier is consistent with the intent of **Proposal #2** (i.e., to allow CDIC to reflect changes to an institution's risk profile during its first two years of operation as a member), CDIC will amend this proposal as follows:

New members will be placed in category 2 for the first year of membership, unless staged by OSFI, in which case they will be downgraded to category 3. If after their first year of membership, they have the requisite data necessary to complete the scorecard's Financial Criteria metrics, they may opt out of the "new member policy" and instead be assessed through the usual DPS process. Otherwise, they will remain in category 2 for their second year of membership, unless staged by OSFI.

Frequency of Assessment

Initial Recommendation:

PROPOSAL #3:

CDIC proposes amending the *CDIC Act* to increase the frequency of classification of members into premium categories from annually to quarterly. Members will continue to estimate their volume of insured deposits on an annual basis and premiums will continue to be collected from members on a semi-annual basis.

Adjustments to Proposal:

CDIC received comments concerning the potential administrative burden that could be associated with its initial proposal to increase the frequency of assessment from annually to quarterly. In response, **CDIC has amended the original proposal and will only increase the frequency of classification of members into premium categories to semi-annually**. Furthermore, CDIC will improve and streamline the administrative efficiency of the differential premiums reporting process by aiming to fully prepopulate the differential premiums form for members based on RRS data.

Regulatory Criteria

Initial Recommendation:

PROPOSAL #4:

CDIC proposes to reduce the Regulatory Criteria's Examiner Rating component from 35 to 25 points, introduce a CDIC Risk and Resolvability Rating to replace the current "Other Information" component, and increase the weight of this component from 5 to 15 points. The CDIC Risk and Resolvability Rating would incorporate both CDIC's assessment of factors contributing to the likelihood of failure of a member institution (i.e., Internal Member Rating (IMR)) and the assessment of resolvability challenges for the member.

Adjustments to Proposal:

CDIC will proceed with this proposal. In response to comments requesting greater clarity of the compliance terminology in **Table 7** of the consultation paper, CDIC can confirm that no new compliance standard will be introduced for the RPB nor DSRB. Furthermore, existing penalties for non-compliance will be repealed, and instead incorporated in the form of DPS points[5] (refer to **Table 2** and **Table 3**).

5 I.e., sections 4.1 and 8.1 of the ***Differential Premiums By-law*** will be repealed.

Table 2: CDIC Rating Scoring — D-SIBs

IMR + Compliance	DPS Score
1-3 + Compliance RPB and DSRB	15
1-3 + Partial Non-Compliance RPB and Compliance DSRB	8
1-3 + Compliance RPB and Material Non-Compliance DSRB	5
1-3 + Material Non-Compliance RPB and Compliance DSRB	0
1-3 + Partial or Material Non-Compliance RPB and Material Non-Compliance DSRB	0
4 + Compliance RPB and DSRB	8
4 + Partial Non-Compliance RPB and Compliance DSRB	5
4 + Material Non-Compliance RPB or Material Non-Compliance DSRB	0
5 + Any Level of Compliance RPB and DSRB	0

Table 3: CDIC Rating Scoring — Non-D-SIBs

IMR + Compliance	DPS Score
1-3 + Compliance DSRB	15
1-3 + Material Non-Compliance DSRB	5
4 + Compliance DSRB	8
4 + Material Non-Compliance DSRB	0
5 + Any Level of Compliance DSRB	0

No changes will be made to the IMR or Examiner Rating scoring set out in the July 2022 consultation paper (refer to **Table 4** and **Table 5** for ease of reference):

Table 4: Examiner Rating Scoring

Composite Risk Rating		Stage Rating		Examiner Rating	DP Score
Low	+	None	=	1	25 points (max)
Moderate	+	None	=	2	22 points
Moderate	+	Staged	=	3	15 points
Above Average	+	Staged or not	=	4	8 points
High	+	Staged or not	=	5	0 points

Table 5: Internal Member Rating Categories

1	Strong
2	Acceptable
3	Potentially Vulnerable
4	Weak
5	Critically Weak

Financial Criteria

The following section outlines proposals and subsequent adjustments with respect to the metrics in the DPS scorecard's Financial Criteria. New data sources for the proposed metrics will be shared with members ahead of the coming into force of the *Differential Premiums By-law* amendments.

