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ARTICLE

Federal financial institutions legislative and regulatory reporter - September 2020

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.

September 2020

Institution	Published	Title and Brief Summary	Status
Office of the Superintendent of Financial Institutions (OSFI)	September 30, 2020	<u>OSFI updates IFRS 17 implementation timelines</u> The Office of the Superintendent of Financial Institutions (OSFI) released three documents updating the timelines for Canadian insurer's implementation of International Financial Reporting Standards - <i>Insurance Contracts (IFRS 17)</i>. Associated links • Letter to federally regulated insurers • Amended Advisory for IFRS 17 • Amended Advisory for IFRS 9	
Office of the Superintendent of Financial Institutions (OSFI)	September 17, 2020	<u>2021 actuarial report on the employment insurance premium rate</u> The <u>2021 report</u> provides actuarial forecasts and estimates for the purposes of sections 4, 66 and 69 of the Employment Insurance Act. The estimates are based on the employment insurance (EI) provisions as of July 22, 2020. They also take into account additional information received from Employment and Social Development Canada on August 6, 2020, which was announced by the government on August 20, 2020. This information includes upcoming temporary measures aimed at facilitating access to EI, as well as a confirmation of a premium rate freeze in 2021. The estimates were not revised for the additional four week extension of the Canada Emergency Response Benefit (including the EI Emergency Response Benefit), which was recently announced on August 20, 2020.	
Bank of Canada	September 15, 2020	<u>Bank of Canada announces changes to the amount of Government of Canada Treasury Bills acquired at auction</u> In March, The Bank of Canada's short-term liquidity programs announced to improve market functioning are continuing to have their intended effect. With significant improvements in short-term funding conditions and, in particular, funding conditions in the Government of Canada Treasury Bill market, the Bank is reducing its current pace of acquisition of these securities. Effective September 21, 2020, the Bank will reduce the amount it purchases at auction from 20 per cent to 10 per cent of tendered amounts. The Bank may adjust its purchase percentage further if market conditions warrant.	Effective September 21, 2020
Bank of Canada	September 15, 2020	<u>Bank of Canada announces changes to the Provincial Money Market Purchase (PMMP) program</u> Likewise, with significant improvements in short-term funding conditions and, in particular, improvements in the short-term provincial borrowing market, the Bank is making amendments to the PMMP program. Effective September 21, 2020, the Bank will reduce the amount it purchases from up to 20 per cent to 10 per cent of each accepted offering of directly issued provincial money market securities with terms to maturity of 12-months or less. The 10 per cent limit may be adjusted if market conditions warrant.	Effective September 21, 2020
		<u>OSFI launches consultation on technology risks in the financial sector</u> OSFI is receiving comments and submissions on technology risks and building resilience in the financial sector until December 15, 2020. Please send feedback to Tech.Paper@osfi-bsif.gc.ca.	

Office of the Superintendent of Financial Institutions (OSFI)	September 15, 2020	On September 15, OSFI launched a three-month consultation with the publication of the discussion paper, Developing financial sector resilience in a digital world. The paper focuses on risks arising from rapid technological advancement and digitalization, as these trends impact the stability of the Canadian financial sector. Understanding the financial sector's use of technology and how technology risks are managed is central to this consultation. OSFI's discussion paper focuses on the risk areas of cyber security, advanced analytics (artificial intelligence and machine learning), as well as the use of third party services such as cloud computing. OSFI is seeking feedback from a wide range of stakeholders including financial sector participants, technology experts, and academics. Their input will help guide OSFI's regulatory and supervisory approaches to technology risks that meet our mandate of protecting depositors, policyholders and private pension plan beneficiaries while allowing institutions to compete and take risks.	Submissions due on December 15, 2020
FATF	September 14, 2020	Virtual assets red flag indicators of money laundering and terrorist financing The newly released report from the Financial Action Task Force (FATF), Virtual Assets - Red Flag Indicators of Money Laundering and Terrorist Financing, is informed by more than 100 case studies collected by members of the FATF Global Network. The report highlights the most important red flag indicators that could suggest criminal behaviour. Key indicators in this report focus on: • Technological features that increase anonymity - such as the use of peer-to-peer exchanges websites, mixing or tumbling services or anonymity-enhanced cryptocurrencies; • Geographical risks - criminals can exploit countries with weak, or absent, national measures for virtual assets; • Transaction patterns - that are irregular, unusual or uncommon which can suggest criminal activity; • Transaction size - if the amount and frequency has no logical business explanation; • Sender or recipient profiles - unusual behaviour can suggest criminal activity; and • Source of funds or wealth - which can relate to criminal activity This report helps virtual asset service providers, financial institutions, and designated non-financial businesses and professions, as well as other reporting entities detect and report suspicious transactions. It also provides useful information for financial intelligence units, law enforcement agencies, prosecutors and regulators to analyse suspicious transaction reports or monitor compliance with anti-money laundering and counter-terrorist financing controls. This report complements the FATF guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers from June 2019. The guidelines explain: • How to understand the money laundering and terrorist financing risks of virtual assets; • How to license and register the sector; • Actions sectors need to take to know information about their customers, • How to store this information securely; and • How to detect and report suspicious transactions. In Brief: • Virtual Assets Red Flag Indicators for Financial & Non-Financial Sectors • Virtual Assets Red Flag Indicators for Virtual Asset Service Providers • Virtual Assets Red Flag Indicators for the Public Sector	
Bank of Canada	September 14, 2020	Debt management strategy consultations – 2021-2022 The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors, and other interested parties on issues related to the design and operation of the Government of Canada's domestic debt program for 2021-2022 and beyond. The Debt Management Strategy consultations will take place in the fall of 2020. A summary of comments received from market participants will be made available on the Bank of Canada's website concurrently with the release of the Debt Management Strategy for 2021-2022.	
		OSFI updates its FAQs on COVID-19 related regulatory measures	

