

CREDIT UNION CAPITAL REQUIREMENTS RULES

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PART 1 – INTERPRETATION AND GENERAL RULE

Definitions

- 1** In these rules:

“**Act**” means the *Financial Institutions Act*;

“**affiliate**”, in relation to a credit union, means an affiliate within the meaning of section 2.1 of the *Credit Union Incorporation Act*;

“**Canada Mortgage and Housing Corporation**” or “**CMHC**” means the Canada Mortgage and Housing Corporation established under section 3 of the *Canada Mortgage and Housing Corporation Act*;

“**consolidated subsidiary**” means a subsidiary of a credit union whose assets and liabilities are consolidated with those of the credit union under section 2 (1) [*consolidated assets and liabilities*];

“**corporation**” has the same meaning as in section 1 (1) of the *Business Corporations Act*;

“credit risk weighted asset” means an asset weighted for credit risk in accordance with Division 3 of Part 5;

“deposit taking institution” means any of the following:

- (a) a credit union;
- (b) a bank;
- (c) a loan company;
- (d) an extraprovincial trust corporation that is authorized to carry on deposit business;
- (e) either of the following as defined in the *Cooperative Credit Associations Act* (Canada):
 - (i) a cooperative credit society;
 - (ii) an association;
- (f) an extraprovincial credit union;
- (g) a deposit taking institution in a foreign jurisdiction approved by the superintendent;

“depositor” means an individual or entity that has money on deposit with a credit union;

“equity exposure” means an exposure that meets the criteria described in section 38 [*criteria respecting equity exposures*];

“IFRS 9” means the standard entitled “IFRS 9 – Financial Instruments” adopted by the International Accounting Standards Board, as amended from time to time;

“insurance entity” means either of the following:

- (a) an insurance company;
- (b) an extraprovincial insurance corporation;

“loan company” means a loan company

- (a) that is a subsidiary of a bank, and
- (b) to which the *Trust and Loan Companies Act* (Canada) applies;

“local government” means a local government as defined in section 1 of the Schedule to the *Local Government Act*;

“membership share” means a membership share within the meaning of section 1 (1) of the *Credit Union Incorporation Act*;

“off-balance sheet assets” means the assets set out in column 1 of Table 1 of Schedule 5;

“on-balance sheet assets” means the assets set out in column 1 of Table 1 of Schedule 4;

“operational risk weighted asset” means an asset weighted for operational risk in accordance with Division 5 of Part 5;

“permitted financial entity” means an entity that provides financial services, or related services, that are one or more of the following:

- (a) services ancillary to the business authorized under the business authorization of a credit union;

- (b) businesses prescribed by section 2 of the Prescribed Types of Businesses Regulation, B.C. Reg. 575/2004;
 - (c) trust business or extraprovincial trust business;
 - (d) the business of a broker or underwriter of or dealer in securities;
 - (e) mutual fund investment;
 - (f) the business of a venture capital corporation;
- “regulatory adjustment”** means a deduction from the Tier 1 capital of a credit union of an item set out in section 13 [*regulatory adjustments*];
- “reporting date”** means the last day of the most recent financial period for the purposes of a return or report required under section 127 of the Act;
- “risk based capital ratio”** means the ratio calculated in accordance with section 4 [*calculation of risk based capital ratio*];
- “risk weight”** means a percentage factor that adjusts for the risk of an asset;
- “specific allowances”** has the same meaning as “Stage 3 allowances and partial write-offs” in IFRS 9;
- “standardized credit rating”** means an external credit rating shown in column 1 of Table 1 of Schedule 3;
- “subsidiary”**, in relation to a credit union, means a subsidiary within the meaning of section 2.1 of the *Credit Union Incorporation Act*;
- “Tier 1 capital”** means the capital of a credit union calculated in accordance with Part 3 [*Calculation of Tier 1 Capital*];
- “Tier 1 capital ratio”** means the risk based capital ratio calculated on the basis of the Tier 1 capital of a credit union;
- “Tier 2 capital”** means the capital of a credit union calculated in accordance with Part 4 [*Calculation of Tier 2 Capital*];
- “total capital”** means the sum of the Tier 1 capital and Tier 2 capital of a credit union;
- “total capital ratio”** means the risk based capital ratio calculated on the basis of the total capital of a credit union;
- “total risk weighted assets”** means the value calculated in accordance with Division 2 of Part 5 [*Calculation of Total Risk Weighted Assets*].

Consolidated assets and liabilities

- 2**
- (1) Subject to subsections (2) and (3), the assets and liabilities of a credit union must, for the purposes of these rules, be determined on a consolidated basis with the assets and liabilities of its subsidiaries.
 - (2) Subsection (1) does not apply to a subsidiary of a credit union if that subsidiary is an insurance entity.
 - (3) If a subsidiary of a credit union is a bank whose on-balance sheet assets amount to less than 10% of the total consolidated assets of the credit union, the credit union may, for the purposes of section 4 [*calculation of risk based capital ratio*], choose to

- (a) consolidate the assets and liabilities of the bank with its own assets, or
- (b) treat the assets of the bank as follows:
 - (i) apply to the assets of the bank that are commercial or personal loans and leases the risk weights set out in the Capital Adequacy Requirements (CAR) – Guideline issued by the Office of the Superintendent of Financial Institutions (Canada), as amended from time to time;
 - (ii) consolidate the remaining assets and the liabilities of the bank with its assets and liabilities.

PART 2 – RISK BASED CAPITAL RATIO REQUIREMENTS

Risk based capital ratio requirements

- 3** A credit union must maintain the following risk based capital ratios:
- (a) at all times during the 2027 calendar year,
 - (i) a Tier 1 capital ratio, as set out in column 1 of Table 1 of Schedule 1, that is equal to or greater than the minimum ratio set out opposite in column 2 of that table, and
 - (ii) a total capital ratio, as set out in column 1 of Table 1 of Schedule 1, that is equal to or greater than the minimum ratio set out opposite in column 2 of that table;
 - (b) at all times during the 2028 calendar year,
 - (i) a Tier 1 capital ratio, as set out in column 1 of Table 2 of Schedule 1, that is equal to or greater than the minimum ratio set out opposite in column 2 of that table, and
 - (ii) a total capital ratio, as set out in column 1 of Table 2 of Schedule 1, that is equal to or greater than the minimum ratio set out opposite in column 2 of that table;
 - (c) at all times on and after January 1, 2029,
 - (i) a Tier 1 capital ratio, as set out in column 1 of Table 3 of Schedule 1, that is equal to or greater than the minimum ratio set out opposite in column 2 of that table, and
 - (ii) a total capital ratio, as set out in column 1 of Table 3 of Schedule 1, that is equal to or greater than the minimum ratio set out opposite in column 2 of that table.

Calculation of risk based capital ratio

- 4** The risk based capital ratio of a credit union is the ratio determined in accordance with the following formula:

$$\text{risk based capital ratio} = \text{capital} / \text{total RWA}$$

where

capital = Tier 1 capital or total capital, as applicable;

total RWA = total risk weighted assets.

Capital conservation buffer and total ratio requirements

5 (1) In this section:

“capital distribution” means any of the following distributions made by a credit union at its own discretion:

- (a) a dividend or other payment by a credit union to the holders of an instrument issued by the credit union;
- (b) a patronage allocation;
- (c) the redemption, purchase or acquisition of equity shares, or other instruments that meet the criteria described in section 8 [*criteria for inclusion of instrument in Tier 1 capital*], issued by the credit union;
- (d) the payment of a discretionary incentive;

“earnings” means the distributable profits of a credit union less the tax payable on those profits before distributions are made;

“minimum capital conservation ratio” means the percentage of the earnings of a credit union, for the financial period that precedes the reporting date, that the credit union must retain during the financial period that begins on the reporting date.

(2) Subject to subsection (3), a credit union must maintain,

- (a) at all times during the 2027 calendar year, the capital conservation buffers set out in column 3 of Table 1 of Schedule 1 and the total ratios set out in column 4 of that table,
- (b) at all times during the 2028 calendar year, the capital conservation buffers set out in column 3 of Table 2 of Schedule 1 and the total ratios set out in column 4 of that table, and
- (c) at all times on and after January 1, 2029, the capital conservation buffers set out in column 3 of Table 3 of Schedule 1 and the total ratios set out in column 4 of that table.

(3) Subject to subsection (4),

- (a) if, in the 2027 calendar year, a credit union fails to maintain the capital conservation buffers referred to in subsection (2) (a), the credit union must maintain the minimum capital conservation ratio set out in column 2 of Table 4 of Schedule 1 that applies for the Tier 1 capital ratio of the credit union set out in column 1 of that table,
- (b) if, in the 2028 calendar year, a credit union fails to maintain the capital conservation buffers referred to in subsection (2) (b), the credit union must maintain the minimum capital conservation ratio set out in column 2 of Table 5 of Schedule 1 that applies for the Tier 1 capital ratio of the credit union set out in column 1 of that table, and
- (c) if, on or after January 1, 2029, a credit union fails to maintain the capital conservation buffers referred to in subsection (2) (c), the credit union must maintain the minimum capital conservation ratio set out in column 2 of Table 6 of Schedule 1 that applies for the Tier 1 capital ratio of the credit union set out in column 1 of that table.

