



# Canada Mortgage Bonds™ Program (CMB Program)

## USER GUIDE 2018

Canada Housing Trust™ No. 1



# FORWARD



This user Guide (the CMB User Guide or Guide), issued by Canada Housing Trust No. 1 (CHT), contains an overview of requirements under the Canada Mortgage Bonds Program (CMB Program or the Program), as well as certain related key procedures to be followed by CMB Program participants. This Guide has been prepared as a convenient source of reference for CMB Program participants only (not for investors in and buyers of Canada Mortgage Bonds), is current to the date of publication, and does not contain all requirements and procedures related to the CMB Program. In addition, these requirements and procedures may be modified, from time to time, and communicated to CMB Program participants through Advices and notices issued by CHT.

Participants should note that in addition to what is covered in this Guide, the Guarantor to the CMB Program may have additional requirements that must be met by CHT and CMB Program participants in order to obtain and maintain the guarantee provided on Canada Mortgage Bonds (CMB).

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## COMMON ACRONYMS USED

ABS	Asset-Backed Securities
BIS	Bank for International Settlements
CDS	The Canadian Depository for Securities Ltd.
CHT	Canada Housing Trust No. 1
CMB	Canada Mortgage Bonds
CMHC	Canada Mortgage and Housing Corporation
CPAB	Canadian Public Accountability Board
CPA	Central Paying Agent
CPTA	Central Payor and Transfer Agent (NHA MBS Program)
CTA	CMB Transfer Agent
DBRS	Dominion Bond Rating Services Limited
DCI	Delayed Certificate Inventory
FAA	Financial Administration Act
FSA	Financial Services Advisor
Fitch	Fitch Ratings, Inc.
GOC	Government of Canada or securities issued by the Government of Canada
IIROC	Investment Industry Regulatory Organization of Canada
ISDA	International Swaps and Derivatives Association, Inc.
ISMA	International Securities Market Association
MBS	Mortgage-Backed Securities
Moody's	Moody's Investors Service, Inc.
NHA	National Housing Act
NHA MBS Program	CMHC's Mortgage-Backed Securities Program
OSFI	Office of the Superintendent of Financial Institutions Canada
PRRA	Premium Restricted Replacement Assets
RPB	Remaining Principal Balance
S&P	Standard & Poor's Ratings Services, Inc.
TA	Trust Administrator
TBMA	The Bond Market Association (currently the Securities Industry and Financial Markets Association or SIFMA)

## REVISION HISTORY

For this publication, this section lists relevant advices/notices/information sheets that have been issued since the 2013 version of the CMB User Guide to up to the publication of this Guide to enhance and update the Program requirements:

- Changes to Guarantee Fees Payable on Canada Mortgage Bonds, issued December 1, 2014, effective April 1, 2015.
- Changes to the Reporting Requirements Applicable to Approved Repo Counterparties under the Canada Mortgage Bonds (CMB) Program, issued February 23, 2015, effective April 1, 2015.
- Revised Financial Institution Fidelity Bond Requirement Applicable to Canada Mortgage Bonds (CMB) Program Participants, issued July 13, 2015, effective January 1, 2016.
- Amendment to the Financial Institution Fidelity Bond Requirement Applicable to Large Canada Mortgage Bonds (CMB) Program Participants, issued March 15, 2016, effective April 1, 2016.
- Revisions to the CMB Program Swap & Repo Agreements & Introduction of Expanded Repurchase (Repo) Counterparty Eligibility Policy Parameters, issued July 25, 2016, effective August 1, 2016.
- Changes to Guarantee Fees Payable on Canada Mortgage Bonds, issued December 11, 2015, effective July 1, 2016.
- Revision to the CMB Program Policy to Remove the Restriction on Market NHA MBS Sold to CHT, issued August 23, 2016, effective September 1, 2016
- Expanded Eligibility Criteria for Approved Seller Status Under the CMB Program, issued August 31, 2017, effective September 1, 2017
- Introducing Policy Changes under the CMB Program RE: Participants' Auditor and the Net Worth Guideline, issued October 6, 2017, the policy change concerning accounting service providers will take effect on July 1, 2018 and apply to Program participants with fiscal year ends after this date; the policy change concerning the Net Worth guideline will take effect on October 6, 2017

*In addition to the CMB Program related advices, participants should also review the latest NHA MBS Guide and related advices issued by CMHC to keep abreast of changes to that Program that may impact NHA MBS sold to the Canada Housing Trust. This information can be accessed through CMHC's corporate website ([www.cmhc-schl.gc.ca](http://www.cmhc-schl.gc.ca)).*

Additionally, participants must review and be aware of the duties, responsibilities, requirements, representations and warranties, and events of default with respect to each role outlined in the legal agreements they have executed with CHT.

# CHAPTER 1

## INTRODUCTION



The Canada Mortgage Bonds Program (CMB Program or the Program) was created in 2001 by Canada Mortgage and Housing Corporation (CMHC), a Crown corporation, as part of its mandate of facilitating access to more affordable and better quality housing for all Canadians.

CMHC achieves this purpose by enhancing the supply of reliable funding for mortgage lending in Canada and enhancing the competitiveness of the Canadian mortgage market by providing a Timely Payment Guarantee to investors on Obligations issued through a special purpose trust known as the Canada Housing Trust (CHT).

CMHC's authorities with respect to its mandate are articulated in the *Canada Mortgage and Housing Corporation Act* (CMHC Act), the *Financial Administration Act* (FAA), and the *National Housing Act* (NHA).

CMHC was granted the power to provide a Timely Payment Guarantee backed by the Government of Canada through Bill C-37, introduced in the Federal Budget of 1984. This bill introduced amendments to the *National Housing Act*. Pursuant to this, CMHC introduced its NHA Mortgage-Backed Securities Program (NHA MBS Program) in 1987.

Following this, CMHC's mandate was further expanded in 1996 and then in 1999 (Bill C-66) enabling it to revise its insurance and guarantee operations. This led to the introduction of the CMB Program in 2001.

The CMB Program was designed to complement and improve upon CMHC's successful NHA MBS Program. Both these programs offer attractive opportunities for investment. They are also a source of reliable funding for Canadian residential mortgages helping to ensure Canadians have access to reliable mortgage financing.

### **CANADA MORTGAGE BONDS (CMB)**

CMB are CMHC guaranteed coupon paying, bullet-maturity bonds. All CMB issuances are done through Canada Housing Trust No. 1 (CHT), a special purpose trust established in 2001. The bonds are sold globally to investors and the proceeds are used to purchase insured eligible residential loans, packaged into marketable NHA MBS, under CMHC's NHA MBS Program.

CMB investors receive either a fixed or a floating rate coupon bond with interest payments made semi-annually for fixed rate and quarterly for floating rate securities over the term of the issue. On the specified maturity date, investors receive the full amount of their original principal investment. CMB are fully guaranteed as to timely payment of principal and interest by CMHC. CMHC's guarantee of CMB constitutes a direct unconditional obligation of CMHC, as agent of Her Majesty in right of Canada, and as such carries the full faith and credit of Canada, constituting

a direct unconditional obligation of Canada. CMHC, as Guarantor, provides a Timely Payment Guarantee to the bondholders in return for a Guarantee fee paid by the bond issuer, CHT. The guarantee to investors covers both interest as well as principal payment and is irrevocable until full and final payment of the CMB issue.

CMB are currently rated AAA/Aaa/AAA by S&P/Moody's/DBRS and carry 0% capital weighting under the BIS Guidelines. Further, these securities are not presently subject to withholding tax by the Government of Canada.

See [Appendix G](#) for a summary of the CMB Structure and an overview of the CMB Issuance Process.

## CANADA HOUSING TRUST (CHT)

CHT is a special purpose trust established by the Issuer Trustee, CIBC Mellon Trust Company, under the laws of the Province of Ontario, for issuance of CMB. It is a separate legal entity.

The Issuer Trustee established CHT and is responsible, on behalf of CHT, for ensuring that the trust's activities and responsibilities are carried out as outlined in the trust documents.

As the issuer of CMB, CHT, through the Issuer Trustee and/or various third-party arrangements:

- acquires eligible NHA MBS pools from Approved Sellers;
- pledges these NHA MBS to CMHC and pays a fee in order to obtain a guarantee from CMHC for each debt obligation to be issued by CHT;
- issues CMB, which are backed by the CMHC guarantee;
- approves Sellers, Swap Counterparties and Repo Counterparties based on the analysis completed by the Financial Services Advisor (FSA) and in agreement with the Guarantor. For details about the eligibility criteria to become an Approved Seller or an Approved Swap Counterparty or Repo Counterparty, please refer to [Chapter 3](#), [Chapter 4](#) and [Chapter 5](#);
- enters into swap agreements ("Hedges") with Approved Swap Counterparties to transform the NHA MBS cash inflows into bond cash outflows and to invest and hold, in trust or in custody, CHT assets in Permitted Investments;
- enters into agreements to delegate its powers for performance of certain trust related activities and responsibilities to third-party service providers including day-to-day administration of the Trust, payments and cash flow management, document safekeeping and advisory services.;
- keeps proper books of records and meets regulatory filing requirements;
- fulfills other obligations as prescribed in the Bond Indenture Agreement; and
- receives regular reports from third-party service providers and other participants on CHT activities.

## CMHC AS GUARANTOR OF CMB

The Commitment to Guarantee Obligations Agreement between CHT and CMHC, as the Guarantor, sets out the terms and conditions upon which CMHC issues the Timely Payment Guarantee to CMB investors.

Once CMHC (the Guarantor) provides its guarantee on a particular series of CMB, the guarantee becomes irrevocable and an obligation of the Government of Canada.

In order to manage its risk exposure, the Guarantor:

- approves Sellers, Swap Counterparties and Repo Counterparties based on the analysis completed by the FSA and in agreement with CHT. For details about the eligibility criteria to become an Approved Seller or an Approved Swap Counterparty or Repo Counterparty, please refer to [Chapter 3](#), [Chapter 4](#) and [Chapter 5](#);
- establishes the Swap and Repo Counterparty credit criteria for the CMB Program and relies on reports from the Trust Administrator (TA) to ensure compliance and make sure that any required collateral or margin has been posted by Swap or Repo Counterparties;
- approves CMB Program parameters, under which it is willing to provide the Timely Payment Guarantee, including criteria related to eligible NHA MBS, Permitted Investments and exposure thresholds; and
- receives regular reports from the TA and others with respect to swap valuations and credit risk exposures inherent to CHT and the CMB Program.

## ADDITIONAL INFORMATION

Additional details and information on CMHC, the NHA MBS Program and CMB, including CMHC participation in the CMB Program, can be accessed at [www.cmhc-schl.gc.ca](http://www.cmhc-schl.gc.ca).

Professional opinions (such as legal and accounting for true sale) related to CHT and the CMB Program, where available for distribution to CHT and CMB Program participants, can be requested by approved or interested Program participants through the TA. See [Appendix A](#) for contact information.

# CHAPTER 2

## SERVICE PROVIDERS



The following is a summary of the roles and responsibilities for CMB Program service providers appointed by the Issuer Trustee for CHT. A list of key contacts for each service provider is detailed in [Appendix A](#).

### THE TRUST ADMINISTRATOR (TA)

The TA provides the necessary administrative services to effectively manage the required day-to-day operations of CHT. These services include but are not limited to:

- facilitating each new CMB issuance and its closing as well as the corresponding purchase of NHA MBS from Sellers;
- providing appropriate payment instructions and required investment amounts to participants;
- acting as the Valuation and Calculation Agent under the various Program documents;
- determining the amount of eligible collateral required from applicable Swap Counterparties and Repo Counterparties and ensuring collateral is lodged and the Guarantor is informed;
- monitoring appropriateness, accuracy, and timeliness of investments held on behalf of CHT;
- providing regular valuation reports and other reports to various stakeholders;
- providing a quarterly officer's certificate certifying the Administrator has performed the duties (etc.), required under the Administration Agreement;
- monitoring Swap Counterparty and Repo Counterparty credit rating changes, and taking action accordingly; and
- keeping detailed books of records and managing regulatory filings.

### THE CENTRAL PAYING AGENT (CPA)

The CPA ensures the timely payment of CHT obligations upon instructions by the TA. The CPA responsibilities include but are not limited to:

- receiving monthly payments on NHA MBS and other eligible investments purchased by CHT and reporting related data to the TA and the Guarantor;
- meeting CHT obligations, including CMB obligations, per instruction from the TA;
- transferring cash flows to and from Swap Counterparties under the Hedge Agreements, through their respective Reinvestment Custodians;
- reporting and providing interim funding, as described within the related agreement, to cover any temporary cash flow shortfall(s);

- delivering tax reports (reports to investors are required under the *Income Tax Act*), including preparing replacements for lost reports;
- responding to Investor queries;
- setting up wire transfers and providing confirmation numbers to the TA prior to payment dates;
- receiving instructions to issue/cancel bonds and any other instructions from the Bond Indenture Trustee to facilitate new issues or maturities and payment to investors;
- providing a quarterly officer's certificate certifying the CPA has performed the duties (etc.), required under the CPA Agreement;
- providing monthly transaction reports to the TA and Trustee reflecting all account activity and cash flows; and
- providing an annual list of securities owned by CHT to CHT auditors confirming securities outstanding at year-end.

## THE CUSTODIAN

The Custodian carries out certain responsibilities on behalf of CHT, including but not limited to:

- maintaining custody of all required Program documentation;
- providing certification that all documents, evidencing direct or indirect interests in housing loans purchased by CHT, meet the requirements set out in the Commitment Agreement;
- ensuring that all data relating to NHA MBS and other assets is kept current and in electronic form;
- ensuring that each Seller, Swap or Repo Counterparty has provided all the necessary CHT and CMB documentation;
- providing a quarterly officer's certificate certifying that the Custodian has performed the duties (etc.), required under the Custodial Agreement; and
- maintaining secure custody of all NHA MBS certificates/Delayed Certificate Inventory (DCI) receipts as collateral for CMB.

## THE BOND INDENTURE TRUSTEE

The Canadian and American Bond Indenture Trustees act in favour and on behalf of the CMB bondholders, while carrying out duties that include but are not limited to:

- endorsing and authenticating CMB, including executing an authentication certificate, if required, as guaranteed CMB for each issued series;
- delivering authenticated CMB as per the TA's direction;

- creating and retaining a bond register for the registration of ownership, transfers and exchanges of CMB;
- creating and issuing replacement bond certificates as appropriate;
- canceling CMB surrendered to CHT for the purpose of payment, transfer, exchange or substitution by holders or as directed under the CMB Repurchase Protocol;
- enforcing bondholder rights;
- providing direction to the CPA regarding the issuance and redemption of CMB securities; and
- providing direction to the CPA regarding the periodic interest payments.

## THE FINANCIAL SERVICES ADVISOR (FSA)

The FSA provides financial advisory services to CHT, including but not limited to:

- receiving applications for the approval of Sellers, Swap Counterparties and Repo Counterparties and providing an analysis and recommendation on approval or rejection of each applicant to CHT and the Guarantor;
- promoting the CMB Program to the NHA MBS seller community, lenders, investors and the general public;
- developing and delivering investor presentations;
- gauging market demand for new CMB issuances;
- recommending the specifics of the bond issue;
- assessing the potential supply of housing loans from Approved Sellers for packaging into eligible NHA MBS pools for sale to CHT;
- reviewing and granting approval of Offers to Sell as presented;
- allocating the amount of eligible NHA MBS packages to be purchased from Approved Sellers;
- engaging, on behalf of CHT, an underwriting syndicate to underwrite a CMB bond issue;
- determining the pricing of a CMB bond issue in conjunction with the underwriting syndicate;
- monitoring secondary market activity in the CMB bond issues;
- providing a quarterly officer's certificate certifying that the FSA has performed the duties (etc.), required under the FSA Agreement; and
- assisting the TA in the coordination of activities in order to effect a bond closing, including preparing non-standard bond documentation.

# CHAPTER 3

## SELLER APPROVAL AND REQUIREMENTS



### APPROVED SELLER

An Approved Seller is an institution, acceptable to both CHT and the Guarantor, authorized to sell eligible NHA MBS pools and/or Permitted Investments to CHT. Each Seller must retain a Swap Counterparty, who will enter into a Hedge Agreement with CHT.

To become an Approved Seller, interested parties meeting the basic eligibility criteria listed below, must submit an application to the Financial Services Advisor (FSA) in accordance with the Program requirements. The FSA will recommend to CHT and the Guarantor the approval or rejection of applications based on its analysis and the eligibility criteria established for participants. CHT and the Guarantor will then approve or reject the applicant.

Applicants should note that CHT and the Guarantor may, at their sole discretion, change the eligibility criteria described herein or refuse for any reason any request to participate as a Seller under the CMB Program.

The documentation requirements for applicants are outlined in [Appendix B](#).

### BASIC ELIGIBILITY CRITERIA

All applicants for the role are prescreened for eligibility, based on the criteria below, prior to being provided any related CMB Program documentation.

Both regulated and non-regulated entities, as described below, may apply for qualification for the Approved Seller role within the CMB Program.

#### Regulated Entities

Under the “regulated entities” category, the applicant must be federally or provincially regulated within Canada and it may be:

- a bank;
- a trust company;
- an Insurance company;
- a Loan company;
- a credit union, credit union central, or other cooperative society;
- an Investment dealer; or
- a Provincial agency or Crown corporation.

All Sellers must have the necessary authority, experience, management capability, and facilities to assure CHT and the Guarantor of its ability to originate, sell and administer mortgages contained in NHA MBS pools.

The minimum required adjusted net worth of a Seller, for eligibility and continued participation in the CMB issuance, is the sum of:

- \$3 million, plus
- 2% of the aggregate principal amount of NHA MBS outstanding, approved or applied for but not yet issued.

Please note that in situations where two or more related parties who are parent and a subsidiary or an investor and an associate, respectively, are concurrently Program participants, an amount equal to the subsidiary's adjusted net worth or the investment amount in the associate recorded on the investor's balance sheet will be deducted from the parent or investor's adjusted net worth calculation to avoid double counting.

Full details of net worth calculations can be obtained from the FSA (please see [Appendix A](#) for contact information).

### **Newly Formed or Dormant Entities**

Prospective applicants that meet the above definition of regulated entities but have not carried on business throughout each of the three (3) most recently completed calendar years (such entities will be deemed newly formed or dormant) can also apply for Seller status if they meet the following additional criteria.

The basic eligibility criteria set forth above shall apply to newly formed or dormant entities that are regulated entities except that such newly formed or dormant entities must:

- instead of maintaining the minimum required adjusted net worth, either
  - maintain an enhanced adjusted net worth calculated as the sum of:
    - \$6 million, plus
    - 4% of the aggregate of the principal amount of NHA MBS outstanding, approved or applied for but not yet issued; or
  - maintain the minimum required adjusted net worth calculation set forth in the basic eligibility criteria above and, in addition provide an unconditional guarantee of all the Seller's obligations from a qualified credit support provider that has the financial strength to satisfy the minimum required adjusted net worth for a period of at least three (3) years; and
- ensure that all mortgages securitized and sold to CHT are registered with and certified by an OSFI-regulated Title Custodian approved by CMHC.

These revised criteria will apply at approval and over the following three (3) year period at the end of which CMHC will assess whether the entity may follow standard Program requirements.

Full details of the enhanced adjusted net worth calculations can be obtained from the FSA (please see [Appendix A](#) for contact information).

### **Non-Regulated Entities**

Prospective applicants that do not meet the above definition of regulated entities but meet all other requirements outlined above, as applicable, can also apply for Seller status if the 'non-regulated' applicant meets all the requirements listed for Non-Regulated Issuers under the NHA MBS Program.

Non-regulated entities that meet the eligibility criteria follow the same application process described for regulated applicants. See [Appendix B](#) for details.

## **APPLICATION REQUIREMENTS**

The application package containing the documentation outlined in [Appendix B](#) can be sent to the FSA at the CMHC Securitization Centre (please refer to [Appendix A](#) for contact information). Applicants should note that CHT and the Guarantor reserve the right to ask for additional supporting information as part of the applicant review, if required.

Documentation provided by applicants on previous applications, either to become an Approved Issuer (NHA MBS Program) or an Approved Swap Counterparty (CMB Program), will be considered for their application as an Approved Seller. In the event of rejection, an explanation will be given (if requirements or conditions change, the rejected applicant may submit a new application 60 days subsequent to the notification).

Once approved, the Seller must fulfill the ongoing documentation requirements established by CHT and the Guarantor. For details, refer to [Appendix B](#).

# CHAPTER 4

## SWAP COUNTERPARTY APPROVAL AND REQUIREMENTS



### APPROVED SWAP COUNTERPARTY

A Swap Counterparty, who may or may not also be an Approved Seller, is responsible for providing the qualifying Hedges required to manage the reinvestment risk associated with the monthly principal and/or interest payments. To become an approved Swap Counterparty, interested parties meeting the basic eligibility criteria listed below, must submit an application to the FSA in accordance with the Program requirements. The FSA will recommend to the Guarantor and CHT the approval or rejection of applications based on its analysis and the eligibility criteria established for participants. CHT and the Guarantor will then approve or reject the applicant.

Applicants should note that CHT and the Guarantor may, at their sole discretion, change the eligibility criteria described herein or refuse for any reason any request to participate as a Swap Counterparty under the CMB Program.

### BASIC ELIGIBILITY CRITERIA

All applicants for the role are prescreened for eligibility, based on the criteria below, prior to being provided any related CMB Program documentation. To be eligible to apply for the role of a Swap Counterparty, the applicant must:

- have the necessary authority, experience, management capability, and facilities to assure CHT and the Guarantor of its ability to enter into swap agreements; and
- meet minimum acceptable credit ratings from at least two of the following four rating agencies: DBRS, Fitch Ratings, Moody's Investors Services and Standard & Poor's (S&P). To qualify for participation in the CMB Program the minimum rating requirements are as follows:

Term	Rating Agency Minimum Rating Requirement			
	DBRS	Fitch	Moody's	S&P
Long-term* unsecured, unguaranteed and unenhanced rating	A (low)	A-	A3	A-

\* Long-term' has the meaning set out in the Hedge Documents.

In addition, the minimum credit rating required for a Swap Counterparty to continue to participate in the Program is the equivalent of S&P's rating of BBB+ on long-term unsecured, unguaranteed and unenhanced long term obligations, from at least two rating agencies. If downgraded to this level, the Swap Counterparty's activities will be restricted to managing existing transactions only (i.e. no new transactions can be entered into with the downgraded party). If downgraded below this level, the Swap Counterparty's Hedges in the Program must be assigned to another Swap Counterparty.

## APPLICATION REQUIREMENTS

The application package containing the documentation outlined in [Appendix B](#) can be sent to the FSA at the CMHC Securitization Centre (please see [Appendix A](#) for contact information). Applicants should note that CHT and the Guarantor reserve the right to ask for additional supporting information as part of the applicant review, if required.

Documentation provided by applicants on previous applications, to become either an Approved Issuer (NHA MBS Program) or an Approved Seller (CMB Program) will be considered for their application as an Approved Swap Counterparty. In the event of rejection, an explanation will be given (if requirements or conditions change, the applicant may submit a new application 60 days subsequent to the notification).

Once approved, the Swap Counterparty must fulfil the ongoing documentation requirements established by CHT and the Guarantor. For details, refer to [Appendix B](#).

# CHAPTER 5

## REPO COUNTERPARTY APPROVAL AND REQUIREMENTS



### APPROVED REPO COUNTERPARTY

An Approved Repo Counterparty, who may or may not also be an Approved Seller or Swap Counterparty, may enter into eligible Repurchase Agreements with CHT for reinvestment of monthly principal and/or interest payments received by CHT. To become an approved Repo Counterparty, interested parties must meet the basic eligibility criteria listed below and must submit an application to the FSA in accordance with the Program guidelines. The FSA will recommend to the Guarantor and CHT the approval or rejection of applications based on its analysis and the eligibility criteria established for participants. CHT and the Guarantor will then approve or reject the applicant.

Applicants should note that CHT and the Guarantor may, at their sole discretion, change the eligibility criteria described herein or refuse for any reason any request to participate as a Repo Counterparty under the CMB Program.

### BASIC ELIGIBILITY CRITERIA

All applicants for the role of Repo Counterparty are prescreened for eligibility, based on one of the following two sets of criteria below, prior to being provided any Program documentation.

- 1) Repo Counterparty Eligibility Criteria: To be eligible to apply for the role of a Repo Counterparty, the applicant must
  - have the necessary authority, experience, management capability, and facilities to assure CHT of its ability to enter into Repurchase Agreements and manage repo transaction processes;
  - be a regulated entity; and
  - meet minimum acceptable credit ratings from at least two of the following four rating agencies: DBRS, Fitch Ratings, Moody's Investors Services and Standard & Poor's (S&P). To qualify for participation in the CMB Program the minimum rating requirements are as follows:

Term	Rating Agency Minimum Rating Requirement			
	DBRS	Fitch	Moody's	S&P
Long-term* unsecured, unguaranteed and unenhanced rating	A (low)	A-	A3	A-

\* Long-term' has the meaning set out in the Hedge Documents.

If a Repo Counterparty's credit ratings are or should fall below the minimum required ratings, then the criteria applicable to a "Small Repo Counterparty" shall apply, as described below.