Office of the Superintendent of Financial Institutions (OSFI)	September 11, 2020	The Office of the Superintendent of Financial Institutions (OSFI) has a series of Frequently Asked Questions (FAQs) available for federally regulated financial institutions and private pension plans about regulatory measures it has taken to address issues stemming from COVID-19. OSFI made updates to its published FAQs related to: • Federally Regulated Deposit-Taking Institutions; • Federally Regulated Insurers; and • Federally Regulated Private Pension Plans	
Office of the Superintendent of Financial Institutions (OSFI)	September 11, 2020	Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans – Draft A draft of the Revised Instruction Guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans (the Guide), along with an accompanying letter, was posted on the OSFI website for a 90-day consultation period December 20, 2019. As a result of the COVID-19 crisis, on March 13, 2020, OSFI suspended a number of consultation initiatives and policy development work related to new or revised guidance, including consultation on the Guide. As indicated in the latest issue of the Pillar, OSFI has gradually restarted policy development work. The consultation period for the Guide has now resumed. Questions about the Guide may be sent to Marc Sauvé, Senior Manager, Actuarial in the Private Pension Plans Division, by email at marc.sauve@osfi-bsif.gc.ca.	
Office of the Superintendent of Financial Institutions (OSFI)	September 10, 2020	Life Memorandum to the Appointed Actuary 2020 Each year, OSFI updates the Life Memorandum to the Appointed Actuary (the Memorandum). This Memorandum describes the requirements of OSFI or its Superintendent with respect to the Appointed Actuary's Report (AAR) specified in subsection 667(2) of the Insurance Companies Act (ICA). It sets out the minimum standards used in determining the acceptability of the AAR and provides guidance for the Appointed Actuary preparing reports in matters relating to presentation, level of detail and nature of the discussions to be included. Key changes are highlighted in a letter pertaining to the release of the life memorandum, as well as a letter specific to property and casualty. For full details, see The Life Memorandum to the Appointed Actuary (2020).	
Office of the Superintendent of Financial Institutions (OSFI)	September 9, 2020	"2020 Annual Update" to the Manual of Financial Reporting Forms and Instructions for Life Insurance Companies and Fraternal Benefit Societies Changes have been made to the Canadian Council of Insurance Regulators (CCIR) regulatory forms and instructions. The changes can be viewed on OSFI's Web site at www.osfi-bsif.gc.ca. A detailed summary of all changes can be found under Section VII of the instructions.	
International Association of Insurance Supervisors (IAIS)	September 7, 2020	Stock-take questionnaire on infrastructure and strategic equity As part of its work on the Insurance Capital Standard (ICS) over the 2020-2024 Monitoring Period, the International Association of Insurance Supervisors (IAIS) is exploring whether there should be a differentiated capital treatment of certain eligible infrastructure (both equity and debt) as well as strategic equity investments within the ICS. In that context, the IAIS is seeking input from the public regarding quantitative and qualitative material and data sources that could be used to support the aforementioned work. The survey also provides an opportunity for stakeholders to share with the IAIS their experience with respect to such investments. If you are intending to participate in this survey, please submit your response exclusively here before December 7, 2020.	Submissions due on December 7, 2020
Financial Stability Board (FSB)	September 7, 2020	Regulatory framework for haircuts on non-centrally cleared securities financing transactions. Transforming Shadow Banking into Resilient Market-based Finance Regulatory framework for haircuts on non-centrally cleared securities financing transactions was originally published on November 12, 2015, however, the annexes were updated on July 19, 2019, November 25, 2019 and September 7, 2020. This document sets out the finalized policy recommendations in the framework for haircuts on certain non-centrally cleared securities financing transactions (SFTs), based on the public consultation findings. The framework aims to address financial stability risks associated with SFTs. This work was published in October 2014, and sets out numerical haircut floors to apply to non-bank-to-non-bank SFTs and updates the implementation dates of the FSB's recommendations on SFTs.	There are various implementation dates that are ongoing or already in force. For extended implementation dates for certain recommendations, please see below.

		<u>FSB extends implementation timelines for securities financing transactions</u>	
Financial Stability Board (FSB)	September 7, 2020	The Financial Stability Board (FSB) announced <u>extensions to the implementation timelines</u> for minimum haircut standards for non-centrally cleared securities financing transactions (SFTs), to ease operational burdens on market participants and authorities, and thereby assist them in focusing on priorities from the impact of COVID-19. SFTs such as securities lending and repurchase agreements play a crucial role in supporting price discovery and secondary market liquidity for a wide variety of securities. However, such transactions can also be used to take on leverage as well as maturity and liquidity mismatched exposures, and therefore can pose risks to financial stability. As part of its work to enhance the resilience of non-bank financial intermediation, the FSB developed 18 policy recommendations to address financial stability risks that arise from SFTs. These recommendations were published in the FSB's August 2013 report Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos and updated in the November 2015 report Regulatory framework for haircuts on non-centrally cleared securities financing transactions.	The implementation of Recommendation 16 will be extended until January 2022 (instead of January 2021), recommendations 14 and 18 will be extended until January 2023 (instead of January 2022), recommendation 17 will be extended until January 2024 (instead of January 2023) and recommendation 15 will be extended until January 2025 (instead of January 2024).

Disclaimer

This Reporter is prepared as a service for our clients. It is not intended to be a complete statement of the law or an opinion on any subject. Although we endeavour to ensure its accuracy, no one should act upon it without a thorough examination of the law after the facts of a specific situation are considered.

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