Capital Adequacy

Initial Recommendation:

PROPOSAL #5:

CDIC proposes to reduce the weight of the capital adequacy section from 20 to 10 points. The criterion and scoring would also differ based on whether the member is a D-SIB, Category I/II SMSB, or Category III SMSB.

D-SIB Metrics: TLAC Leverage Ratio (5 points) and Combined CET-1/Risk-Based TLAC Ratio metric (5 points)

Cat I and II Non-D-SIBs: Leverage Ratio (5 points) and Combined CET-1/Total Capital Ratio metric (5 points)

Cat III Non-D-SIBs: Combined CET-1/Total Capital Ratio metric (10 points)

Adjustments to Proposal:

CDIC will proceed with this proposal. However, **some changes will be made to the metric's terminology to ensure consistency with OSFI nomenclature**. These changes are reflected in the following tables.

Table 6: Capital Adequacy Criterion — D-SIBS

Metrics	Thresholds			Weight
TLAC Leverage Ratio	< 100% of **authorized leverage ratio** = 0 points	100 — 110% of **authorized leverage ratio** = 3 points	> 110% of **authorized leverage ratio** = 5 points	5
CET-1 and Risk-Based TLAC Ratios	< Supervisory target (CET-1) and TLAC target = 0 points	≥ Supervisory target (CET-1) or TLAC target (i.e., for 1 of 2 metrics) = 3 points	≥ Supervisory target (CET-1) and TLAC target = 5 points	5

Table 7: Capital Adequacy Criterion — Non-D-SIBS (Category I and II SMSBs)

Metrics	Thresholds			Weight
Leverage Ratio	< 100% of **authorized leverage ratio** = 0 points	100 — 110% of **authorized leverage ratio** = 3 points	> 110% of **authorized leverage ratio** = 5 points	5
CET-1 and Total Capital Ratios	Below Supervisory target for both = 0 points	At or above Supervisory target for 1 of 2 metrics = 3 points	At or above Supervisory target for both ratios = 5 points	5

Table 8: Capital Adequacy Criterion — Non-D-SIBS (Category III SMSBs)

Metrics	Thresholds			Weight
CET-1 and Total Capital Ratios	Below Supervisory target for both = 0 points	At or above Supervisory target for 1 of 2 metrics) = 6 points	At or above Supervisory target for both ratios = 10 points	10

Return on Risk-Weighted Assets

Initial Recommendation:

PROPOSAL #6:

CDIC proposes two changes to the Return on Risk-Weighted Assets criterion:

(i) alter the upper scoring threshold (from < 1.15% to < 1.75%); and

(ii) for Category III SMSBs, replace "Adjusted Risk-Weighted Assets" in the denominator with "Adjusted Total Assets + Operational RWA".

Adjustments to Proposal:

CDIC received feedback that the increase in the upper threshold to 1.75% may be overly punitive. Following analysis, CDIC decided to lower the upper threshold **from < 1.75% to < 1.6%** (refer to Table 9), which maintains appropriate risk differentiation.

Table 9: Return on Risk-Weighted Assets

	Thresholds			Weight
Current	< 0.75% = 0 points	≥ 0.75% and < 1.15% = 3 points	≥ 1.15% = 5 points	5
Proposed	< 0.75% = 0 points	≥ 0.75% and **< 1.6%** = 3 points	≥ **1.6%** = 5 points	5

Mean Adjusted Net Income Volatility

Initial Recommendation:

PROPOSAL #7:

CDIC proposes to alter the upper and lower scoring thresholds of the Mean Adjusted Net Income Volatility ratio metric (from < 0.5 to < 0.75 and from < 1.25 to < 1.5 respectively).

