

EFFECTIVE JANUARY 2027

# Reporting Instructions: Capital Adequacy Return

B.C. Credit Unions

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# 1 Introduction

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These instructions provide guidance to B.C. credit unions for reporting the Capital Adequacy Return (CAR) to the Superintendent of Financial Institutions at BC Financial Services Authority (BCFSA), as required by the Financial Institutions Act (FIA) and specified by the Credit Union Capital Requirements Rules (Capital Rules).

References to the Capital Rules are included in these reporting instructions and the CAR reporting template. For additional details on each CAR line, refer to the section and schedule numbers indicated in this document and the CAR template.

## 1.1 CONSOLIDATED REPORTING

Credit unions must prepare the CAR on a consolidated basis, as specified in the Capital Rules.

The Capital Rules will apply to provincial credit unions in determining whether the credit union has adequate and appropriate capital and will require the assets and liabilities of the credit union, and its subsidiaries to be considered on a consolidated basis, with the following exceptions:

- Insurance entities that are subsidiaries of the credit union are not consolidated.

Insurance entities as defined under Section 1 of the Capital Rules are insurance companies and extraprovincial insurance corporations, as defined under the FIA. Such subsidiaries are to be reported as a significant investment using the equity method of accounting and subject to regulatory adjustments.

Note: Subsidiaries of the credit union that are insurance brokerages or agencies are not considered insurance entities for the purposes of the Capital Rules. Accordingly, such subsidiaries must be consolidated.

- 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] of the Capital Rules, 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) (OSFI), as amended from time to time;

(ii) consolidate the remaining assets and the liabilities of the bank with its assets and liabilities.

Note: If the credit union chooses option (b), commercial or personal loans and leases of the bank subsidiary are to be reported in lines 6250-850 to 6250-870: Loans and Leases Held by OSFI Regulated Bank Subsidiary of the Credit Union in the Loans and Leases section.

[Capital Rules Section 2]

## 1.2 ANNUAL CAR AUDIT EXPECTATIONS

Credit unions are expected to submit an independent auditor's report on the annual CAR within 90 days of the credit union's fiscal year end. The audit report of the annual CAR must be prepared separately from the credit union's annual audit report on the financial statements, by the same auditor engaged to do the latter. See Appendix 1 for details on the annual CAR audit expectations and a sample auditor's report.

# 2 Capital Adequacy Return (CAR)

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## 2.1 SECTION 6200 – RISK BASED CAPITAL RATIO

Risk based capital ratios calculated for the reporting periods after the transition period (January 1, 2027–December 31, 2028) and with full implementation of the Capital Rules, effective January 1, 2029.

### Line 6200-100: Tier 1 Capital

As reported on line 6230-500: Total Tier 1 Capital, which represents the sum of the items in Section 7 of the Capital Rules less regulatory adjustments set out in Sections 13 to 19.

[Capital Rules Section 6]

### Line 6200-110: Tier 2 Capital

As reported on line 6230-700: Total Tier 2 Capital, which represents the sum of the items in Section 22(2) of the Capital Rules (and after applying amortization).

[Capital Rules Section 22]

### Line 6200-120: Total Capital

The sum of the above Tier 1 Capital (less regulatory adjustments) and Tier 2 Capital.

[Capital Rules Section 1]

### Line 6200-130: Credit Risk Weighted Assets (CRWA)

On-balance sheet and off-balance sheet assets risk weighted for credit risk, as specified by the Capital Rules, and reported in lines 6240-900: Total Cash and Investments, 6250-950: Total Loans and Leases, 6260-500: Total Other Assets, and 6270-500: Total Off-Balance Sheet Assets.

[Capital Rules Section 31]

### Line 6200-140: Operational Risk Weighted Assets

Risk weighted assets equivalent for operational risk, as specified by the Capital Rules, and reported in line 6280-150: Operational Risk Weighted Assets.

[Capital Rules Section 43]

### Line 6200-150: Total Risk Weighted Assets (RWA)

The sum of the above credit risk weighted assets and operational risk weighted assets.

[Capital Rules Section 30]

[Line 6200-200: Tier 1 Capital Ratio](#), calculated as follows:

$$\text{Tier 1 Capital Ratio} = \frac{\text{Tier 1 Capital}}{\text{Total RWA}}$$

[Line 6200-210: Total Capital Ratio](#), calculated as follows:

$$\text{Total Capital Ratio} = \frac{\text{Total Capital}}{\text{Total RWA}}$$

[Capital Rules Sections 3(c) and 4]

Refer to Appendix 2 for details on minimum requirements for the risk based capital ratios and guidance on the capital conservation buffer and minimum capital conservation rules.

## 2.2 SECTION 6210 – LEVERAGE RATIO

Leverage ratio calculated for the reporting periods after the transition period (January 1, 2027–December 31, 2028) and with full implementation of the Capital Rules, effective January 1, 2029.

[Line 6210-100: Tier 1 Capital](#)

As reported on line 6230-500: Total Tier 1 Capital, which represents the sum of the items in Section 7 of the Capital Rules less regulatory adjustments set out in Sections 13 to 19.

[Capital Rules Section 6]

[Line 6210-110: On-Balance Sheet Assets](#)

The sum of unweighted amounts, as specified by the Capital Rules, and reported in lines 6240-900: Total Cash and Investments, 6250-950: Total Loans and Leases, and 6260-500: Total Other Assets.

Note: On-balance sheet assets must be included, net of specific and general allowances and net of accounting valuation adjustments (e.g., accounting credit valuation adjustments arising from counterparty credit risk). Also, loans and deposits must not be netted for purposes of calculating the total exposure.

[Line 6210-120: Less Regulatory Adjustments \(Deductions\) from Tier 1 Capital](#)

Regulatory adjustments set out in Sections 13 to 19 of the Capital Rules and reported in lines 6230-300 to 6230-410: Regulatory Adjustments from Tier 1 Capital.

[Line 6210-130: Off-Balance Sheet Exposures](#)

The sum of exposure amounts for off-balance sheet assets (other than derivatives), as specified by the Capital Rules, and reported in line 6270-250: Subtotal Off-Balance Sheet Exposures.

[Line 6210-140: Derivative Exposures](#)

The sum of exposure amounts for derivatives, as specified by the Capital Rules, and reported in line 6270-350: Subtotal Derivative Exposures.

[Line 6210-150 Total Exposure](#)

The sum of the above on-balance sheet assets (less regulatory adjustments) and off-balance sheet exposures, including derivative exposures.

[Capital Rules Section 48]

[Line 6210-200: Leverage Ratio](#), calculated as follows:

$$\text{Leverage Ratio} = \frac{\text{Tier 1 Capital}}{\text{Total Exposure}}$$

[Capital Rules Section 47]

Refer to Appendix 2 for details on minimum requirements for the leverage ratio.

## 2.3 SECTION 6220 – RISK BASED CAPITAL RATIO (TRANSITION)

This section includes the risk based capital ratios calculated for the reporting periods during the transition period (January 1, 2027–December 31, 2028) and will not be relevant with full implementation of the Capital Rules, effective January 1, 2029.

Credit unions are granted a temporary exemption from the requirement to deduct the following non-significant investments and intangible assets (as described in Section 21 of the Capital Rules). The exemption expires on January 1, 2029.

- Non-significant investments in deposit taking institutions, insurance entities and permitted financial entities, as defined in Section 12 of the Capital Rules, and which in aggregate exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments) are not required to be deducted during the transition period, but will be subject to a 250% risk weight.
- Intangible assets if they are software assets are not required to be deducted during the transition period but will be subject to a 100% risk weight.

For the transition period (January 1, 2027–December 31, 2028), formulas are built into the CAR (transition) section of the CAR reporting template to add the deducted non-significant investments and software intangible assets back to Tier 1 capital and add them to credit risk weighted assets with a 250% or a 100% risk weight applied, respectively.

[Capital Rules Section 21]

## 2.4 SECTION 6221 – LEVERAGE RATIO (TRANSITION)

This section includes the leverage ratio calculated for the reporting periods during the transition period (January 1, 2027–December 31, 2028) and will not be relevant with full implementation of the Capital Rules, effective January 1, 2029.

For the transition period (January 1, 2027–December 31, 2028), formulas are built into the CAR (transition) section of the CAR reporting template to add the deducted non-significant investments and software intangible assets back to Tier 1 capital and deduct them from regulatory adjustments.

[Capital Rules Section 21]

## 2.5 SECTION 6230 – CAPITAL

Total capital consists of the sum of the following elements:

- Tier 1 Capital
  - Less: Regulatory Adjustments (Deductions) from Tier 1 Capital
- Tier 2 Capital.

### 2.5.1 Tier 1 Capital

Tier 1 capital is the sum of the items set out in Section 7 of the Capital Rules and reported on the following lines. The underlying principle for Tier 1 capital is that it must be able to absorb losses on a going-concern basis.

#### [Line 6230-100: Retained Earnings \(Deficit\)](#)

Report retained earnings (positive) or deficit (negative) of the credit union.

[Capital Rules Section 7(a)]

#### [Line 6230-110: Contributed Surplus](#)

Report contributed surplus resulting from either of the following:

- The amalgamation of the credit union with one or more other credit unions; or
- The acquisition by the credit union of assets from another credit union under an asset transfer agreement.

[Capital Rules Section 7(e)]

#### [Line 6230-120: Membership Shares](#)

Report membership shares within the meaning of the Credit Union Incorporation Act (CUIA).

Note: Membership shares are not required to meet the criteria in Section 8(2) of the Capital Rules.

[Capital Rules Section 7(b)]

#### [Lines 6230-130 to 6230-160: Other Tier 1 Capital Instruments Issued by the Credit Union](#)

Report capital instruments, other than membership shares, issued by the credit union, that are not required to be redeemed in the 12 months after the reporting date, and meet all of the criteria as stated in Sections 8(2), 9, 10, and 11 of the Capital Rules. Refer to Appendix 3 for additional guidance on criteria for Tier 1 instruments. Report by the type of instruments on the following lines:

[Line 6230-130: Investment Shares;](#)

[Line 6230-140: Transaction Shares;](#)

[Line 6230-150: Preferred Shares; and](#)

[Line 6230-160: All Other Tier 1 Capital Instruments.](#)

[Capital Rules Sections 7(c) and 8 to 11]

#### [Line 6230-170: Tier 1 Capital Instruments Issued by Consolidated Subsidiaries of the Credit Union](#)

Report capital instruments, other than membership shares, issued by consolidated subsidiaries of the credit union and held by third parties, that are not required to be redeemed in the 12 months after the reporting date, and meet all of the criteria stated in Sections 8(2), 9, 10, and 11 of the Capital Rules. Refer to Appendix 3 for additional guidance on criteria for Tier 1 instruments.

[Capital Rules Sections 7(d) and 8 to 11]

#### **Accumulated Other Comprehensive Income (Loss):**

#### [Line 6230-180: Accumulated Other Comprehensive Income \(Loss\) - Total](#)

Report the Total Accumulated Other Comprehensive Income (Loss) AOCI (including cash flow hedge reserves), report income as positive number and loss as negative.

[Line 6230-190: Less: Accumulated Other Comprehensive Income \(Loss\) - Cash Flow Hedge Reserve](#)

Report the amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) since it should be derecognized in the calculation of Tier 1 capital for prudential purposes. This treatment removes the element that gives rise to artificial volatility in Tier 1, as in this case the reserve only reflects one half of the transaction (the fair value of the derivative, but not the changes in fair value of the hedged future cash flow).

Report cash flow hedge reserves derecognized, report income as positive number and loss as negative.

[Capital Rules Section 7(f)]

### **2.5.2 Regulatory Adjustments (Deductions) from Tier 1 Capital**

Regulatory adjustments from Tier 1 capital are the sum of items set out in Section 13 of the Capital Rules that are to be deducted from the Tier 1 capital of a credit union. The items included address the high degree of uncertainty that these items will absorb losses in periods of stress. All deductions from Tier 1 capital are deemed to have a risk weight of 0% in the calculation of credit risk weighted assets. Except for the item referred to in respect of certain cash flow hedge reserves included in AOCI and the fair value gains on own-use property, a credit union must not remove from Tier 1 capital unrealized gains or losses on assets or liabilities that are measured at fair value for accounting purposes.

#### **Deferred Tax Assets**

Deferred tax assets (DTA) may be netted with associated deferred tax liabilities (DTL) only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority. Offsetting of deferred tax assets across provinces is not permitted. The net amount cannot be negative.

The DTLs permitted to be netted against DTAs must:

- exclude amounts that have been netted against the deduction of goodwill, intangible assets, and the de-recognition of the cash flow hedge reserve; and
- be allocated on a pro rata basis between DTAs that are subject to the 10% threshold deduction treatment, DTAs that are to be deducted in full, and DTAs that are risk weighted at 100%, as described in the Capital Rules.

[Line 6230-300: Deferred Tax Assets - Temporary Differences Exceeding 10% of Tier 1 Capital Threshold](#)

Report the portion of DTAs arising from temporary differences that exceeds 10% of the credit union's Tier 1 capital (before regulatory adjustments).

Note: Report the portion below this threshold with 250% risk weight in line 6260-270: Deferred Tax Assets - Temporary Differences Not Exceeding 10% of Tier 1 Capital Threshold in the Other Assets section.

[Capital Rules Sections 13(a) and 14]

[Line 6230-310: Deferred Tax Assets - Carryforward of Unused Tax Losses and Tax Credits](#)

DTAs arising from the carryforward of unused tax losses and tax credits must be fully deducted from Tier 1 capital.

[Capital Rules Sections 13(a) and 14]



[Line 6230-320: Unrealized Fair Value Gains on Own-use Property](#)

Unrealized fair value gains on own-use property, such as premises owned and occupied by the credit union, including initial gains at transition to International Financial Reporting Standards (IFRS) and any subsequent gains must be deducted from Tier 1 capital.

[Capital Rules Section 13(b)]

[Line 6230-330: Securitization Gains](#)

Securitization gains are increases in equity resulting from traditional and synthetic securitization transactions (e.g., capitalized future margin income, gains on sale) and must be deducted from Tier 1 capital.

**BCFSA Note – Capitalized Future Margin Income**

Capitalized future margin income is recognizing up-front the income stream that is expected to be earned over the life of the securitization, i.e., it is expected to be earned in the future, but it is now included in equity for accounting purposes. Because of the uncertainty associated with this future income stream, it is not recognized for capital purposes, and it is deducted from Tier 1 capital. Capitalized future margin income is recognized in capital only when realized throughout the life of the securitization.

Note: Securitizations through Canada Mortgage and Housing Corporation (CMHC), under the National Housing Act (Canada) Mortgage-Backed Securities (NHA-MBS) and Canada Mortgage Bonds (CMB) programs are not considered traditional or synthetic securitizations.

[Capital Rules Section 13(c)]

[Line 6230-340: Goodwill](#)

Report goodwill of the credit union, any goodwill included in the valuation of the significant investments of the credit union (as defined in Section 12 of the Capital Rules), any goodwill included in the valuation of subsidiaries of the credit union that are insurance entities (as described in section 1.1 of this document), and the proportional share of goodwill in joint ventures, subject to the equity method of accounting. The full amount must be deducted, net of any associated deferred tax liability, which would be extinguished if the goodwill becomes impaired or derecognized under relevant accounting standards.

A credit union should calculate a goodwill amount as at the acquisition date by separating any excess of the acquisition cost over the investor's share of the net fair value of the identifiable assets and liabilities of the banking, financial or insurance entity. In accordance with applicable accounting standards, this goodwill amount may be adjusted for any subsequent impairment losses and reversal of impairment losses that can be assigned to the initial goodwill amount.