An applicant for the role of a Repo Counterparty that is neither a regulated entity, nor satisfies the minimum rating requirements set forth in the Repo Counterparty Eligibility Criteria or is non-rated (collectively "Small Repo Counterparties") may be admitted to, or continue participating in, the Program, provided that it has the necessary authority, experience, management capability and facilities to assure CHT of its ability to enter into Repurchase Agreements and manage repo transaction processes.

- 2) Small Repo Counterparty eligibility criteria: A Repo Counterparty that is a Small Repo Counterparty will be subject to the following additional criteria and policies
- a Small Repo Counterparty is only allowed to repo with CHT Market NHA MBS for which guarantee fees have been paid or Government of Canada (GoC) securities;
  - a Small Repo Counterparty can only repo for its own CMB participation as a Seller;
  - the maximum amount of NHA MBS repo transactions in relation to all CMB series maturing within the following one month period is \$300 million for each Small Repo Counterparty;
  - a Small Repo Counterparty's repo exposure limit should be equal to the lesser of 15% of its total outstanding CMB participation as a Seller or 100% of its Adjusted Net Worth;
  - the repo haircut requirement applicable to Small Repo Counterparties are outlined in [Chapter 10](#) under the section related to Repo Valuation;
  - a Small Repo Counterparty is subject to additional reporting requirements at the time of application to become a Repo Counterparty and on an ongoing basis to maintain its counterparty status. Please see [Appendix B](#) or contact CMHC for additional details;
  - a Small Repo Counterparty is also subject to additional repo exposure limits during the first six months of its repo transactions with CHT (the Phase-in Period) as follows:
    - (i) during the first three (3) months of the Phase-in Period, a Small Repo Counterparty is not permitted to conduct repo transactions for the CMB series maturing within the following one-month period,
    - (ii) the access to an Approved Small Repo Counterparty's full repo limit will be gradually phased in as follows:
      - during the first three (3) months of the Phase-in period, a Small Repo Counterparty can only conduct repo transactions with a total outstanding principal amount not exceeding \$30 million;
      - after the first three months of repo transactions during the Phase-in Period, the Small Repo Counterparty can request to increase its repo access to 50% of its full repo limit;
      - after the Phase-in Period, the Small Repo Counterparty can request to get access to the full repo limit.

## APPLICATION REQUIREMENTS

The application package, containing the documentation outlined in [Appendix B](#), can be sent to the FSA at the CMHC Securitization Centre (please see [Appendix A](#) for contact information). Applicants should note that CHT and the Guarantor reserve the right to ask for additional supporting information as part of applicant review, if required.

Documentation provided by applicants on previous applications, to become either an Approved Issuer (NHA MBS Program) or an Approved Seller or an Approved Swap Counterparty (CMB Program), will be considered for their application as an Approved Repo Counterparty. In the event of rejection, an explanation will be given (if requirements or conditions change, the rejected applicant may submit a new application 60 days subsequent to the notification).

Once approved, the Repo Counterparty must fulfil the ongoing documentation requirements established by CHT and the Guarantor. For details, refer to [Appendix B](#).

# CHAPTER 6

## NHA MBS ELIGIBLE FOR SALE TO CHT AS ORIGINAL ASSETS



### ELIGIBILITY CRITERIA

Approved Sellers should note that all NHA MBS eligible for sale to CHT are issued and governed pursuant to CMHC's NHA MBS Program. All information regarding the NHA MBS Program is available on the CMHC website ([www.cmhc-schl.gc.ca](http://www.cmhc-schl.gc.ca)).

The following summarizes the eligibility criteria for NHA MBS sold to CHT as original assets (i.e. at the time of CMB issuance):

- The NHA MBS sold to CHT must consist of single-family, multi-family or social housing mortgage loan pools.
- The housing loans underlying NHA MBS sold to CHT must be fully insured by CMHC or by an Approved Private Mortgage Insurer for the full term of the NHA MBS.
- All housing loans underlying NHA MBS sold to CHT must mature on or prior to the bond maturity date and must conform to the criteria outlined under the NHA MBS Program.
- NHA MBS coupon must comply with NHA MBS Program's pooling requirements. Sellers are encouraged to review NHA MBS yields vis-à-vis the proposed CMB bond yield for appropriateness.
- All NHA MBS pools sold to CHT are subject to NHA MBS guarantee fees. A separate CMB guarantee fee is also payable for NHA MBS pools sold to CHT at the time of each CMB issuance. The Seller of NHA MBS intended for sale to CHT must be the Issuer of such NHA MBS, unless the Seller of such NHA MBS is an eligible Aggregator<sup>1</sup>.

In addition to the above eligibility criteria, depending upon the terms of the CMB being issued, the following conditions apply to the original assets sold to CHT at the time of CMB issuance:

- Floating-rate CMB proceeds may only be used to purchase floating-rate NHA MBS pools.
- Five-year, fixed-rate CMB proceeds may only be used to purchase fixed- or floating-rate NHA MBS pools.
- Ten-year, fixed-rate CMB proceeds may only be used to purchase fixed-rate NHA MBS pools. NHA MBS sold to CHT as original assets are subject to pricing restrictions as outlined in Pricing of Original NHA MBS in [Chapter 8](#).

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<sup>1</sup> Aggregators are Sellers whose ordinary course of business does not include operating as mortgage Originators<sup>2</sup>. Aggregators purchase mortgages or Market NHA MBS from one or several third-party Originators/third-party Approved Issuers for the purpose of selling the mortgages/Market MBS pools into the CMB Program to provide third-party Originators/third-party Approved Issuers with access to CMB funding.

<sup>2</sup> Originators are lenders that carry on the business of underwriting mortgage loans and lending money to borrowers on the security of residential property and hold themselves out to the public as doing so. An Originator must also have an Approved Lender status with either CMHC or an Approved Private Mortgage Insurer.

## CMB GUARANTEE FEES

CMB Guarantee fees are applied based on the term of the issue and the CMB principal allocated to each Seller.

For further information regarding NHA MBS Program fees, please see [Chapter 4](#) of NHA MBS Guide. The applicable CMB Guarantee fee that will be applied depends on the term of the security being issued, as outlined below:

<b>Guarantee Fee Table</b>	
<b>Term of Bond</b>	<b>Fee Payable (Per cent)</b>
Less than 2 years 6 months	0.15
2 years 7 months to 3 years 6 months	0.21
3 years 7 months to 4 years 6 months	0.26
4 years 7 months to 5 years 6 month	0.30
9 years 7 months to 10 years 6 months	0.60

Fees are paid by CHT to the Guarantor (CMHC) on bond closing and are netted out of the sale proceeds to the Sellers based on their allocated principal amount for the Bond package issued.

## CLOSING AGENDA

A closing agenda is provided to CMB participants twice during the bond issuance process to efficiently manage the NHA MBS pooling and CMB issuance process and to ensure timely closing of the bond(s). The closing agenda contains an NHA MBS closing agenda section, provided below, as well as a CMB closing agenda section (for details on the CMB closing agenda, refer to [Chapter 8](#) and [Chapter 9](#)).

The closing agenda indicates the dates and times by which documents must be delivered. It is circulated prior to each bond issuance month for documents required on or before the Qualification Date, and subsequently after the final pricing has been completed and the bond settlement date finalized. The number of executed copies of documents to be provided on each deadline is also given. All delivered documents and payments provided by the participants are held in escrow until bond closing.

Participants should note that delivery timelines for the documents listed in the closing agenda(s) are subject to change and will be communicated to participants through the closing agenda or otherwise.

Over time, required documentation may be revised. CHT, through the TA/FSA/legal counsel to CHT, will inform the participants of such changes in a timely manner.

The following sample NHA MBS closing agenda section indicates the documentation that is required to be submitted at various stages of the issuance process and includes a tentative timeline.

## NHA MBS Closing Agenda

### A. Documents delivered and/or activities taking place prior to Closing

Documents	Responsibility	Delivered to	Delivery Date
Application to Issue NHA MBS (CMHC 2812)	Issuer	CMHC	1 <sup>st</sup> of the Issue Month
Final day to transmit mortgages	Issuer	MBS Custodian	Beginning of Issue Month
Draft Schedule of Pooled Mortgages (CMHC 2824)	Issuer	CMHC, MBS Custodian	Beginning of Issue Month
Mortgage Pool Servicing Agreement (CMHC 2814)	Issuer	CMHC, CPTA, MBS Custodian	Beginning of Issue Month
Custodial Agreement (CMHC 2820)	Issuer	MBS Custodian	Beginning of Issue Month
Final day to submit transmission file (corrections, deletions, updates, etc.)	Issuer	MBS Custodian	2 days prior to Qualification Date
Draft Addendum to the Information Circular (CMHC 2834)	Issuer	CMHC	1 day prior to Qualification Date before noon
Application Fee	Issuer	CMHC	1 day prior to Qualification Date before noon
Final Schedule of Pooled Mortgages (CMHC 2824)	Issuer	CMHC, MBS Custodian	1 day prior to Qualification Date before noon
Title Custodian Certification (CMHC 2825)	Issuer	CMHC, MBS Custodian	1 day prior to Qualification Date before noon
Initial Certification (pools finalized)	MBS Custodian	CMHC, Issuer	1 day prior Qualification Date Before noon
Remittance of the NHA MBS Guarantee Fees	Issuer	CMHC	4 days prior to CMB Closing
Final Information Circular (CMHC 2834)	Issuer	CMHC, CPTA	3 days Prior to CMB Closing
Schedule of Subscribers (CMHC 2830)	Issuer	CMHC, CPTA	3 days Prior to CMB Closing
MBS Certificates for Seasoned Pools must be delivered to CPTA	Issuer	CPTA	2 days prior to CMB Closing
Finalize Title Certification requirements for initial certification (non-regulated)	Issuer	MBS Custodian	2 days prior to CMB Closing

### B. Documents to be delivered and/or activities taking place at closing

<b>Documents</b>	<b>Responsibility</b>	<b>Delivered to</b>
Executed Schedule of Subscribers	CMHC	CPTA
DCI Receipts representing securities issued to CHT	CPTA	CHT Custodian
Wire transfer to Issuer	Trust Administrator	Issuer / Seller

### C. Documents to be delivered and/or activities taking place post closing

<b>Documents</b>	<b>Responsibility</b>	<b>Delivered to</b>
Delivery of Final Certification	MBS Custodian	Issuer and CMHC
Certification and Agreement (CMHC 2816)	Issuer	MBS Custodian and CMHC
Assignment of mortgages (Quebec)	Issuer	MBS Custodian

NOTE: Participants must provide the documents as per the timelines indicated in the relevant agenda section for the CMB to close on time. For the CMB closing agenda, refer to [Chapter 8](#) and [Chapter 9](#).

# CHAPTER 7

## ELIGIBLE REINVESTMENT OPTIONS



### OVERVIEW

Swap Counterparties are required to invest all NHA MBS principal flows into eligible Trust Permitted Investments on behalf of CHT. This is done to manage reinvestment risks and to match cash flow differences between the monthly pay NHA MBS and the periodic pay CMB.

All Trust Permitted Investments sold to CHT must mature and settle no later than the maturity date of the related CMB. All investments must be held to maturity. Swap Counterparties with a credit rating below AA- must also maintain an Interest Retention Account, a custodial account for CHT, where investment maturities must occur no later than the next CMB coupon payment date.

For eligible CMB series, Swap Counterparties may, as an alternative to reinvestment of principal in Trust Permitted Investments, choose to request cancellation of that CMB series up to the amount of reinvestment principal available. Such cancellation can only occur if all applicable criteria are satisfied and only with prior approval from the Trust.

The process and approvals that relate to eligible reinvestment options are outlined in [Chapter 10](#).

### ELIGIBLE REINVESTMENT ASSETS

#### Replacement and Market NHA MBS

All NHA MBS pools eligible for sale to CHT as original assets (at time of CMB issuance) are also eligible to be sold to CHT in connection with the re-investment of the monthly scheduled principal, partial prepayments, liquidations and maturities of the original NHA MBS, unless otherwise specified by the Trust (please refer to the NHA MBS Guide for detailed pool type information). The Guarantee fees on such NHA MBS are levied depending on the date of CMB issuance for which they are sold. Note that NHA MBS used for reinvestment purposes are termed Replacement NHA MBS if they are sold to CHT in relation to CMB issued before July 1, 2016, or Market NHA MBS if they are sold to CHT in relation to CMB issued after that date.

#### CMB issued before July 1, 2016

Replacement NHA MBS will not have any additional Guarantee fees applied provided:

- (i) the Replacement NHA MBS are purchased by CHT in relation to CMB issued before July 1, 2016;
- (ii) the outstanding amount of such Replacement NHA MBS held by the Issuer/Seller cannot exceed 15% of the aggregate amount of original NHA MBS sold to CHT, for all outstanding CMB issued before July 1, 2016; and
- (iii) the Replacement NHA MBS is held by the Issuer/Seller and is not used for any purpose other than the CMB Program.

Should the amount of Replacement NHA MBS held on balance sheet by an Issuer/Seller exceed the 15% limit, under (ii) above, for more than three (3) consecutive months, applicable NHA MBS Guarantee fees will be charged on the amount of Replacement NHA MBS which exceeds the 15% limit.

In the event of default by the NHA MBS Issuer, unless immediately sold to CHT, the unsold Replacement NHA MBS will be considered as sold to a third-party and CMHC will recover the applicable NHA MBS Guarantee fee from the excess spread (see the NHA MBS Guide for details).

### **CMB issued after July 1, 2016**

All NHA MBS sold to CHT as original or reinvestment assets in relation to CMB issued after July 1, 2016 (Market NHA MBS), will be subject to the applicable NHA MBS Guarantee fee. This NHA MBS Guarantee fee must be paid to CMHC prior to the NHA MBS being sold to CHT.

Issuers/Sellers have the option of re-designating Replacement NHA MBS as Market NHA MBS, subject to the payment of applicable NHA MBS fees and guarantee capacity.

Any NHA MBS acquired during the one-month period preceding the swap Termination Date should be held in certificated form unless registered as Delayed Certificate Inventory (DCI).

Please note that the NHA MBS application fee of 0.02% will continue to apply to all Replacement NHA MBS created by Issuers.

All Replacement NHA MBS, pending sale to CHT, must be held in Delayed Certificate Inventory (DCI) form with the Custodial Agent unless it comes from an existing inventory of certificated pools. See [Appendix C](#) for details.

NHA MBS sold as replacement assets are subject to the pricing restrictions detailed in [Chapter 10](#) (see sections entitled [Premium Restricted Replacement Assets \(PRRA\)](#) and [Pricing of Replacement NHA MBS](#)).

### **Government of Canada Securities (GOC)**

Swap Counterparties are allowed to invest the monthly cash flows received from CHT assets into Government of Canada securities. For clarity, these do not include obligations guaranteed but not issued by the Government of Canada or obligations issued by Crown corporations or agencies of the Government of Canada. All investments must mature on or prior to the maturity of the respective issue. All investments must be held to maturity.

Further, CHT cannot hold more than 20% of its total investments, under the CMB Program, in non-housing related assets at any time. The limit will be monitored at both the participant level (Seller, Swap Counterparty or Repo Counterparty) and the Program level and administered based on Program-wide availability at the time.

## Repurchase Agreements (Repos)

Repurchase Agreements (repos) are allowed as Trust Permitted Investments under the CMB Program provided they meet the specified criteria for such assets. The maximum allowable term of a repo will be one (1) month. The transactions must mature on a business day.

The requirement for investments to mature on or prior to the respective CMB issue will apply to the term of the repo transaction and not to the underlying collateral.

The securities eligible for use as collateral under the repo are limited to GOC and NHA MBS. The applicable eligibility requirements for these securities are detailed in the respective sections below.

The use of both NHA MBS and GOC securities as collateral for the same repo transaction is not permitted (that is NHA MBS repo must use NHA MBS as collateral and GOC repo must use only GOC as collateral). Further, once posted, substitution of repo collateral is not permitted.

## GOC Securities as Repo Collateral

*Eligible GOC:* Only obligations issued by the Government of Canada with a maximum term of ten (10) years are permitted as collateral for repo in GOC. Obligations guaranteed but not issued by the Government of Canada or obligations issued by Crown corporations and agencies of the Government of Canada are not eligible.

*Term:* Repo of GOC can have a maximum term of one (1) month subject to the modified following business day convention if the end of the one-month term falls on a non-business day.

*GOC Coupon:* Any coupon payments on the underlying GOC occurring during the term of the repo will flow back to the Approved Repo Counterparty.

*Margin Maintenance:* Daily ongoing margin maintenance will be required for repo of GOC. Additional GOC securities will be required on a net exposure (mark-to-market) basis and according to minimum exposure thresholds outlined in the Repo Agreements (see [Chapter 10](#) for details).

Further, repo transactions using GOC as collateral must also adhere to the maximum exposure allowed for non-housing loan securities within the CMB Program (that is GOC and GOC repos are part of the 20% limit on non-housing loan exposure allowed for the Program).

## NHA MBS as Repo Collateral

*All NHA MBS used as repo collateral for reinvestment purposes on CMB transactions issued after July 1, 2016 must have the NHA MBS Guarantee fee paid prior to entering into the repo transaction.*

*Eligible NHA MBS:* Eligible fixed-rate NHA MBS (pool types 867, 964, 965, 966, 967, 970, 975 and 990) with a maximum remaining term to maturity of ten years and floating-rate NHA MBS (pool types 880, 885, 980, 985 and pool type 987 where the rates applicable to the underlying mortgage loans reset monthly in accordance with the mortgage index rate) with a maximum term to maturity of seven (7) years may be used as collateral securities for repo of NHA MBS.

**Term and timing:** Repo of NHA MBS can have a maximum term of one (1) month. An exception, however, applies to NHA MBS repo maturity when, as a result of NHA MBS payment date convention, the one-month term may be longer by a few days to match the payment date of the NHA MBS.

As well, the NHA MBS principal and coupon payment date may not fall within the term of the repo. This ensures that no payments of coupon and principal on the underlying NHA MBS occur during the term of the repo.

**Margin maintenance:** An upfront haircut will be applied to the price of the NHA MBS to provide upfront margin against potential price movement during the term of the repo. The amount of haircut to be applied will be based upon two factors: a) whether the NHA MBS bears a fixed or variable coupon and b) the remaining term of the NHA MBS.

The transactions will then be valued by the Trust Administrator on a semi-monthly basis. Additional MBS will be required to be posted on a net exposure basis according to the terms outlined in the Repo Agreements.

Further details on margin maintenance and haircut levels for the eligible pools can be found in [Chapter 10](#).

For CMB transactions issued prior to July 1, 2016, NHA MBS to be used for repo collateral can be created and held in advance, under the 15% Replacement NHA MBS basket allowed to be created for reinvestment purposes, without payment of additional NHA MBS Guarantee fee for as long as it follows the rules related to such assets. At the end of the repo term, the NHA MBS can revert back to the basket and can be held there for further use within the Program. If the pool is used for any purpose other than for sale to CHT for CMB issued prior to July 1, 2016 under the CMB Program, the appropriate NHA MBS Guarantee fee will be charged. NHA MBS Guarantee fees will also apply when the replacement basket exceeds the 15% limit parameters as a result of repo MBS reverting back to it at the end of a repo transaction. See the 'Replacement NHA MBS' section in this Chapter for details on replacement limit management and applicable fees.

Further, NHA MBS repos are subject to price restrictions. For details see [Premium Restricted Replacement Assets \(PRRA\)](#) in [Chapter 10](#).

NHA MBS held in the replacement basket must be held in DCI form with the Custodial Agent unless it comes from an existing inventory of certificated pools (see [Appendix C](#) for details).

## Repo Counterparty Exposure Limits

The maximum repo exposure limit granted to an Approved Repo Counterparty, other than a Small Repo Counterparty, is based on its Tier 1 Capital. This limit is applied at the Program level and is summarized below:

Rating/Status of Repo Counterparty	Maximum Limit
AA Credit Rating	50%
A Credit Rating	35%
A- Credit Rating	20%

\* The above ratings are defined in Annex I of the Global Master Repurchase Agreement (GMRA), and are reproduced in Appendix J of this CMB Guide. In the event of discrepancies, Annex I of the GMRA shall prevail.

\*\* Tier 1 Capital means Tier 1 core capital (net of required deductions) determined as if Repo Counterparty were a financial institution subject to the guidelines relating to capital adequacy requirements published by OSFI from time to time. For greater certainty, this determination will be made for each Repo Counterparty irrespective of whether it is, or is not, a financial institution subject to OSFI guidelines.

The maximum repo exposure limit granted to an Approved Small Repo Counterparty is based on either the Small Repo Counterparty's principal amount of CMB outstanding or its Adjusted Net Worth. This limit is applied at the Program level and is equal to the lesser of:

- 15% of total principal amount of outstanding CMB attributable to Seller, and
- 100% of Adjusted Net Worth.

**Note:** For Repo Counterparties, other than Small Repo Counterparties, the total amount of repo transactions utilizing non-GOC securities is limited to an aggregate maximum of \$1.0 billion per repo Counterparty for reinvestment in relation to all CMB series maturing within the following one-month period. For Small Repo Counterparties the maximum amount of NHA MBS repo transactions in relation to all CMB series maturing within the following one month period is \$300 million. For greater clarity, this restriction will not apply in relation to reinvestment activities where the CMB series have a remaining term to maturity of greater than one (1) month.

## Asset-Backed Securities (ABS)

Asset-Backed Securities are allowed to be used for reinvestment purposes in the CMB Program provided these securities meet the Program criteria.

To have a particular conduit added to the Permitted Investment list, a Swap Counterparty must submit the most recent prospectus, the Rating Agency report(s), the constating and governing legal agreements, the Asset Composition Report and any other relevant information to the Financial Services Advisor (FSA) and Trust Administrator (TA) for approval.

Once a conduit has been approved, it must submit detailed monthly reports to the Guarantor and TA within 35 business days of each month-end to remain on the eligible list.

Each eligible conduit must be backed by Canadian residential mortgages only, have no sub-prime assets and have Global Style Liquidity support arrangements in place.

At the time of sale to CHT, the securities must not have a term to maturity of more than one (1) year and the maturity date must not be extendible. The securities must be non-redeemable and non-retractable and must have a fixed rate of interest (or equivalent by way of issuance at a discount to face amount). Also, the terms and conditions of these securities should not be amendable at the discretion of the Issuer in any material way after issuance.

Both the conduit and its issuer must have a minimum of two (2) short-term credit ratings at the level R-1(high) (DBRS), F1+ (Fitch), P-1 (Moody's) or A-1+ (S&P). One short-term credit rating would be acceptable for securities backed by 100% insured mortgages (CMHC or an Approved Private Mortgage Insurer).

Eligible Asset-Backed Securities are subject to pricing restrictions. For details, see **Premium Restricted Replacement Assets (PRRA)** in [Chapter 10](#).

Lastly, at no time is CHT allowed to hold more than 10% of eligible Asset-Backed Securities issued by any one conduit. This limit is applied at the Program level and is managed on a first-come-first-serve basis.

## **Cash**

Cash is not to exceed \$10,000 per Swap Counterparty across all outstanding CMB issues.

## **ALTERNATIVE TO REINVESTMENT OF PRINCIPAL FUNDS INTO ELIGIBLE ASSETS**

### **CMB Repurchase for Cancellation**

Under this alternative, Swap Counterparties are allowed to utilize the principal available for reinvestment for a particular CMB series to repurchase for cancellation the same CMB, provided the series satisfies the criteria outlined for such repurchases under the Repurchase Protocol and any additional requirements as may be outlined by the Trust or Guarantor from time to time. Notional amounts under a swap confirmation associated with the respective CMB series will be adjusted accordingly once the conditions outlined in the associated swap confirmation and the Repurchase Protocol have been satisfied. Only new CMB series issued effective March 1, 2011, including subsequent reopening of such series, are eligible to be repurchased for cancellation.

To be clear, CMB series issued prior to March 1, 2011, including any reopening of such series thereafter, will not be eligible for repurchase and cancellation.

## Criteria for CMB Repurchase for Cancellation

To be eligible for cancellation, the CMB series repurchased must be the same CMB series named in the swap confirmation with which the principal is associated. The maximum amount of the series allowed to be repurchased for cancellation by a Swap Counterparty is equivalent to the related monthly scheduled and unscheduled principal cash flows received and available for reinvestment for that series (including funds from maturing repo transactions) in the Custodial Principal Funds Account(s) with the Reinvestment Custodian.

Only Swap Counterparties that have executed swap confirmation(s) with CHT in connection with the eligible series are permitted to request repurchase/cancellation of the series and only up to the maximum notional amount stated in the applicable confirmation.

The Face Value of the eligible CMB series repurchased for cancellation must be in denominations of \$5,000.

Also, the principal outstanding for a series must not decline to less than \$3 billion as a result of repurchases and cancellations until the last six (6) months of the term to maturity.

The TA will review and approve cancellation requests on a first-come-first-serve basis.

Additionally, the following requirements apply to the repurchase and cancellation of eligible CMB Series:

- The remaining term to maturity of the CMB series must not be greater than three and one half years (3 ½ years) as at the settlement date of the CMB repurchase transaction.
- The settlement date associated with the repurchase transaction shall not occur on, or during the fifty-nine (59) calendar days immediately after, the issue date of the original or reopening of such eligible series.
- The cancellation date associated with the repurchase transaction shall not occur during the fifteen (15) calendar days immediately preceding an Interest Payment Date
- The settlement date associated with the repurchase transaction shall not occur during the twenty-one (21) calendar days immediately preceding an Interest Payment Date.

