

International Deposit Insurance Survey

Section 1: Background Information

1.1 Organization (deposit insurer) responsible for administering the deposit insurance system:

1.1.1 Organization Name:

Canada Deposit Insurance Corporation

1.1.2 Organization Address:

50 Oconnor Street Ottawa, Ontario, Canada, K1P 5W5

1.1.3 Organization Telephone No:

1-800-461-2342

1.1.4 Organization Fax No:

1-613-996-6095

1.1.5 Organization Internet Address:

info@cdic.ca

1.2 Contact Person(s):

1.2.1 Contact Person(s) Name:

David K. Walker

1.2.2 Contact Person(s) Address:

50 Oconnor Street Ottawa, Ontario, Canada, K1P 5W5

1.2.3 Contact Person(s) Telephone:

1-613-943-1980

1.2.4 Contact Person(s) Fax:

1-613-996-6095

1.2.5 Contact Person(s) E-mail address:

dwalker@cdic.ca

1.2.6 Are there other deposit insurance systems operating in your country ? (i.e. applying to other types of non-bank or non-depository institutions e.g.. insurance, securities) Please state their name(s) and contact information:

Autorite des Marches Financiers (Quebec) Credit Union Deposit Insurance Corporation (PEI) Nova Scotia Credit Union Deposit Insurance Corporation Deposit Insurance Corporation of Ontario Credit Union Deposit Guarantee Corporation (Manitoba) Credit Union Deposit Guarantee Corporation of Saskatchewan

Credit Union Deposit Insurance Corporation of B.C. Canadian Life and Health Insurance Compensation Corporation (COMPCORP) Canadian Investor Protection Fund (CIPF) Information on all of the above systems can be found at: <http://www.financeprotection.ca>

1.3 Please provide information on other participants in your financial system safety-net:

1.3.1 Name of Central Bank:

Bank of Canada

1.3.2 Central Bank Address:

234 Wellington Street, Ottawa, Ontario, Canada, K1A0G9

1.3.3 Central Bank Telephone:

1 888 418-1461

1.3.4 Central Bank Fax:

1-613-782-7713

1.3.5 Central Bank Internet Address:

paffairs@bankofcanada.ca

1.3.6 Central Bank Contact Person:

paffairs@bankofcanada.ca

1.4 Financial Supervisor:

1.4.1 Financial Supervisor Name:

Office of the Superintendent of Financial Institutions

1.4.2 Financial Supervisor Address:

1.4.3 Financial Supervisor Telephone:

1- 800-385-8647

1.4.4 Financial Supervisor Fax:

1- 613-990-5591

1.4.5 Financial Supervisor Internet Address and contact:

www.osfi-bsif.gc.ca

1.5 Other related entities:

1.5.1 Other Related Entities Name:

Ministry of Finance

1.5.2 Other Related Entities Address:

140 Oconnor Street, Ottawa, Ontario, K1A 0G5

1.5.3 Other Related Entities Telephone:

1- 613-992-1573

1.5.4 Other Related Entities Fax:

1- 613-996-0518

1.5.5 Other Related Entities Internet Address:

consltcomm@fin.gc.ca

Section 2: Objectives, Mandates & Powers

2.1.1 When and why was the DIS established (please provide details)?

Federal government deposit insurance was established in Canada by Parliament in 1967. Prior to 1967, efforts to adopt government guarantees were rejected for the most part by government and the financial services industry. For instance, the Porter Commission recommended in 1964 that Canada not adopt an explicit system of deposit insurance. Their argument was that the concentrated nature of the Canadian financial system, good supervision and industry/government participation in resolving the rare problems which did occur provided a large measure of protection for depositors. It was the failure of a number of second-tier financial institutions in the mid-1960s that altered government perspectives on deposit insurance in Canada. These failures led a number of provincial governments to enact or consider enacting legislation to establish provincial deposit insurance schemes. Canada's federal government did not favour a patchwork system of deposit insurance and a proliferation of provincial deposit-taking institutions without any federal oversight.

2.1.2 What are the stated public policy objectives or mandate for your country's DIS? When was the last time they were reviewed and changed?

The Canada Deposit Insurance Corporation ("CDIC") was created by an act of the federal parliament of Canada in 1967 to insure depositors in banks, trust companies and loan companies against loss. Its stated public policy objectives are to: provide insurance against loss of deposits with member institutions; promote and otherwise contribute to the stability of the financial system in Canada; and pursue the above objects for the benefit of depositors and in such a manner as to minimize CDIC's exposure to loss. These objects, in their present form, were enacted in 2005. Prior to 2005, CDIC's Act contained the objective of the promotion of sound business and financial practices but this was deleted from the objects due to overlap between CDIC's mandate and that of the primary federal regulator. The major additions to CDIC's mandate occurred in 1987 when the mandate was broadened to include a provision for the minimization of exposure to loss.

2.1.3 What process was used to determine these objectives in your country?

The process for the development of public policy for the Canadian financial services sector is undertaken by the government through the Department of Finance and it involves consultation with federal and provincial authorities, the Central Bank and other interested parties. Conditions taken into account when developing the objectives included: the state of their economy, the legal and supervisory framework, the structure of the banking system, the quality of accounting, regulatory and auditing standards, and the disclosure regime and the nature of the governmental system and its actors. The public policy development process is a continuous process. For example, CDIC's objectives (and mandates) have changed over time to reflect changes in the financial sector and government priorities and planning. Thus, the process involves regular reviews of CDIC's objectives the desirability of changing them.

2.1.4 What is the legal basis under which the DIS was established? Please provide a copy.

Legislation
CDIC Act

2.1.5 Is there a formal process for a periodic review of the policy objectives/mandates?

Yes

As mentioned in the response to #2, public policy objectives are reviewed on a continuous basis by CDIC and the government. At a minimum this is conducted at five year intervals in conjunction with the review process for the Bank Act and other legislation affecting the financial services sector but it can be more frequent if necessary.

2.1.6 What sort of system do you have?

Government legislated and administered

2.1.7 Who makes decisions to pay depositor claims?

DIS

2.2 Which of the following powers has been provided to the DIS in order to carry out its mandate?

2.3 Authority to

2.3.1 Enter into contracts

Yes

2.3.2 Set regulations or by-laws for conduct of its business

Yes

2.4 Authority over entry and exit of member deposit taking institutions

2.4.1 Establish terms and conditions of membership

No

2.4.2 Authority to terminate the insured status of a member institution

Yes

2.5 Depositor reimbursement

2.5.1 Affect reimbursement of depositors claims

Yes

2.5.2 Access to depositor information

Yes

2.5.3 Use various methods of reimbursing depositors claims

Yes

2.6 Funding

2.6.1 How funding is provided

Yes

2.6.2 Terms and conditions of premiums or levies

Yes

2.6.3 Borrowing authorities and limits

Yes

2.7 Information Requirements

2.7.1 Access to information directly from member deposit taking institutions or its auditors

Yes

2.7.2 Access to information through supervisory authorities

Yes

2.8 Enforcement and intervention

2.8.1 Authority to conduct examinations and/or reviews

Yes

2.8.2 Ability to set standards or guidelines for member institutions

Yes

2.8.3 Authority to take enforcement actions against members (i.e. such as the authority to require a change in institutional control and/or behaviour).

Yes

2.8.4 Authority to cancel deposit insurance of a member institution

Yes

2.8.5 Authority to hold officers and directors of failed institutions legally liable for the failure of the institution

Yes

2.9 Failure resolution

2.9.1 Authority to decide on appropriate form of failure resolution

Yes

2.9.2 Authority to provide financial assistance (e.g. in the form of a loan -- with or without security -- by purchasing assets from the institution or through some other process).

Yes

2.9.3 Authority to guarantee deposits with member institutions or guarantee loans to an institution by other parties

Yes

2.10 Authority to:

2.10.1 Undertake formal liquidation

Yes

2.10.2 Purchase and assumption (sale and merger)

Yes

2.10.3 Open assistance (bridge bank)

Yes

2.10.4 Other forms of failure resolution

2.11 Optimizing recoveries

2.11.1 Ability to act as a receiver

Yes

2.11.2 Ability to act as a liquidator

Yes

Section 3: Governance Arrangements

3.1.1 Is the DIS a legally separate organization from other public or private bodies? (e.g. central bank, supervisor, industry association)

Yes

3.1.2 What is the form of governance used by the DIS organization?

Board of Directors

null|null|null|null|null

3.1.3 How is the governing body selected?

CDIC is governed by a board of directors. There are eleven directors including the Chairperson. Five directors are ex-officio – i.e. they hold other offices, namely the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Financial Institutions, an Assistant Superintendent of Financial Institutions and the Commissioner of the Financial Consumer Agency of Canada. The Chairperson is appointed by the Governor in Council (Cabinet) and the five other directors from the private sector are appointed by the Minister of Finance with the approval of the Governor in Council (Cabinet). These directors cannot be directors, officers or employees of member institutions. The CDIC Act gives the CDIC Board authority to make by-laws or regulations (i.e. subordinate legislation) on a wide range of matters. A few of these by-laws (those which can be viewed as having a “tax-like” quality, such as the by-law for the assessment of premiums) require the approval of the Minister of Finance; most do not.

3.1.4 What is the composition of the governing body?

See response for #3.

3.1.5 What are the duties and responsibilities of the governing body?

The CDIC Board is responsible for the selection and oversight of senior management and the responsibility to review management, operations and the performance of the organization against expected results. This includes the requirement that the Board ensure that there be in place effective strategic and risk management processes. The CDIC Act gives the CDIC Board authority to make by-laws or regulations (i.e. subordinate legislation) on a wide range of matters and to oversee the operations of the Corporation. A few of these by-laws (those which can be viewed as having a “tax-like” quality, such as the by-law for the assessment of premiums) require the approval of the Minister of Finance; most do not.