[Capital Rules Sections 13(d) and 15]

[Line 6230-350: Other Intangible Assets \(excl. Software\)](#)

Intangible assets (excluding goodwill and software assets) of the credit union, intangible assets included in the valuation of subsidiaries of the credit union that are insurance entities (as described in section 1.1 of this document), and the proportional share of intangible assets in joint ventures, subject to the equity method of accounting. Report intangible assets, excluding goodwill and intangible assets if they are software assets. The full amount must be deducted, net of any associated deferred tax liability, which would be extinguished if the intangible assets become impaired or derecognized under relevant accounting standards.

Note: Report software intangible assets in line 6230-360: Intangible Assets - Software.

[Capital Rules Sections 13(e) and 16]

[Line 6230-360: Intangible Assets - Software](#)

Report Intangible assets, that are software assets, of the credit union, software intangible assets included in the valuation of subsidiaries of the credit union that are insurance entities (as described in section 1.1 of this document), and the proportional share of software intangible assets in joint ventures, subject to the equity method of accounting. The full amount must be deducted, net of any associated deferred tax liability, which would be extinguished if the intangible assets become impaired or derecognized under relevant accounting standards.

[Capital Rules Sections 13(e) and 16]

Note: This line must be reported as deduction of the software intangible assets, during the transition period and thereafter.

Credit unions are granted a temporary exemption from the requirement to deduct intangible assets if they are software assets. Software intangible assets are not required to be deducted during the transition period but will be subject to a 100% risk weight. The exemption expires on January 1, 2029. Refer to section 2.3 of this document for more information.

For the transition period (January 1, 2027–December 31, 2028), formulas are built into the CAR (transition) section to add the reported software intangible assets back to Tier 1 capital and add these intangible assets to credit risk weighted assets with a 100% risk weight applied.

[Capital Rules Section 21]

**Investments in the Capital and/or Other Total Loss Absorbing Capacity (TLAC) Instruments of Unconsolidated Deposit Taking Institutions, Permitted Financial, and Insurance Entities (Lines 6230-370 to 6230-380):**

Investments in the capital and/or Other Total Loss Absorbing Capacity (TLAC) instruments of deposit taking institutions, permitted financial entities and insurance entities, that are outside the scope of regulatory consolidation, are deducted from Tier 1 capital, as outlined below.

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.

[Capital Rules Section 12]

**BCFSA Note – Other Total Loss-Absorbing Capacity (TLAC) Instruments**

In Canada, banks designated by OSFI as Domestic Systemically Important Banks (D-SIBs) are required to maintain minimum levels of Total Loss Absorbing Capacity (TLAC). This requirement appears in OSFI's TLAC Guideline. TLAC is comprised of the D-SIB's Regulatory Capital + Other TLAC instruments. Other TLAC instruments do not meet the standard of regulatory capital because among others, they are permitted to have short term maturities and are not subordinated to depositors. However, they qualify for inclusion in a D-SIB's TLAC because of the bail-in feature included in such instruments. More specifically, under OSFI's TLAC Guideline, these instruments may be included in TLAC—but subject to meeting several criteria including: must provide for a permanent conversion into the bank's common shares pursuant to subsection 39.2(2.3) of the Canada Deposit Insurance Corporation Act and they must satisfy all of the requirements set out in the Bank Recapitalization (Bail-in) Issuance Regulations of the Bank Act.

A credit union investing in a non-regulatory capital instrument that the issuing D-SIB reports as qualifying for inclusion in its TLAC under OSFI's TLAC Guideline is required to treat the investment as a holding of an "Other TLAC Instrument" under the Capital Rules. Credit Unions are able to confirm TLAC treatment by reference to the D-SIB's prospectus which will clearly state that the instrument qualifies for inclusion in the bank's Total Loss Absorbing Capacity (TLAC) under OSFI's TLAC Guideline. BCFSA does not require further confirmation. Instruments that are held by credit unions that are other TLAC instruments as confirmed in the issuing bank's offering documents are subject to the deduction and risk weighting treatments in Section 17 of the Capital Rules.

Other TLAC instruments are issued by D-SIBs in the form of senior debt and refer to them in their prospectuses usually as "bail-inable notes" or "bail-inable senior notes".

Definitions of a deposit taking institution, a permitted financial entity, and an insurance entity are provided in Section 1 of the Capital Rules.

Note: An insurance entity does not include an insurance brokerage or agency.

[Capital Rules Section 1]

Definitions of a significant and non-significant investment are provided in Section 12 of the Capital Rules.

**BCFSA Note – Significant and Non-significant Investments**

Significant investment means the credit union controls more than 10% of the voting shares or holds shares of a corporation that represent more than 25% of the shareholders' equity of the corporation (more than 25% ownership interest).

Non-significant investment means the credit union controls 10% or less of the voting shares or holds shares of a corporation that represent less than 25% of the shareholders' equity of the corporation (less than 25% ownership interest).

Credit unions must report significant investments and non-significant investments whether they are held direct, indirect, or synthetic investments. Definitions of significant, non-significant, indirect, and synthetic investment are provided in Section 12 of the Capital Rules.

[Capital Rules Section 12]

In relation to significant and non-significant investments, net long position means the gross long position less the short positions in the same underlying exposure, where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least 12 months.

[Capital Rules Section 17(1)]

[Line 6230-370: Significant Investments Exceeding 10% of Tier 1 Capital Threshold](#)

Significant investments in the capital and/or other TLAC instruments of deposit taking institutions, permitted financial entities and insurance entities, that are outside the scope of regulatory consolidation, and which in aggregate exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments), must be deducted from Tier 1 capital, in aggregate and on a net long basis.

Note: Report the aggregated amount up to the 10% threshold with 250% risk weight in line 6240-400: Significant Investments Not Exceeding 10% of Tier 1 Capital Threshold, in the Cash and Investments section.

[Capital Rules Sections 13(g) and 18]

[Line 6230-380: Non-significant Investments Exceeding 10% of Tier 1 Capital Threshold](#)

Non-significant investments in the capital and/or other TLAC instruments of deposit taking institutions permitted financial entities and insurance entities, that are outside the scope of regulatory consolidation, and which in aggregate exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments), must be deducted from Tier 1 capital, in aggregate and on a net long basis.

Note: Report the aggregated amounts up to the 10% threshold by the respective categories with the appropriate risk weights in lines 6240-420 to 6240-450: Non-significant Investments Not Exceeding 10% of Tier 1 Capital Threshold, in the Cash and Investments section.

[Capital Rules Sections 13(f) and 17]

Note: This line must be reported as deduction of these non-significant investments, during the transition period and thereafter.

Credit unions are granted a temporary exemption from the requirement to deduct non-significant investments exceeding the 10% Tier 1 capital threshold. Amounts in excess of the 10% threshold are not required to be deducted during the transition period but will be subject to a 250% risk weight. The exemption expires on January 1, 2029. Refer to section 2.3 of this document for more information.

For the transition period (January 1, 2027–December 31, 2028), formulas are built into the CAR (transition) section of the CAR reporting template to add the reported non-significant investments back to Tier 1 capital and add these investments to credit risk weighted assets with a 250% risk weight applied.

[Capital Rules Section 21]

**[Equity Investments in Unconsolidated Deposit Taking Institutions, Permitted Financial, and Insurance Entities \(Equity Method\) \(Lines 6230-390 to 6230-400\):](#)**

Equity investments in associates and joint ventures that are deposit taking institutions, permitted financial entities and insurance entities (accounted for using the equity method under IFRS) are deducted from Tier 1 capital, as outlined below.

[Line 6230-390: Significant Investments Exceeding 10% of Tier 1 Capital Threshold](#)

Significant investments in associates and joint ventures, that are deposit taking institutions, permitted financial entities and insurance entities (accounted for using the equity method under IFRS) and which in aggregate exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments), must be deducted from Tier 1 capital.

Note: Aggregated amount up to the 10% threshold is reported with 250% risk weight in line 6260-200: Significant Investments Not Exceeding 10% of Tier 1 Capital Threshold, in the Other Assets section.

[Capital Rules Sections 13(g) and 18]

[Line 6230-400: Non-significant Investments Exceeding 10% of Tier 1 Capital Threshold](#)

Non-significant investments in associates and joint ventures, that are deposit taking institutions, permitted financial entities and insurance entities (accounted for using the equity method under IFRS) and which in aggregate exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments) must be deducted from Tier 1 capital.

Note: Aggregated amounts up to the 10% threshold are reported by the respective categories with the appropriate risk weights in lines 6260-220 to 6260-230: Non-significant Investments Not Exceeding 10% of Tier 1 Capital Threshold, in the Other Assets section.

[Capital Rules Sections 13(f) and 17]

Note: This line must be reported as deduction of these non-significant investments, during the transition period and thereafter.

Credit unions are granted a temporary exemption from the requirement to deduct non-significant investments exceeding the 10% Tier 1 capital threshold. Amounts in excess of the 10% threshold are not required to be deducted during the transition period but will be subject to a 250% risk weight. The exemption expires on January 1, 2029. Refer to section 2.3 of this document for more information.

For the transition period (January 1, 2027–December 31, 2028), formulas are built into the CAR (transition) section of the CAR reporting template to add the reported non-significant investments back to Tier 1 capital and add these investments to credit risk weighted assets with a 250% risk weight applied.

[Capital Rules Section 21]

[Line 6230-410: Reverse Mortgages - Current LTV > 85% - Exposure > 85%](#)

Reverse mortgages with a current loan-to-value ratio (LTV) greater than 85%, the exposure amount that exceeds 85% LTV is deducted from Tier 1 capital. The remaining amount after this deduction is reported in line 6250-230: Reverse Mortgages - Current LTV > 85% - Exposure ≤ 85% with 100% risk weight in the Loans and Leases section. Refer to lines 6250-210 to 6250-235: Reverse Mortgages in the Loans and Leases section for definition and additional details on reverse mortgages.

[Capital Rules Sections 13(h) and 19]

[Line 6230-420: Credit Union's Investment in its Own Tier 1 Capital Shares](#)

A credit union's investments in its own Tier 1 capital shares whether held directly or indirectly and is not already derecognized under IFRS, is deducted from the calculation of Tier 1 capital.

[Capital Rules Section 13(i)]

### 2.5.3 Tier 2 Capital

Tier 2 capital is the sum of items set out in Section 22(2) of the Capital Rules and reported on the following lines. The objective of Tier 2 capital is to provide loss absorption on a gone-concern basis. When a credit union fails, Tier 2 instruments must absorb losses before depositors and general creditors.

[Lines 6230-600 to 6230-640: Tier 2 Capital Instruments Issued by the Credit Union](#)

Report instruments issued by the credit union and held by third parties that are not required to be redeemed in the 12 months after the reporting date and meet all the criteria as stated in Sections 23(2), 24, 25, and 26 of the Capital Rules. Refer to Appendix 3 for additional guidance on criteria for Tier 2 instruments. Such instruments will be subject to straight-line amortization in the final five years to maturity or fixed repayment date based on the table in Schedule 2 of the Capital Rules. Report the amortized portions in line 6230-670: Amortization of Tier 2 Capital Instruments.

Report by the type of instruments on the following lines:

[Line 6230-600: Investment Shares;](#)

[Line 6230-610: Transaction Shares;](#)

[Line 6230-620: Preferred Shares;](#)

[Line 6230-630: Subordinated Debt \(Other than Issued to CUDIC/SCCU\); and](#)

[Line 6230-640: All Other Tier 2 Capital Instruments.](#)

[Capital Rules Sections 22(2)(a) and 23 to 27]

[Line 6230-650: Tier 2 Capital Instruments Issued by Consolidated Subsidiaries of the Credit Union](#)

Report instruments issued by the consolidated subsidiaries of the credit union and held by third parties that are not required to be redeemed in the 12 months after the reporting date, and meet all the criteria stated in Sections 23(2), 24, 25 and 26 of the Capital Rules. Such instruments will be subject to straight-line amortization in the final five years to maturity or fixed repayment date based on the table in Schedule 2 of the Capital Rules. Report the amortized portions in line 6230-670: Amortization of Tier 2 Capital Instruments.

[Capital Rules Sections 22(2)(b) and 23 to 27]

[Line 6230-660: CUDIC/SCCU Subordinated Debt](#)

Report subordinated debt instruments issued to the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) or Stabilization Central Credit Union of British Columbia (SCCU). Such instruments will be subject to straight-line amortization in the final five years to maturity or fixed repayment date based on the table in Schedule 2 of the Capital Rules. Report the amortized portions in line 6230-670: Amortization of Tier 2 Capital Instruments.

[Capital Rules Section 22(2)(c) and 27]

[Line 6230-670: Less: Amortization of Tier 2 Capital Instruments](#)

Report the amortized portions of Tier 2 capital instruments. Tier 2 capital instruments, including subordinated debt instruments, are subject to straight-line amortization in the final five years to maturity or fixed repayment date based on the table in Schedule 2 of the Capital Rules.

[Capital Rules Section 27]

[Line 6230-680: General Allowances \(Max. 1.25% of CRWA\)](#)

Report general allowances (IFRS 9 Stage 1 and Stage 2 allowances), as defined in the Capital Rules. General allowances eligible for inclusion in Tier 2 capital up to 1.25% of the credit risk weighted assets. General allowances should exclude allowances held against on-balance sheet assets underlying exposures treated as either a traditional or synthetic securitization transaction for capital purposes.

[Capital Rules Sections 22(d) and 28]

**BCFSA Note – General and Specific Allowances**

Under the Capital Rules, IFRS 9 Stage 3 allowances and partial write-offs are considered to be specific allowances, while Stage 1 and Stage 2 allowances are considered to be general allowances.

IFRS requires an expected loss allowance to be estimated for debt type financial assets that are not measured at fair value through profit or loss. All allowance for expected credit losses (ECL) calculations must be based on a three-stage process which reflects the deterioration in credit quality of loans and leases:

Stage 1: 12-Month ECL: Covers investments, loans and leases that have low risk or have not deteriorated significantly in credit quality since initial recognition;

Stage 2: Lifetime ECL - Not Impaired: Covers investments, loans and leases that have deteriorated significantly in credit quality since initial recognition, but do not have objective evidence of a credit loss event;

Stage 3: Lifetime ECL - Credit Impaired: Covers investments, loans and leases that have objective evidence of impairment at the reporting date.

**2.6 SECTION 6240 – CRWA: ON-BALANCE SHEET ASSETS: CASH AND INVESTMENTS**

Report the unweighted amounts on the following lines with the appropriate risk weights. Risk weighted amounts for on-balance sheet assets are calculated by multiplying the unweighted amount by the risk weight. The CAR template includes references to the Capital Rules. For additional details on CAR lines and related risk weights, refer to the section and schedule numbers indicated in the CAR template.

Amounts include accrued interest and are reported net of specific allowances for credit losses or impairment. Under the Capital Rules, IFRS 9 Stage 3 allowances and partial write-offs are considered to be specific allowances, while Stage 1 and Stage 2 allowances are considered to be general allowances.

Standardized credit ratings are applied to determine the risk weights of exposures across various asset classes. Table 1 of Schedule 3 of the Capital Rules provides a mapping of standardized credit ratings to external credit ratings by external credit assessment institutions.

[Capital Rules Section 32]

[Line 6240-100: Cash](#)

Cash on hand (cash that is physically on the premises), cash in transit, cash in ATMs, and foreign currency held (valued at the current exchange rate).

[Line 6240-110: Cheques and Items in Transit](#)

Report cheques and other items in transit assets with positive or debit balances only. Offset with liabilities that have credit balances if permitted by IFRS.

Note: Report zero in this line when the net balance of transit items is a negative or credit balance.

[Line 6240-120: Deposits with Central Credit Unions](#)

Deposits held with central credit unions, including the operating accounts. Include all demand and term deposits held with Central 1 Credit Union (Central 1).