- (4) A credit union must obtain the superintendent's written consent before making a capital distribution that is expected to result in the credit union failing to maintain the applicable minimum capital conservation ratio referred to in subsection (3).

PART 3 – CALCULATION OF TIER 1 CAPITAL

Division 1 – Calculation of Tier 1 Capital

Calculation of Tier 1 capital

- 6 The Tier 1 capital of a credit union is the number obtained by deducting the sum of the items set out in section 13 [*regulatory adjustments*] from the sum of the items set out in section 7.

Division 2 – Items to Be Included in Tier 1 Capital

Items to be included in Tier 1 capital

- 7 For the purposes of section 6, the following items must be added:
- (a) the retained earnings of the credit union;
 - (b) the membership shares of the credit union;
 - (c) instruments other than membership shares issued by the credit union that
 - (i) are not required to be redeemed in the 12 months after the reporting date, and
 - (ii) meet the criteria described in section 8;
 - (d) instruments other than membership shares issued by consolidated subsidiaries of the credit union and held by third parties that
 - (i) are not required to be redeemed in the 12 months after the reporting date, and
 - (ii) meet the criteria described in section 8;
 - (e) contributed surplus resulting from either of the following:
 - (i) the amalgamation of the credit union with one or more other credit unions;
 - (ii) the acquisition by the credit union of assets from another credit union under an asset transfer agreement;
 - (f) accumulated other comprehensive income of the credit union, from which the amount of the cash flow hedge reserve of the credit union that relates to the hedging of items that are not fair valued has been derecognized.

Criteria for inclusion of instrument in Tier 1 capital

- 8 (1) In this section:
- “**IAS 28**” means the standard entitled “Investments in Associates and Joint Ventures” adopted by the International Accounting Standards Board, as amended from time to time;
- “**significant influence**” has the same meaning as in IAS 28;

“step-up” means a call option on an instrument combined with an increase in the original credit spread of the instrument above the original dividend rate, taking into account any swap spread between the original reference index and the new reference index,

- (a) in an amount that is determined on the date the instrument is issued, and
- (b) that is to occur on a specified date.

(2) In order to be included in the calculation of the Tier 1 capital of a credit union, an instrument described in section 7 (c) or (d) must meet all of the following criteria:

- (a) the instrument is issued and paid in cash;
- (b) the instrument is not purchased
 - (i) by the credit union or by a person or entity over which the credit union exercises control or significant influence, or
 - (ii) using funds obtained directly or indirectly from the credit union;
- (c) in the event of the bankruptcy, insolvency or winding up of the credit union,
 - (i) the instrument is subordinated in right of payment to all subordinated debt, deposits, debt due to general creditors and other liabilities of the credit union, and
 - (ii) if the instrument is subordinated debt, it is subordinated in right of payment to all other subordinated debt, excluding instruments that, by their terms, rank equally with the instrument;
- (d) the instrument is not secured or covered by a guarantee of the credit union or of a subsidiary or affiliate of the credit union, or by any other arrangement, that enhances the seniority of the claim of the holder of the instrument in relation to the depositors or creditors of the credit union;
- (e) the instrument is perpetual and does not have a maturity date or any step-ups or other incentives to redeem;
- (f) the instrument is, at all times, fully classified as equity for accounting purposes;
- (g) the instrument does not have any features that hinder recapitalization, including features that require the issuer to compensate holders if a new instrument is issued at a lower price during a specified period;
- (h) the instrument does not allow the holder to accelerate the scheduled payment of principal or interest amounts, unless the issuer is subject to bankruptcy, insolvency, wind-up or liquidation;
- (i) the instrument meets the criteria described in sections 9 to 11;
- (j) if the instrument is issued by a special purpose vehicle,
 - (i) the proceeds from the sale of the instrument are immediately available to the credit union in the form of an intercompany instrument that meets the criteria described in paragraphs (a) to (h) of this subsection, and
 - (ii) the only assets the special purpose vehicle holds are intercompany instruments that meet the criteria described in paragraphs (a) to (h) of this subsection.

Criteria respecting call of Tier 1 instrument

- 9 The following criteria apply in relation to the call, by its issuer, of an instrument described in section 7 (c) or (d):
- (a) the instrument is not callable any earlier than 5 years after the date the instrument is issued, unless the instrument is an equity share;
 - (b) the actions of the issuer and the terms of the instrument do not create an expectation that the instrument will be called;
 - (c) the issuer will not call the instrument unless
 - (i) no later than the date on which the instrument is called, the issuer replaces the instrument with capital of the same or better quality on conditions that are sustainable for the income capacity of the issuer, or
 - (ii) the credit union demonstrates, to the satisfaction of the superintendent, that its risk based capital ratio after the instrument is called will substantially exceed the total ratio required by section 3 [*risk based capital ratio requirements*].

Criteria respecting redemption and acquisition of Tier 1 instrument

- 10 (1) Subject to subsection (2), in order for an instrument described in section 7 (c) or (d) to be included in the calculation of the Tier 1 capital of a credit union, the instrument must meet the following criteria:
- (a) subject to paragraph (b), there are no rights or special rights attached to the instrument that give its holder the right to call on the issuer to redeem, purchase or otherwise acquire the instrument from the holder;
 - (b) if the instrument is an equity share that is not a membership share, the issuer is not required to redeem, purchase or otherwise acquire the shares of the same class as the class of the instrument at a rate that exceeds 10% of the shares that are issued and outstanding during any 12-month period, unless the issuer is required to do so under an enactment or by a court order.
- (2) Only the amount of capital associated with the shares described in subsection (1) (b) that are not redeemable during the 12 months after the reporting date may be included in the calculation of the Tier 1 capital of the credit union.

Criteria respecting dividends or coupons of Tier 1 instrument

- 11 The following criteria apply in relation to the distribution by an issuer of dividends or coupons associated with an instrument described in section 7 (c) or (d):
- (a) dividends or coupons are paid out of distributable items, including retained earnings;
 - (b) dividends or coupons do not reset periodically based on the credit standing of the issuer;
 - (c) the issuer may cancel the distribution of dividends or coupons;
 - (d) a cancellation under paragraph (c) is not an event of default or a credit event;
 - (e) cancelled distributions are not cumulative;
 - (f) a cancellation under paragraph (c) does not impose restrictions on the issuer.

Division 3 – Regulatory Adjustments

Definitions

12 In this Division:

“capital instrument” means common shares, preferred shares or a similar instrument, including a subordinated debt instrument, that is held as a direct investment, an indirect investment or a synthetic investment, other than another TLAC instrument;

“current LTV”, in relation to a reverse mortgage, means the reverse mortgage exposure divided by

- (a) the greater of the original appraised value of the property and 80% of the most recent appraised value of the property, or
- (b) if the most recent appraised value of the property is less than the original appraised value of the property, the most recent appraised value of the property;

“domestic systemically important financial institution” or **“D-SIFI”** means a financial institution that has been identified by its regulator as a domestic systemically important financial institution;

“global systemically important financial institution” or **“G-SIFI”** means a financial institution that has been identified by the Financial Stability Board as a global systemically important financial institution;

“indirect investment” means an investment, or part of an investment, that would, if the underlying direct investment loses its value, result in a loss substantially equivalent to the loss in value of the direct investment;

“investment”, in relation to a significant investment or a non-significant investment, includes the following:

- (a) a guarantee or other capital enhancement provided by a credit union, to the extent of the maximum amount that the credit union could be required to pay under the guarantee or capital enhancement;
- (b) a mandatory subscription by a credit union to shares of a central credit union, to the extent of the maximum amount, if known, that the credit union is required to pay for the shares;

“loan-to-value ratio” or **“LTV”** means the ratio obtained by dividing the outstanding balance of a term mortgage or the authorized limit of a secured line of credit by the value of the property pledged as collateral for the mortgage or line of credit;

“non-significant investment” means an investment by a credit union

- (a) in the capital instrument or other TLAC instrument of a deposit taking institution, insurance entity or permitted financial entity, and
- (b) that meets the following criteria:
 - (i) in the case of an investment in a corporation, the investment results in the credit union and any subsidiary of the credit union beneficially owning, in the aggregate,

- (A) voting shares of the corporation that carry no more than 10% of the voting rights attached to all the outstanding voting shares of the corporation, or
- (B) shares of the corporation that represent no more than 25% of the shareholders' equity in the corporation;
- (ii) in the case of an investment in an unincorporated entity, the investment results in the credit union and any subsidiary of the credit union beneficially owning, in the aggregate, no more than 25% of all ownership interests into which the entity is divided;

“other total loss absorbing capacity instrument” or “other TLAC instrument” means any of the following:

- (a) a TLAC instrument that is an investment in an instrument issued by a G-SIFI or D-SIFI that is not included in the regulatory capital of the G-SIFI or D-SIFI;
- (b) a TLAC instrument that is an investment in an instrument issued by the resolution entity of a D-SIFI that is not included in the regulatory capital of the D-SIFI;
- (c) a TLAC instrument that has a residual maturity of less than 12 months;