The CMB Program requirement that all CHT investments must be held to maturity shall continue to apply (that is investments cannot be liquidated to generate funds for CMB purchase for cancellation).

Principal cash flows related to one CMB series cannot be used to purchase a different series of CMB for cancellation.

A full description of the requirements and process associated with the repurchase of eligible CMB series for cancellation within the CMB Program is set forth in [Appendix I](#).

# CHAPTER 8

## PRE-BOND ISSUANCE ACTIVITY



### OVERVIEW

The Financial Services Advisor (FSA) gauges market demand for CMB issuance and the potential supply of eligible NHA MBS pools from Approved Sellers. Based upon its review and on behalf of CHT, the FSA recommends to the Trust Administrator (TA) the specific characteristics of the proposed bond issuance. Based on this recommendation, the TA presents the Trust Availment Proposal to the Guarantor.

The Guarantor, after taking into account the recommendation from the FSA and the Trust Availment Proposal submitted by the TA, provides a Guarantee Notice to CHT, specifying the period during which the Guarantee is available and outlining the applicable terms and conditions under which it can be availed.

By continuously liaising with Approved Sellers and the market, the FSA is able to determine the approximate size and term preferences for a CMB issuance and advises the Sellers accordingly. Approved Sellers who wish to sell eligible NHA MBS to CHT are required to complete an Allocation Request, indicating the amount to be sold and an indicative CMB issue spread tolerance, for delivery to the FSA.

### CHT ALLOCATION PROCESS

- Step 1:** The FSA sends out an Allocation Request to Approved Sellers indicating the details of a potential CMB transaction and reference benchmarks over which indicative spreads should be quoted. Dates and deadlines, etc. are also disclosed.
- Step 2:** Approved Sellers submit their Allocation Requests to the FSA, specifying the sale amount and maximum acceptable CMB new issue spread. If the spread tolerance level is not sufficient to facilitate a CMB issuance, the Approved Seller will be contacted.
- Step 3:** The FSA provides the Approved Sellers with guidance as to a range of potential maximum allocations for pooling purposes based on a range of potential bond issue amounts, subject to receipt of an acceptable Offer to Sell and completion of the bond issue.
- Step 4:** Approved Sellers must create and make available eligible NHA MBS in amounts necessary to satisfy the Offer to Sell submitted on the Qualification Date. Issuers-Sellers will be permitted to create an additional amount of NHA MBS, subject to the maximum limit, for use as eligible reinvestment assets (please see [Chapter 7](#) for further details).
- Step 5:** On the Qualification Date, Sellers will submit an Offer to Sell, which includes a schedule outlining the list of eligible NHA MBS the Seller proposes to sell to CHT along with a price for each NHA MBS offered.

**Step 6:** On the CMB Pricing Date, the FSA advises CHT on the size and price of the CMB issue, as determined with the syndicate. Approved Sellers will provide final prices of each NHA MBS. The FSA will then allocate the CMB proceeds raised through the bond issuance equally to all Sellers based on the Offers to Sell submitted until all of the proceeds raised have been allocated. Once this is complete, the FSA will recommend to CHT to accept the Offers to Sell and final prices based on the allocations determined.

## ALLOCATION METHODOLOGY

- Each Approved Seller is required to submit an Offer to Sell along with a schedule listing the NHA MBS proposed for sale for every issuance.
- Maximum Allocation to each eligible Seller (including any related party requests) will be the lesser of its equal allocation share and the amount on the Offer to Sell (that is no institution can get funding greater than the amount they requested via the Allocation Request).
- Once the CMB issue size has been determined, each Seller's Offer to Sell will be compared to its equal allocation share. Any amount allocated in excess of the Offer will be reallocated to and divided equally amongst those other Sellers whose requests remain outstanding. The process will continue until all the CMB funding has been distributed.
- After all the proposed funding for the CMB issue has been distributed, any institution with unfulfilled requests will have their Offer amount reduced accordingly.
- Further, in order to ensure fair and equitable distribution of funding, the following rules will be applied to all funding requests received:
  - All Offers to Sell made by an Approved Seller, whether directly or through an Aggregator\*, will be combined into a single allocation.
  - Each Aggregator will be subject to the maximum allocation granted to a Seller.
  - Additionally, the following rules will be applicable to all funding requests received through an Aggregator:
    - For NHA MBS created by an Aggregator, the Aggregator will be required to disclose the Originator\* information for the loans comprising the NHA MBS. Allocation from these Originators will be combined with any other requests received from such parties and will be subject to the maximum allocation granted to any one Seller.
    - For NHA MBS created by a third-party Issuer, allocation will be counted against both the Aggregator and the third-party Issuer.
    - In case the aggregate requested amount for an Originator/Issuer is in excess of the maximum allocation allowed for a Seller, the respective Originator/Issuer will be allowed to decide how the allocation will be reduced.

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\* Please see footnote(s) in Chapter 6 for the definition of Aggregator and Originator under the CMB Program

- Approved Sellers should note that they are also subject to minimum net worth requirements outlined in [Chapter 3](#). Further detail on net worth can be requested from the TA. See [Appendix A](#) for contact information.
- If total Offers to Sell fall short of CHT's minimum desired new issue size, CHT may proceed with a lower issue size or hold back the issue, in which case, all parties will be immediately notified.

Once the allocation has been confirmed by the FSA, Sellers will prepare and submit all relevant NHA MBS documentation for review and approval by CMHC. Refer to [Chapter 6](#) for details.

Sellers will also need to pre-arrange for a Hedge to be provided by an approved Swap Counterparty for each package of NHA MBS offered to CHT. This is a precondition for participating in the CMB issuance.

## OFFER TO SELL

- The FSA provides each Approved Seller a copy of the Offer to Sell template. Three (3) originals of the Offer to Sell must be executed by the Approved Seller and returned to the TA by the predetermined Qualification Date.
- The Offer to Sell includes a list of the proposed NHA MBS, the face amount to be offered, the NHA MBS coupon rate, CMB issue spread tolerance, etc.
- Each Seller must provide indicative pricing (as a percentage of par value where the pricing parameter must fall between 101 and 95) for each of the NHA MBS offered to CHT.
- Other supporting documentation (pricing inputs, etc.) must be provided.
- NHA MBS are sold to CHT as original assets, at time of CMB issuance. See [Appendix C](#) for details.

Refer to [Appendix D](#) for a sample of an Offer to Sell.

## PRICING OF ORIGINAL NHA MBS

In order to successfully transact with CHT, the Seller and Swap Counterparty must adhere to the NHA MBS pricing restriction of 95-101 for original assets (that is NHA MBS sold to CHT at the time of CMB issuance), as described in the Master Transfer Agreement and related sale documents. CHT must be satisfied that the purchase price of each NHA MBS is reasonable given market conditions.

NHA MBS calculators are available by request, for approved Program participants, to assist in pricing NHA MBS pools.

## BOND CLOSING

On behalf of CHT, the FSA appoints an underwriting syndicate. The FSA and the TA work in conjunction to coordinate the preparation of appropriate Bond issuance documents and the activities of the Custodian and the CPA to effect a closing.

On a Bond Closing Date, the approved Seller will assign and transfer to CHT its rights, title, and interest in the specific NHA MBS pools. CHT will issue a principal amount of CMB, so that gross proceeds of the issue will equal the price of the NHA MBS purchased, and use the cash proceeds to purchase the NHA MBS packages.

Below is the CMB issuance timeline in relation to the submission of pools.

## CMB CLOSING AGENDA

### **Documents to be Delivered and/or Activities Taking Place Prior to Closing**

The documentation requirements listed below are part of the closing agenda circulated by the FSA prior to each bond issuance. Participants should note that the delivery timelines provided in the table below are subject to change at the time of each issuance and will be confirmed and communicated through the agenda. The other sections of the closing agenda can be found in Closing Agenda in [Chapter 6](#) and CMB Closing Agenda in [Chapter 9](#).

Participants should also note that like all other documentation related to the bond issuance, revisions to the requirements might be made from time to time. The FSA, TA or legal counsel to CHT will inform the participants of any changes in a timely manner.

To avoid delay, Swap Counterparties and Sellers must fax or electronically transmit a copy of the executed documents in advance of delivering the originals to the TA (refer to [Appendix A](#) for contact details).

The TA maintains the most up-to-date version of the required documents and provides assistance on their completion when requested by CMB Program participants.

A. Documents to be Delivered and/or Activities Taking Place Prior to Closing

	Responsibility/ Executed By	Delivered to	Delivery Date	Number of Executed Copies
Allocation Request	Seller	FSA	End of the month prior to the issue month	1
Offer to Sell – with indicative pricing from Sellers (form CHT 8)	Seller	FSA, Trust Administrator	On Qualification Date before noon	3*
Acknowledgement of MBS Pool Details in Schedule A to Offer to Sell	Seller	Trust Administrator	The day following Pricing Date	N/A*
Seller / Swap Counterparty Certificates (form CHT 7)**	Seller / Swap Counterparty	FSA, Trust Administrator	2 days Prior to CMB Closing	3*
Supplement to Master Transfer Agreement (form CHT 5)**	Seller	FSA, Trust Administrator	2 days Prior to CMB Closing	3*
Swap Confirmation**	Swap Counterparty	FSA, Trust Administrator	2 days Prior to CMB Closing	3*
Account instructions for wire transfer regarding CMB Settlement	Trust Administrator	Underwriting Syndicate	2 days Prior to CMB Closing	N/A
Account instructions for wire transfer regarding MBS Settlement	Seller / Swap Counterparty	Trust Administrator	2 days Prior to CMB Closing	N/A
Settlement details, Payment Direction and Authorization**	Trust Administrator	Seller / Swap Counterparty	2 days Prior to CMB Closing	3*
Seller Receipt**	Seller	Trust Administrator	2 days Prior to CMB Closing	1*

\* Please note: should the Seller and/or Swap Counterparty wish to have an original returned after closing, an additional executed document must be submitted.

\*\* These documents will be held in escrow subject to the Bond closing and sale of eligible MBS to CHT.

# CHAPTER 9

## BOND ISSUANCE



### OVERVIEW

The Trust Administrator (TA) facilitates the closing of each issuance of Canada Mortgage Bonds, whether a new issue series or a reopening of an existing CMB series.

Each bond issuance involves the simultaneous closing of both the bond and the NHA MBS purchase sides of the transaction. In conjunction with the FSA, the TA and CHT's legal counsel ensure that all documentation pertaining to the NHA MBS purchase is complete and executed within the required timeline. The TA, CHT's legal counsel, and the Bond Indenture Trustee(s) work closely with the underwriting syndicate group to ensure that all documentation relating to the bond issuance is also completed and executed properly.

### CMB CLOSING AGENDA

#### Documents to be Delivered and/or Activities Taking Place at Closing

The documentation requirements listed below are part of the closing agenda circulated prior to each bond issuance. Participants should note that any timeline provided for completion of an activity or submission of any documentation is subject to change at the time of each issuance and will be confirmed and communicated through the respective agenda. The other sections of the closing agenda can be found in Closing Agenda in [Chapter 6](#) and in CMB Closing Agenda in [Chapter 8](#).

Participants should also note that like all other documentation related to the bond issuance, revisions to the requirements may be made from time to time. The FSA/TA/CHT legal counsel will inform the participants of any changes in a timely manner.

#### B. Documents to be Delivered and/or Activities Taking Place at Closing

	<b>Responsibility</b>	<b>Delivered to</b>	<b>Number of Executed Copies</b>
Wire transfer to CHT regarding CMB	Underwriting Syndicate	Trust Administrator	N/A
Wire transfer to and from Sellers and Swap Counterparties	Administrator / Swap Counterparty	Seller / Swap Counterparty	N/A

### CREATION AND MANAGEMENT OF ACCOUNTS

Upon approval and prior to participation in the CMB Program, each Approved Swap Counterparty must provide the TA with documentation to confirm that all required accounts have been opened and are in compliance with CMB Program requirements.

All accounts for CHT's reinvested assets (securities, cash, etc.), except NHA MBS acquired on behalf of CHT since implementation of DCI requirements on October 1, 2009, must be held with a Reinvestment Custodian appointed by each Swap Counterparty with the consent of CHT and the Guarantor. All such CHT accounts must be in the name of the Reinvestment Custodian as custodian for CHT. The Reinvestment Custodian must be a Canadian bank or trust company incorporated under the laws of a Canadian jurisdiction, must be authorized to provide custodial and depository services as required under the CMB Program and must be a CDS participant in good standing. At no time shall CHT assets be commingled with any other assets of the participant.

All NHA MBS reinvestment assets, acquired on or after October 1, 2009, must be deposited with CHT's general custodian, as per the directions in the Operative Documents.

Each Swap Counterparty must provide the TA with the following information within five (5) days prior to closing:

- **Relevant accounts** – the Reinvestment Custodian/Swap Counterparty will provide the TA with account numbers and other particulars of all CHT accounts, which must be in the name of the Reinvestment Custodian as custodian for CHT. The required accounts are as follows:
  - **Custodian Principal Reinvestment Account(s) (custodial account for CHT)** – Prior to October 1, 2009, all securities and assets held on account of principal received on NHA MBS and other Trust Permitted Investments and invested on behalf of CHT, including NHA MBS and any repo collateral received, were required to be held in this account or, in the case of CDS registered securities, reflected in this account.

Effective October 1, 2009, all NHA MBS acquired on behalf of CHT must be in DCI form and must be deposited/held with CHT's general custodian. Counterparties may choose to convert NHA MBS acquired prior to this date to DCI form and deposit them with CHT's general custodian. Other custodial principal reinvestments should continue to be held as previously required.

Any CMB repurchased for cancellation will also be deposited into the Custodian Principal Reinvestment Account pending process completion.

- **Custodian Interest Retention Account(s) (custodial account for CHT)** – This securities account is required for all Swap Counterparties rated less than AA-. Monthly interest payments on NHA MBS and other securities normally applied to fund the Floating Amount under the Swap Confirmation, which is payable monthly in the case of counterparties rated AA- or higher, is withheld and invested in Permitted Investments until the corresponding periodic CMB coupon becomes due. This account is used to hold all such securities including any repo collateral posted. Investments made in this account must mature on or prior to the respective periodic CMB coupon date. Any certificated investments acquired under this account must be deposited/held with CHT's general custodian.

- *Custodian Principal Funds Account(s) (custodial account for CHT)* – All principal, including prepayments and repayments on maturity, received from the Central Paying Agent (CPA) on NHA MBS, or received on other Trust Permitted Investments held in custody for CHT, is initially credited to this cash account in the name of the Reinvestment Custodian as custodian for CHT. Cash deposits are then invested on a same-day basis in Trust Permitted Investments to be held in respective securities custodial accounts or used to repurchase eligible CMB for cancellation.
- *Custodian Interest Funds Account(s) (custodial account for CHT)* – For Swap Counterparties rated lower than AA-, all interest received from the Central Paying Agent (CPA) or received on other Trust Permitted Investments held in custody for CHT (less any amount retained by the TA for expenses owing by the Counterparty) is initially credited to this cash account(s). Cash deposits are then reinvested on a same-day basis in Trust Permitted Investments and held in respective securities custodial accounts.

The Swap Counterparties, with prior approval from CHT, may use a single custodial reinvestment account for the safekeeping of both Principal Reinvestment and Interest Retention securities provided the assets are separately identifiable and managed in accordance with the applicable reinvestment requirements.

Further, for administrative ease, CHT may request that all Swap Counterparties establish Interest Retention/Funds Accounts regardless of their ratings. However, such accounts must only be utilized for Swap Counterparties rated less than AA-.

Additional information on administration of these accounts can be found in [Chapter 10](#). Information on Trust Permitted Investments can be found in [Chapter 7](#).

- Account requirements - CHT, through the TA, will provide the Swap Counterparties with account opening instructions and requirements thereof. Some of the features requested with respect to these accounts may be as follows:
  - Viewing access to accounts
    - Swap Counterparties can provide daily bank statements and reinvestment account(s) statements, or
    - The TA can be provided with online viewing access to these accounts.
  - Overdraft protection
    - Provides protection against any potential overdraft interest charges resulting from late receipt of funds.
  - Signing authority to be given to the TA
    - Gives the TA the ability to debit custodial cash account(s) held with each Reinvestment Custodian. This authority is exercised only in cases where the Swap Counterparty does not reinvest the funds despite being instructed by the TA to do so under notice as described below.

- If there are excess funds held, at any time, in CHT's custodial accounts with Reinvestment Custodian(s), the TA will provide a written notice to the respective Swap Counterparty requiring the funds to be invested in Trust Permitted Investments within the deadline specified in that notice. This deadline may be as short as 24 hours. Failure to make the investment within the specified time constitutes an event of default as does holding excess cash (see [Chapter 11](#) for further information). The TA in this situation will use its authority under the Operative Documents and make the investments on behalf of the Swap Counterparty and, based on the situation, may take further appropriate action available to it under the Operative Documents.
- In the event that there is a need to step in and execute a trade, the TA will invest the funds according to the permitted investment guidelines. Upon completion of the trade, the security will be deposited in the relevant custodial account with the applicable Reinvestment Custodian or, in the case of NHA MBS securities, with CHT's general custodian.

## TRANSFER OF FUNDS

### Payment Matrix

The Payment Matrix is sent to each Swap Counterparty when pricing of both the CMB to be issued and the MBS to be purchased is finalized. It details all cash flows to be settled by each participant on the day of closing. Settlement will be in the form of wire transfer for all Swap Counterparties and/or Sellers. The components of the NHA MBS purchase settlement are as follows:

#### Sample A – Payment Matrix (where the Seller is also the Swap Counterparty)

Settlement with Swap Counterparties / Seller Relating to Initial Sale	Total	Swap Counterparty / Seller
<b>NHA MBS Proceeds (1):</b>		
MBS purchased	\$1,000,000,000.00	\$200,000,000.00
Seller's respective share of total asset base	100.00%	20.00%
<b>Settlement of CMB accrued interest (2):</b>		
Payable to Swap Counterparty	\$12,575,342.47	\$2,515,068.49
<b>Settlement of NHA MBS accrued interest (3):</b>		
MBS accrued interest Payable to Seller	\$8,000,000.00	\$2,000,000.00
MBS accrued interest Receivable from Swap Counterparty	(\$8,000,000.00)	(\$2,000,000.00)
<b>Payment of Upfront Expenses (4):</b>		
Pro rata expenses per Seller's share of total assets	(\$1,000,000.00)	(\$200,000.00)
<b>Net Proceeds of MBS Purchase</b>	<b>\$1,011,575,342.47</b>	<b>\$202,315,068.50</b>

## Sample B – Payment Matrix (where Seller uses a third-party Swap Counterparty)

Settlement with Swap Counterparties / Sellers Relating to Initial Sale	Total	Swap Counterparty	Seller
<b>MBS Proceeds (1):</b>			
MBS purchased (book value: basis of expense allocation)	\$1,000,000,000.00		\$200,000,000.00
Seller's respective share of total asset base	100.00%		20.00%
<b>Settlement of CMB Accrued Interest (2):</b>			
Payable to swap C/P	\$12,575,342.47	\$2,515,068.49	
<b>Settlement of MBS Accrued Interest (3):</b>			
MBS Accrued Interest Payable to Seller	\$8,000,000.00		\$2,000,000.00
MBS Accrued Interest Receivable from Swap Counterparty – on own acct.	(\$6,000,000.00)		
Re: Acting for Seller who is not a Swap Counterparty	(\$2,000,000.00)	(\$2,000,000.00)	
<b>Payment of Upfront Expenses (4):</b>			
Pro rata expenses per Seller's share of total assets	(\$1,000,000.00)		(\$200,000.00)
<b>Net Proceed re: MBS purchase</b>	<b>\$1,011,575,342.47</b>	<b>\$515,068.49</b>	<b>\$201,800,000.00</b>

- 1) MBS proceeds and the allocation (both the amounts and percentages) to each Seller.
- 2) Settlement of CMB accrued interest (payable to the Swap Counterparty by CHT).
  - Applicable only in the event of a reopening of an existing CMB issue.
- 3) Settlement of NHA MBS Accrued Interest
  - Payable by Swap Counterparty to CHT (all applicable accrued interest on NHA MBS is funded by the Swap Counterparty).
  - CHT in turn pays the same amount to the Seller. For third-party Swap Counterparties:
    - On the day of closing, all third-party Swap Counterparties are required to transfer to the TA, the accrued interest on all NHA MBS purchases. The net proceeds of the NHA MBS sale will then be released to the applicable Seller when such funds have been received.

- 4) Payment of upfront fees and expenses (including Guarantee fees) associated with the CMB issue as detailed on the Upfront Fees and Expenses Schedule attached to the Payment Matrix and forwarded to each Swap Counterparty. These expenses are reviewed by the TA and collected from participants on a pro rata basis. The TA will make payments supported by valid invoices only. Estimates are made when invoices are not received in time for the Closing Date and reconciled when the actual invoices are received. Discrepancies will be cleared and settled with Swap Counterparties through the monthly settlement process.

### **Netting of Payments**

On the day of closing, all funds to be transferred are settled on a net basis (as per the sample Payment Matrix provided).

In order to settle on a net basis, the TA requires the consent and approval of all participants through the execution of the Payment Direction and Authorization Form, which is forwarded together with the Payment Matrix.

The TA sends settlement instructions to all participants via e-mail a few business days before closing. The e-mail contains a brief description of the settlement process with the following documents attached:

- Payment Matrix and Upfront Fees;
- Upfront Fees Schedule;
- Payment Directions and Authorization Form;
- Seller Receipt;
- Updated Schedule A to Offer to Sell (with request to Sellers to acknowledge the pool details prior to CHT executing the Offer to Sell); and
- Supplement to Master Transfer Agreement.

# CHAPTER 10

## PROGRAM ADMINISTRATION



### OVERVIEW

The Trust Administrator (TA) provides the necessary administrative services to effectively manage the day-to-day requirements of CHT.

### MONTHLY SETTLEMENTS

#### Transfer Advice

The TA prepares a Transfer Advice for each Swap Counterparty every month on a series by series basis. It details the expected cash flows of the Principal Reinvestment and Interest Retention Accounts and provides clear settlement instructions to the Swap Counterparty.

- The principal and interest amounts on all NHA MBS investments are obtained from the CPA on the 5<sup>th</sup> business day of the month.
- The TA distributes the Transfer Advice to Swap Counterparties at least three (3) business days before settlement.

A sample Transfer Advice is available in [Appendix E](#).

#### Swap Settlement

##### Floating Side

The monthly swap payment is calculated based on the interest earnings on investments netted against CHT expenses and distribution of beneficiary income, if any.

Adjustments may be made if there are discounts and/or premiums involved:

- Payment to Swap Counterparties will be increased (reduction to principal), by amortization, for any:
  - NHA MBS discount; or
  - CMB premium
- Similarly, payment to Swap Counterparties will be decreased (increase to principal), by amortization, for any:
  - NHA MBS premium; or
  - CMB discount

[Appendix F](#) explains how premiums and/or discounts may be managed. NHA MBS interest cash flows include:

- Original NHA MBS assets sold to the CHT (flow through CPA)
- Reinvested NHA MBS assets sold to CHT (flow through CPA for NHA MBS in DCI form)

Interest cash flows from all other types of investments will settle through the individual financial institution's cash management and payment systems. Typically, these investments include:

- Government of Canada securities (GOC);
- Asset-Backed Commercial Paper (ABCP); and
- Repo of eligible GOC and NHA MBS

### **Fixed Side**

The fixed side of the swap payment, on a semi-annual/quarterly settlement basis, is calculated based on the following:

- 1) The periodic coupon payments due on the CMB; and
- 2) The accrued interest on the CMB.

Swap cash flows will be adjusted for any cancellation of respective CMB series. Further details on this are available in this Chapter as well as in [Chapter 7](#).

### **Adjustments to Swap Notional – CMB Cancellation**

The Fixed Notional Amount of the Swap Confirmation relating to the eligible CMB series will be reduced by the Face Value of the repurchased CMB (once the CMB Transfer Agent provides confirmation of the cancellation) and will be effective as of the date of the cancellation on the respective CMB series register of holders. It is expected that the cancellation of eligible CMB series will be completed by the CMB Transfer Agent and reflected on its register three (3) business days after the settlement date of the repurchased CMB.

Upon receipt from the CMB Transfer Agent confirming the cancellation of the Face Value of the repurchased CMB, the TA on behalf of CHT shall:

- Provide the Swap Counterparty written notice of the reduction in the Fixed Notional Amount of the Swap Confirmation related to the eligible CMB series by the Face Value of the repurchased CMB.
- Provide a swap valuation based on the adjusted Fixed Notional Amount on the next scheduled swap mark-to-market date.

A full description of the requirements and process associated with the repurchase and cancellation of eligible CMB series can be found in [Appendix I](#).

