DEPOSIT INSURANCE CORPORATION OF ONTARIO

BY-LAW NO. 6
RESERVES AND MONTHLY PROVISION FOR DOUBTFUL LOANS

A By-law made under section 90 of the Credit Union and Caisses Populaires Act, 1994 and section 24 of Ontario Regulation 237/09 to provide direction for establishing reserves and determining the monthly provision for doubtful loans.

Throughout this By-law, the term "credit union" also refers to "caisse populaire" and "league".

BE IT ENACTED as By-law No. 6 of the DEPOSIT INSURANCE CORPORATION OF ONTARIO (hereinafter called the "DICO"), subject to the approval of the Lieutenant Governor in Council, as follows:

For the purpose of determining monthly loan loss provisions and impairment for a loan or group of loans, a credit union shall use the expected credit loss methodology in accordance with International Financial Reporting Standard (IFRS) 9. The methodologies applied should be appropriately scaled based on the size and complexity of the credit union and its loan portfolio. The amount of the expected credit losses must be recognized in the calculation of the credit union's profit or loss for that month as a monthly provision for doubtful loans. Assessment models should take loan loss experience into consideration but also include forward looking economic projections applicable to a credit union's loan portfolio when assessing expected credit losses at loan origination and for monthly provisioning assessments. The following provides additional guidance to these standards and interpretations:

A. Expected Credit Losses

Expected credit losses and allowances for impairment can be recognized either on a collective basis for a group of loans or on an individual basis (loan by loan).

Collective Allowance

Each credit union is required to establish a collective allowance for all loans excluding those loans where an individual allowance has already been taken. Loan portfolios should be sufficiently segregated to provide for appropriate analysis and assessment of credit risks and estimations of expected credit losses. The methodology and assumptions used are to be reviewed at least annually to ensure they are reflective of actual loss experience and future forecast assumptions. The allowance should reflect management's experience and best judgement surrounding changes in economic and other conditions which may indicate changes that may be required in the expected credit losses of a group of loans.

Individual Allowance

Each credit union is required to establish an individual allowance for individually significant loans and other specifically identified individual loans.

Each credit union is required to establish in its lending policies the amount at which a loan is considered “significant” and the criteria for other loans for the purpose of assessing expected credit losses for individual loans. This may be based on a dollar amount or percentage of capital or other criteria but would generally result in ensuring that the largest value or higher risk loans for each loan category and loan type are separately assessed and provisioned.

An individual loan allowance must be established for any loan that is considered non-performing or in default.

B. Recognizing Impairment: Non-performing Loans and Loans in Default

DICO considers the existence of any of the following conditions to be an indication of a loan being impaired and for which a specific loan loss allowance should be recognized:

a) any loan where the credit union considers the borrower unlikely to repay without full recourse of the credit union including realization of security;
b) payment on any loan is contractually 90 days in arrears;
c) the debt is assigned to a collection agency;
d) the member has absconded, has made a voluntary assignment for his creditors’ benefit, has been named in a creditor’s application for a bankruptcy order under the Bankruptcy and Insolvency Act of Canada, or has made a proposal, consumer proposal, or a notice to make a proposal under the Bankruptcy and Insolvency Act of Canada; or
e) any loan which has been postponed where the recovery of principal and interest is deferred by more than six months beyond the loan’s original term.

C. Measuring Impairment

When determining estimated future cash flows, credit unions should consider the fair value of any security less any estimated legal and other costs related to the holding and disposition of the secured asset. The valuation of the security must be based on current market values and include documentation of the valuation source.

Board policy must establish monetary limits and criteria that define when an independent qualified appraisal is required and the published sources or qualifications of other persons providing other objective opinions of value. No value may be assigned to a security interest in tangible property which the credit union does not possess, which is not duly registered, or on which the registration is not in good standing (or for which the credit union does not hold non-filing insurance). No value may be given to security interests in intangible assets such as goodwill, quotas, wage assignments, personal or third- party guarantees (excluding government guarantees), or lodgment of title.

D. Loan Loss Allowance Reversal

A loan may no longer be considered impaired when the borrower’s financial circumstances have changed such that future repayment is not in doubt and the loan does not satisfy any of the conditions of impairment outlined in section B above or the IFRS 9 standard and interpretations of the International Accounting Standards Board (IASB).

In these cases, the allowance for impairment may be reversed in accordance with the standards and interpretations of the IASB.

E. Income Recognition

Write-offs and recoveries related to impaired loans should be recorded through the loan allowance account rather than being recorded directly as a charge or credit for loan impairment in the income statement. When the recorded investment in the loan is completely written off, payments should be credited to the allowance for loan impairment. Interest income on impaired loans should be recognized in accordance with the requirements outlined in IFRS 9.

F. Disclosure

The credit union shall provide separate disclosure in their annual audited financial statements of all necessary information as required by the International Financial Reporting Standards.

APPLICATION OF BY-LAW TO A CREDIT UNION:
This By-law comes into force on January 1, 2018 and the previous By-law No. 6 enacted on the 16th day of September 2010 is repealed effective December 31, 2017.

Enacted by the DICO Board of Directors on the 30th day of October 2017, subject to the approval of the Lieutenant Governor in Council by Order.

APPROVED by the Lieutenant Governor in Council by Order dated the 22nd day of November 2017.