Federal Financial Institutions Legislative and Regulatory Reporter — May and June 2019

July 29, 2019

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 2019 edition follows below.

June 2019

Institution	Published	Title and Brief Summary	Status
Canada Deposit Insurance Corporation	Canada Gazette Part II, June 26, 2019	By-law Amending the Canada Deposit Insurance Corporation Data and System Requirements By-law, SOR/2019-187 The amendment will facilitate the update and implementation of technical specifications that reflect the enhanced coverage framework by delinking the technical specifications from the by-law. By-law amending the Canada Deposit Insurance Corporation Deposit Insurance	Effective June 7, 2019

		Information By-law and the Exemption from Deposit Insurance By-law (Notice to Depositors), SOR/2019-186 The amendments ensure the by-laws remain up to date and reflect the coverage framework that will apply upon the coming into force of select provisions of Bill C-74, *Budget Implementation Act*, 2018, No. 1, as well as certain technical changes to provide clarity to the by-law.	
Office of the Superintendent of Financial Institutions (Banks, Trust and Loan Companies, Insurance Companies)	June 28, 2019	Margin Requirements for Non-Centrally Cleared Derivatives Guideline (E-22) In February 2016, OSFI issued the final version of its Margin Requirements for Non-Centrally Cleared Derivatives Guideline (E-22). Under this guideline, most covered federally regulated financial institutions meeting the definition of a covered entity ("covered FRFIs") are subject to the mandatory exchange of variation margin beginning March 1, 2017. In addition, Guideline E-22 requires covered FRFIs to exchange initial margin. The exchange of initial margin began in September 2016 for the largest derivatives counterparties and is being gradually phased-in to smaller counterparties until September 2020.	Effective

		2019 statement by Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), OSFI has issued the following guidance to FRFIs by letter: • Amendments to legacy derivative contracts pursued solely for the purpose of addressing interest rate benchmark reforms are deemed genuine amendments under footnote 17 of Guideline E-22. As such, these amendments would not require the application of the margin requirements for legacy derivative contracts under Guideline E-22. • Documentation, custodial and operational arrangements related to the exchange of initial margin between covered entities are not required to be entered into until the amount of initial margin to be exchanged approaches the CAD$75 million threshold noted in Guideline E-22	

Bank of Canada	June 27, 2019	Bank of Canada announces partnership to improve resilience in financial sector The Bank of Canada announced the launch of a public-private partnership to strengthen the resilience of Canada's financial sector in the face of risks to business operations, including cyber incidents. The Canadian Financial Sector Resiliency Group (CFRG) will be responsible for coordinating a sector-wide response to systemic-level operational incidents. CFRG will also support ongoing resiliency initiatives, such as regular crisis simulation and benchmarking exercises. These efforts will reduce risk and help ensure a robust recovery in the event of an incident. The CFRG will start its work in August 2019. Led by the Bank of Canada, this initiative brings together the following organizations: • Department of Finance Canada • Office of the Superintendent of Financial Institutions (OSFI) • Canada's systemically important banks • Designated Canadian financial market	Effective

		infrastructures (FMIs), which include the payment, clearing and settlement systems Should an incident, such as a major cyber-attack, threaten the operations of the financial sector's critical infrastructure, the CFRG will coordinate the national response. Each member organization's highest officials will be involved in crisis coordination.	
Financial Stability Board	June 27, 2019	Public responses to the call for public feedback on the evaluation of too-big-to-fail reforms On 23 May 2019, the FSB published a summary Terms of Reference and a call for public feedback on its evaluation of too-big-to-fail reforms. Interested parties were invited to provide written responses by 21 June 2019. The feedback will be considered by the FSB as it prepares the draft report, which will be issued for public consultation in June 2020.	The final report will be published in late 2020.
Financial Action Task Force	June 26, 2019	Risk-based Approach for Legal Professionals Legal professionals, which operate within a broad spectrum of business structures that vary from country to country and even within a country, may be vulnerable to being exploited for money	Effective