## Settlement Dates

NHA MBS Payment Date:

- 1) The monthly NHA MBS Payment Date will be the 15<sup>th</sup> calendar day of the month.
  - On this date, the CPTA settles Principal and Interest with investors monthly.
  - If this date falls on a weekend or on a public holiday, settlement will be on the following business day, as per market convention.
- 2) The CPTA Draw Date will be on the business day immediately preceding the applicable NHA MBS Payment Date.
  - On this date, the CPTA receives the money from various financial institutions to fund the Paying Agent account.
  - Financial institutions are required to deposit NHA MBS payments into the CPTA account by noon of the Draw Date.

Details regarding the NHA MBS Payment Date and CPTA Draw Date can also be found in the latest NHA MBS Guide.

CMB Payment Date:

- Settlements of CMB coupons are scheduled on the 15<sup>th</sup> calendar day of the month.

If this day falls on a weekend or on a public holiday, settlement will occur on the following business day, as per market convention.

A business day is defined as a day on which banks are open for business in Toronto, Ontario, other than a Saturday, Sunday or public holidays.

## Netting Swap Payments

Monthly swap payments are settled on a net basis, as per the swap confirmation. The TA details the netting requirement in a Summary that is e-mailed, together with the Transfer Advice, to Swap Counterparties three (3) business days prior to settlement.

In general, the Swap Counterparty should receive only one wire payment for Principal (netting of payments across all series), and one wire payment for the net Floating Rate amount (netting of payments across all series).

All cash flows are directed through the Reinvestment Custodian for each respective Swap Counterparty.

Refer to [Appendix G](#) for a structure summary of NHA MBS and CMB cash flows.

## INVESTMENT MANAGEMENT AND REPORTING

Upon receipt of monthly Principal and Interest following the Transfer Advice, all Swap Counterparties are required to provide the TA with reinvestment information. Only eligible Permitted Investments or eligible CMB purchased for cancellation will be accepted.

All investments must mature and settle by the maturity date of the CMB for each respective series in time for the CMB principal to be repaid to investors when due. In the case of Repurchase Agreements, this requirement applies to the term of the repurchase transaction and not to the underlying collateral.

Should any eligible investments be determined to be ineligible, all such investments must be liquidated with the proceeds appropriately reinvested. Swap Counterparties report such reinvestments (and liquidations) using the Investment Input Form (also known as the Reinvestment Input Form).

### Permitted Investments

Eligible Permitted Investments include:

- (i) Replacement NHA MBS (if acquired during the one-month period preceding the swap Termination Date, these NHA MBS must be held by CHT's General Custodian registered as Delayed Certificate Inventory);
- (ii) Market NHA MBS (if acquired during the one-month period preceding the swap Termination Date, these NHA MBS must be held in certificated form unless registered as Delayed Certificate Inventory or registered with CDS);
- (iii) Asset-Backed Securities;
- (iv) Government of Canada Securities;
- (v) Repurchase Agreements using eligible NHA MBS and Government of Canada securities as collateral; and
- (vi) Cash, up to a maximum of \$10,000 per Swap Counterparty across all outstanding CMB issues.

These investments are to be purchased at their fair market value, having a stipulated rate of interest (or equivalent by way of issuance at a discount to face principal amount) and a term to maturity that is not subject to extension by either the Holder or the Issuer, and must be non-redeemable and non-retractable.

### Premium Restricted Replacement Assets (PRRA)

Eligible Replacement NHA MBS, Market NHA MBS, repurchase transactions using NHA MBS as collateral, and Asset- Backed Securities (collectively, the Premium Restricted Replacement Assets) are also subject to the restriction that the amount payable for such an asset can be no more than an amount that, at the time of purchase, when included in the calculation of the average acquisition cost of all PRRA then held in all Portfolio Accounts of the Swap Counterparty, for each Seller, results in the average cost of all such assets of no greater than 101% of the average par amount (outstanding principal amount) of all such assets held.

The premium restrictions on PRRA are described in the Master Transfer Agreement as well as in the CMB Program Definitions agreement.

### **Pricing of NHA MBS**

NHA MBS calculators are available by request, for approved Program participants, to assist in pricing NHA MBS pools for direct sale to CHT. The TA may review the prices for reasonableness.

The TA is the pricing agent for NHA MBS repo collateral. Please also note that haircuts apply to NHA MBS repo collateral prices. See the 'NHA MBS Collateral Pricing/Valuation' section below for more details.

Further details with respect to these Permitted Investments can be found in [Chapter 7](#).

### **CMB Repurchase for Cancellation**

Swap Counterparties have the option of utilizing principal available in the Custodial Principal Funds Account(s) for reinvestment for a particular CMB series to purchase the same series for cancellation in lieu of Permitted Investments, provided such purchases are made as per the requirements and restrictions outlined under the CMB Program.

The Face Value of the eligible CMB series repurchased for cancellation must be in denominations of \$5,000.

Please see other sections in this Chapter as well as [Chapter 7](#) for further details.

### **Reinvestment Account(s) Management**

Each Reinvestment Custodian is responsible for holding all CHT reinvestment assets, except NHA MBS acquired from October 1, 2009 onwards, in a custodial account for CHT, for each respective Swap Counterparty. These accounts must be managed in accordance with the Program parameters summarized below:

- (i) All CHT reinvestment assets must be held in the name of the Reinvestment Custodian in clearly defined segregated custodial accounts for CHT. At no time shall these assets be comingled with any non-CHT assets of the Reinvestment Custodian. Further, the Reinvestment Custodian must not pledge or encumber any CHT assets.
- (ii) A Reinvestment Custodian must only release funds/securities from these accounts against corresponding deposit of securities or funds by the Swap Counterparty; on the settlement date.
- (iii) All securities or other financial assets held through CDS in book-entry form must be held by the Reinvestment Custodian through separate numbered custodial sub-account(s) of its segregated account with CDS (the segregated account is one of the accounts in each CDS participant's ledger with CDS). The purpose of these provisions is to make securities separately identifiable assets of CHT in the event of the insolvency of the Reinvestment Custodian.

- (iv) All NHA MBS reinvestment securities, including Delayed Certificate Inventory (DCI) receipts, should be delivered to CHT's general custodian. An exception applies to NHA MBS already held in the Portfolio Accounts with the Reinvestment Custodians.
- (v) CMB certificates purchased for cancellation should be delivered by the respective Swap Counterparty to the Reinvestment Custodian to be processed for cancellation by CHT.
- (vi) Funds credited into the Custodial Principal Funds Account(s) must be used to settle the purchase price of Principal Reinvestments and/or CMB purchase for cancellation as selected by the Swap Counterparty and funds credited to the Custodial Interest Funds Account(s) should be used to settle the purchase price of Interest Reinvestments, unless otherwise directed by CHT.
- (vii) Upon receipt of a notice from CPA or CHT, the Reinvestment Custodian must ensure that funds required for repayment of any bond series on maturity are available in the Principal Reinvestment Account. If required, on direction from the Swap Counterparty, CHT or the Bond Indenture Trustee, the Reinvestment Custodian must sell investments held in the Custodial Principal Reinvestment Account(s) to ensure sufficient funds are available to meet CMB requirements.

Further information on accounts required for managing CHT assets is available in [Chapter 9](#).

### **CMB Cancellation Information Submission Timeline (via the Request for Cancellation Form)**

Based on the Notional Principal Available for the eligible CMB series and in compliance with the Repurchase Protocol, the Swap Counterparty will determine the Face Value of the eligible series it is proposing for CHT to repurchase for cancellation. It must then submit a Request for Cancellation Form to the TA as per the deadline provided below:

Securities	Request for Cancellation Form Delivery*	
Eligible CMB Series	Settlement Date less 3 days	1 p.m.

\* Toronto local business days/times as defined in the CMB Program Definitions.

In the context of the Repurchase Protocol, the settlement date is the date on which the Reinvestment Custodian transfers funds from the Principal Reinvestment Account to the Swap Counterparty against delivery of the repurchased CMB.

Once the TA has approved the cancellation request, the Swap Counterparty must, by 3 p.m. on the second business day prior to the settlement date, submit the Investment Input Form and a signed copy of the Swap Confirmation Amending Letter to the TA.

A copy of the Request for Cancellation Form and Swap Confirmation Amending Letter can be obtained from the TA.

A full description of the requirements and process associated with the repurchase and cancellation of eligible CMB series can be found in [Appendix I](#).

## Investment Information Submission Timeline (via the Investment Input Form)

The Investment Input Form is a key document used by all Swap Counterparties to inform the TA of all trades made on behalf of CHT.

Swap Counterparties must provide the TA with the Investment Input Form, as per the deadlines provided below:

### Direct Investments

Securities	Term	Investment Input Form Delivery*	
Government of Canada Securities (GOC)	≤ 1 year	Settlement Date	11 a.m.
	> 1 year	Settlement Date less 2 days	11 a.m.
NHA MBS	All terms	Settlement Date less 2 days	11 a.m.
ABCP	≤ 1 year	Settlement Date	11 a.m.
CMB repurchase for cancellation**	n/a	Settlement Date less 2 days	11 a.m.

\* Toronto local business days and times as defined in the CMB Program Definitions.

\*\* For CMB repurchase transactions, the Swap Counterparty is also required to re-submit the Investment Input Form with the related withdrawal ID to the TA by no later than 11 a.m. one (1) business day following the settlement date.

For example: for an NHA MBS reinvestment, the Investment Input Form delivery time and date to the TA will be 11 a.m. on the 13<sup>th</sup> for settlement on the 15<sup>th</sup>. Delivery will be made to the following email address:

[CHT\\_Admin\\_TOR@CIBC.ca](mailto:CHT_Admin_TOR@CIBC.ca)

The Investment Input Form for CMB repurchased for cancellation may only be submitted after the Swap Counterparty has received the TA approval of its proposed request for cancellation.

### Repo Investments

Collateral Type	Term of repo	Investment Input Form Delivery*	
GOC	1 month	Settlement Date	11 a.m.
NHA MBS	1 month	Settlement Date	11 a.m.

\* Toronto local business days/times as defined in the CMB Program Definitions.

The list of NHA MBS pools to be used as collateral for repo transactions must be provided to the TA for pricing by 3 p.m. one (1) business day prior to the settlement date.

For example: for a repo NHA MBS reinvestment transaction the delivery time/date to provide the list of NHA MBS pools for pricing to the TA will be 3 p.m. on the 14<sup>th</sup>. The Investment Input Form delivery time and date will be 11 a.m. on the 15<sup>th</sup> for settlement the same day.

Swap Counterparties must fill in all mandatory fields on the Investment Input Form accurately and completely. If the TA discovers any ineligible investments, the Swap Counterparty must cancel the trade and purchase a new investment within 24 hours. The TA will inform Swap Counterparties of any known investment errors made on the form within three (3) business days of its receipt.

The following is a list of common errors often found in Investment Input Forms:

- The Remaining Principal Balance (RPB) factor is not filled in with eight (8) decimal places.
- The price of the investment differs from the actual price.
- The incorrect yield of the investment is inputted.
- Overinvesting.
- Investing in a product that is not a Permitted Investment.

For efficiency, the TA may amend the Investment Input Form to correct clerical errors. The amended form will be sent back to the Swap Counterparty and the change deemed to have been accepted if the TA does not hear from the Swap Counterparty within 24 hours of the TA's delivery of the amended form.

The template forms are provided to the Swap Counterparties by the TA. A sample of the Investment Input Form is available in [Appendix H](#).

## Trade Confirmations

The Swap Counterparty must provide the TA with a copy of the trade confirmation within 24 hours of execution. The trade confirmation must include trade details such as the type of investment, trade date, principal amount, settlement date, accrued interest, etc.

## Use of Funds – Interest Retention Account (For Swap Counterparties rated less than AA-)

Swap Counterparties must inform and receive approval from the TA prior to withdrawal of funds from the Interest Retention Account, except for the following purposes:

- 1) Reinvestment of monthly interest into eligible Permitted Investments (excluding Replacement NHA MBS).
- 2) Payment of the CMB periodic coupon obligations.
- 3) Funding of the accrued interest portion of NHA MBS Principal Reinvestment.
  - Swap Counterparties should forewarn the TA to facilitate the TA's daily cash reconciliation.

It is an event of default if a Swap Counterparty uses the funds in the Interest Retention Account for any purpose other than those mentioned above without prior approval from the TA. Payment of any other type of accrued interest (such as on GOCs) must be funded from the Swap Counterparty's other accounts.

## SWAP VALUATION AND COLLATERAL MANAGEMENT

The TA is the designated valuation agent for all securities, including swap and repo collateral, eligible for the Program. If the TA is a Counterparty in a transaction, the FSA will act as the valuation agent for such transactions. In case of a pricing dispute that cannot be resolved utilizing the methodology outlined in the Hedge Documents, the valuation agent's original assessment of price will be final.

### Swap Valuation

The TA, in its capacity as valuation agent for CHT, values each swap transaction on a semi-monthly basis, to determine mark-to-market value differences between the value of CHT liabilities (CMB obligations) and assets (originally purchased NHA MBS as well as other Trust Permitted Investments).

If the value of the Swap Counterparty's bond-related CMB obligation (fixed side) is greater than the value of interest payments to be made by CHT to the Swap Counterparty from the original NHA MBS or principal reinvestment assets pursuant to the swap (floating side), the swap is said to be "out of the money". If the value of the fixed side is less than the floating side, the swap is said to be "in the money".

Swap Counterparties are required to post collateral when the swap is "out of the money" and CHT's exposure to the Counterparty is above the approved threshold limit.

Further details on swap collateral requirements are outlined in subsequent sections of this Chapter. The following is a list of sources and data inputs commonly used in swap valuations:

- 1) FSA
  - Appropriate valuation curves
  - Other data
- 2) NHA MBS Calculator
  - NHA MBS price (as per the calculators acceptable to the Guarantor)
- 3) Hedge Agreements
  - Valuation percentage (haircut) requirements as outlined in the applicable Credit Support Annex to the Schedule to the ISDA Master Agreement. See the 'Posting of Collateral' section below for further details.
  - Repo haircut requirements as per [Annex I](#), Supplemental Terms and Conditions, to the GMRA.
- 4) Bloomberg
  - GOC closing price (full bid price)
  - CMB closing price (full ask price)

### 5) Asset-Backed Security Conduits

- All Swap Counterparties investing in ABS are encouraged to submit the valuation date prices for appropriate mark-to-market calculations.
- If the Swap Counterparty is unable to provide the TA with such pricing, the TA will apply the price of a standard conduit.

### Collateral Management (for Swap Counterparties)

All Swap Counterparties are required to post collateral with the TA if they are “out of the money” by an amount greater than or equal to \$250,000 when compared to the exposure limit established for them. The delivery amount and the return amount may be rounded up or down to the nearest multiple of \$25,000.

The limits assigned to each Swap Counterparty within the CMB Program are a function of its unsecured, unguaranteed and unenhanced long-term debt credit rating (see "Swap Exposure Thresholds" below). These limits are specified in dollar terms and are calculated on a consolidated basis for each financial institution, including all affiliates.

### Swap Exposure Thresholds

The table below provides the applicable swap exposure thresholds:

Credit Rating*	Swap Exposure Thresholds (Millions \$)
AAA	250
AA+	200
AA	150
AA-	100
A+	50
A	25
A-	0
BBB+	0

\* Credit ratings are based on the S&P scale; equivalent DBRS, Fitch and Moody's ratings apply. A Counterparty is required to have ratings available from at least two (2) Rating Agencies.

Swap Counterparties are required to post collateral equal to the amount of the net exposure in excess of the applicable exposure limit on a semi-monthly basis.

### Minimum Acceptable Credit Rating

The minimum acceptable rating for a party to continue to participate in the CMB Program in the role of an Approved Swap Counterparty is BBB+ or equivalent. When a party is downgraded to this level its role in the Program is restricted to maintaining existing swap transactions (that is no new transactions can be entered into with the downgraded party).

## Posting of Collateral

- 1) When there is a need to post collateral, the TA will forward to the Swap Counterparty the relevant swap valuation report along with the swap exposure and collateral confirmation reports showing the amount of collateral required and the value of any collateral already pledged. The Swap Counterparty must then post collateral with the TA according to the eligible collateral alternatives listed as per the timelines stipulated in the Hedge Documents. The current list of these alternatives is reproduced below for information:

<b>Collateral Type (in Canadian dollars)</b>	<b>Remaining Term to Maturity</b>	<b>Valuation Percentage</b>
Negotiable debt obligations issued by the Government of Canada	0-1 yr	99.0%
	1-3 yrs	99.0%
	3-5 yrs	98.5%
	5-10 yrs	98.0%
	Greater than 10 yrs	97.5%
Negotiable debt obligations issued by an entity directly guaranteed by the Government of Canada	0-1 yr	98.5%
	1-3 yrs	98.0%
	3-5 yrs	97.5%
	5-10 yrs	97.0%
	Greater than 10 yrs	96.5%
Negotiable strip or residual debt obligations issued by the Government of Canada	0-1 yr	99.0%
	1-3 yrs	99.0%
	3-5 yrs	98.5%
	5-10 yrs	98.0%
	Greater than 10 yrs	97.5%
Government of Canada guaranteed negotiable debt obligations issued by an entity that is not guaranteed by the Government of Canada, excluding Canada Mortgage Bonds and NHA MBS	0-1 yr	98.5%
	1-3 yrs	98.0%
	3-5 yrs	97.5%
	5-10 yrs	97.0%
	Greater than 10 yrs	96.5%
Fixed Rate Collateral Market NHA MBS	0-1 yr	98.0%
	1-3 yrs	95.0%
	3-5 yrs	92.0%
	5-7 yrs	90.0%
	7-10 yrs	85.0%
Floating Rate Collateral Market NHA MBS (shall not include WAC pools with 12-month resets)	0-1 yr	98.5%
	1-3 yrs	98.0%
	3-5 yrs	97.5%
	5-7 yrs	97.0%

- 2) The Swap Counterparty must notify the TA of the details of the security to be posted. The TA then arranges with its back office for collateral receipt. The security to be posted will be deposited to the CHT collateral account held at the Trust's financial institution. Access information related to this account can be obtained through the TA.
- 3) The Swap Counterparty must complete an Investment Input Form to record acquisition of the collateral, and send it to the Trust Administrator on the same day that the collateral is posted. This form provides the TA with details on:
  - Investment type
  - Settlement Date
  - Face value
  - Current price
  - Maturity Date
- 4) The TA will contact its back office for confirmation of collateral receipt. The TA will provide the Swap Counterparty with an updated Collateral Confirmation Report within three (3) business days of the receipt of the collateral. This report summarizes all activities that have taken place for the current month. The Swap Counterparty is required to inform the TA of any discrepancies within three (3) business days upon receipt of the report.

### **Maturity of Collateral**

On maturity of the posted collateral, the TA informs the Swap Counterparty and returns the collateral to the Swap Counterparty. The Swap Counterparty will have to post replacement collateral for the matured one, if collateral is still required.

### **Release of Collateral**

As part of its regular valuation process, the TA will notify the Swap Counterparty via e-mail if the Swap Counterparty is no longer required to post collateral. The TA will return the collateral security to the Swap Counterparty, if requested in writing by the Swap Counterparty.

### **Substitution of Collateral**

An approved Swap Counterparty may request substitution of posted collateral by providing the TA with a notice identifying the posted collateral to be exchanged. The TA will only be obligated to transfer the identified posted collateral to the Swap Counterparty upon receipt of equal value collateral on the substitution date.

## REPO ADMINISTRATION, VALUATION AND COLLATERAL MANAGEMENT

### Repo Administration (Swap Counterparty Responsibilities)

Swap Counterparties can only enter into repo transactions for reinvestment purposes with prior written approval of the TA. Further, each Swap Counterparty will be responsible for ensuring the performance of all of CHT's administrative responsibilities related to the repo transactions for its respective Packages. The Swap Counterparty may perform or cause these duties to be performed, as and when required by the Trust, including:

- preparing and completing all required confirmations of trade, on behalf of CHT;
- preparing daily mark-to-market calculations of the value of the underlying Trust Permitted Investments and determining margin requirements;
- determining whether margin securities are required to be transferred to the Trust by the Repo Counterparty or returned by the Trust and notifying the Administrator of the relevant particulars with respect to these transfers;
- promptly and diligently 1) making and enforcing all margin calls to which CHT is entitled to including any margin calls as determined and notified by the Administrator; 2) making or causing to be made all margin returns to which the Repo Counterparty is entitled to and 3) notifying the Trust of all relevant particulars relating to the status of such margin calls or returns; and
- ensuring that all payments and other transfers of repurchased securities to the Repo Counterparty are made as required by the Trust under the repo transaction.

Repo transactions can only be entered into using eligible repo collateral and are subject to maximum exposure limits, as outlined in the repo agreements and reproduced in [Chapter 7](#). Further, the total amount of Repo transactions utilizing non-GOC securities is limited to an aggregate maximum of \$1.0 billion per Repo Counterparty and \$300 million per Small Repo Counterparty for reinvestment in relation to all CMB series maturing within the following one-month period. For greater clarity, this restriction will not apply in relation to reinvestment activities where the CMB series have a remaining term to maturity of more than one (1) month.

## Repo Valuation

As with all Trust Permitted Investments, the TA will be the valuation authority with respect to pricing collateral underlying repo transactions. However, each Swap Counterparty will be responsible for administering repo agreements related to its reinvestment activities including marking repo transactions to market and collecting and posting any margin as and when required.

The repo valuation will be done at the portfolio level and by the underlying collateral type for each Repo Counterparty (that is GOC exposure will be calculated separately from MBS exposure).

## GOC Collateral Pricing/Valuation

- the Swap Counterparty will be responsible for determining the price of the government bonds it receives as repo collateral on behalf of CHT (see [Chapter 7](#) for details on securities that can be posted as repo collateral);
- the TA will review the pricing for each security, using Bloomberg/market sources, before accepting it;
- GOCs will be marked-to-market daily, by the respective Swap Counterparty as well as the TA, using the closing price of each security provided as repo collateral from a common market source like Bloomberg. The Repo Counterparty will be required to post additional GOC margin if the Trust exposure to the Counterparty is in excess of its established maximum threshold limit. See the 'Posting of Repo Margin' section below for details;
- GOC provided by Small Repo Counterparties as repo collateral will be subject to upfront haircuts against potential price movements and will be valued on a daily basis to maintain the haircut level consistent over the life of the transaction. Additional GOC margin posted will also be subject to these haircuts. For details, please refer to the next section.

## NHA MBS Collateral Pricing/Valuation

- The TA, on behalf of CHT, will use models approved by CMHC to determine the price of the NHA MBS collateral when entering into any NHA MBS repo transaction or for subsequent collateral posting;
- Swap Counterparties will be required to submit details of proposed repo transactions (pool number, etc.) to the TA one (1) day prior to the transaction settlement for pricing;
- NHA MBS provided as repo collateral will be subject to upfront haircuts to protect against potential price movements and will be valued on a semi-monthly basis to maintain the haircut level consistent over the life of the transaction. Additional NHA MBS margin posted will also be subject to these haircuts.

The following formula will be used for determining the purchase price of each NHA MBS pool:

$$\text{Purchase Price} = \text{NHA MBS full price (including accrued interest)} \times (1 - \text{haircut \%})$$

The level of haircut to be applied to Repo Counterparties will be based on whether the Repo Counterparty is a Small Repo Counterparty, the remaining term of the NHA MBS and on whether the coupon it bears is fixed or variable. The following table summarizes the haircuts to be applied on Repo Counterparties, other than Small Repo Counterparties:

NHA MBS Pool Type	Haircut Percentage Eligible Collateral MBS Repo Counterparty (other than Small Repo Counterparty)				
	Remaining Term of NHA MBS				
	≤ 1 year	> 1 and ≤ 3 years	> 3 and ≤ 5 years	> 5 and ≤ 7 years	> 7 and ≤ 10 years
Fixed-Rate Collateral MBS (Single- and multi-family)	2.0%	5.0%	8.0%	10.0%	15.0%
Floating-Rate Collateral MBS (VRM, ARM, WAC one-month reset)	1.5%	2.0%	2.5%	3.0%	n/a*

\* The maximum pool term for Floating-Rate NHA MBS is seven (7) years.

The following table summarizes the haircuts to be applied to Small Repo Counterparties:

NHA MBS Pool Type	Haircut Percentage Eligible Collateral MBS and GOCs Small Repo Counterparty				
	Remaining Term of NHA MBS				
	≤ 1 year	> 1 and ≤ 3 years	> 3 and ≤ 5 years	> 5 and ≤ 7 years	> 7 and ≤ 10 years
Fixed-Rate Collateral MBS (Single- and multi-family)	4.0%	7.0%	10.0%	12.0%	17.0%
Floating-Rate Collateral MBS (VRM, ARM, WAC one-month reset)	2.5%	3.0%	3.5%	4.0%	n/a*
GOC Securities	1.0%	1.0%	1.5%	2.0%	2.0%

\* The maximum pool term for Floating-Rate NHA MBS is seven (7) years.

Commingling of collateral is not allowed (that is MBS repos must be backed by MBS collateral only and GOC repos by GOC securities only).

### Maturity of Original Repo Collateral

Original collateral provided for repo transactions (at transaction inception) must satisfy the repo collateral requirements outlined in [Chapter 7](#).

### Release of Original Repo Collateral

Once the repo term matures, the original collateral will be released back to the Repo Counterparty and may be used for another transaction. For treatment of NHA MBS repo collateral upon maturity of repo term, please see [Chapter 7](#).