“regulatory capital”, in relation to a G-SIFI or D-SIFI, means the capital a G-SIFI or D-SIFI calculated in accordance with the laws respecting the maintenance of an adequate capital base that apply to the G-SIFI or D-SIFI in its primary jurisdiction;

“resolution entity” means an entity used to effect the resolution of a G-SIFI or a D-SIFI;

“significant investment” means an investment by a credit union in the capital instrument or other TLAC instrument of a deposit taking institution, or insurance entity or permitted financial entity, that is not a consolidated subsidiary of the credit union, and that meets the following criteria:

- (a) in the case of an investment in a corporation, the investment results in the credit union and any subsidiary of the credit union beneficially owning, in the aggregate,
 - (i) voting shares of the corporation that carry more than 10% of the voting rights attached to all the outstanding voting shares of the corporation, or
 - (ii) shares of the corporation that represent more than 25% of the shareholders' equity in the corporation;
- (b) in the case of an investment in an unincorporated entity, the investment results in the credit union and any subsidiary of the credit union beneficially owning, in the aggregate, more than 25% of all ownership interests into which the entity is divided;

“synthetic investment” means any of the following:

- (a) an investment by a credit union in the capital of an entity
 - (i) that is not a consolidated subsidiary of the credit union, and
 - (ii) that has invested in the capital of a deposit taking institution, insurance entity or permitted financial entity;

- (b) a total return swap agreement, entered into by a credit union, respecting the capital instruments of another deposit taking institution, an insurance entity or a permitted financial entity;
- (c) a guarantee, or credit protection, provided by a credit union to a third party in respect of the investment by the third party in the capital of another deposit taking institution, insurance entity or permitted financial entity;
- (d) a call option owned by, or a put option written by, a credit union on the capital instruments of another deposit taking institution, insurance entity or permitted financial entity;
- (e) a forward purchase agreement, entered into by a credit union, respecting the capital of another deposit taking institution, insurance entity or permitted financial entity;

“total loss absorbing capacity instrument” or “TLAC instrument” means a direct investment, indirect investment or synthetic investment in an instrument issued by a G-SIFI or D-SIFI

- (a) that is in the form of a share, subordinated debt instrument or other debt obligation, and
- (b) that, if the regulator of the G-SIFI or D-SIFI determines that the G-SIFI or D-SIFI is no longer viable, can be converted into a common share that may be included in the calculation of the Tier 1 capital of the G-SIFI or D-SIFI.

Regulatory adjustments

13 For the purposes of section 6 [*calculation of Tier 1 capital*], the sum of the following is to be deducted from the Tier 1 capital of a credit union:

- (a) deferred tax assets other than deferred tax assets associated with the derecognition of the cash flow hedge reserve referred to in section 7 (f) [*items to be included in Tier 1 capital*], deducted in accordance with section 14;
- (b) unrealized fair-value gains on property owned and occupied by the credit union;
- (c) securitization gains;
- (d) goodwill, deducted in accordance with section 15 [*regulatory adjustments – goodwill*];
- (e) intangible assets other than goodwill, deducted in accordance with section 16 [*regulatory adjustments – intangible assets other than goodwill*];
- (f) non-significant investments, deducted in accordance with section 17 [*regulatory adjustments – non-significant investments*];
- (g) significant investments, deducted in accordance with section 18 [*regulatory adjustments – significant investments*];
- (h) reverse mortgages with a current LTV that exceeds 85%, deducted in accordance with section 19 [*regulatory adjustments – reverse mortgages*];
- (i) investments by the credit union in its own shares that are included in the calculation of its Tier 1 capital, whether the credit union holds the shares directly or indirectly.

Regulatory adjustments – deferred tax assets

- 14** (1) Subject to subsection (6), the following deferred tax assets must be deducted from the Tier 1 capital of a credit union:
- (a) deferred tax assets resulting from temporary differences that exceed 10% of the Tier 1 capital of the credit union before regulatory adjustments are applied;
 - (b) deferred tax assets that result from the carryforward of unused tax losses and tax credits.
- (2) Subject to subsection (6), deferred tax assets resulting from temporary differences that do not exceed 10% of the Tier 1 capital of a credit union
- (a) are not required to be deducted from the Tier 1 capital of the credit union, and
 - (b) if they are not deducted, must be assigned a risk weight of 250%.
- (3) Subject to subsection (4), deferred tax assets may be netted against deferred tax liabilities if
- (a) the deferred tax assets and the deferred tax liabilities are associated with taxes levied by the same taxing authority, and
 - (b) netting is permitted by the laws of the jurisdiction in which the taxes are levied.
- (4) Deferred tax liabilities netted under subsection (3) must not include any amount that has been netted against any of the following:
- (a) the deduction of goodwill in accordance with section 15;
 - (b) the deduction of intangible assets other than goodwill in accordance with section 16;
 - (c) the derecognition of the cash flow hedge reserve in accordance with section 7 (f) *[items to be included in Tier 1 capital]*.
- (5) Deferred tax liabilities netted under subsection (3) must be allocated on a pro rata basis among all of the following:
- (a) the deferred tax assets deducted under subsection (1) (a);
 - (b) the deferred tax assets deducted under subsection (1) (b);
 - (c) the deferred tax assets that are risk weighted in accordance with subsection (6).
- (6) Deferred tax assets resulting from temporary differences that a credit union may realize through tax loss carrybacks
- (a) are not required to be deducted from the Tier 1 capital of the credit union, and
 - (b) if they are not deducted, must be assigned a risk weight of 100%.

Regulatory adjustments – goodwill

- 15** The following goodwill must be deducted, net of any associated deferred tax liability, from the Tier 1 capital of a credit union:
- (a) the goodwill of the credit union;
 - (b) any goodwill included in the valuation of the significant investments of the credit union;
 - (c) any goodwill included in the valuation of subsidiaries of the credit union that are insurance entities;
 - (d) the proportional share of goodwill in the joint ventures of the credit union, determined in accordance with the equity method of accounting.

Regulatory adjustments – intangible assets other than goodwill

- 16** (1) In this section, “**intangible assets**” means intangible assets other than goodwill.
- (2) Subject to section 21 [*transition – regulatory adjustments for 2027 and 2028*], the following intangible assets must be deducted, net of any associated deferred tax liability, from the Tier 1 capital of a credit union:
- (a) the intangible assets of the credit union];
 - (b) the intangible assets of subsidiaries of the credit union that are insurance entities;
 - (c) the proportional share of intangible assets in the joint ventures of the credit union, determined in accordance with the equity method of accounting.

Regulatory adjustments – non-significant investments

- 17** (1) In this section and in section 18, “**net long position**” means the gross long position in an investment less the short positions in the investment, where
- (a) the gross long position and the short positions are in relation to the same underlying exposure, and
 - (b) the short positions have either
 - (i) a maturity that matches that of the gross long position, or
 - (ii) a residual maturity of at least 12 months.
- (2) Subject to section 21, the net long position in non-significant investments that exceed 10% of the Tier 1 capital of a credit union before regulatory adjustments are applied must be deducted, in the aggregate, from the Tier 1 capital of the credit union.
- (3) The net long position in non-significant investments that do not exceed 10% of the Tier 1 capital of a credit union before regulatory adjustments are applied
- (a) is not required to be deducted from the Tier 1 capital of the credit union, and
 - (b) if it is not deducted, must be assigned the following risk weight:
 - (i) if the non-significant investments are equity exposures, 250%;
 - (ii) if the non-significant investments are subordinated debt instruments or capital instruments other than equities or other TLAC instruments, 150%.

Regulatory adjustments – significant investments

- 18** (1) The net long position in significant investments that exceed 10% of the Tier 1 capital of a credit union before regulatory adjustments are applied must be deducted, in the aggregate, from the Tier 1 capital of the credit union.
- (2) The net long position in significant investments that do not exceed 10% of the Tier 1 capital of a credit union before regulatory adjustments are applied
- (a) is not required to be deducted from the Tier 1 capital of the credit union, and
 - (b) if it is not deducted, must be assigned a risk weight of 250%.

Regulatory adjustments – reverse mortgages

- 19** (1) The exposure amount of a reverse mortgage with a current LTV that exceeds 85% must be deducted from the Tier 1 capital of the credit union.
- (2) The amount of the reverse mortgage remaining after the exposure amount is deducted in accordance with subsection (1) must be assigned a risk weight of 100%.

Current tax assets

- 20** If a tax overpayment by a credit union or a current year tax loss carryback by a credit union results in a claim against or a receivable from a taxing authority, the claim or receivable
- (a) is not required to be deducted from the Tier 1 capital of the credit union, and
 - (b) if it is not deducted, must be assigned the following risk weight:
 - (i) if the taxing authority is the government of a country or province, the percentage determined in accordance with Table 8 of Schedule 4;
 - (ii) if the taxing authority is a public sector entity as defined in section 29 [definitions], the percentage determined in accordance with Table 9 of Schedule 4.

