

Federal financial institutions legislative and regulatory reporter - July 2020

August 27, 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.

July 2020

FINTRAC guidance related to the Ministerial Directive on Financial Transactions Associated	
FINTRAC July 25, 2020 The Financial Action Task Force (FATF) issued a statement in February 2020 expressing its concerns regarding Iran's failure to address strategic deficiencies in its anti-money laundering and combatting the financing of terrorism (AML/CFT) regime, and the threat this poses to the integrity of the international financial	/ 25, 2020



		system.	
		The FATF called on its members to apply effective countermeasures to protect their financial sectors from such risks. As such, Canada's Finance Minister, under subsection 11.42(1) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) issued this ministerial directive to ensure the safety and integrity of Canada's financial system. Effective July 25, 2020, every reporting entity under the PCMLTFA is required to, among other obligations, treat every financial transaction originating from or bound	
		for Iran, regardless of amount, as a high-risk transaction.	
		Public responses to consultation on Addressing the regulatory, supervisory and oversight challenges raised by "global stablecoin" arrangements.	
FSB	July 24, 2020	On April 14, 2020, the Financial Stability Board (FSB) published a consultation document on Addressing the regulatory, supervisory and oversight challenges raised by "global stablecoin" arrangements. Interested parties could provide written comments by July 15, 2020. The public	



		responses to this	
		consultation are available here.	
		Request for feedback on impact of Covid-19.	
IAIS	July 24, 2020	Following up on the June 2020 Stakeholder Dialogue, the International Association of Insurance Supervisors (IAIS) is seeking feedback on the implications of COVID-19 on the insurance sector, supervisors and the future work of the IAIS by Sept. 4, 24:00 CET. To provide feedback, please use the Consultation Tool available on the consultation page of the IAIS website.	Responses by September 4, 2020
FCAC	July 23, 2020	COVID-19: FCAC tracking of bank relief measures During these unprecedented times, the Federal Consumer Agency of Canada (FCAC) has been monitoring and tracking the relief measures banks have been providing to consumers impacted by COVID-19. This has formed part of FCAC's commitment to work closely with federally regulated financial entities to protect the health and	
		financial wellbeing of bank employees, consumers and communities. FCAC data shows that, while each regulated entity has its own qualifying criteria, consumer requests are generally approved in a	



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		timely manner, provided the consumer's account is in good standing and they self-declare they have been negatively impacted by the pandemic. The cumulative number of	
		deferrals approved (as of July 10, 2020) can be viewed here.	
		FSB stocktake considers climate risks and financial stability	
		This stocktake considers financial authorities' experience of including climate-related risks in financial stability monitoring. It draws on information provided by Financial Stability Board (FSB) members, international bodies and a workshop with the private sector.	
FSB	July 22, 2020	The FSB will, by October 2020, conduct further work to assess the channels through which physical and transition risks could impact the financial system and how they might interact. Particular focus will be on the potential amplification mechanisms and crossborder effects, and prioritizing channels that could materialize in the short-to-medium term. The FSB will also consider the scope for work to assess available data through which climate-related risks can be monitored, as well as any data gaps. This work	



		will build on, and be co- ordinated with, that taking place in other relevant international fora.	
		Bank of Canada announces changes to the Provincial Money Market Purchase (PMMP) program.	
Bank of Canada	July 21, 2020	Bank of Canada's short-term liquidity programs announced since March to improve market functioning are having their intended effect. Conditions in short-term funding markets have improved. In particular, strains in the short-term provincial borrowing market have diminished significantly. With reduced strains in this market, and a decline in PMMP program usage from its peak, the Bank is making amendments to the program. Effective July 27, 2020, the Bank will purchase up to 20 per cent (previously up to 40 per cent) of each	Effective July 27, 2020
		up to 40 per cent) of each accepted offering of directly issued provincial money market securities with terms to maturity of 12 months or less. The 20 per cent limit may be adjusted if market conditions warrant.	
Bank of Canada	July 21, 2020	Bank of Canada announces changes to the amount of Government of Canada Treasury Bills acquired at auction.	Effective July 27, 2020