CDIC will proceed with this proposal.

Table 10: Mean Adjusted Net Income Volatility

	Thresholds			Weight
Current	> 1.25 or negative = 0 points	> 0.5 and ≤ 1.25 = 3 points	≥ 0 and ≤ 0.5 = 5 points	5
Proposed	> 1.50 or negative = 0 points	> 0.75 and ≤ 1.50 = 3 points	≥ 0 and ≤ 0.75 = 5 points	5

Stress-Tested Net Income

Initial Recommendation:

PROPOSAL #8:

CDIC proposes to remove the Stress-Tested Net Income Criterion from the DPS.

CDIC will proceed with this proposal.

Efficiency Ratio

Initial Recommendation:

PROPOSAL #9:

CDIC proposes to remove the Efficiency Ratio from the DPS.

CDIC will proceed with this proposal.

Net Impaired Assets to Total Capital

Initial Recommendation:

PROPOSAL #10:

CDIC proposes to alter the scoring thresholds of the Net Impaired Assets to Total Capital metric from <20%, ≥ 20% and < 40%, and ≥ 40% to <15%, ≥ 15% and < 30% and ≥ 30% respectively.

CDIC will proceed with this proposal.

Table 11: Net Impaired Assets to Total Capital

	Thresholds			Weight
Current	≥ 40% = 0 points	≥ 20% and < 40% = 3 points	< 20% = 5 points	5
Proposed	≥ 30% = 0 points	≥ 15% and < 30% = 3 points	< 15% = 5 points	5

Three-Year Moving Average Asset Growth

No changes are proposed to either the formula itself or the current thresholds.

Real Estate Concentration Ratio

Initial Recommendation:

PROPOSAL #11:

CDIC proposes that a Real Estate Concentration Ratio metric be introduced for D-SIBs and that it continues to apply to non-D-SIBs.

Adjustments to Proposal:

Based on feedback that elements of the numerator and denominator for the first step of the metric are not sourced from the same time period, and may be inconsistent in their expected credit losses (ECL) application, **CDIC will change the approach to use a consistent time period for all variables**. Furthermore, in light of a comment that the metric may be inconsistent in geographic scope, **CDIC will change the formula to treat mortgages consistently, regardless of geography.**

Asset Encumbrance Measure

Initial Recommendation:

PROPOSAL #12:

CDIC proposes that the Asset Encumbrance metric be applied to non-D-SIBs, in addition to D-SIBs. Furthermore, Derivative Liabilities would be subtracted from the numerator and Impairment would no longer be subtracted from the denominator of the formula used to calculate the Unencumbered Asset Concentration ratio.

Adjustments to Proposal:

CDIC will apply this metric to non-D-SIBs (in addition to D-SIBs), as well as make the above changes to the numerator and denominator of the formula. However, further threshold analysis for this metric indicated the original threshold for Unencumbered Asset Concentration of 100% is sufficient to provide appropriate differentiation. Therefore, that **threshold will remain at 100%.**

Table 12: Asset Encumbrance

	Thresholds			Weight
Current	> 50% on Pledged Asset Ratio = 0 points	≤ 50% on Pledged Asset Ratio = 3 points	≤ 100% on Unencumbered Asset Concentration = 5 points	5
Proposed	> 40% on Pledged Asset Ratio = 0 points	≤ 40% on Pledged Asset Ratio = 3 points	≤ **100%** on Unencumbered Asset Concentration = 5 points	5

Aggregate Commercial Loan Concentration Ratio

No changes are proposed to either the formula itself or the current thresholds.

Liquidity and Funding

Initial Recommendation:

PROPOSAL #13:

CDIC proposes allocating 15 DPS points to a criterion that measures liquidity risk, from both the liquidity profile and funding profile dimensions. Given differing regulatory requirements and funding structures for larger, more complex banks, CDIC proposes separate criteria for D-SIBs and non-D-SIBs.