3.1.6 Is there any direct or indirect representation in the management of the DIS by member insured institutions?

No

3.1.7 Is there any direct or indirect representation in the management of the DIS by the central bank?

Yes

3.1.8 Is there any direct or indirect representation in the management of the DIS by the regulator?

Yes

3.1.9 Is there any direct or indirect representation in the management of the DIS by the supervisor?

Yes

3.1.10 Is there any direct or indirect representation in the management of the DIS by other?

Yes

Commissioner of the Financial Consumer Agency of Canada

3.1.11 Please provide a breakdown of the management structure of the DIS

CDIC is managed by the President and Chief Executive Officer (who is also a Governor in Council appointee) and officers appointed by the CDIC Board. CDIC fulfils its mandate through three primary management functions: Insurance and Risk Management, concerned with assessing, reducing and managing risks and dealing with failure resolution. It is also responsible for policy development and international affairs. Finance division which is responsible for treasury operations, accounting and payroll operations, IT and other related services. Corporate affairs which is responsible for human resources, legal affairs, corporate communications and corporate secretary functions.

3.1.12 Do you have an internal control and audit systems

Yes

3.1.13 Are directors and officers of the DIS and/or supervisors personally liable for their decisions in the normal course of their activities?

No

3.1.14 Is there an advisory committee to the DIS?

Yes

CDIC utilizes a variety of Board, inter-agency and special advisory committees to assist the Corporation in the conduct of its affairs.

3.1.15 Has the DIS ever taken legal action against directors of failed member institutions? Or others? What position did the person(s) hold?

Yes

3.1.16 Please indicate which of the following tools are used as part of your accountability regime.

Annual Reports,Audited Financial Statements,Corporate Business Plan,Other Reporting Requirements
null|null|null|null

Section 4: Human Resources & Infrastructure

4.1.1 What is the total number of employees at the DIS (e.g. full-time, part-time and contract) ?

CDIC presently has 79 full-time employees, 6 part-time positions and 5 individuals working on a contract basis.

4.1.2 Are the majority of DIS employees dedicated staff or do they come from other organizations (i.e. government, central bank, private sector)?

Yes

The majority of CDIC's employees are dedicated staff. However, CDIC operates as much as possible as a "virtual organization". This means that CDIC operates its business on the principle of maintaining a core capacity of expert employees with the mechanisms in place to mobilize a larger workforce should the need arise. CDIC maintains a network of professionals (lawyers, accountants) which provides asset-recovery, estate administration and consulting services.

4.1.3 Does the DIS train and develop its own staff? If so, briefly describe programs which have been put in place for training and development?

Yes

Given CDIC's small size and the specialized nature of the skills required, the Corporation tries as much as possible to recruit experienced employees. Nevertheless, CDIC has a number programs which have been put in place to provide additional training and development opportunities for employees. These include in-house information systems training, occasional workshops and seminars utilizing outside instructors, resources are made available for off-site training and development at through attendance at courses and conferences. Career management programs are provided and include planning for job enrichment, internal mobility, and succession planning.

4.1.4 Is there shared training and development between the staff of the DIS and other authorities involved in financial sector supervision or regulation? (i.e. central bank, supervisor, regulator, other)

Yes

Yes, numerous in-house training courses and workshops are conducted by the deposit insurer and the supervisor and regulators on various aspects of supervision, regulation and the provision of deposit insurance. In most cases, training courses offered by the primary regulator (OSFI) are shared with the deposit insurer and vice-a-versa. Recent examples of shared training courses involve asset-liability management and risk assessment workshops. CDIC staff are also given the opportunity to participate in international training courses when warranted

4.1.5 Are compensation and incentives offered sufficient to attract and retain skilled staff? Please elaborate.

4

4.1.6 Are confidentiality provisions for employees provided for?

Yes

All employees are required to swear the Oath of Fidelity and Secrecy when hired. All employees must also read, understand and abide by the Conflicts of Interest Code. Both are renewed each year.

4.1.7 Do employees of the DIS receive legal protection against lawsuits for their actions taken in good faith and acting in the best interests of the DIS?

Yes

The Canada Deposit Insurance Act has a provision (section 45.1 (1)) which states that: "The Corporation, its directors, officers and employees and any persons acting on the behalf of the Corporation are not liable to any member institution, depositor with, or creditor or shareholder of, any member institution, or to any other person, for any damages, payment, compensation or indemnity that any such member institution, depositor, creditor, shareholder or other person may suffer or claim by reason of anything done or omitted to be done, in good faith, in the exercise, execution or performance of any powers, duties and functions that by this Act are intended to be exercised, executed or performed."

4.1.8 What percentage of the budget is spent on training and development and information technology?

Training and development currently takes up 1.5% of CDIC's operating expenses while total IT spending makes up approximately 10%.

Section 5: Information Sharing & Interrelationship Among Safety-Net Players

5.1.1 Who performs examinations of DIS member institutions?

Supervisor

5.1.2 Please describe the examination process that is used to evaluate member institution performance?

CDIC does not usually perform regular audits or examinations of its member institutions. At the federal level in Canada, the primary supervisory authority with which conducts examinations of federal CDIC members is with the Office of the Superintendent of Financial Institutions ("OSFI"). OSFI acts as CDIC's agent in examining the affairs of federally incorporated members annually. Provincially incorporated members are inspected annually either by CDIC or an agent (usually the latter). CDIC can cause examinations or inspections to be made at such other times as it may require. These special examinations typically occur when there are concerns about the soundness of a member institution. CDIC usually uses an agent to conduct these examinations. CDIC may also conduct a preparatory examination of an institution if CDIC believes that it may become necessary to pay out insured deposits.

5.1.3 What information is collected from member institutions for the DIS and other parties?

CDIC receives extensive reports from its member institutions and federal and provincial regulators. In addition to annual examination results conducted by regulators, members are required to file electronically some 30 financial reports on a regular basis (e.g. monthly, quarterly). Members also provide information to CDIC under CDIC's Differential Premium By-Law. Emerging issues and economic information is available from a variety of government and private-sector sources (e.g. research and economic policy groups, regulatory agencies, central banks and the Department of Finance, etc).

5.1.4 What arrangements (i.e. formal or informal) are in place between organizations responsible for deposit insurance and other parties comprising the safety-net (e.g. central bank, supervisor, regulator) regarding the sharing of information concerning member institutions? Please provide details of these

agreements.

At the federal level in Canada, the primary supervisory authority with which CDIC communicates and co-ordinates its activities is with the Office of the Superintendent of Financial Institutions (“OSFI”). At the provincial level, it interfaces with regulators of provincially incorporated trust and loan companies. CDIC also communicates and co-ordinates on a regular basis with the federal Ministry of Finance on issues pertaining to policy, legislation and regulation and with the Bank of Canada on issues related to the payment system and lender of last resort. Although CDIC and federal and provincial regulators share common interests in the safety and soundness of member institutions, CDIC, as deposit insurer, has a separate mandate. CDIC insures deposits and specifies the terms on which insurance is made available; it is not a regulator of deposit-taking institutions. This latter responsibility lies with OSFI and provincial regulators. CDIC focuses on the risk of insuring its members to minimize CDIC’s exposure to loss. In contrast regulators have a mandate for the benefit of depositors and in such a manner as to protect the interests of depositors, other creditors and shareholders. The difference in mandates leads to potential differences in the incentive to act in different circumstances. This, in turn, requires that CDIC and regulators share information and communicate effectively. This co-operation is of particular importance given that CDIC does not usually perform audits or examinations of its member institutions OSFI acts as CDIC’s agent in examining the affairs of federally incorporated members annually. Provincially incorporated members are inspected annually either by CDIC or an agent (usually the latter). Additionally, CDIC can cause examinations or inspections to be made at such other times as it may require. CDIC may also conduct a preparatory examination of an institution if CDIC believes that it may become necessary to pay out insured deposits. Federal Co-ordination Mechanisms To ensure close co-ordination and co-operation, the Deputy Minister of Finance, the Governor of the Central Bank, the Commissioner of the FCAC, the Superintendent and one Assistant Superintendent of OSFI are full members of the CDIC Board of Directors. In total, they make up 5 out of 11 directors. The remaining six directors, including the Chairperson, are from the private sector. Therefore, CDIC decisions requiring Board approval, such as membership, interventions and liquidation of an institution, are made with the input of the public sector directors. This ensures full co-ordination between the safety-net players that make up the federal supervisory system.

Information-sharing at the federal level is generally facilitated by the Financial Institutions Supervisory Committee (FISC). The FISC is established under the provisions of the OSFI Act. The mandate of this Committee is to facilitate consultations and the exchange of information among its members (the Superintendent of Financial Institutions, the Chairman of CDIC, the Governor of the Bank of Canada, Commissioner of the FCAC and the Deputy Minister of Finance) on all matters relating directly to the supervision of federal financial institutions. The committee is chaired by the Superintendent and meets as often as required. In terms of policy coordination, CDIC is represented by its Chairperson as a member of the Senior Advisory Committee (SAC) chaired by the Deputy Minister of Finance. Other members include the Superintendent of Financial Institutions and the Governor of the Bank of Canada. The mandate of this Committee is to discuss and establish the policy direction pertaining to the financial services legislative framework in Canada. CDIC and OSFI have also established other mechanisms to improve their effectiveness in performing their respective roles and responsibilities, and to ensure that issues pertaining to co-ordination of activities are discussed and resolved in an appropriate manner. For example, a “Guide to Intervention for Federal Financial Institutions” has been jointly developed and published by CDIC and OSFI. It sets out the roles and responsibilities of the two agencies when dealing with supervisory issues and interventions. It indicates the actions or options available to OSFI and CDIC, separately and together, in relation to the circumstances in which institutions may find themselves. In addition, a Strategic Alliance Agreement has been implemented by CDIC and OSFI to enhance the ability of both agencies to perform their mandates efficiently. The Agreement provides a framework for CDIC and OSFI to co-ordinate their related activities and promotes consultation and information-sharing. The Agreement applies to CDIC’s federal member institutions. It addresses incorporation, licensing and insurance application processes, risk assessment and management processes, termination or cancellation of insurance and licence, intervention and winding-up processes, the development of regulations, guidelines, policies, and other initiatives, the reporting of information to Parliament or committees of Parliament, the Minister of Finance and CDIC’s Board of Directors, and the training and development of personnel. OSFI and CDIC established a committee of senior officers to provide a forum for communication with respect to all matters of mutual interest, including issues arising from the implementation of the Strategic Alliance Agreement. This OSFI/CDIC Liaison Committee has been meeting regularly and has dealt effectively with a wide range of matters. Issues respecting the activities of OSFI and CDIC are also addressed during regular monthly meetings. These meetings are held to discuss such matters as: pending applications for federal incorporation and deposit insurance, industry-wide issues, unfavourable events or trends, the scheduling of and review of recently completed annual examinations, and problem institutions. CDIC/Provincial Regulator Coordination Mechanisms There are also coordination mechanisms between CDIC and provincial regulators. These include: monthly meetings with each provincial regulator designated to examine member institutions on behalf of CDIC, regular meetings with other provincial regulators that supervise CDIC members; and annual meetings with all regulators (federal and provincial) to discuss issues of common interest and concern.

