

*As approved by the CDIC Board of Directors on June 8, 2005;
amended by the Board, June 7, 2006; March 7, 2007, March 4, 2009 and June 9, 2010*

BOARD LIQUIDITY RISK POLICY

1.0 BACKGROUND

This Policy is made pursuant to Principle 16(b) of the Board Charter.

CDIC's exposure to liquidity risk is a sub-component of its financial risk and relates to CDIC's:

- Ongoing day-to-day operating cash requirements stemming from the need to maintain an operating infrastructure of people, premises and other resources to support CDIC's deposit insurance mandate;
- Periodic potential cash requirements arising from the failure of a member institution (i.e., the occurrence of Insurance Risk) in which CDIC would be required to make a payout, facilitate a sale, etc. (see Board Intervention Risk Policy); and
- Debt servicing, where applicable.

CDIC has the following sources of cash to meet its liquidity requirements:

- Cash and investments;
- Investment income;
- Premiums paid annually by member institutions;
- Amounts recovered from the estates of failed member institutions;
- A statutory borrowing limit from the Government of Canada Consolidated Revenue Fund and/or the capital markets;
- Additional borrowings through an appropriation from Parliament for amounts in excess of the statutory borrowing limit ; and
- Credit facilities with its banker for cash management purposes.

CDIC's management of some elements of its liquidity is subject to certain legislative requirements. Section 127(3) of the *Financial Administration Act* provides that a Crown corporation shall not enter into any particular transaction to borrow money without the approval of the Minister of Finance with respect to the time and the terms and conditions of the transaction. To obtain Ministerial approval, all new borrowing programs must be described in the Annual Borrowing Plan of the Corporation or amendments thereto. Paragraph 10(1)(b) of the *CDIC Act* empowers and authorizes CDIC to invest and enter into transactions necessary or desirable for its financial management. Subsection 10.1(1) of the *CDIC Act* gives the Minister the power and authority to lend money to CDIC from the Consolidated Revenue Fund. Subsection 10.1(2) provides that CDIC may borrow money from other sources and may borrow by any means. Subsection 10.1 (3) defines

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CDIC's statutory borrowing limit. Subsection 10.1(4) gives the Minister the power and authority to fix a fee payable by CDIC in respect of borrowings.

2.0 DEFINITIONS

Credit Risk: The risk of loss attributable to counterparties failing to honour their obligations, whether on- or off- balance sheet, to CDIC.

Financial Instrument: Any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

Financial Risk: The risk associated with managing CDIC's assets and liabilities, both on- and off-balance sheet.

Financial Transaction: A single borrowing or investment transaction.

Insurance Risk: CDIC's risk of loss, including costs incurred in the event of an intervention, associated with insuring deposits.

Intervention Risk: The risk that CDIC cannot or does not take timely and effective action with respect to an unacceptable level of insurance risk posed by a member institution, or with respect to failed member institutions.

Liquidity Risk: The risk that funds will not be available to CDIC to honour its cash obligations (both on- and off- balance sheet) as they arise.

Market Risk: The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly or indirectly by CDIC, whether on- or off- balance sheet, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.

Unmatched Debt: CDIC's debt that is not matched on a term-to-maturity basis against forecast cash inflows within future 6-month maturity timeframes.

3.0 POLICY

- 3.1 The Board of Directors shall approve:
- a) Subject to the approval of the Minister of Finance, the *CDIC Differential Premiums By-law* and any amendments related thereto.
 - b) Any recommendation to the Minister of Finance for approval by the Governor in Council of changes in the premium rates as allowed under the *CDIC Act*.
 - c) Pursuant to subsection 21 (5), any method to be used by member institutions to determine the aggregate amount of their deposits that are considered to be insured by CDIC.

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- d) CDIC's Annual Borrowing Plan prior to its submission to the Minister of Finance.
- e) Any borrowing program undertaken by CDIC before the issuance of debt.

3.2 The Board of Directors directs Management to:

- a) Manage CDIC's liquidity in accordance with this Policy and in such a manner to ensure that the Corporation will be in a position to honour its cash obligations as they come due, and in this context:
 - i. Manage CDIC's investments, if any, such that:
 - a. Each investment and the investment portfolio as a whole is managed to maximize return while respecting the parameters established under this Policy, the Board Market Risk Policy and the Board Credit Risk Policy and giving consideration to CDIC's mandate and statutory objects;
 - b. The maturity profile of the investment portfolio is matched against any maturing debt obligations and other cash outflow projections within the parameters established under this Policy, the Board Market Risk Policy and the Board Credit Risk Policy, thereby avoiding the need to sell securities and investments on the open market prior to their maturity;
 - c. The total issue size for any security purchased must be at least \$250 million, other than obligations of the Government of Canada; and
 - d. The maturity of any individual investment cannot exceed 5 years.
 - ii. Manage CDIC's debt, if any, such that:
 - a. CDIC does not borrow funds for purposes other than to meet its mandate and statutory objects;
 - b. The maturity profile of the debt portfolio is matched against forecast cash inflows from premiums, estates, investments and other sources within the parameters established under this Policy and the Board Market Risk Policy; and
 - c. Cumulative unmatched debt maturities in each six-month timeframe do not exceed 20% of the debt portfolio.
- b) Establish and maintain an up-to-date liquidity contingency plan for CDIC.
- c) Recommend to the Board of Directors a *CDIC Differential Premiums By-law* and any necessary changes related thereto.
- d) Recommend to the Board of Directors the method to be used by member institutions to determine the aggregate amount of their deposits that are considered to be insured by CDIC, and any changes related thereto.
- e) Recommend for the consideration of the Board of Directors, deposit insurance premium rates assessed under the *CDIC Differential Premiums By-law*.

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- f) Manage the *Differential Premiums By-law* on behalf of CDIC.
- g) Put in place a return of insured deposits in accordance with subsection 22 (1) of the *CDIC Act*.
- h) Pursuant to subsection 22 (1) of the *CDIC Act*, establish the form in which member institutions annual premiums are to be submitted to CDIC.
- i) Make any request on behalf of CDIC pursuant to section 29.1 of the *CDIC Act*.
- j) Prepare, for consideration of the Board of Directors, CDIC's Annual Borrowing Plan to be submitted to the Minister of Finance.
- k) Where appropriate, recommend to the Board of Directors changes in CDIC's premium rates as allowed under the *CDIC Act*.
- l) Where appropriate, recommend for the consideration of the Board of Directors any request by CDIC to the Minister of Finance to borrow money out of the Consolidated Revenue Fund.
- m) Where appropriate, recommend for the consideration of the Board of Directors the approval of any CDIC borrowings from sources other than the Consolidated Revenue Fund and by other means, including the issuance and sale of bonds, debentures, notes or any other evidence of indebtedness.
- n) Provide the Board of Directors with an annual report on the assessment and administration of deposit insurance premiums.
- o) Provide the Board of Directors with regular, but at least annual, reports that will enable it to assess whether CDIC has an appropriate and effective Liquidity Risk management process.

3.3 Temporary exceptions to this Policy may be approved by the President and Chief Executive Officer, and any such exception should apply only until Management can take the appropriate steps to eliminate it and must be reported to the Board of Directors at its next regularly scheduled meeting.

4.0 CROSS-REFERENCES

Board Financial Risk Policies:

Board Market Risk Policy
Board Credit Risk Policy

Board Insurance Risk Policies:

Board Intervention Risk Policy