CDIC will proceed with this proposal.

High Quality Liquid Assets (HQLA) to Short-Term Funding

Initial Recommendation:

PROPOSAL #14:

CDIC proposes an HQLA to Short-Term Funding criterion to measure an institution's high quality liquid assets as a percentage of short-term funding. This criterion would apply to both D-SIBs and non-D-SIBs and would be worth a maximum of 5 points.

Adjustments to Proposal:

CDIC received several comments concerning the value of this proposed criterion relative to existing regulatory liquidity metrics (e.g., Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Net Cumulative Cash Flow (NCCF)). While these metrics are valuable components of the regulatory liquidity framework, HQLA to Short-Term Funding provides a complementary view of a member's liquidity profile, it has features that make it useful for DPS purposes, and it achieves a key policy objective of the DPS by appropriately differentiating members on the basis of their liquidity risk.

CDIC also received feedback that the proposed criterion would not appropriately capture nuances of liquidity profiles for members with large, complex balance sheets spanning multiple jurisdictions. As a result, CDIC will **not** proceed with the HQLA to Short-Term Funding criterion for D-SIBs at this time. Instead, D-SIBs will be subject to the LCR.

CDIC's analysis confirmed that the proposed criterion, with some adjustments, continues to work well and appropriately differentiate medium and smaller-sized institutions. Therefore, CDIC will proceed with the inclusion of HQLA to Short-Term Funding in the DPS for non-D-SIBs. In order to better capture a more complete liquidity and funding profile, the formula will be adjusted, such that the NCCF return(s) will be used as the primary data source (i.e., input for HQLA and <1 year liabilities by remaining maturity)[6].

The change in data source required CDIC to conduct new analysis to determine thresholds that appropriately differentiate members. Refer to **Table 13** for new thresholds.

6 The I3 return was used as a data source for <1 year liabilities in CDIC's original proposal. Instead, members will use the NCCF return commensurate with their SMSB proportionality category (i.e., Comprehensive NCCF, Streamlined NCCF or Operating Cash Flow) in calculating the metric.

Table 13: High Quality Liquid Assets to Short-Term Funding (Non-D-SIB Only)

	Thresholds			Weight
Original Proposal	< 5% = 0 points	≥ 5% and < 10% = 3 points	≥ 10% = 5 points	5
Final Proposal	**< 10% = 0 points**	**≥ 10% and < 15% = 3 points**	**≥ 15% = 5 points**	5

Net Stable Funding Ratio

Initial Recommendation:

PROPOSAL #15:

CDIC proposes that the Net Stable Funding Ratio (NSFR) be applied to D-SIBs to measure their funding stability for DPS purposes, for a maximum of 10 points.

Adjustments to Proposal:

CDIC will proceed with this proposal. However, given the addition of the LCR and removal of HQLA to Short-Term Funding for D-SIBs, the NSFR will now be worth a maximum of 7.5 points rather than 10. Thresholds for the NSFR will still be linked to requirements set out in Liquidity Adequacy Requirements (LAR) guidelines.[7] A member that is below minimum requirements (100%) will still earn 0 points, while a member must have a ratio of 110% or greater to earn maximum points. Changes to point values are outlined in **Table 14**.

Table 14: Net Stable Funding Ratio (D-SIB Only)

Thresholds			Weight
< 100% = 0 points	≥ 100% and < 110% = 4 points	≥ 110% = 7.5 points	7.5

7 OSFI's LAR Guideline provides a framework for assessing the liquidity adequacy of banks, bank holding companies, and federally regulated trust and loan companies.

Stable Funding Ratio

Initial Recommendation:

PROPOSAL #16:

CDIC proposes a simplified funding stability criterion for non-D-SIBs: the Stable Funding Ratio. This criterion would be worth a maximum of 5 points.