		laundering (ML) and terrorist financing (TF) than others. The risk-based approach (RBA) is central to the effective implementation of the revised FATF International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation. This guidance aims to support the implementation of the RBA by legal professionals. It highlights the need for a sound assessment of the ML/TF risks that legal professionals face so that the policies, procedures and initial and ongoing client due diligence (CDD) measures can mitigate these risks.	
Financial Action Task Force	June 21, 2019	Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers Financial innovation, in the form of new technologies, services and products, offer efficient alternatives to classic financial products and can improve financial inclusion. At the same time, the speed and anonymity of some of these innovative products risk attracting criminals and terrorists. This guidance will help countries and virtual asset service providers understand their anti-money laundering and	Effective

		counter-terrorist financing obligations and effectively implement the FATF's requirements as they apply to this sector. This guidance follows revisions to the FATF Recommendations in October 2018 and June 2019 in response to the increasing use of virtual assets for money laundering and terrorist financing.	
Finance Canada	June 21, 2019	*Budget Implementation Act, 2019, No. 1*, S.C. 2019, c. 29 *Budget Implementation Act, 2019, No. 1*, received Royal Assent on June 21, 2019. It provides for the following: • Part 4, Division I, Subdivision A amends the *Bank Act* to, among other things, provide members of federal credit unions with different methods of voting prior to meetings and provide additional exceptions to the requirement that a proxy circular be sent in order to solicit proxies. The Subdivision also makes a technical amendment to *An Act to amend certain Acts in relation to financial*	Part 4, Division I, Subdivision A effective June 21, 2019 Part 4, Division I, Subdivision B to be proclaimed

		institutions. • Part 4, Division I, Subdivision B amends the *Canadian Payments Act* to allow the term of the elected directors of the Board of Directors of the Canadian Payments Association to be renewed twice, to extend the term of the Chairperson and Deputy Chairperson of that Board and to allow the remuneration of certain members of the Stakeholder Advisory Council.	
House of Commons	June 20, 2019	Bill C-100, *An Act to implement the Agreement between Canada, the United States of America and the United Mexican States*, was introduced in the House of Commons on May 29, 2019. It received 2nd Reading and was referred to the Standing Committee on International Trade on June 20. It contains amendments to bring the *Canada Deposit Insurance Corporation Act* (records held outside Canada), the *Trust and Loan Companies Act*, the *Bank Act*, and the *Insurance Companies Act*	

		into conformity with the Agreement.	
Office of the Superintendent of Financial Institutions (Banks)	June 18, 2019	Proposed changes to Foreign Bank Branch Deposit Requirement (Guideline A-10) OSFI is releasing proposed revisions to Guideline A-10 to be implemented in Q1 2020 for Foreign Bank Branches (FBBs). The guideline addresses OSFI's expectations regarding the minimum deposit to be held in trust, which authorized foreign banks must maintain in respect of their business in Canada. Revisions include changing the guideline's title to *Foreign Bank Branch Deposit Requirement* from *Capital Equivalency Deposit*, updates and simplifications, and changes to the deposit ratio calculation: off-balance sheet liabilities will no longer be included while accrued expenses will now be included in the calculation.	Comments should be provided no later than July 30, 2019
Financial Stability Board	June 4, 2019	FSB Report on Market Fragmentation This report, which was delivered to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Fukuoka on 8-9 June, sets out the conclusions from the FSB's work on market fragmentation and identifies several areas for	

		further work to address it. The report looks at some examples of financial activities where supervisory practices and regulatory policies may give rise to market fragmentation. It discusses potential trade-offs that authorities have considered between the benefits of increased cross-border activity and a need to tailor domestic regulatory frameworks to local conditions and mandates. The areas the report examines are the trading and clearing of over-the-counter (OTC) derivatives across borders; banks' cross-border management of capital and liquidity; and the sharing of data and other information internationally. The report lays out approaches and mechanisms that may enhance the effectiveness and efficiency of international cooperation, and helps to mitigate any negative effects of market fragmentation on financial stability.	
Office of the Superintendent of Financial Institutions (Insurance)	June 2019	Sound Reinsurance Practices and Procedures Reinsurance is an important risk management tool that can be used by an insurer to reduce insurance risks and the volatility of financial results, stabilize solvency, make more	

		efficient use of capital, better withstand catastrophic events, increase underwriting capacity, and to draw on reinsurers' expertise. However, reinsurance exposes an insurer to operational, legal, counterparty, and liquidity risks, among other risks. The combination of these risks can make reinsurance complex and challenging to implement effectively. Inadequate reinsurance risk management practices and procedures can materially affect an insurer's financial soundness and reputation, and can ultimately contribute to its failure. This guideline sets out OSFI's expectations for effective reinsurance practices and procedures. It applies to **all** federally regulated insurers (FRIs) that are party to reinsurance cessions, retrocessions and, where applicable, to assumption reinsurance transactions.	

