

How to implement the bail-in tool in a financial cooperative group: Québec's Case

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Executive summary

This IADI Brief provides an overview of the implementation of the bail-in tool in the context of financial cooperatives (FCs). It provides theoretical explanations of what the Autorité des marchés financiers (AMF) would do in a real-life case involving the resolution of Québec's domestic systemically important financial institution (D-SIFI), the Desjardins Group, for which the bail-in is one of many resolution options available to the AMF.

The implementation of bail-in for an FC is quite different from its implementation for the resolution of a bank. In addition to the legal framework (laws and regulations), guidelines and playbooks that collectively provide for a bail-in regime for a D-SIFI Cooperative Group, this document highlights the financial solidarity mechanisms mainly implemented through liquidity and capital transfer arrangements and loss mutualisation in such resolution scenario. These mechanisms are crucial in facilitating the implementation of the bail-in tool within a cooperative group. For the Desjardins Group, the financial solidarity mechanisms are applied via its institutional protection scheme (IPS) and its umbrella organisation (UO), both of which facilitate the operation of bail-in, should the need occur. The UO issues the "bail-inable" debt for the Group, enabling the AMF to execute the bail-in operation within a single entity (ie single point of entry) rather than within each FC member of the Group. The IPS acts as a first (and private) line of intervention to absorb the FC's losses by injecting capital or to provide liquidity. It prevents or delays the need for a bail-in operation by the AMF, as the second (and public) line of intervention or, more generally, for a resolution procedure.

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1. Introduction and purpose

This IADI Brief examines how Québec (Canada) has implemented the bail-in tool for resolving financial cooperatives (FCs).

Box 1 – Key Distinctions between Publicly Traded Banks and FCs²

FCs have inherent characteristics which distinguish them from publicly traded banks, particularly their ownership structure and their access to capital.

Publicly traded banks have shares that are traded on stock markets, which means that everyone can buy or sell them, and they can easily issue shares to raise equity if necessary. They are owned by a wide range of shareholders (ie institutional and individual investors) on a “one share, one vote” basis.

The structure of FCs is an inverted pyramid (ie the top ownership level is made up of FCs, which are all separate legal entities). In FCs, the members are both owners and depositors/lenders. The “one member, one vote” principle generally forms the basis for voting rights, so that all members have an equal voice, regardless of their contribution in the institution. FCs cannot raise capital on the stock market, except in limited cases where they have adapted their structure to hold a commercial corporation or bank capable of issuing shares.

Since 1996-97, no failure of an authorised insured deposit-taking institution (IDTI) has occurred in Québec. In the aftermath of the 2007-08 global financial crisis, the legal framework of the financial sector has been strengthened by the Government of Québec to ensure that the Autorité des marchés financiers (AMF) is better prepared in the event of a crisis, notably by introducing resolution powers applicable to a domestic systemically important cooperative group.³ The legal framework for early intervention, recovery and resolution of authorised IDTIs is composed of the Act Respecting the Regulation of the Financial Sector ([RFS Act](#)), the Act Respecting Financial Services Cooperatives ([FSC Act](#)) and the Deposit Institutions and Deposit Protection Act ([DIDP Act](#)), which are all administered by the AMF. Particularly, the FSC Act includes the formal recognition of the “Desjardins cooperative Group”⁴ and of the financial solidarity mechanisms, applied via the Institutional Protection Scheme (IPS) and the Umbrella Organisation (UO).⁵ The DIDP Act strengthens the AMF’s mechanisms for intervening in the

² More distinctions are presented in IADI (2018).

³ In June 2018, the legal framework of the financial sector was reviewed by the Government of Québec. See Government of Québec (2018).

⁴ For this IADI Brief, the AMF has deliberately chosen to use the term “Desjardins Group” in its broadest sense (FSC Act, s. [6.3](#)). In fact, the FSC Act (s. [6.2](#)) recognises the existence of the “Desjardins cooperative Group,” which is made up of the financial services cooperatives forming a network, the Fédération des caisses Desjardins du Québec (ie, the UO), which is also an FC, and the Security Fund (ie the IPS). Recovery and resolution operations apply directly to the “Desjardins cooperative Group,” and not to Desjardins Group as a whole (FSC Act, s. [547.23](#); DIDP Act, s. [40.6](#)). However, in the event of an implementation of resolution operations, the AMF, as the receiver (ie temporary administrator), would take control of all the Desjardins Group’s entities, except the Caisse Desjardins Ontario. Please refer to Figure 1 Simplified organisation chart of the Desjardins Group’s legal structure to appreciate the concept illustrated.

⁵ Under the FSC Act (s. [547.23](#)), the Fédération des caisses Desjardins du Québec, the UO, has to establish a recovery plan to detail the operations it intends to carry out to ensure continuity of the activities of the cooperatives belonging to the Group in the event of a deterioration in its financial position.

event of default by authorised IDTIs belonging to the Desjardins Group. Among other things, it introduces resolution powers, including a bail-in regime and an indemnification plan (based on the “no creditor worse off” principle), applicable to a cooperative group such as the Desjardins Group.⁶ The Appendix 1 provides a more detailed overview of the Québec’s legal and regulatory framework for implementing bail-in.

The AMF, as an integrated regulator, assumes the supervision, the resolution, and the deposit insurance of authorised IDTIs operating under Québec legislation. The authorised IDTIs (other than banks⁷) include FCs, insurers, trust companies and savings companies. Among its authorised IDTI members, the Desjardins Group is the financial institution with the biggest regional presence in Québec. It is one of the largest cooperative groups in the world and the largest one in North America.⁸ This cooperative group was designated as a domestic systemically important financial institution (D-SIFI) by the AMF in June 2013.⁹ This designation gives rise to additional capital, liquidity, oversight, and disclosure requirements.