CDIC will proceed with this proposal.

Table 15: Stable Funding Ratio (Non-D-SIB Only)

Thresholds			Weight
< 20% = 0 points	≥ 20% and < 45% = 3 points	≥ 45% = 5 points	5

Brokered Deposits Measure

Initial Recommendation:

PROPOSAL #17:

CDIC proposes a criterion that will apply to non-D-SIBs and measure an institution's reliance on brokered deposits as a proportion of total assets, as well as the tenor of those deposits. This criterion would be worth a maximum of 5 points.

Adjustments to Proposal:

CDIC received feedback identifying an inconsistency between the Brokered Deposits Measure and Stable Funding Ratio (i.e., **Proposal #16**) in their respective treatment of whether long-term (>1 year) brokered deposits are "stable" or not. CDIC will address this by ensuring these deposits are considered "stable" in both metrics. Accordingly, for alignment, CDIC has adjusted the Brokered Deposits Measure by combining the two formulas into one ratio that divides <1 year brokered deposits by total assets:

$$\textbf{\textit{Brokered Deposits Ratio: }} \frac{\textbf{<1 \textit{Year Brokered Deposits}}}{\textbf{\textit{Total Assets}}}$$

The thresholds for the combined measure are summarized in **Table 16**:

Table 16: Brokered Deposit Ratio (Non-D-SIB Only)

Thresholds			Weight
≥ 25% = 0 points	≥ 15% and < 25% = 3 points	< 15% = 5 points	5

Liquidity Coverage Ratio

NEW PROPOSAL:

In response to consultation feedback, CDIC will implement an additional metric. CDIC proposes that the Liquidity Coverage Ratio (LCR) be applied to D-SIBs to help measure their liquidity profile for DPS purposes, for a maximum of 5 points.

CDIC did not initially include the LCR in its set of proposed liquidity and funding metrics as it is not available for all members and does not allow for appropriate differentiation of all members in a way that aligns with CDIC's view of liquidity risk. However, feedback was received indicating it may help provide a more complete picture of member funding and liquidity profiles, particularly for those with more complex balance sheets.

In response to this feedback, CDIC believes it prudent to include the LCR for D-SIBs only, to complement the NSFR. Therefore, CDIC proposes a LCR criterion that would apply only to D-SIBs. The LCR is an internationally recognized measure developed as part of the Basel III international liquidity framework. It is designed to ensure banks hold a sufficient reserve of HQLA to allow them to survive a period of significant liquidity stress lasting 30 calendar days.

$$\text{LCR: } \frac{\textit{Stock of HQLA}}{\textit{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

Per OSFI's LAR guidelines, the LCR should be equal to at least 100% on an ongoing basis. Both numerator and denominator definitions and thresholds are linked to requirements set out in LAR guidelines. The ratio will be worth a maximum of 5 DPS points. A member that is below minimum requirements (100%) will earn 0 points, while a member must have a ratio of 110% or greater to earn maximum points.

Table 17: Liquidity Coverage Ratio (D-SIB Only)

Thresholds			Weight
< 100% = 0 points	≥ 100% and < 110% = 4 points	≥ 110% = 7.5 points	7.5

Annex B: New Differential Premiums System Scorecard

New Differential Premiums System Scorecard — Regulatory

Non-D-SIB Criteria	Weight	D-SIB Criteria	Weight
Examiner Rating	25	Examiner Rating	25
CDIC Risk and Resolvability Rating (RRR)	15	CDIC Risk and Resolvability Rating (RRR)	15
For D-SIBs, CDIC RRR points will be awarded based on compliance with the DSRB and RPB, as well as the institution's Internal Member Rating. For non-D-SIBs, CDIC RRR points will be awarded based on compliance with the DSRB, as well as the institution's Internal Member Rating. Examiner Rating points will continue to be awarded based on input from the primary regulatory pursuant to its supervisory framework.			
Sub-total: Regulatory Score	**40**	**Sub-total: Regulatory Score**	**40**

