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November 12, 2013

To: Ontario Credit Unions and Caisses Populaires with Assets Greater than \$500 million

From: Andy Poprawa, President and CEO

**Subject : Guidance Note on Internal Capital Adequacy Assessment Process (ICAAP) for Class 2 Credit Unions; ICAAP – Application Guide; and Guidance Note on Stress Testing for Class 2 Credit Unions**

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DICO has developed guidance notes on Stress Testing and on an Internal Capital Adequacy Assessment Process (“ICAAP”) which incorporates mandatory stress testing criteria. While there is an overlap between these processes, there are important distinctions.

ICAAP is a vital component of a strong enterprise risk management program and helps confirm the level of capital is adequate to support the nature and level of an institution’s risk. An effective capital planning process requires an insured institution to:

- assess both the risks to which it is exposed and the risk management processes in place to manage and mitigate those risks;
- evaluate its capital adequacy relative to its risks; and
- consider the potential impact on earnings and capital from potential economic downturns

To assist insured institutions with the preparation of the required documents, DICO has developed an Application Guide which provides additional information regarding the ICAAP submission requirements, mandatory stress tests and summary key metrics report.

Stress testing is an important tool for insured institutions to use in making business strategy, risk management and capital management decisions.

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While an ICAAP framework focuses on capital related issues, Stress Testing provides a broader view of potential exposures in other areas of the institution's operations and plays an important role in:

- providing forward-looking assessments of risk;
- complementing existing risk management models;
- providing information for capital and liquidity planning purposes;
- aiding the board in setting the risk appetite of the insured institution; and
- facilitating the development of risk mitigation or contingency plans.

This guidance will apply to institutions with assets in excess of \$1 billion starting in 2014 and will be phased in to smaller Class 2 insured institutions over a number of years following any enhancements identified based on experience. Accordingly, DICO would appreciate receiving comments from those institutions that may be asked to complete an ICAAP and stress testing in future.

The proposed guidance notes and application guide are attached for your review and comment.

Your comments and suggestions are valued and appreciated. Please forward your comments to the attention of Suzanne Tucker, Manager, Policy and Research by e-mail to [consultation@dico.com](mailto:consultation@dico.com), no later than **Friday, December 20, 2013**.

We thank you for your consideration and continued support.

**Attachments:**

- Guidance Note: ICAAP for Class 2 Credit Unions
- ICAAP Application Guide
- Guidance Note: Stress Testing for Class 2 Credit Unions