5.2 On a scale from 1 to 5, 1 being low and 5 being high, please rate both the accessibility (i.e. access to all necessary information for the DIS to fulfill its mandate) and timeliness (i.e. information is received when needed) of information that is shared amongst members of the safety net.

5.2.1 accessibility

5

5.2.2 timeliness

5

5.2.3 Is there a consistent definition/classification across authorities of problem institutions

Yes

5.2.4 When policy regarding the DIS and financial sector is developed or amended, are other bodies consulted and/or advised (e.g. central bank, supervisor, regulator, government, industry associations) ? If you do consult and/or advise what bodies do you do it with?

Consult,Advise

null|null|null|

5.2.5 Is discussion with other bodies encouraged prior to the implementation of new policy?

Yes

5.2.6 How often do you contact other DIS?

Regularly

5.2.7 Is the DIS consulted when the regulator, supervisor or central bank enters into an agreement with a financial institution that is experiencing problems?

Sometimes

Section 6: Membership

6.1.1 What types of institutions are covered in your DIS?

In Canada, membership in a deposit-protection scheme is mandatory for all retail deposit-taking institutions. To become a CDIC member, an institution must be a bank, or a federally or provincially incorporated trust company or loan company. Deposit-taking institutions operating as cooperatives (Co-Ops or credit unions) are insured by their incorporating provincial governments. Insurance companies and investment houses which offer “deposit-like” products belong to insurance schemes operated by their industries.

6.1.2 Is membership in the DIS mandatory for designated deposit taking institutions?

Yes

6.1.3 Do you have terms and conditions of membership? (i.e. laws, regulations or agreements which member institutions have to abide by) If so, please explain the application process used and any conditions of membership imposed on institutions by the DIS.

Yes (please explain)

New deposit-taking institutions in Canada must obtain approval before they are able to accept deposits from the public. They must receive approval to incorporate and the Minister of Finance ("Minister") approves the incorporation of federal financial institutions on the recommendation of the federal regulator. Provincial authorities approve the incorporation of provincial financial institutions.

6.1.4 Is the membership of foreign institutions (i.e. foreign bank branches and/or subsidiaries) covered in the same way as domestic institutions? If not, please describe the difference.

Yes

Foreign bank subsidiaries which accept retail deposits (defined as deposits of less than CDN\$150,000) are required to be members. However, under recent legislation, foreign bank branches (which do not accept deposits below \$150,000) are not required to be CDIC members

6.1.5 If more than one safety-net organization is responsible for the application process for membership, how is the application process coordinated between the parties responsible?

See response to #3

6.1.6 Are deposit-taking institutions required to re-apply for membership after a certain period of time?

No

6.1.7 How many member institutions do you have?

81

6.1.8 What is the total level of assets, deposits and insurable deposits of all DIS member institutions?

As of April 30, 2006, total member assets = C\$2227.4 billion, total member deposits = C\$ 1263.4 billion and total insured deposits = C\$ 455.3 billion.

Section 7: Coverage

7.1.1 Is there a formal definition of a deposit and or insured deposit used by your DIS? If so what is it?

Yes (please explain)

The definition of "deposit" used by CDIC is: "the unpaid balance of the aggregate of moneys received or held by a federal institution or provincial institution, from or on behalf of a person in the usual course of the deposit-taking business of the institution, for which the institution:

7.1.2 What types of deposits are eligible for coverage in your DIS?

Savings account, Chequing account, Certificates of deposit, Guaranteed investment certificate, Travelers cheques, Money orders, Certified drafts of cheques, Inter-bank deposits, Other

null|null|null|null|null|null|null|null|null|null

7.1.3 Is coverage

per depositor

7.1.4 What is the coverage limit per depositor?

CAN \$100,000

7.1.5 How was this figures arrived at?

A primary consideration for CDIC when determining coverage limits is that the chosen level provide credible protection for the majority of depositors in the financial system.

7.1.6 For eligible financial instruments with maturity dates, what is the longest contract term covered by the DIS?

5 years

7.1.7 What types of depositors are not eligible for coverage in your DIS?

Foreign (non-residents)

null|null|null|null|null

7.1.8 Is the coverage amount indexed?

No

7.1.9 What is it indexed to?

n.a.

7.1.10 Does your DIS use coinsurance? If coinsurance is used please describe the approach used.

No

7.1.11 Is the public widely aware of the presence of coinsurance?

No

7.1.12 Are coverage levels affected by resolution methods? If so, please explain.

No

7.1.13 To what extent, is there a public expectation that the DIS coverage limit would be extended to 100% coverage in the event of a banking crisis or the failure of a very large institution? Please provide recent examples, if applicable.

Yes

In the event of such extreme circumstance (e.g. a major systemic crisis) we believe that most depositors would expect to receive protection (in one way or another) over and above CDIC

7.1.14 How is a decision made on the insurance eligibility of new financial products?

A description of new or proposed new financial products is usually provided to CDIC by the member institution. CDIC then determines the eligibility of the deposit by assessing its features and characteristics with those incorporated into the definition of an insurable deposit contained in the CDIC Act.

7.1.15 When member institutions merge how are insured deposits treated?

If an amalgamation of CDIC members results in total insurable deposits with the new member institution exceeding the \$100,000 maximum, a persons insured demand deposits (e.g. savings and chequing accounts) in each institution on the date of merger will continue to be insured for up to two years or until withdrawn; insured term deposits continue to be protected until their maturity date. For deposits totaling more than \$60,000, new deposits placed at the amalgamated member are not insured. If a deposit made with the institutions before the merger totals less than \$100,000, any new deposits made at the amalgamated

member will be added to previous deposits, and the total will be insured to the \$100,000 maximum.

7.2 Does your country offer the following?

7.2.1 Islamic banking

No

7.2.2 Islamic deposit insurance

No

Section 8: Funding & Fund Management

8.1.1 What type of funding is used by the DIS?

A combination of the above two approaches

8.1.2 Is the DIS funded by levying insurance premium assessments against member institutions or, by some other means such as general tax revenues?

Premium assessment

8.1.3 If insurance premiums are assessed, are they assessed as a flat rate or are they differential in some way, please explain? (e.g. risk based)

CDIC has a differential premiums system. The differential premium systems categorizes member institutions into one of four premium categories based on how they score according to a series of quantitative and qualitative criteria. The premium rates for the four categories are based on a percentage of the rate determined by the Governor in Council, and are set by the CDIC Board of Directors, with the approval of the Minister of Finance.

8.1.4 What is the current premium rate? If there have been changes to this rate, details would be appreciated.

CDIC has a differential premiums system. The differential premium systems categorizes member institutions into one of four premium categories based on how they score according to a series of quantitative and qualitative criteria. The premium rates for the four categories are based on a percentage of the rate determined by the Governor in Council, and are set by the CDIC Board of Directors, with the approval of the Minister of Finance. When introduced in 1999, the premium rates assigned were 4, 8, 16 and 33 basis points. The current premium rates are 1.4, 2.8, 5.6 and 11.1 basis points respectively. The reduction reflected the elimination of CDIC's deficit and a consequent reduced need for funds.

8.1.5 How often is the premium assessed?

Annually as of April 30th.

8.1.6 Is the premium assessed on total deposits, insured deposits or something else?

Insured Deposits

8.1.7 Are premiums paid by member institutions tax deductible as a business expense?

Yes

8.1.8 For premiums that are differentiated please explain the risk assessment system that is used to ascertain a premium assessment.

CDIC's differential premium system is based on a combination of 13 quantitative/qualitative criteria or factors. Member institutions are assessed against these and a score out of 100 is calculated. Based on the

score attained, institutions are placed in one of 4 premium categories and a premium is assigned to the institution. Please refer to the Differential Premiums By-Law materials contained in CDIC web site (www.cdic.ca) for the detailed explanations of the factors/criteria and operations of the system.

