Federal financial institutions legislative and regulatory reporter – January 2022

February 23, 2022

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.

January 2022

Published	Title and Brief Summary	Status
Office of the Superintendent of Financial Institutions (OSFI)		
January 31, 2022	OSFI Completes Basel III Reforms, Releases Final Capital and Liquidity Rules to Protect Canadians OSFI announced revised capital, leverage, liquidity and disclosure rules that incorporate the final Basel III banking reforms with additional adjustments to make them suitable for federally regulated deposit-taking institutions (DTIs). These revised rules will help ensure that Canadian DTIs can effectively manage risks through adequate levels of capital and liquidity, thereby helping to bolster the resilience of these institutions. OSFI's implementation of these rules	Effective Q2 2023, with rules related to market risk and credit valuation adjustment risk taking effect in early 2024.

	reflects three key principles: • introducing rules that are fit for Canada; • setting the right incentives; and • tailoring capital and liquidity requirements to better reflect the unique nature of small and medium-sized banks. Most of these revised rules will take effect in the second fiscal quarter of 2023, with those related to market risk and credit valuation adjustment risk taking effect in early 2024. • The revised rules include new Capital Adequacy Requirements (CAR), Leverage Requirements (LR), Liquidity Adequacy Requirements (LAR), Capital and Liquidity Requirements specifically for SMSBs, and separate Pillar 3 Disclosure Requirements for D-SIBs and SMSBs. • The Basel III reforms provide standards for bank capital, leverage, and liquidity that have evolved over time in response to changing market conditions. • The final package of Basel III reforms were published by the Basel Committee on Banking Supervision (BCBS) starting in December 2017, and OSFI launched an industry consultation in July 2018 to gather input on how best to implement	

	these reforms in Canada. • By implementing the Basel III reforms in a way that makes sense for the Canadian context, OSFI is further reinforcing the strong international reputation of Canada's banks and helping them attract capital and funding, both domestically and from investors around the world.	
January 20, 2022	Update on discussion paper - Assurance on Capital, Leverage and Liquidity Returns In April 2021, OSFI released a discussion paper entitled "Assurance on Capital, Leverage and Liquidity Returns." The purpose of this discussion paper was to engage FRFIs, and other interested stakeholders in a dialogue with OSFI, to proactively enhance and align assurance expectations over key regulatory returns. The purpose of this letter is to update institutions on the development of an assurance guideline. Summary of respondent feedback: • Most respondents questioned the need for the implementation of a system-wide assurance initiative • Most respondents suggested deferring the effective date of the new assurance requirements by a minimum of one year to fiscal 2024.	OSFI will consider the responses to the discussion paper in preparing and issuing a draft guideline in the first quarter of 2022. Subsequently, OSFI will engage with stakeholders and interested parties to develop the final guidance by the third quarter of 2022.

	• Some respondents indicated that any new assurance requirements should remain risk-based, and principles-based where the assurance approaches for Federally Regulated Insurers and Deposit Taking Institutions consider the differences in inherent risks within these respective industries. Respondents also indicated that the new assurance requirements should consider proportionality. • Most respondents suggested that duplication of internal and external audit effort should be avoided across assurance requirements. OSFI agrees guidance on assurance should be principles-based and risk-based. OSFI continues to believe the implementation of an Assurance Guideline will help to promote continued public confidence in the Canadian financial system.	
January 14, 2022	Building Federally Regulated Financial Institution Awareness and Capability to Manage Climate-Related Financial Risks OSFI's principal objective is to support FRFIs in their efforts to build awareness and capability in managing climate-related financial risks. Improving FRFI readiness to manage climate-related financial risks enhances the safety and soundness of these institutions and strengthens public confidence in Canada's financial system.	

	Outlined below are seven initiatives OSFI will focus on to meet this objective. 1. Climate risk management guidance 2. Climate data and analytics 3. Scenario analysis for climate-related financial risks 4. Climate-related capital and liquidity considerations 5. Climate-related financial disclosures 6. Stakeholder engagement 7. Expanding OSFI's own capability	
January 14, 2022	Bank of Canada/OSFI Pilot Helps Canadian Financial Sector Assess Climate Change Risks The Bank of Canada and OSFI released the results of a pilot project on climate scenario analysis. This pilot was an important step in helping Canada's financial sector improve its ability to analyze economic and financial risks affecting financial institutions that could arise from climate change. Together with six Canadian financial institutions, the bank and OSFI developed scenarios that will help the financial sector identify, measure and disclose climate-related risks. These scenarios were not intended to be forecasts or predictions. Rather, they were specifically designed to capture a range of potential outcomes and illustrate the kinds of stresses on the	

	financial system and economy that could occur as the world transitions to a low-carbon future. All scenarios showed that this transition will entail important risks for some economic sectors. Mispricing of transition risks could expose financial institutions and investors to sudden and large losses. It could also delay investments needed to help mitigate the impact of climate change. The Bank of Canada indicated that it plans to build its capacity to assess the implications of more frequent severe weather events and the transition to a low-carbon economy for potential output growth, the labour market and inflation. OSFI announced in an industry letter that it will issue draft guidance on climate risk management for federally regulated financial institutions later this year.	
Bank of Canada		
January 31, 2022	CARR Welcomes RBSL Consultation on The Potential Cessation of CDOR The Canadian Alternative Reference Rate working group (CARR) welcomes the **publication** by the administrator of CDOR, Refinitiv Benchmark Services (UK) Limited (RBSL), of a consultation document regarding the potential permanent cessation of the Canadian Dollar Offered Rate (CDOR). This consultation follows the publication in December 2021 of	Responses by February 28, 2022

