

## REGULATORY OVERCOLLATERALISATION MINIMUM

### 1.0 PURPOSE

To advise registered issuers and potential issuers of the updated 2017 Canadian Registered Covered Bond and the new regulatory overcollateralization (OC) minimum (“Regulatory OC Minimum”).

### 2.0 BACKGROUND

As part of the 2017 update to the Canadian Registered Covered Bond Programs Guide (“Guide”), a Regulatory OC Minimum of 103% is introduced. Historically, the Canadian covered bond legal framework has required issuers to establish a contractual minimum and maximum level of overcollateralization or ratio of covered bond collateral to covered bonds outstanding by adopting a minimum and maximum value for the asset percentage (“Asset Percentage”) used to discount the value of loans (and properties securing such loans) held as cover pool collateral as part of the Asset Coverage Test (“ACT”). Rating agencies also require that a certain level of OC be maintained by each issuer’s covered bond program.

### 3.0 POLICY ENHANCEMENT

To complement and enhance the existing framework requirement of the program minimum and maximum Asset Percentages, the CMHC Guide now stipulates the Regulatory OC Minimum in order to require that cover pool assets available to secure covered bonds shall be at least 103% of the outstanding Canadian dollar equivalent nominal amount of covered bonds outstanding. The establishment of a uniform regulatory minimum OC level for all cover pool asset types aligns with global regulatory best practices, facilitates comparability between programs and represents a commitment to enhancing meaningful

disclosure to investors while ensuring that issuers maintain an acceptable minimum level of OC in their covered bond programs.

A nominal 103% Regulatory OC Minimum is aligned with the OC requirements of some jurisdictions and supports the prospect for achieving common global standards, should a harmonized covered bond framework develop.

Issuers are also required to disclose on a monthly basis the cover pool’s actual level of OC with a comparison to the Regulatory OC Minimum. The new Regulatory OC Minimum and its disclosure requirement are outlined under Section 4.3.8 of the Guide.

### 4.0 EFFECTIVE DATE

The current level of OC in each registered covered bond program already meets or exceeds the Regulatory OC Minimum. Notwithstanding that Regulatory OC minimum is already met, the effective date of the Regulatory OC Minimum will be January 1, 2018 in order to allow approved issuers to make reporting changes to implement the disclosure requirement under Section 4.3.8 of the Guide.

### 5.0 ENQUIRIES

For any questions regarding the changes, please contact Lily Shum at 416-218-3360.



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