May 2019

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Financial Stability Board	May 31, 2019	Crypto-assets: Work underway, regulatory approaches and potential gaps	Effective

		This report on crypto-assets considers work underway, regulatory approaches and potential gaps. The report was delivered to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Fukuoka on 8-9 June. The report gives an update on work by international organizations addressing issues arising from crypto-assets on a number of fronts. They are mainly focused on investor protection, market integrity, anti-money laundering, bank exposures and financial stability monitoring. They are monitoring and analysing developments in these markets; setting supervisory expectations for firms; and clarifying how international standards apply to crypto-assets.	
Office of the Superintendent of Financial Institutions (Banks, Trust and Loan Companies)	May 30, 2019	Revised Guideline B-12: Interest Rate Risk Management The Office of the Superintendent of Financial Institutions (OSFI) has released a revised version of its Guideline B-12: *Interest Rate Risk Management.* The guideline provides a risk control framework for deposit-taking institutions to follow in identifying, assessing and managing their interest rate risk.	Effective January 1, 2020 for Domestic Systemically Important Banks; Effective January 1, 2021 for other deposit-taking institutions

		The updated guideline reflects international sound practices, as outlined in the 2016 Basel Committee on Banking Supervision (BCBS) framework for Interest Rate Risk in the Banking Book (IRRBB). Key updates to OSFI Guideline B-12 include: • Additional guidance for institutions' IRRBB governance processes. • OSFI's expectations for the measurement of IRRBB, the development of stress and shock scenarios, and the key behavioural and modelling assumptions institutions should consider. • The introduction of an outlier/materiality test that compares an institution's maximum loss to its capital base under prescribed scenarios.	
Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)	May 30, 2019	[FINTRAC reinforces its partnership with the Investment Industry Regulatory Organization]()	Effective

		of Canada Under a revised Memorandum of Understanding, FINTRAC and IIROC will be able to share compliance-related information, including the results of compliance examinations, in order to strengthen the compliance of securities dealers with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. This sharing of information will also help increase the knowledge and expertise of each organization in relation to new and evolving trends and money laundering and terrorist activity financing risks in the investment sector and broader Canadian financial system.	
Payments Canada	May 24, 2019	Proposed new rule to enhance digital payments: Payments Canada seeks feedback on increase debit card acceptance Payments Canada is seeking feedback on its consultation paper for a new rule, as part of its point-of-service payment rules framework, to enable a broader range of point-of-service debit card acceptance. This new rule further supports the move to digital payments and lessens consumer reliance on cash.	Consultation paper open until June 23

		The proposed rule, *Rule E5 Exchange of Point-of-Service Delayed Authorization Debit Payment Items for the Purpose of Clearing and Settlement,* is written to accommodate debit card payments for point-of-service use cases where it may not be possible to have immediate authorization by a user's (payor) financial institution.	
Office of the Superintendent of Financial Institutions (All Deposit-Taking Institutions (DTIs) Issuing Covered Bonds)	May 23, 2019	Revised Covered Bond Limit Calculation OSFI is updating the covered bond limit calculation that was last revised in December 2014. The 2014 revision updated the denominator of the calculation as a result of replacing the Assets to Capital Multiple (ACM) with the Basel Leverage Ratio in Q1 2015. Since then, revisions to the Capital Adequacy Requirements Guideline and Leverage Requirements Guideline have necessitated changes to the formula for the ACM proxy of total assets described in the December 2014 letter.	Revised calculation effective August 1, 2019.
Financial Stability Board	May 23, 2019	Evaluation of too-big-to-fail reforms: Summary Terms of Reference This summary terms of reference provides details about the objectives, scope and process of the FSB's	The final report will be published in late 2020.

		evaluation of too-big-to-fail (TBTF) reforms. The evaluation will assess whether the implemented reforms are reducing the systemic and moral hazard risks associated with systemically important banks (SIBs). It will also examine the broader effects of the reforms to address TBTF for SIBs on the overall functioning of the financial system.	

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