[Line 6240-130: Exposures to or Guaranteed by the Government of Canada, including the Bank of Canada, or a Province](#)

Exposures to or guaranteed by the Government of Canada (including the Bank of Canada) or a province. These exposures have a risk weight of 0%. Include Treasury bills, marketable bonds, other debt securities, etc. issued or guaranteed by the Government of Canada (including the Bank of Canada). Also include exposures to and guaranteed by:

- Any provincial or territorial government in Canada; and
- Agents of the Canadian federal, provincial or territorial governments whose debts are, by virtue of their enabling legislation, obligations of the parent government.

[Line 6240-131: Exposures to Multilateral Development Banks \(MDBs\) that are Eligible for 0% Risk Weight](#)

Exposures to multilateral development banks (MDBs) that are eligible for 0% risk weight under the CAR Guideline issued by OSFI, as amended from time to time.

Note: This line only includes exposures to MDBs that are listed in OSFI's CAR Guideline as eligible for a 0% risk weight.

[Lines 6240-140 to 6240-165: Exposures to or Guaranteed by Governments or Central Banks Other than Canada](#)

Report exposures to or guaranteed by governments (other than the Government of Canada or a province) and central banks (other than the Bank of Canada) on lines with the appropriate risk weights. Related risk weights are applied based on the standardized credit rating of government, as detailed in the Capital Rules.

[Capital Rules Schedule 4 Table 8]

[Lines 6240-170 to 6240-195: Exposures to Public Sector Entities \(PSEs\)](#)

Report exposures to public sector entities (PSEs) on lines with the appropriate risk weights. Related risk weights are applied based on the standardized credit rating of the government of jurisdiction in which the PSE is incorporated, as detailed in the Capital Rules.

[Capital Rules Schedule 4 Table 9]

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; and
- (d) a body described in paragraph (e) of the definition of "public body" in Section 1 (1) of the FIA.

[Capital Rules Section 1]



**BCFSA Note – Reporting Exposures to PSEs**

Exposures to 1) provincial and territorial governments in Canada, and 2) agents of the Canadian federal, provincial or territorial governments whose debts are, by virtue of their enabling legislation, obligations of the parent government receive the same 0% risk weight as the Government of Canada and are reported on line 6240-130: Exposures to or Guaranteed by the Government of Canada, including the Bank of Canada, or a Province.

Exposures to PSEs for the financing of the PSE's own municipal and public services receive a risk weight that is one category higher than the government risk weight, as set out in Table 9 of Schedule 4 of the Capital Rules. Exposures to PSEs are reported on lines 6240-170 to 6240-195: Exposures to PSEs in this section, or in case of loans and lines of credit to PSEs on lines 6250-530 to 6250-555: Loans to PSEs in the Loans and Leases section.

Where PSEs provide guarantees or other support arrangements, other than in respect of the financing of their own municipal or public services, the PSE risk weight in Table 9 of Schedule 4 of the Capital Rules may not be used. Instead, exposures to PSEs as guarantors must be treated as corporate exposures and related risk weights are applied based on the standardized credit ratings of the borrowing entities to which the guarantees are provided, as set out in Table 2 of Schedule 4 of the Capital Rules. Exposures to PSEs as guarantors are reported on lines 6250-560 to 6250-580: Loans Guaranteed by PSEs in the Loans and Leases section.

**Lines 6240-200 to 6240-225: Exposures to or Guaranteed by Deposit Taking Institutions**

Report exposures to or guaranteed by deposit taking institutions (DTIs) on lines with the appropriate risk weights. Include all demand and term deposits, bankers' acceptances, marketable bonds (excluding cover bonds), other debt securities, etc. issued or guaranteed by banks and other DTIs (defined in Section 1 of the Capital Rules). Related risk weights are applied based on the standardized credit rating of the government of country in which the DTI is incorporated, as detailed in the Capital Rules.

[Capital Rules Schedule 4 Table 7]

Note: This line does not include deposits with central credit unions that are reported in line 6240-120 above in this section. Also, this line excludes bail-in senior debt and subordinated debt, as these exposures receive specific treatment as other TLAC instruments under the Capital Rules.

**Lines 6240-230 to 6240-250: Covered Bonds (with Issue-Specific Credit Rating)**

Report covered bonds with issue-specific external credit ratings on lines with the appropriate risk weights. Related risk weights are applied based on the issue-specific standardized credit rating (as opposed to the issuer rating), as detailed in the Capital Rules.

[Capital Rules Schedule 4 Table 3]

Covered bond refers to 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.

[Capital Rules Section 29]

[Lines 6240-255 to 6240-270: Unrated Covered Bonds](#)

Report unrated covered bonds on lines with the appropriate risk weights. Related risk weights are applied based on the risk weight for the issuing DTI, as detailed in the Capital Rules.

[Capital Rules Schedule 4 Table 4]

Note: Credit unions should refer to Table 7 of Schedule 4 of the Capital Rules to determine the risk weight that applies to the issuing DTI. Then, refer to Table 4 of Schedule 4 to determine the risk weight for the unrated covered bond that correspond with the risk weight of the issuing DTI.

[Lines 6240-300 to 6240-320: Corporate Exposures](#)

Report corporate exposures on lines with the appropriate risk weights. Include commercial paper, corporate bonds, and other debt securities that are issued or guaranteed by any of the legal entities listed in the corporate exposure definition under the Capital Rules. Related risk weights are applied based on the standardized credit rating of the borrowing entity.

[Capital Rules Schedule 4 Table 2]

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.

[Capital Rules Section 1 of Schedule 4]

[Lines 6240-350 to 6240-370: Mortgage-backed Securities](#)

Report mortgage-backed securities that are secured by mortgages in separate lines, as follows:

- Insured by the Canada Mortgage and Housing Corporation (CMHC), including the National Housing Act (Canada) Mortgage-Backed Securities (NHA-MBS) and Canada Mortgage Bonds (CMB);
- Secured by Qualifying Residential Mortgages (and not guaranteed by CMHC); and
- Secured by Non-qualifying Residential Mortgages (and not guaranteed by CMHC).

[Capital Rules Schedule 4 Table 1]

Based on criteria respecting qualifying residential mortgages set out in Section 33 of the Capital Rules, 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.

Note: An investment in a hotel property or time-share property is not a qualifying residential mortgage.

[Capital Rules Section 33]

**Investments in the Capital and/or Other Total Loss Absorbing Capacity (TLAC) Instruments of Unconsolidated Deposit Taking Institutions, Permitted Financial, and Insurance Entities (Lines 6240-400 to 6240-460):**

Report investments in the capital and/or other TLAC instruments of deposit taking institutions, permitted financial entities and insurance entities, that are outside the scope of regulatory consolidation, as outlined below.

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.

[Capital Rules Section 12]

Refer to BSFSA Note in section 2.5.2 of this document for additional details on other TLAC instruments.

Definitions of a deposit taking institution, a permitted financial entity, and an insurance entity are provided in Section 1 of the Capital Rules.

Note: An insurance entity does not include an insurance brokerage or agency.

[Capital Rules Section 1]

Definitions of a significant and non-significant investment are provided in Section 12 of the Capital Rules. Refer to BCFSFA Note in section 2.5.2 of this document for definitions and additional details on significant and non-significant investment.

**Line 6240-400: Significant Investments Not Exceeding 10% of Tier 1 Capital Threshold**

Report the net long position in significant investments, as defined in Section 12 the Capital Rules, that in aggregate do not exceed 10% of the Tier 1 capital before regulatory adjustments are applied.

[Capital Rules Sections 12, 17(1) and 18(2)]

**Line 6240-410: Significant Investments Exceeding 10% of Tier 1 Capital Threshold (Deducted from Capital)**

Report the net long position in significant investments, as defined in Section 12 of the Capital Rules, that in aggregate exceed 10 % of the credit union's Tier 1 capital before regulatory adjustments are applied. These investments are deducted from Tier 1 capital, in aggregate and on a net long basis.

This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Sections 12, 17(1) and 18(1)]

[Lines 6240-420 to 6240-450: Non-significant Investments Not Exceeding 10% of Tier 1 Capital Threshold](#)

Report the net long position in non-significant investments, as defined in Section 12 of the Capital Rules, that in aggregate do not exceed 10% of Tier 1 capital before regulatory adjustments are applied.

Report by the respective investment categories with the appropriate risk weights on the following lines:

[Line 6240-420: Equity Exposures \(Other than Speculative Unlisted Equity Exposures\);](#)

[Line 6240-430: Speculative Unlisted Equity Exposures;](#)

[Line 6240-440: Subordinated Debt; and](#)

[Line 6240-450: Capital Instruments \(Other than Equity Exposures and Subordinated Debt\) or Other TLAC Instruments.](#)

[Capital Rules Sections 12, 17(1) and 17(3)]

Equity exposure means an exposure that meets the criteria described in Section 38 of the Capital Rules.

[Capital Rules Sections 1 and 38]

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.

[Capital Rules Section 1 of Schedule 4]

[Line 6240-460: Non-significant Investments Exceeding 10% of Tier 1 Capital Threshold \(Deducted from Capital\)](#)

Report the net long position in non-significant investments, as defined in Section 12 of the Capital Rules, that in aggregate exceed 10% of the credit union's Tier 1 capital before regulatory adjustments are applied. These investments are deducted from Tier 1 capital, in aggregate and on a net long basis.

This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Sections 12, 17(1) and 17(2)]

Note: This line must be reported as deduction of these non-significant investments, during the transition period and thereafter. Refer to line 6230-380: Non-significant Investments Exceeding 10% of Tier 1 Capital Threshold in the Regulatory Adjustments (Deductions) from Tier 1 Capital section for additional details on transition.

[Capital Rules Section 21]

**Equity Instruments of Unconsolidated Non-financial Entities (Lines 6240-470 to 6240-480):****Line 6240-470: Equity Exposures (Other than Speculative Unlisted Equity Exposures)**

Equity exposures (other than speculative unlisted equity exposures) to non-financial entities that meet the criteria set out in Section 38 of the Capital Rules. Include common and preferred shares, and other equity instruments of non-financial entities that are not speculative unlisted equity exposures.

Note: A non-financial entity is an entity other than a deposit taking institution, insurance entity and permitted financial entity (as defined in Section 1 of the Capital Rules) and that is not a consolidated subsidiary of the credit union.

[Capital Rules Section 38]

**Line 6240-480: Speculative Unlisted Equity Exposures**

Speculative unlisted equity exposures to non-financial entities. Include common and preferred shares, and other equity instruments of non-financial entities which meet the definition of speculative unlisted equity exposures in Section 1 of Schedule 4 of the Capital Rules, including investments in unlisted companies for short-term resale, intention to trade or anticipation of future capital gains.

**Line 6240-490: Equity Shares – Credit Union Centrals and CUDIC Debentures**

Report the credit union's investments in equity shares of Central 1 Credit Union and Stabilization Central Credit Union of British Columbia, including any accrued dividends on these shares. Also include investments in Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) debentures.

**Line 6240-600: All Other Investments**

Report other investments that are not reported on any other lines in the Cash and Investments section.

**Defaulted Investments (Lines 6240-610 to 6240-620):**

Defaulted exposure means:

- an exposure that is past due for more than 90 days; or
- an exposure to a defaulted borrower.

[Capital Rules Section 29]

Note: Only the unsecured portions of defaulted investments, net of specific allowances, are included in lines 6240-610 to 6240-620. Risk weights are applied based on the level of specific allowance for each defaulted exposure. The secured portions are included, with the risk weight that applies to the exposure in accordance with Table 1 of Schedule 4, in the appropriate lines in the Cash and Investments section. If a specific provision is greater than the unsecured portion of the defaulted investment, then that allowance must be netted instead against the secured portion.

[Capital Rules Section 40]

**Line 6240-610: Defaulted Investments: Unsecured Portion, Net of Specific Allowances  $\geq$  20%**

Report the unsecured portion of the defaulted investments, net of specific allowances, when the specific allowance is 20% or more of the outstanding amount of the exposure.

[Capital Rules Section 40(1)(b)(ii)]

**Line 6240-620: Defaulted Investments: Unsecured Portion, Net of Specific Allowances < 20%**

Report the unsecured portion of the defaulted investments, net of specific allowances, when the specific allowance is less than 20% of the outstanding amount of the exposure.

[Capital Rules Section 40(1)(b)(i)]

**Line 6240-650: Less: General Allowance on Investments**

Report the general allowance (IFRS 9 Stage 1 and Stage 2 allowances) on investments for the purposes of calculating the total exposure of Cash and Investments.

Note: General allowance is not included in the calculation of credit risk weighted assets (CRWA), as only specific allowance is netted, but general allowance is eligible for inclusion in Tier 2 capital, limited to a maximum of 1.25% of CRWA.

**2.7 SECTION 6250 – CRWA: ON-BALANCE SHEET ASSETS: LOANS AND LEASES**

Report the unweighted amounts on the following lines with the appropriate risk weights. Risk weighted amounts for on-balance sheet assets are calculated by multiplying the unweighted amount by the risk weight. The CAR template includes references to the Capital Rules. For additional details on CAR lines and related risk weights, refer to the section and schedule numbers indicated in the CAR template.

Amounts include accrued interest and are reported net of specific allowances for credit losses or impairment.

Standardized credit ratings are applied to determine the risk weights of exposures across various asset classes. Schedule 3 of the Capital Rules provides a mapping of standardized credit ratings to external credit ratings by external credit assessment institutions.

[Capital Rules Section 32]

For purposes of calculating risk weighted assets, Appendix 4 provides additional guidance to determine the appropriate risk weights of residential and commercial mortgages and includes details on the calculation of the following metrics:

- LTV (Loan-to-Value Ratio);
- Amortization;
- LTC (Loan-to-Cost Ratio);
- TDS (Total Debt Service Ratio); and
- DSCR (Debt Service Coverage Ratio).

**Real Estate Secured – Insured (Lines 6250-100 to 6250-110):****Line 6250-100: Residential**

Residential mortgage loans and lines of credit that are fully secured by mortgages on residential real estate property and have been approved or insured under the National Housing Act (Canada) (NHA) or by an insurer authorized to conduct mortgage insurance business under the NHA to the extent that such loans are guaranteed by the Government of Canada.

Under the Capital Rules, a residential real estate property means a real estate property that has one to four residential units.

[Capital Rules Section 29]

Where a mortgage is insured by a private sector mortgage insurer, the credit union may recognize the risk-weighting effect of the guarantee by reporting the portion of the exposure that is covered by the Government of Canada backstop, as if this portion were directly guaranteed by the Government of Canada. The remainder of the exposure must be treated as an uninsured mortgage and reported on the appropriate lines in the Loans and Leases section.

Note: Report only the backstop portion of a privately insured residential mortgage in this line (with risk weight of 0%). Report the deductible portion in other uninsured residential mortgage lines with appropriate risk weights assigned to the exposure.

#### **BCFSA Note – Example: Privately Insured Residential Mortgage**

In relation to a privately insured residential real estate exposure:

- the backstop portion means the portion of the exposure that is guaranteed by the Government of Canada, and equal to the total outstanding exposure amount less the deductible portion of the exposure; and
- the deductible portion means the amount that is 10% of the original loan amount.

For example, a residential mortgage with the original loan amount of \$100,000 is privately insured.

At the time of funding, the deductible portion is \$10,000 (10% of \$100,000) and the backstop portion (reported with 0% risk weight) is \$90,000 (\$100,000 – \$10,000).

After a year, the outstanding balance is \$80,000. With the deductible portion remaining \$10,000 (10% of \$100,000), the backstop portion (reported with 0% risk weight) is \$70,000 (\$80,000 – \$10,000).

#### [Line 6250-110: Commercial](#)

Commercial mortgage loans and lines of credit that are fully secured by mortgages on multi-residential real estate property and have been approved or insured under the NHA to the extent that such loans are guaranteed by Government of Canada.

Under the Capital Rules, a multi-residential real estate property means a real estate property that contains at least five residential units.