Transition – regulatory adjustments for 2027 and 2028

- 21** (1) Until January 1, 2029, the following are not required to be deducted from the Tier 1 capital of a credit union:
- (a) intangible assets described in section 16 [regulatory adjustments – intangible assets other than goodwill], if they are software assets;
 - (b) the net long position in non-significant investments, described in section 17 [regulatory adjustments – non-significant investments].
- (2) If not deducted,
- (a) intangible assets described in subsection (1) (a) must be assigned a risk weight of 100%, and
 - (b) the net long position in non-significant investments described in subsection (1) (b) must be assigned a risk weight of 250%.

PART 4 – CALCULATION OF TIER 2 CAPITAL

Calculation of Tier 2 capital

- 22 (1) In this section:
- “**general allowances**” means the allowances described in section 28 [*calculation of general allowances*];
- “**Stabilization Central Credit Union**” means the central credit union designated as the stabilization authority under section 282 of the Act.
- (2) The Tier 2 capital of a credit union is the sum of the following:
- (a) instruments issued by the credit union that
 - (i) are not required to be redeemed in the 12 months after the reporting date,
 - (ii) meet the criteria described in section 23,
 - (iii) are not included in the calculation of Tier 1 capital, and
 - (iv) are amortized in accordance with section 27 [*amortization of Tier 2 instrument*];
 - (b) instruments issued by consolidated subsidiaries of the credit union and held by third parties that
 - (i) are not required to be redeemed in the 12 months after the reporting date,
 - (ii) meet the criteria described in section 23,
 - (iii) are not included in the calculation of Tier 1 capital, and
 - (iv) are amortized in accordance with section 27;
 - (c) subordinated debt instruments that are
 - (i) issued by the credit union to the deposit insurance corporation or to the Stabilization Central Credit Union, and
 - (ii) amortized in accordance with section 27;
 - (d) general allowances in an amount that does not exceed 1.25% of the credit risk weighted assets of the credit union.

Criteria for inclusion of instrument in Tier 2 capital

- 23 (1) In this section, “**significant influence**” and “**step-up**” have the same meaning as in section 8 (1) [*criteria for inclusion of instrument in Tier 1 capital*].
- (2) In order to be included in the calculation of the Tier 2 capital of a credit union, an instrument described in section 22 (2) (a) or (b) must meet the following criteria:
- (a) the instrument is issued and paid in cash;
 - (b) the instrument is subordinated to the rights of the depositors and general creditors of the credit union;
 - (c) the instrument is not secured or covered by a guarantee of the credit union or of a subsidiary or affiliate of the credit union, or by any other arrangement, that enhances the seniority of the claim in relation to the depositors or general creditors of the credit union;

- (d) the instrument has an original maturity of at least 5 years;
- (e) the instrument does not have any step-ups or other incentives to redeem;
- (f) the instrument does not allow the investor to accelerate the scheduled payment of principal or interest amounts, unless the issuer is subject to bankruptcy, insolvency, wind-up or liquidation;
- (g) the instrument is not purchased
 - (i) by the credit union or by a person or entity over which the credit union exercises control or significant influence, or
 - (ii) using funds obtained directly or indirectly from the credit union;
- (h) the instrument meets the criteria described in sections 24 to 26;
- (i) if the instrument is issued by a special purpose vehicle,
 - (i) the proceeds from the sale of the instrument are immediately available to the credit union in the form of an intercompany instrument that meets the criteria described in paragraphs (a) to (h) of this subsection, and
 - (ii) the only assets the special purpose vehicle holds are intercompany instruments that meet the criteria described in subparagraph (i).

Criteria respecting call of Tier 2 instrument

- 24** The following criteria apply in relation to the call, by its issuer, of an instrument described in section 22 (2) (a) or (b):
- (a) the instrument is not callable any earlier than 5 years after the date the instrument is issued, unless the instrument is an equity share;
 - (b) the actions of the issuer and the terms of the instrument do not create an expectation that the instrument will be called;
 - (c) the issuer will not call the instrument unless
 - (i) no later than the date on which the instrument is called, the issuer replaces the instrument with capital of equal or better quality on conditions that are sustainable for the income capacity of the issuer, or
 - (ii) the credit union demonstrates, to the satisfaction of the superintendent, that its risk based capital ratio after the instrument is called will substantially exceed the risk based capital ratio required by section 3 [*risk based capital ratio requirements*].

Criteria respecting redemption and acquisition of Tier 2 instrument

- 25** (1) Subject to subsection (2), in order for an instrument described in section 22 (2) (a) or (b) to be included in the calculation of the Tier 2 capital of a credit union, the instrument must meet the following criteria:
- (a) subject to paragraph (b), there are no rights or special rights attached to the instrument that give its holder the right to call on the issuer to redeem, purchase or otherwise acquire the instrument from the holder;

- (b) if the instrument is an equity share that is not a membership share, the issuer is not required to redeem, purchase or otherwise acquire the shares of the same class as the class of the instrument at a rate that exceeds 10% of the issued and outstanding shares during any 12-month period, unless the issuer is required to do so under an enactment or by a court order.
- (2) Only the amount of capital associated with the shares described in subsection (1) (b) that are not redeemable during the 12 months after the reporting date may be included in the calculation of the Tier 2 capital of the credit union.

Criterion respecting dividends or coupons of Tier 2 instrument

- 26** In order to be included in the calculation of the Tier 2 capital of a credit union, the dividends or coupons associated with an instrument described in section 22 (2) (a) or (b) must not reset periodically based on the credit standing of the issuer.

Amortization of Tier 2 instrument

- 27** The outstanding balance of an instrument described in section 22 (2) (a), (b) or (c) must be amortized in accordance with Table 1 of Schedule 2.

Calculation of general allowances

- 28** (1) In this section:
- “**Stage 1 allowances**” and “**Stage 2 allowances**” have the same meaning as in IFRS 9;
 - “**synthetic securitization transaction**” means a securitization transaction in which
 - (a) there are at least two tranches that reflect different degrees of credit risk,
 - (b) the credit risk associated with an underlying pool of exposures is transferred by the credit union, in whole or in part, through the use of funded or unfunded credit derivatives or guarantees that serve to hedge the investor’s credit risk, and
 - (c) payments to the investor depend on the performance of the underlying pool of exposures instead of being derived from the entity that originated the exposures;
 - “**traditional securitization transaction**” means a securitization transaction in which
 - (a) the cash flow from an underlying pool of exposures is used to service at least two tranches that reflect different degrees of credit risk, and
 - (b) payments to the investor depend on the performance of the underlying pool of exposures instead of being derived from the entity that originated the exposures.
- (2) General allowances are the sum of Stage 1 allowances and Stage 2 allowances.
- (3) For certainty, general allowances do not include the following:
- (a) specific allowances;

- (b) allowances held against underlying exposures that are
 - (i) on-balance sheet assets, and
 - (ii) treated, for the purposes of section 22 [*calculation of Tier 2 capital*], as a traditional securitization transaction or a synthetic securitization transaction.

PART 5 – CALCULATION OF TOTAL RISK WEIGHTED ASSETS

Division 1 – Definitions

Definitions

29 In this Part and in the Schedules to these rules:

“**CRE**” means commercial real estate;

“**CRE construction (general) loan**” means a multiple draw interest-only interim commercial loan that meets all of the following criteria:

- (a) the loan finances the construction of commercial real estate based on a loan-to-cost ratio;
- (b) the loan is secured by first-ranking security on the project development land and all contracts and assets related to the project;
- (c) at the time of loan underwriting, there is a pre-identified owner, occupier, purchaser or lessee of the property upon project completion;

“**CRE construction loan**” means any of the following:

- (a) a CRE construction (general) loan;
- (b) a CRE construction (multi-residential) loan;
- (c) a CRE construction (speculative) loan;
- (d) a CRE land-only loan;

“**CRE construction (multi-residential) loan**” means a multiple draw interest-only interim commercial loan that meets both of the following criteria:

- (a) the loan finances the construction of multi-residential property;
- (b) the loan is secured by first-ranking security on the project development land and all contracts and assets related to the project;

“**CRE construction (speculative) loan**” means a multiple draw interest-only interim commercial loan that meets both of the following criteria:

- (a) the loan finances the construction of real estate to be sold or rented upon project completion;
- (b) at the time of loan underwriting, there is no pre-identified occupier, purchaser or lessee of the property upon project completion;

“**CRE income-producing loan**” means a commercial loan that finances the acquisition of real estate, not including multi-residential property, that is primarily occupied by rent-paying tenants or lessees;

“CRE land-only loan” means an interest-only pre-development commercial loan that finances the acquisition of development land before all of the following are in place:

- (a) approval under the applicable zoning bylaw;
- (b) a definitive construction timeframe;
- (c) near-term takeout financing;

“CRE loan” means any of the following:

- (a) a CRE income-producing loan;
- (b) a CRE owner-occupied property loan
- (c) a CRE (multi-residential) property loan;

“CRE (multi-residential) property loan” means a commercial loan that finances the acquisition of multi-residential real estate that is primarily occupied by rent-paying tenants or lessees;