Generally speaking, the purposes of the open bank bail-in tool¹⁰ are to preserve financial stability, to minimise disruptions to the financial system, to reduce taxpayer exposure and to increase market discipline by reducing incentives for Global-SIFIs and D-SIFIs to take excessive risk. Another advantage is maintaining the cooperative structure or any other entity carried out for the purposes of the resolution. In the unlikely event of a failure of the Desjardins Group, the bail-in regime is intended to recapitalise the cooperative group by making its holders of contributed capital securities and certain classes of creditors bear the cost of the recapitalisation. It gives the AMF the right to recapitalise the Desjardins Group, by converting some or all of its bail-inable debts into capital shares in order to ensure the sustainability of its deposit activities despite the Group’s failure.

The implementation of the bail-in tool in an FC is quite different from the implementation of this tool in a bank.¹¹ Among the main differences observed between a typical systemic Canadian bank and a systemic cooperative group include that banks’ shares are publicly traded on stock markets, making their market price readily available, and shares accessible to a large potential investor. This is not the case for a cooperative group such as the Desjardins Group, whose shares are limited to an internal market, so that only a book value is available, and the shares are owned exclusively by members. While for bank, bail-inable debts are converted into existing common shares, for a cooperative group, a new instrument that does not exist on a

⁶ Under the [DIDP Act](#) (s. 40.9), the AMF has to establish a resolution plan for Desjardins Group to detail the operations it intends to implement in case of an institution’s failure in order to ensure the sustainability of a cooperative group’s deposit taking institution activities despite the group’s failure and without recourse to public funds.

⁷ Banks operating in Québec are members of the [Canada Deposit Insurance Corporation](#), as they are incorporated under a federal charter in Canada.

⁸ International Cooperative Alliance (2023). Desjardins Group (2024a) p. 11.

⁹ Autorité des marchés financiers (2013).

¹⁰ Under the DIDP Act s. 40.50, the AMF has powers to proceed to an open bank bail-in or a closed bank bail-in.

¹¹ IADI (2018) gives more insights and details on the potential difference between FCs and banks in the application of the bail-in tool, as well as the challenges ahead.

going concern basis must be created for the conversion. Therefore, the exit strategy for newly converted shares from a cooperative group is also limited as no market exists compared to that of a typical Canadian bank where shares can be traded on stock markets.

Table 1 – Bail-in implementation – Main differences between typical systemic Canadian banks and systemic cooperative groups

Typical systemic Canadian banks	Systemic cooperative groups
Tier 1 shares listed on public stock markets	Tier 1 shares not listed, owned exclusively by members, limited internal market
Market price readily available	Nominal (book) value only, no market price exists
Bail-inable debts converted into common shares that already exist	Conversion into new instruments that don't exist on a going concern basis
Exit strategy: possibility for investors to sell their converted shares in an open market	Exit strategy: limited if no market to exchange shares is created after the conversion

These main differences make it challenging to apply the bail-in tool within a cooperative group, meaning that it must therefore be adapted. The right type of Common Equity Tier 1 capital into which liabilities can be converted needs to be determined. In some cases, demutualisation may be necessary before the bail-in tool can be used (eg where there is no IPS for loss-sharing). The bail-in may require conversion of part of the FC's debt into equity (or a capital instrument meeting the definition of Common Equity Tier 1 capital), so that the debt must be converted into a number of shares corresponding to the amount of debt converted. As a result, new members could be allocated more voting rights, which may violate the "one member, one vote" principle. Rules should be defined for the sale of bail-inable debts to non-members, as well as for determining the rights (eg voting rights) of this new category of "members" after a conversion of debt into equity.

The primary objective of this brief is to provide an overview of how Québec has implemented the bail-in tool in the context of FCs. These are theoretical explanations of what the AMF will do in a real-life case of resolution of the Desjardins Group, the Québec D-SIFI. Section 2 presents the landscape of the Québec D-SIFI Cooperative Group. Section 3 describes the financial solidarity mechanisms. Section 4 looks at the resolution of a D-SIFI Cooperative Group that is failing or likely to fail. Section 5 sets out the resolution powers necessary to enforce bail-in within a cooperative structure. Section 6 presents the indemnification plan for creditor safeguard. Section 7 outlines the main steps in executing the bail-in, while Section 8 concludes with key takeaways.

2. The landscape of the Québec D-SIFI Cooperative Group

All FCs in Québec, except one, are part of the Desjardins Group, the sole FC designated as a D-SIFI in Québec. The Fédération des caisses Desjardins du Québec (FCDQ), an UO, also takes deposits from some businesses and its 203 FC members¹² (ie Desjardins caisses) form a network of non-systemic FCs (credit unions or “caisses”). With more than 7.8 million members and clients, and over 470 billion Canadian dollars in total assets in 2024, the Desjardins Group has a large impact on the local economy. In terms of concentration, the FC members of the Desjardins Group account for around 99% of insured deposits by the AMF.

The UO is the entity responsible for protecting the interests of all its FC members, which are legally independent, and for promoting the achievement of their mission.¹³ It is mandated to provide for the institutional funding needs of the Desjardins Group and to act as its financial agent. As treasurer, the UO ensures the stability and diversity of institutional fund sources according to their type, the jurisdiction of the issue and maturity, and oversees the financial health and the sustainability of the Desjardins Group.