[Capital Rules Section 1 of Schedule 4]

#### **Real Estate Secured - Uninsured - Residential: Residential Real Estate (Lines 6250-120 to 6250-165):**

##### [Lines 6250-120 to 6250-140: Residential Real Estate \(RRE\) Loans](#)

Report uninsured residential real estate (RRE) loans on lines with the appropriate risk weights. Refer to Table 12 of Schedule 4 of the Capital Rules for risk weights for RRE loans.

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 by:
  - (i) a residential real estate property that is the borrower's primary residence,
  - (ii) 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) 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.

Under the Capital Rules, residential real estate property means a real estate property that has one to four residential units.

[Capital Rules Section 29]

**[Lines 6250-145 to 6250-165: Income Producing Residential Real Estate \(IPRRE\) Loans](#)**

Report uninsured income producing residential real estate (IPRRE) loans on lines with the appropriate risk weights. Refer to Table 12 of Schedule 4 of the Capital Rules for risk weights for IPRRE loans.

IPRRE loan means a 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.

[Capital Rules Section 29]

**[Real Estate Secured - Uninsured - Residential: Home Equity Lines of Credit \(HELOC\) \(Lines 6250-170 to 6250-195\):](#)**

Home equity line of credit (HELOC) means a revolving credit that is secured by a residential property.

[Capital Rules Section 1]

Report the outstanding balance or drawn portion of HELOCs (include accrued interest and report net of specific allowances). Report the non-utilized balance (authorized limit minus outstanding balance) or undrawn portion of HELOCs in the Credit Risk Weighted Assets: Off-Balance Sheet Assets section.

**[Lines 6250-170 to 6250-180: Residential Real Estate \(RRE\) Loans](#)**

Report the outstanding balance of HELOCs secured by RRE on lines with the appropriate risk weights. Refer to Table 10 of Schedule 4 of the Capital Rules for risk weights for HELOC.

**[Lines 6250-185 to 6250-195: Income Producing Residential Real Estate \(IPRRE\) Loans](#)**

Report the outstanding balance of HELOCs secured by IPRRE on lines with the appropriate risk weights. Refer to Table 10 of Schedule 4 of the Capital Rules for risk weights for HELOC.

**[Real Estate Secured - Uninsured - Residential: Residential Real Estate Construction \(Line 6250-200\):](#)**

**[Line 6250-200: RRE Construction Loans](#)**

Report uninsured loans and lines of credit for residential real estate construction.



**Real Estate Secured - Uninsured - Residential: Reverse Mortgages (Lines 6250-210 to 6250-235):**Lines 6250-210 to 6250-235: Reverse Mortgages

Report the outstanding balance or drawn portion of reverse mortgages (include accrued interest and report net of specific allowances). Report only reverse mortgages that meet the criteria set out in Section 34 of the Capital Rules.

Report the undrawn portion of reverse mortgages in the Credit Risk Weighted Assets: Off-Balance Sheet Assets section.

[Capital Rules Section 34]

Note: Undrawn amounts on reverse mortgages do not include future loan growth due to capitalizing interest. Undrawn amounts are treated as undrawn commitments and are subject to a credit conversion factor of 50% (i.e., commitments with an original maturity exceeding one year) based on Table 1 of Schedule 5 of the Capital Rules.

Report reverse mortgages on lines with the appropriate risk weights. Refer to Table 11 of Schedule 4 of the Capital Rules for risk weights for reverse mortgages.

For the purposes of calculating risk weighted assets in relation to a reverse mortgage, the following definitions apply:

- Initial LTV means the loan-to-value ratio that applies on the date of first advance of the mortgage; and
- Current LTV 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.
- 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.

[Capital Rules Section 12 and Section 1 of Schedule 4]

Report the exposure amount that exceeds 85% LTV of a reverse mortgage with a current LTV that exceeds 85%, that is deducted from the Tier 1 capital, in line 6250-235: Current LTV > 85% - Exposure > 85% (Deducted from Capital). This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

Report the amounts remaining after the above deduction in line 6250-230: Current LTV > 85% - Exposure ≤ 85%, with 100% risk weight assigned.

[Capital Rules Section 19 & 34]

**BCFSA Note – Reverse Mortgages**

Reverse mortgages receive the risk weights listed in Table 11 of Schedule 4 of the Capital Rules, provided the underwriting institution has at mortgage inception and at the time such risk weight is being considered, each of the following:

- Documented and prudent underwriting standards, including systematic methods for estimating expected occupancy term (which should at minimum refer to standard mortality tables), future real estate appreciation/depreciation, future interest rates on the reverse mortgage and determining appropriate levels for maximum initial LTV ratios, and a maximum dollar amount that may be lent;
- Documented procedures for monitoring LTV ratios on an ongoing basis, based on outstanding loan amounts, including accrued interest, undrawn balances, and up-to-date property values;
- Documented procedures for obtaining independent reappraisals of the properties at regular intervals, not less than once every five years, with more frequent appraisals as LTV ratios approach 80%;
- A documented process to ensure timely reappraisal of properties in a major urban center where resale home prices in that urban center decline by more than 10%;
- Documented procedures for ensuring that borrowers remain in compliance with loan conditions;
- A rigorous method for stress testing the reverse mortgage portfolio that addresses expected occupancy, property value, and interest rate assumptions; and
- Ongoing monitoring of reverse mortgage stress testing that is incorporated in the institution's Internal Capital Adequacy Assessment and capital planning processes.

**Other Personal (Otherwise Secured or Unsecured) (Lines 6250-250 to 6250-300):**Line 6250-250: Personal Loans Fully Secured by Deposits with the Credit Union

Personal loans that are fully secured by deposits with the credit union, and both in Canadian currency (CAD).

Note: If the loans are secured by deposits in a currency other than CAD, report those loans in other personal otherwise secured loan lines with appropriate risk weight.

Line 6250-260: Personal Loans Guaranteed by the Government of Canada, or a Province

Personal loans that are guaranteed by the Government of Canada, including the Bank of Canada, or by a province.

Note: Report only the guaranteed portion in this line with risk weight of 0%. The non-guaranteed portion of the above personal loans must be reported on other lines with the appropriate risk weights in this section.

**Regulatory Retail - Personal Loans and Leases (Lines 6250-270 to 6250-275):**

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) \$150,000 or less; or
  - (ii) Both of the following:
    - (A) More than \$150,000 but less than or equal to \$1,500,000;
    - (B) Not more than 0.2% of the aggregated retail exposures of the credit union.

[Capital Rules Section 37]

Retail exposure means an exposure, other than a real estate exposure, to an individual or business.

[Capital Rules Section 29]

#### BCFSA Note – Regulatory Retail – Total Retail Exposure Criterion

Credit unions may use the following decision tree to determine if a retail exposure meets the criteria to be reported as regulatory retail. The retail exposure is to an individual or a business, not secured by real estate, and is one or more of the following: revolving credit, a term loan or lease, or a business facility or commitment.

*Is the total retail exposure (including defaulted exposure) to the individual or business  $\leq$  \$150,000?*

Yes → Meets criteria for regulatory retail

No → *Is the total retail exposure (including defaulted exposure) to the individual or business  $\leq$  \$1,500,000?*

No → Does not meet criteria for regulatory retail

Yes → *Is the total retail exposure (including defaulted exposure) to the individual or business  $\leq$  0.2% of the aggregated retail exposures of the credit union?*

Yes → Meets criteria for regulatory retail

No → Does not meet criteria for regulatory retail

Note: Aggregated retail exposure of the credit union is the sum of all retail exposures (not including defaulted exposures) that are to an individual or business and are not real estate secured.

#### Line 6250-270: Exposures to Transactors

Report regulatory retail exposures to transactors. Report only the types of personal regulatory retail exposures that are included in the transactor definition as outlined below.

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 \$150,000.

[Capital Rules Section 1 of Schedule 4]

#### **BCFSA Note – Regulatory Retail – Transactors**

Uncommitted facility refers to the scenario where the lender is not obligated to advance additional funds which can be (a) advised and (b) unadvised:

- a) Advised: additional funding available is documented in the credit agreement but maybe cancelled at any time,
- b) Unadvised: Funding availability is not documented but may be extended at the credit union's discretion, such as account overdraft.

Examples of facilities with an interest-free grace period are credit cards and charge cards.

New accounts will not be deemed transactors until the account has been open for at least 12 months and the definition of a transactor is satisfied.

#### Line 6250-275: Exposures to Non-transactors

Report regulatory retail exposures to persons other than transactors. This line includes personal regulatory retail exposures that are not reported above in line 6250-270: Exposures to Transactions.

#### Line 6250-300: All Other Personal Loans and Leases

Report personal loans, lines of credit, and personal leases that are not reported on any other lines in the Loans and Leases section.

#### **Real Estate Secured - Uninsured - Commercial: Commercial Real Estate (CRE) (Lines 6250-400 to 6250-440):**

Report uninsured commercial real estate (CRE) loans on lines with the appropriate risk weights. Refer to Table 6 of Schedule 4 of the Capital Rules for risk weights for CRE loans.

CRE loan means any of the following:

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

[Capital Rules Section 1 of Schedule 4]

#### Lines 6250-400 to 6250-410: CRE - Residential (multi-residential) Property Loans

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.

Under the Capital Rules, a multi-residential real estate property means a real estate property that contains at least five residential units.

[Capital Rules Section 1 of Schedule 4]

[Lines 6250-415 to 6250-425: CRE - Owner-Occupied Property Loans](#)

CRE owner-occupied property loan refers to a commercial loan that finances the acquisition of commercial property - excluding multi-residential property that is fully or primarily occupied by its owner.

[Capital Rules Section 1 of Schedule 4]

[Lines 6250-430 to 6250-440: CRE - Income-Producing Loans](#)

CRE income-producing loan refers to a commercial loan that finances the acquisition of real estate - excluding multi-residential property that is primarily occupied by rent-paying tenants or lessees.

[Capital Rules Section 1 of Schedule 4]

Note: Report CRE loans secured by residential real estate property of one to four residential units under CRE income-producing loans in this line.

**[Real Estate Secured - Uninsured - Commercial: Commercial Real Estate \(CRE\) Construction \(Lines 6250-445 to 6250-475\):](#)**

Report uninsured CRE construction loans on lines with the appropriate risk weights. Refer to Table 5 of Schedule 4 of the Capital Rules for risk weights for CRE construction loans.

CRE construction loan means any of the following:

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

[Lines 6250-445 to 6250-450: CRE - Construction \(multi-residential\) Loans](#)

CRE construction (multi-residential) property loan refers to 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; and
- (b) The loan is secured by first-ranking security on the project development land and all contracts and assets related to the project.

[Capital Rules Section 1 of Schedule 4]

[Lines 6250-455 to 6250-460: CRE - Construction \(general\) Loans](#)

CRE construction (general) loan refers to 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; and
- (c) At the time of loan underwriting, there is a pre-identified owner, occupier, purchaser or lessee of the property upon project completion.

[Capital Rules Section 1 of Schedule 4]

[Lines 6250-465 to 6250-470: CRE - Construction \(speculative\) Loans](#)

CRE construction (speculative) loan refers to 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; and
- (b) At the time of loan underwriting, there is no pre-identified occupier, purchaser or lessee of the property upon project completion.

[Capital Rules Section 1 of Schedule 4]

Note: Report CRE constructions loans secured by residential real estate property of one to four residential units under CRE construction (speculative) loans in this line.

[Lines 6250-475: CRE - Land-only Loans](#)

CRE land-only loan refers to 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; and
- (c) Near-term takeout financing.

**Other Commercial (Otherwise Secured or Unsecured) (Lines 6250-500 to 6250-725):**[Line 6250-500: Commercial Loans Fully Secured by Deposits with the Credit Union](#)

Commercial loans that are fully secured by deposits with the credit union, and both are in Canadian currency (CAD).

Note: If the loans are secured by deposits in a currency other than CAD, report those loans in other commercial otherwise secured loan lines with the appropriate risk weight.

[Line 6250-510: Commercial Loans Guaranteed by the Government of Canada, or a Province](#)

Commercial loans that are guaranteed by the Government of Canada, including the Bank of Canada, or by a province.

Note: Report only the guaranteed portion in this line with risk weight of 0%. The non-guaranteed portion of the above commercial loans must be reported on other lines with the appropriate risk weights in this section.

**Regulatory Retail - Commercial Loans and Leases (Lines 6250-520 to 6250-525):**

Section 37 of the Capital Rules describes criteria respecting regulatory retail exposure.

Refer to lines 6250-270 to 6250-275: Regulatory Retail - Personal Loans and Leases in this section for definitions and additional details on reporting regulatory retail exposures to transactors and non-transactors.

[Line 6250-520: Exposures to Transactors](#)

Report regulatory retail exposures to transactors.

[Line 6250-525: Exposures to Non-transactors](#)

Report regulatory retail exposures to persons other than transactors.

[Lines 6250-530 to 6250-555: Loans to Public Sector Entities \(PSEs\)](#)

Report commercial loans and lines of credit to public sector entities on lines with the appropriate risk weights. Refer to Table 9 of Schedule 4 of the Capital Rules for risk weights for loans to PSEs.

Note: Refer to lines 6240-170 to 6240-195: Exposures to Public Sector Entities (PSEs) in the Cash and Investments section for definition and additional details on reporting exposures to PSEs.

[Lines 6250-560 to 6250-580: Loans Guaranteed by Public Sector Entities \(PSEs\)](#)

Report commercial loans guaranteed by public sector entities on lines with the appropriate risk weights. Exposures to PSEs as guarantors must be treated as corporate exposures and related risk weights are applied based on the standardized credit ratings of the borrowing entities to which the guarantees are provided as set out in Table 2 of Schedule 4 of the Capital Rules.

Note: This line does not include loans guaranteed by a province or territory. Commercial loans guaranteed by provincial and territorial governments in Canada receive the same 0% risk weight as the Government of Canada and are reported on line 6250-510: Commercial Loans Guaranteed by the Government of Canada, or a Province.

**Commercial Loans - Project Financing (Lines 6250-600 to 6250-630):**

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); and
- 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.

[Capital Rules Section 35]

[Lines 6250-600 to 6250-615: Loans with Issue-Specific Credit Rating](#)

Report project financing loans with issue-specific external credit ratings on lines with the appropriate risk weights. Refer to Table 2 of Schedule 4 of the Capital Rules for risk weights for corporate exposures.

Note: Risk weights for project financing loans with issue-specific external credit ratings are determined based on the issue-specific credit ratings, rather than the borrower's credit rating.

[Lines 6250-620 to 6250-630: Loans without Issue-Specific Credit Rating \(Unrated\)](#)

Report unrated project financing loans (without issue-specific external credit ratings) by the operational phases on the following lines with the appropriate risk weights:

[Line 6250-620: During Pre-operational Phase](#)

[Line 6250-625: During Operational Phase - High-Quality](#)

[Line 6250-630: During Operational Phase - All Others](#)

Operational phase, in relation to 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; and

(b) Declining long-term debt;

Pre-operational phase, in relation to project financing exposures, means the phase that precedes the operational phase of the project.

High-quality project financing loan means a project financing loan that meets the criteria described in Section 36 of the Capital Rules.

[Capital Rules Sections 35, 36 and Section 1 of Schedule 4]

**Lines 6250-700 to 6250-725: All Other Commercial Loans and Leases**

Other commercial loans, lines of credit, and commercial leases that are not reported on any other lines in the Loans and Leases section. Report on lines with the appropriate risk weights. Refer to Table 2 of Schedule 4 of the Capital Rules for risk weights for corporate exposures. Related risk weights are applied based on the standardized credit rating of the borrowing entity.

Note: Report unrated exposures to SMEs that are not regulatory retail exposures in line 6250-725: All Other Commercial Loans and Leases: Borrower's Unrated Small or Medium Size Enterprises (SMEs) with a 75% risk weight.

Small or medium size enterprise means a corporation whose reported annual sales, on a consolidated basis, in its most recently completed financial year do not exceed \$75 million.