		The Bank's short-term liquidity programs announced since March to improve market functioning are having their intended effect. Conditions in short-term funding markets have improved. In particular, strains in the Government of Canada Treasury Bill market have diminished significantly. Given these improvements, the Bank is reducing its current pace of acquisition of these securities. Effective July 27, 2020, the Bank will reduce the amount it purchases at auction from 40 per cent to 20 per cent of tendered amounts, which is in line with average levels prior to the onset of the COVID-19 pandemic. The Bank may adjust its purchase percentage if market conditions warrant.	
Bank of Canada	July 20, 2020	Bank of Canada announces new securities repo operations. In line with its objectives to support core funding markets and to foster the well-functioning of the Government of Canada securities market, the Bank of Canada is announcing the introduction of securities repo operations (SROs). The SROs will provide a temporary source of Government of Canada nominal bonds and	Effective July 27, 2020



		treasury bills to primary dealers to support liquidity in the securities financing market. The Bank's SROs will make a portion of its holdings of these securities available on an overnight basis through repurchase operations.	
		The Bank's SROs are consistent with best practices at other central banks and with recommendations from the Bank for International Settlements.	
		The Bank launched the securities repo operations on July 27, 2020, at which point it will suspend the current Securities Lending Program. SRO terms and conditions provide operational details. The Bank, at its discretion, may adjust the size, pricing and other parameters of the program to achieve its objectives.	
FINTRAC	July 17, 2020	FINTRAC interpretation notices and policy interpretations. he Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) issues FINTRAC interpretation notices (FINs) and policy interpretations to provide technical interpretations and positions regarding certain provisions contained in the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and	



		associated Regulations. Recently published FINTRAC guidance include:	
FSB	July 15, 2020	COVID-19 pandemic: Financial stability implications and policy measures taken – Report to the G20 This report, delivered to G20 Finance Ministers and Central Bank Governors for their virtual meeting on July 18, assesses COVID-related financial stability developments, details policy measures taken and sets out work to assess their effectiveness.	



The FSB continues to support international cooperation and coordination on the COVID-19 response underpinned by the FSB principles. The FSB is:

- Assessing financial risks and vulnerabilities to support assessments of the appropriateness of financial policy responses and potential adjustments.
- Information sharing regularly sharing information on policy responses and has begun supporting domestic assessments of the use of policy measures taken.
- Co-ordinating policy responses - the FSB has been coordinating the response to policy issues, including measures that standard-setting bodies (SSBs) may take to provide, or give guidance on, flexibility available to authorities and firms within existing international



		financial standards. The FSB and SSBs will also coordinate the future timely unwinding of the temporary measures taken as well as addressing any areas where existing policy frameworks have been found wanting. Considering the longer-term implications of the market turmoil in March - this will include a holistic post- mortem of what happened,	
		drawing also on work by the SSBs. The FSB will provide a further update on member authorities' and SSBs' COVID-19 responses, its financial stability risk assessment and its work on the effectiveness of policy responses by November 2020, ahead of the G20 Leaders' Summit.	
OFSI	July 15, 2020	OSFI issues a capital ruling on Limited Recourse Capital Notes (LRCNs) OSFI has published a letter and capital ruling that explains OSFI's considerations in determining that the LRCNs can qualify as	



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		Additional Tier 1 regulatory capital by the requesting bank and other FRFIs, subject to certain limitations and disclosure requirements. For accompanying notes, see here.	
FSB and BCBS	July 9, 2020		
		remaining dependencies on LIBOR by the end of 2021. LIBOR transition is a G20 priority and the report responds to the G20	



		request to identify remaining challenges to benchmark transition and to explore ways to address them. The report was a deliverable for the G20 Finance Ministers and Central Bank Governors virtual meeting	
IAIS	July 9, 2020	on July 18, 2020. IAIS publishes supervisory recommendations to address remaining challenges of LIBOR transition in the insurance sector. The International Association of Insurance Supervisors (IAIS) published its report – Supervisory issues associated with benchmark transition from an insurance perspective – sharing findings and recommendations from a	
		survey conducted amongst IAIS members. The report focuses primarily on LIBOR transition, given its predominant global role and the short remaining period for transition.	
BIS	July 8, 2020	Targeted revisions to the credit valuation adjustment risk framework The credit valuation adjustment (CVA) risk framework replaces an earlier version of the standard as published in December 2017.	Effective January 1, 2023
		This <u>final standard</u> incorporates changes proposed in the	