“CRE owner-occupied property loan” means a commercial loan that finances the acquisition of commercial property, not including multi-residential property, that is fully or primarily occupied by its owner;

“cooperative credit society” means a cooperative credit society incorporated under the *Cooperative Credit Associations Act* (Canada);

“covered bond” means a bond issued

- (a) in Canada under a registered program by a registered issuer listed in the registry established under section 21.51 of the *National Housing Act* (Canada), or
- (b) in another jurisdiction under a program designed to protect bond holders established under the laws of that jurisdiction and administered by the government of that jurisdiction or by a regulatory body in that jurisdiction;

“current LTV” has the same meaning as in section 12 [definitions];

“debt-equity swap” means a transaction in which a debt exposure is converted into an equity exposure;

“defaulted exposure” means

- (a) an exposure that is past due for more than 90 days, or
- (b) an exposure to a defaulted borrower;

“DSCR” means the debt service coverage ratio obtained by dividing the recurring cash flow available to a borrower for debt servicing by the sum of the borrower’s interest expenses and scheduled principal payments;

“high-quality project financing loan” means a project financing loan that meets the criteria described in section 36 (2) [criteria respecting high-quality project financing exposures];

“home equity line of credit” means a revolving credit that is secured by a residential property;

“IPRRE loan” means an income-producing residential real estate loan

- (a) that finances the acquisition of residential property that generates income, and
- (b) whose repayment depends by more than 50% on the cash flow generated by the residential property;

“initial LTV”, in relation to a reverse mortgage, means the loan-to-value ratio that applies on the date of first advance of the mortgage;

“loan-to-cost ratio” or **“LTC”** means the ratio obtained by dividing the amount of a loan by the total costs, including land acquisition costs and soft and hard construction costs, of the project financed by the loan;

“loan-to-value ratio” or **“LTV”** has the same meaning as in section 12 *[definitions]*;

“multi-residential property” means real estate property that contains at least 5 residential units;

“operational phase”, in relation to a project described in section 35 *[criteria respecting project financing exposures]*, means the phase in which the entity that was established to finance or operate the project has both of the following:

- (a) a positive net cash flow that is sufficient to cover any remaining contractual obligation in relation to the project;
- (b) declining long-term debt;

“pre-operational phase”, in relation to a project described in section 35, means the phase that precedes the operational phase of the project;

“project financing exposure” means an exposure described in section 35;

“public sector entity” means any of the following:

- (a) a Crown corporation, or Crown agency, whose borrowings are not guaranteed by the government of Canada or a province;
- (b) a local government or an entity directly and wholly owned by a local government;
- (c) a public post-secondary institution as defined in section 170.2 (1) of the *School Act*;
- (d) a body described in paragraph (e) of the definition of “public body” in section 1 (1) of the Act;

“qualifying residential mortgage” means a mortgage described in section 33 *[criteria respecting qualifying residential mortgages]*;

“regulatory retail exposure” means a retail exposure that meets the criteria described in section 37 *[criteria respecting regulatory retail exposures]*;

“residential real estate” means real estate property that has one to 4 residential units;

“retail exposure” means an exposure, other than a real estate exposure, to an individual or business;

“reverse mortgage exposure” means the total of the following, net of specific allowances:

- (a) all advances on the mortgage;
- (b) accrued interest;
- (c) 50% of undrawn amounts;

“RRE loan” means a loan that meets either of the following criteria:

- (a) the loan finances the acquisition of residential real estate that is not income-producing residential real estate;
- (b) the loan is secured
 - (i) by a residential real estate property that is the borrower’s primary residence,
 - (ii) by a residential real estate property owned by an association or cooperative of individuals
 - (A) that is regulated under an Act of Canada or a province, and
 - (B) whose sole purpose is to grant its members the use of a primary residence in the property, or
 - (iii) by a residential real estate property owned by a public housing corporation or a not for profit association whose purpose is to offer tenants long-term housing;

“speculative unlisted equity exposure” means an equity exposure

- (a) that consists of any of the following investments by a credit union:
 - (i) an investment in an unlisted company for the purpose of short-term resale;
 - (ii) an investment that is subject to price volatility and is made in anticipation of future capital gains;
 - (iii) an investment that is held with the intention to trade, and
- (b) that does not consist of an equity exposure to a corporation acquired by a credit union as a result of a debt-equity swap for the purpose of corporate restructuring;

“TDS”, in relation to an uninsured RRE loan, an IPRRE loan or a home equity line of credit, means the total debt service ratio obtained by dividing the borrower’s total annual expenses by the borrower’s total annual income;

“transactor” means an obligor

- (a) in relation to either of the following types of regulatory retail exposure of a credit union:
 - (i) a revolving, unsecured and uncommitted credit facility, with an interest-free grace period, that has been in place for at least 12 months preceding the reporting date, if the total interest accrued over those 12 months is less than \$50;
 - (ii) a revolving, unsecured and uncommitted overdraft facility, or line of credit, that has been in place for at least 12 months preceding the reporting date, if the facility or line of credit has not been drawn down over those 12 months, and
- (b) to whom the exposure of a credit union does not exceed \$100 000.

Division 2 – Calculation of Total Risk Weighted Assets

Calculation of total risk weighted assets

- 30** For the purposes of section 4 [*calculation of risk based capital ratio*], the total risk weighted assets of a credit union are the sum of the following:
- (a) the credit risk weighted assets of the credit union;
 - (b) the operational risk weighted assets of the credit union.

Division 3 – Calculation of Credit Risk Weighted Assets

Calculation of credit risk weighted assets

- 31** For the purposes of section 30, the credit risk weighted assets of a credit union are the sum of the following:
- (a) the total of the amounts determined by multiplying the value of the assets in each category of on-balance sheet assets set out in column 1 of Table 1 of Schedule 4 by the percentage set out opposite that category in column 2 of that table;
 - (b) the total of the amounts determined by multiplying the value of the assets in each category of off-balance sheet assets set out in column 1 of Table 1 of Schedule 5 by the percentages set out opposite that category in columns 2 and 3 of that table.

External credit ratings

- 32**
- (1) For the purposes of this Part, an external credit rating shown in column 2, 3 or 4 of Table 1 of Schedule 3 is equivalent to the standardized credit rating shown opposite in column 1 of that table.
 - (2) If, in relation to any asset to be included in the calculation of the credit risk weighted assets of a credit union, external credit ratings given by two external credit assessment institutions are available and the external credit ratings are not equivalent to the same standardized credit rating, the lowest standardized credit rating applies.
 - (3) If, in relation to any asset to be included in the calculation of the credit risk weighted assets of a credit union, external credit ratings given by three or more external credit assessment institutions are available,
 - (a) only the two external credit ratings that are equivalent to the highest standardized credit ratings must be considered, and
 - (b) if the two external credit ratings referred to in paragraph (a) are not equivalent to the same standardized credit rating, the lowest standardized credit rating applies.

Division 4 –Risk Weights for On-Balance Sheet Assets

Criteria respecting qualifying residential mortgages

- 33**
- (1) A mortgage is a qualifying residential mortgage if it is either of the following:
 - (a) a first mortgage, issued to a person or guaranteed by a person, on a residential real estate property to which both of the following apply:

- (i) payments on the mortgage are not overdue by 90 days or more;
 - (ii) the LTV of the mortgage does not exceed 80%;
- (b) a collateral mortgage, issued to a person or guaranteed by a person, on a residential real estate property, to which all of the following apply:
 - (i) payments on the mortgage are not overdue by 90 days or more;
 - (ii) the LTV of the mortgage does not exceed 80%;
 - (iii) there is no senior or intervening lien on the property to which the mortgage applies.
- (2) For certainty, an investment in a hotel property or time-share property is not a qualifying residential mortgage.

Criteria respecting reverse mortgages

- 34** In order for a reverse mortgage to be included in the calculation of the total risk weighted assets of a credit union, the credit union must
- (a) beginning on the date of mortgage inception, maintain and comply with all of the following written standards and procedures respecting reverse mortgages:
 - (i) prudent underwriting standards that include methods for determining all of the following:
 - (A) expected occupancy terms determined in accordance with standard mortality tables;
 - (B) estimated future appreciation or depreciation of property;
 - (C) future interest rates on the mortgages;
 - (D) maximum initial LTV ratios;
 - (E) maximum lending amounts;
 - (ii) procedures for the ongoing monitoring of loan-to-value ratios, based on all of the following:
 - (A) outstanding loan amounts, including accrued interest;
 - (B) undrawn balances;
 - (C) up-to-date property values;
 - (iii) procedures for obtaining independent property reappraisals at least every 5 years and more frequently as loan-to-value ratios near 80%;
 - (iv) procedures to ensure timely property reappraisal in major urban centres at any time resale home prices decline by more than 10%;
 - (v) procedures for ensuring that borrowers comply with mortgage conditions;
 - (vi) a rigorous method for stress testing the reverse mortgage portfolio of the credit union in a manner that considers expected occupancy terms, property values and interest rate assumptions, and
 - (b) on an ongoing basis, monitor the results of the stress testing described in paragraph (a) (vi) and incorporate those results into the capital adequacy assessment and capital planning processes of the credit union.