The IPS plays an essential role in the network by ensuring that no FC member of the Group is insolvent.¹⁴ Its mission includes establishing and managing a security, liquidity or mutual assistance fund for the FC members of the Group, participating in the capitalisation of the FCs network, helping to pay losses resulting from the liquidation of an FC member and avoiding or reducing disbursements by the AMF under the DIDP Act.¹⁵

The special monitoring and intervention powers of the UO and the IPS minimise the risk of failure of a weak FC member of the Group and the cost of subsequent intervention by the AMF. Thus, in Québec, managing failing FCs part of the Group may be done at two levels. The D-SIFI Cooperative Group could be viewed as the first (and private) line of intervention, and the integrated regulator as the second (and public) line of intervention.

The UO and its IPS are the two Desjardins Group components that facilitate the application of the bail-in tool within the Group. As part of its financial functions, the UO issues the bail-inable debts for the Group, enabling the AMF to execute the bail-in operation within a single entity (ie single point of entry) rather than within each FC member of the Group. The IPS acts as a first (and private) line of intervention to provide liquidity or to absorb the FC's losses by injecting capital. It prevents or delays the need for a bail-in operation by the AMF, as the second (and public) line of intervention or, more generally, for a resolution procedure. In short, the UO

¹² Desjardins Group (2024a).

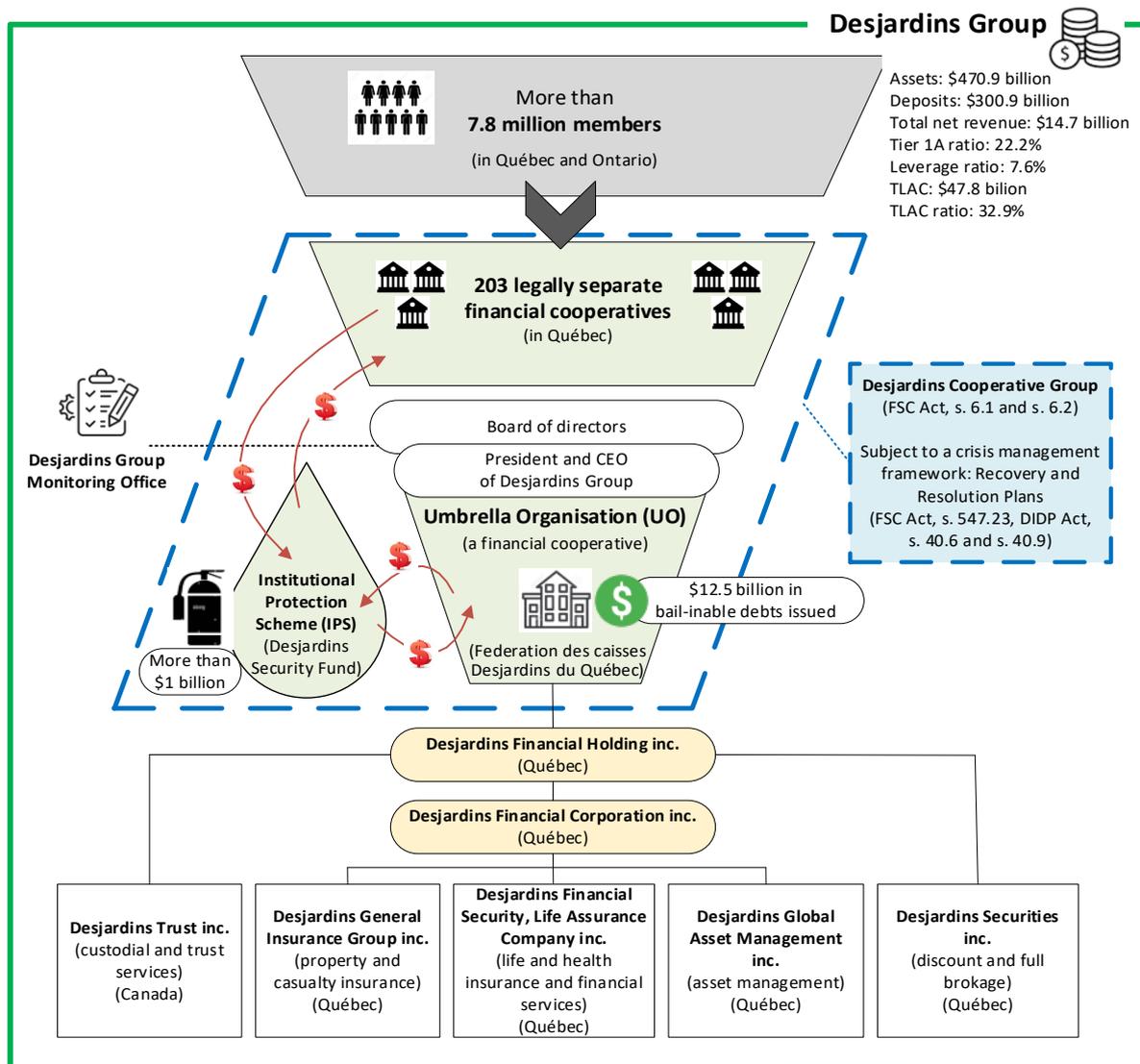
¹³ Within Desjardins Group, the UO is also responsible for the orientation, supervision, coordination, and development of the Group. It provides a variety of technical, financial and administrative services to the network of FC members. The UO acts as a control and supervisory body for the FCs members and performs support functions.