[Capital Rules Section 1 of Schedule 4]

**Defaulted Loans and Leases (Lines 6250-750 to 6250-775):**

Defaulted exposure means:

- an exposure that is past due for more than 90 days; or
- an exposure to a defaulted borrower.

[Capital Rules Section 29 and 40]

**BCFSA Note – Defaulted Borrower**

A defaulted borrower is a borrower who is determined to be unlikely to pay its credit obligations to the credit union in full, without recourse by the institution to actions such as realizing security (if held). Indications of unlikelihood to pay include but are not limited to:

- (a) a loan obligation of the borrower is more than 90 days past due; or
- (b) other events such as borrower's bankruptcy, restructuring of borrower's credit obligation, write-off of the borrower's credit exposure, credit obligation on non-accrued status, or credit obligation sold at a material credit-related economic loss.

For retail exposures, the definition of default can be applied at the level of a particular facility, rather than at the level of the borrower. As such, default by a borrower on one facility does not require an institution to treat all other facilities from that borrower to the credit union as defaulted.

Note: Only the unsecured portions of defaulted loans and leases, net of specific allowances, are included in lines 6250-750 to 6250-775. Risk weights are applied based on the level of specific allowance for each defaulted exposure but a risk weight of 100% are applied to a defaulted uninsured residential real estate loan net of specific allowances. The secured portions are included, with the risk weight that applies to the exposure in



accordance with Table 1 of Schedule 4, in the appropriate lines in the Loans and Leases section. If a specific provision is greater than the unsecured portion of the defaulted exposure, then that allowance must be netted instead against the secured portion.

**Line 6250-750: Defaulted Uninsured Residential Real Estate Loans (Net of Specific Allowances)**

Report the unsecured portion of defaulted uninsured residential real estate loans, net of specific allowances.

[Capital Rules Section 40(2)]

**Line 6250-760: All Other Defaulted Personal Loans and Leases: Unsecured Portion, Net of Specific Allowances  $\geq$  20%**

Report the unsecured portion of the defaulted personal loans and leases, net of specific allowances, when the specific allowance is 20% or more of the outstanding amount of the exposure.

[Capital Rules Section 40(1)(b)(ii)]

**Line 6250-765: All Other Defaulted Personal Loans and Leases: Unsecured Portion, Net of Specific Allowances  $<$  20%**

Report the unsecured portion of the defaulted personal loans and leases, net of specific allowances, when the specific allowance is less than 20% of the outstanding amount of the exposure.

[Capital Rules Section 40(1)(b)(i)]

**Line 6250-770: Defaulted Commercial Loans and Leases: Unsecured Portion, Net of Specific Allowances  $\geq$  20%**

Report the unsecured portion of the defaulted commercial loans and leases, net of specific allowances, when the specific allowance is 20% or more of the outstanding amount of the exposure.

[Capital Rules Section 40(1)(b)(ii)]

**Line 6250-775: Defaulted Commercial Loans and Leases: Unsecured Portion, Net of Specific Allowances  $<$  20%**

Report the unsecured portion of the defaulted commercial loans and leases, net of specific allowances, when the specific allowance is less than 20% of the outstanding amount of the exposure.

[Capital Rules Section 40(1)(b)(i)]

**Repurchase Agreements (Lines 6250-800 to 6250-830):**

Repurchase agreement means an arrangement 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.

[Capital Rules Section 39(1)]

**BCFSA Note – Repurchase Agreements**

When a credit union is the buyer in these transactions, the repurchase agreement exposure represents a collateralized loan of the credit union and constitutes a reverse repurchase agreement. In this case, the credit union may apply the risk weight of the collateral for the collateralized portion of the repurchase agreement rather than apply the counterparty's risk weight, as described in Section 39 of the Capital Rules.

**Line 6250-800: Collateralized Portion Meeting Specific Criteria and with Core Market Participant Counterparty**

Report the collateralized portion of a repurchase agreement that meets all of the criteria described below in line 6250-810 and the counterparty to the repurchase agreement is a core market participant.

[Capital Rules Section 39(4)]

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.

[Capital Rules Section 39(1)]

**Line 6250-810: Collateralized Portion Meeting Specific Criteria and with Counterparty Other than Core Market Participant**

Report the collateralized portion of a repurchase agreement that meets all of the following criteria and the counterparty to the repurchase agreement is not a core market participant:

- (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 four business days;
- (e) The transaction under the repurchase agreement is settled through a recognized 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.

[Capital Rules Section 39(3)]

[Line 6250-820: Collateralized Portion Not Meeting Specific Criteria \(Collateral Risk Weight Applied - Min. 20%\)](#)

Report the collateralized portion of a repurchase agreement that does not meet all of the criteria described above in line 6250-810 and apply the risk weight of the collateral.

Note: Credit unions must enter the appropriate risk weight that is the higher of the following:

- (i) The risk weight assigned to the collateral in accordance with Table 1 of Schedule 4;
- (ii) 20%.

[Capital Rules Section 39(2)(a)]

[Line 6250-830: Uncollateralized Portion \(Counterparty Risk Weight Applied\)](#)

Report the uncollateralized portion of a repurchase agreement that does not meet all of the criteria described above in line 6250-810 and apply the counterparty's risk weight.

Note: Credit unions must enter the appropriate risk weight that applies to the counterparty exposure in accordance with Table 1 of Schedule 4.

[Capital Rules Section 39(2)(b)]

**Loans and Leases Held by OSFI Regulated Bank Subsidiary of the Credit Union (Lines 6250-850 to 6250-870):**

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] of the Capital Rules, 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 CAR Guideline issued by OSFI, as amended from time to time;

(ii) consolidate the remaining assets and the liabilities of the bank with its assets and liabilities.

[Capital Rules Section 2(3)]

[Line 6250-850: Personal Loans and Leases](#)

Report the unweighted (gross of general allowance) and risk weighted amounts of personal loans and leases held by the credit union's OSFI regulated bank subsidiary, if the credit union selects option (b) above.

[Lines 6250-855 to 6250-870: Commercial Loans and Leases:](#)

Report the unweighted (gross of general allowance) and risk weighted amounts of commercial loans and leases held by the credit union's OSFI regulated bank subsidiary, if the credit union selects option (b) above.

Report in the following lines:

[Line 6250-855: Real Estate Secured;](#)

[Line 6250-860: Otherwise Secured;](#)

[Line 6250-865: Unsecured; and](#)

[Line 6250-870: Defaulted.](#)

[Capital Rules Section 2(3)]

Defaulted exposure means:

(a) an exposure that is past due for more than 90 days, or

(b) an exposure to a defaulted borrower.

[Capital Rules Section 29 and 40]

[Line 6250-890: Less: General Allowance on Personal Loans and Leases](#)

Report the general allowance (IFRS 9 Stage 1 and Stage 2 allowances) on personal loans and leases for the purposes of calculating the total exposure of Loans and Leases.

[Line 6250-895: Less: General Allowance on Commercial Loans and Leases](#)

Report the general allowance on commercial loans and leases for the purposes of calculating the total exposure of Loans and Leases.

Note: General allowance is not included in the calculation of credit risk weighted assets (CRWA), as only specific allowance is netted, but general allowance is eligible for inclusion in Tier 2 capital, limited to a maximum of 1.25% of CRWA.

## 2.8 SECTION 6260 – CRWA: ON-BALANCE SHEET ASSETS: OTHER ASSETS

Report the unweighted amounts on the following lines with the appropriate risk weights. Risk weighted amounts for on-balance sheet assets are calculated by multiplying the unweighted amount by the risk weight.

[Line 6260-100: Premises and Equipment \(excl. Unrealized Fair Value Gains on Own-use Property\)](#)

Net book value, after accumulated depreciation and impairment, of property, plant and equipment, such as land, buildings, leasehold improvements, furniture and equipment (computer and non-computer), automobiles, and ATMs (owned or leased). Exclude unrealized fair value gains on own-use property that is deducted from capital and reported on line 6260-110 below.

**Line 6260-110: Premises and Equipment - Unrealized Fair Value Gains on Own-use Property (Deducted from Capital)**

Unrealized fair value gains on own-use property, such as premises owned and occupied by the credit union, including initial gains at transition to IFRS and any subsequent gains that are deducted from Tier 1 capital. This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Section 13(b)]

**Line 6260-120: Right-of Use Assets**

Right-of-use assets, representing the right to use the underlying leased assets for the lease term, net of any accumulated depreciation and impairment.

**Line 6260-130: Property Acquired in Settlement of Loans and Leases**

Property, including land, buildings, vehicles, and any other property, acquired in settlement or partial settlement of loans and leases, net of any allowance for property losses and accumulated depreciation.

**Line 6260-140: Property Held for Investments**

Property, including land and buildings, acquired for investment purposes or in settlement of loans and held to earn rental income or for capital appreciation, net of any allowance for property losses and accumulated depreciation.

**Line 6260-150: Securitization Gains (Deducted from Capital)**

Report securitization gains that are increases in equity resulting from traditional and synthetic securitization transactions (e.g., capitalized future margin income, gains on sale) and deducted from Tier 1 capital. This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Section 13(c)]

**Line 6260-160: Purchased Retail Receivables**

Report purchased retail receivables that meet all the criteria for regulatory retail exposures. Refer to lines 6250-270 to 6250-275: Regulatory Retail - Personal Loans and Leases in the Loans and Leases section for definitions and additional details on regulatory retail exposures.

[Capital Rules Section 37]

**Equity Investments in Unconsolidated Deposit Taking Institutions, Permitted Financial, and Insurance Entities (Equity Method) (Lines 6260-200 to 6260-240):**

Report equity investments in associates and joint ventures that are deposit taking institutions, permitted financial entities and insurance entities (accounted for using the equity method under IFRS), as outlined below.

Definitions of a deposit taking institution, a permitted financial entity, and an insurance entity are provided in Section 1 of the Capital Rules.

Note: An insurance entity does not include an insurance brokerage or agency.

[Capital Rules Section 1]

Definitions of a significant and non-significant investment are provided in Section 12 of the Capital Rules. Refer to BCFSa Note in section 2.5.2 of this document for definition and additional details on significant and non-significant investment.

[Line 6260-200: Significant Investments Not Exceeding 10% of Tier 1 Capital Threshold](#)

Report equity investments in associates and joint ventures (accounted for using the equity method under IFRS) that are significant investments, as defined in Section 12 of the Capital Rules, and that in aggregate do not exceed 10% of the credit union's Tier 1 capital before regulatory adjustments are applied.

[Capital Rules Section 12 and 18(2)]

[Line 6260-210: Significant Investments Exceeding 10% of Tier 1 Capital Threshold \(Deducted from Capital\)](#)

Equity investments in associates and joint ventures (accounted for using the equity method under IFRS) that are significant investments, as defined in Section 12 of the Capital Rules, and that in aggregate exceed 10% of the credit union's Tier 1 capital before regulatory adjustments are applied. These investments are deducted from Tier 1 capital.

This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Section 12 and 18(1)]

[Line 6260-220 to 6260-230: Non-Significant Investments Not Exceeding 10% of Tier 1 Capital Threshold](#)

Report equity investments in associates and joint ventures (accounted for using the equity method under IFRS) that are non-significant investments, as defined in Section 12 of the Capital Rules, and that in aggregate do not exceed 10% of the credit union's Tier 1 capital before regulatory adjustments are applied.

Report by the respective categories with the appropriate risk weights on the following lines:

[Line 6260-220: Equity Exposures \(Other than Speculative Unlisted Equity Exposures\); and](#)  
[Line 6260-230: Speculative Unlisted Equity Exposures.](#)

[Capital Rules Section 12 and 17(3)]

[Line 6260-240: Non-Significant Investments Exceeding 10% of Tier 1 Capital Threshold \(Deducted from Capital\)](#)

Equity investments in associates and joint ventures (accounted for using the equity method under IFRS) that are non-significant investments, as defined in Section 12 of the Capital Rules, and that in aggregate exceed 10% of the credit union's Tier 1 capital before regulatory adjustments are applied. These investments are deducted from Tier 1 capital.

This amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Sections 12 and 17(2)]

Note: This line must be reported as deduction of these non-significant investments, during the transition period and thereafter. Refer to line 6230-400: Non-significant Investments Exceeding 10% of Tier 1 Capital Threshold in the Regulatory Adjustments (Deductions) from Tier 1 Capital section for additional details on transition.

[Capital Rules Section 21]

**Equity Investments in Unconsolidated Non-financial Entities (Equity Method) (Lines 6260-250 to 6260-260):**

Report equity investments in associates and joint ventures (accounted for using the equity method under IFRS) that are in non-financial entities.

Report by the respective categories with the appropriate risk weights on the following lines:

[Line 6260-250: Equity Exposures \(Other than Speculative Unlisted Equity Exposures\)](#)

[Line 6260-260: Speculative Unlisted Equity Exposures](#)

Note: A non-financial entity is an entity other than a deposit taking institution, insurance entity and permitted financial entity (as defined in Section 1 of the Capital Rules) and that is not a consolidated subsidiary of the credit union.

Equity exposure means an exposure that meets the criteria described in Section 38 of the Capital Rules.

Speculative unlisted equity exposure is defined in Section 1 of Schedule 4 of the Capital Rules.

[Line 6260-270: Deferred Tax Assets - Temporary Differences Not Exceeding 10% of Tier 1 Capital Threshold](#)

Report deferred tax assets resulting from temporary differences that do not exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments).

[Capital Rules Section 14(2)]

[Line 6260-280: Deferred Tax Assets - Temporary Differences That May Be Realized Through Tax Loss Carrybacks](#)

Report deferred tax assets resulting from temporary differences that the credit union may realize through tax loss carrybacks.

[Capital Rules Section 14(6)]

[Line 6260-290: Deferred Tax Assets - All Other \(Deducted from Capital\)](#)

Deferred tax assets resulting from temporary differences that exceed 10% of the credit union's Tier 1 capital (before regulatory adjustments) and those resulting from the carryforward of unused tax losses and tax credits.

As these deferred tax assets are deducted from Tier 1 capital, this amount is the same as the sum of the two deferred tax assets amounts reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Section 14(1)]

[Line 6260-300: Goodwill and Other Intangible Assets \(excl. Software\) \(Deducted from Capital\)](#)

Goodwill and other intangible assets (excluding software assets), net of associated deferred tax liability, that are deducted from Tier 1 capital.

This amount is the same as the sum of the goodwill and other intangible assets (excluding software) amounts reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

[Capital Rules Sections 15 and 16]

Note: Report software intangible assets in line 6260-310: Intangible Assets – Software (Deducted from Capital).

[Line 6260-310: Intangible Assets - Software \(Deducted from Capital\)](#)

Intangible assets if they are software assets, net of associated deferred tax liability.

As these software assets are deducted from Tier 1 capital, this amount is the same as the amount reported in the Regulatory Adjustments (Deductions) from Tier 1 Capital section and assigned a 0% risk weight.

Note: This line must be reported as deduction of the software intangible assets, during the transition period and thereafter. Refer to line 6230-360: Intangible Assets - Software in the Regulatory Adjustments (Deductions) from Tier 1 Capital section for additional details on transition.

[Capital Rules Section 16 and 21]

[Line 6260-320: Derivative Assets](#)

Amounts relating to derivative instruments, including unrealized gains (losses are to be offset against gains, only as permitted by IFRS), margin requirements and premiums paid.

[Capital Rules Schedule 4 Table 1]

[Line 6260-330: Current Tax Assets](#)

Report current tax assets and applicable risk weight.

Current tax assets are tax overpayments by a credit union or a current year tax loss carryback by a credit union that results in a claim or receivable from the government or local tax authority. Current tax assets are not required to be deducted in the calculation of Tier 1 capital but must be risk weighted in accordance with Tables 8 and 9 of Schedule 4, if not deducted.

Note: Credit unions must enter the appropriate risk weight that applies based on the government or local tax authority, in accordance with Tables 8 or 9 of Schedule 4.

