Federal Financial Institutions Legislative And Regulatory Reporter — May And June 2018

July 20, 2018

The Reporter provides a monthly summary of Canadian federal legislative and regulatory developments of relevance to federally regulated financial institutions. It does not address Canadian provincial financial services legislative and regulatory developments, although this information is tracked by BLG and can be provided on request. In addition, purely technical and administrative changes (such as changes to reporting forms) are not covered.

The May 2018 edition follows below.

June 2018

Institution	Published	Title and Brief Summary	Status
IAIS [Applicable to insurance companies]	June 29, 2018	Revised ICPs 6 (changes in Control and Portfolio Transfers) and 20 (Public Disclosure) As part of the next three-year cycle for reviewing its approach to systemic risk assessment, the IAIS has adopted a systemic risk assessment and policy workplan. This workplan, involving a public consultation at the end of 2018, includes finalizing any policy measures to address potential systemically risky activities as part of Insurance Core Principles ("ICPs") and ComFrame	Comments should be provided by August 28, 2018.

		(including ICS Version 2.0) to be adopted in 2019. The IAIS is seeking feedback on revised ICPs 6 and 20. Further draft supervisory materials will be released in August for public consultation, namely the overall ComFrame material, including ICS 2.0.	
OSFI	June 27, 2018	Life Insurance Capital Adequacy Test ("LICAT") and Minimum Capital Test ("MCT") 2021 Review for IFRS 17 This letter communicates OSFI's plan to implement IFRS 17 Insurance Contracts in its insurance capital guidelines: Guideline A — Life Insurance Capital Adequacy Test ("LICAT") for life insurers, and Guideline A — Minimum Capital Test ("MCT") for property and casualty ("P&C") insurers. Implementing IFRS 17 requires a number of revisions to the insurance capital guidelines to align them with the accounting standard. For life insurers with segregated fund guarantee ("SFG") business, the current methodology for determining associated capital requirements will be maintained in 2021. Development work will continue on a new standard approach for determining capital	Effective in 2021

		requirements for SFG business, for implementation after 2021.	
OSFI [Domestic Systemically Important Banks ("D-SIBs")]	June 25, 2018	Domestic Stability Buffer OSFI is providing greater transparency to the market surrounding the Domestic Stability Buffer currently held by D-SIBs against Pillar 2 risks associated with systemic vulnerabilities. The Domestic Stability Buffer applies only to D-SIBs and is intended to cover a range of systemic vulnerabilities that, in OSFI's supervisory judgment, are not adequately captured in the Pillar 1 capital requirements described in OSFI's Capital Adequacy Requirements ("CAR") guideline. The set of vulnerabilities currently addressed by the buffer include: (i) Canadian consumer indebtedness; (ii) asset imbalances in the Canadian market; and (iii) Canadian institutional indebtedness. The level of the buffer will range between 0 and 2.5 per cent of a bank's total risk-weighted assets ("RWA"), calculated under the CAR guideline.	Effective
FSB Financial Stability Board ("FSB")	June 21, 2018	FSB publishes guidance on bail-in execution and resolution funding to promote G-SIB resolvability	Effective

		Principles on Bail-in Execution The guidance sets out principles to assist authorities as they make bail-in resolution strategies operational. The principles cover: • disclosures on the instruments and liabilities within the scope of bail-in; • valuations to inform and support the application of bail-in; • processes to suspend or cancel the listing of securities, to notify creditors, and to deliver new securities or tradeable certificates following entry into resolution; • securities law and securities exchange requirements during the bail-in; • processes for transferring governance and control rights to a new board and management for the firm emerging from resolution; and • communications to creditors and the market at large.	

		Funding Strategy Elements of an Implementable Resolution Plan The guidance covers the development of a resolution funding plan for G-SIBs, including: • firms' capabilities to support monitoring, reporting and estimating funding needs in resolution and executing the funding strategy; • the development of resolution funding plans by authorities; • the reliance on firm assets and private funding as preferred sources of funding in resolution; • access to temporary public sector backstop funding mechanisms and ordinary central bank facilities; and • information-sharing and coordination between authorities.	
OSFI [All Federally Regulated Property and Casualty Insurance Companies]	June 21, 2018	Draft 2019 Minimum Capital Test ("MCT") Guideline for Consultation The potential amendments to the MCT guideline outlined in this	

		draft are to be implemented over two years. • Introduce credit risk capital charges to right-of-use assets resulting from the implementation of IFRS 16; • Adjust net assets available for Canadian branches to admit the right-of-use asset for owner-occupied property leases resulting from the implementation of IFRS 16; • Introduce counterparty credit risk capital charges on amounts receivable and recoverable from registered associated reinsurers; • Recognize accounts payable created under a funds held reinsurance arrangement between Canadian insurance companies and unregistered associated insurers as acceptable collateral to reduce the margin required for cessions to unregistered	Effective January 1, 2019 Effective January 1, 2020

		reinsurers, subject to a condition; • Update the credit risk factors for securitized assets and transfer the updated risk factors from Guideline B-5 — Asset Securitization to the MCT guideline; • Implement other minor edits or clarifications; and • Increase the margin required for reinsurance ceded to unregistered reinsurers from 15 per cent to 20 per cent. All potential changes are highlighted in the draft guideline for ease of reference.	
Finance Canada	June 9, 2017	Regulations Amending Certain Regulations Made Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, 2018 The proposed amendments to the regulations would strengthen Canada's anti-money laundering/anti-terrorism financing ("AML/ATF") regime by: • updating customer due diligence requirements and	Comments should be provided within the 90-day period from date of publication (June 9, 2018)