**8.1.9 Does the DIS have a target with respect to the optimal size of the DIS fund?
(Yes is chosen go to question 8.10 otherwise Skip the next 2 questions)**

Yes (Go to next question)

8.1.10 How is the optimum level (i.e. target) of the fund determined?

As part of CDIC's approach to funding it was decided to make provisions for both expected and unexpected losses and to ensure that whatever the case liquidity will be available when needed. Thus, for our funding requirements we developed a general provision for losses and a deposit insurance fund in addition to having access to the government and markets for up to \$6 billion in emergency liquidity support. General Provision for Losses (GPL): Provision = Exposure x Expected Default Frequency x Loss Given Default +/-

Qualitative Adjustment For expected losses, CDIC developed a general provision for insurance losses. This represents the Corporation's best estimate of losses it is likely to incur resulting from insuring deposits of member institutions. It is made up of two components: a watchlist provision and a provision for non-watchlist members. The watchlist provision is for those members who have a high risk of failing in the near future. Non-watchlist institutions are the remainder of our membership. For non-watchlist members the approach we use is to use a loss-given default methodology where the size of the provision is based on CDIC's exposure, expected default frequency and loss given default. For exposure we use insured deposits which are determined based on the members' reported insured deposits as at April 30 of each year. The expected default frequency (EDF) is the probability that an institution may default in a defined period of time (time horizon). This is based on a combination of historical component and forward-looking component. Historical information is determined as the average of Moody's and Standard and Poors default statistics which are derived from 30 year averages. The forward-looking component provided by Moody's KMV, a well-known provider of market-based quantitative credit risk products for financial institutions and credit risk investors. In order to smooth the volatility the KMV EDF's are based on a 24-month rolling average of the data points. EDF's are derived using a 75% weighting on the historical data and 25% weighting on forward-looking data. With respect to the time horizon used, CDIC uses a five-year time horizon in order to match the underlying insurance provided. Finally, for the loss given default calculation (LGD) which estimates the loss incurred by the Corporation in the event of a failure of a member institution, this is expressed as a percentage and reflects the cumulative un-weighted average of losses, stated on a present value basis, sustained since the CDIC Act was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss. For watchlist members the methodology uses the same formula as the general provision with the only difference being the EDF estimated utilized. The Watchlist provision EDF's are determined internally by CDIC based historic migration of members on the CDIC's watchlist and represents the likelihood of failure within five years To reflect the increasing risk of failure each year a member is on the watchlist the provision is phased in over a three year period. In year three on the watchlist a member is fully provided for. The qualitative adjustment is a mechanism for management to use its own judgment based on its knowledge of industry and company specific issues to corroborate or adjust the calculated results. This is designed to capture risk characteristics that are not already captured by the calculation. The assessment is based on defined criteria such as: internal member risk assessment reports, default trend analyses, rating agency outlooks, supervisory information, and economic outlooks. Fund for Unexpected Losses When developing a separate reserve or fund for unexpected losses we were faced with two options – a soft target approach and a hard target approach. A soft target approach uses a steady premium rate over a long period to allow a fund to fluctuate in response to losses. But, the fluctuation does not trigger automatic change in premium rates. Unfortunately the deposit insurer may be dependent on government or other financial support to meet short term obligations. A hard target would maintain a specific target fund ratio or range with premiums set and adjusted over time. This should be should be sufficient to reduce, but not eliminate, probability of fund's insolvency can result in banks paying low premiums in good times, and higher premiums during bad times. In order to determine an appropriate funding target we adopted a Monte Carlo estimation technique. This is a modeling approach or technique that draws on some characteristics of membership, as well statistics on defaults and losses to estimate failure probabilities and resulting losses. It is an approach used increasingly by other insurers around the world (e.g. most recently by Singapore, Hong Kong) and provides an estimate of a reasonable fund size from a loss perspective (taking into account unexpected losses) Analysis is based on the premise that financial resources of \$X are expected to cover losses in all but Y% of the time (Y is the confidence interval). By running literally millions of trials the analysis estimates a loss distribution from which fund levels can be determined for different confidence intervals. As with the calculations for provisioning, this approach relies on four key loss given default inputs: exposure, an expected default frequency (EDF), loss

given default (LGD), and default correlations or the likelihood that two institutions will fail simultaneously. Provision = Exposure x Expected Default Frequency x Loss Given Default +/- Default correlations The target range is currently between 40 and 50 basis points of insured deposits.

8.1.11 What investment policies (i.e. safeguards against abuse) exist concerning the use of the fund?

The focus of CDIC's treasury and investment policies is to maintain a high quality liquid portfolio as a first call on liquidity in the event of a member institution problem. Preservation of capital is key to CDIC. The counterparties CDIC works with must meet the standards outlined in the Minister of Finance Credit Policy Guidelines for Crown Corporations (1995) and CDIC's own Financial Risk Policies covering Credit Risk, Market Risk, and Liquidity Risk. CDIC's financial risk is monitored by a Risk Management Unit and an Asset Liability Management Committee. CDIC also provides quarterly market to market reports on its investment portfolio. Quarterly treasury reports are provided to the Asset Liability Committee and the Board of Directors and the CDIC Board of Directors reviews treasury policies annually.

8.1.12 If a fund is not maintained, is an assessment levied on institutions after the failure of a financial institution has occurred? If so, please explain how the levies are determined and losses distributed among institutions.

No

8.1.13 Which of the following sources of additional funding, for emergency or liquidity purposes, does the DIS have access to?

Government funding, Access to private markets

null|null|null

8.1.14 Are member institutions required by law to issue, on a regular basis, subordinated debt?

No

Section 9: Reimbursing Depositors

9.1.1 Please describe the procedure for reimbursing depositors used by your DIS?

There are two ways by which depositors are paid: the direct payout, and the insured deposit transfer. In a direct payout, as soon as an institution's affairs is taken over by the regulatory authority or when a winding-up order has been issued by the court, CDIC issues payments to all insured depositors for the full amount of their claims (up to the statutory limit for basic coverage of CDN\$60,000). A liquidator is appointed by the court to dispose of the assets of the failed member. Uninsured depositors and other general creditors of the insolvent member generally do not receive immediate or full reimbursement of their claims. CDIC stands in the place of the insured depositors in the liquidation. CDIC, uninsured depositors and all other general creditors have equal standing and receive a proportionate return on their claims from the liquidation of the assets. In an insured deposit transfer (sometimes referred to as a "modified payout"). CDIC makes a lump-sum payment to the transferee member institution equal to the total amount of insured deposits less any transfer premium paid to CDIC by the transferee. Insured depositors can then withdraw their deposit insurance payment from the transferee institution or leave it with the institution, whichever they prefer. Again, uninsured depositors and creditors are not fully protected and may suffer losses as their outstanding claims remain in the estate.

9.1.2 Are depositors required to file a claim when a member institution fails? If so, what is the process?

No

9.1.3 When is the DIS obligated to reimburse insured depositors?

CDIC is obligated to make a payment to insured depositors where a winding-up order has been made in

respect of a deposit-taking institution. CDIC is obligated to reimburse depositors as quickly as possible.

9.1.4 Is there an established legal basis upon which to base the reimbursement process? Please explain.

Yes

9.1.5 Is the DIS subject to explicit standards for prompt reimbursement? If so what are they?

Yes

The payment of insured deposits takes between one and eight weeks. In emergency situations, cheques can be issued to insured depositors within 24 hours. On average, 5 weeks (35 days) for deposit payouts; immediate for other resolutions.

9.1.6 What methods of payment can be used and under what circumstances are they used?

There are two ways by which depositors are paid: the direct payout, and the insured deposit transfer. In a direct payout, as soon as an institution's affairs is taken over by the regulatory authority or when a winding-up order has been issued by the court, CDIC issues payments to all insured depositors for the full amount of their claims (up to the statutory limit for basic coverage of CDN\$60,000). A liquidator is appointed by the court to dispose of the assets of the failed member. Uninsured depositors and other general creditors of the insolvent member generally do not receive immediate or full reimbursement of their claims. CDIC stands in the place of the insured depositors in the liquidation. CDIC, uninsured depositors and all other general creditors have equal standing and receive a proportionate return on their claims from the liquidation of the assets. In an insured deposit transfer (sometimes referred to as a "modified payout"). CDIC makes a lump-sum payment to the transferee member institution equal to the total amount of insured deposits less any transfer premium paid to CDIC by the transferee. Insured depositors can then withdraw their deposit insurance payment from the transferee institution or leave it with the institution, whichever they prefer. Again, uninsured depositors and creditors are not fully protected and may suffer losses as their outstanding claims remain in the estate.

9.1.7 Are the rules regarding clearing, set-off, trust accounts, and related issues well defined (through the legal system or formal agreement)? Please explain.

Yes

9.1.8 What are financial institutions obligated to hold with respect to deposit records?

Each member financial institution will have its own policies and procedures with respect to deposit records but, there are minimum standards required as best indicated in the following example: CDIC insures eligible deposits held in trust separately from other deposits held by the trustee or the beneficiary in their own names at the same member institution. However, for this separate protection to apply to the trust deposits, certain criteria must be met: ·there must be a legal trust as determined by trust law in the province where the trust is established; ·the existence of the trust must be disclosed on the records of the CDIC member institution; ·the name and address of the trustee(s) and the name and address of each beneficiary must be disclosed on the records of the institution; ·if there is more than one beneficiary of the trust, the portion belonging to each beneficiary as of April 30 must be disclosed on the records of the institution by May 30 of each year. If the criteria outlined above are met and the types of deposits held in trust are eligible for deposit insurance, each beneficiary's portion of the trust is insurable up to a maximum of \$60,000 (including accrued interest). However, at each member institution, all eligible deposits in trust that have the same trustee and the same beneficiary are combined, and the total is insurable only to a maximum of \$60,000, including accrued interest. CDIC by-laws permit specified trustees responsible for deposits whose beneficiaries change frequently (solicitors, for example) to use an alphanumeric or other identifier maintained by the member institution which corresponds to the trustee's records disclosing the name, address, and the particulars of the amount or percentage interest of each beneficiary in the deposit as noted above. A trustee's responsibility is to provide this information to member financial institutions. The requirement that this information be disclosed on the member institution's records may be fulfilled by including it in the institution's electronic account records system, or in the paper files associated with the deposit. CDIC has no prescribed forms for the filing of this information. Trustees need to confirm whether

the member institutions they are dealing with have specific forms or procedures.

9.1.9 When is the DIS given access to an institutions financial and depositor records?

Yes

9.1.10 Does the DIS have the option of making advance payments to depositors in situations of dire need (i.e. in an emergency)?

Yes

9.1.11 Does the DIS make interest payments to depositors during the time taken for reimbursement? Please explain.

Yes

9.1.12 What information is communicated to depositors regarding the reimbursement process?

Between the time that the failed member institution is closed and the time that the final payout (i.e. reimbursement to insured depositors) is made, a number of depositors are in urgent need of some or all of their deposit funds. During this period, some depositors call through to the CDIC 1-800 telephone lines to lodge their request for funds. These requests are then checked to the records maintained at the branch level and a decision is made as to whether the request can be met. If the request for an advance payment is granted, the cheque is produced, recorded and sent by priority mail to the depositor within 24 hours. To ensure that each depositor is kept informed of the process, CDIC sends a series of mailings to the depositors. Shortly after the closure of the member institution, the depositors are sent a general letter outlining the process and anticipated timing of the insured deposit payout. Once a transferee institution has been determined (or similar details where a payout is made by cheque), a second letter is sent to depositors making this announcement. Along with this CDIC mailing, the transferee often includes at their cost, literature regarding their company and information regarding rates and products. Finally, a customer statement is prepared and mailed to each depositor at the time of the payout.