¹⁴ Under the FSC Act, s. [547.31](#).

¹⁵ Under the FSC Act, s. [487](#).

and IPS jointly manage a mutual support scheme that implements and guarantees solidarity among FC members of the Group.¹⁶

Figure 1 – Simplified organisation chart of the Desjardins Group’s structure (as of 31 December 2024)



Source: Inspired by Fédération des caisses Desjardins du Québec, [2024 Annual Information Form](#). Data taken from the Desjardins Group, [2024 Annual Report](#).

¹⁶ IADI (2021) gives more insights and details on the role of the UO and its IPS in Québec (Canada).

3. Financial solidarity mechanisms

The financial solidarity mechanisms are mainly implemented by the IPS¹⁷ through liquidity and capital transfer arrangements and loss mutualisation and the UO. These mechanisms are a crucial component in Québec, facilitating the implementation of the bail-in tool within the Desjardins Group.

The IPS ensures that the allocation of capital and other assets among FC members of the Desjardins Group allows each of them to fully, properly and without delay meet their obligations to their depositors and other creditors. The IPS intervenes whenever its intervention appears necessary to protect the creditors of an FC member of the Group in difficulty.¹⁸ The IPS mutualises the cost of its interventions among the FC members of the Group. The IPS does not have a target capitalisation fund per se¹⁹, but its financial resources must be at least adequate for, but not disproportionate to, the pursuit of its mission. If financial resources are not sufficient, it can require any FC member of the Group to make a special financial contribution. The AMF has supervision powers over both the IPS and the UO.

Furthermore, the financial solidarity mechanisms bind the FC members of the Group and the UO in such a way that they cannot leave the Desjardins Group, unless they are dissolved. An FC member of the Group cannot be excluded or request to withdraw from the UO.²⁰ Finally, the UO, the FC members of the Group and the IPS can only be wound up by the complete liquidation of the Desjardins Group.²¹

Since the FC members of the Group are legally separate entities, the financial solidarity mechanisms allow their losses to be pooled and shared at the UO level. Then, in the event of the failure of the Desjardins Group, the AMF will be able to carry out a single internal recapitalisation directly within the UO, rather than several with individual FC members of the Group. The financial solidarity mechanisms lead the AMF to have a holistic view of the Desjardins Group. Without these mechanisms, each FC member of the Group would need to have a minimum loss absorption capacity, as an FC designated D-SIFI by the AMF is subject to a Total Loss Absorbing Capacity (TLAC) requirement set by the AMF. That said, there is no obligation to issue bail-inable debts, as FCs are free to choose their funding structure to meet the TLAC requirement.

¹⁷ Under the [FSC Act](#), s. [547.31](#) to [547.33](#).

¹⁸ In its intervention regarding an FC member of the Group, the IPS can also order the transfer of any part of its assets or order its merger or dissolution or set up a legal entity to facilitate the liquidation of its bad assets. When it orders the transfer of part of the net assets of this FC to another healthy member FC, the IPS must absorb the deficit, if any, associated with it and pay that healthy FC compensation for the disadvantage caused by the transaction. The same applies when it orders a merger. (FSC Act, s. [547.34](#))

¹⁹ Under the FSC Act, s. [547.39](#).

²⁰ Under the FSC Act, s. [547.5](#).

²¹ Under the FSC Act, s. [547.47](#).

In conclusion, the IPS makes bail-in tool less likely to be used and the UO facilitates operation of bail-in, should the need occur. At the time of the bail-in operation, the IPS should have been depleted.

4. Resolving a D-SIFI Cooperative Group that is failing or likely to fail²²

The AMF has set up a resolution plan to resolve a potential crisis that could compromise the survival of the Desjardins Group and the continuity of activities essential to the daily lives of hundreds of thousands of Quebecers. The resolution strategy set out in the plan considers the context and market conditions that have brought the Desjardins Group to a point of failing or likely to fail, and it aims to maintain activities that are systemically important for Québec's financial sector.²³ The strategy may include any of the following intervention measures:

- contribute to the institution's recovery by making advances of money or loans to the institution, guaranteeing payment of its debts, or acquiring assets or securities,
- provide various guarantees or financial assistance to a purchaser for the sale or amalgamation of the institution,
- convert the debt provided for such purpose into contributed capital shares in order to recapitalize the Desjardins Group (bail-in tool),
- amalgamate the UO, all Desjardins Group FC members and the IPS in order to constitute a single entity (Québec savings company)²⁴,
- set up a bridge institution, under the legal form of an FC, a Québec savings company, or a trust company²⁵, and
- establish an asset management company.²⁶

Once the resolution has been implemented, no one may terminate or amend a contract entered into with the Desjardins Group, for a reason such as insolvency, the order of the resolution board (the "Resolution Board") to implement resolution operations, and the execution of any resolution operation, among others.²⁷ Suppliers must therefore maintain services that are critical to the continuity of the Desjardins Group's activities.

The bail-in is therefore one of many resolution options available to the AMF to resolve a D-SIFI Cooperative Group.

²² Section based on Autorité des marchés financiers, [The role of the AMF in deposit protection | AMF \(lautorite.qc.ca\)](https://www.lautorite.qc.ca/en/role-of-the-amf-in-deposit-protection).

²³ Given the resolution powers available to the AMF, the preferred resolution strategy could be modified as needed to implement alternative resolution strategies if circumstances warrant (eg systemic or idiosyncratic crisis, capital shock or liquidity shock).

²⁴ Under the DIDP Act, s. [40.26](#).

