Canada Deposit Insurance Corporation (CDIC)

CDIC Eligibility and Coverage

CDIC Purpose and Eligible Depositors

Canada Deposit Insurance Corporation (CDIC) is a federal Crown corporation that insures more than $1 trillion in deposits held in member institutions to help support the overall stability of Canada's financial system. Coverage is free and automatic for eligible deposits in any of the member institutions and in the rare event a member institution faces failure, CDIC steps in to ensure access to the insured deposits.

Depositors eligible for CDIC deposit insurance include individuals (including sole proprietorship), corporations, partnerships, governments, churches, charities, non-profit organizations, estates and trustees that have money placed in a member institution.

Eligible Products for CDIC Deposit Insurance

CDIC protection applies to deposits held in registered accounts such as RRSPs and TFSAs and non-registered accounts such as chequing & savings accounts and GICs. The following products are covered and not covered by CDIC:

☐ Covered

- Deposits in Canadian or foreign currency
- GICs
- Other term deposits

☐ Not Covered

- Stocks & bonds
- Mutual funds & ETFs
- Banker's Acceptances

Cryptocurrencies

Coverage and Categories

CDIC protects up to $100,000 CAD (including principal and interest) at <u>each</u> member institution, for <u>each</u> of the following categories:

Deposits held in one name

+ Deposits held in more than one name

+ Deposits held in a registered retirement savings plan (RRSP)

+ Deposits held in a registered retirement income fund (RRIF)

+ Deposits held in a tax-free savings account (TFSA)

+ Deposits held in a first home savings account (FHSA)

+ Deposits held in a Registered Education Savings Plan (RESP) *(per beneficiary)*

+ Deposits held in a Registered Disability Savings Plan (RDSP) *(per beneficiary)*

+ Deposits held in trust *(per beneficiary - provided certain disclosure rules are met)*

<u>Example</u>: Bob has placed the following funds at a CDIC member institution. Here's what does ✔ and does not ☐ quality for CDIC coverage.

✔ $60,000 CAD in a GIC
✔ $10,000 USD in a savings account
✔ $5,000 CAD in a chequing account

These qualify for $100,000 CAD equivalent of CDIC coverage within the same coverage category - deposits held in one name

☐ $80,000 CAD in ETFs
☐ $40,000 CAD equivalent in Bitcoin
☐ $60,000 CAD in stocks and bonds

These do <u>not</u> qualify for CDIC coverage as these are exempt products.

✔ $75,000 CAD in a TFSA
✔ $95,000 CAD in a RRSP
✔ $60,000 CAD in a RESP (for son 1)
✔ $70,000 CAD in a RESP (for son 2)
✔ $80,000 CAD in trust (for son 1)
✔ $90,000 CAD in trust (for son 2)

Each of these qualify for $100,000 CAD equivalent of CDIC coverage in coverage categories - deposits held in (1) TFSA, (2) RRSP, (3) RESP, (4) trust. $100,000 CAD CDIC coverage is available for deposits in RESP & trust for <u>each</u> beneficiary.

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Differential Premiums System (DPS) Overview and Upcoming Changes

CDIC Differential Premiums System (DPS) Overview

The CDIC maintains a fund, the ex ante fund, which supports the payout of depositors in the event of a CDIC member institution failure. The ex ante fund is funded by premiums paid by CDIC member institutions, which are determined pursuant to the Differential Premiums System (DPS). DPS classifies member institutions into categories to determine the deposit insurance premium rate paid with category 1 having the lowest premium rate and category 4 having the highest. Members are assessed annually and assigned a score from 0 to 100 points made up of qualitative (40 out of 100 points) and quantitative (60 out of 100 points) risk-based factors. The premium payable can be calculated as follows:

Premium Payable = (33bps) x (volume of insured deposits) x (risk-based rate determined by DPS)

Upcoming Changes to Modernize and Improve the Effectiveness of the DPS

On July 31, 2023 CDIC concluded on several changes required to modernize the DPS to reflect the evolving statutory, supervisory, risk and operating environment for Member Institutions. CDIC is targeting premium year 2025 for the new DPS to come into effect. CDIC aims to accomplish the following with these updates:

- Improve the risk sensitivity of score results to improve differentiation and minimize cross subsidization
- Adapt metrics to better reflect key financial regulatory and resolvability developments (e.g., Basel III changes, liquidity/funding metrics, etc.)
- Send an early warning signal — with financial consequences — to the management and board of directors of a member institution concerning the risk (i.e., likelihood of failure and resolvability) they pose to CDIC

CDIC will make the following key changes:

1. Raise the number of premium categories from <u>four</u> to <u>five</u> in order to improve the differentiation of risk profiles of member institutions and incentivize them to avoid excessive risk-taking.
2. Increase the frequency of differential premium assessments (process of classifying member institutions into risk categories) from <u>annual</u> to <u>semi-annual</u>. Under the new system, members will be classified as at October 31 and April 30 and provided a differential premium score and associated category which determines the premium rate they pay.
3. Enhance the DPS scorecard, which measures financial and regulatory criteria, to capture a broader set of risks posed by member institutions to CDIC. This includes the removal of certain metrics, adjustments to formulae and thresholds, and the introduction of liquidity and funding-related metrics.

New Premium Categories:

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

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New DPS Scorecard and Summary of Changes Made

New Differential Premiums System (DPS) Scorecard

The changes announced on July 31, 2023 included updates to the DPS Scorecard to improve its risk sensitivity and to ensure it reflects appropriate risks given the latest financial sector regulatory developments.

	Non D-SIB Criteria	Weight	D-SIB Criteria	Weight
	Examiner/ OSFI Rating	25	Examiner/ OSFI Rating	25
	CDIC Risk and Resolvability Rating	15	CDIC Risk and Resolvability Rating	15
	Sub-total: Regulatory Score	**40**	**Sub-total: Regulatory Score**	**40**
Capital Adequacy	CET-1 and Total Capital Ratios	5	CET-1 and Risk-Based TLAC Ratios	5
	Leverage Ratio	5	TLAC Leverage Ratio	5
Earnings	Return on Risk-Weighted Assets	5	Return on Risk-Weighted Assets	5
	Mean Adjusted Net Income Volatility	5	Mean Adjusted Net Income Volatility	5
Asset Quality/ Concentration	Net Impaired Assets to Total Capital	5	Net Impaired Assets to Total Capital	5
	3 Yr Moving Avg Asset Growth Ratio	5	3 Yr Moving Avg Asset Growth Ratio	5
	Real Estate Asset Concentration Ratio	5	Real Estate Asset Concentration Ratio	5
	Aggregate Commercial Loan Concentration Ratio	5	Aggregate Commercial Loan Concentration Ratio	5
Encum-brance	Asset Encumbrance Measure	5	Asset Encumbrance Measure	5
Liquidity &	HQLA to Short-Term Funding Ratio	5	Liquidity Coverage Ratio	7.5
	Stable Funding Ratio	5	Net Stable Funding Ratio	7.5

Key Changes in New DPS Scorecard

"Other Information" component will be replaced with CDIC RRR, where points will be awarded based on compliance with the DSRB and RPB, as well as the institution's Internal Member Rating.

The capital adequacy section is reduced to 10 points. The criterion & scoring of the metrics will also differ between D-SIBs & SMSBs to align with OSFI capital rules.

CDIC removed the Efficiency Ratio and Stress Tested Net Income metrics. Also, the scoring thresholds for the Mean Adjusted Net Income Volatility and Return on Risk-Weighted Assets metrics are altered.

The Real Estate Asset Concentration ratio formula is adjusted and the metric now also applies to D-SIBs. The thresholds applied to the Net Impaired Assets to Total Capital ratio have also been adjusted.

Asset Encumbrance Measure applies to D-SIBs under the existing DPS. Under the new DPS, the measure is also applied to non D-SIBs.

CDIC added liquidity and funding risks to the new DPS scorecard and assigned 15 points to criteria measuring these risks.

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New DPS Scorecard and Summary of Changes Made

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