[Capital Rules Section 20]

[Line 6260-340: All Other Assets](#)

Report other assets that are not reported on any other lines for on-balance sheet assets (e.g., deferred charges, prepaid expenses, accounts receivable).

## 2.9 SECTION 6270 – CREDIT RISK WEIGHTED ASSETS: OFF-BALANCE SHEET ASSETS

Report the unweighted amounts and the appropriate risk weights. Risk weighted amounts for off-balance sheet assets (excluding derivatives) are calculated by multiplying the unweighted amount by the credit conversion factor to determine the exposure amount, then multiplying by the risk weight. The formula is as follows:

$$\text{Risk Weighted \$} = \text{Unweighted \$} * \text{Credit Conversion Factor} * \text{Risk Weight}$$

Note: Credit unions must enter the appropriate risk weight in the CAR reporting template. Credit conversion factors are predefined.

Risk weight for an off-balance sheet asset is determined based on the risk weight of the equivalent on-balance sheet asset, in accordance with Table 1 of Schedule 4. For example, approved but unfunded portion of a residential real estate (RRE) construction loan (off-balance sheet portion) should be risk-weighted 65%, equivalent to the on-balance sheet risk weight of RRE construction loans.



For each reporting line, if more than one risk weight applies to the off-balance sheet assets, report the weighted average of the risk weights, calculated by using the unweighted dollar amounts and the applicable risk weights of the off-balance sheet items included in the same line.

In case of derivatives, report the notional amount of the derivative contract. Add-on factors and risk weights are predefined. Risk weighted amounts for derivatives are calculated by multiplying the notional amount by the add-on factor to determine the exposure amount, then multiplying by the risk weight. The formula is as follows:

$$\text{Risk Weighted \$} = \text{Notional \$} * \text{Add-On Factor} * \text{Risk Weight}$$

#### [Line 6270-100: Guarantees of Indebtedness](#)

Any written undertaking by the credit union to stand behind the financial obligations of a third party should the third party fail to meet them.

#### [Line 6270-110: Transaction-related Contingencies](#)

Transaction-related contingencies (e.g., performance-related guarantees) are guarantees that support particular performance of non-financial or commercial contracts or undertakings, rather than general financial obligations.

#### [Line 6270-120: Letters of Credit \(Short-term\)](#)

Any written undertaking by the credit union authorizing a third party to call upon the credit union for payment under specific terms of the undertaking. These include short-term, self-liquidating trade-related items, such as commercial and documentary letters of credit issued by the institution that are, or are to be, collateralized by the underlying shipment.

Letters of credit issued on behalf of a counterparty back-to-back with letters of credit of which the counterparty is a beneficiary ("back-to-back" letters) should be reported as documentary letters of credit.

#### [Line 6270-130: Letters of Credit \(Transaction\)](#)

Any written undertaking by the credit union authorizing a third party to call upon the credit union for payment under specific terms of the undertaking that include transaction-related contingencies (e.g., standby letters of credit related to a particular transaction).

#### [Line 6270-140: Letters of Credit \(Standby\)](#)

Any written undertaking by the credit union authorizing a third party to call upon the credit union for payment under specific terms of the undertaking. These include direct credit substitutes (e.g., standby letters of credit serving as financial guarantees for, or supporting, loans and securities).

#### [Line 6270-150: Commitments: Unconditionally Cancellable \(excl. HELOC\)](#)

Commitments that are unconditionally cancellable at any time by the credit union without notice or that effectively provide for automatic cancellation due to deterioration in the member's credit worthiness. This implies that the credit union conducts a formal review of the facility at least annually, thus giving it an opportunity to take note of any perceived deterioration in credit quality. Retail commitments are unconditionally cancellable if the term permits the credit union to cancel them to the full extent allowable under consumer protection and related legislation.

Undated or open-ended commitments that are unconditionally cancellable by the credit union at any time, such as unused credit card lines, personal lines of credit, and overdraft protection for personal chequing accounts are reported on this line.

Evergreen or open-ended commitments that are cancellable by the credit union at any time subject to a notice period do not constitute unconditionally cancellable commitments and must be reported on the Commitments (Original Maturity > 1 Year) line.

Note: Commitments related to home equity lines of credit (HELOCs) are not included in this line.

[Line 6270-160: Commitments: HELOC](#)

Commitments for non-amortizing (revolving) credit that is secured by a residential property.

[Line 6270-170: Commitments: Original Maturity ≤ 1 Year](#)

Commitments with an original maturity of one year and less.

The original maturity of a commitment should be measured from the date when the commitment was accepted by the member (regardless of whether the commitment is revocable or irrevocable, conditional or unconditional) until the earliest date on which:

- the commitment is scheduled to expire; or
- the credit union can, at its option, unconditionally cancel the commitment.

A material adverse change clause is not considered to give sufficient protection for a commitment to be considered unconditionally cancellable. Where the credit union commits to granting a facility at a future date (a forward commitment), the original maturity of the commitment is to be measured from the date the commitment is accepted until the final date that drawdowns are permitted.

[Line 6270-180: Commitments: Original Maturity > 1 Year](#)

Commitments with an original maturity over one year.

A 50% credit conversion factor is applied to a commitment to provide a loan (or purchase an asset) to be drawn down in a number of tranches, some one year and under and some over one year. In these cases, the ability to renegotiate the terms of later tranches should be regarded as immaterial. Often these commitments are provided for development projects from which the credit union may find it difficult to withdraw without jeopardizing its investment.

Where the facility involves unrelated tranches, and where conversions are permitted between the over and under one year tranches (i.e., where the member may make ongoing selections as to how much of the commitment is under one year and how much is over), then a 50% conversion factor applies to the entire commitment.

Where the facility involves unrelated tranches with no conversion between the over and under one year tranches, each tranche may be converted separately, depending on its maturity.

[Line 6270-190: Off-Balance Sheet Repurchase Agreements](#)

A repurchase agreement is a contractual arrangement between two parties, where one party agrees to sell securities to another party at a specified price with a commitment to buy the securities back at a later date for another (usually higher) specified price.

**BCFSA Note – Repurchase Agreements**

Repurchase agreements (repos) are typically accounted for as secured financing transactions rather than sales. The transferor (seller) usually retains effective control over the security, and the cash received is treated as a loan and the security sold as collateral.

In these cases (on-balance sheet), the provisions and risk weights in Section 39 of the Capital Rules are to be applied.

In those rare cases where the repo receives sales treatment for accounting purposes, the repo is treated as a secured financing transaction for the purposes of the Draft Capital Rule where the off-balance sheet exposure for accounting purposes receives a 100% credit conversion factor and the resulting balance is subject to the provisions and risk weights appearing in Section 39 of the Capital Rules.

**Line 6270-200: Off-Balance Sheet Securitization Exposures (Traditional and Synthetic)**

Report the off-balance sheet exposures associated with traditional and synthetic securitization transactions, as defined in Section 28 of the Capital Rules. Report only where the credit union is the originator and reports the securitization transaction off-balance sheet for accounting purposes.

In such cases, the securitization is to be treated as on-balance sheet for the purposes of the Capital Rules. (Section 41(2) of the Capital Rules). This means that the underlying pool of assets for the securitization transaction (e.g., residential mortgages, commercial mortgages, auto loans, credit card receivables, etc.) which were derecognized for accounting purposes are subject to a 100% credit conversion factor and receive the risk weights determined in accordance with Table 1 of Schedule 4, that apply to the applicable asset category (e.g., residential mortgages, commercial mortgages, auto loans, credit card receivables, etc.)

Note: Securitizations through Canada Mortgage and Housing Corporation (CMHC) under the National Housing Act (Canada) Mortgage-Backed Securities (NHA-MBS) and Canada Mortgage Bonds (CMB) programs are not considered traditional or synthetic securitizations. This is because the securities issued under these programs only have one tranche that reflects different degrees of credit risk (the definition of traditional or synthetic securitizations requires at least two tranches). Accordingly, the treatment in this section does not apply to assets securitized through CMHC NHA-MBS and CMB programs and they may be treated as off-balance sheet for capital purposes if also derecognized for accounting purposes.

[Capital Rules Section 28 and 41]

**Line 6270-210: Other Off-Balance Sheet Exposures**

Report other off-balance sheet exposures with 100% credit conversion factor that are not reported on any other lines in this section.

[Capital Rules Schedule 5 Table 1]

**Derivatives (Lines 6270-300 to 6270-320):**

Report the notional amounts of the derivative contracts.

Note: Positive market values of these derivatives (on-balance sheet) are reported on the line 6260-320: Derivative Assets in the Other Assets section with a 20% risk weight.

[Line 6270-300: Derivatives: Interest Rate Contracts](#)

Report the total notional amount. A derivative interest rate contract is an arrangement between two parties where at some predetermined future date(s), cash settlements will be made for the difference between the contracted interest rates based on a predetermined notional principal amount for a predetermined period. Interest rate contracts include interest rate swaps, forward rate agreements, purchased options, and similar derivative contracts.

[Line 6270-310: Derivatives: Foreign Exchange Rate Contracts](#)

Report the total notional amount. A derivative exchange rate contract is an arrangement between two parties where at some predetermined future date(s), cash settlements will be made for the difference between the contracted foreign exchange rates based on a predetermined notional principal amount for a predetermined period. Foreign exchange contracts include agreements for the purchase or sale of a fixed amount of a foreign currency at a fixed-exchange rate on a specified date, or an option to purchase or sell.

[Line 6270-320: Derivatives: Equity Contracts](#)

Report the total notional amount. Equity contracts include futures, forwards, swaps, purchased options, and similar contracts based on both individual equities as well as on equity indices.

**2.10 SECTION 6280 – OPERATIONAL RISK WEIGHTED ASSETS**

The operational risk weighted assets of a credit union are equal to its operational risk capital requirement multiplied by 12.5.

[Capital Rules Section 43]

**Gross Income in the 12 Quarters Preceding the Reporting Date (Lines 6280-100 to 6280-120):**

Report the credit union's gross income, calculated based on its gross income in the 12 quarters preceding the reporting date. Use the absolute value for any quarter in which gross income is less than zero.

**Calculation of Gross Income**

Gross income is the sum of the credit union's net interest income and net non-interest income.

Gross income 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; and
- (e) Irregular items.

[Capital Rules Section 45]

[Line 6280-100: Gross Income in Quarters 1 - 4 \(Latest 4 Quarters\)](#)

Report the sum of absolute values of gross income for quarters 1-4 of the most recent 12 quarters preceding the reporting date. This is the most recent rolling four quarters ending with the current quarter (i.e., the quarter the CAR is being reported). Refer to the example in the text box below.

[Line 6280-110: Gross Income in Quarters 5 - 8](#)

Report the sum of absolute values of gross income for quarters 5-8 of the most recent 12 quarters preceding the reporting date.

[Line 6280-120: Gross Income in Quarters 9 - 12](#)

Report the sum of absolute values of gross income for quarters 9-12 of the most recent 12 quarters preceding the reporting date.

[Line 6280-130: Average Gross Income](#)

Average of amounts reported in the above lines 6280-100, 6280-110, and 6280-120.

**BCFSA Note – Example: Average Gross Income Calculation**

The following example outlines the average gross income calculation for lines 6280-100 to 6280-130.

*Formula:* Average GI = (GI1 + GI2 + GI3) / 3

where GI = absolute value of gross income.

For example: if the reporting date is March 31, 2027, the 12 quarters (Q1 - Q12) preceding the reporting date and the GI calculations are listed as follows:

GI1 = \$1,200,000 + \$800,000 + \$400,000 + \$500,000 = \$2,900,000

Q1 ended Mar 2027: Income (Loss) = -\$1,200,000. Absolute value = \$1,200,000

Q2 ended Dec 2026: Income (Loss) = -\$800,000. Absolute value = \$800,000

Q3 ended Sep 2026: Income (Loss) = \$400,000. Absolute value = \$400,000

Q4 ended Jun 2026: Income (Loss) = -\$500,000. Absolute value = \$500,000

GI2 = \$2,500,000 + \$1,000,000 + \$800,000 + \$1,200,000 = \$5,500,000

Q5 ended Mar 2026: Income (Loss) = -\$2,500,000. Absolute value = \$2,500,000

Q6 ended Dec 2025: Income (Loss) = -\$1,000,000. Absolute value = \$1,000,000

Q7 ended Sep 2025: Income (Loss) = \$800,000. Absolute value = \$800,000

Q8 ended Jun 2025: Income (Loss) = -\$1,200,000. Absolute value = \$1,200,000

GI3 = \$200,000 + \$100,000 + \$600,000 + \$1,200,000 = \$2,100,000

Q9 ended Mar 2025: Income (Loss) = \$200,000. Absolute value = \$200,000

Q10 ended Dec 2024: Income (Loss) = -\$100,000. Absolute value = \$100,000

Q11 ended Sep 2024: Income (Loss) = \$600,000. Absolute value = \$600,000

Q12 ended Jun 2024: Income (Loss) = -\$1,200,000. Absolute value = \$1,200,000

Average GI = (GI1 + GI2 + GI3) / 3 = (\$2,900,000 + \$5,500,000 + \$2,100,000) / 3 = \$3,500,000

**BCFSA Note – Example: Average Gross Income Calculation (cont'd)**

Report GI1, GI2, and GI3 in lines 6280-100: Gross Income in Quarters 1 - 4 (Latest 4 Quarters), 6280-110: Gross Income in Quarters 5 - 8, and 6280-120: Gross Income in Quarters 9 - 12, respectively. Average GI is calculated with the formula built into the CAR reporting template in line 6280-130: Average Gross Income.

Note: The same Average GI calculation applies for reporting periods April 30, 2027 and May 31, 2027.

**Line 6280-140: Operational Risk Capital Requirement (15%)**

Average gross income multiplied by 15%.

[Capital Rules Section 44]

**Line 6280-150: Operational Risk Weighted Assets (Capital Requirement x 12.5)**

Operational risk capital requirement multiplied by 12.5.

[Capital Rules Section 43]

## 2.11 APPENDIX 1

### 2.11.1 CAR Audit Expectations

BCFSA expects credit unions to submit the annual CAR that has been audited, along with an independent auditor's report on the CAR within 90 days of their fiscal year end. BCFSA may make further enquiries where credit unions do not undergo a CAR audit.

The intent of this appendix is not to direct the audit process, but rather to provide clarification to credit unions to ensure accuracy of the CAR.

External auditors should develop an approach consistent with Canadian Auditing Standards (CAS). The CAS provides guidance on what constitutes audit evidence. It outlines the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Audit procedures should focus on the key risk areas, generally identified through a risk analysis process. If audit testing indicates a high level of errors, the audit process may require changes to ensure an adequate level of assurance can be obtained.

When preparing or reviewing the CAR, credit unions might consider having their Internal Audit review the compilation process. Internal Audit's involvement could assist credit unions in identifying and resolving reporting issues prior to the external auditors commencing their testing. External auditors may use work conducted by Internal Audit as part of their audit process and as a potential source of audit evidence.

#### Audit Requirement

Credit unions are expected to engage their auditor appointed pursuant to FIA Section 113 to report annually on the CAR prepared as at fiscal year end, in accordance with the relevant assurance engagement standards as promulgated by the Canadian Auditing and Assurance Standards Board.

The CAR audit report must be prepared via a separate engagement from the credit union's annual financial statements audit report, by the same auditor engaged to do the latter. The audit opinion must pertain to the CAR for the current fiscal year end.

#### Auditor Qualifications

The qualifications of an auditor are stated in Section 3 of the FIA's Audit and Audit Committee Regulation. In addition, the external auditor should be a member in good standing with the Chartered Professional Accountants of British Columbia (CPABC).

#### Audit Opinion

The audit opinion should include the following characteristics:

- It should be addressed to the Superintendent of Financial Institutions of British Columbia;
- It should clearly state the credit union's legal name;
- It should clearly state the date at which the opinion is being made; and
- It should clearly state that the CAR is prepared in accordance with the provision set forth in the Credit Union Capital Requirements Rules of the FIA.