### Substitution of Original Repo Collateral

Substitution of original collateral posted against a repo transaction is not allowed.

For clarity, the original collateral posted against the repo transactions will only be returned at maturity of the transactions.

### Posting of Repo Margin

Margin transfer requirements will be assessed separately for GOC repos and NHA MBS repos and the net exposure of the two types of repo transactions will not be netted. All margin transfer will be in accordance with repo agreements.

### GOC Repo Margin

GOC repos will be marked-to-market daily by the respective Swap Counterparty as well as the TA using the closing price of each security provided as repo collateral from a common market source like Bloomberg.

If the aggregate value of all GOC collateral (and additional GOC margin) provided for all associated Repurchase Agreements outstanding at the time has declined in value when compared to the aggregate initial transaction value, the Repo Counterparty will be required to deposit additional margin to make up the difference (i.e. the GOC repo margin requirement will be determined on a net basis for each Repo Counterparty at a portfolio level). All additional securities posted as repo margin must meet the criteria laid out for these securities in [Chapter 7](#).

The individual exposure thresholds and minimum transfer amount applicable for GOC repo margin posting for Repo Counterparties, other than Small Repo Counterparties, are dependent upon the credit rating of the Repo Counterparty as outlined in the table below:

Threshold Amount	Minimum Transfer Amount	DBRS Long-Term	Fitch Long-Term	Moody's Long-Term	S&P Long-Term
1,500,000	100,000	AAA	AAA	Aaa	AAA
750,000	50,000	AA (high) to AA (low)	AA+ to AA-	Aa1 to Aa3	AA+ to AA-
500,000	50,000	A (high) to A (low)	A+ to A-	A1 to A3	A+ to A-

Small Repo Counterparties will be subject to an exposure threshold of \$100,000 and minimum transfer amount of \$50,000 for GOC repo margin posting.

## NHA MBS Repo Margin

Margin maintenance is required for repo NHA MBS principal reinvestment as well as interest retention investments.

NHA MBS repo collateral will be valued on a semi-monthly basis by the TA to establish the Net Exposure of the repo NHA MBS and determine if a margin transfer is required to maintain the haircut percentage as specified for the pool type.

If the aggregate value of all NHA MBS collateral (and additional NHA MBS margin) provided for all associated Repurchase Agreements outstanding at the time has declined in value when compared to the aggregate initial transaction value, the Repo Counterparty will be required to deposit additional NHA MBS margin to make up the difference (i.e. the NHA MBS repo margin requirement will be determined on a net basis for each Repo Counterparty at a portfolio level). All additional securities posted as repo margin must meet the criteria laid out for these securities in [Chapter 7](#).

The exposure threshold applicable for NHA MBS repo margin posting is zero for all Repo Counterparties. The minimum transfer amount for posting/returning of margin will be as per the repo agreements (note that the margin amounts in the repo agreements are standardized to be the same as for GOC repos as set forth above based on credit rating and whether or not the Repo Counterparty is a Small Repo).

## Substitution of Repo Margin

Substitution of posted repo margin is not allowed.

## Release of Repo Margin

The TA, on behalf of CHT, will release any additional margin posted by the Repo Counterparty if the overall value of the collateral and margin provided by a Repo Counterparty is determined to be in excess of the requirement. Excess margin will be determined separately for each eligible collateral type.

Such return of margin will be subject to the minimum transfer amounts as outlined in the 'GOC Repo Margin' section above. All returns/transfers will be subject to the TA's approval.

To be clear, both the netting of repo exposure and transfer (posting or return) of margin will be conducted on the basis of collateral type at the aggregate Repo Counterparty level (that is all repo transactions backed by NHA MBS will be netted and margin posted or returned separately from repo transactions backed by GOC collateral).

## ADMINISTRATION OF CMB REPURCHASE FOR CANCELLATION

### Cancellation Request Approval Process

Based on the principal available for reinvestment for an eligible CMB series, the Swap Counterparty, if it so chooses, will submit to the Trust Administrator (TA) a Request for Cancellation Form indicating the Face Value of the related series it is proposing for CHT to repurchase for cancellation. The TA, on behalf of CHT and in its sole discretion, will review the cancellation request and determine whether to approve or decline it.

The Request for Cancellation Form must be submitted to the TA by 1 p.m. three (3) business days prior to the settlement date.

The TA will then provide the Swap Counterparty with written notice of approval or rejection by 9 a.m. on the second business day prior to the settlement date. If the repurchase request is approved, the TA will confirm the Face Value amount approved for repurchase for cancellation and will notify the Swap Counterparty to proceed with the submission of the Investment Input Form. The amount submitted under a cancellation request may be reduced if only a part of the proposed repurchase can be accommodated.

If the repurchase request is rejected, the Swap Counterparty may, at the TA's discretion, be permitted to resubmit the request with applicable revisions, as necessary.

### Settlement of Repurchased CMB with CHT

Upon receipt of the approval notice from the Trust Administrator (TA) the Swap Counterparty will be required to:

- 1) submit an Investment Input Form containing the relevant details of the eligible CMB series (as per the Request for Cancellation Form) and a signed copy of the Swap Confirmation Amending Letter to the TA by 3 p.m. on the second business day prior to the settlement date;
- 2) ensure that the Cash Settlement Amount does not exceed the cash balance available in the applicable principal reinvestment account;
- 3) on the settlement date, deposit the Face Value of the repurchased series, as authorized by the TA, into the applicable principal reinvestment account (only once deposited, may the Reinvestment Custodian transfer funds equal to the Cash Settlement Amount from the Principal Reinvestment Account to the Swap Counterparty);
- 4) cause the Reinvestment Custodian to submit a request to CDS to withdraw from the eligible CMB series principal equal to the Face Value of the repurchased CMB effective on the settlement date; and
- 5) re-submit the IIF with the related withdrawal ID to the TA by no later than 11 a.m. one (1) business day after the settlement date.

### Cash Settlement Amount

The price paid by CHT for eligible CMB approved for repurchase and cancellation is referred to as the “Cash Settlement Amount.”

The Cash Settlement Amount will be equal to the Face Value of the eligible CMB to be repurchased, adjusted for any unamortized premium or discount in the original issue price of the eligible CMB. The amount will be determined based on the following formula:

Cash Settlement Amount	=	Face Value of the repurchased CMB	-	Allocated unamortized discount (premium)
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Sample calculations of the Cash Settlement Amount can be found in [Appendix I](#).

For greater clarity, if the actual purchase cost of the eligible CMB approved for repurchase exceeds the Cash Settlement Amount, such excess cost shall be for the account of and borne by the Swap Counterparty. Conversely, if the actual purchase cost to the Swap Counterparty is less than the Cash Settlement Amount, such difference will be for the benefit of and may be retained by the Swap Counterparty.

### Cancellation of Repurchased CMB

Once the repurchased CMB series has been delivered to the Reinvestment Custodian for cancellation, the TA will notify and authorize the CMB Transfer Agent to match the withdrawal request submitted by the Reinvestment Custodian in the CDS system.

After the CMB Transfer Agent confirms the withdrawal request in the CDS system, it will proceed to cancel the authorized Face Value of the eligible CMB series on its register. The Transfer Agent will reconcile its register with the CDS system and confirm the cancellation to the TA. It is expected that the cancellation of eligible CMB Series will be completed by the CMB Transfer Agent and reflected on its register three (3) business days after the settlement date.

### Adjustment to Swap Notional

Once the CMB Transfer Agent has confirmed the cancellation of the CMB to the Trust Administrator (TA), the TA, on behalf of CHT, will provide the Swap Counterparty with a countersigned copy of the Swap Confirmation Amending Letter to confirm the reduction of the Fixed Notional Amount of the Swap Confirmation related to the eligible CMB Series by the Face Value of the repurchased CMB, as at the date specified therein. The applicable Swap Confirmation will be amended to reflect the adjusted Fixed Notional Amount and the swap valuation will, thereafter, be based on this revised amount.

A full description of the requirements and process associated with the repurchase and cancellation of eligible CMB series can be found in [Appendix I](#).

## CASH RECONCILIATION AND ACCOUNT MANAGEMENT

### Bank Reconciliation

The cash balance of each Swap Counterparty is monitored on a daily basis. Any charges incurred in the accounts, held in custody for CHT, must be paid for by the Swap Counterparty concerned. The TA monitors the cash and calculates an inputted cash balance based on legitimate investing activities. Discrepancies between the TA's inputted cash and the actual cash balance in the Swap Counterparty's accounts, held in custody for CHT, must be resolved between the TA and the Swap Counterparty. In most cases, discrepancies are driven by various charges incurred by the Swap Counterparty. In these cases, the Swap Counterparty funds such charges from its own accounts, thus bringing its respective CHT accounts inline with the TA's record.

CHT stipulates that the cumulative cash balances across all CMB series are not to exceed \$10,000 per Swap Counterparty.

A Swap Counterparty may find there are no available investments in the market to invest in, resulting in a cash balance exceeding the \$10,000 threshold. Swap Counterparties should arrange, in advance with their traders, the amount of future funds to be invested. This will allow their traders sufficient time to find appropriate investments and avoid an event of default.

### Monthly Confirmation Statements

To ensure the integrity of all CHT financial information, Swap Counterparties must provide the TA with the following information within two weeks of each month-end:

- a) Monthly bank account statement
- b) Monthly safekeeping/collateral account statement

## REPORTING REQUIREMENTS

### Swap Counterparty to Trust Administrator

- *Investment Input Form* (whenever an investment is made or CMB is repurchased for cancellation with prior approval of TA)
- *Request for Cancellation Form* (whenever approval is sought for CMB repurchase for cancellation)
- *Daily Banking Information* (in print form or online viewing access)
- *Monthly Bank Statements* (within two [2] weeks after end of month)
- *Monthly Custodian Account Statement* (within two [2] weeks after end of month)
- Informing the TA of credit rating/business status changes on a timely basis

Refer to the respective sections in this Chapter for more details.

## **Trust Administrator to Swap Counterparty**

### **Swap Confirmation Report**

This report is provided monthly to all Swap Counterparties on a series by series basis and details all transactions in the Swap Counterparty's Principal Reinvestment Account held with the respective Reinvestment Custodian. The Swap Counterparty is required to inform the TA of any discrepancies within three (3) business days of report receipt.

The report details the following information:

- the current credit rating for the Swap Counterparty;
- beginning and ending cash balances;
- investment activities during the month;
- total assets purchased to date (by investment type); and
- NHA MBS premium/discount outstanding.

### **Swap Collateral Report**

This report is provided twice monthly to Swap Counterparties on a series by series basis and summarizes all transactions in their Collateral account. The Swap Counterparty is required to inform the TA of any discrepancies within three (3) business days of report receipt.

The report details the following information:

- the current credit rating of the Swap Counterparty;
- beginning and ending collateral balances;
- changes to collateral made during the month; and
- total collateral held, before and after haircut.

## **Trust Administrator to Guarantor**

The TA provides the Guarantor with a number of reports to help monitor various risks of the program. In addition, the TA also provides the Guarantor reports to monitor all assets under administration, as well as premiums and discounts on NHA MBS and CMB.

## **OTHER RELATED PROCESSES**

### **Accounting and Statutory Reporting**

The TA prepares monthly, quarterly, and annual financial statements for CHT. It also prepares the annual tax return.

## Monitoring of Participants

The TA and the Financial Services Advisor monitor changes in the business status of Swap Counterparties, Repo Counterparties and/or Sellers that can negatively affect their ability under the Agreements to participate in the CMB Program. Such negative changes include, but are not limited to:

- a) a credit rating downgrade of a Swap Counterparty and/or Repo Counterparty. Upon obtaining actual knowledge of a downgrade in the current short-term and long-term senior unsecured debt ratings of a Swap Counterparty and/or Repo Counterparty, the TA immediately advises the Trustee and Guarantor of the change;
- b) any insolvency or bankruptcy occurring to a Swap Counterparty, a Repo Counterparty and/or a Seller; and
- c) the consolidation, amalgamation, merger or like event that results in transferring part or all of the assets of the approved CMB participant to another party.

When the business status of a Swap Counterparty, Repo Counterparty and/or Seller is in doubt, the TA, on behalf of CHT, has the right to request additional information from the party concerned. If the Swap Counterparty, Repo Counterparty and/or Seller objects to such a request, it can arrange to submit the requested information to the Guarantor on a confidential basis. Alternatively, it also has the right to recommend retention, for the TA's acceptance, of one of three major national accounting firms to prepare and submit the required information.

## Problem Resolution

The TA provides necessary assistance to Swap Counterparties and/or Sellers to help them comply with required CHT and CMB policies and procedures. Participants experiencing problems with any procedures should contact the TA for assistance. The TA will, where possible, work with the Swap Counterparty and/or Seller to resolve any unique difficulties that are experienced.

# CHAPTER 11

## EVENTS OF DEFAULT



The Trust Administrator (TA) is responsible for monitoring and managing events of default under the CMB Program. This Chapter only addresses events of default related to the CMB Program. For events of default with respect to an NHA MBS Issuer, please review Chapter 13 of the NHA MBS Guide.

Events of default are referred to in several Operative Documents (for example, Approval Letters from CHT and the Guarantor to approve a financial institution as a Swap Counterparty, Repo Counterparty or Seller, Hedge Agreements [including the ISDA Master Agreement, Schedule, Credit Support Annex and Swap Confirm], Repurchase Agreement [GMRA, Annex, etc.] and the Master Transfer Agreement etc.). This Chapter does not document all such events of default, but rather serves as a reference source of certain supplementary operations and procedures related to such events of default. CMB Program participants and CHT service providers should review their legal agreements and Program documentation regularly to identify and be familiar with all events of default applicable to them.

If a Seller, Swap Counterparty or Repo Counterparty is in default of its obligations related to any series of CMB or any Operative Document to which it is a party, then it is considered not to be in compliance with CMB Program requirements for all purposes, including any other series of CMB.

### DAILY BANKING

Each Swap Counterparty must provide the TA with the following on a timely basis:

- Daily viewing access to cash account (either in the form of a printout or online viewing access);
- Independent trade confirmation within 24 hours of trade execution; and
- Cash account and safekeeping account month-end statements (within two [2] weeks after month-end).

If the TA does not receive the above information from a Swap Counterparty on time, the Swap Counterparty will be requested to provide the information by day end of the next day.

If the Swap Counterparty fails to cooperate with the TA, the occurrence will be reported to the Guarantor as an event of default.

## BALANCE IN CASH ACCOUNTS

The cash balance of each Swap Counterparty's cash account cannot be greater than the pre-established limit of \$10,000 across all series in the CMB Program. If the cash balance exceeds \$10,000, the TA will provide a written notice to the Swap Counterparty and request that the excess cash be invested in Trust Permitted Investments within 24 hours or, under certain circumstances, as per the deadline specified in the notice. If the Swap Counterparty fails to make the required investment or fails to comply with the TA's request within the specified time frame, it must submit a written explanation to the TA. Notwithstanding any such explanation or notice from the TA, holding cash in excess of the \$10,000 limit constitutes an event of default.

## TIMELINESS OF MAKING A REINVESTMENT

Failure of a Swap Counterparty to make a reinvestment in a timely manner constitutes an event of default. In such instances, the TA has the responsibility and authority to debit the account(s) of the Swap Counterparty held with its Reinvestment Custodian and make investments, on behalf of the Swap Counterparty, as per the eligible Permitted Investment procedures.

The TA will provide a written notice and will contact the Swap Counterparty by telephone if funds have not been invested according to investment requirements, specifying a deadline by which the funds must be reinvested in Trust Permitted Investments. This deadline may be as short as 24 hours. If no investments are made by the deadline specified in the notice, the TA will debit the Swap Counterparty's account(s), will make the investments on the Swap Counterparty's behalf and may exercise any other remedy available to it by law.

It is to the advantage of a Swap Counterparty to make a new investment immediately upon the maturity of any existing investments, in order to avoid the loss of interest. This will also avoid triggering an event of default for having a cash balance higher than the permitted level of \$10,000.

## INVESTMENT INFORMATION

All investment information must be transmitted to the TA via the Investment Input Form as per the deadlines provided in [Chapter 10](#).

The TA may contact the Swap Counterparty as a reminder in advance of the required investment date. If the TA does not receive the Investment Input Form on time, as per the CHT advice titled "Settlement Conventions for Reinvestment in the CMB Program," it will request a written explanation from the Swap Counterparty.

## PERMITTED INVESTMENTS

Swap Counterparties must only invest in eligible investment categories approved by the Guarantor and as per the guidelines outlined in the Operative Documents and notices/advises issued thereunder. Non-permitted investments will be rejected automatically by the CHT system. Failure to correct the investment will result in an event of default.

A Swap Counterparty may request the Guarantor to approve securities issued by a sponsored ABS conduit, meeting all CMB Program eligibility requirements as a Permitted Investment in accordance with the approval process detailed in [Chapter 7](#). The Swap Counterparty, as the sponsor of such a conduit, must also ensure the continued eligibility of the conduit. Failure to inform the TA of any changes in circumstances affecting the eligibility status of the conduit is an event of default. The ABS conduit must submit detailed monthly reports, within 35 business days of each month-end, to the TA and FSA to support its continued eligibility for the CMB Program. The TA will notify the Swap Counterparty if the reports are not received on time. The Swap Counterparty must then ensure the delivery of the report(s) to the TA within one (1) week of the TA's notice. Failure to respond will result in removal of the asset-backed securities issued by the conduit from the list of Permitted Investments.

If any investment ceases to be an eligible investment, the Swap Counterparty must dispose of that ineligible investment within five (5) business days and reinvest the proceeds in an alternative investment listed in the Permitted Investment guidelines.

## CMB REPURCHASE FOR CANCELLATION

Swap Counterparties must only purchase CMB series for cancellation with principal available for reinvestment for the period and as per the criteria outlined. Violation of the Program criteria and Hedge Documents constitutes an event of default.

## INTEREST RETENTION ACCOUNT (SWAP COUNTERPARTIES RATED LESS THAN AA-)

Swap Counterparties rated lower than AA- must invest funds retained in the Custodian Interest Funds Account according to the Permitted Investment guidelines approved by the Guarantor (Participants should refer to [Chapter 9](#) and [10](#) for further details on accounts related to such interest retention). These Swap Counterparties are allowed to use credit balances in these accounts to fund accrued interest under reinvestment NHA MBS held in the Principal Reinvestment Account. It is an event of default for such Swap Counterparties to use funds/securities in the Custodial Interest Funds or Retention Account for purposes other than eligible investments or NHA MBS accrued interest. If Swap Counterparties want to transfer money from the Custodial Interest Funds or Retention Account outside of the above guidelines, they must obtain prior approval from the TA.

## POSTING COLLATERAL (SWAP COUNTERPARTIES)

A Swap Counterparty's failure to post collateral within the prescribed timelines described below is an event of default.

On any given day, if the TA provides the Swap Counterparty the notification to post swap collateral before 1 p.m., the transfer of collateral must be made no later than the close of the following business day. If the notification is provided after 1 p.m., the transfer will be made no later than the close on the second business day thereafter. Please refer to Paragraph 4(b) of the ISDA Credit Support Annex for more details on transfer timing.

When a Swap Counterparty fails to post collateral when required, CHT may exercise one or more of the rights and remedies detailed in the ISDA Credit Support Annex, including set-off against an amount otherwise payable to the Swap Counterparty. The TA may also liquidate any posted collateral through public or private sales and apply the proceeds to satisfy any amount owing and unpaid by the Swap Counterparty.

Refer to [Chapter 10](#) for further details on posting swap collateral.

## POSTING OF REPO COLLATERAL AND MARGIN (SWAP AND REPO COUNTERPARTIES)

A Repo Counterparty's failure to post repo margin within prescribed timelines described below is an event of default.

On any given day, if the TA provides the Repo Counterparty notification to post repo margin, and if such notification is given before 11:30 a.m. on any business day, the margin transfer shall be made on or before 3:30 p.m. on that day. If notification is provided after 11:30 a.m., but before 3:30 p.m. on any business day, the margin transfer shall be made on the business day immediately following the day on which the notice is given. Please refer to Schedule A, Annex I, Supplemental Terms and Conditions to the Repurchase Agreement for more details on transfer timing.

As mentioned above, failure on the part of the Repo Counterparty to provide margin when required constitutes an event of default. Paragraph 1(j) of Annex I, Supplemental Terms and Conditions, and Paragraph 10 of the Repurchase Agreement outline the events of default and the process to be followed.

Refer to [Chapter 10](#) for further details on repo collateral/margin posting.

## SETTLEMENTS

An event of default occurs when a Swap Counterparty fails to settle according to the legal agreements supplemented by the instructions and details stated on the Transfer Advice. Section 2(a)(i) of the ISDA Master Agreement provides that:

*“Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions...”*

If such default occurs, the TA will contact the Swap Counterparty to request that corrective action be taken within 24 hours. If the Swap Counterparty fails to comply, the TA will request a written explanation for the non-compliance and subsequently exercise such remedies as may be appropriate, with the consent of the Guarantor.

## BUSINESS STATUS

A negative change in the business status of a Swap Counterparty, a Repo Counterparty or Seller may affect its actual or perceived ability to participate in the CMB Program, as well as constitute an event of default. Negative changes include, but are not limited to:

- a downgrade of the credit rating;
  - Upon the TA obtaining actual knowledge of a downgrade in the current long-term senior unsecured debt ratings of a Swap Counterparty, Repo Counterparty or Seller, the TA provides immediate written notification to the Trustee, with a copy to the Guarantor.
  - If the credit rating of a Swap Counterparty is downgraded below AA-, the TA provides the same notification to the Trustee and Guarantor. In addition, the affected Swap Counterparty then follows the administrative process for a Swap Counterparty rated less than AA-, as detailed in [Chapter 9](#) and [Chapter 10](#).
  - A Swap Counterparty that is downgraded to BBB+ may continue to administer existing swap transactions but shall not be allowed to enter into new transactions.
  - If the credit rating of a Swap Counterparty or a Repo Counterparty drops below BBB+, the minimum requirement for participation in the Program, the TA provides the same notification to the Trustee and Guarantor. For a Counterparty downgraded below BBB+, an acceptable replacement Counterparty or arrangement must be put in place.
- insolvency or bankruptcy of a Swap Counterparty, Repo Counterparty or Seller; and
  - The TA provides the same notification to the Trustee and Guarantor.
- consolidation, amalgamation, merger or like event that results in the transfer of part or all of the assets of a Swap Counterparty, a Repo Counterparty or Seller to another entity.
  - The TA provides the same notification to the Trustee and Guarantor.

With regard to the last two types of changes, the TA has the right to request additional information from the party concerned. If the Swap Counterparty, Repo Counterparty or Seller objects to such a request, it can arrange to submit the requested information to the Guarantor on a confidential basis. Alternatively, it has the right to suggest three major national accounting firms for the TA's consideration. The accounting firm selected by the TA will then submit the required information at the expense of the Swap Counterparty, Repo Counterparty or Seller, as applicable.

The Guarantor must then decide on the appropriate course of action based on the options available to it including being appointed as representative on behalf of the participant, allowing the new entity to continue with operations or finding an appropriate replacement to take over the role and responsibilities of the affected party.

## **RIGHTS OF CHT AND THE GUARANTOR**

CHT and the Guarantor each has at its disposal various rights and remedies that each may exercise if an event of default under any Operative Document to which it is a party arises, including but not limited to, waiving or curing the event of default, enforcing contractual remedies, exercising rights of set-off, and being appointed a representative on behalf of a defaulting participant and pursuing any other legal remedies available. Based on the information provided with respect to an event of default, the FSA assesses all relevant matters and makes a recommendation to CHT and the Guarantor, including, for example, whether a participant should be allowed to continue to participate in the CMB Program, with or without limitations, whether the role and responsibilities of such a participant should be transferred to an acceptable third party or whether CHT and the Guarantor should pursue other available alternatives.

Each participant must review the Operative Documents to which it is a party along with the notifications and advices issued from time to time by CHT and/or the Guarantor to ensure it understands its rights and obligations under these documents, the rights and remedies of CHT and the Guarantor under the CMB Program and the remedies available to address events of default and non-compliance with CMB Program requirements.

# APPENDIX A

## KEY CONTACTS FOR CMB PROGRAM



A LIST OF KEY CONTACTS FOR CMB PROGRAM IS PROVIDED BELOW.

### Trust Administrator (TA) of CHT

Brookfield Place, 161 Bay Street, 9th Floor, Toronto, Ontario M5J 2S8

Scott Allen	Executive Director	Tel: 416-594-8724	Fax: 416-956-6222	<a href="mailto:Scott.Allen@CIBC.ca">Scott.Allen@CIBC.ca</a>
Vickie Chong	Director	Tel: 416-956-3734	Fax: 416-956-6222	<a href="mailto:Vickie.Chong@CIBC.ca">Vickie.Chong@CIBC.ca</a>
Stephanie Yan	Associate	Tel: 416-594-7673	Fax: 416-956-6222	<a href="mailto:Stephanie.Yan@CIBC.com">Stephanie.Yan@CIBC.com</a>
Alice Woei	Analyst	Tel: 416-956-3629	Fax: 416-956-6222	<a href="mailto:Alice.Woei@CIBC.com">Alice.Woei@CIBC.com</a>

Note: Please see Vickie Chong for all French communication.