	CARR's **White Paper** on CDOR. CARR encourages CDOR stakeholders to provide feedback on this consultation, which closes on February 28, 2022.	
January 13, 2021	Notice of Memorandum of Understanding Between The Autorité Des Marchés Financiers, The British Columbia Securities Commission, The Ontario Securities Commission and The Bank Of Canada In support of its mandate as the resolution authority for Canadian financial market infrastructures (FMIs), the Bank of Canada has entered into a memorandum of understanding (MOU) with the Autorité des marchés financiers, the British Columbia Securities Commission and the Ontario Securities Commission. As resolution authority, the bank is responsible for developing plans to respond to the unlikely failure of a Canadian designated FMI. The bank also has the power in a crisis to take temporary control of a failing FMI to limit the impact on Canada's financial system and economy. The MOU establishes a framework for cooperation, coordination, consultation and information sharing on matters related to the resolution of: • the CDSX system or its operator, the CDS Clearing and Depository Services Inc. • the Canadian Derivatives Clearing Service or its operator, the Canadian	

	Derivatives Clearing Corporation This MOU complements a previous **understanding** among the same parties to cooperate in fulfilling their respective oversight mandates for promoting the safety and efficiency of these two FMIs.	
Bank for International Settlements (BIS)		
January 13, 2022	BIS, SNB and SIX Successfully Test Integration of Wholesale CBDC Settlement With Commercial Banks Integrating a wholesale central bank digital currency (CBDC) into existing core banking systems is complex and a key prerequisite for issuance. Phase II of Project Helvetia successfully demonstrates that such integration is operationally possible. Issuing a wholesale CBDC on a distributed ledger technology (DLT) platform operated and owned by a private sector company is feasible under Swiss law. The second phase of Project Helvetia is a joint experiment by the Bank for International Settlements (BIS), the Swiss National Bank (SNB) and SIX (Switzerland's main provider of financial infrastructure services), which also included five commercial banks: Citi, Credit Suisse, Goldman Sachs, Hypothekarbank Lenzburg and UBS. Project Helvetia looks toward a future in which more financial assets are tokenised and financial infrastructures run on	

	DLT. International regulatory standards suggest that operators of systemically important infrastructures should settle obligations in central bank money whenever practical and available. While none of the existing DLT-based platforms are systemic yet, they may become so in the future. Moreover, central banks may need to extend monetary policy implementation to tokenised asset markets. The experiment was carried out during the fourth quarter of 2021. It explored the settlement of interbank, monetary policy and cross-border transactions on the test systems of SIX Digital Exchange (SDX), the Swiss real-time gross settlement system – SIX Interbank Clearing (SIC) – and core banking systems.	
Financial Stability Board (FSB)		
January 10, 2022	Resolution Funding for Insurers: Practices Paper The practices paper on Resolution Funding for Insurers discusses the different sources of resolution funding, including privately funded policyholder protection schemes and standalone resolution funds, and how they interact with each other when both exist. The paper also discusses temporary funding sources for resolution funds and mechanisms in place to recover funds used in resolution. The FSB invites feedback on its practices paper on resolution funding for insurers. The submitted views would help	Responses by March 15, 2022

	inform FSB's further reflections. In particular, the FSB invites feedback from stakeholders on the following: • What further consequences or challenges to the determination and mobilization of internal or external funding should be considered in addition to those identified in the paper? What preparations could be taken to ensure availability of these funding sources in resolution, nevertheless? Are there specific challenges related to cross-border situations? • Are the conditions for the use of other sources of funding in resolution, such as liquidity facilities, policyholder protection schemes or standalone resolution funds, transparent and predictable in your jurisdiction? If not, what action or information would increase predictability? Are there additional complications related to cross-border situations? • Are there additional or different considerations to be applied to the above questions based on whether the insurer is part of a conglomerate or not? Please submit your feedback to the FSB by March 15, 2022. Responses will be published on the FSB's website unless respondents expressly	

	request otherwise. The FSB will also host a workshop with stakeholders in Q2 2022 around the same questions.	
January 10. 2022	Internal Interconnectedness in Resolution Planning for Insurers: Practices Paper The practices paper on Internal Interconnectedness in Resolution Planning for Insurers explores ways to map and assess financial and operational interconnectedness in insurance companies. Individual insurance entities within a group or conglomerate are often linked with other entities within the group through financial exposures and receive operational services from them. These linkages may be critical for their financial and operational continuity and may, therefore, have an impact on the design and choice of the preferred resolution strategy. The FSB invites feedback on its practices paper on resolution funding for insurers. The submitted views would help inform FSB's further reflections. In particular, the FSB invites feedback from stakeholders on the following: • What elements of information required in your jurisdiction regarding the description and mapping of internal operational interconnectedness are the most relevant? Which further elements could support the assessment of interconnectedness? Which elements of these	Responses by March 15, 2022

	reporting requirements are easy to deliver, and which elements pose challenges? Are there specific challenges related to the mapping and assessment of cross-border interconnections? • What further consequences or challenges to financial and operational continuity in resolution should be considered in the context of operational interconnectedness in addition to those identified in the paper? What preparatory measures could be taken to ensure the smooth execution of resolution action? Are there specific challenges related to cross-border interconnections? • Are there additional or different considerations to be applied to the above questions, based on whether the insurer is part of a conglomerate or not? Please submit your feedback to the FSB by March 15, 2022. Responses will be published on the FSB's website unless respondents expressly request otherwise. The FSB will also host a workshop on these topics with stakeholders in Q2 2022 around the same questions.	

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