New Differential Premiums System Scorecard — Financial

Non-D-SIB Criteria	Weight	D-SIB Criteria	Weight
Capital Adequacy[8]		**Total Loss Absorbing Capacity**	
CET-1 and Total Capital Ratios	5	CET-1 and Risk-Based TLAC Ratios	5
Leverage Ratio	5	TLAC Leverage Ratio	5
The weight of the capital adequacy section will be reduced to 10 points. Adjustments to capital metrics will also more clearly differentiate between D-SIBs, Category I/II SMSB or Category III SMSB, and align with OSFI capital rules.			
Earnings		**Earnings**	
Return on Risk-Weighted Assets	5	Return on Risk-Weighted Assets	5
Mean Adjusted Net Income Volatility	5	Mean Adjusted Net Income Volatility	5
CDIC is removing the Efficiency Ratio and Stress Tested Net Income metrics as the associated risks are captured by other profitability metrics and by the Regulatory DPS criteria. To better capture risk and improve differentiation, the scoring thresholds for the Mean Adjusted Net Income Volatility and Return on Risk-Weighted Assets metrics are altered.			

8 Category III SMSBs will be scored based on Simplified Risk-Based Capital Ratios for CET1 and Total Capital per OSFI guidelines and will not be subject to Leverage Ratio. Instead, CET-1 and Total Capital Ratios will be worth 10 points for those institutions.

Non-D-SIB Criteria	Weight	D-SIB Criteria	Weight
Asset Quality/Concentration		**Asset Quality/Concentration**	
Net Impaired Assets to Total Capital	5	Net Impaired Assets to Total Capital	5
Three-Year Moving Average Asset Growth Ratio	5	Three-Year Moving Average Asset Growth Ratio	5
Real Estate Asset Concentration Ratio	5	Real Estate Asset Concentration Ratio	5
Aggregate Commercial Loan Concentration Ratio	5	Aggregate Commercial Loan Concentration Ratio	5
The Asset Quality measures remain unchanged from the existing DPS. The Real Estate Asset Concentration ratio formula is adjusted and the metric is now also applied to D-SIBS. The thresholds applied to the Net Impaired Assets to Total Capital ratio have been adjusted to more effectively differentiate between CDIC members.			
Encumbrance/Pledging		**Encumbrance/Pledging**	
Asset Encumbrance Measure	5	Asset Encumbrance Measure	5
The Asset Encumbrance Measure applies to D-SIBs under the existing DPS. Under the new DPS, the Asset Encumbrance Measure is also applied to non-D-SIBs.			
Liquidity and Funding		**Liquidity and Funding**	
HQLA to Short-term Funding Ratio	5	Liquidity Coverage Ratio	7.5
Stable Funding Ratio	5	Net Stable Funding Ratio	7.5
Brokered Deposits Ratio	5		
Liquidity and funding risks are not separately captured in the current DPS scorecard. Under the new DPS, 15 points are allocated to criteria measuring risk from both the liquidity profile and funding profile dimensions.			
Sub-total: Financial Score	**60**	**Sub-total: Financial Score**	**60**
Total Score	**100**	**Total Score**	**100**

Annex C: Data Sources for New/ Adjusted Scorecard Metrics

The following table contains the data points required to calculate new and adjusted Financial Criteria metrics. Please reach out to CDIC for questions or clarifications.[9]

