

Financial Services Regulatory Authority of Ontario (“Authority”) Differential Premium Score Determination (“DPSD”) Document

Part A

This DPSD document is issued by the Financial Services Regulatory Authority (“Authority”) under subsection 110 of Ontario Regulation 105/22 (“Regulation”) made under the *Credit Unions and Caisses Populaires Act, 2020* (“Act”). It sets out the rules for determining the differential premium score (“DPS”) of a credit union (defined under the Act as a credit union or caisse populaire) or central¹ with a financial year beginning on or after December 31st, 2023.

Until all credit unions have been assessed at least once using the Authority’s approach guidance No. CU0083APP [*Risk Based Supervisory Framework for Credit Unions*](#) (“RBSF”), there will be a transition period (“Transition Period”) during which time the Authority will determine a credit union’s DPS pursuant to the methodology in either or both of Part B or Part C in this DPSD document as specified under the heading of “Transition Period” below. The DPS will be used by the Authority to calculate the annual deposit insurance premium payable by a credit union or central under s. 111 of the Regulation.

Transition Period

It is anticipated all credit unions will have been assessed at least once using the RBSF by December 2024. To take this timing into account, annual deposit insurance premiums will be calculated as follows:

- **For credit unions that have been assessed under the RBSF:** until all credit unions have been assessed under the RBSF, a credit union’s annual deposit insurance premium will be the **lesser** of the amount calculated using (a) Part B or (b) Part C of this DPSD document.
- **For credit unions that have not been assessed under the RBSF:** a credit union’s annual deposit insurance premium will be calculated using Part C of this DPSD document.

FSRA will provide notice when all credit unions have had their initial RBSF assessments completed. This will denote the end of the transition period, at which time Part C of this document will cease to apply and the deposit insurance premiums for all credit unions will be determined solely pursuant to Part B of this DPSD document. This DPSD, upon its publication on the FSRA website, revokes and replaces the *DICO Differential Premium Score Determination*, published in the *The Ontario Gazette*, February 10, 2018.

¹ There are no centrals in Ontario on the date of this publication.

Part B

1. Components of Differential Premium Score

The DPS of a credit union will be calculated under Part B of this DPSD document at a particular time with reference to the following components:

- Corporate governance based on ratings determined during the supervision and assessment of the credit union conducted by the Authority under the RBSF, a framework that allows the Authority to assess a credit union's risk management practices, including the governance and controls supporting and overseeing those practices, all as specified in Section 2 of Part B of this DPSD; and
- Capital as measured in section 3 of Part B of this DPSD .

The RBSF component will account for approximately 70% of the annual premium; the capital component will account for approximately 30% of the annual premium.

2. RBSF Component

The Overall Risk Rating and the Intervention Level² determined by the Authority under the RBSF and advised to a credit union in its most recently issued supervisory letter under the RBSF will be used to determine a credit union's DPS level (the "DPS Level").

Under RBSF, the Authority (a) combines quantitative and qualitative evidence to support the judgments, findings, recommendations and requirements of its supervisory processes; (b) considers quantitative and qualitative measures in the assessment of a credit union's capital and liquidity adequacy and related management programs and (c) determines an Intervention Level based among other things on a credit union's financial position, adequacy of controls and oversight and with reference to financial ratios calculated as part of the Early Warning System³.

Table 1 in Appendix 1 of Part B of this DPSD will be used to determine a DPS Level.

3. Capital Components

A capital combination number ("Capital Combination Number") will be calculated using information from the audited annual return of a credit union for its most recently completed financial year, prepared in accordance with generally accepted accounting principles, and filed with the Authority.

² "Overall Risk Rating" and "Intervention Level" are defined in the RBSF.

³ Early Warning System is an internal tool used by the Authority to calculate financial performance measures of a credit union and its peer group to monitor activities and vulnerabilities to identify areas of concern at an early date.

Two components of a credit union’s capital will be used to calculate its Capital Combination Number as follows:

- Quantity of capital: its total capital ratio⁴; and
- Quality of capital: its retained earnings as a percentage of its risk weighted assets⁴.

Table 2 in Appendix 2 of Part B of this DPSD will be used to determine a Capital Combination Number.

4. Differential Premium Score to Calculate the Annual Premium

The DPS Level and Capital Combination Number of a credit union will be used to determine its differential premium score .

The Authority will use the differential premium score as an input to the deposit insurance premium calculation outlined in [subsection 110 \(4\)](#) of the Regulation.

Table 3 in Appendix 2 of Part B of this DPSD will be used to determine a differential premium score (“B”).

If the Authority does not receive the audited financial statements and auditor’s report of a credit union (a) as required under [section 50](#) of the Regulation or (b) as otherwise approved by the Authority, the Authority can in its sole discretion assign a Capital Combination Number of 75. As a result, a credit union may be assigned a differential premium score of **zero**.