A sample auditor's report has been provided for reference at the end of this appendix.

### Establishing Materiality

In accordance with the CAS, a materiality level must be applied to the CAR audit process.

The concept of materiality recognizes that certain matters, either individually or in aggregate, are important for fair presentation of financial information, while other matters are not important. In performing the audit, the auditor is concerned with matters that, either individually or in aggregate, could be material to the financial information being presented. The auditor's responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

The auditor's consideration of materiality is a matter of professional judgment and is influenced by the auditor's perception of the needs of financial statements users.

The materiality level for the CAR will differentiate from the materiality level established for the audit of the credit union's financial statements.

Given this degree of differentiation, there is still an expectation that the following general principles apply:

- Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence decisions made on the basis of the financial return; and
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

### Scope and Degree of Testing

The scope of the auditor's assessment and the granularity of testing should be commensurate with the current capital adequacy position and the degree of change in the capital adequacy position that has occurred since the prior fiscal year end.

#### Capital Position

When determining the scope and extent of testing the credit union and auditors should consider the current capital adequacy position. As the credit union's capital position approaches the minimum total ratio requirements (including the capital conservation buffer) for Tier 1 capital and Total capital ratios, the scope and intensity of testing should increase as the importance of accuracy in the figure is heightened.

#### Capital Position Change

Another important consideration in establishing the scope and degree of testing is the amount of change the ratio experiences over the fiscal year. Since significant changes in the capital adequacy position can be a result of classification issues, it is imperative the root cause of the change is validated. Regardless of whether the position change positively or negatively affects the capital ratios, the scope and degree of testing should be sufficient to ensure the accuracy of the capital adequacy position.

The combination of a level approaching one of the aforementioned thresholds and a significant year-over-year change should result in testing to confirm the accuracy of the Tier 1 capital, Total capital, and Leverage ratios.

### Capital

In confirming the capital, auditors should obtain reasonable assurance of the credit union's control and classification systems in place at the credit union. Auditors should pay particular attention to the classification of Tier 1 and Tier 2 capital items, and the appropriateness of regulatory adjustments (deductions) from Tier 1 capital.



### Risk Weighted Assets

In confirming risk weighted assets (RWA), auditors should obtain reasonable assurance of the credit union's control and classification systems. RWA are historically an area where classification errors have occurred. Auditors should pay particular attention to the classification of assets to determine the validity of the RWA calculation.

Depending on the evaluation of the quality of the internal controls over the loan portfolio, including loan classification to determine risk-weighting, auditors may need to complete substantive testing, via sampling by loan types, to be assured of the accuracy of the loan classification processes and results.

*If under any circumstance the classification of items cannot be determined using the CAR Reporting Instructions, these items should be placed on the line numbers that have more conservative capital risk weightings.*

### Exposure

In confirming total exposure for Leverage ratio, auditors should obtain reasonable assurance of the control and classification systems in place at the credit union. Auditors should pay particular attention to the calculation of derivative exposure and off-balance sheet exposure.

## **2.11.2 Sample Independent Auditor's Report**

### **To the Superintendent of Financial Institutions of British Columbia**

We have audited the accompanying Capital Adequacy Return of British Columbia Credit Unions [the "Capital Adequacy Return"] of **name of Credit Union** [the "Credit Union"] as at Month-Day-Year [Year-End Date]. The Capital Adequacy Return has been prepared by management based on the financial reporting provisions of the Credit Union Capital Requirements Rules of the Financial Institutions Act.

### **Management's responsibility for the Capital Adequacy Return for British Columbia Credit Unions**

Management is responsible for the preparation of the Capital Adequacy Return in accordance with the financial reporting provisions of the Credit Union Capital Requirements Rules of the Financial Institutions Act, and for such internal controls as management determines is necessary to enable the preparation of Capital Adequacy Return that is free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on Capital Adequacy Return based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Capital Adequacy Return is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Capital Adequacy Return. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Capital Adequacy Return, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Capital Adequacy Return in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Capital Adequacy Return.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Capital Adequacy Return of the **name of Credit Union** as at Month-Day-Year [Year-End Date] is prepared, in all material respects, in accordance with the financial reporting provisions of the Credit Union Capital Requirements Rules of the Financial Institutions Act.

### Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to the fact that the Capital Adequacy Return has been prepared in accordance with the basis of accounting set out in the Credit Union Capital Requirements Rules. The Capital Adequacy Return is prepared to assist the **name of Credit Union** to meet the requirements of the Superintendent of Financial Institutions of British Columbia. As a result, the Capital Adequacy Return may not be suitable for another purpose.

Our report is intended solely for the use of the **name of Credit Union** and the Superintendent of Financial Institutions of British Columbia and should not be used by parties other than the **name of Credit Union** or the Superintendent of Financial Institutions of British Columbia.

Auditor's Signature

Date of Auditor's Report

Auditor's Address

## 2.12 APPENDIX 2

This appendix provides details on risk based capital ratios and leverage ratio minimum requirements and guidance on the capital conservation buffer and minimum capital conservation rules.

### 2.12.1 Risk Based Capital Ratios and Leverage Ratio Minimum Requirements

The calculation methodologies for the risk based capital ratios and the leverage ratio are set out in sections 2.1 and 2.2 of the reporting instructions.

#### ***Tier 1 Capital Ratio***

Effective January 1, 2029, a credit union must maintain, at all times, a Tier 1 capital ratio that is equal to or greater than 6%. This minimum requirement is intended to ensure that a credit union holds a sufficient level of high-quality capital to absorb losses and support ongoing operations under stressed conditions.

[Capital Rules Section 3]

#### ***Total Capital Ratio***

Effective January 1, 2029, a credit union must maintain, at all times, a Total capital ratio that is equal to or greater than 8%. The Total capital ratio reflects the overall capital adequacy of a credit union, including both Tier 1 and Tier 2 capital, relative to its risk weighted assets.

[Capital Rules Section 3]

#### ***Leverage Ratio***

A credit union must, at all times, maintain a leverage ratio that is equal to or greater than 3%. The leverage ratio serves as a non risk based measure of capital adequacy and serves as a backstop to the risk based capital requirements.

[Capital Rules Section 46]

### **Summary of Minimum Capital Requirements**

The minimum capital ratio requirements applicable from 2029 onward are summarized in the table below. Transitional capital requirements applicable for 2027 and 2028 are outlined in Section 3 of the Capital Rules.

| Capital Ratio        | Minimum Ratio | Capital Conservation Buffer | Total Ratio |
|----------------------|---------------|-----------------------------|-------------|
| Tier 1 Capital Ratio | 6%            | 2.5%                        | 8.5%        |
| Total Capital Ratio  | 8%            | 2.5%                        | 10.5%       |

### 2.12.2 Capital Conservation Buffer and Minimum Capital Conservation Rules

The capital conservation buffer is designed to ensure that credit unions have an additional layer of usable capital that can be drawn down when losses are incurred. The buffer is set at 2.5% of total risk weighted assets for 2029 onward in Table 3 of Schedule 1 of the Capital Rules (see note below for 2027 and 2028). It must be met with Tier 1 capital, and it is established above the regulatory minimum capital requirement.

Whenever the buffer falls below 2.5%, the following capital distributions will be constrained so that the buffer can be replenished:

- Dividends and patronage allocation;
- Share buybacks; and
- Discretionary bonus payments.

Dividends that may be constrained exclude dividends that satisfy all of the following conditions:

- (a) The dividends cannot legally be cancelled by the credit union;
- (b) The dividends have already been removed from Tier 1 equity (i.e., the dividend has already been declared); and
- (c) The dividends were declared in accordance with the applicable capital conservation ratio set out in Tables 4, 5 or 6 of Schedule 1 of the Capital Rules at the time of the declaration.

Automatic constraints on the above distributions increase as the credit union's capital ratio approaches the minimum capital requirement. Tables 4, 5, and 6 of Schedule 1 of the Capital Rules were built on this principle. They set out the minimum capital conservation ratio that a credit union must meet at various levels of Tier 1 capital ratio.

Minimum capital conservation ratio means the percentage of a credit union's earnings for the previous financial period that the credit union must retain in the current period that begins on the reporting date. For example, for 2029 onward, based on Table 6 of Schedule 1 of the Capital Rules, a credit union with a Tier 1 capital ratio in the range of 7.875% to 8.5% is required to retain the equivalent of 50% of its earnings in the subsequent period (i.e., pay out no more than 50% in capital distributions).

Earnings means distributable profits of a credit union calculated prior to the deduction of distributions and after the tax payable which would have been reported if the credit union had not made distributions.

In addition to the above constraints on capital distributions, BCFSA may also impose other supervisory requirements such as the need for capital plans that seek to rebuild buffers over an appropriate timeframe.

**Notes:**

- Similar capital conservation ratios apply where a credit union breaches its Tier 1 capital or Total capital requirements. In the event that a credit union simultaneously breaches more than one capital requirements (e.g., 8.5% Tier 1 capital, 10.5% Total capital) it must apply the most constraining capital conservation ratio.
- A credit union must obtain the written consent of the Superintendent of Financial Institutions of British Columbia before making a capital distribution that is expected to result in the credit union failing to maintain the applicable minimum capital conservation ratios.
- Minimum capital conservation requirements are subject to the transitional arrangements for 2027 and 2028 as set on in Section 5 of the Draft Rule. The above lays out the ratios and requirements for 2029 and onward.

[Capital Rules Section 5]

## 2.13 APPENDIX 3

This appendix provides additional guidance on criteria for Tier 1 and Tier 2 instruments (other than membership shares). References are noted for each criterion to the related section(s) of the Capital Rules.

### 2.13.1 Criteria for Tier 1 Instruments (Other than Membership Shares)

#### Criterion 8(2)(f) – Equity accounting

This criterion requires Tier 1 instruments to be fully classified as equity for accounting purposes at all times. However, equity shares meeting the requirement in Section 10(1)(b) of the Capital Rules are not subject to this criterion.

#### Criterion 10(1) and (2) – Required redemption and acquisition

In reporting an equity instrument that is not a membership share, the maximum 10% redemption during any 12-month period as stipulated in Section 10(1)(b) of the Capital Rules applies. The amount that can be included in Tier 1 capital is the portion of the share capital that is not subject to redemption – specifically referring to the obligation to redeem shares under a retraction provision in the share agreement. For example, if 5% of the equity shares that are not membership shares is redeemable during a 12-month period, only 95% of this class of the equity shares is included in Tier 1 capital. This treatment does not apply to equity shares issued to non-members. Such shares are subject to Section 10(1)(a) of the Capital Rules which does not permit a holder to call on the credit union to redeem, purchase or otherwise acquire the instrument from the holder.

#### Criterion 8(2)(a) – Issued and paid in cash

A stock dividend where shareholders receive additional shares (as opposed to a cash dividend), the shares meet criterion 8(2)(a) provided that it meets all the other criteria stipulated in the Capital Rules for inclusion in Tier 1 capital on the designated dividend declaration date which is when the shares are actually declared, subject to CUIA section 65(1) which requires director to pay declared dividends. In addition, for the purposes of this criterion, the “paid in cash” requirement is also considered to have been met on the designated dividend declaration date.

#### Criterion 8(2)(e) – Perpetual requirement, no maturity date, step-up or other incentive to redeem

**Defeasance:** Defeasance or other options that could result in a decrease of the institution’s regulatory capital may only be exercised on or after the fifth anniversary of the closing date.

**Step-up:** Credit unions must ensure that a Tier 1 instrument does not have a maturity date or any step-ups or other incentives to redeem as these compromise the perpetual requirement. A step-up is defined in Section 8(1) of the Capital Rules and must be calculated in accordance with the requirements of that section.

Where the initial dividend or coupon rate payable on the instrument resets periodically or the basis of the interest rate changes from fixed to floating (or vice versa) at a pre-determined future date, credit unions must make calculations demonstrating that no incentive to redeem, or step-up, will arise upon the change in the initial rate. Where applicable, a step-up calculation should be submitted, which confirms there is no step-up upon the change in interest rate. The step-up calculation should be supported by the following:

- Screenshots of the relevant benchmarks used for the step-up calculation should be provided;
- The interpolated benchmark yield should be calculated with the two closest maturities to the reset date;
- The interpolated benchmark yield should be rounded up to the nearest hundredth for the purpose of calculating the reset spread; and

- Conversion from a fixed rate to a floating rate (or vice versa) in combination with a call option without any increase in credit spread would not constitute a step-up.

**Re-open offering:** Credit unions are permitted to “re-open” offerings of Tier 1 capital instruments to increase the principal amount of the original issuance provided any call options will only be exercised on or after the fifth anniversary of the closing date of the latest re-opened tranche of securities.

#### **Criterion 11(c) – Dividend cancellation and Criterion 8(2)(g) – Hindering recapitalization**

**Dividend stopper:** Dividend stopper arrangements that stop payments on other Tier 1 instruments are permissible provided the stopper does not impede the full discretion the credit union must have at all times to cancel distributions or dividends on the Tier 1 instrument, nor must it act in a way that could hinder the recapitalization of the credit union pursuant to Criterion 8(2)(g). For example, it would not be permitted for a stopper on a Tier 1 instrument to:

- attempt to stop payment on another instrument where the payments on the other instrument were not also fully discretionary;
- prevent distributions to shareholders for a period that extends beyond the point in time that dividends or distributions on the Tier 1 instrument are resumed; and
- impede the normal operation of the credit union or any restructuring activity, including acquisitions or disposals.

A dividend stopper may act to prohibit actions that are equivalent to the payment of a dividend, such as the credit union undertaking discretionary share buybacks.

**Dividend pusher:** A consequence of full discretion at all times to cancel distributions/payments is that “dividend pushers” are prohibited. An instrument with a dividend pusher obliges the issuer to make a dividend/coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share. This obligation is inconsistent with the requirement for full discretion at all times. Furthermore, the term “cancel distributions” means to forever extinguish these payments. It does not permit features that require the issuer to make distributions or payments in kind at any time.

#### **Criterion 8(2)(d) – No guarantee or enhancement of seniority**

Where a credit union uses a special purpose vehicle to issue capital to investors and provides support, including overcollateralization, to the vehicle, such support would constitute enhancement in breach of Criterion 8(2)(d).

#### **Criterion 9(b) – Cannot create call expectation**

An example of an action that would be considered to create an expectation that a call will be exercised is where an institution calls a capital instrument and replaces it with an instrument that is more costly (e.g., a higher credit spread).

#### **Criterion 9(c)(i) – Replacement of called instrument**

Replacement issuances can be concurrent with but not after the instrument is called.

#### **Criterion 9(a) – Not callable in the first five years**

**Tax and Regulatory Events:** Tax and regulatory event calls are permitted at any time (not only after five years) and provided the credit union was not in a position to anticipate such an event at the time of issuance. Where a credit union elects to include a regulatory event call in an instrument, the regulatory event call date should be defined as “the date specified in a letter from the Superintendent of Financial Institutions of British Columbia to

the credit union on which the instrument will no longer be recognized in full as eligible Tier 1 capital of the credit union or included in total capital.”

**Purchase for cancellation:** Purchase for cancellation of Tier 1 instruments is permitted at any time—including the first five years. For further clarity, a purchase for cancellation does not constitute a call option as described in Criterion 9(a).

#### **Criterion 8(2)(b) – Restriction on holding by related parties**

The intention of this criterion is to prohibit the inclusion of instruments in capital in cases where the credit union retains any of the risk of the instruments. The criterion is not contravened if third-party investors bear all of the risks and rewards associated with the instrument.

### **2.13.2 Criteria for Tier 2 Instruments (Other than Membership Shares)**

#### **Criterion 23(2)(d) – Original maturity of at least five years**

**Perpetual instruments:** An instrument without a maturity date meets this criterion since it is perpetual thus exceeds the standard required by this criterion.