9.1.13 What process does the DIS use to ensure that depositor secrecy and confidentiality is maintained during the reimbursement process?

In addition to physical security, general and application (i.e. information system) internal controls, CDIC limits access to depositor records and ensures confidentiality through formal legal agreements with all personnel involved i.e. confidentiality agreements (for contractors, service providers, agents etc.) and oath of confidentiality (for employees) and conflict of interest agreements for both.

9.1.14 What steps are taken to verify, reconcile and settle insured deposit accounts?

CDIC undertakes extensive processes and procedures to verify, reconcile and settle insured deposit accounts. A general description of the steps involved follows. As CDIC member institutions are regulated, supervised, examined and audited, CDIC relies upon the books and records of the failed member institution and thus depositors do not have to file a proof of claim with CDIC. CDIC obtains data extracts from the failed member institution at the time of closure and reconciles these balances to those on the member institution's records. CDIC then reconciles these amounts to the balances on the member institution's general ledger and financial statements. By doing so, CDIC obtains comfort that all "deposit"-like amounts have been identified and accounted for appropriately. CDIC also calculates and pays interest on eligible deposits up to application date of the winding?up order. Thus, adjustments are made to the depositors' balances to take this and other issues into consideration including outstanding cheques and suspense accounts. In addition, in applying deposit insurance rules, CDIC must review the records of the member institution to identify and aggregate together the records of identical depositors. In cases where the aggregation has created depositors whose new combined balances are now in excess of the deposit insurance coverage limit, CDIC confirms the depositor's identity by referring to the institution's original records. Subsequently, CDIC prepares for the actual payment of the insured deposit liabilities. A part of this process is identifying those depositors whose payments should be withheld from payment. (This would include depositors for whom the liquidator is seeking to offset the deposits to corresponding loan account balances). CDIC also reviews the cheque and customer statement procedures and works with an external mail/fulfilment house to ensure that the materials can be expedited to the depositors. In addition, CDIC begins to test the payout processes that have been followed to ensure that all items have been reconciled,

considered and addressed. CDIC also obtains an independent audit of the payout for control purposes and to support the proof of claim submitted to the Liquidator of the estate.

9.1.15 What steps are taken to ensure that an institutions depositor records are accurate, up to date and accessible?

See response to #14.

9.1.16 Does the DIS document its experiences with respect to each reimbursement action (i.e. lessons learned) in order to allow for continuous improvement?

Yes

9.1.17 What technologies does the DIS use to facilitate the reimbursement process?

As part of its payout processes, CDIC obtains data extracts from the failed member institution at the time of closure and then reconciles, verifies, adjusts and aggregates these balances etc. To facilitate execution of the payout (i.e. insured depositor reimbursement) processes, CDIC developed a PC-based payout information system. Technically, the payout system application, ROADMAP, was developed and is maintained using Borland Delphi on an Intel-based/NT 4.0 Workstation that connects to a server running Microsoft SQL Server RDBMS. Other technology used to facilitate the payout processes include general office technology and equipment as well as telephony involved in delivering toll free/1-800 communication lines for depositor information and inquires.

Section 10: Public Information & Awareness

10.1.1 What obligations are there to inform the public?

As part of its mandate to provide deposit insurance and contribute towards the stability of the financial system, CDIC is responsible for enhancing consumer awareness about deposit insurance.

10.1.2 Who is responsible for communicating information about the DIS to the general public?

DIS

null|null|null|null|null|

10.1.3 Are these explicitly stated in policy or law?

Yes

CDIC

10.1.4 Are the terms and conditions of DIS explained in a manner that the general public can understand fully?

Yes

CDIC uses a variety of tools to ensure that the terms and conditions of DIS are explained in a manner that the public can understand. All CDIC members must display the CDIC decal. CDIC has also in place 1-800 telephone lines, membership and information brochures, and a Web Site (www.cdic.ca). The Corporation also undertakes periodic surveys of public opinion and public awareness campaigns to heighten awareness and knowledge of deposit insurance in Canada. The CDIC Deposit Insurance Information By-Law sets out the terms and conditions for members in providing information on deposit insurance to the public and the obligations of member institutions to CDIC.

10.1.5 If so, what methods are utilized?

Brochures,Use of Official Sign to display insured status,Telephone call center,Website,Other

null|null|null|null|

10.1.6 At what point is information disclosed to the public about an institution that is having problems and how is information disclosed?

CDIC provides information to the public on whether or not a financial institution is a CDIC member institution and the limits types of deposits covered by CDIC. With respect to information on the risk profile of a member institution, in the normal course of business this information is kept confidential. However, when an institution fails and enters liquidation this information is relayed to the public and depositors. CDIC will automatically make payment of insured deposits based on the member institution's records. If a depositor's deposits are insured, we write to the depositor advising them on how and when they will receive their deposit insurance payment.

10.1.7 Has a survey of public awareness about the DIS been conducted? If so/ what were the results? If not why not? Please include supporting documentation.

Yes

10.1.8 Has the DIS ever embarked on a public awareness campaign to increase awareness and knowledge? If yes, how many times has this been done and when was the last time?

Yes

Given the need to improve awareness and knowledge about deposit insurance, CDIC has launched a number of public awareness campaigns. CDIC is currently in the midst of a multiyear national public awareness campaign begun in 2005. It concerns the benefits and limitations of the federal deposit insurance system.

10.1.9 Please describe the approach used; objectives, target audience, communication strategy, and timing results.

The objectives of CDIC's current campaign are to move awareness of deposit insurance and CDIC from the current 60% level to 70% by the end of 2005. In addition, CDIC would like to move awareness of the \$100,000 insurance limit from the around 30% currently to 50% by 2008. It is directed at key stakeholders such as the general public, the media, consumer groups, member and other financial institutions, industry groups and other interested parties. The campaign includes television and print advertising, ongoing media relations, stakeholder and member relations and partnerships, speeches and participation in trade shows. The theme of the campaign is: "Are your deposits protected?". The campaign is being continually updated to reflect current developments in the financial services sector.

Section 11: Risk Assessment & Intervention

11.1.1 Does the DIS have a risk monitoring function to analyze and assess the risk of member financial institutions?

Yes

CDIC's monitoring and assessment function allows the Corporation to identify problems early enough to permit prompt corrective action to be taken to minimize CDIC's exposure to loss. CDIC's monitoring functions bring together multiple sources of financial and market information on members for a comprehensive analysis. The assessment incorporates an analysis of individual institutions and of the membership as a whole and includes the impact of policy, economics and other emerging issues on individual members and membership as a whole.

11.1.2 Does the DIS perform examinations of its member institutions? If not, who does?

No

CDIC does not examine members itself. Examinations of federal financial institutions is undertaken by the Office of the Superintendent of Financial Institutions ("OSFI"). At the provincial level, examinations are conducted by provincial regulators of provincially incorporated trust and loan companies. CDIC also communicates and co-ordinates on a regular basis with the federal Ministry of Finance on issues pertaining to policy, legislation and regulation and with the Bank of Canada on issues related to the payment system and lender of last resort.

11.1.3 Does the DIS receive information/data/statistics directly from its member institutions or from a third party, such as a regulator or supervisor? If so what information is received and how often?

Yes

CDIC does not examine members itself. However, CDIC receives reports on member institutions from regulators and examiners on a regular basis (e.g. annual examination reports). Financial information received from member institutions is held on information systems shared by CDIC, the primary regulator and the Bank of Canada (the central bank). CDIC shares information related to its Standards with the regulator.

11.1.4 What is the risk assessment approach used by the DIS to monitor financial institutions? Please describe. Please be sure to include the criteria used to determine member institution risk.

CDIC has developed a comprehensive risk assessment framework for the early warning of member institution problems. While the CDIC framework incorporates risk-based supervisory approaches used by regulators in their examination reports, it adds to this various CDIC information and off-site information sources such as market information and economic and emerging issues. There are five major components of the model currently in place: 1. CDIC Information 2. Supervisory/regulatory information 3. Financial performance and condition indicators 4. Market information 5. Economic and emerging information The risk assessment is bi-dimensional and is done on an institution by institution basis and for the CDIC membership as a whole. The approach is both backward and forward looking and assesses past, current and relative performance of member institutions. Each of these five areas is assigned a score out of 20 with a total possible score of 100. The score that is assigned to the institution is used to provide a relative ranking against both its peer group and the membership as a whole. Although CDIC initially thought that quantitative indicators such as financial conditions should be weighted more heavily than so-called qualitative indicators (i.e. quality of risk management standards and practices) – in part at the urging of analysts and member institutions -- CDIC's experience with its own qualitative indicators suggested the opposite was true. That is, that properly designed qualitative indicators have proven to be more effective early warning signals than most quantitative indicators and should receive a greater weighting in a composite EWS model. Given these divergent views, however, it was decided to compromise and accord equivalent weights to all five areas. CDIC Risk Assessment Scoring Maximum Score CDIC Information 20 Supervisory/Regulatory Inf. 20 Financial Performance 20 Market Information 20 Economic/Emerging Issues 20 Total Score 100 Direction of assessment Negative/Positive The actual value of the score out of 100 has the greatest meaning within the context of a comparison with a peer group or similar institution or as a trend over time. The output from the early warning and risk assessment process is also an important management information vehicle. The process involves the production a number of regular reports to senior management and the Board of Directors of CDIC that summarize the risk associated with individual member institutions (using ratings), the membership as a whole and upcoming changes in the banking and economic environment. For each CDIC member, a Risk Assessment Profile (RAP) is prepared providing details on the five major components of the framework and a summary rating. In addition, reports on macroeconomic, regional, industrial, legislative, emerging issues and membership profiles are produced on a regular basis.

11.1.5 Please list and describe the actions taken by the DIS in situations where member institutions are causing concern. Please indicate when coordination occurs with other supervisory/regulatory authorities and the mechanisms used.