Criteria respecting project financing exposures

- 35 An exposure is a project financing exposure if it meets all of the following criteria:
- (a) the exposure finances the construction or operation of a project that consists of physical assets other than real estate;
 - (b) the exposure is to an entity established to finance or operate the project described in paragraph (a);
 - (c) the funds available to the borrowing entity to repay the obligation associated with the exposure consist primarily of the income generated by the project described in paragraph (a);
 - (d) the terms of the obligation referred to in paragraph (c) give the credit union substantial control over the project described in paragraph (a) and the income generated by that project.

Criteria respecting high-quality project financing exposures

- 36 (1) In this section, “**availability-based revenue**” means revenue that consists of payments, made to the borrowing entity by one or more counterparties to the project, that
- (a) are required, by the agreement governing the project, to be made when the conditions of the contract are met, and
 - (b) are sized to cover project operating and maintenance costs, debt service costs and equity returns.
- (2) A project financing exposure is a high-quality project financing exposure if it meets all of the following criteria:
- (a) the borrowing entity is precluded from taking any action that could be detrimental to the ability of the lender to recover on the obligation associated with the exposure;
 - (b) the borrowing entity has reserve funds or other financial arrangements that are sufficient to provide the working capital and contingency funding of the project it was established to finance or operate;
 - (c) the revenue earned by the borrowing entity in relation to the project is
 - (i) availability-based revenue,
 - (ii) revenue subject to a rate of return established by the government of a country or province, by a local government or by a regulatory body, or
 - (iii) revenue earned under a take-or-pay contract;
 - (d) the revenue described in paragraph (c) is received from a primary counterparty that is a corporation, the government of a country or province, or a public sector entity, to which Table 2, 8 or 9, as applicable, of Schedule 4, assigns a risk weight of 50% or less;
 - (e) the terms of the contract governing the project provide a high degree of protection to the lender in the event of default by the borrowing entity;
 - (f) the primary counterparty described in paragraph (d) has committed to protect the lender against any loss resulting from the termination of the project;

- (g) in the event of default by the borrowing entity,
 - (i) all assets and contracts required to operate the project are pledged to the lender in accordance with the applicable law, and
 - (ii) the lender may assume control of the borrowing entity.

Criteria respecting regulatory retail exposures

37 A retail exposure is a regulatory retail exposure if it meets all of the following criteria:

- (a) the retail exposure is to an individual or a business;
- (b) the retail exposure is not a loan secured by real estate;
- (c) the retail exposure is one or more of the following:
 - (i) revolving credit;
 - (ii) a term loan or lease;
 - (iii) a business facility or commitment;
- (d) the total retail exposure to the individual or business is
 - (i) \$100 000 or less, or
 - (ii) both of the following:
 - (A) more than \$100 000 but less than or equal to \$1 500 000;
 - (B) not more than 0.2% of the aggregated retail exposures of the credit union.

Criteria respecting equity exposures

38 (1) An instrument is an equity exposure if it is either of the following:

- (a) an instrument with the same structure as an instrument that is included in the Tier 1 capital of a bank under the Capital Adequacy Requirements (CAR) – Guideline issued by the Office of the Superintendent of Financial Institutions (Canada), as amended from time to time;
- (b) a direct or indirect ownership interest, whether voting or non-voting, that meets all of the following criteria:
 - (i) it is an ownership interest in the assets and income of any of the following that is not a consolidated subsidiary of the credit union:
 - (A) a corporation;
 - (B) an association;
 - (C) a partnership;
 - (D) a proprietorship;
 - (E) a trust;
 - (F) a joint venture;
 - (ii) it is not required to be redeemed;
 - (iii) it entitles its holder to a residual claim on the assets or income of its issuer;
 - (iv) subject to subsection (2), it does not confer an obligation on its issuer to repay a principal sum or make a distribution.

- (2) An instrument described in subsection (1) (b) (i) to (iii) that confers an obligation on its issuer to repay a principal sum or make a distribution is an equity exposure if it meets any of following criteria:
 - (a) the issuer may defer the settlement of the obligation indefinitely;
 - (b) the obligation requires or permits settlement by the issuance of a fixed or variable number of the shares of the issuer that meet either of the following:
 - (i) the criterion described in subsection (1) (a);
 - (ii) all of the criteria described in subsection (1) (b) (ii), (iii) and (iv).

Repurchase agreement exposures

- 39 (1) In this section:

“**core market participant**” includes the following:

- (a) a central bank;
- (b) the government of a country or province;
- (c) a bank;
- (d) a securities firm as defined in section 253 of the *Bankruptcy and Insolvency Act* (Canada);
- (e) a central credit union or a similar entity incorporated under the laws of Canada or another province;
- (f) a credit union or an extraprovincial credit union;
- (g) a federal credit union as defined in section 2 of the *Bank Act* (Canada);
- (h) a cooperative credit society or an association, as those terms are defined in section 2 of the *Cooperative Credit Associations Act* (Canada);
- (i) a company, excluding a bank or securities firm but including an insurance entity, that provides financial services and to which Table 2 of Schedule 4 assigns a risk weight of 20%;
- (j) a regulated mutual fund that is subject to capital or leverage requirements;
- (k) a regulated pension fund;

“**repurchase agreement**” means an agreement under which

- (a) an asset is sold with a simultaneous commitment by the seller to repurchase the asset from the buyer after a specified period and at a specified price, and
- (b) the collateral used in the transaction does not mature before the term of the repurchase agreement ends;

“**settlement system**” means a clearing and settlement system designated under the *Payment Clearing and Settlement Act* (Canada).

- (2) Subject to subsections (3) and (4),
 - (a) the risk weight that must be assigned to the collateralized portion of the counterparty exposure arising from a repurchase agreement is the higher of the following:
 - (i) the risk weight assigned to the collateral in accordance with Table 1 of Schedule 4;
 - (ii) 20%, and

- (b) the risk weight that must be assigned to the uncollateralized portion of the counterparty exposure arising from a repurchase agreement is the risk weight that applies to the counterparty exposure in accordance with Table 1 of Schedule 4.
- (3) Subject to subsection (4), a risk weight of 10% must be assigned to the collateralized portion of a repurchase agreement that meets all of the following criteria:
 - (a) the exposure and the collateral are in one of the following forms:
 - (i) cash;
 - (ii) a security issued by a government to which Table 8 of Schedule 4 assigns a risk weight of 0%;
 - (b) the exposure and the collateral are denominated in the same currency;
 - (c) either of the following applies:
 - (i) the transaction under the repurchase agreement is overnight;
 - (ii) the exposure and the collateral are marked to market daily and remargined daily;
 - (d) if the counterparty to the repurchase agreement fails to remargin, the period between the last mark-to-market before the failure to remargin and the liquidation of the collateral does not exceed 4 business days;
 - (e) the transaction under the repurchase agreement is settled across a settlement system;
 - (f) the terms of the repurchase agreement
 - (i) are standard terms for the transaction under the repurchase agreement, and
 - (ii) specify that, if the counterparty defaults under the repurchase agreement,
 - (A) the repurchase agreement may be terminated immediately, and
 - (B) the credit union may immediately seize and liquidate the collateral for its own benefit, whether or not the counterparty is insolvent or bankrupt.
- (4) If the counterparty to a repurchase agreement that meets all of the criteria described in subsection (3) is a core market participant, a risk weight of 0% must be assigned to the repurchase agreement.

Defaulted exposures

- 40** (1) Subject to subsection (2), the following risk weights must be assigned to a defaulted exposure:
- (a) for the secured portion of the exposure, the risk weight that applies to the exposure in accordance with Table 1 of Schedule 4;

- (b) for the unsecured portion of the exposure, net of specific allowances, the following risk weights:
 - (i) if specific allowances are less than 20% of the outstanding amount of the exposure, 150%;
 - (ii) if specific allowances are 20% or more of the outstanding amount of the exposure, 100%.
- (2) A risk weight of 100% must be assigned to a defaulted uninsured residential real estate loan net of specific allowances.

Exposures associated with securitization transactions

- 41** (1) In this section and in Table 1 of Schedule 4, “**synthetic securitization transaction**” and “**traditional securitization transaction**” have the same meaning as in section 28 (1) *[calculation of general allowances]*.
- (2) Subject to subsection (3), the underlying assets in a synthetic securitization transaction or a traditional securitization transaction are on-balance sheet assets for the purposes of section 31 *[calculation of credit risk weighted assets]*, regardless of whether the transaction is, for accounting purposes, treated as an on-balance sheet asset or an off-balance sheet asset.
- (3) Subsection (2) does not apply to a transaction that is either of the following:
- (a) a mortgage-backed security guaranteed by the Canada Mortgage and Housing Corporation;
 - (b) a collateralized mortgage bond issued under a program established under the *National Housing Act* (Canada).

Division 5 – Calculation of Operational Risk Weighted Assets

Definitions

- 42** In this Division:
- “**gross income**” means the income calculated in accordance with section 45 *[calculation of gross income]*;
- “**operational risk capital requirement**” means the amount determined in accordance with section 44 *[calculation of operational risk capital requirement]*.