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		November 2019	
		consultative document	
		and has been informed by	
		a quantitative impact	
		assessment based on	
		data as of end-June 2019.	
		Compared to the earlier	
		standard, the revisions	
		include recalibrated risk	
		weights, a different	
		treatment for certain client	
		cleared derivatives, and	
		an overall recalibration of	
		the standardised	
		approach CVA as well as	
		the basic approach CVA.	
		The revised standard	
		comes into effect on Jan.	
		1, 2023.	
		2020-21 Debt	
		Management Strategy	
		In September and	
		October 2019, officials	
		from the Department of	
		Finance and the Bank of	
		Canada consulted with	
		government securities	
		distributors, institutional	
		investors and other	
		interested parties on	
		issues related to the	
		design and operation of	
		the Government of	
Bank of Canada	July 8, 2020	Canada's domestic debt	
		program for 2020-21./p>	
		Comments received	
		during these consultations	
		were taken into	
		consideration in	
		developing the <i>Debt</i>	
		Management Strategy for	
		2020-21 and can be found	
		in the <u>2020-21 Debt</u>	
		Management Strategy	
		Consultations and	
		Government of Canada	
		Real Return Bond	
	1	- tour Notain Bond	



		Consultations Summaries.	
		12-month review –	
		revised FATF standards on virtual assets and	
		VASPs.	
		VAOFS.	
		The FATF has completed	
		a review of the	
		implementation of its	
		revised standards on	
		virtual assets and virtual	
		asset service providers;	
		12 months after the FATF	
		finalized these	
		amendments. The June	
		2019 revisions to the	
		FATF standards clearly	
		placed anti-money	
		laundering and counter-	
		terrorism financing	
		(AML/CTF) requirements	
		on virtual assets and virtual asset service	
		providers (VASPs).	
FSB	July 7, 2020	The FATF also agreed to	
		undertake a 12-month	
		review by June 2020 to	
		measure how jurisdictions	
		and the private sector	
		have implemented the	
		revised standards, as well	
		as monitoring for any	
		changes in the typologies,	
		risks and the market	
		structure of the virtual	
		assets sector.	
		This report sets out the	
		findings of the review.	
		Interingo of the leview.	
		See below for more on:	
		Guidance for a	
		Risk-Based	
		Risk-Based Approach to	
		Risk-Based Approach to Virtual Assets	
		Risk-Based Approach to	



		• FATF Recommendation s 2012 — Amended June 2019	
BIS	July 6, 2020	Eighteenth progress report on adoption of the Basel regulatory framework This updated progress report provides a high-level view of Basel Committee members' progress in adopting the Basel III standards as of the end of May 2020. It focuses on the status of adoption of all the Basel III standards, including the finalised Basel III post- crisis reforms published in December 2017 and the finalised minimum capital requirements for market risk in January 2019, to ensure that they are transposed into national law or regulation according to the internationally agreed timeframes. The report is	
		based on information provided by individual members as part of the Committee's Regulatory Consistency Assessment Programme (RCAP).	
BIS	July 2, 2020	Sound management of risks related to money laundering and financing of terrorism: Revisions to supervisory cooperation The Basel Committee on Banking Supervision has amended Sound management of risks	



related to money
laundering and financing
of terrorism, to introduce
guidelines on cooperation
and information exchange
among prudential and
AML/CFT supervisors for
banks.

Consistent with the goals and objectives of the standards issued by the Financial Action Task Force (FATF) and principles and guidelines published by the Basel Committee, the revisions provide further detailed guidelines to strengthen the interaction and cooperation between prudential and AML/CFT supervisors.

The revised guidelines

include new paragraph 96 in Part IV (The role of supervisors) and Annex 5 (Interaction and cooperation between prudential and AML/CFT supervisors). Annex 5 sets out specific principles, recommendations and descriptive examples, to facilitate effective and efficient cooperation in relation to authorisation related procedures of a bank, ongoing supervision, and enforcement actions. It also describes possible methods of implementation including mechanisms to facilitate such cooperation at the jurisdictional and international level.



		The guidelines are not included in the Basel standards and are only applicable for those jurisdictions that choose to implement them on a voluntarily basis.	
FSB	July 1, 2020	Conclusions from the FSB's too-big-to-fail evaluation Claudia M. Buch, Vice-President, Deutsche Bundesbank sets out the conclusions from the FSB's Evaluation of the effects of too-big-to-fail reforms. The report finds that too-big-to-fail reforms made banks more resilient and resolvable, but gaps need addressing. Responses to the public consultation report can be submitted until Sept. 30, 2020.	Responses due by September 30, 2020
FINTRAC	July 2020	Special bulletin on COVID-19: Trends in money laundering and fraud This special bulletin (Reference number: 20/21-SIRA-006) is based primarily on FINTRAC's analysis of COVID-19- related transaction reporting and the Canadian Anti-Fraud Centre's (CAFC) analysis of fraud reporting, and it highlights areas that may pose an increased money laundering risk associated with the exploitation of the pandemic situation.	



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Ву

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