

INTRODUCING A REVISED SAMPLING METHODOLOGY AND OTHER UPDATES TO THE COVERED BOND GUIDE

1.0 PURPOSE

To advise registered issuers and potential issuers of the updated 2017 Canadian Registered Covered Bond Guide (the “Guide”) including revised cover pool monitor sampling methodology and other changes to the cover pool monitor review requirements

2.0 BACKGROUND

As part of the 2017 updates to the Canadian Registered Covered Bond Programs Guide (“2017 CB Guide”), a revised sampling methodology is introduced along with various updates.

As background, each registered issuer is required to appoint an independent third party cover pool monitor (“CPM”), whose responsibilities include verifying the accuracy of data and records regarding the cover pool and adequacy of coverage tests.

Current sampling methodology requires that a sample be selected from the entire cover pool on an annual basis. Resampling from the cover pool year after year potentially results in obtaining a confidence level higher than the 95% confidence level required and may not capture a representative portion of new loans added to the cover pool since the prior sampling.

3.0 ENHANCEMENTS TO THE COVER POOL MONITOR REVIEW

Under the revised cover pool sampling methodology, a sample is collected from newly added covered pool loans. This sampling methodology improves the relevancy and timeliness of the data reviewed, aligns with industry practice and better supports Issuers’ internal processes.

Other enhancements to the cover pool review include:

- Requirement that the sample size of the 4.2.5 legal opinions may be the same as, a subset of, or a smaller or larger random sample than the sample used to complete the procedures, in accordance with Annex J, Part III.A under the 2017 CB Guide, as long as the defined tolerance level within the specific confidence level is achieved. Historically, the sample used for the legal opinions was required to be same as that used by the asset monitor to perform the specified procedures.
- Simplification of specified procedures.
- A requirement that the CPM recalculates the cover pool’s actual level of overcollateralization, in accordance with the new Regulatory Overcollateralization Minimum.
- Other minor changes to improve clarity of procedures.

Other enhancements in the 2017 CB Guide include:

- Updated Annual Compliance Certificate in Annex K, which has been revised to qualify certain certifications as to materiality. This change was made to align the standard of disclosure provided by the certificate with that of the Guide in general. It is the intent of the Guide that investors be provided with meaningful disclosure that is conducive to informed decision making and that investors not be overwhelmed with information that is of questionable significance. Accordingly, the annual compliance certificate is being revised so that any exceptions identified by issuers in their annual compliance certificates are limited to those which would be material to investors. It should be noted that the change to the annual compliance certificate is intended

solely to specify the applicable standard of disclosure to be applied in completing that certificate. The changes to the compliance certificate are not to be construed or interpreted as a substantive modification to the conditions, obligations, restrictions and requirements specified in the Guide, including without limitation the criteria to be satisfied by all Eligible Loans. The terms of the Guide remain unchanged and unaffected by materiality qualifiers included in the annual compliance certificate.

- A revision to the process whereby Issuers are no longer required to provide annual Power of Attorney (POA) opinions but are still required to provide quarterly certifications pursuant to section 3.6.9 and deliver opinions when POAs are replaced upon expiry or due to change in law pursuant to section 3.6.10.
- Added disclosure requirements to complement revisions to certain procedures in Annex J.

The updated version of the 2017 CB Guide is available on the CMHC website www.cmhc-schl.gc.ca/

4.0 EFFECTIVE DATE

In relation to the Guide's Annex J titled "Cover Pool Monitor's Responsibilities", there will be a 6-month phase-in period where Registered Issuers may use Annex J requirements from the covered bond Guide, dated December 19, 2014 ("2014 CB Guide") or from the 2017 CB Guide.

Registered Issuers using the 2014 CB Guide during the phase-in period must comply with all requirements under Annex J, with the exception of the sample size used pursuant to Section 4.2.5, in which the random sample may be the same as, a subset of, or smaller or larger sample than the sample used to complete the procedures, in accordance with Annex J, Part III.A under the 2017 CB Guide.

Except for the Annex J phase-in arrangements outlined above, and the Overcollateralization disclosure phase-in arrangements outlined under Advice to Issuers No 8, all other requirements under the 2017 CB Guide will be effective upon its publication.

5.0 ENQUIRIES

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



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