²⁵ Under the DIDP Act, s. [40.34](#).

²⁶ Under the DIDP Act, s. [40.37](#).

²⁷ Under the DIDP Act, s. [40.17](#).

5. Set of resolution powers required to enforce bail-in within a cooperative structure

As part of the AMF's resolution powers, the DIDP Act and its regulations, guidelines and playbooks provide collectively for an internal recapitalisation plan for a D-SIFI Cooperative Group. Although adapted to a cooperative structure, it is similar to the Canadian federal regime applicable to Canadian banks.²⁸

Under the DIDP Act, the AMF may convert any part of eligible debt for internal recapitalisation into contributed capital shares of the UO in line with the conversion measures set out in the bail-in regime.²⁹ In particular, this Act provides, for instance, that if the Desjardins Group becomes non-viable, the AMF, with the prior authorisation of the Resolution Board has the power to convert any part of the bail-inable debts issued by the UO into non-voting contributed capital shares of the UO to the purchaser.³⁰

There is no obligation to issue bail-inable debts, but an FC designated as a D-SIFI by the AMF is subject to a TLAC requirement. It is up to FCs to choose their funding structure to meet the TLAC requirement. The [TLAC Guideline](#)³¹ established under the FSC Act sets out the AMF's expectations with respect to maintaining a minimum capacity to absorb losses. The TLAC Guideline applies on a consolidated basis by combining the FC members of the Group and consolidating the UO and any other legal person or partnership controlled by one of the FCs or by the UO. The UO is the only entity authorised to issue TLAC instruments. The expectations included in the TLAC Guideline are intended to ensure that a non-viable entity has sufficient loss absorbing capacity. This would, in turn, facilitate an orderly resolution while minimising any potentially adverse impacts on the stability of Québec's financial sector, ensuring the continuity of critical functions, and minimising taxpayers' exposure to loss.

In accordance with the DIDP Act and the applicable regulation³², the bail-in power applies to negotiable and transferable unsecured debts that are of one of the following categories ("bail-inable debts"):

²⁸ Although the Québec bail-in regime is broadly aligned with the federal framework, certain adaptations were necessary to reflect the cooperative structure of the Québec D-SIFI. Notably, a new class of non-voting contributed capital shares have been created by the D-SIFI to allow for the conversion of bail-in debt, since the cooperative principles prevent the issuance of voting contributed capital shares to non-members, as well as the issuance of common shares. These non-voting contributed capital shares would be issued only following a conversion of a contingent instrument such as non-viable contingent capital (NVCC) or Bail-in debt. In addition, prior 2021, the Québec regime provided for both the conversion and the write-down of bail-in debt. Following legislative amendments, only the conversion power now remains, bringing the Québec regime even closer to the federal framework.

²⁹ Under the DIDP Act s. [40.50](#).

³⁰ The Resolution Board's order designates the AMF as the receiver (ie temporary administrator) of all the legal persons belonging to Desjardins Group, until the closure of the resolution operations. The AMF is then vested with the powers provided for in [RSF Act](#) (s. [19.2](#), par. 1 to 9, s. [19.3](#) to [19.5](#) and s. [19.9](#)).

³¹ Autorité des marchés financiers (2019a).

³² Under the DIDP Act (s. [40.50](#), 2nd par.) and the [Regulation respecting the classes of negotiable and transferable unsecured debts and the issuance of such debts and of shares \(gouv.qc.ca\)](#).

- long-term³³ unsecured senior debt that is tradable and transferable³⁴,
- subordinated debt obligations that are not non-viability contingent capital (NVCC) security.

As of December 31, 2024, the Fédération des caisses Desjardins du Québec (FCDQ) (ie the UO) had raised CAD12.5 billion in bail-inable debts on the market.³⁵ Their first bail-inable debts were issued in 2019. These bail-inable debts are only sold to institutional investors. It should be noted that the bail-in regime is not retroactive as regards to debt instruments and it does not apply to debt instruments issued prior to March 31, 2019.

6. Indemnification plan – creditor safeguard

The “No Creditor Worse Off” (NCWO) principle is designed to ensure that eligible holders of securities and creditors, such as bail-inable debt holders, should not incur greater losses through resolution than in liquidation.

To safeguard the NCWO principle, the [Regulation respecting the indemnification plan applicable pursuant to certain resolution operations](#) of the DIDP Act provides for an indemnification plan for certain creditors and shareholders of a failing cooperative group (ie the Desjardins Group).³⁶

To be eligible for this indemnification plan, a person must hold directly or through an intermediary, just before the Resolution Board orders the implementation of the resolution operations, shares, bail-inable debts or liabilities issued by the Desjardins Group that have been converted in whole or in part into contributed capital shares.³⁷

The AMF determines the amount of the indemnity an eligible person will receive by estimating the liquidation value and resolution value of the eligible person’s shares or liabilities.³⁸ An eligible person does not receive any indemnity if the amount of the indemnity determined under this section is zero or a negative value.

³³ Long-term means that the debt has an original term to maturity of more than 400 days.

³⁴ To be considered as tradable and transferable, the debt must have a Committee on Uniform Securities Identification Procedures (CUSIP) number, and International Securities Identification Number (ISIN) or other similar identification for trading and settlement purposes.

³⁵ Desjardins (2024c) pp 31.

³⁶ Under the DIDP Act, s. [40.51](#), the AMF must prescribe an indemnification plan by regulation.

³⁷ [Regulation respecting the indemnification plan applicable pursuant to certain resolution operations](#) of the DIDP Act, [s. 2](#).

