Federal Financial Institutions Legislative and Regulatory Reporter

April 19, 2016

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.

March 2016

Institution	Published	Title and Brief Summary	Status
OSFI [Applicable to insurance companies]	Issued March 31, 2016	Draft guideline – Life insurance Capital Adequacy Test-Public Consultation The Life Insurance Capital Adequacy Test (LICAT) guideline will replace the current life insurance capital test, the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline, in place since 1992. The key changes introduced by the LICAT guideline compared to the MCCSR include: 1. A solvency ratio is used in lieu of a capital ratio,	Comments should be provided no later than May9, 2016

		with the supervisory target level set at 100% as opposed to 150%. 2. Deductions and adjustments from available capital are made at the same level where the losses occur. 3. All intangible assets, including computer software intangibles, and certain deferred tax assets and encumbered assets are deducted from available capital. 4. Risk factors and shocks are set at a consistent target level of confidence. 5. Significantly more risk sensitive measures are used for credit, market, insurance and operational risks and for determining capital credits for discretionary features. 6. Market risk has been expanded to include a charge for interest rate risk based on shocked interest rate scenarios. 7. A credit for risk diversification has been	

		introduced to calibrate the sum of the components (risks) to the stated level of confidence.	
BIS/Basel [Applicable to banks]	Published March24, 2016	Reducing variation in credit risk-weighted assets — constraints on the use of internal model approaches — Consultative document The proposed changes to the IRB approaches set out in this consultative document include a number of complementary measures that aim to: (i) reduce the complexity of the regulatory framework and improve comparability; and (ii) address excessive variability in the capital requirements for credit risk. Specifically, the Basel Committee proposes to: • remove the option to use the IRB approaches for certain exposure categories, such as loans to financial institutions, since-in • the Committee's view-the model inputs required to calculate regulatory capital for such exposures cannot be estimated with	Comments should be provided no later than June24, 2016

		sufficient reliability; • adopt exposure-level, model-parameter floors to ensure a minimum level of conservatism for portfolios where the IRB approaches remain available; and • provide greater specification of parameter estimation practices to reduce variability in risk-weighted assets for portfolios where the IRB approaches remain available.	
Finance	Published (Gazette) — March23, 2016	By-law Amending the Canada Deposit Insurance Corporation Deposit Insurance Information By-law The Amending By-law introduces the requirements that the Federal Credit Unions (FCU): • prepare a Statement of Transitional Coverage (Statement), and verify the accuracy of the Statement by the Canada Deposit Insurance Corporation (CDIC);	In force

		• make a copy of the Statement available to any customer that is conducting deposit- taking business with staff at a branch of the federal credit union until the transition period expires; • for the duration of the transition period, make the Statement available by way of a hyperlink on any pages of its Web site that reference deposit products; • for a period of 6 months, commencing on the date on which the FCU became a • member of CDIC, prominently display a sign in each branch and office where customers are served that refers customers to the Statement and indicates how customers can obtain a copy of the Statement; and • in respect of a pre-existing deposit that is to be repaid on a fixed day and exceeds • $100,000, provide that depositor, and at	

		such time that is no sooner than 12 weeks (but no later than 4 weeks) from the expiry of the transition period, with a copy of the Statement or an indication as to how that • depositor can obtain a copy of the Statement.	
BIS/Basel [Applicable to banks]	Issued March 17, 2016	Handbook for Regulatory Consistency Assessment Programme (RCAP) jurisdictional assessments The Handbook for RCAP describes the guidance, principles and processes for assessing compliance with Basel standards under the Regulatory Consistency Assessment Programme. The programme is sufficiently general to accommodate differences in structural and institutional factors across jurisdictions. The RCAP Handbook presents a general framework as well as specific processes and procedures for assessing a jurisdiction's regulatory framework for (i) risk-based capital standards, (ii) the Liquidity Coverage Ratio (LCR) and (iii) global systemically important banks (G-SIBs).	
BIS/Basel [Applicable to banks]	Issued March11, 2016	Pillar 3 disclosure requirements — consolidated and enhanced framework —	Comments should be provided no later than June10, 2016

		Consultative document Pillar 3 of the Basel framework seeks to promote market discipline through regulatory disclosure requirements. The proposed enhancements issued include: • the addition of a "dashboard" of key metrics; • a draft disclosure requirement of hypothetical risk-weighted assets calculated based on the Basel framework's standardised approaches; and • enhanced granularity for disclosure of prudent valuation adjustments. The proposal also incorporates additions to the Pillar 3 framework to reflect ongoing reforms to the regulatory framework. These include, for example, disclosure requirements for: • the total loss-absorbing capacity (TLAC) regime for global systemically important banks; • the proposed operational risk framework; and • the final standard for market risk.	

OSFI [Applicable to banks, trust and loan companies, cooperative credit associations and insurance companies]	Issued March 10, 2016	IFRS 9 Financial Instruments and Disclosures — Draft Guideline The proposals contained in the draft guideline have been tailored to the size, nature and complexity of FREs. For example, more detailed requirements for the application of the IFRS 9 expected credit loss framework are proposed for banks that are systemically important in Canada based on the recent guidance issued by the BCBS. By contrast the proposals for other deposit-taking institutions are more tailored for the size, nature and complexity of those institutions. In addition to new guidance on expected credit losses, OSFI proposes, the following seven Guidelines be revised or replaced and consolidated into a single IFRS 9 Financial Instruments and Disclosures Guideline: • C-1 Impairment — Sound Credit Risk Assessment and Valuation of Financial Instruments at Amortized Cost; • C-5 Collective Allowance — Sound Credit Risk Assessment and Valuation Practices for Financial	Comments should be provided no later than May6, 2016

		Instruments at Amortized Cost; • D-1, D-1A, D-1B Annual Disclosures; • D-6 Derivatives Disclosures; • D-10 Accounting for Financial Instruments Designated as Fair Value Option.	
BIS/Basel [Applicable to banks]	Issued March 4, 2016	Standardised Measurement Approach for operational risk- Consultative Document The proposed revisions to the operational risk capital framework are part of the Committee's broad objective of balancing simplicity, comparability and risk sensitivity. The SMA addresses a number of weaknesses in the current framework. In particular: • The SMA will replace the three existing standardised approaches for calculating operational risk capital as well as the Advanced Measurement Approach (AMA), thus significantly simplifying the regulatory framework; • The revised methodology combines a financial	Comments should be provided no later than June3, 2016

		statement-based measure of operational risk — the "Business Indicator" (BI) —- with an individual firm's past operational losses. This results in a risk-sensitive framework, while also promoting consistency in the calculation of operational risk capital requirements across banks and jurisdictions; and • The option to use an internal model-based approach for measuring operational risk — the AMA — has been removed from the operational risk framework. The Committee believes that modelling of operational risk for regulatory capital purposes is unduly complex and that the AMA has resulted in excessive variability in risk-weighted assets and insufficient levels of capital for some banks.	

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Expertise

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