CDIC has a statutory mandate to pursue its objects in such a manner as to minimize its exposure to loss. CDIC has a variety of powers to fulfill its mandate and minimize its exposure to loss, including the power to seek a compliance order from a court of competent jurisdiction. These include: requests for information, communication of concerns, obtaining undertakings, conducting special examinations and preparatory exams, assessing a premium surcharge, terminating or canceling insurance, petitioning for a winding-up, and obtaining an order vesting assets or shares of a federal member institution in CDIC to allow a restructuring. CDIC utilizes a variety of criteria in determining when and how to intervene. For instance, where a member is not following a Standard of Sound Business and Financial Practices, is in breach of a CDIC By-law, or is in breach of a condition of the policy of deposit insurance, the member is instructed to rectify its problems. If the member is successful, the intervention process comes to an end. However, if CDIC is not satisfied with the member's progress, CDIC may proceed with other actions as noted in the paragraph above. As noted above, CDIC works closely with the regulators and is usually aware when an

institution is experiencing difficulties. There are objective warning signs of difficulties as well, such as failure to meet regulatory capital requirements or failure to meet the terms of compliance orders. CDIC can conduct special examinations (which usually look at the asset side of the balance sheet) and preparatory examinations (which looks at the liability side of the balance sheet) whenever it deems it necessary. In theory this gives CDIC some idea of solvency based on an asset-liability test; in practice this is not as straightforward as it sounds since the real value of the assets may not be as high as the book value. CDIC also monitors the rate, and expected rate, at which deposits are leaving an institution and generally monitors liquidity. When in CDIC's view a member is or is about to become insolvent CDIC is deemed to be a creditor. As a creditor CDIC has status under the federal Winding-up and Restructuring Act to petition the court for a winding-up on the grounds of insolvency. However, such a petition is usually brought by the regulator. Since it is often hard to prove insolvency on a book value basis CDIC usually works closely with the regulator. For example, the federal regulator, OSFI, may also ask the Attorney General of Canada to petition for a winding-up on grounds other than insolvency (such as failure to meet regulatory capital requirements) and this is often a surer way to proceed. In any liquidation, CDIC and the federal regulator work together to obtain a court order and both usually provide evidence (viva voce and by way of affidavit).

Section 12: Failure Resolution

12.1.1 Is your DIS involved in the failure resolution of member institutions?

Yes

12.1.2 Who determines whether a member institution has failed or is insolvent?

Pursuant to the Bank Act and Trust and Loan Companies Act (all legislative reference hereafter will be to the Bank Act), the Superintendent of Financial Institutions (Superintendent) may take control of an institution where, among other things, the institution's deposit insurance has been terminated by CDIC (unless the Minister of Finance advises the Superintendent that the Minister is of the opinion that it is not in the public interest to do so). CDIC may terminate the deposit insurance of a member institution on 30 days notice where CDIC is advised by the examiner that a member has failed to follow a standard of sound business and financial practices or has breached any of the CDIC by-laws applicable to it or the conditions of its policy of deposit insurance and CDIC is not satisfied with the member institution's progress in following the standard or in remedying the breach (unless the Minister advises CDIC that the Minister is of the opinion that it is not in the public interest to do so). The Superintendent may also take control of an institution where it has failed to pay its liabilities or will not be able to pay its liabilities as they become due and payable, where the regulatory capital of the bank has reached a level that may detrimentally affect its depositors or creditors, etc. (see section 648 of the Bank Act).

12.1.3 Under what conditions can the DIS cancel/terminate the deposit insurance of a member institution?

If the institution meets any of the conditions that would make it eligible to be wound up pursuant to the Winding-up Act, the institution itself may voluntarily seek a winding-up order. If not, either OSFI or CDIC, working in collaboration, may seek a winding-up order.

12.1.4 How is the failure/non viability of a member institution determined?

As noted above, CDIC works closely with the regulators and is usually aware when an institution is experiencing difficulties. Generally speaking, CDIC views a situation where a member institution is no longer financially viable or its insolvency is fast approaching as to be in a situation of imminent failure. The decision on whether or not an institution has failed is usually based on meeting one or a combination of the following criteria: ·failure to meet regulatory capital and surplus requirements exists or is imminent; or ·statutory conditions for taking control are met (such as failure to comply with orders to increase capital); or ·failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time.

12.1.5 How many member institutions have failed in your country in the last 20 years?

During the last ten years CDIC has not had any member institutions fail. However, between 1967-1996 CDIC had 43 member institution failures.

12.1.6 Do banks go through the regular corporate bankruptcy process? If no, what is the process used?

No

The bankruptcy process utilized for federally-regulated financial institution is through the Winding-Up and Restructuring Act. Usually within a matter of days or weeks of having taken control of the institution, the Superintendent will request the Attorney General of Canada to apply for an order winding-up the institution pursuant to section 10.1 of the Winding-Up and Restructuring Act. CDIC will usually provide the Attorney General with an affidavit in support of the application, attesting to the number of insured deposits with the institution and CDIC

12.1.7 Is the receiver of failed institutions also the one that disposes of the institutions? If not, who does?

Yes

In Canada, the "receiver" role is fulfilled by a court-appointed liquidator. The liquidator, in its role as agent of the court, has complete discretion over the failed institution, and may dispose of the institution itself, if that is possible. However, the probability is that the institution, prior to failure, has been marketed by its own management, and found no buyer. This suggests that the realizations from the disposition of the components of the institution will exceed the realizations from the whole entity.

12.2 Which methods of failure resolution are used in your country to deal with failures. Also, please indicate the frequency of use of the various methods in the last 20 years.

12.2.1 Formal liquidation

Yes

Since 1967 CDIC has been involved in 23 liquidations.

12.2.2 Purchase and assumption (sale and merger)

Yes

Since 1967 CDIC has been involved in 20 purchase and assumption and agency agreements (assisted transactions).

12.2.3 Open bank assistance (e.g. recapitalization)

No

12.2.4 Bridge banks and other interim solutions

No

12.2.5 What criteria are used to determine the method of failure resolution?

If a member is identified as a particular concern, the Board of Directors of CDIC is provided with reports on the status of the institution, which are regularly updated. When the CDIC's Board of Directors determines that an institution poses a high risk of loss and it appears that it may be necessary for CDIC to intervene in a failure situation, a special examination is normally undertaken. With the detailed information obtained through the special examination, CDIC can weigh all options for intervention. In most cases, there are two available: a sale, or what we refer to as a Purchase and Assumption transaction with a strong sponsor, which may require CDIC support; or the formal liquidation of the institution resulting in a deposit payout. A third option, an agency agreement, is a variation on the Purchase and Assumption transaction. Each of these options must be assessed in the light of CDIC's objects. CDIC must be in a position to compare the costs and benefits of each potential purchase and assumption transaction against the costs and benefits of a liquidation. CDIC uses a net present value (NPV) in its cost estimates. In assessing a potential purchase and assumption transaction, CDIC deals with the management of the member institution to ensure that a formal, open and equitable process is followed whereby all interested parties are given the opportunity to consider acquiring or investing in the member. Even if the problem institution has been marketed for sale

in the past, CDIC usually requires that it be re-tendered. Once offers are received, the problem institution's management and CDIC officials evaluate and compare them. The Board of Directors of CDIC is advised of all offers and decides which option CDIC will pursue. CDIC may offer to facilitate the purchase and assumption transaction if that is the course of action that best meets CDIC's objects. In each case, CDIC must be satisfied that the cost of the transaction compares favourably with the cost of CDIC of a formal liquidation and a payout. Senior Management of CDIC provides the CDIC Board of Directors with all relevant information detailing the costs associated with each available option. Whichever option is chosen, CDIC management undertakes in each case a post-mortem, so that the experience can be of value in dealing with problem member institutions in the future. Further, after every failure, CDIC undertakes a forensic review to determine if there is sufficient evidence of wrongdoing and, if so, commences litigation against the management, board of directors and auditors of the failed institution for purposes of redressing its losses. Each of the resolution methods is described in more detail below.

Deposit Payout There are two ways by which depositors are paid: the direct payout, and the insured deposit transfer. In a direct payout, as soon as an institution's affairs is taken over by the regulatory authority or when a winding-up order has been issued by the court, CDIC issues payments to all insured depositors for the full amount of their claims (up to the statutory limit for basic coverage of CDN\$60,000). A liquidator is appointed by the court to dispose of the assets of the failed member. Uninsured depositors and other general creditors of the insolvent member generally do not receive immediate or full reimbursement of their claims. CDIC stands in the place of the insured depositors in the liquidation. CDIC, uninsured depositors and all other general creditors have equal standing and receive a proportionate return on their claims from the liquidation of the assets. In an insured deposit transfer (sometimes referred to as a "modified payout"), CDIC makes a lump-sum payment to the transferee member institution equal to the total amount of insured deposits less any transfer premium paid to CDIC by the transferee. Insured depositors can then withdraw their deposit insurance payment from the transferee institution or leave it with the institution, whichever they prefer. Again, uninsured depositors and creditors are not fully protected and may suffer losses as their outstanding claims remain in the estate.