		beneficial ownership reporting requirements; • regulating businesses dealing in virtual currency; • updating the schedules to the regulations; • including foreign money service businesses ("MSB") in Canada's AML/ATF regime; • clarifying a number of existing requirements; and • making minor technical amendments.	
OSFI [Federally Regulated Life Insurance Companies & Fraternal Benefit Societies]	June 1, 2018	Guideline A - Life Insurance Capital Adequacy Test ("LICAT") Effective January 1, 2018, Guideline A: Life Insurance Capital Adequacy Test ("LICAT") replaced Guideline A: Minimum Continuing Capital and Surplus Requirements ("MCCSR"). OSFI is releasing a draft 2019 LICAT guideline for public consultation. Proposed changes to the guideline include: • Changes resulting from the implementation of	Comments should be provided by July 3, 2018.

		IFRS 16 — Leases, effective January 1, 2019; • Adding conditions for the recognition of funds withheld reinsurance, as part of OSFI's initiative related to reinsurance review; • Specifying that mortality risk components apply to any group life insurance products; and • Other minor edits or clarifications.	

May 2018

Institution	Published	Title and Brief Summary	Status
OSFI [Banks, Bank Holding Companies, Federally Regulated Trust and Loan Companies, Cooperative Retail Associations]	May 28, 2018	Total Loss Absorbing Capacity ("TLAC") Disclosure Requirements Guideline and Capital Disclosure Requirements Guideline Together, these guidelines set out the TLAC disclosure requirements for Canadian Domestic Systemically Important Banks ("D-SIBs"). D-SIBs should publicly disclose the TLAC information commencing with the quarterly reporting period ending January 31, 2019 The Capital Disclosure Requirements guideline	Effective November 2018 for TLAC Disclosure Requirements Guideline Effective November 2018/ January 2019 for Capital Disclosure Requirements Guideline

		has been updated to remove transitional guidance that is no longer applicable.	
Finance Canada	May 25, 2018	Consultations on the Review of the *Canadian Payments Act* Finance Canada has launched consultations on whether the 2015 changes to Payments Canada's governance framework have been effective in achieving the intended public policy objectives. The Act requires that the 2015 changes be reviewed three years after they came into force. Feedback is also sought on how best to adapt Payments Canada's membership structure to ensure access to its systems is open and risk-based, and reflects developments in the payments ecosystem.	Comments should be provided by July 24, 2018.
Bank for International Settlements	May 14, 2018	Criteria for identifying simple, transparent and comparable short-term securitisations The Criteria for identifying simple, transparent and comparable short-term securitisations (short-term STC criteria) aim to assist the financial industry in its development of simple, transparent and comparable short-term securitisations. The criteria maintain and build on the principles in the Criteria for identifying simple, transparent and comparable	Effective

		securitisations issued by BCBS-IOSCO in July 2015. They take account of the characteristics of asset-backed commercial paper ("ABCP") conduits, such as (i) the short maturity of the commercial paper issued, (ii) the different forms of programme structures and (iii) the existence of multiple forms of liquidity and credit support facilities. Similar to the STC criteria for term securitisations, the short-term STC criteria are non-exhaustive and non-binding.	
Bank for International Settlements	May 14, 2018	Capital treatment for simple, transparent and comparable short-term securitisations This standard supplements the Criteria for identifying simple, transparent and comparable short-term securitisations issued jointly with the International Organization of Securities Commissions ("IOSCO"). It sets out additional guidance and requirements for the purpose of applying preferential regulatory capital treatment for banks acting as investors in or as sponsors of simple, transparent and comparable ("STC") short-term securitisations, typically in asset-backed commercial paper	Effective

		("ABCP") structures. The additional guidance and requirements in this standard are consistent with those for STC term securitisations set out in the committee's July 2016 revisions to the securitisation framework. Provided that the expanded set of STC short-term criteria are met, STC short-term securitisations will receive the same modest reduction in capital requirements as other STC term securitisations. Similar to the STC framework for term securitisations, implementation of the STC short-term framework is not mandatory.	
Financial Stability Board ("FSB")	May 7, 2018	Recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk This consultation seeks views on recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk. Collecting and evaluating compensation data on a regular basis can provide both firms and supervisors with important insights into the effectiveness of compensation programmes and potential areas of weakness. The	Comments should be provided by July 6, 2018.

		recommendations propose a data set designed to help firms and supervisors answer important questions including whether governance and risk management processes surrounding compensation: • appropriately include conduct considerations in the design of their compensation and incentive systems; • support the effective use of compensation tools in combination with other performance management tools; • promote wider risk management goals; and • support the effective identification of emerging misconduct risks and where appropriate, review use of incentive systems and compensation decisions in response to conduct incidents to ensure alignment of incentives, risk and reward.	

OSFI [Federally Regulated Insurers and Insurance Holding Companies]	May 4, 2018	Advisory on IFRS 17 Transition and Progress Report Requirements To support Federally Regulated Insurers ("FRIs") in their transition to IFRS 17, OSFI is issuing an advisory regarding: 1. Early adoption of IFRS 17; 2. Accounting for financial guarantee contracts; and 3. Semi-annual progress reporting to OSFI.	Effective January 1, 2021.

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