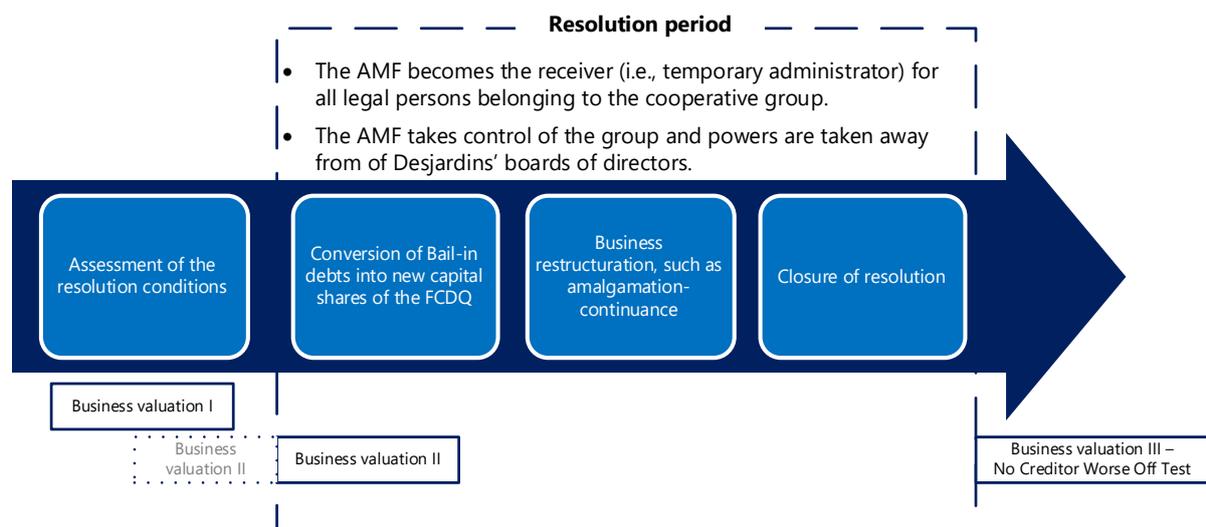
³⁸ More details are provided in the [Regulation respecting the indemnification plan applicable pursuant to certain resolution operations](#) of the DIDP Act, Chapter III - Indemnity.

The formula applicable to holders of NVCC instruments is slightly different from that for holders of bail-inable debts, who may be entitled to compensation. To the amount of the indemnity, the AMF subtracts an amount equal to an estimate of the losses attributable to the contractual conversion. This subtraction ensures that NVCC holders are compensated only for the measures taken by AMF during the resolution and not for the conversion of their instruments into contributed capital shares under the contractual terms agreed by them at the time of purchase.

7. Bail-in execution – main steps

The figure below summarises the execution of the bail-in tool in the case of a failure of the Desjardins Group.

Figure 2 – Execution of the bail-in tool



Source: Authors

7.1. Implementation of resolution operations (point of entry in resolution)

Resolution operations, such as bail-in, will be implemented once the following three conditions have been met³⁹:

1. The AMF is of the opinion that there is a high probability that the failure of an authorised IDTI that is part of the Desjardins Group will lead to the failure of other institutions in the Group (multiple failure risk).
2. The AMF has sufficient reasons to believe that the Desjardins Group will not be able to restore its financial condition on its own.
3. The Resolution Board considers that the implementation of the resolution operations is in the public interest.⁴⁰

These conditions constitute the point of entry in resolution, a point at which the short-term recovery of the Desjardins Group's financial situation is unlikely without public intervention.

³⁹ Under the DIDP Act, s. 40.11 and s. 40.12. The threshold to meet the conditions for resolution are supported by quantitative and qualitative criteria, valuations and the expert judgments.

⁴⁰ Nevertheless, the AMF can support and guide the Resolution Board in its decision-making, particularly by providing it with the necessary information.

The evaluation of these conditions would be based on an assessment of quantitative (financial) and qualitative (expert judgment regarding the Desjardins Group's risk profile) criteria, notably through a business valuation.

A business valuation would be conducted by the AMF in order to assess whether the point of entry in resolution is met (Business valuation I).⁴¹ Based on the most up-to-date financial data⁴² available and focusing on the status of regulatory capital and liquidity, this valuation establishes the consolidated book value of the Desjardins Group, which allows to assess whether or not the resolution conditions have been reached or are about to be reached. Specifically, this valuation checks out the status of the Tier 1 capital, whether the assets are considered sufficient to cover the liabilities, the Desjardins Group is able to repay its due debts and is able to restore its viability on its own.

If this valuation shows that the Desjardins Group is not viable, the AMF will recommend to the Resolution Board to order the implementation of resolution operations. The Resolution Board will then determine whether it is in the public interest to do so. The Resolution Board's order will designate the AMF as the receiver (ie temporary administrator) for all legal persons belonging to the Desjardins Group.⁴³

7.2. Determination of the amount of bail-inable debts to be converted

On the basis of a second business valuation carried out by the AMF or by an independent valuer appointed by it (Business valuation II) the AMF will convert the bail-inable debts into contributed capital shares in accordance with the conversion terms and principles, if it deems this necessary given the crisis context (capital or liquidity issues).

7.2.1. Conversion terms

Under the bail-in regime, there is no fixed, predetermined conversion ratio applicable to the conversion of bail-inable debts into contributed capital shares. The AMF has to determine the:

- timing of the conversion for internal recapitalisation purposes,
- amount of bail-inable debts to be converted,
- number of conversion transactions to be achieved (single or multiple transactions), and
- conversion ratio.