⁴ “Total capital ratio” and “risk weighted assets” have the meanings given to them in FSRA Rule 2021-002, *Capital Adequacy Requirements for Credit Unions and Caisses Populaires* (“CAR”)

Part B
Appendix 1: Determination of DPS Level

Table 1: DPS Levels

A DPS Level is determined in Table 1 at the intersection of a credit union’s Overall Risk Rating (ORR)⁵. And its Intervention Level⁵. There are nine possible DPS Levels:

Intervention Level	DPS Level				
	Overall Risk Rating (ORR)				
	Low	Low-Moderate	Moderate	Moderate-High	High
1	1	2	3		
2			4	5	
3				6	
4				7	8
5					9

⁵. “Overall Risk Rating” and “Intervention Level” are defined in the RBSF.

Part B
Appendix 2: Determination of Differential Premium Score (DPS)

Table 2: Capital Combination Number

Step 1: A Capital Combination Number is determined in Table 2 at the intersection of a credit union's Total Capital Ratio⁶ And its Retained Earnings Ratio⁷. Each ratio is calculated using information from the audited annual return of a credit union filed with the Authority pursuant to s. 200(1) of the Act for the credit union's most recently completed financial year, prepared in accordance with generally accepted accounting principles.

Capital Combination Number							
	Total Capital Ratio						
Retained Earnings Ratio	Up to 8.0%	>8.0% to 8.5%	>8.5% to 9.0%	>9.0% to 9.5%	>9.5% to 10.0%	>10.0% to 10.5%	>10.5% to 11.0%
Up to 3.0%	75	74	72	67	62	57	55
>3.0% to 3.5%	73	70	64	60	54	48	42
>3.5% to 4.0%	71	63	59	53	45	38	32
>4.0% to 4.5%	69	61	55	48	40	32	25
>4.5% to 5.0%	67	60	53	45	37	28	22
>5.0% to 5.5%	66	57	51	43	35	26	20
> 5.5%	65	56	50	41	33	24	18

	Total Capital Ratio						
Retained Earnings Ratio	>11.0% to 11.5%	>11.5% to 12.0%	>12.0% to 12.5%	>12.5% to 13.0%	>13.0% to 13.5%	>13.5% to 14.0%	>14.0%
Up to 3.0%	52	49	48	47	46	45	44
>3.0% to 3.5%	39	36	34	32	31	30	29
>3.5% to 4.0%	27	23	22	20	19	18	16
>4.0% to 4.5%	21	17	14	12	11	10	9
>4.5% to 5.0%	17	13	10	8	7	6	5
>5.0% to 5.5%	15	11	8	6	5	4	3
> 5.5%	13	9	6	4	3	2	1

⁶ "Total Capital Ratio" has the meaning given to it in the CAR.

⁷ "Retained Earnings Ratio" is calculated by dividing the retained earnings of a credit union by its Risk Weighted Assets.

"Risk Weighted Assets" has the meaning given to it in the CAR.

Part B
Appendix 2: Determination of Differential Premium Score (DPS)

Table 3: Differential Premium Score (“B”)

Step 2: A differential premium score (“B”) is determined in Table 3 at the intersection of a credit union’s Capital Combination Number and its DPS Level.