**Defeasance:** Defeasance or other options that could result in a decrease of the institution’s regulatory capital may only be exercised on or after the fifth anniversary of the closing date.

**Re-open offering:** Credit unions are permitted to “re-open” offerings of Tier 2 capital instruments to increase the principal amount of the original issuance provided any call options will only be exercised on or after the fifth anniversary of the closing date of the latest re-opened tranche of securities.

#### **Criterion 23(2)(e) – No step-up or other incentive to redeem**

**Step-up:** Credit unions must ensure that a Tier 2 instrument does not have any step-ups or other incentives to redeem. A step-up is defined in Section 8(1) of the Capital Rules and must be calculated in accordance with the requirements of that section. Conversion from a fixed rate to a floating rate (or vice versa) in combination with a call option without any increase in credit spread would not constitute a step-up.

Where the initial dividend or coupon rate payable on the instrument resets periodically or the basis of the interest rate changes from fixed to floating (or vice versa) at a pre-determined future date, credit unions must make calculations demonstrating that no incentive to redeem, or step-up, will arise upon the change in the initial rate. Where applicable, a step-up calculation should be submitted, which confirms there is no step-up upon the change in interest rate. The step-up calculation should be supported by the following:

- Screenshots of the relevant benchmarks used for the step-up calculation should be provided;
- The interpolated benchmark yield should be calculated with the two closest maturities to the reset date; and
- The interpolated benchmark yield should be rounded up to the nearest hundredth for the purpose of calculating the reset spread.

#### **Criterion 24(a) – Not callable in the first five years**

**Tax and Regulatory Events:** Tax and regulatory event calls are permitted at any time (not only after five years) and provided the credit union was not in a position to anticipate such an event at the time of issuance. Where a credit union elects to include a regulatory event call in an instrument, the regulatory event call date should be defined as “the date specified in a letter from the Superintendent of Financial Institutions of British Columbia to

the credit union on which the instrument will no longer be recognized in full as eligible Tier 2 capital of the credit union or included in total capital.”

**Purchase for cancellation:** Purchase for cancellation of Tier 2 instruments is permitted at any time—including the first five years. For further clarity, a purchase for cancellation does not constitute a call option as described in Criterion 24(a).

#### **Criterion 25 (1) and (2) – Required redemption and acquisition**

In reporting an equity instrument that is not a membership share, the maximum 10% redemption during any 12-month period as stipulated in Section 25(1)(b) of the Capital Rules applies. The amount that can be included in Tier 2 capital is the portion of the share capital that is not subject to redemption—specifically referring to the obligation to redeem shares under a retraction provision in the share agreement. For example, if 5% of the equity shares that are not membership shares is redeemable during a 12-month period, only 95% of this class of the equity shares is included in Tier 2 capital. This treatment does not apply to equity shares issued to non-members. Such shares are subject to Section 25(1)(a) of the Capital Rules which does not permit a holder to call on the credit union to redeem, purchase or otherwise acquire the instrument from the holder.

#### **Criterion 24(b) – Cannot create call expectation**

An option to call the instrument after five years but prior to the start of the amortization period will not be viewed as an incentive to redeem as long as the credit union does not do anything that creates an expectation that the call will be exercised at this point.

An example of an action that would be considered to create an expectation that a call will be exercised is where an institution calls a capital instrument and replaces it with an instrument that is more costly (e.g., a higher credit spread).

#### **Criterion 23(2)(g) – Restriction on holding by related parties**

The intention of this criterion is to prohibit the inclusion of instruments in capital in cases where the credit union retains any of the risk of the instruments. The criterion is not contravened if third-party investors bear all of the risks and rewards associated with the instrument.

#### **Criterion 23(2)(a) – Issued and paid in cash**

A stock dividend where shareholders receive additional shares (as opposed to a cash dividend), the shares meet criterion 23(2)(a) provided that it meets all the other criteria stipulated in the Capital Rules for inclusion in Tier 2 capital on the designated dividend declaration date which is when the shares are actually declared, subject to CUIA section 65(1) which requires directors to pay declared dividend. In addition, for the purposes of this criterion, the “paid in cash” requirement is also considered to have been met on the designated dividend declaration date.

#### **Criterion 24(c)(i) – Replacement of called instrument**

Replacement issuances can be concurrent with but not after the instrument is called.

#### **Criterion 23(2)(c) – No guarantee or enhancement of seniority**

Where a credit union uses a special purpose vehicle to issue capital to investors and provides support, including overcollateralization, to the vehicle, such support would constitute enhancement in breach of Criterion 23(2)(c).



## 2.14 APPENDIX 4

This appendix provides additional guidance on determining Loan-to-Value (LTV) ratio, amortization, Loan-to-Cost (LTC) ratio, Total Debt Service (TDS) ratio, and Debt Service Coverage Ratio (DSCR) to help credit unions assign the appropriate risk weights to residential and commercial mortgages in the credit risk weighted assets calculation for capital reporting purposes.

### 2.14.1 Loan-to-Value Ratio

Loan-to-Value (LTV) ratio calculation for capital reporting purposes:

$$LTV = \frac{\text{Total Loan Exposure Amount}}{\text{Market Value of Real Estate Collateral}}$$

Total Loan Exposure Amount that is determined as the current outstanding balance of term loans/mortgages (at the time of measurement, including all senior and pari passu debt secured by the collateral) and authorized limits of secured lines of credit. The calculation must include all loans and lines of credit secured on the same property.

Expectations and requirements related to collateral value assessments, updates, and reporting for commercial and residential lending exposures are outlined below. Accurate and timely reporting of market value is essential for the reliable calculation of LTV ratios for capital reporting purposes.

#### Commercial Lending Exposure

##### *Market value of a property*

Market value of a property refers to the as-is value of the property at any given point in time, reflecting current market conditions without assumptions of hypothetical development or future improvements.

| Point in Time       | Approach                                              |                                                       |
|---------------------|-------------------------------------------------------|-------------------------------------------------------|
|                     | Income-producing Properties                           | Owner-occupied Properties                             |
| At loan origination | Use the as-is value provided by a qualified appraiser | Use the as-is value provided by a qualified appraiser |
| At loan renewal     | Update with an as-is evaluation or estimate           | Update with an as-is value in principle               |
| At annual review    | Update with an as-is evaluation or estimate           | Update with an as-is value in principle               |

##### *Updating market values of a property*

Credit unions are expected to conduct a collateral value review at least annually, at renewal and/or credit event (refinance, delinquency or restructuring), or when BCFSAs elects to require credit unions to revise the property value downward. Collateral value must also be reassessed whenever a triggering event occurs, irrespective of the timing of the most recent review. Triggering events for commercial properties include:

- sharp commercial real estate market decline;
- major anchor lease or tenant change;
- significant damage of the property; and
- change in property use.

### Residential Lending Exposure

Market Value of the Real Estate Collateral that is, at origination, determined as the lesser of sales price and appraised value.

Credit unions should update property values at renewal, refinance, when BCFSAs elects to require credit unions to revise the property value downward, or when a triggering event occurs. Triggering events for residential properties include:

- a material decline in residential property values; and
- significant damage to the property.

#### 2.14.2 Amortization

Credit unions should use the remaining loan amortization (that is years remaining before the loan is fully paid off) to determine the appropriate risk weights assigned to residential mortgages in the credit risk weighted asset calculation for capital reporting purposes.

#### 2.14.3 Loan-to-Cost Ratio

Loan-to-Cost (LTC) ratio calculation for capital reporting purposes:

$$LTC = \frac{\text{Total Approved Loan Commitment}}{\text{Original Project Cost at Origination}}$$

For construction and development loans, cost should be recorded at origination.

The loan amount used in the LTC calculation should reflect the total approved commitment at origination, not just the initial draw. This approach aligns with the milestone-based disbursement structure typical of construction financing and ensures consistency in assessing the initial financing structure.

#### 2.14.4 Total Debt Service Ratio

Total Debt Service (TDS) ratio calculation for capital reporting purposes:

$$TDS = \frac{\text{Principal} + \text{Interest} + \text{Property related expenses} + \text{Other debts and expenses}}{\text{Gross Income}}$$

In determining the TDS, credit unions should adhere to the following principles:

- Principal and interest payments are determined based on the contractual loan/mortgage interest rates.
- Property related expenses should include:
  - Property taxes;
  - Heating costs; and
  - Condo fees (if applicable).
- Where rental income is used to qualify for the loan, credit unions should apply an appropriate rental offset factor that reflects market vacancy rate in accordance with their internal policy.
- For residential real estate (RRE) loans, the net rental income approach cannot be used. Rental income, after applying the appropriate offset factor, is to be included as part of gross income.

- For income-producing residential real estate (IPRRE) loans, credit unions may use the net rental income approach. Net rental income surplus should be added to gross income, and net rental income shortfall should be included as part of expenses.
- Other debts and expenses include but are not limited to installment loans, revolving credit (i.e., credit cards, lines of credit), child support and spousal support payments, and mortgages and expenses on non-subject properties.
  - For unsecured lines of credit and credit cards, factor in a monthly payment amount corresponding to no less than 3% of the outstanding balance. In determining the amount of revolving credit that should be accounted for, credit unions should ensure that they make a reasonable inquiry into the background, credit history and borrowing behaviour of the prospective borrower.
  - For secured lines of credit, factor in an amount corresponding to at least a monthly payment on the outstanding balance amortized over 25 years using the contract rate (or the benchmark rate if contract rate is unknown). Credit unions may apply their own internal guidelines where the result is at least equivalent to the above.

TDS ratio is determined at the borrower level. It is determined at mortgage origination and refinance and should reasonably reflect the risk profile of the borrower throughout the life of the mortgage(s).

- TDS should be updated when scheduled loan/mortgage payment amounts change, and when the borrower incurs additional debt with the credit union.
- Credit unions should update income information when there are material changes to a borrower's financial condition.
- Credits unions should use the most current available TDS for capital reporting purposes.

#### 2.14.5 Debt Service Coverage Ratio

Debt Service Coverage Ratio (DSCR) is used to evaluate a borrower's ability to meet their term debt obligations. Each loan category, such as owner-occupied commercial real estate, income-producing real estate and residential investment real estate loans advanced through commercial product, has its own specific adjustments to operating cash flows within the debt servicing formula.

For construction loans, DSCR is not applicable during the construction phase, as the asset is not yet income-generating. Instead, capital requirements are assessed based on LTC.

Where applicable, credit unions are expected to update the DSCR annually to reflect updated risk profile of the borrowers and the active market dynamics of real estate market in B.C. credits unions should use the most current available DSCR for capital reporting purposes.

##### **DSCR for Owner-occupied Commercial Real Estate**

Owner-occupied commercial property refers to real estate in which the owner occupies more than 50% of the total leasable area, and rental income from third-party tenants constitutes less than 50% of the property's total rental income. Assessment of debt servicing is based primarily on the cash flow of the business.

DSCR calculation for capital reporting purposes:

$$DSCR = \frac{\text{Adjusted EBITDA}}{\text{Total Debt Service}}$$

Key components are:

Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) reflect core operating cash flows available to service debt. Credit unions should make the following adjustments to EBITDA to ensure an accurate assessment of sustainable cash flow:

- Exclusion of non-recurring income;
- Deduction of dividends paid to shareholders; and
- Deduction of return of capital distributions.

Total Debt Service reflects all annual financial obligations required to service outstanding debt, including:

- Scheduled principal and interest payments on term loans;
- Interest on revolving credit facilities; and
- Lease payments (both capital and operating leases, where material).

Calculation framework:

| Component                         | Description                                 |
|-----------------------------------|---------------------------------------------|
| <b>Adjusted EBITDA:</b>           |                                             |
| Net Earnings Before Taxes         |                                             |
| Plus: Amortization / Depreciation | Add-back                                    |
| Plus: Interest Expense            | Add-back                                    |
| Less: Non-recurring Income        | Deduction                                   |
| Less: Dividends Paid              | Deduction                                   |
| Less: Return of Capital           | Deduction                                   |
| <b>Total Debt Service:</b>        |                                             |
| Loan 1: Principal and Interest    |                                             |
| Loan 2: Interest on Revolving LOC |                                             |
| Lease Payments (if applicable)    | Operating and Capital Leases                |
| <b>DSCR</b>                       | <i>Adjusted EBITDA ÷ Total Debt Service</i> |

### DSCR for Income-producing Real Estate

The income-producing commercial real estate lending category includes lending to entities (including individuals, corporations, partnerships and trusts) whose primary business is the holding of income producing real estate and which do not have material other types of assets. DSCR assessment for income-producing commercial real estate (such as rental apartments, office buildings, retail centers, and industrial properties) is based primarily on the evaluation of the property's cash flow, such as rental income and ancillary revenue from the property. The DSCR should be stress tested for market instability, unscheduled tenant turnover, and unplanned capital expenditures.

DSCR calculation for capital reporting purposes:

$$DSCR = \frac{NOI}{Total\ Debt\ Service}$$

Key components are:

- Net Operating Income (NOI) is derived from gross rental income (actual or stabilized market rent) less:
  - Operating expenses (property taxes, insurance, maintenance, management fees, utilities, etc.);
  - Vacancy reserve;
  - Delinquency reserve;
  - Capital or structural reserve;
  - *Add back*: Operating expenses recoverable from tenants; and
  - *Exclude*: Capital expenditures, income taxes, and financing cost.
- Total Debt Service that includes the annual principal and interest payments on the loan (based on the lender's amortization and interest rate assumptions).

Calculation framework:

| Component                             | Description                     |
|---------------------------------------|---------------------------------|
| <b>Net Operating Income (NOI):</b>    |                                 |
| Gross Rental Income                   |                                 |
| Less: Operating Expenses              | Deduction                       |
| Less: Vacancy Reserves                | Deduction                       |
| Less: Delinquency Reserves            | Deduction                       |
| Less: Capital/Structural Reserves     | Deduction                       |
| <b>Total Debt Service:</b>            |                                 |
| Loan Payment (Principal and Interest) |                                 |
| <b>DSCR</b>                           | <i>NOI ÷ Total Debt Service</i> |

### Residential Investment Real Estate Loans advanced Through Commercial Product

Commercial loans secured by non-adjointing residential investment properties—such as single-family homes, duplexes, triplexes, fourplexes or condominium units—are to be assessed based on the portfolio-wide DSCR. This ratio is calculated using the aggregate cash flows from all properties of the borrower, adjusted for operating expenses and stressed with risk overlays.

DSCR calculation for capital reporting purposes:

$$DSCR = \frac{Aggregate\ NOI}{Total\ Debt\ Service}$$

Key components are:

- Aggregate Net Operating Income (NOI) is derived from sum of actual rental income only (exclude projected rent) across all properties of the borrower less:
  - Aggregate per-property operating expenses, such as property taxes, insurance maintenance and strata fees;
  - Aggregate per-property repair reserves;
  - Portfolio vacancy reserves; and
  - Portfolio delinquency reserves.
- Total Debt Service is the sum of annual principal and interest payments.

Calculation framework:

| Component                                                                      | Description                               |
|--------------------------------------------------------------------------------|-------------------------------------------|
| <b>Aggregate Net Operating Income (NOI):</b>                                   |                                           |
| Sum of Actual Rental Income ( <i>across all properties</i> )                   |                                           |
| Less: Aggregate Operating Expenses                                             | Deduction                                 |
| Less: Aggregate Repair Reserves                                                | Deduction                                 |
| Less: Portfolio Delinquency Reserves                                           | Deduction                                 |
| Less: Portfolio Vacancy Reserves                                               | Deduction                                 |
| <b>Total Debt Service</b>                                                      |                                           |
| Sum of Loan Payments (Principal and Interest) ( <i>across all properties</i> ) |                                           |
| <b>DSCR</b>                                                                    | <i>Aggregate NOI ÷ Total Debt Service</i> |



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