### Financial Services Advisor (FSA)

CMHC Securitization Centre, 70 York Street, Suite 1100, P.O. Box 8, Toronto, Ontario M5J 1S9

Joaquin Ortigosa	Director	Tel: 416-250-2755	Fax: 416-218-3312	<a href="mailto:jortigos@cmhc-schl.gc.ca">jortigos@cmhc-schl.gc.ca</a>
Milan Gneć	Senior Manager	Tel: 416-250-2709	Fax: 416-250-2726	<a href="mailto:mgneć@cmhc-schl.gc.ca">mgneć@cmhc-schl.gc.ca</a>
Maki Okamoto	Senior Analyst	Tel: 416-250-3261	Fax: 416-218-3312	<a href="mailto:mokamoto@cmhc-schl.gc.ca">mokamoto@cmhc-schl.gc.ca</a>

### Central Paying Agent (CPA)

100 University Ave, North Tower 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1

Stephen Murphy	Manager, MBS	Tel: 647-790-3110	Fac: 416-981-9788	<a href="mailto:Stephen.Murphy@Computershare.com">Stephen.Murphy@Computershare.com</a>
Susanne Pynn	Professional, MBS	Tel: 416-263-9351	Fac: 416-981-9788	<a href="mailto:Susanne.Pynn@Computershare.com">Susanne.Pynn@Computershare.com</a>

### Custodian

100 University Ave, North Tower 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1

Stephen Murphy	Manager, MBS	Tel: 647-790-3110	Fac: 416-981-9788	<a href="mailto:Stephen.Murphy@Computershare.com">Stephen.Murphy@Computershare.com</a>
Susanne Pynn	Professional, MBS	Tel: 416-263-9351	Fac: 416-981-9788	<a href="mailto:Susanne.Pynn@Computershare.com">Susanne.Pynn@Computershare.com</a>

### Bond Indenture Trustee

Canada: 100 University Ave, North Tower 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1

Stephen Murphy	Manager, MBS	Tel: 647-790-3110	Fac: 416-981-9788	<a href="mailto:Stephen.Murphy@Computershare.com">Stephen.Murphy@Computershare.com</a>
Susanne Pynn	Professional, MBS	Tel: 416-263-9351	Fac: 416-981-9788	<a href="mailto:Susanne.Pynn@Computershare.com">Susanne.Pynn@Computershare.com</a>

United States: 8742 Lucent Boulevard Suite 300, Highlands Ranch Colorado, 80129

Rose Stroud	Corporate Trust Officer	Tel: 303-262-0797	Fax: 303-262-0608	<a href="mailto:Rose.Stroud@Computershare.com">Rose.Stroud@Computershare.com</a>
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# APPENDIX B

## DOCUMENTATION REQUIREMENTS FOR PROGRAM PARTICIPANTS



Please note that relevant valid documentation common to the roles of Seller, Swap Counterparty and/or Repo Counterparty which has been submitted previously by an applicant for its approval in one role under the CMB Program, may be used to fulfill the documentation requirements under an application for a new role.

**Applicants should also note that the documentation requirements listed herein may change over time as determined by CHT and the Guarantor.**

### SELLER DOCUMENTATION REQUIREMENTS

#### To Become an Approved Seller

Financial institutions that satisfy the basic eligibility criteria laid out in [Chapter 3](#), may apply to become Approved Sellers under the CMB Program by submitting an “Application for Approval as a Seller of Eligible Housing Loans under the Canada Mortgage Bonds Program” (using form CHT 1\*) along with **three (3) originals** of each of the following documents to the Financial Services Advisor (FSA):

- An officer’s certificate with respect to the applicant attaching true copies of each of the following:
  - A copy of the applicant’s Constatting Documents.
  - An authorizing resolution by the board of directors of the applicant (form CHT 2\*).
  - A certificate of incumbency with respect to signing officers of the applicant (form CHT 3\*).
  - A certified statement of net worth for the most recent fiscal year of the applicant (form CHT 4\*), or a certified statement of enhanced adjusted net worth for the most recent fiscal year for a newly formed or dormant applicant, and if applicable, an unconditional guarantee of all of the Seller’s obligations from a qualified credit support provider.
- The Seller must provide to the FSA as applicable, within ninety (90) days after its fiscal year-end, the certificate(s) of insurance evidencing that the Seller maintains a financial institution fidelity bond or insurance satisfying the following criteria:
  - has a minimum duration of one (1) year;
  - provides a clause stipulating that the bond shall apply to loss of property owned by the insured, held by the insured in any capacity, or for which the insured is legally liable;
  - provides thirty (30) days prior written notice of cancellation to the FSA;

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

- is underwritten by an insurer authorized to do business in Canada with a minimum financial strength rating of “A-“ from A.M. Best Company Inc. or an equivalent rating from another acceptable credit rating agency; and
- at a minimum, provides single-loss fidelity coverage (which shall include any excess coverage) based on the following table:

<b>Total NHA MBS Outstanding* (As at Most Recent Calendar Year-End)</b>	<b>Minimum Required Single Loss Fidelity Coverage</b>	<b>Maximum Deductible (Fidelity)</b>
\$0 to \$100 million	\$5 million	\$500,000
Greater than \$100 million to \$500 million	\$10 million	
Greater than \$500 million to \$1 billion	\$15 million	
Greater than \$1 billion to \$5 billion	\$25 million	
Greater than \$5 billion to \$10 billion	\$35 million	
Greater than \$10 billion to \$25 billion	\$50 million	\$1 million
Greater than \$25 billion to \$50 billion	\$75 million	
Greater than \$50 billion	\$100 million	\$5 million

\*NHA MBS Outstanding will refer to the amount of NHA MBS sold directly to CHT as original assets.

Additional details and requirements related to minimum coverage:

- If the Seller’s fidelity coverage is provided under a Master Bond Program or Policy, then the aggregate fidelity loss limit must be at least double the Seller’s required single-loss minimum.
- Where the bond policy is underwritten for more than one Seller, then the single or aggregate fidelity loss limit must be equal to or greater than the sum of the single-loss minimums applicable to each Seller.
- Where a Seller acts in different roles (for example Swap Counterparty and/or Repo Counterparty), coverage amounts should not be aggregated and the Seller must meet the minimum coverage requirements applicable to the role with the largest required coverage amount.

At any time, CHT or the Guarantor may, in its sole discretion, require the Seller to add other or modify existing insuring agreements, to increase coverage amounts, or to submit additional material evidencing compliance.

It shall be the sole responsibility of the Seller to determine whether any additional insuring agreements or coverage amounts are necessary for its own protection or for satisfying obligations and requirements outside the Program. All insuring agreements within the financial institution bond shall be maintained by the Seller at its own expense.

The Seller must notify the FSA immediately if its financial institution bond is cancelled or if coverage is changed to the extent that it no longer meets Program requirements.

In situations where fiscal year and policy year do not coincide, the Seller is deemed compliant with the one-year duration requirement if the certificate of insurance in effect as of the submission date provides evidence of one-year of uninterrupted or continuous coverage starting from the most recently submitted bond or insurance policy's expiration date.

In exceptional circumstances when the effective or renewal date of the policy is changed resulting in a coverage period shorter than one year, the continuity principle will apply. The Seller must demonstrate that, as at submission date it has policy coverage in effect satisfying the prescribed criteria and that it has maintained coverage in effect uninterrupted, since the most recent expiration date.

Amendment to the financial institution fidelity bond requirement applicable to large Canada Mortgage Bonds Program participants

Sellers that are not able to satisfy the current maximum deductible requirement may be permitted to utilize an alternative approach to ensure compliance with the fidelity bond requirement provided the following criteria are met:

- a) Seller's total assets amount is equal to or greater than \$75 billion as at the most recent fiscal year end; and
- b) Seller's single loss fidelity coverage is equal to or greater than the minimum single loss coverage of what is required under the current standard Program requirements; and
- c) The maximum deductible is no greater than one third ( $\frac{1}{3}$ ) of the single loss amount of the policy.

This option would also apply to and capture related entities, such as investments dealers, that are covered under the same group financial institution bond as their parent company.

- The applicant's annual audited financial statements for each of the latest three (3) fiscal years, unless it is a newly formed or dormant applicant, and quarterly financial statements for periods since the last fiscal year-end. If the audited financial statements cover a period ending more than six (6) months prior to the date the FSA receives the application, then a copy of a current unaudited statement signed by the applicant's chief financial officer must also be submitted. For newly formed or dormant applicants, audited financial statements for periods of less than three (3) years are acceptable.
- **Securitization Program Policy Requirements:** Effective July 1, 2018, for the purposes of the CMB Program, CMHC requires that the Issuer's audited financial statements, as well as the Adjusted Net Worth Statement and the Specified Procedures Report, must be audited or performed, as applicable, by an independent public accounting firm that is a registered participant in CPAB's oversight program, and whose registration has not been terminated, suspended or withdrawn. In addition, all instances of independent public accountant and/or auditor in this Guide are intended to refer to a member of an accounting firm or sole practitioner, as the case may be, who is a registered participant in CPAB's oversight program.

- **Definition and clarification of CPAB's specific role and function:** The Canadian Public Accountability Board (CPAB) oversees the auditors of Canadian reporting issuers – companies that have raised funds from the Canadian investing public and which, for that reason, must file financial statements with one or more provincial securities commissions. Pursuant to the Canadian Securities Administrators National Instrument 52-108, accounting firms that audit reporting issuers must be a participant in CPAB's oversight program.

CPAB's mandate does not include assessments of the quality of the audits performed for Issuers pursuant to the CMB Program or the quality control processes in place at the firm to ensure quality of the audits of Issuers. Accordingly, users of the audits for Issuers cannot rely on CPAB's oversight to evaluate the quality of such audits for Issuers, or specified procedures performed with respect to the Issuers.

- Names and resumés of key employees involved in CMB-related activities.
- A brief history of the applicant, including details on its organization structure, the jurisdiction in which it was incorporated or otherwise organized, other jurisdictions in which it is authorized to do business, a description of business operations, other business in which it is engaged besides the origination and servicing of mortgages, and any legal or business affiliations the applicant may have with other persons, partnerships, or corporations that relate to the pooling of mortgages, issuance of securities and/or administration of securities.
- Additional information as may be requested to supplement the documents provided and/or to support FSA review of application.

If the documents submitted above are satisfactory, then, as a condition to approval of the applicant as a Seller, the applicant must execute and deliver **three (3) originals** of each of the following documents to the FSA:

- Master Transfer Agreement (form CHT 5\*) in the precise form provided, by the TA or the FSA, to the applicant.
- Opinion of external legal counsel to Seller (form CHT 6b\* or 6c\*), together with any opinion support certificates if different from the officer's certificate referred to above. In-house counsel opinions will not be accepted. External legal opinion(s) must address all documents executed by the applicant.
- A certificate of status, compliance, good standing or similar certificate and evidence of compliance with applicable registration requirements for the jurisdiction of incorporation of the applicant and for each jurisdiction in which the applicant operates or will conduct business related to CMB.
- Any additional documentation as may be determined by CHT or the Guarantor.

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

An application package can be requested by contacting the TA or the FSA (see [Appendix A](#) for contact information).

Once the applicant is approved, any periodic documentation requirements established by CHT and the Guarantor must be fulfilled to maintain eligibility for continued participation in the CMB Program.

## Periodic Reporting

In order for a Seller to maintain its approved status under the CMB Program, it must submit to the FSA the following documents annually within 90 days of the Seller's fiscal year-end or at such other time as may be required:

- A copy of the Seller's latest audited annual financial statements or, if the statements are posted on the Seller's website, an e-mail notification with a link to the website is acceptable.
- A statement of net worth certified by the Seller and assessed at the end of the most recent fiscal year for which the audited financial statements are submitted. The form and certificate to be used is the same as the one used for reporting adjusted net worth under the NHA MBS Program (CMHC may request that the computation of net worth be audited by the Seller's auditors or by its auditors in accordance with the standards prescribed by CMHC).
- Where the Seller is a newly formed or dormant entity, a statement of enhanced adjusted net worth certified by the Seller and assessed at the end of the most recent fiscal year for which the audited financial statements are submitted. The form and certificate to be used is the same as the one used for reporting enhanced adjusted net worth under the NHA MBS Program (CMHC may request that the computation of enhanced adjusted net worth be audited by the Seller's auditors or by its auditors in accordance with the standards prescribed by CMHC).
- Evidence of acceptable financial institution fidelity bond coverage for the employees and directors of the Seller that satisfies prescribed minimum criteria.
- Furthermore, the Seller may be required to submit internally prepared, unaudited financial statements and a net worth statement if CHT or the Guarantor requires more current or frequent information.
- Any other requirements as and when established by CHT or the Guarantor.

If any of the factual information or materials provided by an Approved Seller change (whether as part of its original application or annual reporting requirement), then, as a condition for continued approval, the Seller must submit updated information and material as may be required.

Participants should also note that these periodic reporting requirements may change over time. Participants must ensure compliance once duly notified of such changes.

## Reporting at Each Issuance/Sale

At each CMB issuance in connection with which a Seller is selling NHA MBS to CHT, the Seller is required to submit a certificate with respect to all Operative Documents to which it is a party, confirming as of the date of such issuance that all the representations and warranties it has made under such Operative Documents are true and correct, that all of the terms, covenants and conditions of such Operative Documents required to be complied with or performed by the Seller have been complied with or performed in all material respects and that there has been no material change in any factual matter on which the opinion letter delivered as part of the original application process is based.

## SWAP COUNTERPARTY DOCUMENTATION REQUIREMENTS

### To Become an Approved Swap Counterparty

Financial institutions that satisfy the basic eligibility criteria laid out in [Chapter 4](#) may apply to become approved Swap Counterparties under the CMB Program by submitting an “Application for Approval as a Swap Counterparty under the Canada Mortgage Bonds Program” (using form CHT 11) along with **three (3) originals** of each of the following documents to the FSA:

- An officer’s certificate with respect to the applicant attaching true copies of each of the following:
  - a copy of the applicant’s Constatting Documents.
  - an authorizing resolution by the board of directors of the applicant (form CHT 2\*).
  - a certificate of incumbency with respect to signing officers of the applicant (form CHT 3\*).
- The applicant’s audited financial statements for the three (3) most recent years plus quarterly unaudited financial statements for the period since last fiscal year-end. If the audited financial statements cover a period ending more than six (6) months prior to the date the FSA receives the application, then a copy of a current unaudited statement signed by the applicant’s chief financial officer must also be submitted.
- The Swap Counterparty must provide to the FSA as applicable, within ninety (90) days after its fiscal year-end, the certificate(s) of insurance evidencing that it maintains a financial institution fidelity bond or insurance satisfying the following criteria:
  - has a minimum duration of one (1) year;
  - provides a clause stipulating that the bond shall apply to loss of property owned by the insured, held by the insured in any capacity, or for which the insured is legally liable;
  - provides thirty (30) days prior written notice of cancellation to the FSA;

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

- is underwritten by an insurer authorized to do business in Canada with a minimum financial strength rating of "A-" from A.M. Best Company Inc. or an equivalent rating from another acceptable credit rating agency; and
- at a minimum, provides single-loss fidelity coverage (which shall include any excess coverage) based on the following table:

<b>Aggregate Swap Notional Value (As at Most Recent Calendar Year-End)</b>	<b>Minimum Required Single Loss Fidelity Coverage</b>	<b>Maximum Deductible</b>
Less than \$1 billion	\$15 million	\$500,000
Greater than \$1 billion to \$5 billion	\$25 million	
Greater than \$5 billion to \$10 billion	\$35 million	
Greater than \$10 billion to \$25 billion	\$50 million	\$1 million
Greater than \$25 billion	\$75 million	\$5 million

Additional details and requirements related to minimum coverage:

- If the Swap Counterparty's fidelity coverage is provided under a Master Bond Program or Policy, then the aggregate fidelity loss limit must be at least double the Swap Counterparty's required single-loss minimum.
- Where the bond policy is underwritten for more than one Swap Counterparty, then the single or aggregate fidelity loss limit must be equal to or greater than the sum of the single-loss minimums applicable to each Swap Counterparty.
- Where a Swap Counterparty acts in different roles (for example, Seller and/or Repo Counterparty), coverage amounts should not be aggregated and the Swap Counterparty must meet the minimum coverage requirements applicable to the role with the largest required coverage amount.

At any time, CHT or the Guarantor may, in its sole discretion, require the Swap Counterparty to add other or modify existing insuring agreements, to increase coverage amounts, or to submit additional material evidencing compliance.

It shall be the sole responsibility of the Swap Counterparty to determine whether any additional insuring agreements or coverage amounts are necessary for its own protection or for satisfying obligations and requirements outside the Program. All insuring agreements within the financial institution bond shall be maintained by the Swap Counterparty at its own expense.

The Swap Counterparty must notify FSA immediately if its financial institution bond is cancelled or if coverage is changed to the extent that it no longer meets Program requirements.

In situations where fiscal year and policy year do not coincide, the Swap Counterparty is deemed compliant with the one-year duration requirement if the certificate of insurance in effect as of submission date provides evidence of one-year of uninterrupted/continuous coverage starting from the most recently submitted bond/insurance policy's expiration date.

In exceptional circumstances when the effective/renewal date of the policy is changed resulting in a coverage period shorter than one year, the continuity principle will apply. The Swap Counterparty must demonstrate that, as at the submission date, it has policy coverage in effect satisfying the prescribed criteria and that it has maintained coverage in effect uninterrupted, since the most recent expiration date.

Amendment to the financial institution fidelity bond requirement applicable to large Canada Mortgage Bonds Program participants

Swap Counterparties that are not able to satisfy the current maximum deductible requirement may be permitted to utilize an alternative approach to ensure compliance with the fidelity bond requirement provided the following criteria are met:

- a) Swap Counterparty's total assets amount is equal to or greater than \$75 billion as at the most recent fiscal year end;
- b) Swap Counterparty's single loss fidelity coverage is equal to or greater than the minimum single loss coverage of what is required under the current standard Program requirements; and
- c) The maximum deductible is no greater than one third ( $\frac{1}{3}$ ) of the single loss amount of the policy.

This option would also apply to and capture related entities, such as investments dealers, that are covered under the same group financial institution bond as their parent company.

- A statement of current debt ratings (form CHT 13\*).
- Name and resumés of key employees involved in CMB-related activities.
- Additional information as may be requested to supplement the documents provided and/or to support FSA review of application.

If the documents submitted above are satisfactory, then, as a condition to approval of the applicant as a Swap Counterparty, the applicant must execute and deliver **three (3) originals** of each of the following documents to the FSA:

- Hedge Agreement\* (including an ISDA Master Agreement, the Schedule and Credit Support Annex) – in the precise form provided by the TA or the FSA to the applicant.
- Master Transfer Agreement\* – in the precise form provided by the TA or the FSA to the applicant if not already provided under Seller documentation.
- Reinvestment Custodial Agreement\* – (with a party meeting the eligibility criteria for the reinvestment custodial role under the CMB Program) – in the precise form provided by the TA or the FSA to the applicant.

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

- A guarantee by the credit support provider to the applicant, if applicable\* – in the precise form provided by the TA or the FSA to the applicant.
- An opinion of external legal counsel to the Swap Counterparty (form CHT 14\*), together with any opinion support certificates if different from the officer's certificate referred to above. In-house counsel opinions will not be accepted. External legal opinion(s) must address all documents executed by the applicant.
- A certificate of status, compliance, good standing or a similar certificate for the jurisdiction of incorporation of the Swap Counterparty and for each jurisdiction in which the applicant operates or will conduct business related to CMB.
- Any additional documentation as may be determined by CHT or the Guarantor.

An application package can be requested by contacting the TA or the FSA (see [Appendix A](#) for contact information).

Once the applicant is approved, any periodic documentation requirements established by the Trust and the Guarantor must be fulfilled to maintain eligibility for continued participation in the Program.

## Periodic Reporting

In order for an approved Swap Counterparty to maintain its status within the CMB Program, it must submit to the FSA the following documents annually within 90 days of the Swap Counterparty's fiscal year-end or at such other time as may be required:

- A copy of the latest audited annual financial statements of the Counterparty and any credit support provider or, if the statements are posted on these parties' websites, an e-mail notification with a link to the website is acceptable.
- Evidence of acceptable financial institution fidelity bond coverage for the employees and directors of the Swap Counterparty that satisfies prescribed minimum criteria.
- An updated copy of the Swap Counterparty's and, where applicable, the credit support provider's statement of debt ratings and, in case of being put on review by a rating agency, a prompt notification to the TA immediately upon becoming aware of such event.
- Furthermore, the Swap Counterparty may be required to submit internally prepared, unaudited financial statements if CHT or the Guarantor requires more current or frequent information.
- Any other requirements as and when established by CHT or the Guarantor.

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

If any of the factual information or materials provided by an Approved Swap Counterparty change (whether as part of its original application or annual reporting requirement), then, as a condition for continued approval, the Swap Counterparty must submit updated information and material as may be required.

Participants should also note that these periodic reporting requirements may change over time. Participants must ensure compliance once duly notified of such changes.

### Reporting at Each Issuance or Sale

At each CMB issuance each Counterparty participating in such issuance is required to submit a certificate with respect to all Operative Documents to which it is a party, confirming as of the date of such issuance that all the representations and warranties it has made under such Operative Documents are true and correct, that all of the terms, covenants and conditions of such Operative Documents required to be complied with or performed by the Swap Counterparty have been complied with or performed in all material respects and that there has been no material change in any factual matter on which the opinion letter delivered as part of the original application process is based.

## REPO COUNTERPARTY DOCUMENTATION REQUIREMENTS

### To become an Approved Repo Counterparty

Financial institutions that satisfy the basic eligibility criteria laid out in [Chapter 5](#) may apply to become Approved Repo Counterparties under the CMB Program by submitting an “Application for Approval as a Repo Counterparty under the Canada Mortgage Bonds Program” along with **three (3) originals** of each of the following documents to the FSA:

- An officer’s certificate with respect to the applicant attaching true copies of each of the following:
  - a copy of the applicant’s Constatting Documents.
  - an authorizing resolution by the board of directors of the applicant (form CHT 2\*).
  - a certificate of incumbency with respect to signing officers of the applicant (form CHT 3\*).
- The applicant’s audited financial statements for the three (3) most recent years plus quarterly unaudited financial statements for the period since last fiscal year-end. If the audited financial statements cover a period ending more than six (6) months prior to the date the FSA receives the application, a copy of a current unaudited statement signed by the applicant’s chief financial officer must also be submitted.
- A statement of current debt ratings (form CHT 13\*).

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

- The Repo Counterparty must provide to the FSA as applicable, within ninety (90) days after its fiscal year-end, the certificate(s) of insurance evidencing that it maintains a financial institution fidelity bond/insurance satisfying the following criteria:
  - has a minimum duration of one (1) year;
  - provides a clause stipulating that the bond shall apply to loss of property owned by the insured, held by the insured in any capacity, or for which the insured is legally liable;
  - provides thirty (30) days prior written notice of cancellation to the FSA;
  - be underwritten by an insurer authorized to do business in Canada with a minimum financial strength rating of "A-" from A.M. Best Company Inc. or an equivalent rating from another acceptable credit rating agency.

The minimum required single-loss fidelity coverage applicable to Repo Counterparties is \$20 million. The maximum deductible shall not be greater than \$1 million.

Additional details and requirements related to minimum coverage:

- If the Repo Counterparty's fidelity coverage is provided under a Master Bond Program or Policy, then the aggregate fidelity loss limit must be at least double the Repo Counterparty's required single-loss minimum.
- Where the bond policy is underwritten for more than one Repo Counterparty, then the single or aggregate fidelity loss limit must be equal to or greater than the sum of the single-loss minimums applicable to each Repo Counterparty.
- Where a Repo Counterparty acts in different roles (for example Seller and/or Swap Counterparty), coverage amounts should not be aggregated and the Repo Counterparty must meet the minimum coverage requirements applicable to the role with the largest required coverage amount.

At any time, CHT or the Guarantor may, in its sole discretion, require the Repo Counterparty to add other or modify existing insuring agreements, to increase coverage amounts, or to submit additional material evidencing compliance.

It shall be the sole responsibility of the Repo Counterparty to determine whether any additional insuring agreements or coverage amounts are necessary for its own protection or for satisfying obligations and requirements outside the Program. All insuring agreements within the financial institution bond shall be maintained by the Repo Counterparty at its own expense.

The Repo Counterparty must notify FSA immediately if its financial institution bond is cancelled or if coverage is changed to the extent that it no longer meets Program requirements.

In situations where fiscal year and policy year do not coincide, the Repo Counterparty is deemed compliant with the one-year duration requirement if the certificate of insurance in effect as of submission date provides evidence of one-year of uninterrupted/continuous coverage starting from the most recently submitted bond or insurance policy's expiration date.

In exceptional circumstances when the effective or renewal date of the policy is changed resulting in coverage period shorter than one year, the continuity principle will apply. The Repo Counterparty must demonstrate that, as at the submission date, it has policy coverage in effect satisfying the prescribed criteria and that it has maintained coverage in effect uninterrupted, since the most recent expiration date.