Purchase and Assumption Transaction A purchase and assumption transaction involves either the purchase of the shares of a failed institution by an acquirer, or the purchase of all or some of the failed member's assets and assumption of the deposit liabilities. Purchase and assumption transactions vary depending on the amount of assets purchased and liabilities assumed by the acquirer. In a "clean institution" purchase and assumption, the acquirer normally purchases only the highest-quality assets and assumes only the deposit liabilities. In some "clean institution" purchase and assumption transactions, however, acquirers may purchase specific pools of assets of the failed member and assume all its deposit liabilities. In a "whole institution" transaction, the acquirer purchases all of the failed member's assets, good and bad alike. This type of "open-institution transaction" occurs before the failing institution is technically declared insolvent and closed, and sometimes the transaction may be viewed as a recapitalization rather than an acquisition. Generally, in "whole-institution" transactions, non-deposit creditors (excluding subordinated debtholders) and holders of contingent claims, if such claims are later transformed into liabilities, receive full payment. Bids received on purchase and assumption transactions normally will reflect the expected value of assets purchased, the value of liabilities and the perceived franchise value of the member institution. Generally, CDIC will provide enough assistance to cover the difference between its estimate of the market value of the institution's assets acquired and the liabilities assumed (the negative net worth) by the purchaser. The form of CDIC's financial assistance will vary with each purchase and assumption transaction. Examples are: a fixed dollar amount paid on closing of the transaction, or a secured loan. Finally, guarantees (also referred to as deficiency coverage) up to a certain dollar limit may be provided, in which case the access to CDIC's financial assistance normally depends on the amount of losses realized by the acquirer in disposing of the eligible assets. It should be noted that in the past, given the complexity of certain purchase and assumption transactions, a combination of CDIC financial assistance has been provided. CDIC may also offer a combination of financial assistance as it has done in the past. In summary, the important distinction between a purchase and assumption transaction and a payout or insured deposit transfer has been that, typically, in a purchase and assumption all depositors, receive full payment on their claims since these are assumed by the acquiring institution. Non-deposit creditors (other than subdebtholders) have sometimes received partial or full payment on their claims. Only subordinated debtholders and shareholders generally suffer full losses in this type of transaction.

Agency Agreements Under this type of resolution method, a CDIC member institution (the "agent") is appointed, for a fee, to manage the disposition of the failed institution's assets and pay its deposits and other liabilities as they come due. The agency agreement runs for a limited period of time, normally five years. Cash proceeds from the realization of assets are used to reimburse the depositors and pay the other creditors. Any cash shortfall is financed either directly by CDIC or by the agent through a loan to the failed member which is guaranteed by CDIC. Generally, the agent will pay a commission or fee to the failed member for the loans and other assets purchased or transferred to (renewed on) its own balance sheet. Likewise, a commission or fee is paid to the failed institution for each deposit renewed on the agent's own books. Normally, at the end of the agency all the deposits and other liabilities of the failed institution have been paid in full. Accounts between the agent and the failed member are settled by CDIC, and a liquidator is appointed to dispose of the remaining assets and, ~~self~~ if possible, any outstanding matters.

Financial Institutions Restructuring Provisions (“FIRP”) In 1992 CDIC was granted new powers commonly referred to as FIRP. These powers allowed CDIC to apply for an order vesting the shares of an institution in CDIC. In 1996 these powers were increased by also allowing CDIC to take control of a federal member institution’s assets. The FIRP power has some similarity to the power granted in 1987 to the Federal Deposit Insurance Corporation (FDIC) in the United States which provides FDIC with the authority to operate a deposit-taking entity until a more permanent solution can be arranged. The “bridge bank”, as it is called in the United States, provides a means of preserving the going-concern value of an institution until an agreement with a third party can be found. Under the FIRP power, when the regulator determines that a member is no longer viable and all the statutory powers under the Bank Act or the Loan and Trust Companies Act for dealing with a problem company have been exhausted, a report is to be made to CDIC. On the receipt of such a report, CDIC takes into account: ·whether an agreement for a transaction to sale, amalgamate or restructure all or substantially all the business, assets and liabilities of the problem member institution is reasonably likely to be expeditiously entered into, and ·whether any such transaction would be consistent with CDIC objects, and may request the Minister of Finance to recommend to the Governor in Council that a FIRP order be issued. A FIRP order may vest the shares and/or assets of the troubled member in CDIC. Once the order is granted, the powers, duties, functions, rights and privileges of the directors and officers of a member are suspended. While CDIC operates the member institution, it tries to arrange for a sale, amalgamation or other restructuring of the problem member or effect transfer of its assets and liabilities (excluding the subordinated debt). If such a transaction cannot be completed within 60 days (or 180 days in cases when extensions have been granted by the Governor in Council), CDIC must apply for liquidation under the court process. A FIRP order may be seen as a form of “expropriation” of the rights of shareholders and subdebtholders and the institution. There is provision in the legislation for compensation, if necessary, by CDIC to shareholders and subdebtholders. FIRP provides a further safeguard to shareholders and subdebtholders through the appointment of an assessor when an offer by CDIC is rejected or when CDIC makes no offer for compensation. In a nutshell, FIRP provides a temporary solution until a more permanent solution can be chosen. It allows CDIC to effect a transaction with a third party and to argue, if necessary, about the value of the institution to shareholders later. In the view of many, the FIRP power is simply a conveyance mechanism which removes impediments to quick resolution of a problem. Such power has not yet been used by CDIC, but the threat has had positive effect. There are some advantages to FIRP as compared to other failure resolution methods. First, it may be worthwhile to keep a failing or insolvent member institution operating for a brief period until a prospective acquirer can finalize its assessment of the institution’s condition in order to make a reasonable offer. Second, if it continues to function, the member can retain much value and there is less disruption to its depositors and other customers. Third, the moral hazard that arises as a result of prolonging the operations of a non-viable member institution is to a great extent eliminated because of the expeditiousness of the FIRP process. Finally, FIRP expands CDIC flexibility, especially when obtaining voluntary concessions from a holding company, other shareholders or subordinated debtholders is a difficult and protracted process. It should be noted that FIRP is only available for federal institutions. However, the legislation contains provisions that permit agreements to be executed between the federal government and any provincial governments interested in the application of the FIRP provisions to their institutions.

12.2.6 Is the deposit insurer required to resolve failed or failing insured depository institutions in a manner that is least costly to the DIS?

Yes

12.2.7 Please indicate what kind of private companies, if any, are included in the failure resolution process?

Financial consultants, insolvency practitioners, asset managers, lawyers, accountants and other professionals participate in the payout, claims, asset recovery and other aspects of failure resolution and estate administration.

Section 13: Claims, Recoveries & Estate Management

13.1.1 Does the DIS play a role in the claims and recoveries process? If yes please describe this role

Yes

When a member institution is failing, CDIC determines whether a formal liquidation or the assisted sale of

the failing institution to a healthy institution is the least costly solution. Typically, CDIC does not own, manage, or liquidate the assets in an estate. Depending on the circumstances, CDIC can be either a creditor, secured lender, guarantor, owner of a claim in a liquidation, or even the liquidator. In all cases, CDIC's goal is to optimize recoveries on its claims from the assets in the estates and to minimize its exposure to loss as a result of providing financial assistance and guarantees.

13.1.2 What is the primary objective of the DIS when dealing with claims and recoveries (i.e.. maximization of nominal and present value recoveries, financial system stability, system discipline)?

When a CDIC member is in difficulty, CDIC examines in collaboration with the institution's primary regulator a variety of intervention options. Depending on the circumstances, such options may range from a sale of all or part of an institution to formal liquidation and payment of insured deposits. CDIC's mandate dictates that its review of intervention options be conducted in view of the least cost option and lowest impact to the overall stability of the Canadian financial system. Typically, in liquidation, CDIC pays the claims of insured depositors and then works with court-appointed liquidators to maximize net recoveries from the disposition of assets, thereby minimizing losses to the Corporation. Throughout this process, CDIC ensures that Canadian depositors receive prompt settlement of their full entitlement with respect to their insured deposits in failed institutions.

13.1.3 What role does the private sector play in the claims, recovery process?

Insolvency practitioners, asset managers, lawyers, accountants and other professionals participate in the payout, claims, asset recovery and other aspects of estate administration.

13.1.4 What approaches and strategies are adopted by the deposit insurer to accomplish the objectives of claims and recovery activities?

CDIC's claims and recoveries strategies involve the use of a 'virtual organization' consisting of asset managers, lawyers, accountants and other professionals for asset recovery and estate administration. In most cases, CDIC nominates qualified professionals to perform liquidations as court-appointed liquidators and thereafter recommends adjustments to the size of the effort as the liquidation proceeds. The following are the principal methods of failure resolution currently employed by CDIC: ·Formal liquidations in which CDIC pays depositors the value of their insured deposits and assumes the depositors' claims against the failed institutions (the "estates"), whose assets are normally liquidated under the jurisdiction of a court-appointed liquidator. ·Purchase and assumption agreements involving the acquisition of the failing member institution by another member. ·The organization of workout companies to realize upon problem assets. ·Deficiency coverage agreements in which CDIC provides a third party, which is acquiring impaired assets of a member institution, with a guarantee on those assets up to a specified limit, to reduce the risk of loss on eligible assets. To manage its risks and enhance the alignment of interests between CDIC and its suppliers, CDIC exercises strategic management through planning, reporting, and performance requirements outlined in appointment agreements. CDIC also negotiates incentive plans with various suppliers, including asset managers and liquidators. These plans are designed to increase the probability that CDIC will benefit from net realizations in the upper range of projections, measured on a NPV basis, and that the asset manager or liquidator will focus on the need to minimize costs as well as to achieve the highest gross realizations from the assets.

13.1.5 By what standard is the DIS judged with respect to performing its function in claims and recoveries (e.g.x. Comparative private sector or DIS benchmarks, internal assessments, past experience)?

To maximize recoveries, CDIC promotes the efficient and effective management of liquidation issues by the professionals engaged in the liquidation process. Liquidators and legal counsel are asked to follow rigorous control and decision-making processes to streamline and improve their performance. CDIC gauges these results against internally developed benchmarks based on historical experience.

13.1.6 What assets have you found to be the hardest to recover? Why? What types of strategies have been used to recover different assets?

Typically, the liquidation of a member institution features three broad categories of assets, and it is this mix of assets that is most significant in governing the outcome of recoveries: (a) "performing" assets of high quality that are operating in well-developed markets and which therefore require minimal efforts to sell; (b) "sub- and non-performing" assets consisting of below-grade loans and the like, with varying marketability and requiring considerable effort to sell or collect; and (c) "problematic" assets comprising

contingent and very poor quality properties, or those facing cross-claims or other litigation, where the cost of resolving associated issues and liquidating the assets is usually very high as a proportion of the final returns. Asset management strategies are selected to optimize NPV recoveries and include portfolio sales, auctions, workouts, and asset-by-asset sales.

13.1.7 Does the DIS have rights of subrogation (i.e. the subrogation of insurance entity to the rights of insured depositors) or an equivalent arrangement?