Differential Premium Score (“B”)									
Capital Combination Number	DPS Level								
	1	2	3	4	5	6	7	8	9
1	90.0	87.6	84.4	79.6	71.6	55.6	36.4	26.8	22.0
2	89.2	86.8	83.6	78.8	70.8	54.8	35.6	26.0	21.2
3	88.4	86.0	82.8	78.0	70.0	54.0	34.8	25.2	20.4
4	87.6	85.2	82.0	77.2	69.2	53.2	34.0	24.4	19.6
5	86.8	84.4	81.2	76.4	68.4	52.4	33.2	23.6	18.8
6	86.0	83.6	80.4	75.6	67.6	51.6	32.4	22.8	18.0
7	85.2	82.8	79.6	74.8	66.8	50.8	31.6	22.0	17.2
8	84.4	82.0	78.8	74.0	66.0	50.0	30.8	21.2	16.4
9	83.6	81.2	78.0	73.2	65.2	49.2	30.0	20.4	15.6
10	82.8	80.4	77.2	72.4	64.4	48.4	29.2	19.6	14.8
11	82.0	79.6	76.4	71.6	63.6	47.6	28.4	18.8	14.0
12	81.2	78.8	75.6	70.8	62.8	46.8	27.6	18.0	13.2
13	80.4	78.0	74.8	70.0	62.0	46.0	26.8	17.2	12.4
14	79.6	77.2	74.0	69.2	61.2	45.2	26.0	16.4	11.6
15	78.8	76.4	73.2	68.4	60.4	44.4	25.2	15.6	10.8
16	77.2	74.8	71.6	66.8	58.8	42.8	23.6	14.0	9.2
17	77.2	74.8	71.6	66.8	58.8	42.8	23.6	14.0	9.2
18	76.4	74.0	70.8	66.0	58.0	42.0	22.8	13.2	8.4
19	75.6	73.2	70.0	65.2	57.2	41.2	22.0	12.4	7.6
20	74.8	72.4	69.2	64.4	56.4	40.4	21.2	11.6	6.8
21	74.0	71.6	68.4	63.6	55.6	39.6	20.4	10.8	6.0
22	73.2	70.8	67.6	62.8	54.8	38.8	19.6	10.0	5.2
23	70.8	68.4	65.2	60.4	52.4	36.4	17.2	7.6	2.8
24	70.0	67.6	64.4	59.6	51.6	35.6	16.4	6.8	2.0
25	70.0	67.6	64.4	59.6	51.6	35.6	16.4	6.8	2.0
26	68.4	66.0	62.8	58.0	50.0	34.0	14.8	5.2	0.4
27	67.6	65.2	62.0	57.2	49.2	33.2	14.0	4.4	0
28	66.8	64.4	61.2	56.4	48.4	32.4	13.2	3.6	0
29	66.0	63.6	60.4	55.6	47.6	31.6	12.4	2.8	0
30	65.2	62.8	59.6	54.8	46.8	30.8	11.6	2.0	0
31	64.4	62.0	58.8	54.0	46.0	30.0	10.8	1.2	0
32	63.6	61.2	58.0	53.2	45.2	29.2	10.0	0.4	0
33	62.0	59.6	56.4	51.6	43.6	27.6	8.4	0	0
34	62.0	59.6	56.4	51.6	43.6	27.6	8.4	0	0
35	60.4	58.0	54.8	50.0	42.0	26.0	6.8	0	0
36	59.6	57.2	54.0	49.2	41.2	25.2	6.0	0	0
37	58.8	56.4	53.2	48.4	40.4	24.4	5.2	0	0
38	57.2	54.8	51.6	46.8	38.8	22.8	3.6	0	0
39	56.4	54.0	50.8	46.0	38.0	22.0	2.8	0	0
40	55.6	53.2	50.0	45.2	37.2	21.2	2.0	0	0

Part C

Part C of this document will cease to apply and the deposit insurance premiums for all credit unions will be determined solely pursuant to Part B of this DPSD document when FSRA provides notice of the end of “transition period” as outlined in section A of this document.

1. Differential Premium Score Determination

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

- Capital: as measured in Section 2 of Part C of this DPSD; and
- Corporate governance as measured by the effectiveness of the corporate governance practices of the credit union or league as determined with reference to the Act and the by-laws of the Corporation all as specified in Section 3 of Part C of this DPSD.

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

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

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

2. Capital Component

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

In part C of this DPSD, “regulatory capital” means the sum of a credit union’s Tier 1 capital and Tier 2 capital, as these terms are defined in the CAR Rule. Any term used in this section 2 of part C of this DPSD has the meaning given to it in the CAR Rule.

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

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

assets is **greater than or equal to 8.00% and less than 8.10%**, the credit union or league will receive **one** point.

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

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

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

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

3. Corporate Governance Component

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

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

**TABLE 1:
CORPORATE GOVERNANCE RATING ALLOCATIONS**

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

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

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

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

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

**TABLE 2:
BOARD OF DIRECTORS**

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

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

BOARD OF DIRECTORS

Practices and Expertise

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

Human Resources

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

Risk Management

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

Enterprise Risk Management (ERM):

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

Business Strategy and Business Plans

- establishes business objectives of the credit union or league consistent with co-

operative principles and approves the credit union's or league's business strategy and business plans

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

**TABLE 3:
AUDIT COMMITTEE**

EXAMINATION RATINGS			
ELEMENTS	ADEQUATE	NEEDS IMPROVEMENT	INADEQUATE
PRACTICES & EXPERTISE	6	3	0
INTERNAL AUDIT	6	3	0
EXTERNAL AUDIT	4	2	0
RISK MANAGEMENT & COMPLIANCE	4	2	0
MAXIMUM	20		

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

AUDIT COMMITTEE

Practices and Expertise

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

Internal Audit

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

External Audit

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

Risk Management and Compliance

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

Enterprise Risk Management:

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

**TABLE 4:
MANAGEMENT**

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

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

MANAGEMENT

Risk Management

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

Enterprise Risk Management

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

Business Strategy and Business Plans

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

Operational and Financial Results

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

Board Reports

- provides the board of directors with timely, relevant, accurate reports on the

implementation of the credit union's or league's business strategy, business and financial plans and any material risk that may affect the business objectives and financial stability of the credit union or league