Amendment to the financial institution fidelity bond requirement applicable to large Canada Mortgage Bonds Program participants

Repo Counterparties that are not able to satisfy the current maximum deductible requirement may be permitted to utilize an alternative approach to ensure compliance with the fidelity bond requirement provided the following criteria are met:

- a) Repo Counterparty's total assets amount is equal to or greater than \$75 billion as at the most recent fiscal year end;
- b) Repo Counterparty's single loss fidelity coverage is equal to or greater than the minimum single loss coverage of what is required under the current standard Program requirements; and
- c) The maximum deductible is no greater than one third ( $\frac{1}{3}$ ) of the single loss amount of the policy.

This option would also apply to and capture related entities, such as investments dealers, that are covered under the same group financial institution bond as their parent company.

- Name and resumés of key employees involved in CMB-related activities.
- Additional information as may be requested to supplement the documents provided and/or to support FSA review of application.
- In addition to the requirements above, Small Repo Counterparties are also required to provide the following:
  - a certified statement of net worth for the most recent fiscal year of the applicant;
  - a description of its repo transaction history, management capability and the internal system and facilities to manage future repo transactions with CHT; and
  - a description of its liquidity management strategy to fulfil the obligation of repaying the repo principal at maturity and the NHA MBS Issuer obligations.

If the documents submitted above are satisfactory, then, as a condition to approval of the applicant as a Repo Counterparty, the applicant must execute and deliver **three (3) originals** of each of the following documents to the FSA:

- Repurchase Agreement (including TBMA/ISMA Global Master Repurchase Agreement and related Annexes\*) in the precise form provided by the TA or the FSA.
- Opinion of external legal counsel to the Repo Counterparty (form CHT 14\*), together with any opinion support certificates if different from the officer's certificate referred to above. In-house counsel opinions will not be accepted. External legal opinion(s) must address all documents executed by the applicant.
- A certificate of status, compliance, good standing or similar certificate for the jurisdiction of incorporation of the applicant and for each jurisdiction in which the applicant operates or will conduct business related to CMB.
- Any additional documentation as may be determined by CHT or the Guarantor.

An application package can be requested by contacting the TA or the FSA (see [Appendix A](#) for contact information).

Once the applicant is approved, any periodic documentation requirements established by CHT and the Guarantor must be fulfilled to maintain eligibility for continued participation in the CMB Program.

## Periodic Reporting

In order for an Approved Repo Counterparty to maintain its status within the CMB Program, it must submit to the FSA the following documents annually within ninety (90) days of the Repo Counterparty's fiscal year-end or at such other time as may be required:

- A copy of the latest audited annual financial statements of the Repo Counterparty or, if the statements are posted on the Repo Counterparty's website, an e-mail notification with a link to the website is acceptable.
- Evidence of acceptable financial institution fidelity bond coverage for the employees and directors of the Repo Counterparty that satisfies the prescribed minimum criteria.
- Furthermore, the Repo Counterparty may be required to submit internally prepared, unaudited financial statements, if CHT or the Guarantor requires more current or frequent information.

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\* Documents submitted by an applicant must conform with the template forms provided by the TA or the FSA.

- An updated statement of current debt ratings.
- Repo Counterparties must submit the following documentation within sixty (60) calendar days of their fiscal quarter-end and within ninety (90) days of their fiscal year-end:
  - a “Tier 1 Capital Reporting Template” completed in accordance with the instructions provided;
  - financial statements with explanatory notes (year-end statements must be audited);
  - unless the Repo Counterparty wants to rely on the Tier 1 Capital disclosures made in the financial statements, Repo Counterparties must also provide publicly available financial report(s) or regulatory capital filings(s) in which their Tier 1 Capital amount is disclosed or from which it can be clearly derived. This documentation will be used to confirm the Tier 1 Capital amount reported in the “Tier 1 Capital Reporting Template”.
- Small Repo Counterparties are required to provide the following:
  - a copy of the latest audited annual financial statements of the Small Repo Counterparty or, if the statements are posted on the Small Repo Counterparty’s website, an e-mail notification with a link to the website is acceptable;
  - evidence of acceptable financial institution fidelity bond coverage for the employees and directors of the Small Repo Counterparty that satisfies the prescribed minimum criteria;
  - an updated statement of current debt ratings;
  - a certified statement of net worth for the most recent fiscal year for which the audited financial statements are submitted; and
  - an updated description of its liquidity management strategy to fulfill the obligation of repaying the repo principal at maturity, as well as the NHA MBS Issuer obligations.
- Any other requirements as and when established by CHT or the Guarantor.

If any of the factual information or materials provided by an Approved Repo Counterparty changes, whether as part of its original application or annual reporting requirement, then, as a condition for continued approval of such a Repo Counterparty, it must resubmit updated information and material as may be required in that connection.

Participants should also note that these periodic reporting requirements may change over time. Participants must ensure compliance once duly notified of such changes.

# APPENDIX C

## DELAYED CERTIFICATE INVENTORY (DCI)



### CANADA MORTGAGE BONDS

September 25, 2009

#### DELAYED CERTIFICATE INVENTORY (DCI)

##### PURPOSE –

To inform CMB Approved Sellers and Swap Counterparties that NHA MBS falling within the Canada Mortgage Bonds (CMB) Program will be managed as non-certificated securities within the Central Payor and Transfer Agent's (CPTA) electronic registry system, (Delayed Certificate Inventory). In addition, to set out the impact of this change on the procedures related to CMB.

##### BACKGROUND –

Effective October 1, 2009, Computershare, the Central Payor and Transfer Agent, (CPTA) for the NHA MBS Program will no longer issue certificates for NHA MBS pools covered by the Canada Mortgage Bonds (CMB) Guarantee Fee. Ownership records will be maintained on the register of the CPTA, and a receipt will be issued evidencing the balance of the pool that is owned by Canada Housing Trust No. 1, (CHT), or by the Issuer in the case of unsold replacement pools. In order to facilitate transfer of the NHA MBS to CHT, the pools will be held in trust by Computershare. Participants will not be able to deposit these NHA MBS to a Canadian Depository for Securities, (CDS) account.

##### IMPACT OF DCI ON CHT PROCEDURES –

###### Issuing New Pools

###### Direct sale to CHT for bond issuance

There is no change to the procedure for issuing new pools that are sold 100% to CHT. The subscriber field on the CMHC 2830, Schedule of Subscribers and Contractual Agreement, is completed indicating the subscriber as, "Computershare Trust Company of Canada, Custodian for CIBC Mellon Trust Company as trustee on behalf of Canada Housing Trust™ No. 1". For the pre-closing, Computershare will present the ownership receipts as opposed to certificates.

For pools partially sold to CHT, the Issuer completes the subscriber information as listed above for the portion sold to CHT, and the subscriber information in B) below for the portion retained by the Issuer.

###### Replacement Pools

When issuing new replacement pools the Approved Issuer will complete the subscriber section of the CMHC 2830, Schedule of Subscriber and Contractual Agreement according to the following instructions. When the replacement is being sold directly to CHT the Approved Issuer uses the designation in A) below. When held for a period by the Approved Issuer pending sale to CHT at a future date, the designation in B) is used until the NHA MBS is sold to CHT.





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## CANADA MORTGAGE BONDS

- A) **Delayed certificate inventory: (assets sold to the Trust)**  
Computershare Trust Company of Canada Custodian for CIBC Mellon TTE CHT 1  
100 University Ave., Toronto, Ontario M5J 2Y1
- B) **Delayed certificate inventory: (assets retained by the Issuer)**  
Computershare Trust Company of Canada Custodian for (insert name of Issuer)  
100 University Ave., Toronto, Ontario M5J 2Y1

The CPTA will direct payment to the account designated by the Trust for those with subscriber A while it will direct payment to the account designated by the Approved Issuer for subscriber B.

### Transfer of Existing Pools to CHT

#### For bond settlement (original assets)

If the NHA MBS pool was issued prior to implementation of DCI, and is certificated, the certificate is delivered to Computershare as per the present procedures.

For an NHA MBS pool that is in the DCI register, the Approved Issuer-Seller forwards an email request to Computershare at [mbs@computershare.com](mailto:mbs@computershare.com) to transfer the ownership to CHT. The email must originate from an individual who is an authorized officer of the Approved Issuer and has signed the Certificate of Incumbency, CMHC form 2805. The text of the email shall read:

For value received, (insert name of Issuer), hereby directs the CPTA to facilitate and execute the following transfer:

Pool details (principal amount, CUSIP number)

To:

Computershare Trust Company of Canada Custodian for CIBC Mellon TTE CHT 1  
100 University Ave., Toronto, Ontario M5J 2Y1

\_\_\_\_\_  
Authorized Signatory  
(per CMHC 2805)

\_\_\_\_\_  
Authorized Signatory  
(per CMHC 2805)

#### For Replacement NHA MBS (Sale to maturity)

The Approved Issuer/Seller forwards a copy of the trade ticket to Computershare, the CPTA. The Swap Counterparty sends a copy of the trade ticket to the Trust Administrator and the Reinvestment Custodian. The CPTA will register the trade once they complete the reconciliation with the Trust Administrator.



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## CANADA MORTGAGE BONDS

### For Replacement NHA MBS (Repurchase Agreement – Repo)

The Approved Issuer/Seller and the Swap Counterparty follow the same process as for replacement pools that are sold to maturity. The trade tickets must clearly indicate the repurchase details.

There is no change to the requirement to complete the Investment Input Form.

### Reinvestment Custodian

The Trust Administrator will reconcile the DCI holdings with the Reinvestment Custodian on a monthly basis. The Trust Administrator will provide the Reinvestment Custodian with a report indicating the DCI holdings as per its records which have been reconciled with Computershare. The Reinvestment Custodian may rely on this report as the confirmation of CHT's ownership of the NHA MBS for purposes of authorizing the release of principal.

Further information on the Delayed Certificate Inventory is available in the CMHC Advice to Approved Issuers entitled, "Introduction of Delayed Certificate Inventory for NHA MBS Issued for Use in the CMB Program", issued contemporaneously with this advice.

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For more information on the impact of Delayed Certificate Inventory in the CMB Program, please contact CHT, Scott Allen (416-594-8724) at the Trust Administrator.





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## CANADA MORTGAGE BONDS

November 13, 2009

### REMINDER OF DCI FORMAT

#### PURPOSE –

This notice is being sent out to remind CMB Approved Sellers and Swap Counterparties with respect to the Delayed Certificate Inventory (DCI) format, introduced via the advice dated September 25, 2009.

Based on the September 25th advice, the table below summarizes what format the NHA MBS pools under the CMB Program must be held in, based on their status:

	Security Format / Action Required
New MBS issued as original assets sold to CHT as of Oct. 1, 2009	DCI
New MBS issued as replacement asset settled & sold directly to CHT as of Oct. 1, 2009	DCI
New MBS issued as replacement & held by the Issuer/Seller for future sale to CHT	DCI
Effective Oct. 1, 2009 new trades of CMB replacement MBS (MBS issued prior to Oct 1/09) sold to CHT as a replacement asset	Transfer MBS certificate to DCI
Effective Oct. 1, 2009 MBS purchased in the secondary market & sold to CHT	Transfer MBS certificate to DCI <b>(Only that portion sold to CHT)</b>
Repo of NHA MBS held in certificated form	Pool can remain in certificated form or can be transferred to the DCI format

Further, in order to ease the transfer of NHA MBS sold to CHT and currently held in certificated form, the Seller-Swap Counterparties must ensure delivery of NHA MBS certificates to the CPTA prior to settlement date.

To avoid settlement issues, Sellers/Swap Counterparties may consider converting their existing holdings of certificated Replacement NHA MBS (from prior to Oct. 1, 2009) into DCI format.

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For more information on the DCI format for the CMB Program, please contact Canada Housing Trust, Scott Allen (416-594-8724) at the Trust Administrator.



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# APPENDIX D

## OFFER TO SELL



(SAMPLE FOR USE IN A FIXED RATE CMB ISSUANCE)

### OFFER TO SELL PURSUANT TO MASTER TRANSFER AGREEMENT

TO: **CANADIAN IMPERIAL BANK OF COMMERCE** as Administrator for **CIBC MELLON TRUST COMPANY** as trustee on behalf of **CANADA HOUSING TRUST™ NO. 1** (the “Trust”).

RE: Master Transfer Agreement dated as of «[Master\\_Transfer\\_Agreement\\_Date](#)» (“Transfer Agreement”) between the undersigned and the Trust.

AND RE: Canada Housing Trust™ No. 1 Bond Series No. «[Series\\_Number](#)» for the Bonds proposed to be issued between «[Guarantee\\_Start\\_Date](#)» and «[Guarantee\\_End\\_Date](#)».

DATE: «[Guarantee\\_Notice\\_Date](#)».

NOW THEREFORE in consideration of the premises and of the covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Seller hereby agrees as follows:

1. **DEFINITIONS, RULES OF USAGE**
  - 1.1. Definitions, Rules of Usage Capitalized terms used and not defined herein shall have the meanings assigned thereto in the Transfer Agreement and the rules of usage set forth therein shall apply hereto.
2. **OFFER TO SELL**
  - 2.1. Offer to Sell to the Trust Set forth on **Schedule A - Listed MBS** is a description of each of the Eligible MBS (the “**Listed MBS**”) that the Seller offers to sell, assign, transfer and set over to the Trust on the Closing Date pursuant to the Transfer Agreement.
  - 2.2. **Price** The Seller agrees that
    - a) the price for all of the Listed MBS shall be no more than 101% of the principal amount of the Listed MBS, as permitted pursuant to Section 2.7 of the Transfer Agreement;
    - b) the price for each of the Listed MBS shall be no less than 95% of the principal amount of the Listed MBS; and
    - c) the maximum coupon rate permitted for Eligible MBS pursuant to the CMHC MBS Program is 0.5% less than the lowest interest rate of any Housing Loan in a pool of Housing Loans underlying the Eligible MBS issued on the basis of such pool of Housing Loans.

The Seller agrees that the Trust may accept this offer and set the price for the Listed MBS so long as the price complies with Section 2.2.

- 2.3. Offer Irrevocable. This offer is irrevocable by the Seller during the Guarantee Period specified in the Guarantee Notice dated «[Gurantee\\_Notice\\_Date](#)» and shall constitute and be an irrevocable and binding obligation of the Seller if accepted by the Trust on the date the Bond Series No. «[Series\\_Number](#)» is priced. The irrevocability of the offer is subject to the Bond Series No. «[Series\\_Number](#)» being priced at no more than [Insert Number](#) basis points in yield over the interpolated Government of Canada yield for the same maturity as Bond Series No. «[Series\\_Number](#)». Once this offer is accepted by the Trust and **Schedule A - Listed MBS** is completed with specific pricing within the parameters stated in Section 2.2, the Seller shall submit a Supplement pursuant to the Transfer Agreement within two (2) business days prior to the Closing Date.

If the arrangements in this offer are acceptable to you, please sign the enclosed copy of this offer in the space indicated below, complete the price information required to be completed by you on **Schedule A - Listed MBS** and return the offer to the Trust (in compliance with the notice provisions of the Transfer Agreement) on the date the Bond Series No. «[Series\\_Number](#)» is priced. Otherwise, this offer will lapse. By signing this offer you are agreeing to the terms and conditions set out in this offer.

Yours truly,

«[Name\\_of\\_Seller](#)»

Per: \_\_\_\_\_

Name: «[Name\\_of\\_Seller\\_Signor\\_1](#)»

Title: «[Title\\_of\\_Seller\\_Signor\\_1](#)»

Per: \_\_\_\_\_

Name: «[Name\\_of\\_Seller\\_Signor\\_2](#)»

Title: «[Title\\_of\\_Seller\\_Signor\\_2](#)»

The terms and conditions set out above are hereby consented to and the foregoing offer is hereby accepted on behalf of the Trust this day of «[Month\\_Year](#)». The purchase price for the Listed MBS to be purchased by the Trust, in compliance with Section 2.2, is indicated in the final column of **Schedule A - Listed MBS** under the heading "Price."

**CANADIAN IMPERIAL BANK OF COMMERCE,**

as Administrator for

**CIBC MELLON TRUST COMPANY,**

as Trustee on behalf of

**CANADA HOUSING TRUST™ NO. 1**

Per: \_\_\_\_\_

Name: «[Name\\_of\\_Administrator\\_](#)»

Title: «[Title\\_of\\_Administrator](#)»

SCHEDULE A  
TO OFFER TO SELL

LISTED MBS

To Be Completed by Seller					To Be Completed By Trust Administrator	
	Mortgage Pool Number(s)	Aggregate Principal Amount(s) of the MBS Pool	Principal offered to the Trust	MBS Coupon Rate	Principal to be Purchased	Purchase Price
1						
2						
3						
4						
5						
6						
7						

Swap Counterparty: «Name\_of\_Swap\_Counterparty»

CHT 9 – 12/2004

# APPENDIX E TRANSFER ADVICE



## TRANSFER ADVICE

Swap Counterparty: [Swap Counterparty]

Original MBS Seller: [Seller]

Settlement Date: [Settlement Date]

### CHT EXPENSE PAYMENT

CMB SERIES NUMBER	CMB MATURITY DATE	NOTIONAL (CMB) AMOUNT	CMB Premium (Discount)	Book Value	ORIGINAL ASSET SIZE (BOOK VALUE)	Rating Agency		CFA Fee	Custodian Fee	Trust Administrator Fee
						Annual	Monthly			
		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

CMB SERIES NUMBER	Issuer Trustee Fee	Bond Trustee Fee	Listing & Paying Agent Fee	Legal/Audit Fee	Client-Specific Expenses (y) <sup>1</sup>	Miscellaneous Charge(s)	TOTAL
	0.00	0.00	0.00	0.00	0.00	0.00	0.00

CMB SERIES NUMBER	Distribution of Income to Beneficiary	Grand Total	CMB Prem (Disc) Amortization

### SWAP SETTLEMENT

POOL NUMBER	SELLER	CMB SERIES NUMBER	ORIGINAL ASSET SIZE (BOOK VALUE)	FACE VALUE	RFB	Remaining Principal	ORIGINAL ASSETS (via CPA)	
							Total Interest Received from CPA	(Premium) Discount Amortization
Total:			0.00	0.00	0.00	0.00	0.00	0.00

POOL NUMBER	SELLER	CMB SERIES NUMBER	Total Interest Received	Premium (Discount) Amortization	REINVESTED ASSETS (via CPA)	
					HBS (via CDS)	Non-HBS
Total:			0.00	0.00	0.00	0.00

POOL NUMBER	SELLER	CMB SERIES NUMBER	Counterparty Portion of Monthly Expense & Distribution of Income	CMB Premium (Discount) Amortization	GOC Premium Amortization	Net Floating Interest Due to Swap Counterparty	Current Month Deferred Amount	Interest from Swap Counterparty	Net Swap Payment Due To (Due From) Swap Counterparty

**TRANSFER ADVICE (con't)**

Swap Counterparty: [Swap Counterparty]

Original MBS Seller: [Seller]

Settlement Date: [Settlement Date]

**PRINCIPAL PAYMENT**

POOL NUMBER	SELLER	CMB SERIES NUMBER	ORIGINAL ASSET SIZE (BOOK VALUE)	ORIGINAL ASSETS (via CPA)		REINVESTED ASSETS (via CPA)	
				Total Principal Received	Premium/(Discount) Amortization	Total Principal Received	Premium/(Discount) Amortization
Total:			0.00	0.00	0.00	0.00	0.00

POOL NUMBER	SELLER	CMB SERIES NUMBER	REINVESTED ASSETS		CMB (Premium) Discount Amortization
			MBS (via CDS)	Non-MBS	
			Total Principal Received	Premium/(Discount) Amortization	Total Principal Received
Total:			0.00	0.00	0.00

POOL NUMBER	SELLER	CMB SERIES NUMBER	GOC Premium Amortization	Current Month Deferred Amount	Total Available Principal to be Re-Invested	Total Principal to return to CMB Investors	Total Accumulated Deferred Amount

**Instructions:**

Please note: GOC's greater than 2 years and MBS investments require T + 3 business days before settlement. GOC's greater than 1 year, but less than 2 years require T + 2 business days before settlement.

Settlement Date	Maturity/Sell Date	Settlement Amount	Maturity/Sold Amount	Interest

ASSET RECONCILIATION AS OF SETTLEMENT DATE	
Total Remaining Principal:	0.00
Outstanding Premium (Discount) on original MBS	0.00
Outstanding Premium (Discount) on CFB	0.00
Current Month Premium for Reinvestment	0.00
Total Principal to Return	0.00
MBS Re-Investments Outstanding	0.00
Outstanding Premium (Discount) MBS Re-Investments	0.00
GOC Reinvestments Outstanding	0.00
GOC Premium (Discount) Outstanding	0.00
ABCP Re-Investments Outstanding	0.00
Repo GOC Reinvestments Outstanding	0.00
Total Accumulated Deferred Amount	0.00
Total	0.00
Original Asset Size + Share of Discount on CMB	0.00
Cash Balance	0.00

Prepared By: \_\_\_\_\_  
 Approved By: \_\_\_\_\_

# APPENDIX F

## MANAGING PREMIUMS AND DISCOUNTS



### NHA MBS (ORIGINAL ASSETS)

Under the CMB Program, CHT issues obligations to match the aggregate amount of NHA MBS (Eligible Housing Loans) it purchases as original assets. Eligible NHA MBS is purchased at fair market value (i.e. MBS can be acquired at a premium or a discount), as long as the prices meet price limits prescribed for such purchases by the Trust. This means that there is potential for a mismatch between the par value of assets purchased and the liabilities that fund them. The purpose of this section is to detail how such mismatches (any premium/discounts paid) must be dealt with over the life of the issue.

For example, if CHT purchased MBS that was priced at \$101 (par \$100), it will need to issue \$101 in debt on purchase date. In the absence of any adjustment, at maturity the MBS will revert to par or \$100 whereas the debt will have a maturity value of \$101. This mismatch will need to be funded so that at maturity the Trust has the funds required to retire the associated debt. Similarly, a mismatch would occur if the MBS was originally purchased at a discount. In this case, a lump-sum payment will need to be made to the investor at maturity equaling the difference between the par and the discount value at which the MBS was originally purchased.

To deal with these arising mismatches, every time CHT acquires assets at a price other than par, it must treat part of the income received from the asset as repayment of principal, in case of premium, or as interest income, in case of a discount. This is done by using the straight-line method to adjust the difference. The math is the same in both cases; the only difference is that a premium is treated as an interest expense or reduction in interest cash flow, while a discount is treated as interest revenue or an addition to interest cash flow.

Continuing with the above example, where CHT paid \$101 for an MBS with a par of \$100, we will illustrate the accounting treatment used to adjust the monthly payments received on the MBS to ensure that both the asset and liability amounts match at maturity.

In order to amortize the \$1 premium paid when the MBS was originally acquired, each month the premium amount will be divided by the remaining term of the MBS. Assuming the MBS had a term of five (5) years, the amount to be amortized in the first month would be  $\$1.00/60$  or  $\$0.0167$ . The remaining premium balance or unearned premium at the beginning of the second month will be  $\$0.9833$ , and the amount of amortization in month two will be  $\$0.9833/59$  or  $\$0.0167$  again. This adjustment produces a uniform cash flow in each period that must be deducted from the NHA MBS interest payment and results in complete recovery of the premium by the end of year five.

In cases of prepayments of NHA MBS, a portion of the prepayment must be allocated to repay any premium paid to acquire the MBS. To account for an early retirement of NHA MBS principal (prepayments), the above calculation is modified so that in each period, the percentage amount of

the premium is applied to any unscheduled principal cash flows, the product of which is added to the straight-line amortization amount, resulting in acceleration of premium/discount amortization. The accelerated component fully amortizes the share of premium/discount related to the unscheduled portion right away instead of spreading it equally over the remaining term.

So in our example above, if we assume \$1.00 of prepayment in the first month, the additional amount allocated to repay the premium will be \$0.0098 (premium/par or  $\$1/\$100 = 1\% * \$1.00$  prepaid \* 59/60). This amount will be added to the above calculated amortization of \$0.0167 to give a total amortization for the first month of \$0.0265.

In the second month, assuming another prepayment of \$1.00, the unscheduled amortization will again be 1% multiplied by 58/60 multiplied by the \$1.00 of prepayment or \$0.0097.

The scheduled amortization will be unearned premium at the beginning of the month, \$0.9735 ( $\$1.00$  less \$0.0265 amortization in month one), divided by the remaining term of 59 months, for an amount of \$0.0165. The total amortization for the second month will be \$0.0262. The table below illustrates the process until maturity date.