Calculation of operational risk weighted assets

- 43** For the purposes of section 30 *[calculation of total risk weighted assets]*, the operational risk weighted assets of a credit union are equal to the operational risk capital requirement of the credit union multiplied by 12.5.

Calculation of operational risk capital requirement

- 44** The operational risk capital requirement of a credit union is the amount calculated in accordance with the following formula:

$$K = \sum(GI_{1...n} \times \alpha) / n$$

where

- K = the operational risk capital requirement of the credit union;
- GI = the gross income of the credit union, calculated on the basis of its gross income in the 12 quarters preceding the reporting date, using the absolute value for gross income in the quarters in which its gross income is less than zero;
- α = 15%;
- n = 3.

Calculation of gross income

- 45** (1) Subject to subsection (2), the gross income of a credit union is the sum of the net interest income and the net non-interest income of the credit union.
- (2) The gross income of a credit union excludes the following:
- (a) provisions;
 - (b) operating expenses, including fees paid to contracted service providers;
 - (c) realized profits or losses from the sale of securities, including securities that are classified as held to maturity and securities that are classified as available for sale;
 - (d) extraordinary items;
 - (e) irregular items.

PART 6 – LEVERAGE RATIO REQUIREMENT

Leverage ratio requirement

- 46** A credit union must, at all times, maintain a leverage ratio that is equal to or greater than 3%.

Calculation of leverage ratio

- 47** The leverage ratio of a credit union is the ratio determined in accordance with the following formula:

$$\text{leverage ratio} = \text{Tier 1 capital} / \text{total exposure}$$

where

- Tier 1 capital = the Tier 1 capital of the credit union;
- total exposure = the total exposure calculated in accordance with section 48.

Calculation of total exposure

- 48** (1) Subject to subsections (2) to (5), the total exposure of a credit union is the sum of the following:
- (a) all on-balance sheet assets of the credit union;
 - (b) the total of the amounts determined by multiplying the value of the assets in each category of off-balance sheet assets set out in column 1 of Table 1 of Schedule 5 by the percentages set out opposite that category in columns 2 and 3 of that table.
- (2) On-balance sheet assets must be included under subsection (1) (a) net of both of the following:
- (a) specific and general provisions;
 - (b) accounting valuation adjustments.
- (3) Loans and deposits included under subsection (1) must not be netted.
- (4) Amounts deducted from the Tier 1 capital of a credit union under section 13 *[regulatory adjustments]* must be deducted from the total exposure of the credit union.
- (5) In calculating its total exposure under this section, a credit union must not take into account, with a view to reducing its total exposure for the purposes of this Part, any credit risk mitigation techniques the credit union may have used.

SCHEDULE 1

(sections 3 and 5)

Table 1

Risk Based Capital Ratios – 2027

Item	Column 1 Type of Capital Ratio	Column 2 Minimum Ratios	Column 3 Capital Conservation Buffer	Column 4 Total Ratios
1	Tier 1 capital ratio	5%	1.5%	6.5%
2	Total capital ratio	7%	1.5%	8.5%

Table 2

Risk Based Capital Ratios – 2028

Item	Column 1 Type of Capital Ratio	Column 2 Minimum Ratios	Column 3 Capital Conservation Buffer	Column 4 Total Ratios
1	Tier 1 capital ratio	5.5%	2%	7.5%
2	Total capital ratio	7.5%	2%	9.5%

Table 3

Risk Based Capital Ratios – 2029 onward

Item	Column 1 Type of Capital Ratio	Column 2 Minimum Ratios	Column 3 Capital Conservation Buffer	Column 4 Total Ratios
1	Tier 1 capital ratio	6%	2.5%	8.5%
2	Total capital ratio	8%	2.5%	10.5%

Table 4
Minimum Capital Conservation Ratios – 2027

Item	Column 1 Tier 1 Capital Ratio	Column 2 Minimum Capital Conservation Ratio
1	≤ 6.125%	100%
2	> 6.125 to 6.5%	50%
3	> 6.5%	0%

Table 5
Minimum Capital Conservation Ratios – 2028

Item	Column 1 Tier 1 Capital Ratio	Column 2 Minimum Capital Conservation Ratio
1	≤ 7%	100%
2	>7% to 7.5%	50%
3	> 7.5%	0%

Table 6
Minimum Capital Conservation Ratios – 2029 onward

Item	Column 1 Tier 1 Capital Ratio	Column 2 Minimum Capital Conservation Ratio
1	≤ 7.875%	100%
2	> 7.875% to 8.5%	50%
3	> 8.5%	0%

SCHEDULE 2

(section 27)

Table 1
Amortization Rates for Tier 2 Instruments

Item	Column 1 Years to maturity	Column 2 Proportion to be included in capital
1	5 or more	100%
2	4 or more but less than 5	80%
3	3 or more but less than 4	60%
4	2 or more but less than 3	40%
5	1 or more but less than 2	20%
6	less than 1	0%

SCHEDULE 3

(section 32)

Table 1
External Credit Rating Equivalencies

	External Credit Rating by External Credit Assessment Institution			
Item	Column 1 Standardized Credit Rating	Column 2 S&P Global Ratings, Fitch Ratings or Kroll Bond Rating Agency Credit Rating	Column 3 Morningstar DBRS Credit Rating	Column 4 Moody's Ratings Credit Rating
1	AAA to AA-	AAA to AA-	AAA to AA (low)	Aaa to Aa3
2	A+ to A-	A+ to A-	A (high) to A (low)	A1 to A3
3	BBB+ to BBB-	BBB+ to BBB-	BBB (high) to BBB (low)	Baa1 to Baa3
4	BB+ to BB-	BB+ to BB-	BB (high) to BB (low)	Ba1 to Ba3
5	B+ to B-	B+ to B-	B (high) to B (low)	B1 to B3
6	Below B-	Below B-	CCC or lower	Below B3

SCHEDULE 4

(Part 5)

Definitions

1 In this Schedule:

“**backstop portion**”, in relation to a privately insured residential real estate exposure, means the portion of the exposure that is guaranteed by the government of Canada, amounting to the total outstanding exposure amount less the deductible portion of the exposure;

“**corporate exposure**” means a debt obligation of a legal entity other than an individual, including any of the following:

- (a) a corporation;
- (b) an association;
- (c) a partnership;
- (d) a proprietorship;
- (e) a trust;
- (f) a fund;
- (g) a joint venture;

“**deductible portion**”, in relation to a privately insured residential real estate exposure, means the amount that is 10% of the original loan amount;

“**government**” means any of the following:

- (a) the government of a country;
- (b) the government of a province;
- (c) a Crown corporation, or agency, whose borrowings are guaranteed by the government of Canada or of a province;

“**other TLAC instrument**” has the same meaning as in section 12 *[definitions]*;

“**synthetic securitization transaction**” and “**traditional securitization transaction**” have the same meaning as in section 28 *[calculation of general allowances]*.

Table 1

Risk Weights for On-Balance Sheet Assets

Item	Column 1 Asset Category	Column 2 Risk Weight
1	Capital instruments other than equity exposures	150%
2	Cash	0%
3	Cheques and items in transit	20%

Item	Column 1 Asset Category	Column 2 Risk Weight
4	Corporate exposures, including project financing loans with issue-specific external credit ratings	The percentages determined in accordance with Table 2 of this Schedule
5	Covered bonds with issue-specific external credit ratings	The percentages determined in accordance with Table 3 of this Schedule
6	Covered bonds that are unrated	The percentages determined in accordance with Table 4 of this Schedule
7	CRE construction loans that are not insured by the CMHC	The percentages determined in accordance with Table 5 of this Schedule
8	CRE construction loans, and CRE loans, that are insured by the CMHC	0%
9	CRE loans that are not insured by the CMHC	The percentages determined in accordance with Table 6 of this Schedule
10	Debentures issued by the deposit insurance corporation	100%
11	Defaulted exposures	The percentages determined in accordance with section 40 <i>[defaulted exposures]</i>
12	Deferred tax assets	The percentages determined in accordance with section 14 <i>[regulatory adjustments – deferred tax assets]</i>
13	Deposits with central credit unions	20%
14	Derivative assets	20%
15	Equity exposures other than speculative unlisted equity exposures	250%
16	Equity shares in a central credit union	100%
17	Exposures associated with traditional securitization transactions and synthetic securitization transactions	The percentages, determined in accordance with this table, that apply to the assets underlying the transactions