Yes

To the extent a depositor is insured, the depositor exchanges by subrogation his or her claim against the failed member institution in return for an insurance payment. CDIC acquires the depositor's claim and assumes the depositor's share of the loss implicit in the failure. The assets of the failed member institution (the "estate") are normally liquidated according to the provisions of the Winding-Up Act under the jurisdiction of a court-appointed liquidator.

13.1.8 Is there depositor priority when banks fail? (i.e. Do depositor claims rank in priority above other unsecured creditors in the liquidation of a bank?)

No

Depositors rank pari passu with unsecured creditors.

13.1.9 Are rights of set-off available or imposed in your country's legal system? Please describe the various forms set-off can take.

Other

Rights of set-off exist in Canada but are not applied by the deposit insurer. There are two forms of set off used in Canada: legal and equitable set-off. Legal set-off requires, among other things that both debts and deposits be mutual obligations between the same parties. For example, a joint deposit may not be used to set-off the obligation of one of the individuals. The concept of equitable set-off is distinguishable from legal set-off in that "mutuality" is not a pre-condition. An example of equitable set-off where mutuality does not exist would be the case where one person was the borrower and another was a guarantor. At the same time, both persons are joint depositors. In this case there may be an opportunity for equitable set-off.

Section 14: Other Issues

14.1.1 What is your view on recent trends and emerging issues in the financial sector in your country and the potential impact they might have on the DIS?

Three important emerging issues are: globalization, the growing complexity of financial services; and technology. 1) Globalization Globalization continues to be a major factor in the evolution of financial markets and services. Financial institutions worldwide are consolidating and becoming larger and more complex. Conglomerates are being created across borders giving rise to cross-border issues. Financial crises are no longer merely domestic affairs. These developments are being facilitated by rapid innovation in information and communications technologies. In Canada, there is an additional dimension to the changing environment of supervision. As is the case with other G-10 supervisors, the Office of the Superintendent of Financial Institutions follows a consolidated approach to the supervision of member institutions. As large financial institutions move to a North American basis of operations, a significant proportion of their activities are conducted outside of Canada. This situation, which is expected to become more pervasive, results in the need to rely on the work and conclusions of supervisors of other jurisdictions in coming to an overall conclusion concerning the soundness of the consolidated Canadian entity. CDIC must continue to keep pace with these international developments. They affect member institutions that operate increasingly around the world. Moreover, financial failure, no matter where its source country, may become international in reach owing to globalization. CDIC must continue to examine and test its systems and practices to optimize its preparedness. Over the past few years, CDIC has been actively involved in work with the Financial Stability Forum. It is now participating in the formation of an association of international deposit insurers. 2) Growing Complexity of the Financial Services Most CDIC member institutions have seen a proliferation of new financial products and services. Increased importance is being placed on non-intermediary income, such as trading, and there has been a notable shift towards new business associated with wealth management. Member institutions are also making inroads into insurance. This growing complexity makes it more challenging to assess the risks posed to the deposit insurance system. It

can also create the potential for confusion about deposit insurance coverage which needs to be dealt with by enhancing public awareness for deposit insurance. Meanwhile, many of our smaller member institutions are focusing on niche markets to remain profitable. There are few remaining small, full-service institutions. The risk profile of some smaller institutions is increasing as a result of rapid asset growth, renewed interest in real estate development lending or an increased focus on capital management. In addition, many of our member institutions are continuing to make inroads into the insurance business. The reverse is also true with insurance companies making inroads into financial services. This is creating another source of competition for traditional deposit-taking institutions. While CDIC members face new sources of competition from non-financial sectors, they also face competition from new niche players specializing in Internet based and technologically oriented services. Global mergers continue, albeit at a slower pace in light of the current global economic slowdown. The search for appropriate partnerships and alliances continues as competitors look for ways to economize overhead and reduce costs in any way possible. 3) Technology Changes in technology have affected how member institutions deliver their products as well as the products themselves. Since newer technologies require skills and knowledge not usually associated with the mainstream of banking activity, some member institutions now outsource a significant portion of their technology support. While this approach may minimize costs, it also creates certain risks. These include possible risks to reputation in the event of major errors or systems failure, or the violation of privacy laws. Outsourcing may also result in increased complexities should intervention be required. The Future and CDIC: Looking to the future, CDIC intends to focus on four main business strategies to deal with its changing environment. These are: proactive readiness, investing in technology to leverage information, following sound business and financial practices and enhancing public awareness. Proactive readiness The nature of CDIC's business — to be a deposit insurer, with clear obligations as specified in its objects — requires the Corporation to maintain an appropriate state of readiness at all times. The results of CDIC environmental scans show that heightened readiness is required in the future to assess the risks that members may pose. CDIC last dealt with the failure of a member institution in 1996. As a consequence, the Corporation has not had to manage the significant changes that have occurred recently in the financial services sector within the context of a failure. These changes include rapid advances in new technology, new products and structures, increased cross-border activities and the concomitant development of depositor expectations and awareness. For example, CDIC has not yet had to pay out depositors of a failed institution with an extensive ATM system, let alone an Internet-based institution. The recent coming into force of the Financial Consumer Agency of Canada Act has added a significant number of new issues and risks for CDIC to address, and has also affected the system by which CDIC assesses its risk of loss. Some of the changes affecting CDIC's methodologies include the formation of bank holding companies and the Corporation's relations with financial supervisory examiners. In order to continue to meet its statutory mandate, CDIC will pursue a strategy to proactively prepare for dealing with potential failures. The foundation of CDIC's proactive readiness strategy lies in a series of integrated activities: 1. Enhanced risk assessment 2. Ensuring operational readiness 3. Upgrading tools and enhancing capacity Investing in technology to leverage information: Technology is a major component of each of CDIC's business strategies. CDIC requires a technology infrastructure to facilitate the delivery, receipt and assessment of information internally and externally using Web-based technology. This investment in technology infrastructure will assist CDIC by: providing relevant, timely and authoritative information to depositors to allow them to make informed choices; Facilitating receipt and assessment of internal and external information to permit proactive risk assessment and to minimize CDIC's exposure to loss; facilitating the secure delivery and receipt of information under CDIC's by-laws (e.g. Differential Premiums, Standards, Return of Insured Deposits, Deposit Insurance Information); and meeting the objects of contributing to the stability of the financial system, minimizing exposure to loss, and promoting Standards by providing information to members. CDIC's ability to intervene in problem situations requires advanced familiarity with the technology in place at all member institutions. Furthermore, combining delivery and receipt channels by investing in Web-based technology will enable CDIC to provide and receive information more efficiently, and will allow it to package information in a way that better serves the needs of its stakeholders. The strategic implementation plan in support of this business strategy comprises the following: 1. Expanding the technology infrastructure in accordance with CDIC's Information Systems Strategic Plan; 2. Enhancing depositor information by re-designing CDIC's Web page and researching other products and information for inclusion on the Web page; 3. Enhancing risk assessment by: Consulting with the membership to identify information that would be of benefit to them; Enhancing CDIC's data warehouse to facilitate access to multiple sources of information; Developing graphic software to aid in trend analysis; and Producing quarterly aggregate member information, peer group information, and producing information relative to individual member institutions. 4. Facilitating the flow of member information by consulting with the membership and commencing the development of selected information, as well as Web-based e-filing solutions for the Return of Insured Deposits and the Differential Premiums By-law reporting form; and 5. Developing the ability to communicate via the Internet with the Office of the Supervisor of Financial Institutions (OSFI) and other supervisors and other stakeholders on a confidential basis using secure technology. Following sound business and financial practices CDIC's statutory mandate includes the promotion of standards of

sound business and financial practices among its member institutions. It follows that the Corporation itself should be in full compliance with these standards where applicable. Implementing this strategy will involve an approach organized as follows: 1. Gap analysis: Conducting a gap analysis to identify where processes, policies, procedures and controls may be deficient. 2. Education and training: Develop and implement programs to assist staff in determining that their areas of responsibility are “in control”. 3. Risk Management Project: Completing the current corporate risk identification and evaluation project; and establish a risk management function within CDIC with senior accountability. 4. Improve implementation and reporting: Enhancing public awareness: CDIC's public awareness campaign will be continually updated to reflect current developments in the financial services sector. During the next few years activities will focus on consumer education and awareness by means of advertising, ongoing media relations, stakeholder and member relations and partnerships. For example, CDIC plans to become increasingly involved in activities at the local community level, and within the financial services sector, by means of speeches, seminars and participation in certain trade shows. CDIC management will also continue to pursue alliances and partnerships with member institutions and stakeholders. In addition to the ongoing public awareness campaign, CDIC is in the process of consulting with member institutions and other stakeholders on possible amendments to the Deposit Insurance Information By-law. This By-law was first introduced in 1996 and is due for a comprehensive review. It governs statements made by financial institutions about their standing as a CDIC member institution and about the eligibility of certain deposits for deposit insurance. It also introduced the deposit register at each of our member institution branches. Since it is important that appropriate and accurate information is given to depositors for them to make informed investment decisions, one of the focuses of the 2003 review is on matters that could enhance depositor awareness of deposit insurance eligibility and its limitations. Many relevant issues flowing from recent developments in the financial services industry are not currently addressed by the By-law. These include, for example: the evolution of A public awareness and education program is currently underway to increase the knowledge of depositors concerning the benefits and limitations of the federal deposit insurance system.

14.1.2 Are there any issues related to deposit insurance which you would like to see more research in?

No matter how much experience one has with deposit insurance there is always more which can be learned by collecting information and conducting research. Good deposit insurance research can improve our knowledge and contribute to improving the provision of deposit insurance throughout the world. Some possible research topics could include: i.differential premium systems; ii.prompt corrective action intervention frameworks and their implications for deposit insurers; iii.electronic money and banking issues; iv.the relationship between coverage levels and financial system stability; v.loss provisioning and funding methodologies; vi.transitioning from blanket deposit guarantees to limited explicit deposit insurance; the impact of implicit deposit guarantees on moral hazard; vii.interrelationships amongst safety-net players; viii.asset disposition methods; ix.bank insolvency laws; and x.depositor priority and netting arrangements.