Period (month)	Amortization – Scheduled	Amortization – Unscheduled	Amortization Total	Balance
0				1.0000
1	0.0167	0.0098	0.0265	0.9735
2	0.0165	0.0097	0.0262	0.9473
3	0.0163	0.0095	0.0258	0.9215
58	0.0072	0.0003	0.0075	0.0140
59	0.0070	0.0002	0.0072	0.0068
60	0.0068	0.0000	0.0068	0.0000

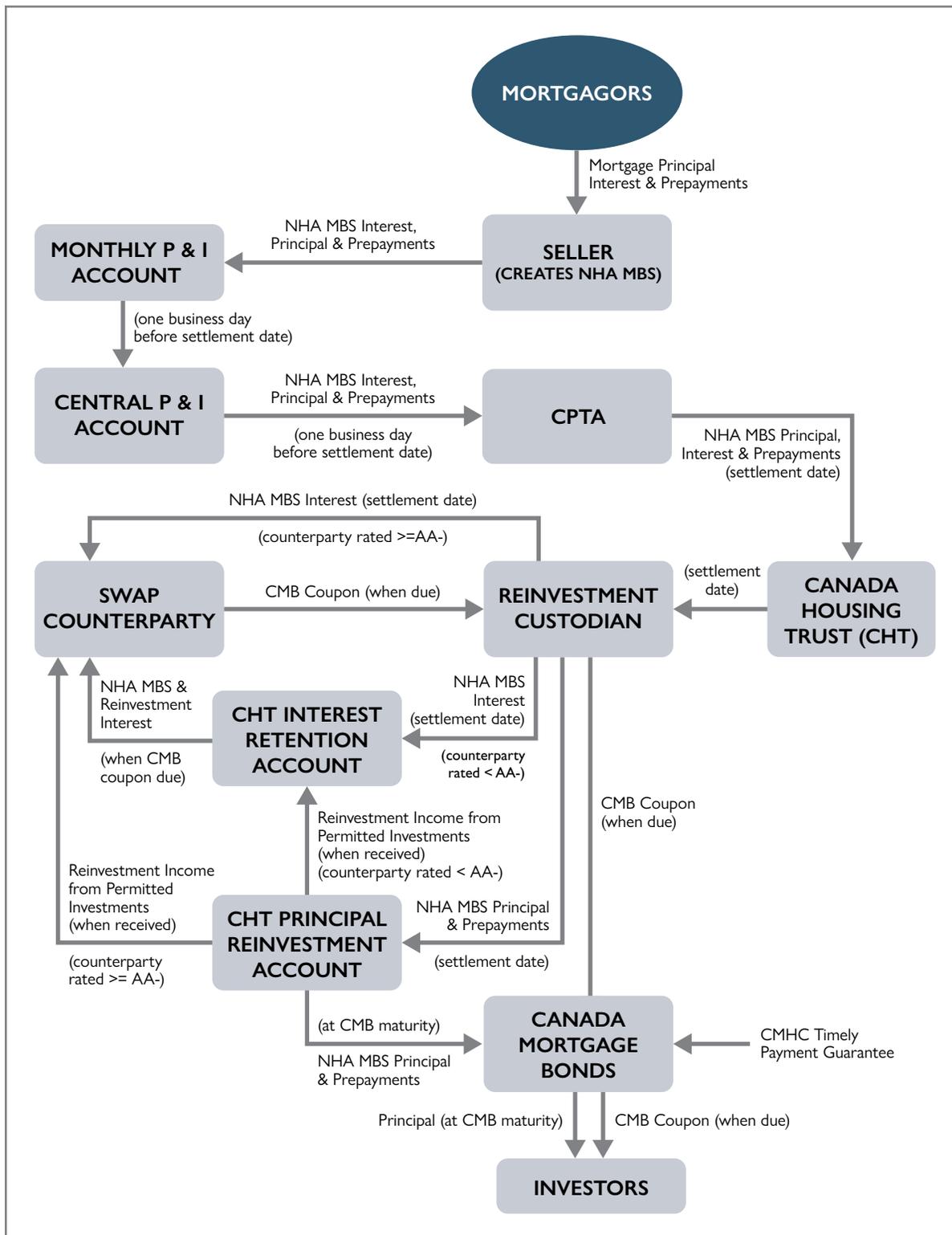
At the end of the final period the remaining balance of the premium is fully amortized. In the above example, the remaining balance of the premium in period 59 is accounted for as scheduled amortization in period 60, and the original premium of \$1.00 has been fully repaid. The rationale is that the premium is earned over the life of the NHA MBS as a reduction of the interest revenue.

## OTHER SECURITIES

Premiums and discounts on all eligible Permitted Investments purchased for CHT and the CMB issue itself should be amortized in a manner similar to NHA MBS, as explained above.

# APPENDIX G

## STRUCTURE SUMMARY OF NHA MBS AND CMB CASH FLOWS



## OVERVIEW OF CANADA MORTGAGE BONDS ISSUANCE AND REPORTING PROCESS

CHT acquires eligible NHA MBS pools as Original Assets from Approved Sellers paired with Hedges from approved Swap Counterparties, and issues CMB. There will be multiple Sellers and Swap Counterparties for each bond issue.

1. Using the powers conferred to the Trustee under the Declaration of Trust, the appointed Trustee delegates its powers, rights, discretion and obligations of a non-fiduciary nature to: (i) the Trust Administrator (TA), (ii) the Financial Services Advisor (FSA), (iii) the Central Paying Agent (CPA), (iv) the Custodian, and (v) the Bond Indenture Trustees.
2. The FSA will gauge market demand for the CMB issuance and the potential supply of eligible NHA MBS pools from Approved Sellers. Based upon its review, the FSA will recommend the size and terms of the issuance to CHT and the Guarantor.
3. Once the FSA has made its recommendations, the TA, on behalf of CHT, will provide a Trust Availment Proposal to the Guarantor seeking guarantee for the proposed issuance.
4. The Guarantor will confirm availability of guarantee for the issue through its Guarantee Notice, specifying a period during which the Guarantee will be available and outlining the terms and conditions applicable to it.
5. On behalf of CHT, the FSA appoints an underwriting syndicate, coordinates the preparation of appropriate bond issuance documents and the activity of the Custodian, the CPA and the TA to effect closing.
6. Approved Sellers who wish to sell eligible NHA MBS will notify CHT, through the FSA, of their intention to do so and will arrange for a Hedge to be provided by an approved Swap Counterparty for each package of NHA MBS offered to be sold.
7. On the bond closing date, the Seller will assign and transfer to CHT all the Seller's rights, title and interest in the specific NHA MBS pools being sold to CHT. On closing, CHT will issue the CMB so that the proceeds are equal to the market value of the NHA MBS packages being purchased from the Sellers.
8. CHT will enter into qualified Hedges to manage the reinvestment risks associated with the income it receives from the NHA MBS and eligible reinvestment assets as well as the interest rate risks associated with the mismatch between the monthly amortizing MBS and its coupon paying bullet maturity issuances.
9. The Custodian is required to monitor each Approved Seller and Swap Counterparty to determine if it has provided all the necessary Program documentation required in the CMB Program.

10. The TA provides all administrative and management services with respect to the day-to-day operations of CHT. The TA is required to notify CHT and the Guarantor of financial information and to monitor the financial risk of CHT, including but not limited to: notification of Swap and Repo Counterparty credit downgrades, management of payment instructions and the purchase of investments, monitoring of the fees and expenses paid by the CPA, receipt of reports, preparation of tax returns and monitoring of the Hedges. The TA is also required to approve and sign certain documents for CHT, create a payment matrix for providing payment directions to the CPA, monitor compliance with Hedge requirements, review and approve all documents required for a bond issuance, and hire lawyers and accountants for CHT, as necessary.
11. The CPA is responsible for reporting on all cash flows to CHT.
12. At maturity of each CMB series, the permitted investments related to it mature and CHT retires the CMB series.

# APPENDIX H INVESTMENT INPUT FORM



## INVESTMENT INPUT FORM

### Swap Counterparty Re-Investment Input Form

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 [Re-Investment Type]: NHA MBS  
 Report Date: DD/MM/YYYY

#### Investment Particulars

CUSIP Number	Series	Investment Type	Account Type	Pool Number	Coupon (format 5.25)	Maturity Date (mm/dd/yyyy)	WAM (format 6.34)	RPB Factor (to 8 decimal places)	Trade Date (mm/dd/yyyy)	Settlement Date (mm/dd/yyyy)	Price (before RPB Factor)	Face Value	Settlement	Premium (Discount)
		NHA MBS	Principal Re-Investment											
		NHA MBS	Principal Re-Investment											

### Swap Counterparty Re-Investment Input Form

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 [Re-Investment Type]: GOC  
 Report Date: DD/MM/YYYY

#### Investment Particulars

CUSIP Number	Series	Investment Type	Account Type	Coupon (format 5.552)	Maturity Date (mm/dd/yyyy)	Yield (format 6.343)	Frequency of Interest Payment	Trade Date (mm/dd/yyyy)	Settlement Date (mm/dd/yyyy)	Price	Face Value	Principal Amount
		GOC										
		GOC										

### Swap Counterparty Re-Investment Input Form

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 [Re-Investment Type]: ABCP  
 Report Date: DD/MM/YYYY

#### Investment Particulars

CUSIP Number	Series	Investment Name	ABCP Eligibility	Account Type	Maturity Date (mm/dd/yyyy)	Yield (format 6.343)	Conduit Outstanding (at Trade Date)	Trade Date (mm/dd/yyyy)	Settlement Date (mm/dd/yyyy)	Price	Face Value	Principal Amount

INVESTMENT INPUT FORM (con't)

Swap Counterparty Re-Investment Input Form

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 Reinvestment Type: Swap - Collateral (GOC)  
 Report Date: DDMMYYYY

Investment Particulars

CUSIP Number	Series	Account Type	Collateral Name	Coupon (format 5.552)	Maturity Date (mm/dd/yyyy)	Post Date (mm/dd/yyyy)	Face Value	Full Price	Haircut Adjusted Price	OC Haircut %	Net Exposure Value (Valuation)	Market Value of Collateral (after haircut)
		Collateral										

Swap Counterparty Re-Investment Input Form

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 Reinvestment Type: Swap - Collateral (MBS)  
 Report Date: DDMMYYYY

Investment Particulars

CUSIP Number	Series	Account Type	Collateral Name	MBS Pool Number (format 3.32)	Coupon (format 5.552)	Maturity Date (mm/dd/yyyy)	Post Date (mm/dd/yyyy)	Face Value	Full Price	Haircut Adjusted Price	OC Haircut %	Net Exposure Value (from Swap Valuation)	Market Value of Collateral (after haircut)
		Collateral	MBS										

Swap Counterparty Re-Investment Input Form

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 Reinvestment Type: Repo - NHA MBS  
 Report Date: DDMMYYYY

Investment Particulars

Repo Counterparty	CUSIP Number	Series	Investment Type	Account Type	Pool Number	Coupon (format 5.3)	Maturity Date (mm/dd/yyyy)	MMF (format 5.3)	RPB Factor (to 8 decimal places)	Purchase Date (mm/dd/yyyy)	Repurchase Date (mm/dd/yyyy)	Full Price (before RPB Factor)	Haircut Adjusted Price	OC Haircut %	Settlement Amount	Repo Interest (\$)
			Repo - NHA MBS	Principal Re-Investment												

### INVESTMENT INPUT FORM (con't)

**Swap Counterparty Re-Investment Input Form**

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 Re-Investment Type: Repo - GOC  
 Report Date: DDMMYYYY

Repo Counterparty	CUSIP Number	Series	Investment Type	Account Type	Coupon (format 3.33)	Maturity Date (mm/dd/yyyy)	Purchase Date (mm/dd/yyyy)	Repurchase Date (mm/dd/yyyy)	Full Price (2 decimal places)	Face Value	Repo Rate (format 3.07)	Settlement Amount	Repo Interest (\$)
			Repo - GOC										

**Swap Counterparty Re-Investment Input Form**

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 Re-Investment Type: Repo - NHA MBS Margin  
 Report Date: DDMMYYYY

Repo Counterparty	CUSIP Number	Series	Investment Type	Account Type	Pool Number	Coupon (format 3.33)	Maturity Date (mm/dd/yyyy)	WAM (format 3.3)	RPB Factor (to 8 decimal places)	Collateral Post Date (mm/dd/yyyy)	Full Price (before RPB Factor)	Face Amount of Collateral Pool	Haircut-Adjusted Price	OC Haircut %	Net Exposure (from Repo PMS Valuation)	Market Value of Collateral (after haircut)	Market Value of Collateral (before haircut)
			NHA MBS	Repo MBS Margin													

**Swap Counterparty Re-Investment Input Form**

Swap Counterparty Name: [Swap Counterparty]  
 Issuer Name: [Seller]  
 Re-Investment Type: Repo - Margin  
 Report Date: DDMMYYYY

Repo Counterparty	CUSIP Number	Series	Investment Type	Account Type	Post Date (mm/dd/yyyy)	Coupon (format 5.53)	Maturity Date (mm/dd/yyyy)	Face Value
			GOC	Repo - Margin				

**Swap Counterparty Re-Investment Input Form**

Swap Counterparty Name: (Swap Counterparty)  
 Swap Name: (Swap Counterparty)  
 Reinvestment Type: CHB Cancellation

Report Date: DD/MM/YYYY

**Investment Particulars**

CLBP Number	Series	Investment Type	Coupon (format S.SS%)	Settlement Date (mm/dd/yyyy)	Maturity Date (mm/dd/yyyy)	Approved Cash Amount	Actual Cash Amount	Withdrawal ID	Unamortized Disc/Premium %	Settlement Amount
		CHB Cancellation								
		CHB Cancellation								

Sample

# APPENDIX I

## THE REPURCHASE PROTOCOL



### CANADA MORTGAGE BONDS

#### Repurchase Protocol (December 2012)

##### Eligible CMB Series

- Original CMB Series issued by CHT on or after March 1, 2011, including any subsequent reopening of that Series
- CMB Series repurchased must be the same CMB Series named in the Swap Confirmation with which the principal reinvestment is associated
- CMB Series must have a remaining term to maturity of no more than 3.5 years<sup>1</sup> on the settlement date of the CMB repurchase transaction<sup>2</sup> for cancellation
- The settlement date associated with the repurchase transaction shall not occur on, or during the fifty-nine (59) calendar days immediately after, the issue date of the original or reopening tranche of such Eligible Series
- The cancellation date associated with the repurchase transaction shall not occur during the fifteen (15) calendar days immediately preceding an Interest Payment Date
- The settlement date associated with the repurchase transaction shall not occur during the twenty-one (21) calendar days immediately preceding an Interest Payment Date
- CMB Series outstanding principal, following cancellation of the Face Amount of the repurchased CMB, shall not be less than \$3 billion until the last six (6) months of the term to maturity. Within the last six (6) months to maturity, there is no minimum amount required to be outstanding

##### Eligible program participants

- Only Swap Counterparties who have executed Swap Confirmation(s) with CHT in connection with an eligible CMB Series are permitted to request the repurchase and cancellation of CMB of that Eligible Series

##### Allocation of Eligible CMB Series for Cancellation

- Proposed repurchases for cancellation of Eligible CMB Series submitted for approval will be facilitated by the Trust Administrator (TA) for CHT on a first-come, first-served basis
- The aggregate principal amount of the Eligible CMB Series repurchased for cancellation under any Swap Confirmation between a Swap Counterparty and CHT related to the Eligible CMB Series cannot exceed the Fixed Notional Amount of the Swap Confirmation

##### Cash Settlement Amount

- The cash to be paid by CHT for Eligible CMB approved for repurchase for cancellation is referred to as the "Cash Settlement Amount"

---

<sup>1</sup> The calculation method is defined as: starting from the maturity date of the CMB Series count backwards, until 42 months are achieved, while maintaining the 15<sup>th</sup> to 15<sup>th</sup> month cycle

<sup>2</sup> In the context of this Protocol, the settlement date is the date on which the Reinvestment Custodian transfers funds from the Principal Reinvestment Account to the Swap Counterparty against delivery of the repurchased CMB



## CANADA MORTGAGE BONDS

- The Cash Settlement Amount shall be an amount equal to the face amount of the Eligible CMB to be repurchased, adjusted for any unamortized premium or discount in the original issue price of the Eligible CMB, and shall be determined based on the following formula:

$$\text{Cash Settlement Amount} = \text{Face Value of the repurchased CMB} - \text{allocated unamortized discount} / (\text{premium})$$

- Sample calculations of the Cash Settlement Amount illustrating the application of the formula are set out at the end of this Appendix.
- For greater certainty, if the actual purchase cost to the Swap Counterparty of the Eligible CMB approved for repurchase exceeds the Cash Settlement Amount, such excess cost shall be for the account of and borne by the Swap Counterparty. Conversely, if the actual purchase cost to the Swap Counterparty of such Eligible CMB approved for repurchase is less than the Cash Settlement Amount, such difference shall be for the benefit of and may be retained by the Swap Counterparty

### Swap Counterparty

- Based on the Notional Principal Available for Cancellation for the Eligible CMB Series outlined in the Transfer Advice from the TA, the Swap Counterparty shall determine the Face Value of the Eligible Series it wishes to propose for CHT to repurchase for cancellation (please refer to the end of this Appendix for detailed examples). The submitted Face Value of the Eligible CMB Series for cancellation shall be in denominations of \$5,000
- The Swap Counterparty shall submit a Request for Cancellation Form (RCF) to the TA, by no later than 1pm on the third business day prior to the settlement date. A copy of the RCF is available from the TA
- The TA on behalf of CHT shall be entitled to determine in its sole discretion whether to accept the proposed repurchase of the Eligible CMB Series
- Following written notice from the TA accepting the proposed repurchase of the Eligible CMB Series for cancellation, which for greater clarity shall not be deemed to be confirmation of actual cancellation and reduction of the Swap Counterparty's Fixed Notional Amount, the Swap Counterparty shall be required to:
  - (i) submit an Investment Input Form (IIF) containing the relevant details of the Eligible CMB Series as per the RCF and a signed copy of the Swap Confirmation Amending Letter to the TA by 3 pm on the second business day prior to the settlement date. A copy of the Swap Confirmation Amending Letter is available from the TA;
  - (ii) ensure that the Cash Settlement Amount (refer to definition in the section above) does not exceed the cash balance available in the applicable Principal Reinvestment Account;
  - (iii) on the settlement date, cause the Eligible CMB Series in the Face Amount authorized to be repurchased to be deposited in the applicable Principal Reinvestment Account (only once deposited, may the Reinvestment Custodian transfer funds equal to the Cash Settlement Amount from the Principal Reinvestment Account to the Swap Counterparty);
  - (iv) following confirmation of the settlement of the Eligible CMB Series in the applicable Principal Reinvestment Account, cause the Reinvestment Custodian to submit a request to CDS to withdraw from the Eligible CMB Series principal equal to the Face Value of the repurchased CMB; and
  - (v) re-submit the IIF with the related withdrawal ID to the TA by no later than 11 a.m. one (1) business day after the settlement date



## CANADA MORTGAGE BONDS

### Canada Housing Trust No. 1

Review (through the TA) the RCF submitted by the Swap Counterparty to determine whether it will approve the proposed repurchase

Inform the Swap Counterparty by 9 am on the second business day prior to the settlement date if the request is approved or declined

- (i) if the repurchase request as submitted is approved, the TA will confirm the Face Value amount approved for repurchase for cancellation. The TA will also notify the Swap Counterparty to proceed with the submission of the IIF;
  - if the TA is prepared to approve the repurchase request in part because only a lower Face Value can be accommodated, the TA will notify the Swap Counterparty of the new cancellation amount in Face Value. The Swap Counterparty will be required to submit an IIF for the lower authorized amount; or
- (ii) if the repurchase request is not approved, the Swap Counterparty will be so notified. At the TA's discretion, the Swap Counterparty may be permitted to resubmit the RCF with applicable revisions, as necessary.

By 3 pm on the business day following the settlement date, the TA will notify the CMB Transfer Agent of the proposed repurchase for cancellation who will work with CDS towards ensuring the successful cancellation of the Face Value of the repurchased CMB of the Eligible Series. It is expected that the cancellation of Eligible CMB Series will be completed by the CMB Transfer Agent and reflected on its register three (3) business days after the settlement date

Upon receipt from the Transfer Agent of the confirmation of the cancellation of the Face Value of the repurchased CMB, the TA on behalf of CHT shall:

- (i) provide the Swap Counterparty with a countersigned copy of the Swap Confirmation Amending Letter to confirm the reduction of the Fixed Notional Amount of the Swap Confirmation relating to the Eligible CMB Series by the Face Value of the repurchased CMB, as at the date specified therein; and
- (ii) provide a swap valuation based on the adjusted Fixed Notional Amount on the next scheduled swap mark-to-market date

### Canadian or US Bond Trustee (CMB Transfer Agent) and CDS

The CMB Transfer Agent, upon authorization and notification from the TA of the details of the Eligible CMB Series approved for cancellation, will proceed to match the withdrawal request within the CDS system. After the CMB Transfer Agent confirms the withdrawal request on the CDS system, it will proceed to cancel the authorized Face Amount of the Eligible CMB Series on its register

The CMB Transfer Agent's register and the CDS system will be reconciled and the CMB Transfer Agent will confirm the cancellation of the appropriate Face Amount of the Eligible CMB Series to the TA



## CANADA MORTGAGE BONDS

### Appendix I

#### Example 1: CMB originally issued at a premium

CMB Notional for Swap Counterparty (SWCP) A	<i>a</i>	\$500,000,000.00
Current Unamortized Premium	<i>b</i>	\$(3,500,000.00)
Current Unamortized Premium as a % of CMB		
Notional	$c=b/a$	-0.70%

#### 5-Business Days prior to Settlement Date

TA would distribute the Transfer Advice which would include additional fields containing information on CMB cancellation as follows:

Total Available Principal to be Re-Invested	Notional Principal Available for Cancellation (rounded down to nearest \$5,000 )	Unamortized Premiums %	Unamortized Premiums Allocated to the Notional Principal Available for Cancellation	Maximum Cash Settlement Amount to SWCP (Incl. Allocated Premium Settlement)
<i>d</i>	$e=d/(1-c)$	$f = c$	$g=e*f$	$h=e-g$
\$65,000,000.00	\$64,545,000.00	-0.70%	\$(451,815.00)	\$64,996,815.00

#### 3-Business Days prior to Settlement Date

Based on Notional Principal Available for Cancellation, SWCP A determines to request face amount of \$3,000,000 CMB purchase for cancellation

Requested Face Value of the repurchased CMB	\$3,000,000.00	
Allocated Unamortized CMB Premium	-\$21,000.00	(= \$3,000,000 * f)
Cash Settlement Amount to SWCP A	<b>\$3,021,000.00</b>	

#### 2-Business Days prior to Settlement Date

If approved, TA would confirm the requested cancellation amount in Face Value to SWCP A. The Total Available Principal to be Reinvested for the current month will be reduce to:

**\$61,979,000.00**

#### Settlement Date

CHT PRA Account Activity	Receives CMB for cancellation (Face Value)	<b>\$3,000,000.00</b>
	Pays SWCP A the cash amount	<b>\$3,021,000.00</b>



## CANADA MORTGAGE BONDS

### Example 2: CMB originally issued at a discount

CMB Notional for Swap Counterparty (SWCP) A	<i>a</i>	\$500,000,000.00
Current Unamortized Discount	<i>b</i>	\$3,500,000.00
Current Unamortized Discount as a % of CMB		
Notional	$c=b/a$	0.70%

#### 5-Business Days prior to Settlement Date

TA would distribute the Transfer Advice which would include additional fields containing information on CMB cancellation as follows:

Total Available Principal to be Re-Invested	Notional Principal Available for Cancellation (rounded down to nearest \$5,000 )	Unamortized Discounts %	Unamortized Discounts allocated to the Notional Principal Available for Cancellation	Maximum Cash Settlement Amount to SWCP (Incl. Allocated Discount Settlement)
<i>d</i>	$e=d/(1-c)$	$f = c$	$g=e*f$	$h=e-g$
\$65,000,000.00	\$65,455,000.00	0.70%	\$458,185.00	\$64,996,815.00

#### 3-Business Days prior to Settlement Date

Based on Notional Principal Available for Cancellation, SWCP A determines to request face amount of \$3,000,000 CMB purchase for cancellation

Requested Face Value of the repurchased CMB	\$3,000,000.00	
Allocated Unamortized CMB Premium	\$21,000.00	(=\$3,000,000 * <i>f</i> )
Cash Settlement Amount to SWCP A	<b>\$2,979,000.00</b>	

#### 2-Business Days prior to Settlement Date

If approved, TA would confirm the requested cancellation amount in Face Value to SWCP A. The Total Available Principal to be Reinvested for the current month will be reduced to:

**\$62,021,000.00**

#### Settlement Date

CHT PRA Account Activity	Receives CMB for cancellation (Face Value)	<b>\$3,000,000.00</b>
	Pays SWCP A the cash amount	<b>\$2,979,000.00</b>

# APPENDIX J

## CREDIT RATING DEFINITIONS



The following credit ratings are defined in Annex I of the GMRA and are reproduced here for reference. In the event of discrepancies, Annex I shall prevail.

**AA credit rating** means, with respect to a party, ratings of the unsecured, unguaranteed and unenhanced long-term debt obligations of such party by two rating agencies at or above the category set forth in the table below under the name of the respective rating agency:

DBRS	Fitch	Moody's	S&P
AA (low)	AA-	Aa3	AA-

**A credit rating** means, with respect to a party, the rating of the unsecured, unguaranteed and unenhanced long-term debt obligations of such party by two rating agencies at or above the category set forth in the table below under the name of the respective rating agency, but below the ratings set out in the definition of AA credit rating:

DBRS	Fitch	Moody's	S&P
A	A	A2	A

**A- credit rating** means, with respect to a party, the rating of the unsecured, unguaranteed and unenhanced long-term debt obligations of such party by two rating agencies at or above the category set forth in the table below under the name of the respective rating agency, but below the ratings set out in the definition of A credit rating:

DBRS	Fitch	Moody's	S&P
A (low)	A-	A3	A-