Item	Column 1 Asset Category	Column 2 Risk Weight
18	Exposures to or guaranteed by deposit taking institutions other than central credit unions	The percentages determined in accordance with Table 7 of this Schedule
19	Exposures to or guaranteed by the government of Canada, including the Bank of Canada, or a province	0%
20	Exposures to or guaranteed by (a) governments other than the government of Canada or a province, or (b) central banks other than the Bank of Canada	The percentages determined in accordance with Table 8 of this Schedule
21	Exposures to public sector entities	The percentages determined in accordance with Table 9 of this Schedule
22	Exposures to public sector entities as guarantors	The percentages, determined in accordance with Table 2 of this Schedule, that apply to the borrowing entities to which the guarantees are provided
23	General commercial loans that are (a) not secured by real estate, and (b) not regulatory retail exposures	The percentages, determined in accordance with Table 2 of this Schedule, that apply to the borrowing entities
24	General commercial loans that are insured and guaranteed by the government of Canada	0%
25	High-quality project financing loans without issue-specific external credit ratings – operational phase	80%
26	Home equity lines of credit	The percentages determined in accordance with Table 10 of this Schedule
27	Loans that are fully secured by deposits with the credit union, both in Canadian currency	0%

Item	Column 1 Asset Category	Column 2 Risk Weight
28	Mortgage-backed securities that are fully and specifically secured by qualifying residential mortgages	35%
29	Mortgage-backed securities that are insured by the CMHC	0%
30	Mortgage-backed securities that are not fully and specifically secured by qualifying residential mortgages	100%
31	Other TLAC instruments	150%
32	Premises, equipment and right of use assets, at book value	100%
33	Project financing loans without issue-specific external credit ratings – pre-operational phase	130%
34	Project financing loans without issue-specific external credit ratings – operational phase	100%
35	Property acquired in settlement of loans and leases	100%
36	Purchased retail receivables	75%
37	Regulatory adjustments deducted under section 13 [<i>regulatory adjustments</i>]	0%
38	Regulatory retail exposures to persons other than transactors	75%
39	Regulatory retail exposures to transactors	15%
40	Repurchase agreements	The percentages determined in accordance with section 39 [<i>repurchase agreement exposures</i>]
41	Retail exposures, to businesses, that are not regulatory retail exposures	The percentages, determined in accordance with Table 2 of this Schedule, that apply to the borrowing entities
42	Retail exposures, to individuals, that are not regulatory retail exposures	100%

Item	Column 1 Asset Category	Column 2 Risk Weight
43	Reverse mortgages – amounts remaining after exposures are deducted from Tier 1 capital under Division 3 of Part 3	100%
44	Reverse mortgages that meet the criteria described in section 34 [<i>criteria respecting reverse mortgages</i>]	The percentages determined in accordance with Table 11 of this Schedule
45	Loans for residential real estate construction that are uninsured	65%
46	RRE loans, or IPRRE loans, that are uninsured	The percentages determined in accordance with Table 12 of this Schedule
47	RRE loans, or IPRRE loans, that are privately insured	☐ deductible portion: the percentages determined in accordance with Table 12 of this Schedule ☐ government of Canada backstop portion: 0%
48	RRE loans, or IPRRE loans, that are insured by the CMHC	0%
49	Speculative unlisted equity exposures	400%
50	Other assets	100%

Table 2

Risk Weights for Corporate Exposures and Retail Exposures to Businesses

Item	Column 1 Standardized Credit Rating of Borrowing Entity	Column 2 Risk Weight
1	AAA to AA-	20%
2	A+ to A-	50%
3	BBB+ to BB-	100%
4	Below BB-	150%
5	Unrated	100%

Table 3
Risk Weights for Covered Bonds With Issue-Specific External Credit Ratings

Item	Column 1 Issue-Specific Standardized Credit Rating	Column 2 Risk Weight
1	AAA to AA-	20%
2	A+ to A-	30%
3	BBB+ to BBB-	50%
4	BB+ to B-	100%
5	Below B-	150%

Table 4
Risk Weights for Unrated Covered Bonds

Item	Column 1 Risk Weight for Issuing Deposit Taking Institution	Column 2 Risk Weight for Unrated Covered Bond
1	20%	20%
2	50%	50%
3	100%	100%
4	150%	150%

Table 5
Risk Weights for CRE Construction Loans

Item	Column 1 Risk Factors	Risk Weights per Lending Category			
		Column 2 CRE construction (multi-residential) loan	Column 3 CRE construction (general) loan	Column 4 CRE construction (speculative) loan	Column 5 CRE land-only loan
1	LTC > 70%	75%	120%	130%	140%
2	LTC ≤ 70%	55%	105%	110%	

Table 6
Risk Weights for CRE Loans

Item	Column 1 Risk Factors	Risk Weight per Lending Category		
		Column 2 CRE (multi-residential) property loan	Column 3 CRE owner-occupied property loan	Column 4 CRE income-producing loan
1	DSCR < 120% AND LTV > 70%	55%	85%	105%
2	DSCR < 120% AND LTV ≤ 70% OR DSCR ≥ 120% AND LTV > 70%	45%	70%	85%
3	DSCR ≥ 120% AND LTV ≤ 70%	35%	50%	65%

Table 7
Risk Weights for Exposures to Deposit Taking Institutions

Item	Column 1 Standardized Credit Rating of Government of Country In Which Deposit Taking Institution Is Incorporated	Column 2 Risk Weight
1	AAA to AA-	20%
2	A+ to A-	50%
3	BBB+ to BBB-	100%
4	BB+ to BB-	100%
5	B- and below	150%
6	Unrated	100%

Table 8
Risk Weights for Exposures to Governments and Central Banks Other Than Bank of Canada

Item	Column 1 Standardized Credit Rating of Government	Column 2 Risk Weight
1	AAA to AA-	0%
2	A+ to A-	20%
3	BBB+ to BBB-	50%
4	BB+ to B-	100%
5	Below B-	150%
6	Unrated	100%

Table 9
Risk Weights for Exposures to Public Sector Entities

Item	Column 1 Standardized Credit Rating of Government of Jurisdiction in Which Public Sector Entity Is Incorporated	Column 2 Risk Weight
1	AAA to AA-	20%
2	A+ to A-	50%
3	BBB+ to BBB-	100%
4	BB+ to B-	100%
5	Below B-	150%
6	Unrated	100%

Table 10
Risk Weights for Home Equity Lines of Credit

Item	Column 1 Risk Factors	Column 2 Risk Weights per Lending Category	
		RRE loans	IPRRE loans
1	TDS > 42% AND LTV > 75%	70%	105%
2	TDS > 42% AND LTV ≤ 75% OR TDS ≤ 42% AND LTV > 75%	50%	75%
3	TDS ≤ 42% AND LTV ≤ 75%	30%	45%

Table 11
Risk Weights for Reverse Mortgages

Item	Risk Factors		Column 3 Risk Weight
	Column 1 Initial LTV	Column 2 Current LTV	
1	≤ 40%	≤ 60%	35%
2	> 40%	≤ 60%	50%
3	> 40%	> 60% and ≤ 75%	75%
4	> 40%	> 75% and ≤ 85%	100%

Table 12
Risk Weights for RRE Loans and IPRRE Loans

Item	Column 1 Risk Factors	Risk Weights per Lending Category	
		Column 2 RRE loans	Column 3 IPRRE loans
1	TDS > 42% AND amortization > 30 years AND LTV > 75%	70%	105%
2	TDS > 42% AND amortization > 30 years AND LTV ≤ 75% OR TDS > 42% AND amortization ≤ 30 years AND LTV > 75% OR TDS ≤ 42% AND amortization > 30 years AND LTV > 75%	50%	75%
3	TDS > 42% AND amortization ≤ 30 years AND LTV ≤ 75% OR TDS ≤ 42% AND amortization ≤ 30 years AND LTV > 75% OR TDS ≤ 42% AND amortization > 30 years AND LTV ≤ 75%	30%	45%
4	TDS ≤ 42% AND amortization ≤ 30 years AND 50% < LTV ≤ 75%	20%	30%
5	TDS ≤ 42% AND amortization ≤ 30 years AND LTV ≤ 50%	15%	22%

SCHEDULE 5

(Part 5)

Table 1

Risk Weights and Credit Conversion Factors for Off-Balance Sheet Assets

Item	Column 1 Asset Category	Column 2 Credit Conversion Factor	Column 3 Risk Weight
1	Commitments – home equity lines of credit	10%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
2	Commitments – original maturity ≤ 1 year	20%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
3	Commitments – original maturity > 1 year	50%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
4	Commitments – unconditionally cancellable at any time	0%	0%
5	Derivatives	The add-on factor determined in accordance with Table 2 of this Schedule	The percentage determined in accordance with Table 2 of this Schedule
6	Guarantees of indebtedness	100%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
7	Letters of credit (short-term)	20%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category

Item	Column 1 Asset Category	Column 2 Credit Conversion Factor	Column 3 Risk Weight
8	Letters of credit (standby)	100%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
9	Letters of credit (transaction)	50%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
10	Off-balance sheet repurchase agreements	100%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
11	Transaction-related contingencies	50%	The percentage, determined in accordance with Table 1 of Schedule 4, that applies to the applicable asset category
12	Other	100%	100%

Table 2
Risk Weights and Add-On Factors for Derivatives

Item	Column 1 Type of Derivative	Column 2 Add-On Factor	Column 3 Risk Weight That Applies to the Counterparty
1	Interest rate contracts	0.5%	20%
2	Foreign exchange rate contracts	4%	20%
3	Equity contracts	8%	20%