Borden Ladner Gervais

Canada Undergoes Review Of The Deposit Insurance Framework

September 22, 2016

In the context of a continuously evolving financial sector, the aim of the Department is to ensure that the framework continues to adapt to the marketplace and that the scope of the products covered by the framework are adequately addressed.

The Canadian Department of Finance (the "Department") has released a consultation paper entitled "Deposit Insurance Review" seeking input on how to improve Canada's current deposit insurance framework. In the context of a continuously evolving financial sector, the aim of the Department is to ensure that the framework continues to adapt to the marketplace and that the scope of the products covered by the framework are adequately addressed.

Since the 2008 financial crisis, financial regulatory reforms have been introduced with the goal of reducing the probability of a future financial crisis. The Department has emphasized that deposit insurance is an important element of the financial safety net – it promotes financial stability and contributes to maintaining public confidence in the financial system. The consultation paper has been released pursuant to the federal government's Budget 2014 which announced the review to ensure continued protection of Canadians' savings.

The following three core policy objectives guide the review:

1. **Protecting depositors** : the deposit insurance framework should protect depositors by ensuring that it provides an adequate scope and level of coverage.
2. **Supporting financial stability** : the deposit insurance framework should contribute to the stability of the financial system in Canada and act as a disincentive for bank runs to develop.
3. **Promoting efficient and competitive financial services** : the deposit insurance framework should encourage market discipline and should not act as an impediment to competition.

Current Framework

Canada's deposit insurance coverage framework is administered by the Canada Deposit Insurance Corporation ("CDIC") and consists of three main elements: the coverage limit, the coverage categories, and the scope of eligible deposits. Investment products that do not constitute "eligible deposits" within the coverage categories are not covered by CDIC.

Looking Forward

The Department notes that deposits in Canada have been steadily increasing over time. As of April 30, 2016, total deposit liabilities held at CDIC members totaled $2.72 trillion, which is a 51% increase since 2011. Approximately 97% of all eligible deposit accounts are fully covered under the current framework. In terms of total dollars deposited, 27% of the total value of deposits held by CDIC member institutions is covered. The Department has stated that its findings suggest that deposit insurance coverage is largely functioning well and meeting its primary objective, that major changes to the framework are not required and that the current deposit insurance limit of $100,000 remains appropriate. Despite this, the Department believes there are areas of improvement which merit further discussion.

Review and Submission Process

The Department has identified a few areas of potential improvement to the framework. In this connection, the Department has posed a number of questions falling under three broad categories for stakeholders to consider in their submissions:

Streamlining deposit categories

1. Should the mortgage tax account be removed as a deposit category?
2. Should Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs) be added as new deposit categories or should all registered products be amalgamated into one deposit category?

Updating the scope of eligible deposits

1. Should travellers' cheques be removed as eligible deposits?
2. Should deposit insurance coverage be extended to term deposits with terms of maturity greater than five years? Should there be a maximum term?
3. Should foreign currency be included as an eligible deposit? Should only certain foreign currencies be insured? If so, which currencies should be covered and why?
4. Should deposit insurance coverage be extended to include temporary high balances? If so, which transactions should be covered? How would these transactions be identified? What would be the appropriate definition of “temporary”?

Addressing the complexity of trust deposits

1. How can the quality of beneficiary information be improved?
2. How should brokered deposits be treated under the deposit insurance framework?
3. Are beneficiaries aware of the consequences of their broker not providing beneficiary information?

4. Are the reporting and record keeping requirements for professional trusts clear?

Stakeholders are invited to submit written comments by **November 30, 2016** .

We are and will be working with a number of clients in reviewing the consultation paper and making submissions. We would be pleased to assist you in making a submission. Please do not hesitate to call or write any of the authors in this connection.

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