⁴¹ As the Desjardins Group approaches resolution, Valuation I would be conducted. This rapid assessment aims to quickly determine whether the resolution conditions are met. If time permits, and given its greater precision, an exhaustive valuation (Valuation II) based on fair value would be carried out in place of Valuation I to assess the Desjardins Group's financial position. Otherwise, Valuation II would be conducted after the Valuation I to inform and guide the resolution operations, particularly those related to bail-in and asset restructuring. This valuation may also continue after the resolution has been triggered.

⁴² The AMF has set up Resolution Data Requirements to have access to the most up-to-date financial data of Desjardins Group and is developing a Resolution DataMart to centralise the data needed for resolution planning and management.

⁴³ Under the DIDP Act, s. [40.14](#).

The conversion of eligible debts results in the issuance of a new class of contributed capital shares⁴⁴ (without voting or membership rights). The number of new shares is equal to the amount of debt to be converted, multiplied by a conversion ratio that is determined by the AMF. This approach ensures compliance with cooperative principles by preserving member control, while allowing for recapitalisation through external investors holding bail-inable debts, who are not necessarily members.

The AMF plans to propose that the prescribed debts be converted into contributed capital shares of the UO.⁴⁵

Figure 3 – Formula for calculating the number of a new class of contributed capital shares

Amount of debt to be converted x conversion ratio =	Number of a new class of non-voting (and without membership rights) contributed capital shares
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7.2.2. Conversion principles

In the event of the resolution of the Desjardins Group, the AMF will use its best efforts, when exercising its powers under section [40.50](#) of the DIDP Act, to allow for equitable treatment among the debt holders affected by the internal recapitalisation, depending on the circumstances and the situation.

In this regard, the AMF will ensure compliance with the following principles:

- maintain an adequate level of recapitalisation,
- respect the order of collocation of debts,
- reserving proportional treatment for equally ranked debts, and
- give superior economic treatment to higher-ranking debts (in respect of the spirit of the creditor hierarchy that would have been applied in a liquidation scenario).

7.3. Business restructuring

The AMF would then proceed to a business restructuring, in particular by carried out an amalgamation/continuance operation.⁴⁶ The purpose of this operation will be to amalgamate

⁴⁴ Contributed capital shares have a par value of CAD 10. These capital shares would only come into effect in the event of bail-in debts conversion or a NVCC conversion.

⁴⁵ Under the DIDP Act, s. [40.50](#), the prescribed debts can also be converted into capital shares of the IDTI that issued them, another institution belonging to the Desjardins Group, or a legal person constituted or resulting from an amalgamation/continuance or other conversion carried out for the purpose of the resolution.

⁴⁶ Under Québec's resolution framework, the AMF has the discretionary power to carry out an amalgamation-continuance operation following the exercise of the bail-in power. This step is not mandatory and would be pursued if appropriate in the context of the resolution, for example to facilitate access to broader funding sources or simplify post-resolution operation. While this power currently forms part of the preferred resolution strategy, the AMF retains the flexibility to depart from it should the circumstances warrant an alternative approach.

the entities belonging to the Desjardins Group (ie all the FCs, which include the UO, plus the IPS) and have them continued as one Québec savings company, which is not a cooperative.⁴⁷ This operation will result in the shares issued by the amalgamating entities being converted into common shares of the savings company.⁴⁸

The purpose of the amalgamation/continuance is to facilitate refinancing operation, notably by enabling the issuance of shares in the financial market (which is not possible by an FC). It also aims to give a wider access to the financial market to facilitate shareholder transactions. It should be noted, however, that this operation is not a mandatory condition, but rather one of the resolution strategies envisaged by the AMF.

7.4. Closure of the resolution

Upon closure of the Board's resolution operations, the AMF will determine whether eligible persons, such as holders whose debt has been converted, are entitled to an indemnity, based on a business valuation (Business valuation III).

8. Conclusion

Key takeaways useful to deposit insurers with FCs as members and wishing to have a bail-in tool at their disposal for the resolution of FCs subject to jurisdictional legislation include:

- The bail-in regime is a resolution tool that can be used to avoid taxpayers bearing large losses resulting from the failure of FCs. The bail-in tool as a resolution tool has many advantages but may face challenges when trying to implement it in a financial institution other than a bank, such as an FC. In Québec, the bail-inable debts are issued by the UO, enabling the AMF to execute the bail-in operation within a single entity (ie single point of entry) rather than within each FC member of the Group.
- The financial solidarity mechanisms that are mainly implemented through liquidity and capital transfer arrangements and loss mutualisation are a crucial component, facilitating the implementation of the bail-in tool within a cooperative group. The financial solidarity mechanisms may be applied via an IPS, as is the case for the Québec D-SIFI Cooperative Group. The IPS makes bail-in tool less likely to be used and the UO facilitates operation of bail-in, should the need occur.
- In Québec, a bail-in regime adapted to deal with particular characteristics of a D-SIFI Cooperative Group has been gradually implemented since 2018. The major milestones before and after 2018, with the modernisation of the legislation and regulations, include the elaboration and publication of a TLAC Guideline, the development of recovery and resolution plans, the establishment of a business valuation framework and various playbooks, as well as the implementation of a data requirement for resolution, and a multi-year-testing program.

⁴⁷ Under the DIDP Act, [s. 40.26 to s. 40.33](#).