Metric	Numerator	Denominator
HQLA / Liabilities < 1 year	Please contact CDIC for calculation instructions	Please contact CDIC for calculation instructions
Brokered Deposit < 1 year / Total Assets	K4 6675 + K4 6687 + K4 6699 + K4 6774 + K4 6876 + K4 6798 + K4 6873	M4 1045
Stable Funding Ratio	(M4 0873 + M4 0874 + M4 0876 + M4 0877 + M4 0880 + M4 0881 + M4 0616 + M4 0618) - (K4 6675 + K4 6687 + K4 6699 + K4 6774 + K4 6786 + K4 6798 + K4 6873) + (M4 2357 + M4 0503 + M4 2225 + M4 1202 + M4 2604) - (M4 8659 + M4 8661 + M4 8663 + M4 0560)	M4 1045 - (M4 8659 + M4 8661 + M4 8663 + M4 0560)
Adjusted Asset Encumbrance Measure	((M4 1045 - (M4 2355 + M4 2357 + M4 0503 + M4 2225 + M4 1202 + M4 2604)) - (M4 1065 + (M4 0749 + M4 0751) + (M4 6096 + M4 6098) + M4 0634 + M4 0632 + M4 2000)	M4 1045 - (U3 9903 + U3 9900)
REAL ESTATE ASSET CONCENTRATION (Formula 1)	Timing will be adjusted for October YE members	
REAL ESTATE ASSET CONCENTRATION (Residential Properties Mortgage Loans)	E2 7866 + E2 7898	E2 7880 + E2 7964

9 Full detailed instructions will be available through the *Differential Premiums By-law Manual* on CDIC's website prior to implementation of the new system.

Metric	Numerator	Denominator
REAL ESTATE ASSET CONCENTRATION (Land Development Mortgage Loans)	E2 7871 + E2 7951 + E2 7867 + E2 7899	E2 7880 + E2 7964
REAL ESTATE ASSET CONCENTRATION (Hotel and Motel Properties Mortgage Loans)	E2 7877 + E2 7961	E2 7880 + E2 7964
REAL ESTATE ASSET CONCENTRATION (Industrial Properties Mortgage Loans)	E2 7872 + E2 7952	E2 7880 + E2 7964
REAL ESTATE ASSET CONCENTRATION (Single Family Dwelling Properties Mortgage Loans)	E2 7863 + E2 7895 + E2 7864 + E2 7896	E2 7880 + E2 7964
REAL ESTATE ASSET CONCENTRATION (Second or Subsequent Mortgage Loans)	E2 8004	E2 7880 + E2 7964
REAL ESTATE ASSET CONCENTRATION (Real Estate Under Power of Sale or Foreclosed Properties)	M4 0871 + M4 4458	E2 7880 + E2 7964

Annex D: New Premium Cycle Timelines

New DPS Reporting Timeline — 20XI Premium Year
Differential Premium Form (DPF)
Members receive two semi-annual DPFs (Pre-populated by CDIC based on RRS data), which must both be certified and submitted back to CDIC by April 30.
DPF 1: • Prepopulated by CDIC based on each MI's Q2 data. • Sent to members October 31, 20XX. **DPF 2**: • Prepopulated by CDIC based on Q4 (i.e., year-end) data. • Sent to members April 1, 20XI. **DPF 1 & 2:** • Members attest/certify and submit both DPFs back to CDIC by April 30, 20XI.
Scoring Letter
Members receive notification of interim score based on DPF 1 midway through year. Final scoring letter is sent at end of year specifying DP scores (based on DPFs 1 and 2) and final premium rate based on weighted average of premium rates associated with two categories.
Interim Score Notification: • CDIC notifies member of interim score for first six-month period (e.g., member scores 92 → Category 1 for first half of premium year) on November 30, 20XX. **Final Score Notification**: • CDIC sends member scoring letter outlining scores, categorization, and premium rates (including weighted average of two rates) by June 15, 20XI.
Return of Insured Deposits (RID)
Members submit annual RID in line with current process.
Return of Insured Deposits Submission: • Members submit RID to CDIC by July 15, 20XI based on April 30, 20XI data.
Premium Payments
Members pay premiums in one or two installments based on April 30, 20XI RID and weighted average of two assigned premium rates.
Premium Payments: • 1st installment due by July 15, 20XI • 2nd installment due by December 15, 20XI