⁴⁸ Business corporation subject to the provisions of Title III of the [Trust Companies and Savings Companies Act](#).

Appendix 1 – Québec’s legal and regulatory framework for bail-in implementation

Prior to June 2018, the AMF had resolution powers with respect to FCs but did not have a comprehensive set of resolution tools for a resolution authority of a D-SIFI. The strengthening of the legal framework for the financial sector by the Government of Québec addressed this issue.

FSC Act

Under the FSC Act, provisions have been added to define the scope of the resolvability and resolution, namely the “Desjardins Cooperatives Group” which is made up of the FCs forming a network, the UO, and the IPS. As with recovery operations, the FSC Act provides for the establishment of the recovery plan by the Group (FSC Act, s. [547.23](#) and [547.24](#)) and to the satisfaction of the AMF. Additional special supervisory and intervention powers to protect creditors, including depositors, and the public interest were giving to the UO and the IPS, and financial solidarity mechanisms within the Group were strengthened. Some of these provisions are helpful for the bail-in implementation, as they could prevent its use or facilitate its application, in particular:

- FCs forming the Group may not withdraw from the Group otherwise than by their dissolution (s. [547.5](#)).
- UO sees to the financial health of the Group and its sustainability (s. [547.17](#)), may exercise some powers if it considers that the financial position of the Group so warrants and request the IPS to intervene (s. [547.21](#) and s. [547.22](#)).
- IPS ensures that the distribution of capital and other assets between the FCs allows each of those FCs to perform its obligations (s. [547.31](#)), and it mutualises between FCs the cost of its interventions (s. [547.32](#)). In its intervention, the IPS may order (1) the assignment of any part of the FC or order the transfer of any such part between such FCs, (2) the amalgamation or dissolution of FCs, and (3) the establishment of a legal person to facilitate the liquidation of an FC’s bad asset (s. [547.34](#)).

DIDP Act

Under the DIDP Act, a complete section on the resolution process has been added, which contains notably provisions on resolution planning and Resolution Board, implementation of resolution operations, impacts of the Resolution Board’s order, resolution operations, closure of resolution process operations, and administration of resolution operations and immunities. Some of these provisions are helpful for the bail-in implementation, in particular:

- The AMF plans operations to resolve the D-SIFI and so establishes the resolution plan (s. [40.6](#) and s. [40.7](#))
- The AMF is the receiver (ie temporary administrator) for all FCs, including the UO, as well as the IPS following the Resolution Board’s order to implement resolution operations (s. [40.14](#)).

- The AMF may implement any resolution operation without the consent, authorisation or approval of anyone if the operation is in the resolution plan, or with the sole authorisation of the Resolution Board if it is not in the resolution plan (s. [40.25](#)).
- The AMF has powers related to (1) the amalgamation/continuance and amalgamation/winding-up (s. [40.26](#)), and (2) the transfer (s. [40.49](#)) and the conversion of securities and certain debts (s. [40.50](#)). Others powers include: establishment and operation of a bridge institution and asset management company (s. [40.34](#)), transfer of a legal person's assets and liabilities (s. [40.40](#)), and guarantees and other financial obligations of the AMF (s. [40.47](#)).
- The AMF has an indemnification regime for ensuring creditor's protection under the "NCWO" principle (s. [40.51](#)).
- Neither the AMF nor the Government are liable for the obligations of legal persons belonging to the Group (s. [40.57](#)).

Regulations

The AMF implemented three regulations regarding a D-SIFI in 2019.

- The first addressed the treatment of financial contracts, providing clarity on how these contracts would be managed during resolution ([Regulation respecting the application of sections 40.15 to 40.17 of the Deposit Institutions and Deposit Protection Act to protected financial contracts and their transfer](#)).
- The second regulation set specific requirements for bail-in debt instruments, aiming to bolster loss-absorbing capacity. It identifies the prescribed debts, the exclusion and sets conversion measures ([Regulation respecting the classes of negotiable and transferable unsecured debts and the issuance of such debts and of shares](#)).
- Lastly, the AMF introduced a regulation defining the indemnification regime, ensuring creditor's protection under the "NCWO" principle and enhancing the predictability of creditor treatment in resolution ([Regulation respecting the indemnification plan applicable pursuant to certain resolution operations](#)).

The AMF also published a [notice](#) to clarify its intention with respect to the application of the bail-in power applicable to the Desjardins Group (DIDP Act, s. [40.50](#), 2nd paragraph).

Guidelines

The Québec's regulatory framework provides a specific guideline that establishes TLAC ratios for a D-SIFI, which is the [Total Loss Absorbing Capacity Guideline](#) (guideline established under the [FSC Act](#)). These requirements focus particularly on FCs that have been identified as domestic D-SIFI by the AMF, in this instance, the Desjardins Group.

Other internal developments

Internal developments led to enhance the bail-in framework. Particularly:

- The AMF finalised the implementation of its valuation framework for resolution in November 2023. The framework documents the approaches, methodologies, processes as well as information and data required to perform valuations.

- The AMF is establishing a playbook on the bail-in. This process will outline the operational steps for executing the bail-in, including the stakeholders, the valuation approach (link with the valuation framework), the sequencing of conversion and the necessary legal and communication arrangements. The process will be tested in the coming years to appreciate its feasibility and robustness.
- The AMF has implemented a data requirement for resolution, as well as a resolution DataMart, and a multi-year-testing program. The resolution DataMart centralises key information for valuation and bail-in, including tracking the amount of eligible liabilities. This DataMart will be essential for rapid and accurate execution of bail-in.

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